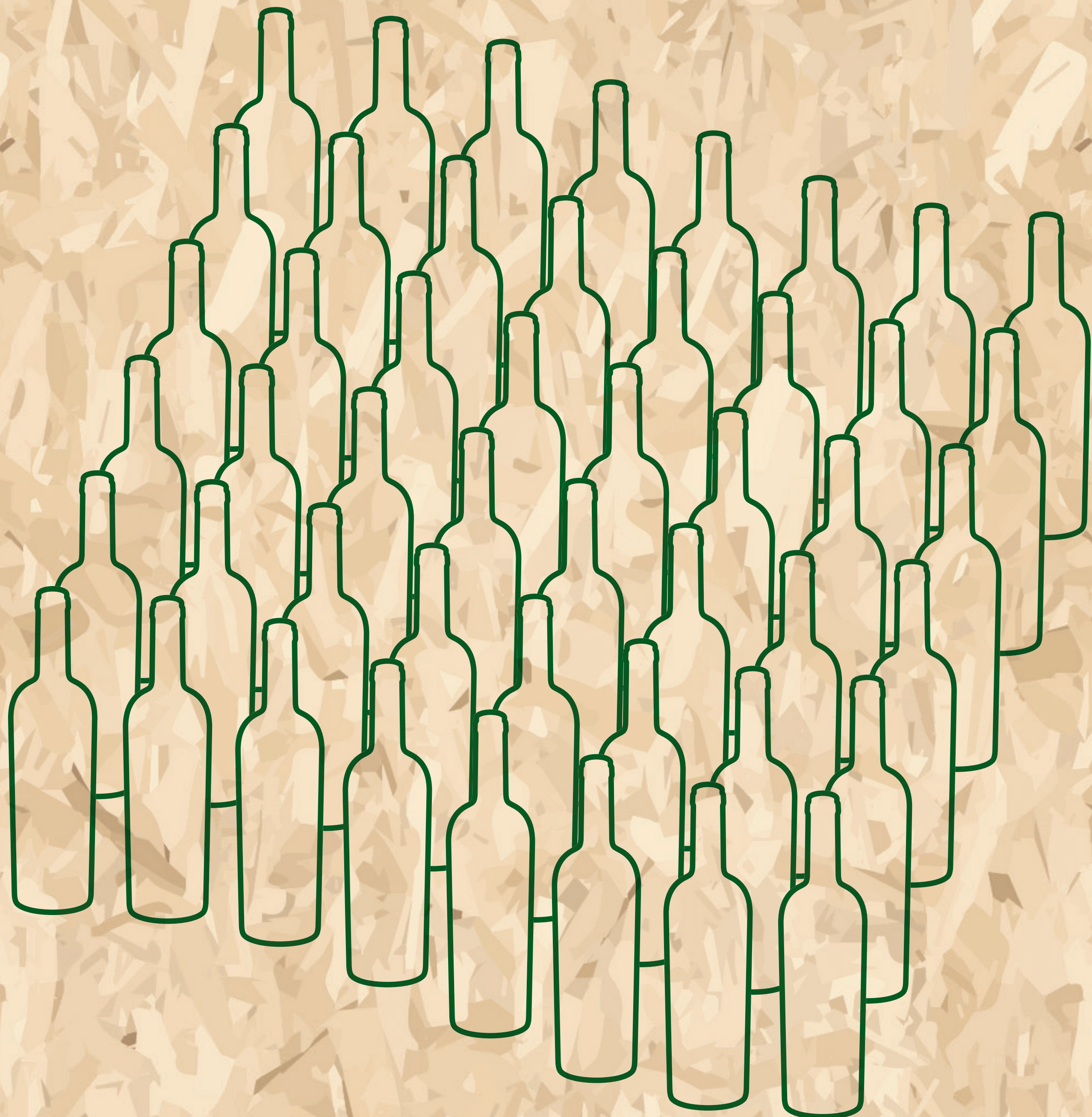


vidrala

2019
Annual Report

Dear Shareholder,

The progress achieved in 2019 proves that Vidrala is solidly prepared for the future.

Supported on operational improvements across our different units and grounded on the strength of the business structure accomplished after years of strategic coherence, sales reached EUR 1.01 billion, profits increased by 24% up to EUR 5.27 per share and the financial positioning was further reinforced by means of a 19% year-on-year debt reduction.

These results served to bring consistency to our strategy and to extend the proof of resilience of our business. As a result of them, the Board has proposed an increase of 15% in annual dividend payments and has approved a new share buy-back programme, aimed to repurchase and cancel up to 1% of the share capital.

On top of that, the year ended with the sale of the manufacturing activity in Belgium, which gave us the planned room to further focus on our strategic priorities. This decision, and the subsequent renewed investment efforts on selective strategic projects, attests that the correct allocation of capital is understood in Vidrala as a critical factor for long term success.

In conclusion, the business performance and the strategic movement executed in 2019 strengthened our business platform, making us a stronger and more competitive company. Looking at 2021 and beyond, with our customers in mind, we will execute additional investments, all the while maintaining a strict capital discipline and a firm focus on returns. We will invest more to protect our business, to reinforce our competitiveness and to better serve our markets under the highest standards with regards to sustainability.

In any case, we will remain firmly committed to our strategic fundamentals based on our three pillars: customer, cost and capital. The consumer packaging market remains fundamentally robust and Vidrala owns a strong business positioning, grounded on a diversified portfolio of customers served from competitive and well invested assets, and a skilled human team.

Carlos Delclaux
Chairman

vidrala

2019 Annual Report

Vidrala, at a glance

2019
ANNUAL
REPORT

8 Factories

19 Furnaces

More than
8.3
billion of containers

3,700
people employed

97,171
hours of training
invested during 2019,
+11.9% vs previous year

More than
1,600
customers

88%
NPS Index
(Net Promoter Score)

48%
use of recycled glass

-8.1%
water consumption
vs. previous year

-4.5%
in carbon dioxide emisions
(CO_2) vs. previous year

-2.8%
in nitrogen oxide emissions
(NO_X) vs. previous year

-1.3%
in consumption of energy
vs. previous year

AIALA VIDRIO
Llodio, Spain

CRISNOVA VIDRIO
Caudete, Spain

CASTELLAR VIDRIO
Castellar del Vallés, Spain

GALLO VIDRO
Marinha Grande, Portugal

SB VIDROS
Marinha Grande, Portugal

ENCIRC ITALIA
Corsico, Italy

ENCIRC ELTON
Elton Cheshire, England

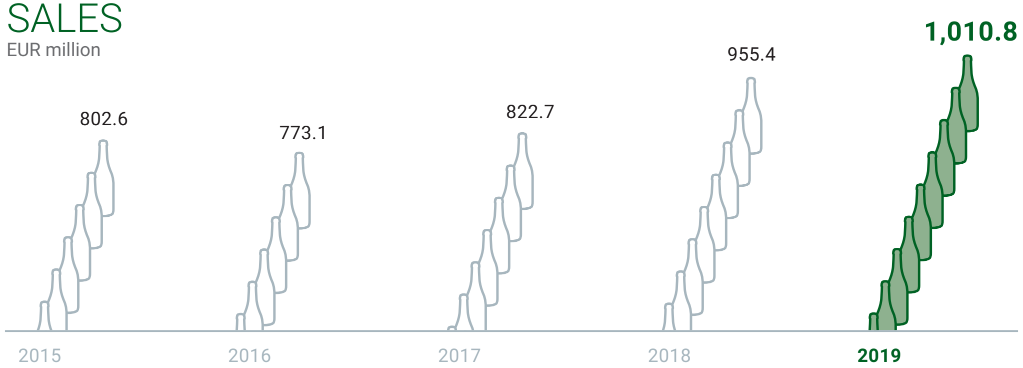
ENCIRC DERRYLIN
Fermanagh, Northern Ireland

FRANCE Bureau commercial
Bordeaux
E-mail:commercial.france@vidrala.com

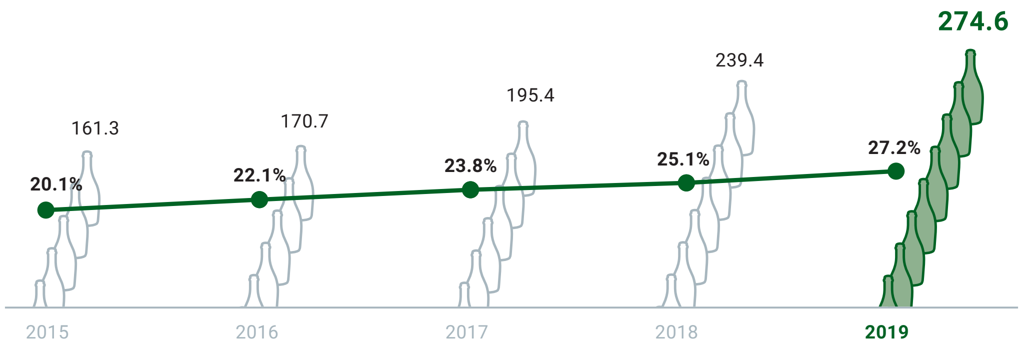
VIDRALA Headquarters
Tel. +34 946 719 700

ENCIRC Headquarters
Tel. +44 (0) 1928 725 300

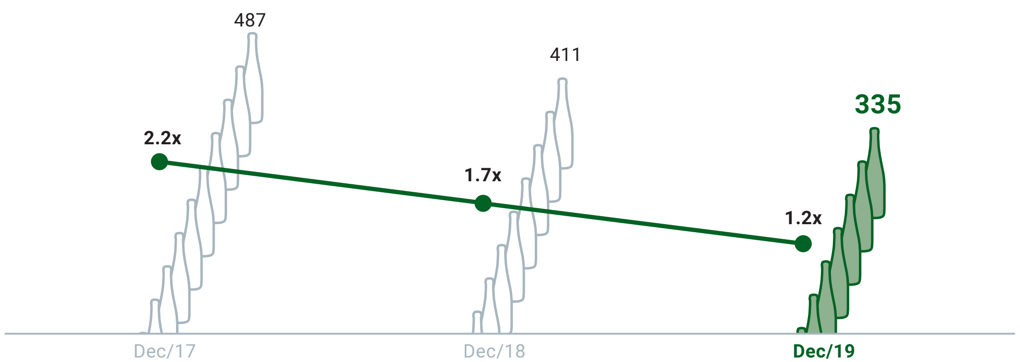
SALES
EUR million



OPERATING INCOME
EBITDA in EUR million and as percentage of sales



FINANCIAL POSITION
Debt in EUR million and times EBITDA



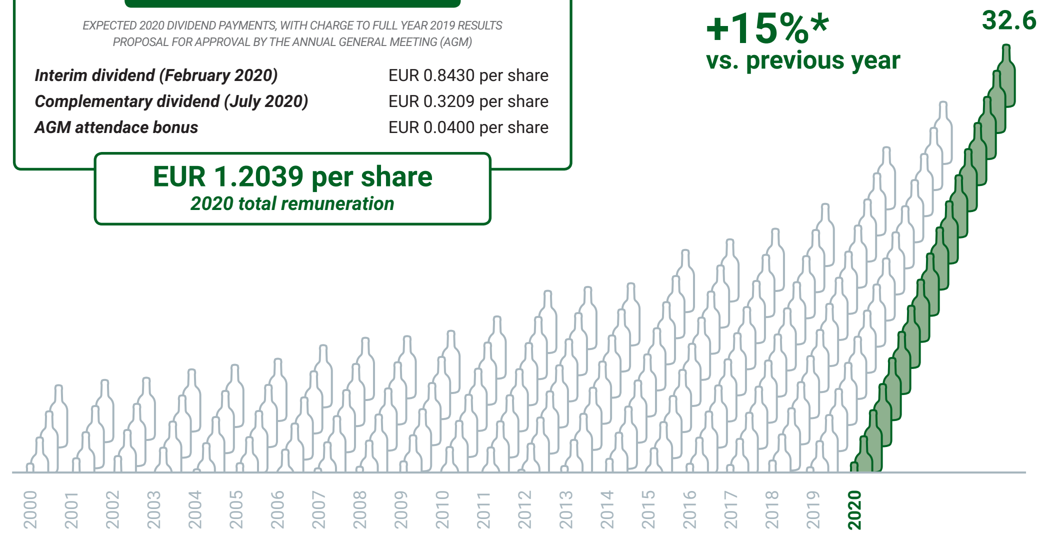
CASH DIVIDENDS AND AGM ATTENDANCE BONUSES
EUR

2020 cash remuneration

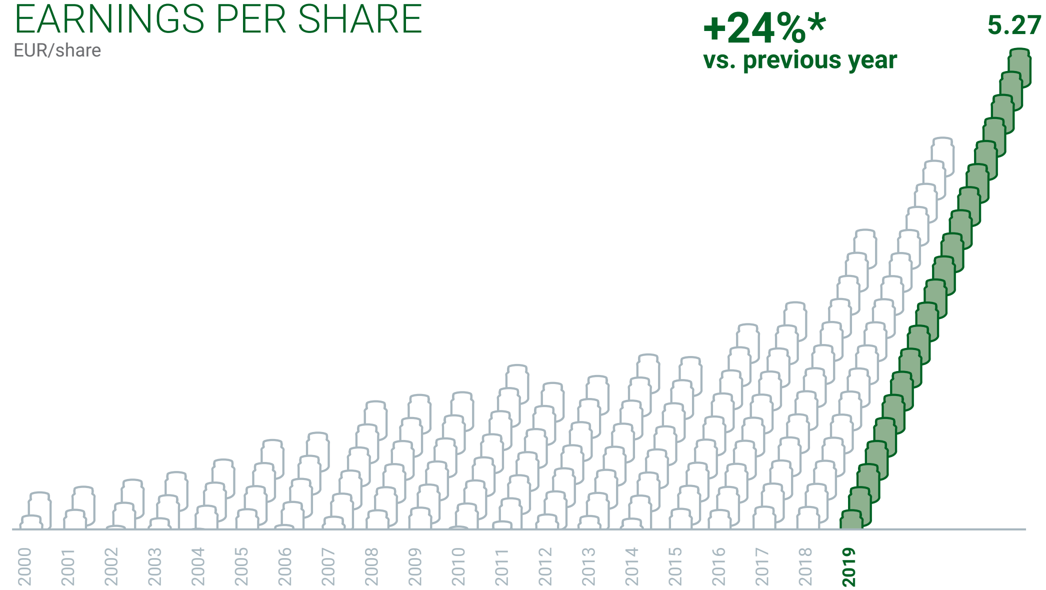
EXPECTED 2020 DIVIDEND PAYMENTS, WITH CHARGE TO FULL YEAR 2019 RESULTS PROPOSAL FOR APPROVAL BY THE ANNUAL GENERAL MEETING (AGM)

Interim dividend (February 2020)	EUR 0.8430 per share
Complementary dividend (July 2020)	EUR 0.3209 per share
AGM attendace bonus	EUR 0.0400 per share

EUR 1.2039 per share
2020 total remuneration



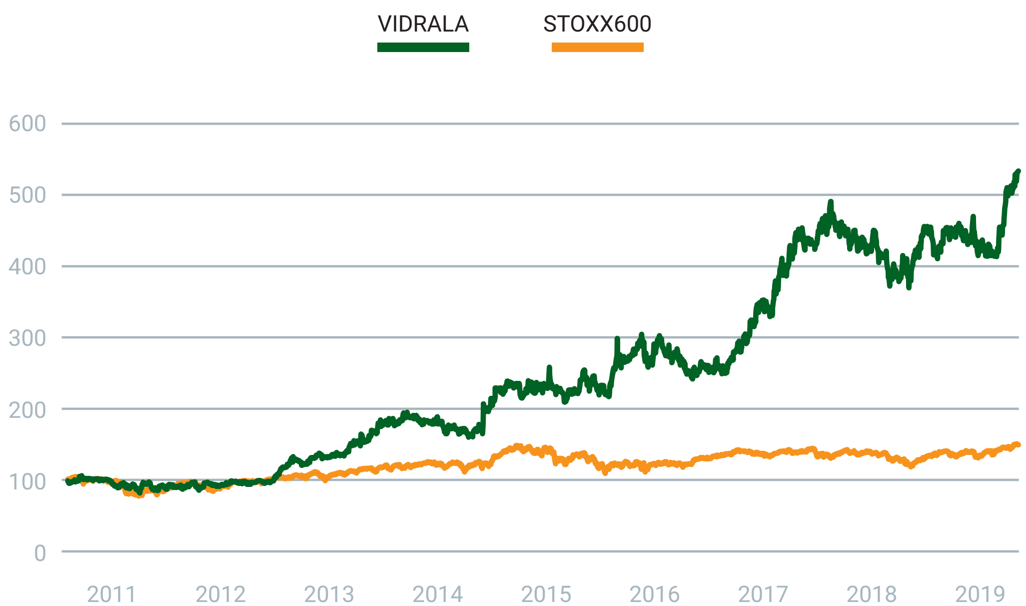
EARNINGS PER SHARE
EUR/share



** Considering the effect of the bonus share issue completed in December 2019.*

SHARE PRICE PERFORMANCE

Comparative performance in percentage terms, base 2011



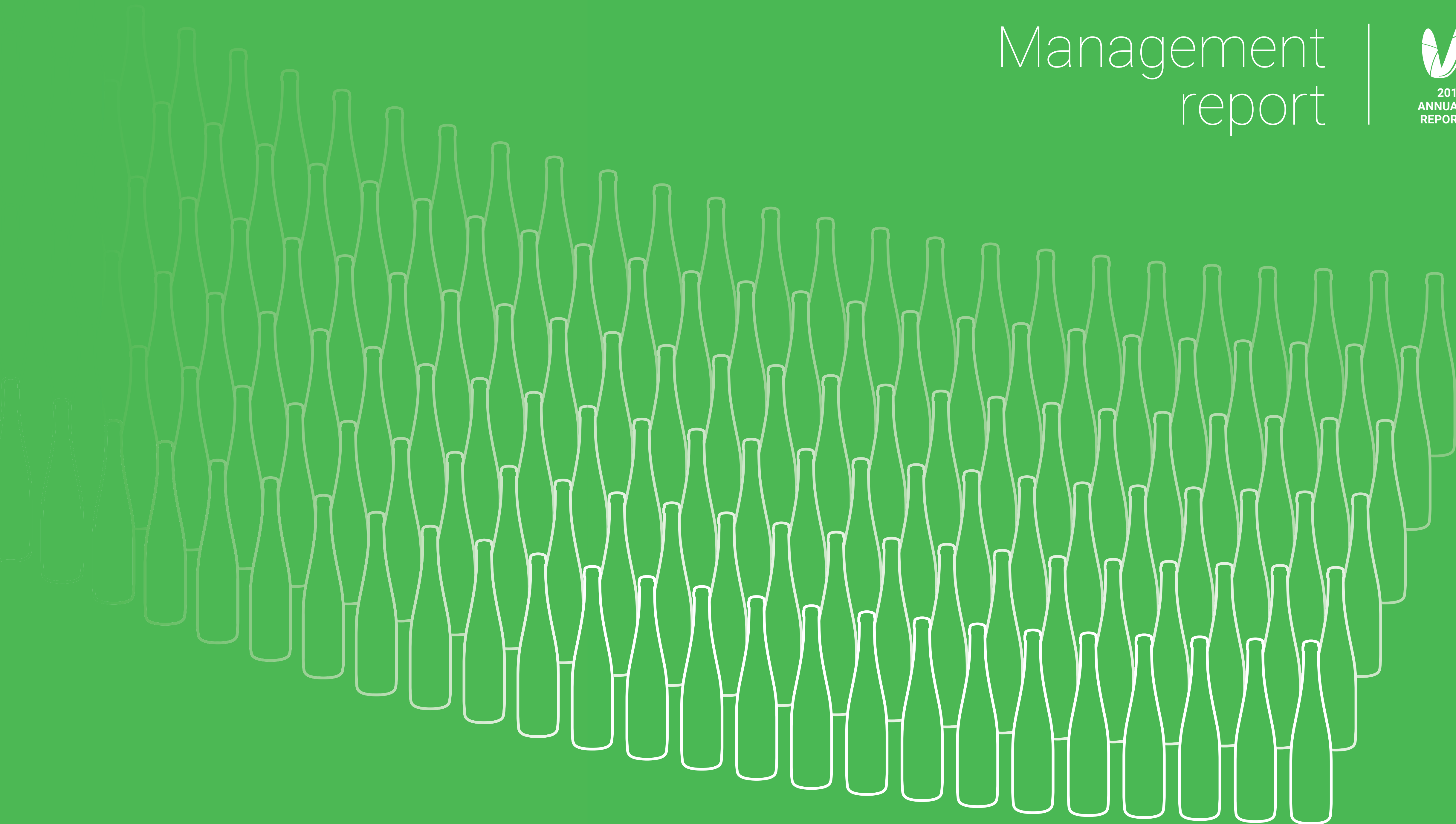
	Full Year **2019**
Share price at year-end (EUR)	**93.70**
Market capitalisation at year-end (EUR million)	**2,561**

KEY FIGURES

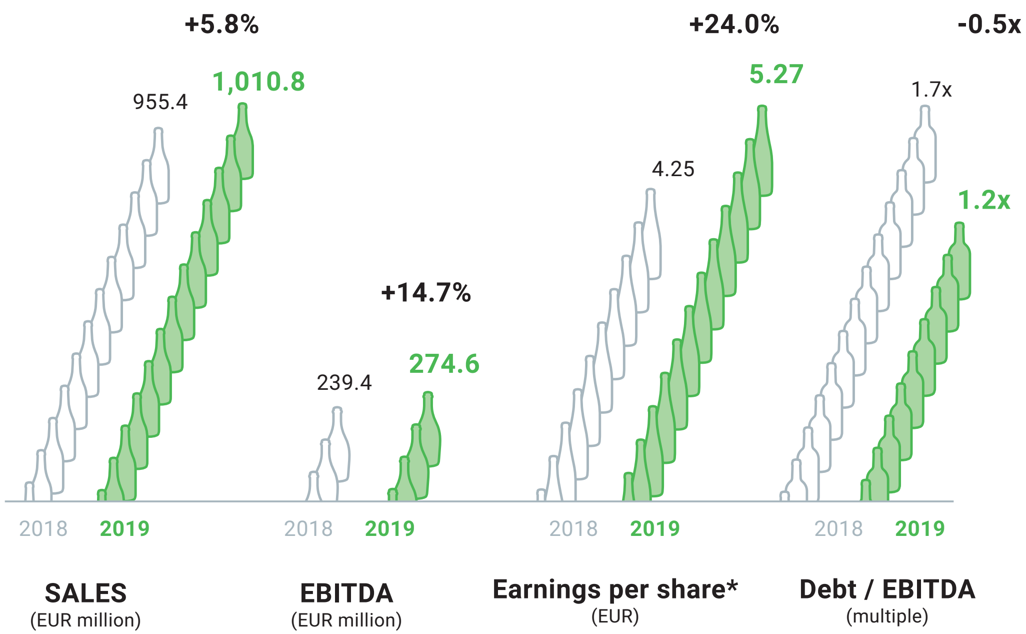
	2018	**2019**
Sales (EUR million)	955.4	**1,010.8**
EBITDA (EUR million)	239.4	**274.6**
EBITDA margin (as percentage of sales)	25.1%	**27.2%**
EBIT (EUR million)	147.1	**177.5**
Net profit (EUR million)	116.0	**143.3**
Free cash flow (EUR million)	101.3	**121.1**
Debt at year-end (EUR million)	411.1	**334.9**
Debt / EBITDA (multiple)	1.7x	**1.2x**
Debt / shareholders' equity (multiple)	0.7x	**0.5x**
EBITDA / net financial expenses (multiple)	35.8x	**59.5x**
Total assets (EUR million)	1,407.3	**1,457.9**
Shareholders' equity (EUR million)	610.0	**723.4**

Management report

2019
ANNUAL
REPORT



ACCUMULATED FIGURES 2019



** Important: In order to improve comparability, earnings per share has been adjusted for the effect of the bonus share issue carried out in December 2019.*

Sales in the year 2019 amounted to EUR **1,010.8 million,** showing an organic growth of 5.8%.

Operating profit, EBITDA, amounted to EUR **274.6 million** representing an operating margin of 27.2%.

Earnings per share rose **24%** over the same period last year, to EUR 5.27 per share.

Debt at year end stood at EUR 334.9 million, equivalent to **1.2 times** last twelve months **EBITDA.**

Introduction

Vidrala is a consumer packaging company. We make glass containers for food and beverages products and offer a variety of packaging services that include logistic solutions and beverages filling activities. Our industrial knowledge, glass manufacturing skills, range of services and understanding of customer and consumer needs make us a partner for many of the most favourite food and beverages brands. Our products and our services contribute to maintain our customers' reputation and play a role in their strategies, helping to develop the consumers' brand experiences.

Sustainable solutions for a new consumer world

Packaging is an essential part of modern day living. It protects and preserves, enables efficient distribution of consumer products and contributes to a sustainable economy helping reduce wastes from spoilage and securing long periods of preservations for food and beverages products. The consumption lifestyles we experience today in our daily habits are possible, in part, thanks to the existence of a sustainable packaging supply chain.

The global food and beverages market is large and growing. The use of primary packaging for these products increases proportionally. According to market researches, in 2019 the global packaging market for food and beverages grew by 2%. Demographics and consumer spending remain as the key levers for long term growth, while some other factors are reshaping the use of packaging nowadays. These drivers refer, mainly, to evolving populations, urbanisation, changing consumer trends and the increasing importance of sustainability.

With consumers focusing increasingly on convenience, value, health, wellbeing and sustainability, packaging is set to remain playing a key role in modern societies. As the world becomes more environmentally focused around consumption habits, and packaging is part of this, our customers are looking for more sustainable alternatives to plastic. The glass container, an infinitely recyclable solution, is an efficient choice for packagers, brand owners and consumers.

**On average, Europeans collect to recycle 76% of all glass packaging.
But… can we help closing the loop?**

This is where the new FEVE's campaign comes in.

Towards the end of 2019, FEVE –the Federation of European manufacturers of glass containers– launched their **'Close the Glass Loop'**, an initiative that is aiming to:

QUANTITY

1. Improve the average EU collection rate of used glass packaging to 90% by 2030.

QUALITY

2. Increase the quality of recycled glass, so more recycled content can be used in a new production loop.

**We're on a mission, but we need your help
if we want to recycle 90% of our glass by 2030!**

'CLOSE THE GLASS LOOP'
A platform for a healthier planet

Modern lifestyles

As geographies progress, urbanisation grows and middle classes evolve worldwide, demand for packaging rises. The retail industry requires packaging solutions to solve distances between producers and consumers, provide preservation, protect the product and secure shelf-lives. Simultaneously, in developed regions like Europe, the rise of big cities and the increase of more and smaller households boosts demand for more units of products, in individual containers.

The modern consumer, living in urban areas, refocuses its preferences towards quality, health, convenience, premiumisation and on-the-go purchasing. New distribution channels, as online sales, accelerate the process providing a marketplace where products are well informed, easily accessible and rapidly delivered. Equally, ageing populations are fueling demand for healthy and easy to use packaging with a traditional look and feel.

BECAUSE GLASS IS **100% AND ENDLESSLY RECYCLABLE…**

Consumers initiate the recycling loop by depositing glass bottles and jars into the igloos.

After collection, glass waste is crushed and cleaned in the **recycling** plant, thus becoming a valuable resource.

Back at the manufacturers, this recycled glass is incorporated into the furnace to **create new glass bottles and jars** like those that were initially recycled.

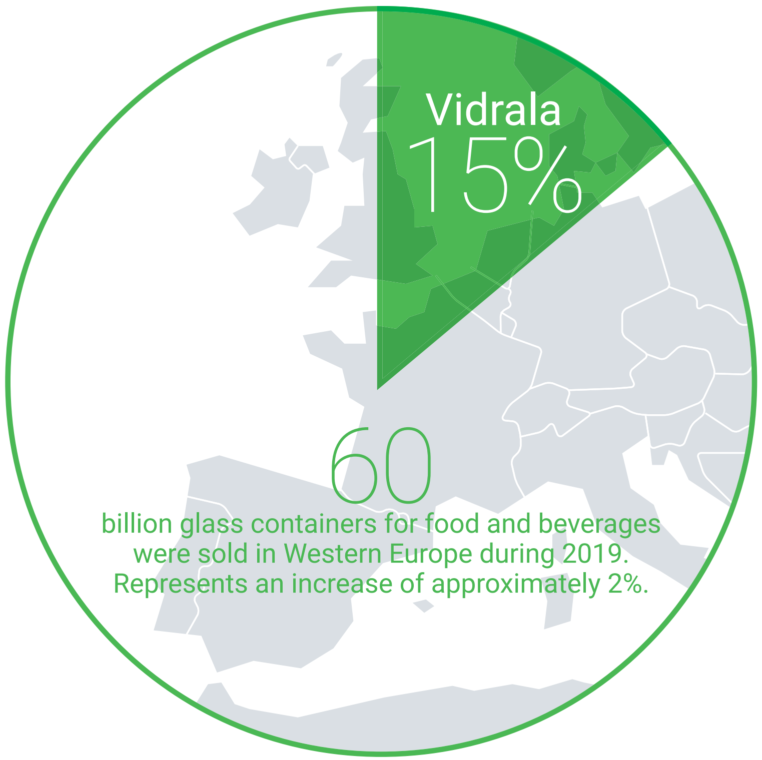
These **new glass containers** arrive again at shops, restaurants, bars and homes.

IT IS THE PERFECT PACKAGING MATERIAL FOR A **CIRCULAR ECONOMY**

A future in glass

Under this changing consumer world, glass arises as an optimal packaging choice. The glass container secures the highest protection and the most optimal preservation enabling efficient distribution of products that require to be consumed in optimal conditions. Glass packaging is safe, healthy and inert. Glass is appealing and helps brand owners to connect with end consumers, identifying and promoting their goods, acting as a marketing tool and an iconic representation of the product inside. More important, glass can be recycled forever. It´s the ultimate sustainable packaging. Surveys across the developed world show that consumers and packagers increasingly prefer glass as the packaging material of choice.

More than 60 billion glass containers for food and beverages were sold in Western Europe during 2019. It represents an increase of approximately 2% compared to the previous year. At Vidrala we met the challenge. We manufactured more than 8.3 billion units of glass containers, serving approximately 15% of the market on the basis of a firm focus on customer service, progressing in our strategic vision to become the glass packaging supplier of choice.



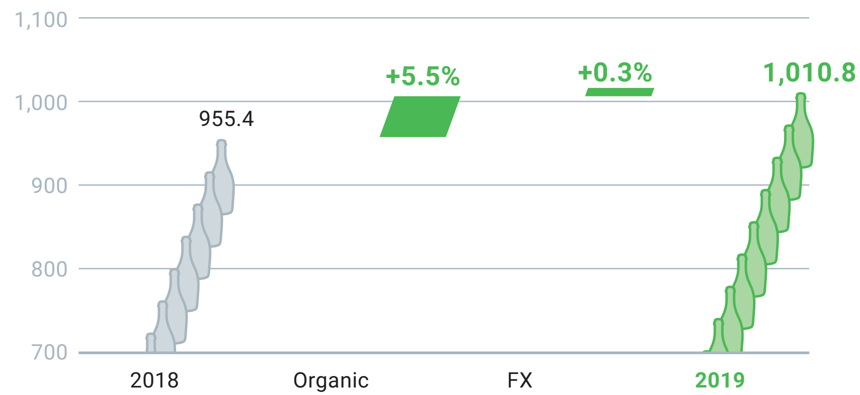
More than
8.3
billion units of glass containers manufactured per year by Vidrala

Earnings performance

Sales

Net sales registered by Vidrala during the FY 2019 amounted to EUR 1,010.8 million, representing an increase of 5.8% over the previous year. On a constant currency basis, sales grew organically 5.5%.

SALES
YEAR OVER YEAR CHANGE. EUR million.



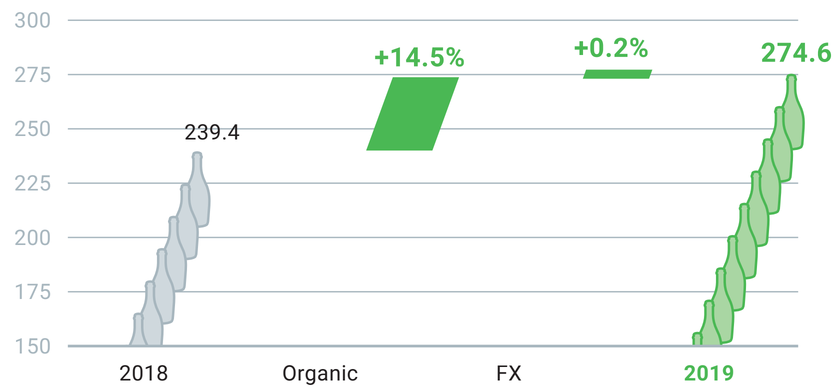
Operating results

Operating profit –EBITDA– obtained over 2019 reached EUR 274.6 million. This represents an increase of 14.7% over the figure reported last year reflecting an organic growth, on a constant currency basis, of 14.5%.

EBITDA margins reached 27.2% representing an expansion of 210 basis points over the previous year.

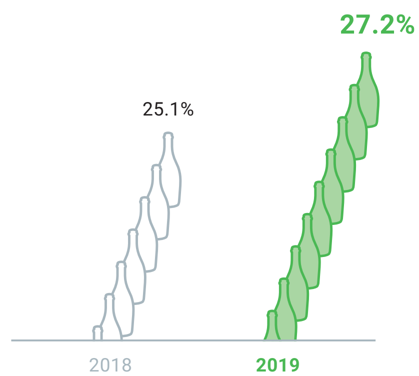
EBITDA

YEAR OVER YEAR CHANGE. EUR million.



OPERATING MARGINS EBITDA

YEAR OVER YEAR CHANGE. As percentage of sales.



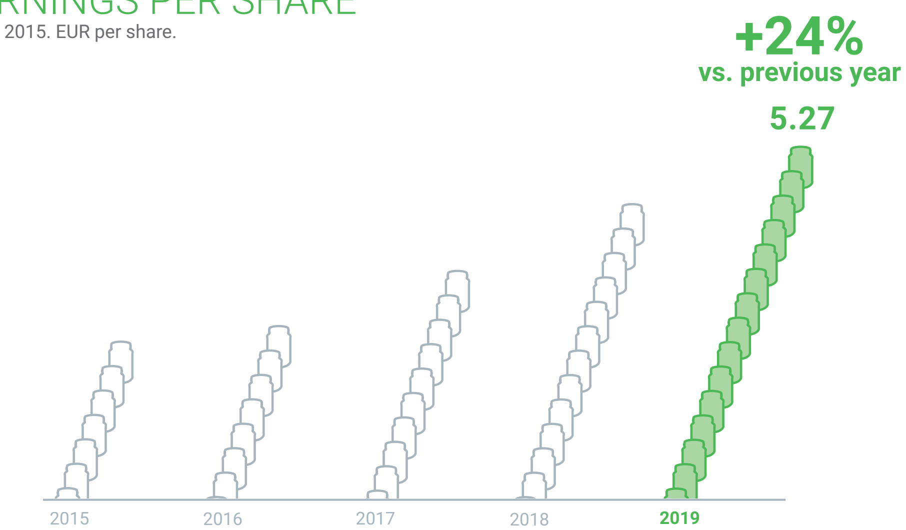
Results and financial position

Net profit for the full year 2019 amounted to EUR 143.3 million. As a result, earnings per share during the period reached EUR 5.27 per share. This represents an increase of 24.0% over the previous period.

Net debt at December 31, 2019 stood at EUR 334.9 million. Leverage ratio stood at 1.2 times twelve months EBITDA.

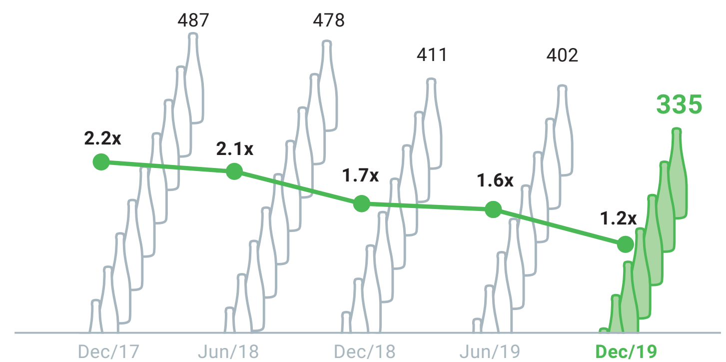
EARNINGS PER SHARE

SINCE 2015. EUR per share.



DEBT

SIX-MONTHLY EVOLUTION SINCE 2017. Debt in EUR million and times EBITDA.



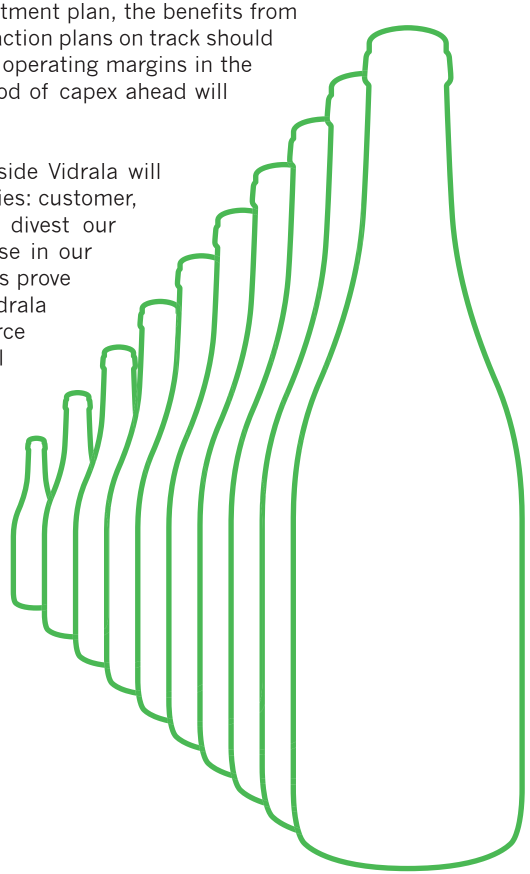
Business outlook

Consumption of food and beverages products preserved in glass containers grows at the pace of evolving demographics, modern lifestyles, premiumisation and increasing preferences of brand owners and consumers for glass versus less sustainable packaging materials. Demand in our areas of activity is expected to remain broadly stable, showing a moderate growth that will be consistent with the different regional economic frameworks and the rate of development of the above mentioned favorable consumer behaviors.

Under this context, priorities in Vidrala during 2020 will remain firmly focused on further enhancing our customer service on a sustainable manner. With that purpose in mind, we will invest more, with our customer in perspective, executing a well-defined and consistent long term industrial plan. At the same time, operational excellence will remain at the heart of our management actions and we will pursue continuous improvements with emphasis on securing safe, sustainable and cost competitive manufacturing activities, to meet the challenge of profitability under different market and competitive environments.

That said, the first effects from our ambitious investment plan, the benefits from our recent footprint realignment and the operating action plans on track should help improve our competitiveness and support our operating margins in the year ahead. Simultaneously, the more intense period of capex ahead will temporary reduce our cash generation.

In any case, the long-term strategic guidelines inside Vidrala will remain intact, firmly committed to our three priorities: customer, cost and capital. The recent strategic action to divest our operations in Belgium and the subsequent increase in our investment efforts on a selective number of projects prove that the right allocation of capex is understood in Vidrala as a crucial factor for long term success and a source of advantage. We will maintain a strict capital discipline and a focus on long term returns.



Relevant information for shareholders

The shareholder remuneration policy implemented by Vidrala is based on the gradual growth in cash dividends as the main way of distributing benefits. The shareholder remuneration policy implemented by Vidrala is based on the gradual growth in cash dividends as the main way of distributing benefits. Annual payments are typically increased by attendance bonuses to the shareholders' annual general meeting. In addition, Vidrala tries to define complementary tools for shareholder remuneration that are considered efficient and consistent with prevailing business conditions.

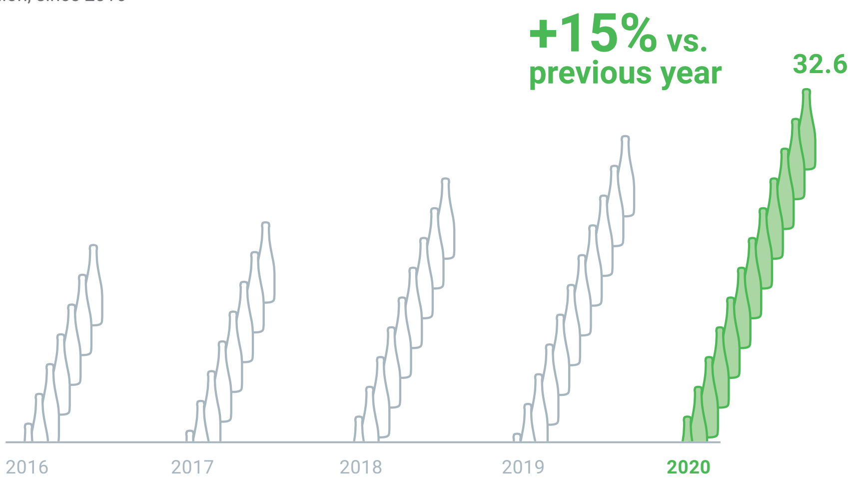
Consistent with that policy, cash dividends distributed during the year 2019 amounted to EUR 1.0581 per share, and EUR 4.00 cents per share were offered as attendance bonus to the general meeting, accumulating an annual cash distribution of EUR 1.0981 per share. This represents an increase of 9.6% over the prior year.

Likewise, during November 2019, Vidrala executed a free share capital increase in a proportion of one new share for every twenty existing shares to be freely allocated between all shareholders. All outstanding company shares, without distinction, were fully granted for this 5% bonus share issue.

Regarding the dividend payments for 2020, Vidrala has proposed a results distribution that represents –considering the effect of the new shares assigned free of charge after the bonus share issue completed in December 2019– an increase in the annual dividend of 15%. The first interim payment was paid on February 14, 2020 for EUR 84.30 cents per share. A second complementary payment is proposed to be paid on July 14, 2020 for an amount EUR 32.09 cents per share. Additionally, EUR 4.00 cents per share will be offered as attendance bonus to the general meeting. Overall, cash remuneration during 2020 would accumulate EUR 1.2039 per share.

SHAREHOLDERS' REMUNERATION
CASH DIVIDENDS AND AGM ATTENDANCE BONUSES

EUR million, since 2016



As an additional extraordinary measure, on December 20, 2019, the Company announced a share buy-back program, through which up to a maximum of 270,000 shares will be acquired for a maximum cash amount of EUR 27 million. The purpose of the programme is to reduce the share capital of Vidrala by the redemption of own shares, with the aim of contributing to the shareholders' remuneration policy through the increase in earnings per share.

Business risks

Risk management in the Vidrala Group involves procedures supervised by the directors, coordinated by management and implemented in each operating area of the organization.

Operational risk

Vidrala, through nine production centres, carries out a continuous production-intensive industrial manufacturing activity that is subject to inherent risks linked to routine operations.

In this respect, during the year 2019, work continued on the review, evaluation and definition of business risks defined as operational and documented in a risk map. The aim was to engage in a dynamic process to identify potential risks, 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. In order to minimise the impact on the environment, Vidrala implements specific action plans in relation to emissions in the atmosphere, dumping, waste, the consumption of raw materials, energy, water and noise.

The Vidrala Group declares itself firmly committed to protecting the environment. In order to minimise the impact on the environment, 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 energy-intensive process as melting furnaces are in operation 24 hours a day, 365 days a year. As a consequence of the industrial process, one of the primary management objectives is to reduce contaminating emissions. In order to do 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 the growing use of recycled products as the main raw material for manufacturing glass, which not only avoids the consumption of natural raw materials but also contributes to reducing energy consumption and emissions volumes.

One of the Group's strategic guidelines is the implementation of environmental management systems. In line with this commitment, all Group's production facilities have ISO 14001:2015 certification, demonstrating that Vidrala operates under the guidelines of a global, verified and recognised environmental management system. Furthermore, in line with its undertaking to continuous improvement, the implementation and verification of new environmental standards has begun, such as ISO 14064:2018, related to the voluntary declaration of CO_2 emissions.

In addition, Vidrala maintains an investment commitment specifically designed to minimise the potential pollutant effect of its facilities. Of special importance in recent years, this concrete effort has materialised in the conclusion of an extensive investment project developed for the installation, in all the production centers, of special systems of purification of atmospheric emissions, denominated electrostatic precipitators or electrofilters. These installations, whose accumulated investment throughout the group amounted to more than EUR 20 million in the last eight years, are aimed at reducing emissions of pollutant particles and are recognized as the best technology available for this purpose by the European legislation. The installed electrofilters act to retain the particles generated in the melting process by attracting them through electric fields, reducing the usual emissions of glass melting furnaces 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.

Progress in the Group's environmental efficiency is documented in detail in the statement of non-financial information, part of the management report of the consolidated financial statements.

II. Occupational health and safety

The activity developed by Vidrala is cemented in the daily work of the more than 3,700 people employed in the group, most of which operate in a context of industrial or manufacturing work.

In this sense, the Vidrala group remains determined to establish the most effective measures of prevention and protection against occupational accidents. This commitment is evidenced by the progressive implementation of occupational health and safety systems, based on the OSHAS 18001:2007 standard, which are certified by independent entities accrediting the existence of an internationally recognized management framework. Moreover, in anticipation of the expiration of OHSAS certificates next March 2021, during the year 2019, Vidrala took steps towards the migration of OHSAS 18001:2007 to ISO 45001:2018.

With the aim of preventing labour-related accidents and, more relevant, with the guideline to improve health and well-being at work, Vidrala implements specific and systematic ongoing staff training and awareness plans. The statement of non-financial information, part of this report, details the evolution of the indicators linked to the management of occupational risk prevention. These plans are developed and disseminated among all the agents involved in the organisation, and allow the business to objectively document the trend in occupational safety indicators and, consequently, the actual effectiveness of the implemented control processes, evidencing whether additional corrective measures are necessary.

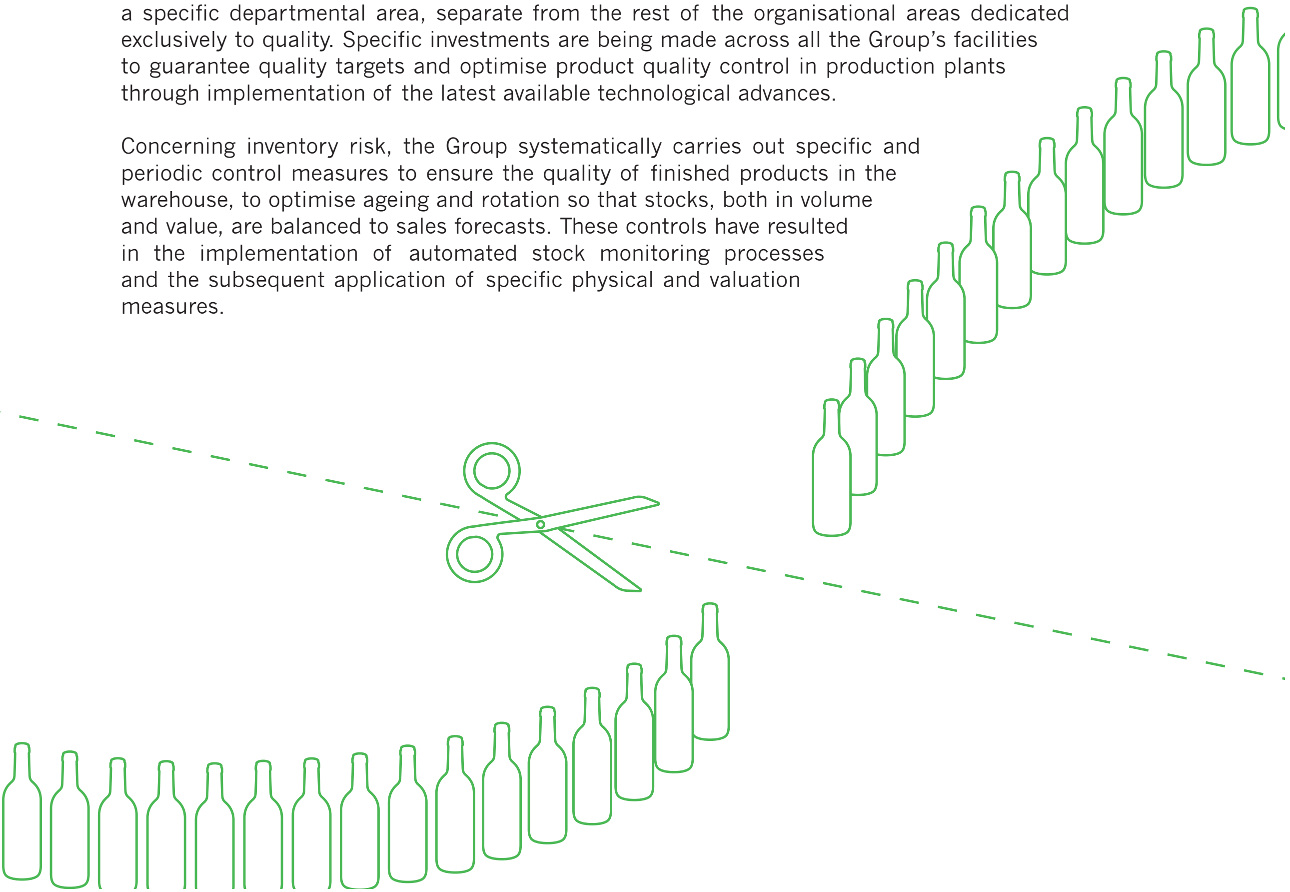
III. Supply chain risk

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

With regard to supply risk affecting key assets or products 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. Specific investments are being made across all the Group's facilities to guarantee quality targets and optimise product quality control in production plants through implementation of the latest available technological advances.

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



Fiscal risk

The Vidrala Group operates in a multinational environment, through companies with activities in Spain, Portugal, the United Kingdom, Ireland, Italy and France, subject to different tax regulations.

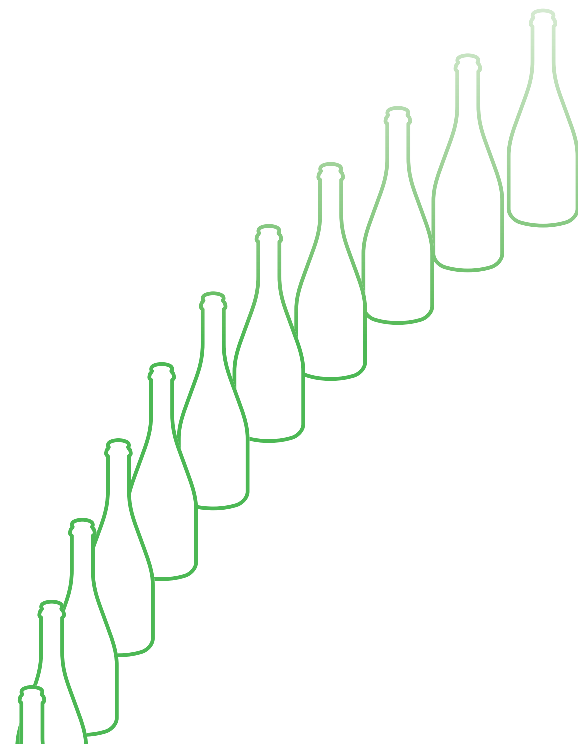
The purpose of Vidrala's fiscal policy is to ensure compliance with applicable regulations in all the tax territories in which the Group operates. That respect for tax regulations is developed in coherence with the purpose of the business, that is to create value in a sustained manner for the shareholder, avoiding tax risks and seeking fiscal efficiencies in the execution of business decisions.

Under tax risks we include those potentially derived from the application of aforementioned regulations, the interpretation thereof within the framework of the Group's corporate structure or the adaptation to tax modifications that may occur.

For its monitoring, Vidrala has a comprehensive risk management system that includes the relevant fiscal risks and the mechanisms for its control. Likewise, the Board of Directors assumes among its powers the supervision of the fiscal strategy.

In order to incorporate the indicated control principles into corporate tax planning, Vidrala assumes among its practices:

- Prevention, adopting decisions on tax matters based on a reasonable and advised interpretation of the regulations, avoiding possible conflicts of interpretation through the use of instruments established by the relevant authorities such as prior consultations or tax agreements, evaluating in advance the investments or operations that present a special fiscal particularity and, above all, avoiding the use of opaque or artificial structures, as well as operations with companies resident in tax havens or any others that have the purpose of avoiding tax burdens.
- Collaboration with tax administrations in the search for solutions regarding tax practices in the countries in which the Vidrala Group is present, providing information and tax documentation when requested by the tax authorities, in the shortest possible time and a fully manner, strengthening agreements and, finally, encouraging a continuous dialogue with tax administrations in order to reduce fiscal risks and prevent behaviors likely to generate them.
- Information to the Board of Directors, through the Audit and Compliance Committee, providing information on the fiscal policies and criteria applied and reporting on tax consequences when they are a relevant factor.



Financial risk

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

Managing the Group's financial risks focuses on the identification, analysis and monitoring of natural 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, the Group employs, or is in a position to employ, derivative financial instruments which are described in the annual report.

The most relevant financial risks identified are as follows:

I. Currency risk

The Group operates at international level and is therefore exposed to currency risk on foreign currency operations.

Currency risk affecting the Group's present structure arise, mainly, from the risks inherent in the global expansion of the Group after the incorporation of Encirc Ltd. in 2015, whose business is largely conducted in Pounds Sterling. In order to quantify the sensitivity to the currency at a consolidated level, as a result of the above, 32.66% of sales and 36.16% of operating income, EBITDA, is generated in Pounds Sterling, which may be affected by fluctuations in this currency against the Euro. There is also a risk of translating cash generated by the acquired business in Pounds Sterling to Euros, to repay a debt that was acquired in Euros. The depreciation of the Pound Sterling against the Euro could reduce its equivalent value in Euros, thus reducing cash.

Quantifying currency risk based on 2019 data, if the Pound Sterling depreciated against the Euro by an average of 5% over a year, without considering any hedging or insurance instruments, and the remaining variables remained constant, consolidated profit of the group would be affected by approximately 2%, and annual cash flow would be reduced by approximately 4%.

To control currency risk, the Group uses derivative instruments, principally forward foreign exchange contracts. As a result of this risk control policy, at the 2019 reporting date the Group has put options on Pound Sterling with expiration dates along 2020, for an accumulated volume of EUR 24 million. This is equivalent to approximately 25% of the cash generated in that currency during the year 2019.

II. Interest rate risk

Borrowings contracted at variable interest rates expose the Group to the risk of interest rate fluctuations, which in turn affects forecast cash flows.

Borrowings contracted at variable interest rates expose the Group to the risk of interest rate fluctuations, which in turn affects forecast cash flows.

The Group's financing policy is to focus its borrowings on variable rate instruments. The Group manages interest rate risks in cash flows through interest rate swaps or caps. These instruments convert variable-rate borrowings to fixed-rate in the case of swaps, or limit the cost of variable interest rates in the case of caps. Generally the Group obtains long-term variable rate borrowings and swaps them for fixed interest rates. This normally give better rates than had the financing been obtained directly with fixed interest rates. Through interest rate swaps the 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 the Group has the right, and the counterparty the obligation, to settle the difference between the variable interest rate and the established 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.

As a result of this risk control policy, at the end of 2019, Vidrala has contracted interest rate hedging instruments in the form of interest rate swaps for a notional of EUR 436.0 million, with progressive maturities up to 2023. As a result, it is expected that the entire cost to be borne by the group in 2020 in the form of interest on debt will be secured against fluctuations in interest rate markets.

III. Credit risk

The Vidrala Group has a well-diversified customer base made up of a combination of large owners of widely recognised global consumer brands, local or regional packers and packaging distribution companies. No customer accounts for more than 10% of revenue. Top ten clients represent approximately 30% of revenue. The 50th percentile of sales is composed of the main 27 customers.

The Vidrala Group has policies to ensure that sales are only made to 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 considering variables such as specific credit metrics, the segment or geographical area in which they operate and preparing detailed individual ratings typical of evolved credit control systems, using a proprietary rating system.

Furthermore, control of collection risk is intensified with a second level of control through policies of repeat contracting of credit insurance with external insurance policies to cover the impact of any bad debts.

As a result of its credit risk control systems, the Vidrala Group obtained official external certification for its credit management processes. Obtaining this certification, and the resolve to periodically renew it, will allow for independent expert verification of the validity, effectiveness and efficiency of the system in place, and will require formal audits, dynamic monitoring and ongoing improvements.

As a result, the impact of bad trade debts in 2019 and 2018 was limited to 0.03% of turnover.

Other credit risks: financing, derivative and cash operations are only carried out with financial entities 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.

Group 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, the Group prudently manages its liquidity risk by adapting maturities to the financed assets, diversifying the sources of financing used and maintaining the availability of immediate financing.

At 31 December, 2019 the Group had EUR 301 million in immediately available, undrawn credit, representing 90% of total debt.

V. Debt and solvency

At the 2019 reporting date, Vidrala's consolidated debt amounted to EUR 334.9 million, a decrease of EUR 76.2 million versus the previous year.

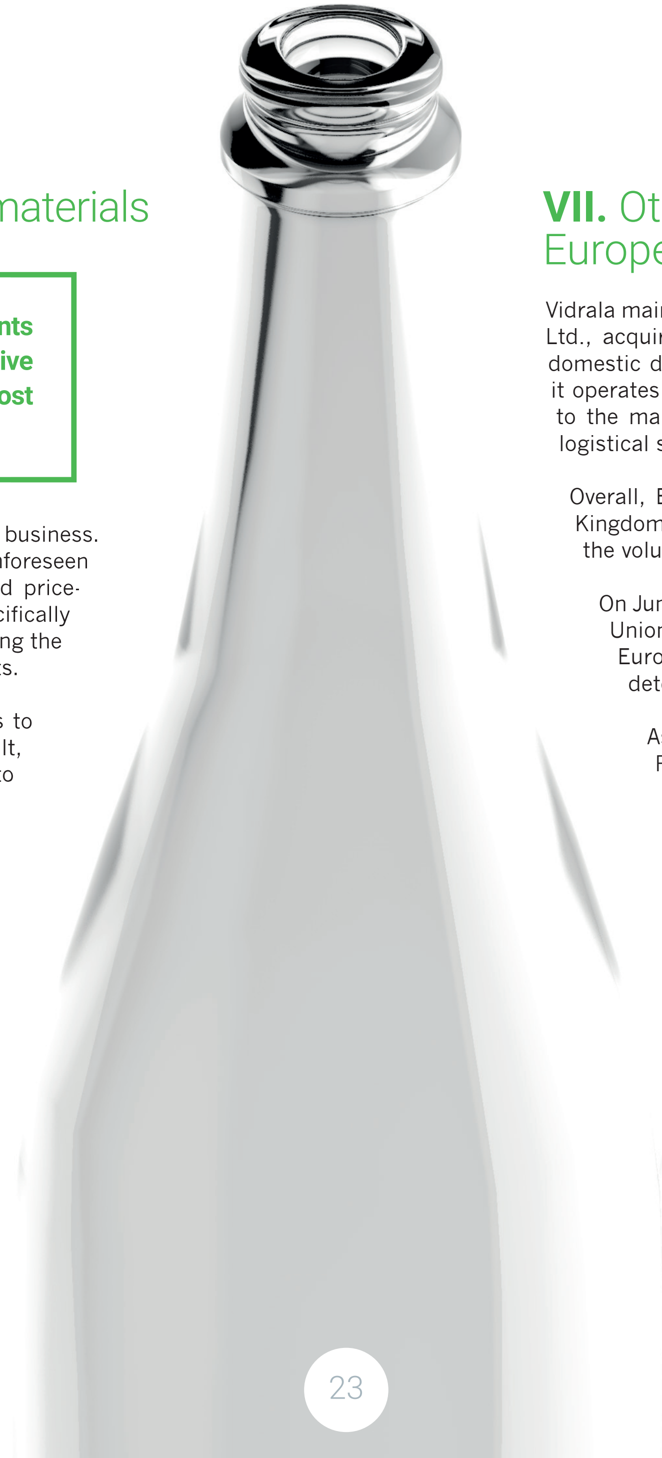
As a result, indicators of financial solvency at year-end reflect a leverage of 1.2 times last twelve months EBITDA, evidencing the financial capacity of the business and the stability of Vidrala's financial position.

The core of the financing structure is concentrated in a long-term syndicated financing agreement, signed by a selected group of nine financing entities, for an amount in force at the end of the year of EUR 260 million. Its maturity date is September 13, 2024, being progressively amortizable from September 13, 2023. Consequently, during 2020 the financing will be in a grace period with no obligations to repay the loan principal. The information contained in note no. 15 to the consolidated annual accounts "Debt with Financial Institutions" reflects the Company's best estimate of principal repayments of loans and borrowings. The total average duration of the group's financing at the close of fiscal year 2019 is around four years.

The mentioned loan contract contains certain covenants, mainly in relation to the net debt to EBITDA ratio. All these covenants had been met at December 31, 2019:

Leverage ratio (FND/EBITDA):
1.22x

Consolidated EBITDA / Net Financial Result:
59.47x



VI. Price risk in purchases of energy and raw materials

Energy consumption, principally natural gas and electricity, represents a significant source of costs inherent in most production-intensive industries. Supplies of other raw materials are an equally relevant cost for the Group.

Volatility in the variables affecting prices has a bearing on the profitability of a business. Risk management is based on establishing processes to mitigate potential unforeseen effects on margins. These measures consist of the implementation of adapted price-setting formulas, the continuous monitoring of market variables through specifically dedicated departments and risk control through price hedging strategies, including the contracting of tariffs at fixed prices and the use of derivative hedging instruments.

At the 2019 closing date, Vidrala had contracted energy commodity derivatives to hedge the price for a nominal amount equivalent to EUR 63 million. As a result, the Group estimates that it has approximately 21% of its expected exposure to changes in the energy markets until 2023.

VII. Other risks: UK negotiations to exit from the European Union

Vidrala maintains strategic business activities in the United Kingdom and Ireland through Encirc Ltd., acquired in early 2015. Encirc is a glass packaging manufacturer aimed at supplying domestic demand for food and beverage products in Ireland and the United Kingdom, where it operates two plants from which it offers a complete range of services including, in addition to the manufacture of glass containers, packaging processes of the latest technology and logistical services.

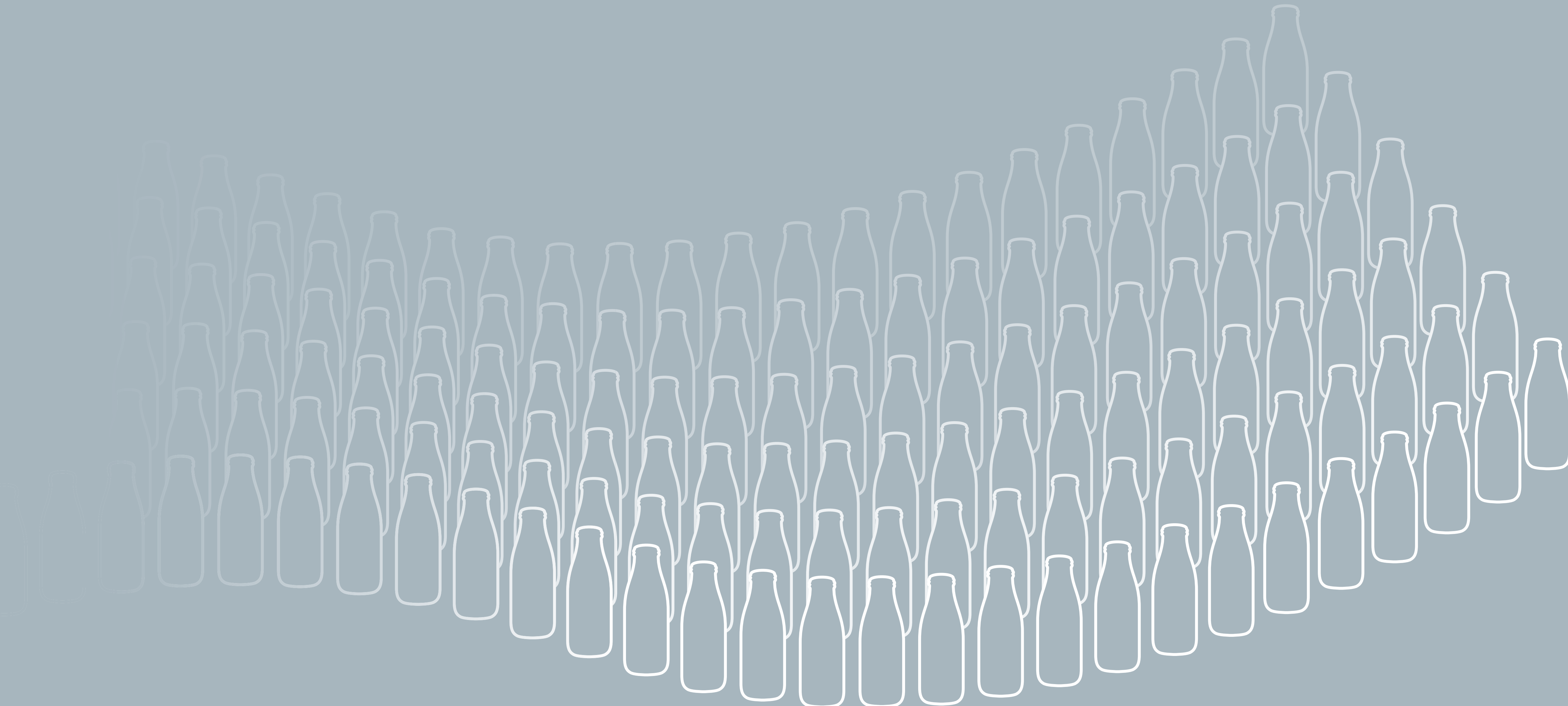
Overall, Encirc's business is primarily domestic, producing glass containers in the United Kingdom for marketing throughout the British Isles, including the Republic of Ireland, with the volume of exports being immaterial outside these regions.

On June 23, 2016 a referendum was held in the United Kingdom on its stay in the European Union, which resulted in a decision to depart. As a consequence, the UK formally left the European Union on January 31, 2020, opening a transitional negotiation process that will determine future relations.

As an immediate effect, the result of the referendum triggered the devaluation of the Pound Sterling, with respect to the Euro, whose effects and control measures have been detailed in the section corresponding to foreign exchange risk. In the long term, the structural demand fundamentals for glass containers in the United Kingdom remain stable, supported by the degree of sociodemographic development of the region, consumer preferences increasingly directed towards quality products and the limited variability of demand for food and beverage products. Encirc optimizes these market fundamentals thanks to a business positioning endorsed in the relationships developed with world-class clients, the stability of its market share, the competitiveness supported in its modern industrial facilities and the added value provided by the offer of packaging services, whose competitive advantages for those owners interested in bulk exports towards the growing demand of the United Kingdom has been reinforced.

Financial statements

2019 ANNUAL REPORT



EY
Building a better working world

Ernst & Young, S.L.
Torre Iberdrola
Plaza de Euskadi, 5
48009 Bilbao
España

Tel: 944 243 777
Fax: 944 242 745
ey.com

INFORME DE AUDITORÍA DE CUENTAS ANUALES CONSOLIDADAS EMITIDO POR UN AUDITOR INDEPENDIENTE

A los accionistas de Vidrala, S.A.:

Informe sobre las cuentas anuales consolidadas

Opinión

Hemos auditado las cuentas anuales consolidadas de Vidrala, S.A. (la Sociedad dominante) y sus sociedades dependientes (el Grupo), que comprenden el balance a 31 de diciembre de 2019, la cuenta de pérdidas y ganancias, el estado del resultado global, el estado de cambios en el patrimonio neto, el estado de flujos de efectivo y la memoria, todos ellos consolidados, correspondientes al ejercicio anual terminado en dicha fecha.

En nuestra opinión, las cuentas anuales consolidadas adjuntas expresan, en todos los aspectos significativos, la imagen fiel del patrimonio y de la situación financiera del Grupo a 31 de diciembre de 2019, así como de sus resultados y flujos de efectivo, todos ellos consolidados, correspondientes al ejercicio anual terminado en dicha fecha, de conformidad con las Normas Internacionales de Información Financiera, adoptadas por la Unión Europea (NIIF-UE), y demás disposiciones del marco normativo de información financiera que resultan de aplicación en España.

Fundamento de la opinión

Hemos llevado a cabo nuestra auditoría de conformidad con la normativa reguladora de la actividad de auditoría de cuentas vigente en España. Nuestras responsabilidades de acuerdo con dichas normas se describen más adelante en la sección *Responsabilidades del auditor en relación con la auditoría de las cuentas anuales consolidadas* de nuestro informe.

Somos independientes del Grupo de conformidad con los requerimientos de ética, incluidos los de independencia, que son aplicables a nuestra auditoría de las cuentas anuales consolidadas en España según lo exigido por la normativa reguladora de la actividad de auditoría de cuentas. En este sentido, no hemos prestado servicios distintos a los de la auditoría de cuentas ni han concurrido situaciones o circunstancias que, de acuerdo con lo establecido en la citada normativa reguladora, hayan afectado a la necesaria independencia de modo que se haya visto comprometida.

Consideramos que la evidencia de auditoría que hemos obtenido proporciona una base suficiente y adecuada para nuestra opinión.

Cuestiones clave de la auditoría

Las cuestiones clave de la auditoría son aquellas cuestiones que, según nuestro juicio profesional, han sido de la mayor significatividad en nuestra auditoría de las cuentas anuales consolidadas del periodo actual. Estas cuestiones han sido tratadas en el contexto de nuestra auditoría de las cuentas anuales consolidadas en su conjunto, y en la formación de nuestra opinión sobre éstas, y no expresamos una opinión por separado sobre esas cuestiones.

Deterioro de valor de fondos de comercio

Descripción	A 31 de diciembre de 2019, el epígrafe "Fondo de comercio de consolidación" del balance consolidado del Grupo Vidrala incluye un importe de 209.890 miles de euros. El valor recuperable de estos activos está condicionado a la existencia de posibles deterioros, cuya determinación depende del resultado de estimaciones complejas que requieren la aplicación de criterios, juicios e hipótesis por parte de la Dirección del Grupo. Hemos considerado esta materia una cuestión clave de nuestra auditoria por la significatividad de los importes, por la complejidad inherente a la asignación de valor a las hipótesis clave consideradas y por la variación de tales asunciones. El Grupo realiza una prueba anual para evaluar la potencial existencia de deterioros sobre los fondos de comercio, utilizando métodos de descuento de flujos de efectivo para determinar dichos valores. Los cálculos de descuento de flujo de efectivo se realizan considerando que la actividad de las unidades generadoras de efectivo tiene una vida útil ilimitada realizándose las proyecciones de flujos de caja libre en base a los presupuestos financieros aprobados por la Dirección. La información relativa a los criterios aplicados por la Dirección del Grupo y las principales hipótesis utilizadas en la determinación del valor recuperable de dichos fondos de comercio se encuentra recogidas en la Nota 7 de la memoria consolidada adjunta.
Nuestra respuesta	En relación con esta cuestión, nuestros procedimientos de auditoria han incluido, entre otros, los siguientes: ▶ Entendimiento de los criterios aplicados y revisión de los procesos establecidos por la Dirección del Grupo en la determinación de los deterioros de valor de los fondos de comercio. ▶ Revisión del modelo utilizado por la Dirección del Grupo, en colaboración con nuestros especialistas en valoraciones, cubriendo, en particular, la coherencia matemática del modelo, la razonabilidad de los flujos de caja proyectados, de las tasas de descuento y de las tasas de crecimiento, así como de los resultados de los análisis de sensibilidades realizados por la Dirección del Grupo. ▶ Revisión de los desgloses incluidos en la memoria consolidada.

Valoración y registro de instrumentos financieros derivados

Descripción	El Grupo utiliza instrumentos financieros derivados con el fin de eliminar o reducir el riesgo de variaciones en los tipos de interés, tipos de cambio y precio de commodities. Los derivados se valoran por su valor razonable en la fecha de las cuentas anuales consolidadas. La estimación del valor razonable y la clasificación del instrumento derivado requieren de un elevado nivel de juicio por parte de la Dirección del Grupo y puede tener un impacto significativo en el balance de situación consolidado así como en el estado del resultado global consolidado. La descripción de las normas para el tratamiento contable de los instrumentos derivados y la información económica sobre los derivados contratados por el Grupo se encuentran recogidos en las Nota 3 (h) y 8 de la memoria consolidada adjunta.
Nuestra respuesta	En relación con esta área, nuestros procedimientos de auditoría han incluido, entre otros, los siguientes: ▶ Entendimiento de los procesos y controles establecidos por el Grupo para asegurar la adecuada valoración y tratamiento contable de los instrumentos derivados. ▶ Realización de procedimientos de confirmación de terceros sobre la existencia y valoración de los instrumentos derivados.

- Con el apoyo de nuestros especialistas en instrumentos financieros derivados hemos realizado procedimientos del contraste de valor razonable y análisis de la correcta clasificación contable.
- Revisión de los desgloses incluidos en la memoria consolidada de conformidad con el marco normativo de información financiera que resulta de aplicación al Grupo.

Otra información: Informe de gestión consolidado

La otra información comprende exclusivamente el informe de gestión consolidado del ejercicio 2019, cuya formulación es responsabilidad de los administradores de la Sociedad dominante y no forma parte integrante de las cuentas anuales consolidadas.

Nuestra opinión de auditoría sobre las cuentas anuales consolidadas no cubre el informe de gestión consolidado. Nuestra responsabilidad sobre la información contenida en el informe de gestión consolidado se encuentra definida en la normativa reguladora de la actividad de auditoría de cuentas, que establece dos niveles diferenciados sobre la misma:

- Un nivel específico que resulta de aplicación al estado de la información no financiera consolidado, así como a determinada información incluida en el Informe Anual de Gobierno Corporativo, según se define en el art. 35.2. b) de la Ley 22/2015, de Auditoría de Cuentas, que consiste en comprobar únicamente que la citada información se ha facilitado en el informe de gestión, o en su caso, que se ha incorporado en éste la referencia correspondiente al informe separado sobre la información no financiera en la forma prevista en la normativa, y en caso contrario, a informar sobre ello.

- Un nivel general aplicable al resto de la información incluida en el informe de gestión consolidado, que consiste en evaluar e informar sobre la concordancia de la citada información con las cuentas anuales consolidadas, a partir del conocimiento del Grupo obtenido en la realización de la auditoría de las citadas cuentas y sin incluir información distinta de la obtenida como evidencia durante la misma, así como evaluar e informar de si el contenido y presentación de esta parte del informe de gestión consolidado son conformes a la normativa que resulta de aplicación. Si, basándonos en el trabajo que hemos realizado, concluimos que existen incorrecciones materiales, estamos obligados a informar de ello.

Sobre la base del trabajo realizado, según lo descrito anteriormente, hemos comprobado que la información mencionada en el apartado a) anterior se facilita en el informe de gestión consolidado y que el resto de la información que contiene el informe de gestión consolidado concuerda con la de las cuentas anuales consolidadas del ejercicio 2019 y su contenido y presentación son conformes a la normativa que resulta de aplicación.

Responsabilidad de los administradores de la Sociedad dominante y de la comisión de auditoría en relación con las cuentas anuales consolidadas

Los administradores de la Sociedad dominante son responsables de formular las cuentas anuales consolidadas adjuntas, de forma que expresen la imagen fiel del patrimonio, de la situación financiera y de los resultados consolidados del Grupo, de conformidad con las NIIF-UE y demás disposiciones del marco normativo de información financiera aplicable al Grupo en España, y del control interno que consideren necesario para permitir la preparación de cuentas anuales consolidadas libres de incorrección material, debida a fraude o error.

En la preparación de las cuentas anuales consolidadas, los administradores de la Sociedad dominante son responsables de la valoración de la capacidad del Grupo para continuar como empresa en funcionamiento, revelando, según corresponda, las cuestiones relacionadas con la empresa en funcionamiento y utilizando el principio contable de empresa en funcionamiento excepto si los administradores tienen intención de liquidar el Grupo o de cesar sus operaciones, o bien no exista otra alternativa realista.

La comisión de auditoría de la Sociedad dominante es responsable de la supervisión del proceso de elaboración y presentación de las cuentas anuales consolidadas.

Responsabilidades del auditor en relación con la auditoría de las cuentas anuales consolidadas

Nuestros objetivos son obtener una seguridad razonable de que las cuentas anuales consolidadas en su conjunto están libres de incorrección material, debida a fraude o error, y emitir un informe de auditoría que contiene nuestra opinión.

Seguridad razonable es un alto grado de seguridad pero no garantiza que una auditoría realizada de conformidad con la normativa reguladora de la actividad de auditoría de cuentas vigente en España siempre detecte una incorrección material cuando existe. Las incorrecciones pueden deberse a fraude o error y se consideran materiales si, individualmente o de forma agregada, puede preverse razonablemente que influyan en las decisiones económicas que los usuarios toman basándose en las cuentas anuales consolidadas.

Como parte de una auditoría de conformidad con la normativa reguladora de la actividad de auditoría de cuentas vigente en España, aplicamos nuestro juicio profesional y mantenemos una actitud de escepticismo profesional durante toda la auditoría. También:

- Identificamos y valoramos los riesgos de incorrección material en las cuentas anuales consolidadas, debida a fraude o error, diseñamos y aplicamos procedimientos de auditoría para responder a dichos riesgos y obtenemos evidencia de auditoría suficiente y adecuada para proporcionar una base para nuestra opinión. El riesgo de no detectar una incorrección material debida a fraude es más elevado que en el caso de una incorrección material debida a error, ya que el fraude puede implicar colusión, falsificación, omisiones deliberadas, manifestaciones intencionadamente erróneas, o la elusión del control interno.

- Obtenemos conocimiento del control interno relevante para la auditoría con el fin de diseñar procedimientos de auditoría que sean adecuados en función de las circunstancias, y no con la finalidad de expresar una opinión sobre la eficacia del control interno del Grupo.

- Evaluamos si las políticas contables aplicadas son adecuadas y la razonabilidad de las estimaciones contables y la correspondiente información revelada por los administradores de la Sociedad dominante.

- Concluimos sobre si es adecuada la utilización, por los administradores de la Sociedad dominante, del principio contable de empresa en funcionamiento y, basándonos en la evidencia de auditoría obtenida, concluimos sobre si existe o no una incertidumbre material relacionada con hechos o con condiciones que pueden generar dudas significativas sobre la capacidad del Grupo para continuar como empresa en funcionamiento. Si concluimos que existe una incertidumbre material, se requiere que llamemos la atención en nuestro informe de auditoría sobre la correspondiente información revelada en las cuentas anuales consolidadas o, si dichas revelaciones no son adecuadas, que expresemos una opinión modificada. Nuestras conclusiones se basan en la evidencia de auditoría obtenida hasta la fecha de nuestro informe de auditoría. Sin embargo, los hechos o condiciones futuros pueden ser la causa de que el Grupo deje de ser una empresa en funcionamiento.

EY
Building a better working world

- Evaluamos la presentación global, la estructura y el contenido de las cuentas anuales consolidadas, incluida la información revelada, y si las cuentas anuales consolidadas representan las transacciones y hechos subyacentes de un modo que logran expresar la imagen fiel.

- Obtenemos evidencia suficiente y adecuada en relación con la información financiera de las entidades o actividades empresariales dentro del grupo para expresar una opinión sobre las cuentas anuales consolidadas. Somos responsables de la dirección, supervisión y realización de la auditoría del grupo. Somos los únicos responsables de nuestra opinión de auditoría.

Nos comunicamos con la comisión de auditoría de la Sociedad dominante en relación con, entre otras cuestiones, el alcance y el momento de realización de la auditoría planificados y los hallazgos significativos de la auditoría, así como cualquier deficiencia significativa del control interno que identificamos en el transcurso de la auditoría.

También proporcionamos a la comisión de auditoría de la Sociedad dominante una declaración de que hemos cumplido los requerimientos de ética aplicables, incluidos los de independencia, y nos hemos comunicado con la misma para informar de aquellas cuestiones que razonablemente puedan suponer una amenaza para nuestra independencia y, en su caso, de las correspondientes salvaguardas.

Entre las cuestiones que han sido objeto de comunicación a la comisión de auditoría de la Sociedad dominante, determinamos las que han sido de la mayor significatividad en la auditoría de las cuentas anuales consolidadas del periodo actual y que son, en consecuencia, las cuestiones clave de la auditoría.

Describimos esas cuestiones en nuestro informe de auditoría salvo que las disposiciones legales o reglamentarias prohíban revelar públicamente la cuestión.

Informe sobre otros requerimientos legales y reglamentarios

Informe adicional para la comisión de auditoría de la Sociedad dominante

La opinión expresada en este informe es coherente con lo manifestado en nuestro informe adicional para la comisión de auditoría de la Sociedad dominante de fecha 26 de febrero de 2020.

Periodo de contratación

La Junta General Ordinaria de Accionistas celebrada el 30 de mayo de 2017 nos nombró como auditores del Grupo por un período de 3 años, contados a partir del ejercicio finalizado el 31 de diciembre de 2017.

AUDITORES
INSTITUTO DE CENSORES JURADOS DE CUENTAS DE ESPAÑA

ERNST & YOUNG, S.L.

2020 Núm. 03/20/00952
96,00 EUR
SELLO CORPORATIVO:
Informe de auditoría de cuentas sujeto a la normativa de auditoría de cuentas española o internacional

ERNST & YOUNG, S.L.
(Inscrita en el Registro Oficial de Auditores de Cuentas con el Nº S0530)

Alberto Peña Martínez
(Inscrito en el Registro Oficial de Auditores de Cuentas con el Nº 15290)

26 de febrero de 2020

A member firm of Ernst & Young Global Limited

CONSOLIDATED BALANCE SHEET

31 December 2018 and 2019, in thousands of Euros

ASSETS	Note	2018	**2019**
Property, plant and equipment	6	684,114	**692,399**
Right-of-use assets	2.d	-	**1,672**
Goodwill	7	209,890	**209,890**
Other Intangible assets	7	25,136	**27,986**
Other financial assets		28	**28**
Deferred tax assets	9	38,695	**36,726**
Derivative financial instruments	8	319	**27**
Other non-current assets		180	**305**
Non-current assets		958,362	**969,033**
Inventories	10	185,147	**194,617**
Trade and other receivables	11	219,086	**248,534**
Current tax assets		426	**656**
Derivative financial instruments	8	8,623	**5,646**
Other current assets	12	13,018	**10,580**
Cash and cash equivalents		22,673	**28,795**
Current assets		448,973	**488,828**
Total assets		1,407,335	**1,457,861**

CONSOLIDATED BALANCE SHEET

31 December 2018 and 2019, in thousands of Euros

EQUITY AND LIABILITIES	Note	2018	**2019**
Equity	13		
Share capital		26,555	**27,883**
Other reserves		7,622	**7,622**
Retained earnings		644,609	**757,213**
Own shares		(4,874)	**(21,386)**
Other comprehensive income		(44,015)	**(25,154)**
Interim dividend distributed during the year		(19,899)	**(22,819)**
Equity attributed to equity holders of the Parent		609,998	**723,359**
Deferred income	14	17,838	**12,024**
Loans and borrowings	15	394,887	**231,906**
Derivative financial instruments	8	5,246	**4,708**
Deferred tax liabilities	9	51,146	**52,603**
Provisions	19	24,653	**29,024**
Other non-current liabilities		1,810	**1,008**
Non-current liabilities		495,580	**331,273**
Loans and borrowings	15	38,880	**131,787**
Derivative financial instruments	8	6,433	**1,189**
Trade and other payables	16	206,260	**225,988**
Current tax liabilities		6,909	**9,681**
Provisions	19	11,956	**6,234**
Other current liabilities	12	31,319	**28,350**
Current liabilities		301,757	**403,229**
Total liabilities		797,337	**734,502**
Total equity and liabilities		1,407,335	**1,457,861**

CONSOLIDATED INCOME STATEMENT

31 December 2018 and 2019, in thousands of Euros.

	Note	2018	2019
Revenues	4 y 22	955,426	**1,010,833**
Services rendered		-	**104**
Other income	22	21,991	**16,837**
Changes in inventories of finished goods and work in progress		(2,069)	**7,753**
Merchandise, raw materials and consumables used	23	(323,635)	**(332,694)**
Employee benefits expense	25	(190,581)	**(197,543)**
Amortisation and depreciation	6 y 7	(88,178)	**(91,088)**
Impairment of non-current assets	6	(4,105)	**(6,003)**
Other expenses	24	(221,767)	**(230,651)**
Finance income	26	3,491	**1,004**
Finance costs	26	(10,149)	**(6,595)**
Impairment and result from disposals of financial instruments	5	-	**(5,977)**
Profit before income tax from continuing operations		140,424	**165,980**
Income tax expense	9	(24,466)	**(22,705)**
Profit for the year from continuing operations		115,958	**143,275**
Profit for the year		115,958	**143,275**
Profit for the year attributable to equity holders of the Parent		115,958	**143,275**
Earnings per share (expressed in Euros)			
- Basic	27	4.47	**5.27**
- Diluted	27	4.25	**5.27**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

31 December 2018 and 2019, in thousands of Euros.

	Note	2018	2019
Profit for the year		115,958	**143,275**
Other comprehensive income:			
Translation differences	13	(3,753)	**16,674**
Remeasurements of defined benefit plans	13	(623)	**392**
Items to be reclassified in profit or loss			
Cash flow hedges	8	(5,533)	**2,513**
Tax effect	9	1,383	**(718)**
Other comprehensive income, net of income tax		(8,526)	**18,861**
Total comprehensive income for the year		107,432	**162,136**
Profit for the year attributable to equity holders of the Parent		107,432	**162,136**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2018 and 2019, in thousands of Euros.

	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 31 December 2017	**25,290**	**7,545**	**551,362**	**(3,347)**	**2,058**	**(36,601)**	**(946)**	**(17,225)**	**528,136**
Adjustments for initial application of New accounting standards (note 2)	-	-	1,312	-	-	-	-	-	1,312
Balances at 1 January 2018	**25,290**	**7,545**	**552,674**	**(3,347)**	**2,058**	**(36,601)**	**(946)**	**(17,225)**	**529,448**
Total comprehensive income for the year	-	-	115,958	-	(4,150)	(3,753)	(623)	-	107,432
Own shares redeemed	-	-	-	(2,852)	-	-	-	-	(2,852)
Own shares sold	-	-	1,103	1,325	-	-	-	-	2,428
Share capital increase	1,265	77	(1,342)	-	-	-	-	-	-
Distribution of 2017 profit									
Dividends	-	-	(23,784)	-	-	-	-	17,225	(6,559)
Interim dividend on account of 2018 profit	-	-	-	-	-	-	-	(19,899)	(19,899)
Balances at 31 December 2018	**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**

CONSOLIDATED STATEMENT OF CASH FLOWS

31 December 2019 and 2018. ((Indirect Method) in thousands of Euros

	Nota	2018	2019
Cash flows from operating activities			
Profit for the year		115.958	**143.275**
Adjusted for:			
Amortisation and depreciation	6 y 7	88.178	**91.088**
Impairment of non-current assets	6	4.105	**6.003**
(Reversal of) impairment losses on trade receivables		466	**655**
(Reversal of) impairment losses on inventories	10	9.262	**4.916**
Exchange (gains) / losses	26	(2.393)	**(1.002)**
Changes in provisions		16.053	**(1.351)**
Government grants recognised in the income statement		(10.391)	**(3.428)**
Result from sales and disposals of financial instruments	5	-	**5.977**
Finance income	26	(1.098)	**(2)**
Finance costs	26	10.149	**6.595**
Income tax	9	24.466	**22.705**
		138.797	**132.156**
Changes in working capital			
Inventories		(4.580)	**(14.386)**
Trade and other receivables		(13.171)	**(30.103)**
Trade and other payables		(12.074)	**7.971**
Application of provisions		(649)	**-**
Other current liabilities		6.849	**16.705**
Effect of translation differences on operating assets and liabilities of foreign operations		(1.919)	**1.607**
Cash used in operating activities		(25.544)	**(18.206)**
Interest paid		(7.917)	**(4.450)**
Interest received		877	**1.004**
Income tax paid		(19.405)	**(26.431)**
Net cash from operating activities		202.766	**227.348**

	Nota	2018	2019
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		(99.541)	**(103.622)**
Acquisition of property, plant and equipment		(2.245)	**(3.547)**
Acquisition of intangible assets		13	**-**
Net cash used in investing activities		(101.773)	**(107.169)**
Cash flows from financing activities			
Proceeds from issue of treasury shares and own equity instruments		2.428	**-**
Proceeds from loans and borrowings		25.000	**41.698**
Proceeds from other debts	15	-	**100.000**
Payments to redeem own shares and other own equity instruments	13	(2.852)	**(16.512)**
Payments of loans and borrowings		(121.155)	**(211.772)**
Dividends paid	13	(23.784)	**(27.471)**
Net cash from/(used in) financing activities		(120.363)	**(114.057)**
Net increase/(decrease) in cash and cash equivalents		(19.370)	**6.122**
Cash and cash equivalents at 1 December		42.043	**22.673**
Cash and cash equivalents at 31 December		22.673	**28.795**

The accompanying notes form an integral part of the consolidated annual accounts.

1. Nature, Principal Activities and Composition of the Group

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

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

Details of the companies comprising the Vidrala Group, the interest held by the Parent (direct and/or indirect) at 31 December 2019 and 2018 and the location and activity of each company that forms part of the consolidated group are as follows:

		Investment		
Company	**Location**	**2019**	**2018**	**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 (Italy)	100%	100%	Manufacture and sale of glass containers
MD Verre, S.A.	Ghlin (Belgium)	(*)	100%	Manufacture and sale of glass containers
Omega Immobilière et Financière,S.A.	Ghlin (Belgium)	(*)	100%	Real estate
Investverre, S.A.	Ghlin (Belgium)	100%	100%	Holding company
CD Verre, S.A.	Burdeos (France)	100%	100%	Commercialisation
Vidrala Desarrollos, S.L.U.	Llodio (Álava)	100%	100%	Promotion and development of companies
Encirc Limited	Derrylin (Northern Ireland)	100%	100%	Manufacture of glass containers, packaging and logistical services
Encirc Distribution Limited	Ballyconnell (Ireland)	100%	100%	Logistical services
Santos Barosa Vidros, S.A.	Marinha Grande (Portugal)	100%	100%	Manufacture and sale of glass containers

(*) Company sold in 2019. (see note 5).

2. Basis of Presentation

The consolidated annual accounts for 2019 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 2019, 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 2019, authorised for issue on 26 February 2020, 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, except for the application of IFRS 16 set forth in note 2.

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

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

(i) Relevant accounting estimates and assumptions

GOODWILL IMPAIRMENT

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

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Group management determines the estimated useful lives and depreciation charges for its installations. These estimates are based on the historical and projected life cycles of the assets according to their characteristics, available technology and estimated replacement requirements. This could change as a result of technical innovations and initiatives adopted by the competition in response to pronounced cycles.

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 2019 will be immaterial.

CAPITALISED TAX CREDITS

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

(ii) Changes in accounting estimates

Although estimates are calculated by the Company's directors based on the best information available at 31 December 2019, future events may require changes to these estimates in subsequent years. Any effect on the consolidated annual accounts of adjustments to be made in subsequent years would be recognised prospectively.

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

The accounting policies used in the preparation of the accompanying consolidated financial statements are the same as those used in the consolidated financial statements for the year ended 31 December 2018, except for the following standards applied for the first time in 2019:

- IFRS 16 – Leases;
- IFRIC 23 – Uncertainity over Income Tax Treatments
- Annual Improvements to IFRSs, 2015-2017 Cycle;
- Amendments to IAS 19 – Employee benefits;
- Amendments to IFRS 28 – Investments in Associates and Joint Ventures
- Amendments to IFRS 9 – Financial Instruments;
- When applying these standards, interpretations and amendments, the only one with a significant impact on the consolidated financial statements is IFRS 16.

IFRS 16 LEASES

El Grupo ha realizado la transición a la NIIF 16 utilizando un enfoque retroactivo modificado que supone no re-expresar el periodo comparativo y registrar el efecto de la primera aplicación de la NIIF 16 el 1 de enero de 2019, valorando el activo por derecho en uso a un importe igual al pasivo por arrendamiento. El Grupo ha aplicado la norma a los contratos que se identificaron como arrendamientos al aplicar la NIC 17 y la CINIIF 4. Por tanto, el Grupo no ha aplicado la norma a los contratos que no se identificaron previamente como arrendamientos de acuerdo con la NIC 17 y la CINIIF 4.

Desde el punto de vista del arrendador, la NIIF 16 no introduce cambios relevantes.

RIGHT-OF-USE ASSETS

The Vidrala Group recognises a right-of-use asset at the inception of the lease. At the commencement date, the cost of the right-of-use asset comprises the lease payments to be made, any initial direct costs, any lease payments made at or before the commencement date, and any costs for dismantling the underlying asset. The right-of-use asset is subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement or modification of the lease.

The Group has applied the exemptions provided in the standard to leases for which the lease term ends within 12 months from the date of initial application and for leases for which the underlying asset is of low value. The Group leases certain office equipment (e.g. personal computers, printers, and photocopiers) considered to be of low value.

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

LEASE LIABILITIES

At the commencement date of the lease, the Vidrala Group recognises a lease liability at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Lease payments include:

- Fixed payments or in-substance fixed lease payments less any lease incentive received from the lessee.
- The variable payments that depend on an index or a rate.
- The amounts the lessee expects to pay for any residual value guarantees of the underlying asset.
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option.
- Payments for terminating lease if the lease terms include early termination.

The financial liability is subsequently increased by the interest on the lease liability and reduced by the payments made. The liability is remeasured if there are changes in the amounts expected to be payable or in the lease terms.

PRESENTATION

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 inmaterial 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 balance sheet as at 31 December 2019 and the consolidated income statement for the year ended 31 December 2019.

CONSOLIDATED BALANCE SHEET

(Thousand of Euros)	2019
Assets	
Right-of-use assets	1,672
Total Assets	**1,672**
Non-current Liabilities	**924**
Non-current financial liabilities	924
Lease financial liabilities	924
Current Liabilities	**748**
Current financial liabilities	748
Lease financial liabilities	748
Total Liabilities	**1,672**
Net impact on the Consolidated Balance Sheet	-

CONSOLIDATED INCOME STATEMENT

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

Details of right-of-use assets and lease liabilities and movement during 2019 are as follows:

(Thousands of Euros)	Technical installations and other tangible assets
At January 1 2019	1,638
Additions	705
Disposals	(150)
Amortisation expense	(522)
At December 31 2019	**1,672**
(Thousands of Euros)	**Lease liability**
At January 1 2019	1,638
New contracts	705
Contract disposals	(150)
Payments	(493)
Financial expenses	(28)
At December 31 2019	**1,672**

Lastly, the total amount of rentals under leases not affected by IFRS 16 is Euros 190 thousand.

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

Standard, interpretation or amendment	Date of adoption by the EU	Fecha de aplicación en la UE	Fecha de aplicación del IASB
Revised version of the IFRS conceptual framework	December 6 2019	January 1 2020	January 1 2020
Amendments to IAS 1 and IAS 8 – Materiality definition	December 10 2019	January 1 2020	January 1 2020
IFRS 17 Insurance Contracts	Pending	Pending	January 1 2022(*)
Amendments to IFRS 3 – Business combinations	Pending	Pending	January 1 2020
Amendments to IFRS 9, IAS 39 and IFRS 7: Reform on reference interest rate	January 16 2019	January 1 2020	January 1 2020

(*) Considering ED/2019/4, which delays the effective date.

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	
Technical installations and machinery	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

GRUPO COMO ARRENDATARIO
El Grupo actúa como arrendatario de maquinaria diversa para la realización de su actividad productiva. El Grupo aplica un único modelo de reconocimiento y valoración para todos los arrendamientos en los que opera como arrendatario, excepto para los activos de bajo valor y los arrendamientos a corto plazo.

Derechos de uso
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) CO_2 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) Financial instruments

(i) Classification of financial instruments

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

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

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

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

(ii) Offsetting principles

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

(iii) Financial assets

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

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

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

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

Financial instruments at amortised costs

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) Hedge accounting

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

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

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. According to this legislation, companies are obliged to provide for or contribute certain amounts to an externally managed pension plan, calculated on the basis of employees’ remuneration, which are redeemed when an employee’s working relationship with the company terminates.

(iv) Termination benefits

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

(v) Short-term employee benefits

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

(o) Provisions

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

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

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

(i) Provision for emission allowances

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

(ii) Provision for defined benefit plans

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

(iii) 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 19).

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

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, Portugal and Belgium 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 2019 and 2018:

	2019			
(Thousands of Euros)	**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**

(Thousands of Euros)	Iberian Peninsula & Other	Italy	United Kingdom & Ireland	Consolidated Financial Statements
	2018			
Revenues	567,063	53,876	334,487	955,426
Other income	8,754	2,240	10,997	21,991
Changes in inventories of finished goods and work in progress	610	3,214	(5,893)	(2,069)
Merchandise, raw materials and consumables used	(178,900)	(24,285)	(120,450)	(323,635)
Employee benefits expense	(109,417)	(12,963)	(68,201)	(190,581)
Amortisation costs	(50,589)	(7,251)	(30,338)	(88,178)
Impairment of non-current assets	(3,834)	(271)	-	(4,105)
Other expenses	(141,396)	(13,643)	(66,728)	(221,767)
Finance income	906	(25)	2,610	3,491
Finance costs	(9,991)	(58)	(100)	(10,149)
Profit before income tax from continuing operations	**83,206**	**834**	**56,384**	**140,424**
Income Tax	(17,755)	2,361	(9,072)	(24,466)
Profit for the year from continuing operations	**65,451**	**3,195**	**47,312**	**115,958**

Non-current assets allocated at 31 December 2019 and 2018:

	Thousands of Euros	
	2019	2018
Iberian Peninsula & Other	519,657	538,630
Italy	131,829	132,617
United Kingdom & Ireland	317,547	287,115
	969,033	**958,362**

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

	Thousands of Euros					
	2019			2018		
Location	**Assets**	**Liabilities**	**Investments**	**Assets**	**Liabilities**	**Investments**
Iberian Peninsula & Other	766,822	567,579	56,371	772,212	659,208	33,310
Italy	190,419	30,555	6,003	174,051	29,910	27,958
United Kingdom & Ireland	500,620	136,368	49,818	461,072	108,219	35,858
	1,457,861	**734,502**	**112,192**	**1,407,335**	**797,337**	**97,126**

Investments in 2019 and 2018 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. Disposal of the production activity in Belgium

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 Inmobilieré et Financieré, 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.

6. Property, Plant and Equipment

Details of property, plant and equipment and movement during 2019 and 2018 are as follows:

	Thousands of Euros					
2019	Balances at 12.31.18	Additions	Disposals	Transfers	Translation differences	Balances at 12.31.19
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
Cost	**1,339,891**	**108,645**	**(126,479)**	**-**	**22,290**	**1,344,347**
Land and buildings	(102,036)	(8,749)	6,101	-	(917)	(105,601)
Technical installa-tions 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)
Amortisation	**(643,041)**	**(85,209)**	**100,604**	**-**	**(10,012)**	**(637,658)**
Impairments						
Moulds	(12,736)	(4,109)	2,555	-	-	(14,290)
Carrying amount	**684,114**					**692,399**

	Thousands of Euros					
2018	Balances at 12.31.17	Additions	Disposals	Transfers	Translation differences	Balances at 12.31.18
Land and buildings	324,868	6,743	(1,227)	(866)	7,396	336,914
Technical installations and machinery	811,559	50,654	(39,758)	(2,118)	27,731	848,068
Moulds	97,237	10,341	(10,665)	(216)	1,232	97,929
Furniture	11,212	20	(3)	(3)	(304)	10,922
Other property, plant and equipment	3,764	2,564	(4,530)	-	1,633	3,431
Work in progress	57,874	22,826	(228)	(157)	(37,688)	42,627
Cost	**1,306,514**	**93,148**	**(56,411)**	**(3,360)**	**-**	**1,339,891**
Land and buildings	(92,925)	(9,781)	532	138	-	(102,036)
Technical installations and machinery	(442,681)	(58,929)	35,364	981	704	(464,561)
Moulds	(65,778)	(11,785)	9,396	197	-	(67,970)
Furniture	(10,426)	(153)	2,655	3	279	(7,642)
Other property, plant and equipment	(3,037)	(2,064)	5,252	-	(983)	(832)
Amortisation	**(614,847)**	**(82,712)**	**53,199**	**1,319**	**-**	**(643,041)**
Impairments	(8,631)	(4,306)	201	-	-	(12,736)
Carrying amount	**683,036**					**684,114**

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

Likewise, main decreases recorded during 2019 correspond to the sale of the manufacturing activity in Belgium, which has 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 8,303 thousand at 31 December 2019 (Euros 11,731 thousand at 31 December 2018) (see note 14).

b) Commitments

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

	Thousands of Euros	
	2019	2018
Technical installations and machinery	23,384	9,484

(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 2019 the restated cost of fully depreciated property, plant and equipment in use amounts to Euros 408 million (Euros 362 million at 31 December 2018).

7. Intangible Assets

Details of intangible assets and movement during 2019 and 2018 are as follows:

	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
Saldos al 31 de diciembre de 2019	**3,637**	**12,388**	**24,769**	**-**	**300**	**13,237**	**209,890**	**264,221**
Amortisation								
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 December 31 2018	**794**	**6,651**	**8,921**	**359**	**265**	**8,146**	**209,890**	**235,026**
At December 31 2019	**801**	**12,388**	**10,478**	**-**	**246**	**4,073**	**209,890**	**237,876**

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

(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.)
- MD Verre (integrated under MD Verre, 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:

Cash Generating Unit		Thousand of euros	
	Country	**2019**	2018
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 97% 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. The growth in sales volume is consistent with prudent forecasts for growth in demand and the estimated increase in production capacity of each plant based on investment figures -8% of sales- considered in the models. This level is considered sufficient to keep the production facilities current and meet the expected market growth. 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 2.1% and 3.1%, respectively (2018: 2.7% and 4.3%, respectively), which the Group considers reasonable in current market circumstances.

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:

	2019	2018
Cash Generating Unit	**Discount rate**	**Discount rate**
Aiala Vidrio	6.8%	6.8%
Crisnova Vidrio	6.7%	6.7%
Castellar Vidrio	6.8%	6.8%
Gallo Vidro	7.0%	7.0%
Vidrala Italia	6.9%	6.9%
Santos Barosa Vidros	7.0%	7.0%
MD Verre	-	6.1%

Así, las tasas de descuento anteriormente desglosadas se obtienen como resultado de aplicar los siguientes supuestos:

- The risk-free rate of the related GCU's country, which ranges from 1.6% to 2.6% (unchanged from 2018)
- A 6.5% risk premium (the same as in 2018).
- A beta for the related GCU's country, which ranges from 0.94 to 1.01 (unchanged from 2018)
- A fixed liability structure of 1/3 debt, 2/3 equity (the same as in 2018)

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

- **Changes in consumer price index:**

	Estimated in 2019	Estimated in 2018
Spain	1.1%	1.7%
Portugal	1.1%	1.7%
Italy	0.9%	1.7%
Belgium	-	1.9%

- **Estimated Brent barrel price, in euros:**

	2019	**2020**	**2021**	**2022**	**2023**	**2024**
Estimated in 2019	-	48.63	48.84	48.34	47.76	47.76
Estimated in 2018	47.62	48.19	48.38	47.47	47.93	-

The Vidrala Group has performed a sensitivity analysis on the key assumptions, considering variations in sales and EBITDA of +/- 2%.

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. The gross margin indicator (i.e. sales less variable costs) was considered for 2018 and prior years' financial statements in sensitivity analysis, but it was replaced in the 2019 financial statements by EBITDA, a alternative performance measure (APM) used by both the Group and third parties to assess business performance.

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.

In all cases, this change in assumptions would not indicate the existence of impairment for any CGU.
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 2019, there were fully amortised items of intangible assets still in use with an updated cost of Euros 15 million (Euros 15 million at 31 December 2018).

8. Derivative Financial Instruments

Details of derivative financial instruments are as follows:

	Thousands of Euros			
	2019		2018	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Hedging derivatives				
Interest rate swaps	-	4,717	-	3,132
Inflation swaps	27	36	92	51
Currency swaps	374	-	-	-
Energy price options	5,272	1,144	8,850	8,496
Total	**5,673**	**5,897**	**8,942**	**11,679**

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 betweem 2016 and 2018 have an accumulated nominal of Euros 436 million at December 31, 2019 (Euros 458 million at December 31, 2018). At 31 December 2019, Euros 356 million became effective, with Euros 101 million reaching expiry and a further Euros 80 million have become effective in 2020. Under these contracts, effective until 2025, the Group will pay a fixed interest rate of between (0.335)% and 0.535%.

The inflation hedging instruments contracted, recorded a cumulative nominal as of December 31, 2019 of 30 million euros for the period covered until 2020, 20 million euros for the period covered until 2021 and 20 million euros for 2022. Through these contracts, the Group guaranteed a maximum salary increase in certain costs related to the variation of the Spanish consumer price index that will be between 1.62% and 1.75%.

Energy price hedging instruments have an accumulated nominal of Euros 63 million at December 31, 2019 (Euros 71 million at December 31, 2018). As a result of these contracts, effective until 2023, the Group estimates that it has hedged approximately 21% of its expected exposure to fluctuations in energy markets over the aforementioned period.

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

	Thousands of Euros Income/(Expenses)	
	2019	**2018**
Other comprehensive income	6,128	(3,075)
Reclassification to finance costs	(3,615)	(2,458)
	2,513	**(5,533)**

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 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	-	-

	Thousands of Euros 2018						
	Valor Contable	**Flujos esperados**	**Ocurrencia de los flujos**				
			2019	**2020**	**2021**	**2022**	**2023**
Interest rate swaps	(3,132)	(3,205)	(1,572)	(1,096)	(588)	35	16
Inflation swaps	41	41	41	-	-	-	-
Energy price options	354	354	2,241	(1,062)	(825)	-	-

9. Income Tax

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

	Thousands of Euros					
Deferred tax assets	**Loans for losses to be offset**	**Provisions for personnel**	**Rights to tax deductions and credits**	**Financial liabilities**	**Other**	**Total**
At 31 December 2017	**1,548**	**730**	**8,139**	**1,416**	**23,470**	**35,304**
(Debit) credit to income statement	1,235	7	(3,315)	-	3,073	1,000
Debit (credit) to other comprehensive income	-	-	-	2,418	-	2,418
Translation differences	-	-	-	-	(27)	(27)
At 31 December 2018	**2,783**	**737**	**4,824**	**3,834**	**26,516**	**38,695**
(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**

	Thousands of Euros				
Deferred tax liabilities	**Goodwill**	**Property, plant and equipment**	**Financial liabilities**	**Other**	**Total**
At 31 December 2017	**11,975**	**28,008**	**1,916**	**3,677**	**45,576**
Debit (credit) to income statement	3,465	3,558	-	(2,346)	4,677
Debit (credit) to other comprehensive income	-	-	990	-	990
Translation differences	-	(97)	-	-	(97)
At 31 December 2018	**15,440**	**31,469**	**2,906**	**1,331**	**51,146**
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**

"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, and the tax effect of adjusting intragroup margins at year-end amounting to Euros 7,100 thousand (2018: Euros 7,559 thousand).

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 2019, corresponding to hedging operations, amounted to Euros (718) thousand (Euros 1,383 thousand at 31 December 2018).

Details of the income tax expense are as follows:

	Thousands of Euros	
	2019	2018
Current tax		
Present year	27,626	21,188
Prior year adjustments	(626)	(253)
Deferred tax		
Source and reversal of temporary differences	3,831	3,913
Application on capitalized deductions	1,281	3,088
Adjustments for change type of tax	(120)	(1,877)
Expense for reduction of assets for taxes deferred	(692)	376
Prior year adjustments	(651)	206
Other	(5,412)	357
Deferred income taken to income tax (note 14)	(2,532)	(2,532)
Total	**22,705**	**24,466**

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

	Thousands of Euros	
	2019	2018
Profit for the year before income tax from continuing operations	165,980	140,424
Compensation of negative tax bases from previous years	(885)	(1,184)
Tax calculated at the tax rate of each country	36,072	30,392
Carry forward of unused tax losses	2,433	-
Deductions for the year	(170)	(587)
Prior year adjustments	(1,379)	(48)
Adjustments for changes in tax rate	(140)	(1,877)
Expense for reduction in deferred tax assets	(692)	376
Other adjustments	(6,355)	-
Deferred income taken to income tax (note 14)	(2,532)	(2,532)
Permanent differences	(4,532)	(1,258)
Income tax expense	**22,705**	**24,466**

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” includes 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 6,262 thousand at December 31, 2019 (Euros 5,809 thousand at December 31, 2018).

The Company applied in 2018 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 11,000 thousand. In this regard, it has apportioned an amount equal to non-distributable reserves for a minimum period of five years, except for the portion of the increase that is incorporated into capital.

In accordance with current legislation in Spain, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of 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 2019 consolidated annual accounts taken as a whole.

10. Inventories

Details of inventories are as follows:

	Thousands of Euros	
	2019	2018
Raw materials	15,871	13,138
Auxiliary and production materials	80,041	76,870
Finished goods and work in progress	123,822	118,172
Supplier down payments	2,832	-
	222,566	208,180
Impairment	(27,949)	(23,033)
	194,617	**185,147**

At 31 December 2019 and 2018 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 6,696 thousand (2018: Euros 7,001 thousand), and on auxiliary and production materials to Euros 21,253 thousand (2018: Euros 16,032 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:

	Miles de euros	
	2019	2018
Trade receivables	253,252	224,080
Personnel	298	-
Other loans	2,752	2,119
Less impairment due to uncollectibility	(7,768)	(7,113)
Total	**248,534**	**219,086**

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 2019 and 2018 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	
	2019	2018
Public entities		
Value added tax	9,143	12,903
Other items	1,437	115
	10,580	**13,018**

El detalle de la partida Otros pasivos corrientes es como sigue:

	Thousands of Euros	
	2019	2018
Public entities		
Value added tax	17,292	20,942
Withholdings and payments on account	2,795	2,594
Social Security	4,247	3,643
Other	4,016	4,140
	28,350	**31,319**

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 2019 and 2018 is as follows:

	Number of shares outstanding	Thousand of euros		
		Ordinary shares	Own shares	Total
At December 31 2017	**24,727,841**	**25,290**	**(3,347)**	**21,943**
Acquisition of own shares	(34,244)	-	(2,852)	(2,852)
Sale of own shares	25,000	-	1,325	1,325
Share capital increase	1,236,429	1,265	-	1,265
At December 31 2018	**25,955,026**	**26,555**	**(4,874)**	**21,681**
Acquisition of own shares	(205,791)	-	(16,512)	(16,512)
Sahre capital increase	1,301,702	1,328	-	1,328
At December 31 2019	**27,050,937**	**27,883**	**(21,386)**	**6,497**

The movement on own shares is the following:

	Number of own shares	
	2019	2018
At January 1 2019	**79,033**	**69,789**
Acquisition of own shares	205,791	34,244
Sale of own shares	-	(25,000)
At December 31 2019	**284,824**	**79,033**

At 31 December 2018 the share capital of Vidrala, S.A. is represented by 26,034,059 ordinary shares represented by book entries of Euros 1.02 par value each, fully paid and listed on the on the Madrid and Bilbao stock exchanges.

At the Annual General Meeting of Vidrala, S.A. held on 28 May 2019, approval was given to increase share capital by a specific amount according to the terms of the resolution via the issuance of 1,301,702 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.

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

Under this authorisation, at its meeting of 19 December 2019, the Board of Directors decided to reduce capital by Euros 274 thousand through the cancellation of 268,710 treasury shares. This concluded the share buyback programme agreed on 20 December 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.

Also at the 19 December 2019 meeting, the Board of Directors decided to launch a new share buyback programme. Under this programme, the Company intends to repurchase shares representing up to 1% of share capital on the market. As the Company expects to acquire up to a maximum of 270,000 shares, for a maximum cash amount of Euros 27 million. The share buyback programme will last up to twelve (12) months, although the Company reserves the right to end it before then if it reaches the maximum cash amount or the maximum number of shares authorised by the Board of Directors, or if other circumstances warrant.

In 2019 and 2018, a total of 205,791 and 34,244 shares, respectively, were acquired on the market, for a total amount of Euros 16,512 thousand and Euros 2,852 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 2019, the Group's capital ratios increased, as shown in the following ratios for 2019 and 2018:

	Thousands of euros	
	2019	2018
Total equity	723,359	609,998
Total equity and liabilities	1,457,861	1,407,335
Total equity/total equity and liabilities	49.6%	43.3%

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	
	2019	2018
Net financial debt	334,898	411,094
Equity	723,359	609,998
Debt ratio	0.46	0.67

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 0.46 (0.67 at the 2018 close) and debt equivalent to 1.22 times accumulated EBITDA (1.72 at the 2018 close). The interest coverage ratio, measured as EBITDA for the year divided by the consolidated net finance cost, is 59.47 (35.75 at the 2018 close).

(b) Otras reservas

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 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, 2019 the Group has included a non-distributable capitalisation reserve of Euros 320,671,076.11 (Euros 210,671,076.11at December 31, 2018) 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 2017	**2,858**	**(800)**	**2,058**
Income and expenses generated during the year	(3,075)	768	(2,307)
Reclassification to profit or loss	(2,458)	615	(1,843)
Balances at December 31 2018	**(2,675)**	**583**	**(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)**

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 positive impact for the year of Euros 16,149 thousand (Euros 3,753 thousand negative in 2018) 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 392 thousand (see note 19).

(d) Dividends and restrictions on distribution of dividends

Total dividends distributed by Vidrala, S.A. to shareholders in 2019 amounted to Euros 27,471 thousand (Euros 23,784 thousand in 2018), which is equivalent to 1.0581 euro per share outstanding (0.9619 euro in 2018). The dividends reflect the distribution of 2018 profit.

The amount paid as an attendance bonus to the General Shareholders' Meeting during the financial year 2019 amounted to Euros 936 thousand (Euros 867 thousand in 2018).

The distribution of Company profits and reserves for the year ended 31 December 2018, approved by the shareholders at their annual general meeting held on May 28, 2019, was as follows:

Basis of allocation	**Euros**
Profit for the year	83,104,310.27
Distribution	
Other reserves	55,633,352.54
Dividend	7,571,600.18
Interim dividend	19,899,357.55
	83,104,310.27

On 20 December 2019 the directors agreed to distribute an interim dividend on 2019 profit of 0.8430 euro per share to shareholders, totalling Euros 22,819 thousand, which was paid on February 14, 2020.

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:

	Miles de euros
Forecast distributable profit for 2019	
Projected profit after income tax to 12.31.2019	
Interim dividend distributed	22,819
Forecast cash flow for the one-year period from December 19, 2019	
Cash and cash equivalents at agreement date	555
Credit facilities available at agreement date	216,301
Projected operating receipts and payments (net)	73,823
Other cash disburments	(33,233)
Credit facilities available (one year later)	**257,446**

The proposed distribution of 2019 profit and other Parent reserves to be submitted to the shareholders for approval at their annual general meeting is as follows:

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

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	
	2019	2018
Capital grants (note 6(a))	8,303	11,731
Tax credits for investments	3,721	6,107
	12,024	**17,838**

During 2019, the Group has not added any additional capital grants (662 thousand euros in 2018), being the gross allocation during 2019 to the consolidated profit and loss account amounting to 3,428 thousand euros (4,250 thousand euros in 2018) (see note 22).

Tax credits capitalised in 2004 and 2005 were recorded as deferred income and taken to the income statement in line with the depreciation of the financed assets, in the case of property, plant and equipment, or the recovery of the investments in the case of business combinations. In this regard, during fiscal year 2019 and 2018, 2,532 thousand euros, both years, 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			
	2019		2018	
	Non-current	**Current**	**Non-current**	**Current**
Loans and borrowings	186,089	30,260	346,787	36,234
Finance Lease	41,352	748	40,916	-
Other financial liabilities	4,465	100,532	7,184	2,370
Accrued interest	-	247	-	276
	231,906	**131,787**	**394,887**	**38,880**

Non-current loans and borrowings mature as follows:

	Thousands of Euros	
	2019	2018
Between 1 and 2 years	71,476	77,509
Between 2 and 5 years	137,930	289,442
More than 5 years	22,500	27,936
	231,906	**394,887**

Some of these contracts contain financial covenant clauses. At 31 December 2019 and 2018 the Group complies with these requirements.

On 26 July 2019, 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 100 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 2019 ranged from 0.00% to 0.16% p.a., excluding the placement fee. Commercial paper issued as at 31 December 2019 amounted to Euros 100 million and related to four issues carried out between September and December 2019 and maturing between January and June 2020. In these conditions, the Company expects to meet the maturities of these issues in 2020 via the issuance of new securities, gradually attempting to optimise the term and interest rate structure and further diversifying its funding sources. The Group had sufficient liquidity at year-end 2019 in the form of immediately available, undrawn long-term bank borrowings to meet all its maturities.

"Other financial liabilities" includes the commercial paper due on 31 December 2019 issued under the commercial paper programme described above, and interest-free loans from various official bodies.

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

				Thousands of Euros	
Type	**Extended**	**Maturity**	**Limit extended/ nominal amount**	**Current**	**Non-current**
Loan	2015	2024	80,000	-	78,613
Credit facility	2015	2023	180,000	-	-
Loan	2018	2021	15,000	-	15,000
Credit facility	2018	2021	15,000	-	5,976
Loan	2018	2021	25,000	-	25,000
Loan	2017	2029	45,000	4,500	40,500
Credit facility	2010	2021	30,000	-	21,000
Other short-term credit facilities	2018	2020	107,750	25,760	-
				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 2019	**Cash flows**	**Changes in fair value**	**Other**	**31 December 2019**
Current loans and borrowings	38,880	(7,045)	-	99,952	131,787
Non-current loans and borrowings	394,887	(162,981)	-	-	231,906
Dividends payables	19,899	(19,899)	-	22,819	22,819
Total liabilities from financing activities	**453,666**	**(189,925)**	**-**	**122,771**	**386,512**

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. As the terms of the new loan are not substantially different from the previous one (the percentage difference between the present value of the cash flows of the new financial liability compared to the amended one is 0.1%), it is considered an amendment of the previous loan, rather than an exchange of liabilities.

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 including optional extensions to 2025. Financing cost will be equivalent to adding an initial margin of 0.75% p.a. to the Euribor reference rate, which may be reduced up to 0.585%. The terms did not imply a substantial modification, so it was considered a modification of the previous agreement.

As a result, at 31 December 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 2019 was 0.75% for the loan tranche, which remained unchanged from the effective date of the novation of 15 July 2019. The interest rate applicable to the revolving credit line was 0.75% up to the date of novation and 0.50% 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.

2020 will feature a grace period for the loan, during which the Company not have to make any principal payments. The average total duration of the Group’s funding at year-end 2019 was approximately four years.

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

At the date of authorisation for issue of these annual accounts, these commitments have been complied with, as reflected by the results of the following indicators at December 31, 2019:

Net financial debt / consolidated EBITDA: 1.22x

Consolidated EBITDA / consolidated net finance cost: 59.47x

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, 10% of the loan principal, amounting to Euros 4.5 million, will be repaid in 2020.

Rounding off the Group's funding structure, new bilateral long-term financing lines were arranged in 2018 for an aggregate amount of Euros 40 million. These lines mature in three years, with the possibility of extending the maturity by 1-2 years. No new bank financing lines were arranged in 2019. 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.

Loans and borrowings, including the financing facilities and loans described above, have a combined limit of Euros 529 million and Euros 610 million at December 31, 2019 and 2018, respectively. Consequently, Euros 301 million and Euros 199 million, respectively, were available for draw down at those dates. Furthermore, a limit of Euros 20 million was available in discounting lines in 2019 and 2018, with no amounts having been used at either of the year-end closes.

The average effective interest rates (APR) at the reporting dates for bank borrowings were approximately 0.98% and 1.1% in 2019 and 2018, 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	
	2019	2018
Trade payables	180,103	163,793
Salaries payable	15,301	14,179
Dividends to shareholders	22,818	19,899
Suppliers of fixed assets	4,695	6,769
Other payables	341	1,620
	225,988	**206,260**

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 2019 and 2018 is as follows:

		Days
	2019	2018
Average supplier payment period	62.01	68.51
Transactions paid ratio	66.22	74.17
Transactions payable ratio	40.82	38.63
		Amount (Thousands of Euros)
Total payments made	235,208	219,484
Total payments outstanding	46,752	41,578

18. Risk Management Policy

Business risks

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

Operational risk

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

In 2019, 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 CO_2 emissions.

In addition, Vidrala has a specific commitment to invest in minimising the potential polluting effect of its facilities. Of particular relevance during 2017 in this regard was the conclusion of a major project to install special atmospheric emissions purification systems, called electrostatic precipitators or electrofilters, in all production centres. These installations, which have cost the Group more than Euros 20 million over the last eight years, are aimed exclusively at reducing emissions of particulate pollutants, and are recognised under European legislation as the best currently available technology in this regard. Electrofilters work by attracting and retaining 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 3,700 employees, the majority of whom work in an industrial or manufacturing environment.

Consequently, the Vidrala Group remains committed to establishing the soundest occupational health and safety measures. This commitment is endorsed by the gradual implementation of occupational health and safety management systems based on OSHAS 18001:2007, which are certified by independent entities accrediting the existence of an internationally recognised management framework. In addition, in anticipation of the expiration of OHSAS certificates next March 2021, during the year 2019 we have taken the first steps towards the migration of OHSAS 18001: 2007 to ISO 45001: 2018.

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

iii. Supply chain risk

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

As regards supply risk affecting key products, materials, installations or technologies for the production process, management initiatives include the continual and specialised search for supply sources and strengthening ties with suppliers, diversifying and forging long-term relationships, establishing ongoing audit and standardisation processes and developing supply alternatives in all relevant areas.

Steps taken to address customer service and product quality risks include the development of a specific departmental area separate from the rest of the organisational areas dedicated exclusively to quality.

There is a specific investment project nearing completion that aims to guarantee product quality targets and optimise product quality control through the implementation of state of the art technology across all the Group's facilities.

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

Tax risk

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

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

The current business structure's exposure to currency risk is concentrated mainly in subsidiary Encirc Limited, which operates in the UK and Ireland. With 32.66% of sales and 36.16% 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 2019 data, average depreciation by sterling of 5% in a full year, ceterus paribus, and assuming the absence of currency hedges, would have an impact of approximately 2% on the Group's consolidated profit and a reduction of approximately 4% in its annual cash flow.

Vidrala manages its foreign currency risk by using derivative instruments, mainly forward sales and currency put options. In line with its risk control described, at year-end 2019 Vidrala had put options on pound sterling expiring in 2020 for an accumulated equivalent amount of Euros 24 million. This is equal to approximately 25% of the cash generated in pound sterling in 2019.

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 2019 reporting date Vidrala has interest rate swaps for an accumulated equivalent of Euros 436 million, which start and expire progressively until 2023. As a result, it is expected that practically the entire cost to be assumed by the group in the form of interest on the debt during the year 2020 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 27 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.

As a result of these control procedures, the actual impact of impaired trade receivables in 2019 and 2018 was just 0.03% of sales.

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.

At 31 December 2018 the Vidrala Group had Euros 301 million in immediately available, external undrawn credit, representing 92% of total debt.

v. Debt and solvency

As of December 31, 2019, Vidrala had a consolidated net financial debt of 334.9 million euros, which represents a reduction of 76.2 million euros compared to the end of the precedent year.

As a result, the financial solvency indicators at the end of 2019 reflect an indebtedness equivalent to 1.2 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 13 September 2024, and is gradually repayable from 13 Sepember 2023. There is a grace period on repayment in 2020, 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 2019 stood at around four years.

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

Net financial debt / consolidated EBITDA 1.22x

Consolidated EBITDA / consolidated net finance cost 59.47x

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 2019 reporting date Vidrala has hedging derivatives on energy commodities for a nominal equivalent of Euros 63 million. As a result of the existence of such contracts, effective until 2023, the Group estimates that it has approximately 21% of its expected exposure to changes in the energy markets during the mentioned period.

vii. Other risks. Result of the Brexit referendum

Vidrala has strategic business interests in the UK and Ireland through its Encirc Limited division, acquired at the beginning of 2015. Encirc is a manufacturer of glass containers aimed at the domestic food and drinks market in Ireland and the UK, where it operates two plants. It offers a complete range of services, from the manufacture of glass containers to state of the art packaging processes and logistics services.

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

The UK held a referendum on 23 June 2016 on whether to remain in the European Union. The votes were in favour to exit. The country's exit was agreed on 31 January 2020, initiating a transitional period of negotiations that will determine future relations.

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

19. Provisions

Movement in provisions in 2019 and 2018 is as follows:

	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**

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

The provision for emission allowances includes the estimated surrender of emission allowances in 2019 and 2018 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 mainly the use of a provision recognised in relation to a tax liability amounting to Euros 11,738 thousand, which expired in 2019 (see Note 9), and a provision of Euros 6,145 thousand (2018: Euros 0) relating to certain obligations that will be covered by the Company, recognised based on the best possible estimate at the date of authorisation for issue of these financial statements.

20. Contingencies

The Group has contingent liabilities for bank and other guarantees related to routine business operations amounting to Euros 3,848 thousand (Euros 3,916 thousand in 2018). These guarantees mainly comprise those extended to public entities for commitments assumed. The Group’s directors do not expect any significant liabilities to arise from these guarantees.

21. Environmental Information

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

The total cost of initiatives taken by the Vidrala Group in 2019 to comply with the Kyoto Protocol and emissions analyses amounted to Euros 1,478 thousand (Euros 1,070 thousand in 2018).

Environmental expenses mainly related to waste management incurred during 2019 totalled Euros 3,869 thousand (Euros 2,271 thousand in 2018). These expenses are related to waste management.

Environment-related plant investments came to Euros 4,219 thousand (Euros 1,580 thousand in 2018).

22. Revenue and Other Income

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

Details of other income are as follows:

	Thousands of Euros	
	2019	2018
Capital grants taken to income (note 14)	3,428	4,250
Grants for emission allowances	9,037	6,141
Other income	4,372	11,600
	16,837	**21,991**

23. Merchandise, raw materials and consumables used

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

	Thousands of Euros	
	2019	2018
Net purchases	(321,569)	(310,965)
Change in inventories	(5,904)	(4,909)
Impairment	(5,221)	(7,761)

24. Other Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2019	2018
External services (note 24.1)	(45,338)	(46,108)
Electricity	(50,954)	(54,366)
Sales expenses (note 24.2)	(92,522)	(87,944)
Surrender of emission allowances (note 19)	(23,380)	(17,563)
Taxes	(4,968)	(6,330)
Impairment and uncollectibility of trade and other payables (note 11)	(655)	(466)
Other operating expenses	(12,834)	(8,990)
	(230,651)	**(221,767)**

24.1 External services

The detail of "External services" is as follows:

	Thousands of Euros	
	2019	2018
Repair and maintenance	(31,167)	(37,100)
Independent profesional services	(1,560)	(1,226)
Insurance	(3,742)	(3,331)
Supplies	(965)	(978)
Other services	(7,904)	(3,473)
	(45,338)	**(46,108)**

24.2 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.

25. Employee Benefits Expense

Details of the employee benefits expense in 2019 and 2018 are as follows:

	Thousands of Euros	
	2019	2018
Salaries, wages and similar	156,735	153,864
Contributions to defined contribution plans	2,722	1,612
Other employee benefits	38,086	35,105
	197,543	**190,581**

The average headcount of the Group in 2019 and 2018, distributed by category, is as follows:

	Average headcount	
	2019	2018
Senior management and proxies	48	46
Junior management	395	395
Administrative staff	495	466
Operators	2,828	2,825
	3,766	**3,732**

At 31 December 2019 and 2018 the distribution by gender of Group personnel and directors is as follows:

	Number			
	2019		2018	
	Female	**Male**	**Female**	**Male**
Board members	3	8	3	7
Management	1	43	3	43
Junior management	64	311	63	332
Administrative staff	161	290	160	314
Operators	272	2,398	283	2,581
	501	**3,050**	**512**	**3,277**

26. Finance Income and Finance Costs

Details of finance income and finance costs are as follows:

	Thousands of Euros	
Finance income	**2019**	2018
Exchange gains	1,002	2,393
Other finance income	2	1,098
Total finance income	**1,004**	**3,491**

	Thousands of Euros	
Finance costs	**2019**	2018
Interest on loans and borrowings	(4,787)	(6,618)
Hedging derivatives	(1,751)	(2,944)
Other finance costs	(57)	(587)
Total finance costs	**(6,595)**	**(10,149)**

27. 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:

	Miles de euros	
	2019	2018
Profit for the year attributable to equity holders of the Parent (thousands of Euros)	143,275	115,958
Weighted average number of ordinary shares outstanding (thousands)	27,174	25,966
Basic earnings per share (Euros per share)	5.27	4.47

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

	2019	2018
Ordinary shares outstanding at 1 January	27,335,761	26,034,059
Effect of own shares	162,015	67,858
Weighted average number of ordinary shares outstanding at 31 December	**27,173,746**	**25,966,201**

The profit per share for the 2018 financial year, adjusted for the effect of the increase of released capital carried out in December 2019, would amount to 4.25 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.

28. Related Party Balances and Transactions

(a) Commercial transactions

During 2019 and 2018 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	
	2019	2018
Salaries and other current remuneration paid to employees, management and directors	3,161	3,382

Likewise, during 2019, incentive payments were made for an amount of Euros 1,040 thousand (Euros 1,732 thousand in 2018).

The number of directors as of December 31, 2019 has amounted to 12 people (13 number of people in 2018).

Loans to senior managers at 31 December 2019 amounted to Euros 321 thousand (Loans to senior managers at 31 December 2018 amounted to Euros 458 thousand).

(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 1,387 thousand (Euros 1,313 thousand in 2018).

Likewise, during 2019 no incentive payments have been made (Euros 348 thousand in 2018).

29. Audit Fees

The firm auditing the annual accounts of the Group has accrued net fees for professional services during the years ended 31 December 2019 and 2018 as follows:

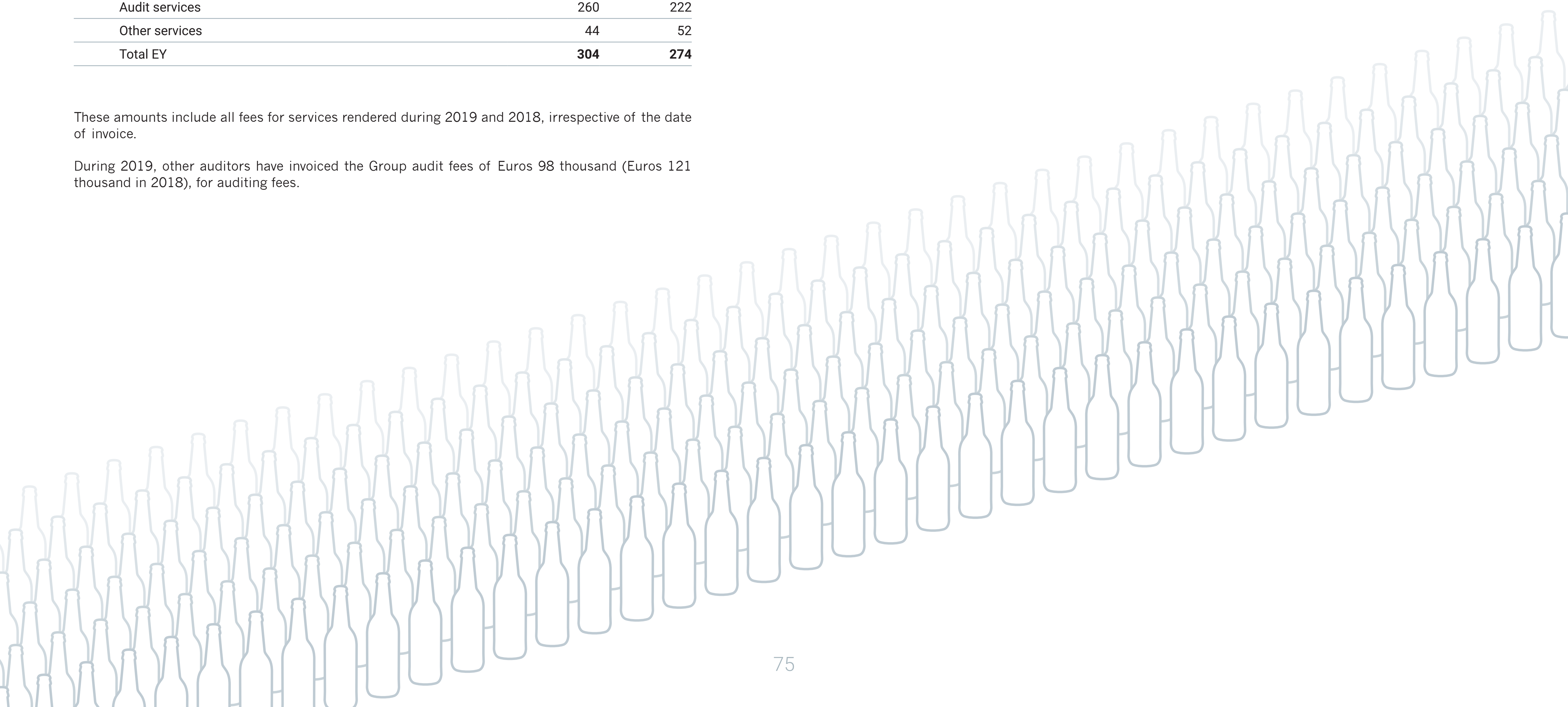
	Thousand euros	
	2019	2018
Ernst&Young, S.L.		
Audit services	260	222
Other services	44	52
Total EY	**304**	**274**

These amounts include all fees for services rendered during 2019 and 2018, irrespective of the date of invoice.

During 2019, other auditors have invoiced the Group audit fees of Euros 98 thousand (Euros 121 thousand in 2018), for auditing fees.

30. Events after the reporting period

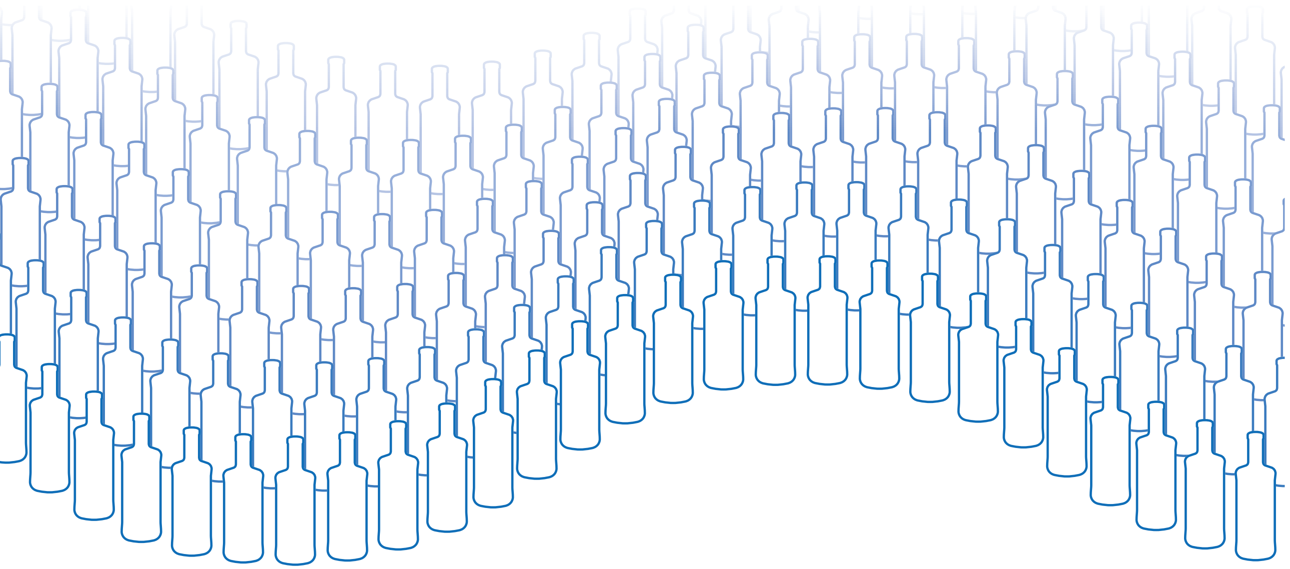
No events with a significant impact on the accompanying consolidated financial statements took place between the reporting date and the date of authorisation for issue of the consolidated financial statements.



	Revaluation reserves	Legal reserve	Voluntary reserves	Reserves in fully con-solidated companies	Profit for the year	Total
At December 31 2017	**2,311**	**5,234**	**311,699**	**150,517**	**89,146**	**558,907**
Adjustments for initial application ofnew accounting standards (note 2)	-	-	1,312	-	-	**1,312**
At January 1 2018	**2,311**	**5,234**	**313,011**	**150,517**	**89,146**	**560,219**
Distribution of 2017 profit						
Reserves	-	-	97,869	(32,507)	(65,362)	-
Dividends	-	-	-	-	(23,784)	(23,784)
Own shares sold	-	-	1,103	-	-	1,103
Share capital increase	-	77	(1,342)	-	-	(1,265)
Resultado del ejercicio 2018	-	-	-	-	115,958	115,958
At December 31 2018	**2,311**	**5,311**	**410,641**	**118,010**	**115,958**	**652,231**
Distribution of 2018 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**

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

2019 Sustainability Report



NEW CHALLENGES FOR SUSTAINABILITY AND THE INDUSTRY

Society as a whole and consumers in particular are increasingly demanding more sustainable measures to be taken in practically all industrial sectors. However, there are underlying risks in the current trends of global change and new scenarios that make it necessary for industries to act in consequence. European industry has repeatedly demonstrated its ability to handle these concerns and channel them by improving production processes, making them cleaner and more responsible.

Despite the complexity of the economic and social scenarios that arose last year, the glass industry was able to maintain the positive trend in terms of sales and production figures. Therefore, we believe that the industry is strong, dynamic and capable of facing global challenges. We are confident that glass container manufacturing is appealing to both customers and investors, as there is further evidence that glass is the ideal material for the transition toward a more sustainable circular economy.

Glass brings to light the benefits that a circular economy can have for the environment and the communities where manufacturing plants are located. Our business model is always focused on the customer and the consumer as essential components. In addition, given the increasing demand of glass containers, we are confident that this trend will take root. This will make glass the preferred option of European consumers and reinforce an industry that is committed to improving the environment.

The 2030 Agenda and the glass container

We form part of a leading industry in the implementation of the circular economy in Europe (overall, the industry has achieved a recycling rate of 76%). Our achievements have had a positive effect on the **United Nations 2030 Agenda for Sustainable Development.**

SUSTAINABLE DEVELOPMENT GOALS

7 AFFORDABLE AND CLEAN ENERGY

The manufacturing of glass containers is intense in terms of energy, making this a critical aspect in assessing the environmental performance of the sector.

We focus a large part of our environmental efforts on energy efficiency. This matter is not only associated to direct financial profit from lower consumption, but also with the related emissions reduction and the subsequent improvement in air quality in the surrounding area. That's why we focused on supporting the Sustainable Development Goal 7: **Affordable and Clean Energy.**

8 DECENT WORK AND ECONOMIC GROWTH

We are committed to sustainable economic development, creating the necessary conditions for people being employed in quality jobs, stimulating the economy without harming the environment and keeping us aligned with Sustainable Development Goal 8: **Decent Work and Economic Growth.**

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

The production of the containers manufactured by Vidrala is the result of applying the principles of permanence, recyclability and reuse set forth in Sustainable Development Goal 12: **Responsible Consumption and Production.** We contribute to this goal in two basic ways. First of all, by introducing recycled material, we reduce dependence on other natural raw materials. Secondly, in line with our industrial commitments, we participate actively in reducing waste generation and enhancing prevention, recycling and reusing during the various stages of the production process.

13 CLIMATE ACTION

We are also aware of the indirect impact of the activity on the climate. Our commitment to focusing our efforts on the efficient administration of resources and energy and on reducing CO_2 emissions keeps us aligned with Sustainable Development Goal 13: **Climate Action.**

17 PARTNERSHIPS FOR THE GOALS

We believe in a more sustainable future and do our utmost to achieve it. However, there are significant challenges to face, which require synergies and innovative technologies to ensure that the scenario envisioned in the 2030 Agenda becomes a reality. We are working with a production model that is highly suited for closing material cycles, in close collaboration with the entire value chain, from energy and raw material suppliers to bottlers and the end consumer. The aim is to ensure that the theoretical framework of a circular economy is implemented and put into practice with continuous improvements. As set forth in Sustainable Development Goal 17, our objective is to **enhance effective public-private alliances and with society as a whole to offer a more sustainable model of economic development.** The associations of the industry work alongside the persons responsible for public policies to ensure that future decisions improve investment conditions, stimulate innovation and keep the industry competitive in Europe. We continue to need the participation of consumers to make sure that glass bottles and containers return to the production cycle at the end of their useful life. **As a glass container manufacturer, Vidrala believes in a more sustainable future and is committed to achieving it.**

European Green Deal

The European Union presented the European Green Deal at the end of 2019. This is an ambitious plan of fifty specific actions to be implemented in the fight against climate change and intended to make Europe climate neutral by 2050.

The purpose of these efforts is for member states to achieve economies that are cleaner and emission-neutral, thereby improving the quality of life of the population and competitiveness of companies. As regards the industry, the intention is to **make the economy of the EU fully sustainable** by changing the social and economic model, while providing the economic resources for a fair transition. Within this scenario, Vidrala is actively involved in the gradual implementation of actions aimed at achieving this new European economic model:

- We invest in **process improvements that make us more efficient** and less energy dependent. This contributes to a gradual disengagement between economising and carbon emissions.
- We are a reference of **industries that transform waste into resources,** an essential factor in the circular economy.
- We apply **ecodesign and circular production processes.** During both the design and manufacturing stages we include ambitious energy efficiency goals from the start to guarantee that our containers adapt to sustainability standards and a circular economy.

In any event, the European Green Deal is a reality and, in the coming years, both public institutions and companies will be responsible for the measures having the intended effect. At Vidrala we promote a glass container manufacturing industry that is committed to society and a sustainable future.

2019 AT A GLANCE

8 Factories

19 Furnaces

More than 8.3 billion of containers

48% use of recycled glass

-8.1% water consumption vs. previous year

3,700 people employed

-4.5% in carbon dioxide emisions (CO_2) vs. previous year

-2.8% in nitrogen oxide emissions (NO_x) vs. previous year

97,171 hours of training invested during 2019, +11.9% vs previous year

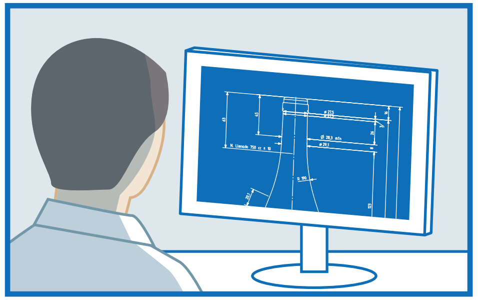
More than 1,600 customers

88% NPS Index (Net Promoter Score)

-1.3% in consumption of energy vs. previous year

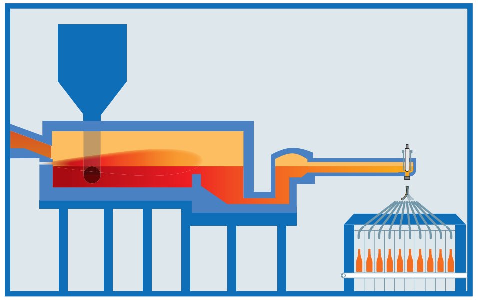
THE GLASS CONTAINER MANUFACTURING PROCESS

Glass container manufacturing applies circular economy principles throughout all its stages:



A. PRE-PRODUCTION AND DESIGN

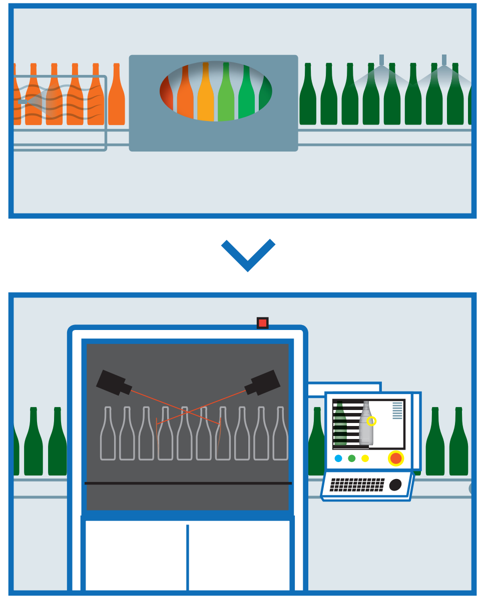
The properties of common glass depend on both the nature of the raw materials and the chemical composition of the resulting product. The application of ecodesign criteria allows optimal production adjustments to obtain the best containers with the lowest material requirements. Our glass container manufacturing process starts out with the use of raw materials such as sands, sodas, limestone and recycled glass containers.



B. PRODUCTION

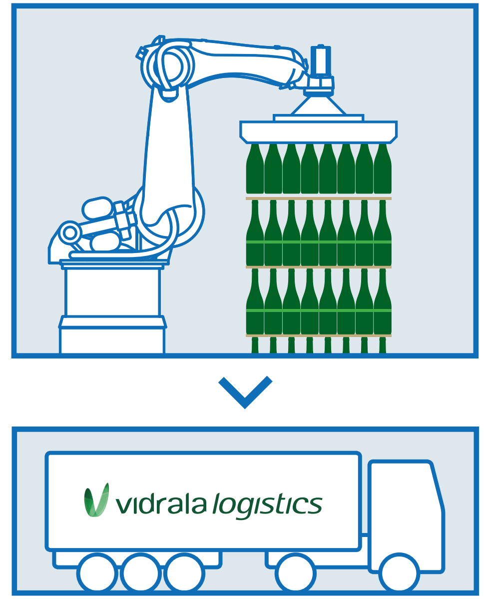
Once the material requirements have been established, glass containers are formed in our furnaces through two consecutive stages:

- **Melting and moulding:** the furnace is fed automatically and melts the glass at a temperature of 1500°C. The glass is made into a variety of forms when it is in its liquidstate by blow and blow or press and blow processes in various moulds.
- **Post-production treatments:** these are applied to prevent loss of strength due to factors such as micro cracks and/or scratches on the glass surface. Hot surface treatment eliminates this problem. After an annealing process at 600°C, a cold surface treatment is applied to prevent scratches to the container during subsequent processes.



C. QUALITY CONTROL

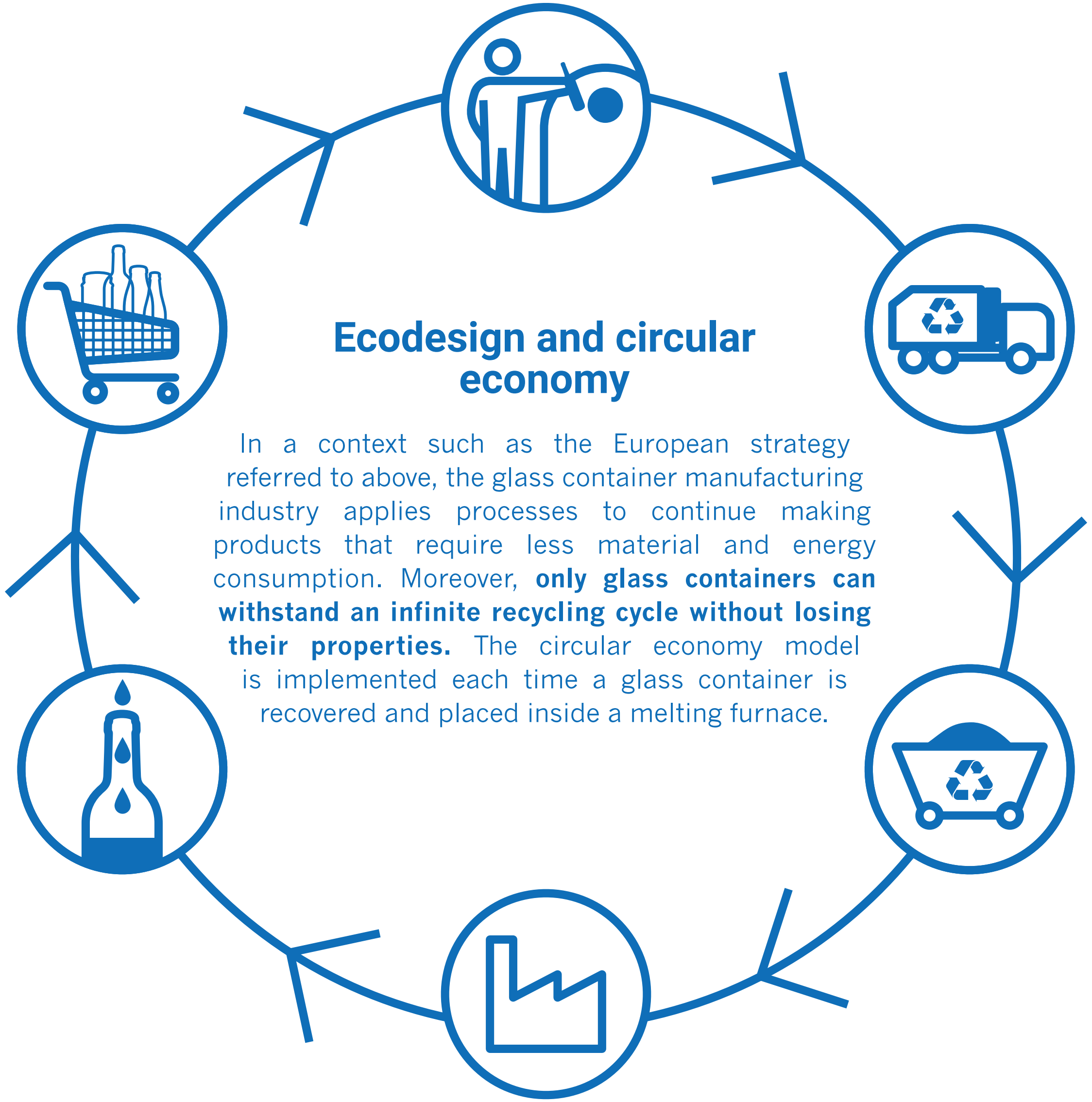
A strict quality control process is performed automatically by using specific machinery that eliminates bottles that do not meet the parameters required by the customer. These discarded bottles (that do not meet the quality specifications) are fed into the melting furnace again.



D. PACKAGING AND TRANSPORT

Before they are sent to the customer, the glass containers undergo an automated packaging process where contact between the staff and the finished product is avoided at all times.

This sustainability report contains information based on the main social, environmental and economic figures for Vidrala in 2019. These figures correspond to the stages commonly associated with the circular economy model, thereby demonstrating the association between the manufacture of glass containers and the model itself. For each stage, we have selected the indicators that give an idea of how we have contributed to sustainability and the circular economy throughout 2019.



Ecodesign and circular economy

In a context such as the European strategy referred to above, the glass container manufacturing industry applies processes to continue making products that require less material and energy consumption. Moreover, **only glass containers can withstand an infinite recycling cycle without losing their properties.** The circular economy model is implemented each time a glass container is recovered and placed inside a melting furnace.

Vidrala applies ecodesign comprehensively throughout its entire container manufacturing process, while applying a variety of sustainability criteria. Each factory has specialised teams in the development of glass container models that not only satisfy customer needs, but also require less material for their manufacture. Working with ecodesign criteria involves the entire product life cycle (container production, use and disposal). In addition, by using Industry 4.0 technologies to create digital and 3D models, we can now produce bottles and jars that are lighter than those of the past, while maintaining the characteristics required to protect the product they contain, ensure container recyclability and develop innovative designs.

Manufacturing lighter-weight glass containers results in a lower carbon footprint due to lower consumption of raw materials and less demand of energy for melting. Both of these factors reduce the CO_2 emissions associated with decarbonation of raw materials and the use of fossil fuels.

Since 2012, Vidrala has produced the **Natura Range,** the best example of its sustainable glass containers. The number of products in this catalogue increases each year; products that are made with technology that reduces their weight but maintains the same features as their predecessors.

On average, **these bottles and jars contain 43% less glass in the same type of container.** This weight reduction does not affect the characteristics that make glass the ideal container for food preservation; they continue to be inert, retain their shape and offer ideal protection of the product they contain. It does, however, improve the positive effects on the environment, by reducing the need to consume raw materials, reducing energy consumption at production plants, producing lower greenhouse gas emissions, and generating less waste.

Vidrala's commitment with sustainable production is supported by the **certification of the environmental management standard ISO 14001:2015 held by the Group's 8 manufacturing plants.** Throughout this economic model, we promote the use of materials with less impact on the environment, prioritising the purchase of recycled glass over other raw materials and transforming them into new containers.

Production

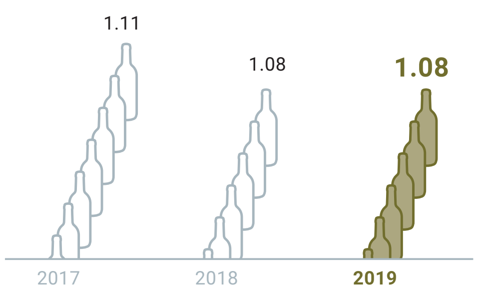
RAW MATERIALS

The containers that we manufacture require three main raw materials: recycled glass, silica sand and sodium carbonate. In addition to these, certain auxiliary materials are needed to obtain the colour of the glass, its strength, etc. These are also necessary for manufacturing to meet our quality standards.

Over the last three years, the trend of reducing the consumption of both raw materials and auxiliary materials per tonne of melted glass has remained constant. Underlying this achievement are the various operational measures put into practice with regard to ecodesign and efficient production processes. Even during furnace renewal periods, such as 2019, the rate of consumption has remained stable or dropped. The indicator of consumption of raw materials is especially noteworthy, since this resource is the most necessary precisely during furnace repairs and renewals. In 2019, the relative consumption of auxiliary materials fell by 17.1% compared to the previous year.

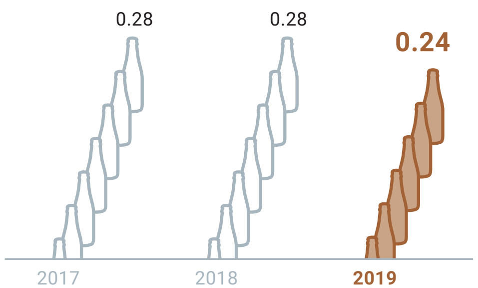
CONSUMPTION OF RAW MATERIALS

(t/t.m.g.)*



CONSUMPTION OF AUXILIARY RAW MATERIALS

(t/t.m.g.)*



* **Tonne of melted glass (t.m.g):** This is the reference unit in the glass industry. Any information based on t.m.g. can be used to evaluate the performance of the company and compare it with other companies in the industry.

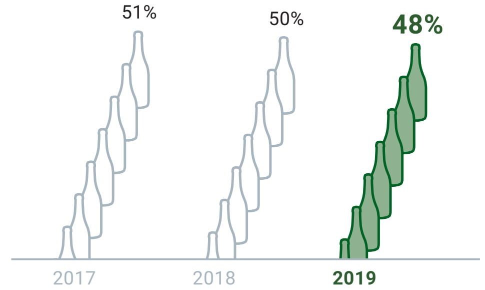
GLASS RECYCLING

One of the characteristics that distinguishes containers made of glass from those made from other materials is the ability to include recycled glass in their composition, whether from an internal or external source.

At Vidrala we use recycled glass in the container manufacturing furnaces primarily from selective municipal collection (igloos, green containers). We also add internal glass, or glass that is discarded in the plant's production process due to quality defects.

Nonetheless, conditions such as the availability of material in each country (if collection ratios are lower than desirable) or the colour of the container required by the customer can affect the percentage of recycled glass that is included. For example, coloured glass (green, brown, etc.) allow larger percentages of recycled glass than white glass. In the current technical conditions at Vidrala plants, these would be able to absorb a larger percentage of glass from selective collection; however, there are reasons why the volume of recycled glass included is not the same in all our plants. **Last year, the percentage of recycled glass used in comparison to the total of raw materials was 48%.** This was lower than the year before and affected by the requirements for the manufacture of certain colours of glass and the availability of recycled glass.

RATE OF INCLUSION OF RECYCLED GLASS



The consumption of 1.2 tones of raw materials is avoided for each tonne of recycled glass used. The emission of 670 kg of CO_2 is also avoided per ton of recycled glass.

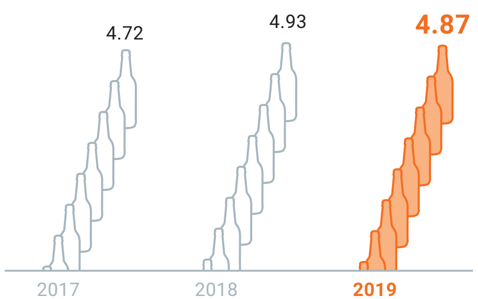
Among other factors, the rate of inclusion of cullet has improved due to improvements in selection efficiency and preparation of the material from selective collection. At Vidrala we are aware that we are part of an extensive value chain, where combined responsibility tends toward more competitive and sustainable materials. An example of how we have increased glass recyclability is the work we have been carrying out for over three years with our recycled glass suppliers to ensure a stable degree of recycled glass quality. This material is essential to manufacture our containers; therefore, any improvements made to reduce impairments, production stop times due to breakdowns and/or non-conforming product reprocessing helps to improve the overall production process.

Power consumption

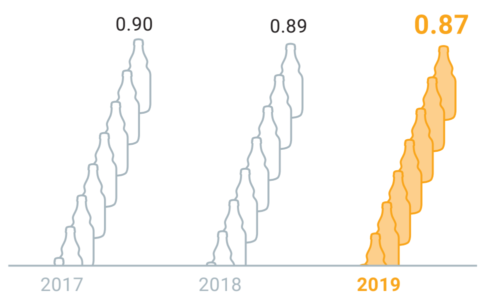
Reducing energy dependency is a priority for the Vidrala Group. Along with materials, energy consumption is one of the most significant environmental challenges we face, which is why a large portion of our efforts and investments are made in this field. In a process such as melting glass, which entails intense use of energy 24 hours a day throughout the year, any measure taken will show visible results in the short term. In recent years, Vidrala has intensified projects to improve energy efficiency, especially as regards the consumption of fossil fuels, as well as electricity consumption, with the aim of reducing the environmental impact of our production processes by improving the energy efficiency of the melting process.

This report distinguishes between the direct energy consumed (mainly natural gas associated with the glass melting process) and indirect energy (electricity needed for all the complementary processes). In both cases, **the ratio of consumption per tonne of melted glass is lower than that of last year.** We are making progress in the overall aim of manufacturing a larger number of containers using less energy, supported by the latest technological breakthroughs in glass manufacturing. For the third consecutive year, **the Vidrala Group has optimised the consumption of electricity.** Modernisation of furnaces and the use of more efficient post-melting processes has allowed us to improve our total energy consumption figures year after year.

DIRECT POWER CONSUMPTION
(Gj/ t.m.g.)



INDIRECT POWER CONSUMPTION
(Gj/ t.m.g.)



The measures that have optimised energy consumption the most are those taken on the melting furnaces, the core of the process. Last year, some of our oldest furnaces were replaced with new ones that are more energy-efficient. Simultaneously, energy efficiency at the Vidrala Group is managed through internal energy audits and the resulting improvement plans, which chart our course toward a horizon of greater environmental sustainability. The Group has its own **Energy Management System (EMS)** to monitor, follow up and control energy consumption. Other measures that improve energy efficiency are the projects in place at four of the Group's manufacturing plants to recover the heat from the manufacturing process, as well as the installation of solar panels in our plant in Portugal.

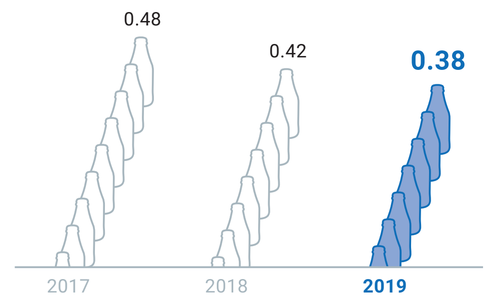
Our commitment to innovation in sustainability was rewarded by the award received from the Secretary of State for Digital Progress at the enerTIC Awards, within the Smart Manufacturing category. The project that received the award was the Implementation of an Energy Efficiency Management System integrated with the rest of the company's processes. It has been implemented in a continuous improvement system by taking as a reference the guidelines of ISO 50001 in all our production centres along with intensive and generalised development and integration of 4.0 technology.

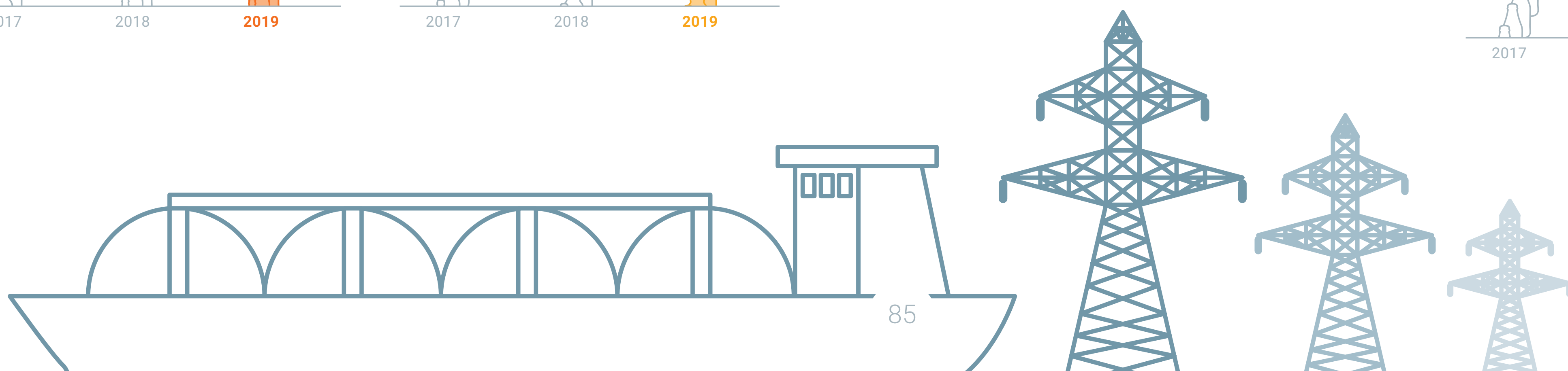
Water consumption

The largest consumption of water in the glass container manufacturing process takes place in cooling the equipment at the various stages of production. This consumption does not diminish the final quality of the water, so most of the water is reused and recirculated. All Vidrala Group plants take the water they need from the local supply network, wells or watercourses, meeting the strictest requirements established by the various authorities involved.

In general, the data reveal that the gradual implementation of measures has led to significant reductions in water consumption. **During the 2017-2019 period, the Vidrala Group achieved a reduction of 20.5% in water consumption for every tonne of melted glass.**

TOTAL WATER CONSUMPTION
(m^3/t.m.g.)



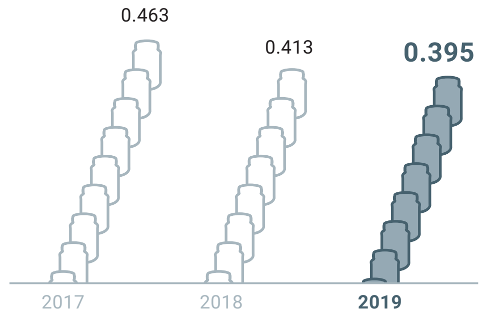


Atmospheric emissions

Climate change manifests itself year after year with greater certainty. Efforts are being coordinated from various areas to reduce the effects of human activity on climate change insofar as possible. At Vidrala, we are contributing to this reduction by applying the measures that are technically feasible in our production scenario. In addition, the Vidrala Group is one of the companies that participate in European trade of Greenhouse Gas Emissions (GHG). As we mentioned above, we are working to reduce our energy dependence as much as technical capabilities and market demand allow. These measures to optimise energy lead to minimising emissions associated with the use of raw materials and fuels. Moreover, the efforts focused on reducing energy consumption do not only significantly reduce CO_2 emissions, but also other atmosphere pollutants associated with the melting process, especially NOx, SOx and particles.

The figures for CO_2 emissions per tonne of melted glass show that the Group is working in the right direction, since these have fallen consistently over the last three years. This is also true of emissions of NOx, SOx and particles, especially the latter, which have also fallen consecutively over the last three years.

CO_2 EMISSIONS
(t./t.m.g.)



Underlying these positive figures for consecutive reduction during the 2017-2019 period are several actions taken within Vidrala that can be summed up as follows:

A. Inclusion of recycled glass from selective collection and rejected glass containers in the plants require less energy to be melted.

B. Investments in environmental improvements on production processes and environmental management.

C. Development and application of an energy management system in furnaces implemented in the Group's manufacturing plants.

In addition to the efficiency measures implemented to reduce consumption, it is our belief that we can contribute to sustainable development through the implementation of technologies for the generation of renewable energy, which is less contaminating than traditional energy. Thus, at the end of 2019, we completed **the installation of a solar farm at the facilities of Vidrala Logistics in Marinha Grande (Portugal).**

The solar farm consists of 792 high-performance modules with a total power of 222 kilowatts (kWp) to generate 376 megawatts hour (MWh) per year. In environmental terms, this will allow a reduction of approximately 4,500 tonnes of equivalent CO_2 in 25 years, or the annual consumption of some 100 families. Although this may appear to be a minor compensation when compared with normal factory consumption, we are convinced that each and every effort counts in the fight against climate change, which is why we will continue to take all manner of measures to mitigate and reduce its effects.

CARBON FOOTPRINT AS AN INDICATOR OF ENVIRONMENTAL IMPROVEMENT

In 2019, the Vidrala Group certified all its Spanish manufacturing plants in standard ISO 14064:2018 on Greenhouse Gases. This standard allows us to quantify our emission quantifications clearly and coherently according to an internationally recognised standard and to verify emissions and Greenhouse Gases (GHG) to support sustainable development through a low-carbon economy. In the coming months, the emissions of GHG will be broken down even further and specific measures will be taken to improve their management, all with the aim of implementing medium and long-term reduction plans.

At Vidrala, it is also important to control other atmospheric pollutants, besides carbon dioxide. Nitrogen oxides or NOx originate in the glass melting stage due to the use of natural gas as fuel. We have adopted the Best Available Techniques (BAT) of the glass industry applicable to European manufacturers and gradually included primary measures (reduction at the source) in the design stage of new furnaces and in the partial repairs of existing furnaces. These measures range from the use of low NOx emission burners to the replacement of part of the fossil fuel with electrical power (boosting).

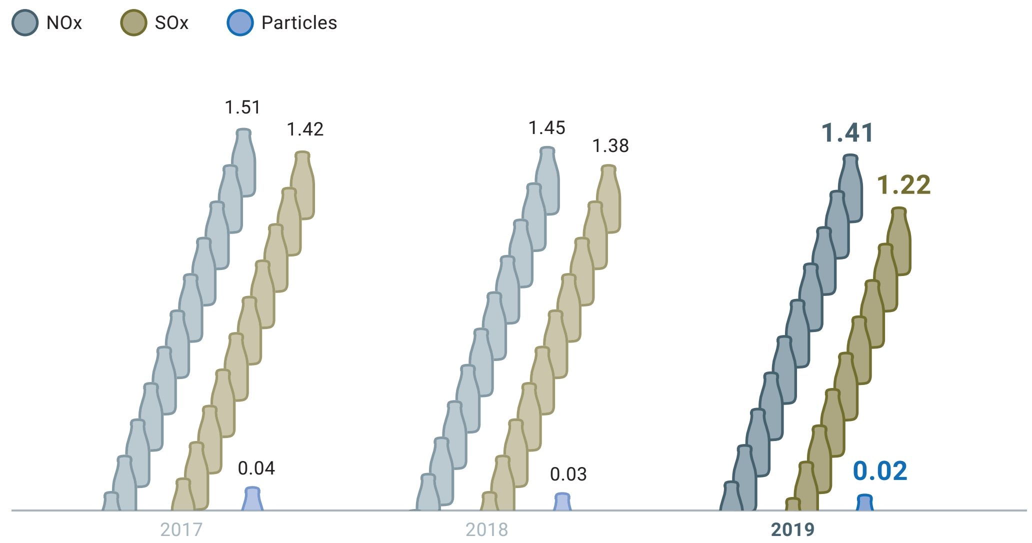
Sulphur oxide and particles also originate mainly in the glass melting process. At Vidrala, we have been working for years on the gradual implementation of various particle and sulphur oxide (SOx) purification systems, such as electrofiltration: systems that use electrostatic precipitation to reduce particle emissions, with previous desulphurisation to reduce the emission of sulphur oxides.

We also rely on Automatic Measuring Systems (AMS) for strict, periodic and automated monitoring of emissions of the various components to ensure compliance with the emission limits set forth in applicable regulations.

Thanks to the technological measures implemented and, above all, to the team of individuals that manage each plant, NOx emissions were reduced by 2.8% in 2019 compared to the previous year. This places emission levels at their lowest in recent years.

NOx, SOx AND PARTICLES EMISSIONS

(kg/t.m.g.)



Waste management

At Vidrala we apply the principle that “the best waste is waste that is not generated” by closing the cycle and reintroducing part of the waste generated (defective and broken containers, etc.) at the beginning of the process. Contrary to other production processes, this enables us to make use of a significant percentage of plant-generated waste in company facilities.

At Vidrala, we apply plans in each manufacturing plant to reduce waste generation, in line with European waste standards. In each country, the Group relies on authorised managers to evaluate these plans according to current legislation. Waste is classified in the following four categories:

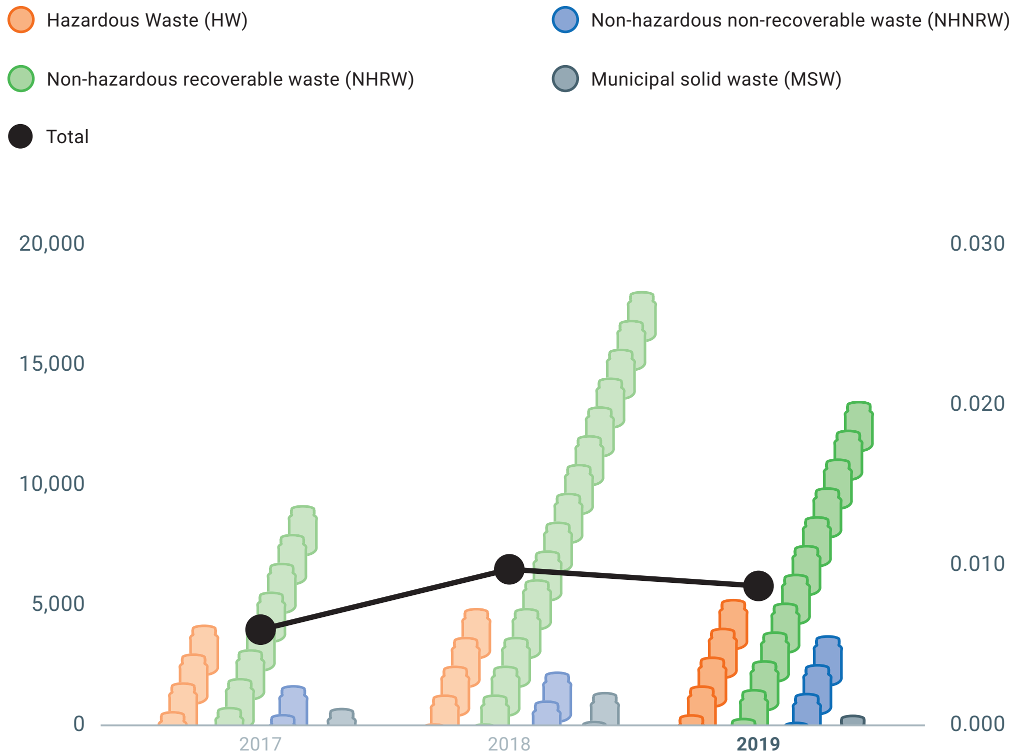
- **HW: Hazardous** waste, such as contaminated demolition waste or toxic substances. These are managed by authorised waste management companies.
- **NHRW: Non-hazardous recoverable** waste, such as wood or cardboard. These can be used by the Group or third parties.
- **NHNRW: Non-hazardous and non-recoverable** waste (NHNRW), such as inert waste.
- **MSW: Waste equivalent to urban waste,** managed by authorised companies in charge to collecting this type of waste.

Waste generation was reduced over the last year by the action plans implemented to recover and reuse waste. However, the analysis of waste generation volumes must reflect the real circumstances of the industry, which entail furnace repairs and reconstruction. At the end of the useful life of the furnace, it must be completely demolished and a new one must be built. Demolition of a furnace involves a very large generation of waste in one year, much higher than normal, especially as refers to inert waste figures (waste that is difficult to treat and manage subsequently). **Nonetheless, the results for 2019 are positive in terms of reducing the overall amounts of waste generation.**

At Vidrala, we work on a daily basis to implement consumption optimisation plans with the firm commitment to achieve higher reductions in waste generation and management in the future.

Waste generation

(Total in tonnes on the left, on the right, total expressed in t./t.m.g.).



Protection of biodiversity

At Vidrala we recognise the importance of protecting biodiversity and ecosystems and their significance for human and environmental well-being. Thus, all Vidrala's production plants are located in areas that are compatible with the industrial activities carried out by the Group. Therefore, as regards the location of the factories and their potential impact on habitats protected by international agreements or on the biodiversity present in these habitats, we are confident that **none of these have a direct or significant impact on the usual conditions in these areas.**

In 2019, **our plant in Derrylin won a platinum award in the "Business & Biodiversity Charter" awards.** This initiative is promoted by the Business in the Community platform, which supports the Business & Biodiversity Charter, a framework for companies to become committed to biodiversity. This is a common framework for all types of organisations to assess their impact on biodiversity, not only as regards managing land property but also their activities, products and services.

This award reflects the bond between our plant in Ireland, the environmental organisations and the community in general. Along the same lines, the Corporate Social Responsibility activities of the Vidrala Group include working with CO_2 absorption projects through reforestation initiatives as an active measure to mitigate the effects of climate change on the territory.

DISTRIBUTION AND CONSUMPTION

Once manufactured and packaged, glass containers continue their life cycle by being shipped from the factory, transported and delivered to the customer. These stages are also important in the product's life cycle, since a significant part of the environmental impact of glass containers is associated with their transport to the customer, which is primarily by road.

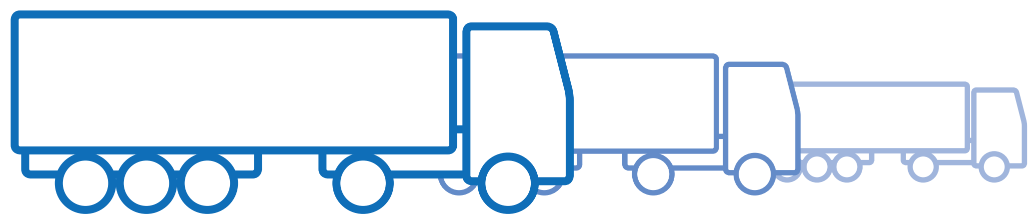
For example, given the geographical distribution of Vidrala manufacturing plants in Spain, 40% of the containers are supplied to customers located in a radius of between 300 and 400 kilometres. It is important to take into account the condition of the glass containers during distribution, since they are empty when transported to the filling plants. At Vidrala, we optimise the space available on the pallets and in the beds of the trucks used for transport.

Our commitment does not end with the delivery of the product to the customer. We manufacture glass containers for the food and beverage industry. As a part of this value chain, which involves such a wide range of factors, we consider the **food safety of consumers** a critical and essential factor of our culture as an organisation.

Vidrala has been certified for internationally recognized food safety standards for a decade. In this sense, Vidrala is aligned with the BRCGS for Packaging Materials standard, implemented and certified in 7 of its 8 production plants. The Italian plant is certified to the international ISO 22000 standard and is currently working on transferring its certification to the BRCGS for Packaging Materials standard. Having these certifications allows us to affirm that we strictly comply with food safety regulations.

Aligned with these food safety standards, and with the objective of guaranteeing food safety and avoiding food fraud, ultimately protecting the final consumer, we have a **risk assessment team and critical control points (HACCP)** in each productive center. This team is in charge of analyzing each of the stages of the process and determining potential physical, chemical and microbiological risks associated with each of them; and act on them.

As regards customer satisfaction with our quality, we are proud to state that the results for 2019 have been the best on record since 2005, when we began this assessment in both our glass manufacturing divisions and filling activity (beverages). Customers score the service offered by the Vidrala Group as an aggregate of various quantitative attributes at over 8.5 out of a maximum of 10.



SELECTIVE COLLECTION AND RECYCLING
Closing the cycle

The European glass container manufacturing industry has been a pioneer in promoting Circular Economy for decades by including post-consumption recycled glass in industrial processes and therefore promoting selective collection of used glass containers.

Vidrala is a member of the European Glass Container Federation (FEVE), as well as of the respective national associations of the industry in the countries we do business in. Therefore, we participate actively in enhancing and optimising these circular processes and promoting good practices in society to stimulate glass recycling. Thanks to these initiatives, **the selective collection rate for glass containers averages 76% for the entire European Union*.**

76%
of selective collection rate for glass containers averages for the entire European Union.

Vidrala has eight plants located in five European countries and is one of the primary agents promoting glass container recycling in Europe. We support the firm commitment of member states to develop an industrial model dedicated to sustainability and which requires a concerted effort by all the links of the glass container value chain; industries, public authorities and society as a whole. The coordinated action of all the players will not only generate environmental benefits, but economic and social benefits as well.

In line with the objectives set forth by the EU, we need to continue working to reach the ambitious goals established as regards selective collection and recycling. The commitment is to reach a glass recycling rate of 90% by 2030, fourteen percentage points above the current figure. This has motivated the promotion by the European association of the initiative called **"Close the glass loop"**. This platform is sponsored by the joint efforts of FERVER, the European Federation of Glass Recyclers and FEVE, the European Glass Container Federation. The platform was launched with a two-fold aim: to reach a rate of post-consumption glass container collection of 90% and to guarantee that the recycled materials are reused in a new glass container production cycle. This platform will optimise the glass container value chain under a European programme in which all the affected stakeholders will participate. Higher amounts of collected post-consumption glass containers must go hand-in-hand with improved collection quality. This will improve the processing stage and open the way to more recycling. A simultaneous effort will be made to develop and optimise classification and treatment systems to increase yield and generate more recycled glass for melting furnaces.

* According to FEVE data.

SOCIAL INVOLVEMENT

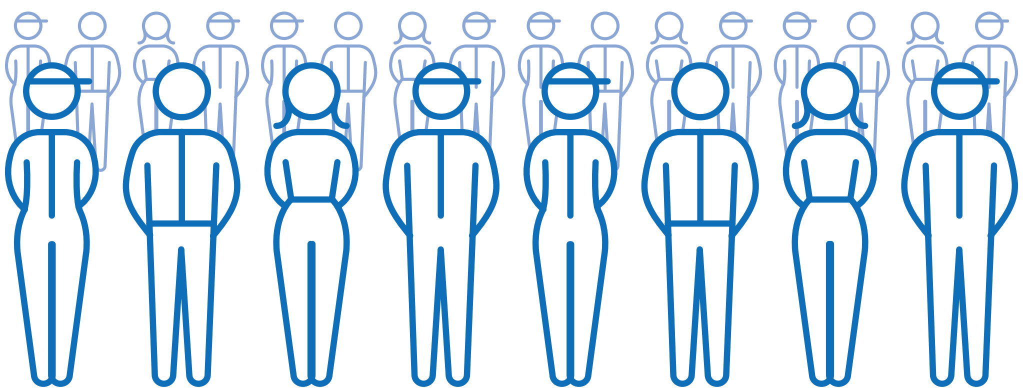
Committed, trained people

The Vidrala Group promotes a stable and high-quality working environment based on equality, diversity and non-discrimination. We also attempt to recruit talent for generation renewal purposes and thus enhance knowledge exchange. Vidrala's commitment to employment has been constant since its founding. The Vidrala Group is aware of its capacity as an organisation to generate jobs and how important this is for society as a whole.

Human values are our primary hallmark; our partners are an essential part of the company's culture and the representatives of our values. In consistency with our commitment to employment and the staff, the Group continues to be an organisation with a large workforce. In 2019, the Group provided direct employment to **more than 3,700 people.**

In consequence with the importance high-quality employment has for the Vidrala Group, the organisation is firmly committed to permanent contracts, which account for 92% of the total. Vidrala also has a greater percentage of full-time job contracts, which guarantees a better salary and better work performance in general. The average period of ongoing contracts is 13 years, evidence of solid and consolidated employee associations with the company.

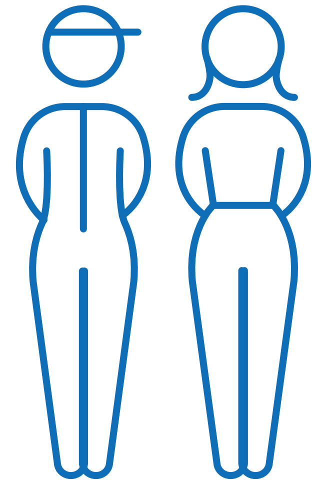
In recent years, the Vidrala Group has made a firm commitment to establishing a young workforce. This is supported by the information from the previous year, which shows that the average age of the workforce is approximately 43 years old.



COMMITMENT TO EQUALITY

Our commitment to developing policies that integrate equal treatment and opportunities for men and women, without direct or indirect discrimination for reasons of sex, religion, race... is applied from recruitment to promotion, through the policies that govern salaries, occupational health, working conditions, work schedules and a work-life balance.

In addition, to increase the attraction of female talent, we have launched a project called: **"Women in Manufacturing".** Since technical training is the main factor that limits the options of women to progress in factory positions and represent a larger percentage of the total workforce, our intention is to motivate women by scheduling academic itineraries focused on industry.



DIVERSITY MANAGEMENT

At the Vidrala Group we are aware that knowing how to manage diversity results in tangible competitive advantages that pave the way to furthering knowledge, accepting different points of view, contribute to attracting and retaining talent, strengthen company culture and increase innovation and creativity. In short, a diverse team has greater motivation, a higher level of commitment and greater productivity and allows to identify constant opportunities for continuous improvement. Currently, we employ people from 40 different countries and cultures, that impel us to progress in cultural integration plans by internal communication; being the predominant nationalities: United Kingdom (35%), Spain (29%), Portugal (23%), and Italy (5%).

COMMITMENT TO INTEGRATION

The activity of the Vidrala Group is based on the respect for individual dignity, which means that all employees and collaborators must be treated fairly and with respect by their direct managers and colleagues. The policies are directed towards a communication and internal management policy that avoids discrimination and is committed to integration plans. One of the representative actions that have been taken for more than 10 years to promote integration actions is collaboration with Special Employment Centers and other external organizations who work with persons with disabilities or physical or psychic handicaps to provide auxiliary services to Vidrala's primary activities, under the direct coordination of professionals specialized in monitoring these professional profiles.

In line with these goals, the Vidrala Group's remuneration policy establishes salary levels linked to the position in the organisation, regardless of sex, race, religion or other distinguishing factors.

TRAINING AND SKILL LEARNING

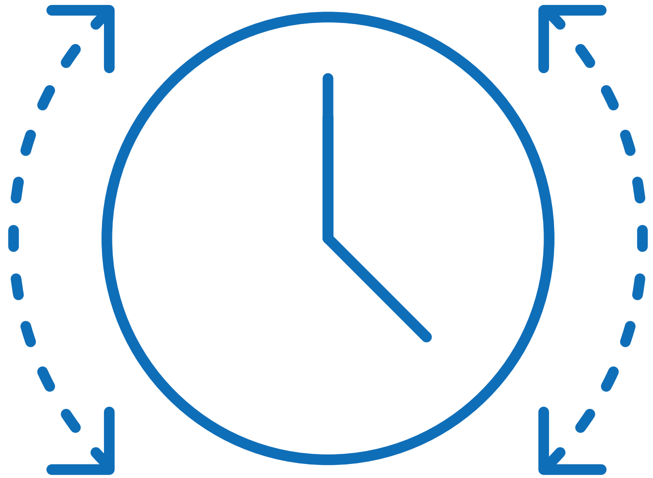
We are aware that the demands of an increasingly demanding global market can only be met with a skilled workforce. Identifying the training requirements extends geographically to all production centres, including the central services, and from top to bottom throughout the structure of the Vidrala Group. Each year, the Group delves into the training needs of its staff to acquire a better understanding of the requirements of its professionals and to design training activities according to the organisation's priorities and thereby promote the professional development of its workforce. Vidrala is highly committed to internal promotion and the development of the careers of its professionals in the company itself, where equal opportunity is considered as an indisputable value.

In 2019, the Group conducted a total of **97,171 hours of training for all employees in the various categories,** especially those more directly linked to production and direct labour. **This represents an increase of 12% in training time for teams compared to the previous year.** The efforts towards the continuous improvement of the training activities have been demonstrated by the high levels of personnel satisfaction, with a total score of 8.3 out of 10.

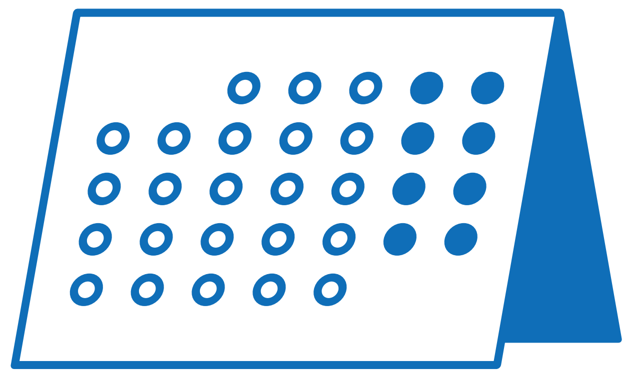
Work-life balance

One of the mainstays of human resource management is to develop policies that promote the implementation of social benefits, voluntary early retirement plans, measures to balance personal and professional life and other similar measures. At Vidrala we implement measures such as:

- **WORK SCHEDULE FLEXIBILITY**
- **AVAILABILITY OF PAID LEAVE**
- **EXTENDED LEAVE OF ABSENCE**
- **REDUCTION IN WORKING HOURS**



In turn, other social schemes are established, such as social benefit systems and flexible remuneration policies. We have also developed a series of measures to guarantee that free time and holidays are respected, as well as personal and family privacy. Everyone working in the Vidrala Group, attending to the peculiarities of each respective job, can benefit from the respective social policies in place in each country.



Healthy and safe work environment

Promoting the health and safety of all the individuals that make up the Vidrala Group is a priority for an industry with the specific characteristics and specialisations required by glass container manufacturing.

For three years, the Vidrala Group has been gradually developing and implementing the philosophy of **"Healthy Company"** project within the commitment of "Great People, Great Place to Work & Great Future". This, in a purely industrial context, becomes more relevant due to the opportunity to progress gradually as our plants are also modernized. Its purpose is to encourage healthy living habits among the staff by promoting a healthy, balanced diet and physical exercise, attention to emotional balance as well as boost monitoring health more closely (medical check-ups for specific groups), improve the work-life balance and enhancing social responsibility.

This project has been implemented gradually and the current initiatives are focused on our headquarters and some of our plants. These initiatives include anti-smoking programmes, physical exercises and stretching before starting work, mindfulness programs, health improvement and emotional well-being activities (in the facilities) and opening gyms for use by employees.

Occupational Risk Prevention is a priority to ensure that all staff carry out their work in a way that is safe, healthy and motivating. This commitment is evidenced by the **progressive implementation of occupational health and safety systems,** based on the OSHAS 18001:2007 standard, **accrediting the existence of an internationally recognised management framework.** Moreover, given the foreseeable expiry of the OHSAS certificates in March 2021, we have taken steps in 2019 to migrate from OHSAS 18001:2007 to ISO 45001:2018. Specifically, training activities were conducted throughout the last quarter of 2019 for the heads of the Central Offices and all the plants in the Iberia.

As a complement, specific and systematic preventive plans were prepared for training and awareness purposes. These focus on the objective effectiveness of the implemented control plans and the adoption of additional corrective measures if necessary.

The prevention technicians team uses innovative applications and tools to detect and assess risks in the various areas of the organisation. In 2019, industrial risk control projects have been deployed in all the plants to continue improving current indicators. Thanks to this continuous effort, **no high severity accidents were recorded in 2019.** Insofar as concerns total accidents, these have increased slightly due to the increase in minor accidents with leave.

In 2020, the lines of action intended to reduce accident rates will be focused on the **"Safety First"** project, a specific initiative centred on anticipating accident trends and the well-being of our workforce, based on a comprehensive analysis of causes, types of accidents and health impairment. The objective is to develop the awareness of the workforce regarding risks, technical training, the promotion of safe behavior projects, the increase in plant inspections and the continuous monitoring of the specific plans of each plant.

The importance of communication

The Vidrala Group believes that social dialogue is an essential tool to drive and sustain relationships among all our stakeholders.

INTERNAL COMMUNICATION

At the Vidrala Group, we promote, plan and launch information and negotiation processes through various types of social representation groups (worker committees, union delegations, worker representatives, etc.) within the framework of the legal regulations of the countries where we carry out our activity.

Equally, processes for consultation with the workforce and their direct participation are encouraged through the work satisfaction survey, improvement teams, workshops to deploy corporate identity, and internal participation to improve the level of commitment.

In addition, the increase in the number of digital screens in Group plants has enabled an additional communication channel to be established with those people who do not have regular e-mail access. Alongside this, the access to and communication of news has been expanded by e-mail, developing a new channel so that all personnel can receive important updates about their work that are accessible from any computer/device.

“Workplace”, Facebook’s social platform for companies, has been implemented in several of the Group’s plants in 2019. This channel enables open, interactive and real-time communication with all of the employees via mobile phones.

EXTERNAL COMMUNICATION

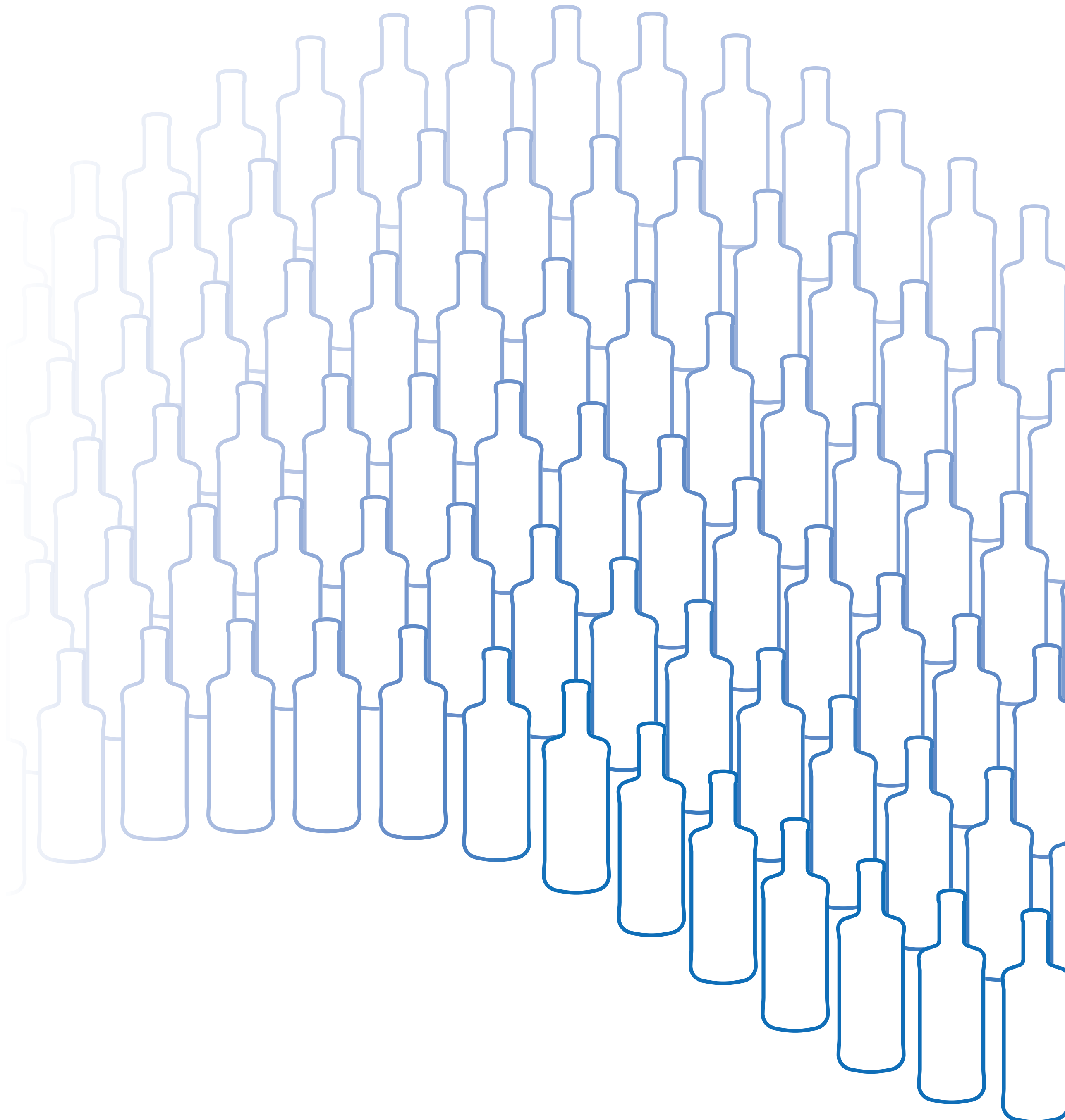
In recent years, the Vidrala Group has expanded the channels of communication that keep it in touch with its various external stakeholders.

In addition to its website, which was completely redesigned and updated in 2018, the Group continues to have active social network channels, such as Twitter, LinkedIn and YouTube. Each of these has its own content to disseminate information about the organisation through a multitude of audio-visual means.

twitter.com/Vidrala_Group

www.linkedin.com/company/vidrala

www.youtube.com/user/vidrala



vidrala