vidrala

2016
ANNUAL REPORT

2016

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CHAIRMAN'S LETTER
CHAIRMAN'S LETTER

Dear Shareholders,

I am writing to you to introduce the 2016 annual report.

Within a challenging global environment, earnings per share increased by 11% and the financial position was strengthened with a 21% reduction in debt. Despite the negative performance of the pound sterling, the profitability of our operations improved. The business achieved an EBITDA of EUR 171 million which represents a margin of 22% over the annual turnover of EUR 773 million.

Beyond the figures, these results reflect business development consistent with our strategic guidelines. We further progressed consolidation within the group, giving priority to the integration of Encirc, our business division in the United Kingdom and Ireland, acquired in 2015. Indeed, in relation to the United Kingdom, a referendum held in June 2016 resulted in the decision to leave the European Union. We face this context with the stability provided by a company supported on strong market fundamentals and the guarantee of our competitive commercial positioning in a region of demonstrated strategic interest.

Overall, at a group level, we continue to progress as a diversified multinational company. We are a supplier of reference in our markets with a strong vocation toward the development of long-term relationships with customers that are our "raison d'être".

With regard to shareholder remuneration, cash dividends distributed throughout 2016 represented an increase of 10% over the previous year. In 2017, the Board of Directors has proposed a further 11.3% increase to the annual dividend. This is consistent with the dividend policy defined in Vidrala, focusing on the long term stability and the target of a sustained growth in the annual remuneration coherent with prevailing business conditions.

In conclusion, the performance observed during the last financial year demonstrates the robustness of Vidrala's business model. A model with the capacity to expand margins, generate cash and reduce debt, thus creating shareholder value on a recurring basis. Vidrala is progressing and consolidating itself as a leading player in the food and beverage packaging industry, maintaining its focus on customers, competitiveness and solvency of its capital structure.

On behalf of the Board of Directors and all the people who make up Vidrala, I thank you for your confidence in our company.

Carlos Delclaux
Chairman

vidrala

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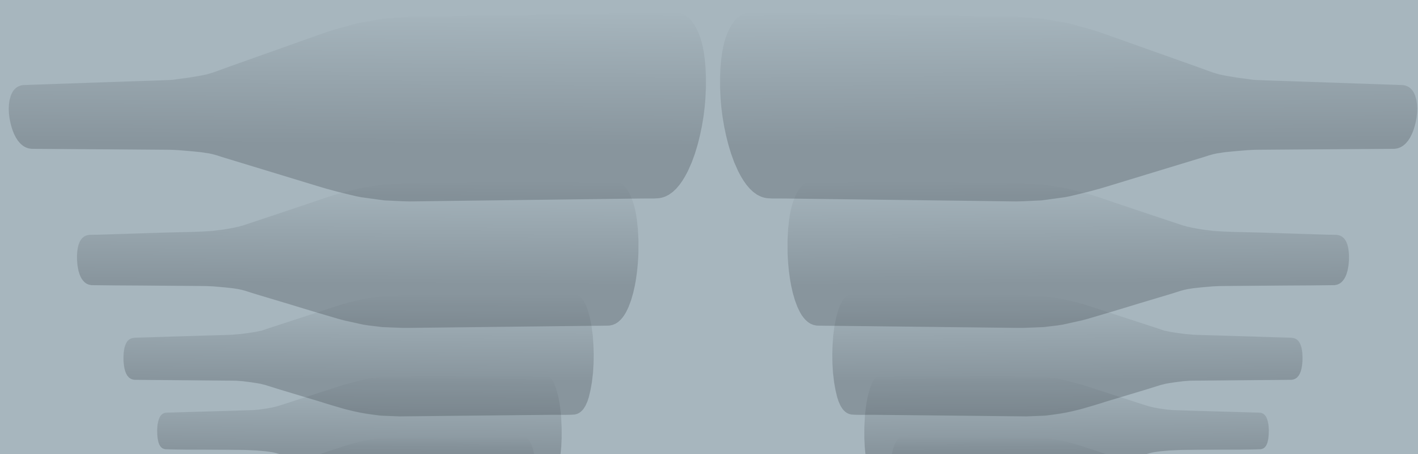
VIDRALA, AT A GLANCE



VIDRALA, AT A GLANCE

FACTORIES

Aiala Vidrio
Barrio Munegazo, 22
01400 Llodio.
Spain

Crisnova Vidrio
Polígono Los Villares S/N
02660 Caudete.
Spain

Castellar Vidrio
Bergueda, 67
08211 Castellar del Vallés.
Spain

Gallo Vidro
Rua Vieira de Leiria, 1
2430-300 Marinha Grande.
Portugal

Vidrala Italia
Via Alzaia Trieste, 45
20094 Corsico.
Italy

MD Verre
Rue Des Ayettes, 2
7011 Ghlin.
Belgium

Elton
Ash Road Elton Cheshire
CH2 4LF
England

Derrylin
11 Gortahurk Road
Tonymore,
Derrylin, Fermanagh
BT92 9DD
Northern Ireland

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Via Alzaia Trieste 45
20094 Corsico, (Mi)
E-mail: commerciale@vidrala.com

UK & Ireland:
Sales and marketing
11 Gortahurk Road
Tonymore, Derrylin, Fermanagh
BT92 9DD
E-mail: info@encirc360.com

Creating value and future in a sustainable way

6,210
MILLION UNITS PRODUCED IN 2016

+1,500
CUSTOMERS

+65,000
HOURS OF TRAINING IN 2016

43%
OF RECLCYLED GLASS

+3,000
EMPLOYEES

8
FACTORIES

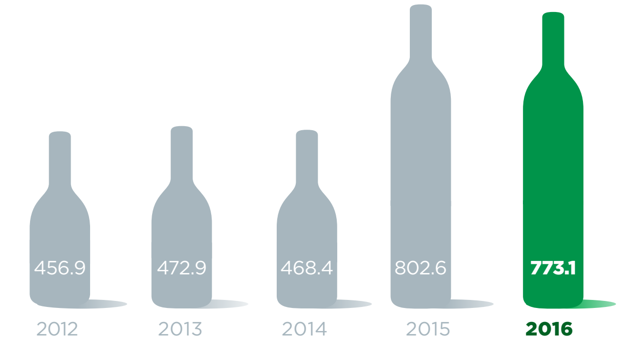
-40%
SEVERITY OF ACCIDENTS SINCE 2011

-3.4%
NOx EMISSIONS

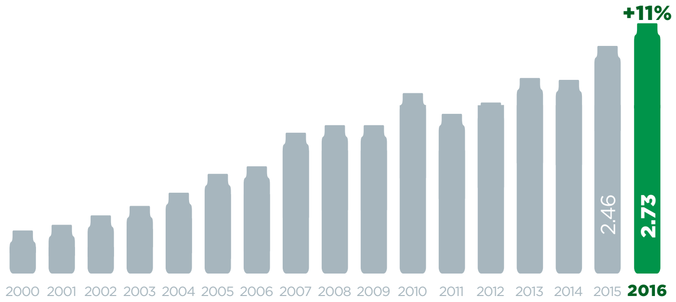
-3.4%
-40%
6,210
+3,000

MAIN FIGURES

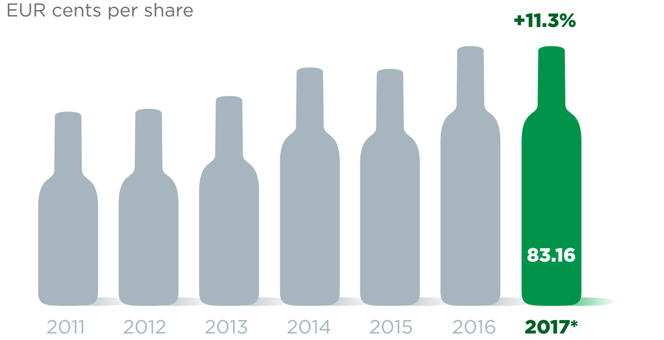
SALES
EUR Million



EARNINGS PER SHARE
EUR/share

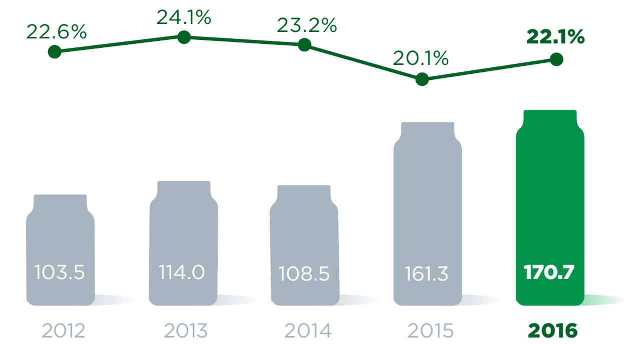


CASH DIVIDENDS AND AGM ATTENDANCE BONUSES
EUR cents per share

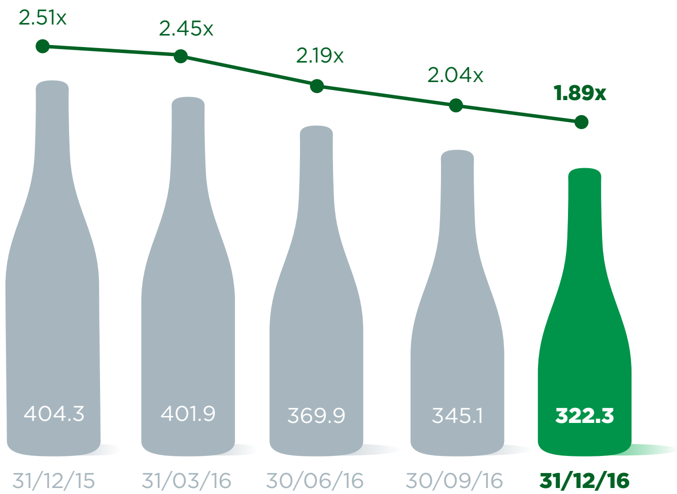


*Proposed 2016 results distribution

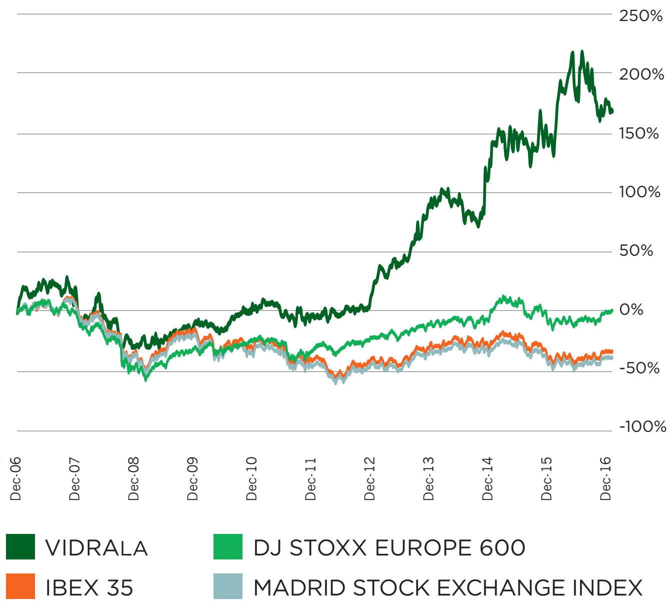
OPERATING INCOME
EBITDA in EUR million and as percentage of sales



FINANCIAL POSITION
Debt in EUR million and times EBITDA



Share price
Comparative performance in percentage terms, base 2007



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2016

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FINANCIAL STATEMENTS

KPMG Auditores S.L.
Torre Iberdrola
Plaza Euskadi, 5
Planta 7ª
48009 Bilbao

Independent Auditor's Report on the Consolidated Annual Accounts

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

To the Shareholders of
Vidrala, S.A.

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Vidrala, S.A. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet at 31 December 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

Directors' Responsibility for the Consolidated Annual Accounts

The Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of Vidrala, S.A. and subsidiaries, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control that they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of Vidrala, S.A. and subsidiaries at 31 December 2016 and of their financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2016 contains such explanations as the Directors of Vidrala, S.A. consider relevant to the situation of the Group, its business performance and other matters, and is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2016. Our work as auditors is limited to the verification of the consolidated directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Vidrala, S.A. and subsidiaries.

KPMG Auditores, S.L.

(*Signed on original in Spanish*)

Cosme Carral López-Tapia

22 February 2017

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

31 December 2016 and 2015 (Expressed in thousands of Euros)

	Note	2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	**592,727**	656,638
Goodwill	7	**59,233**	59,233
Other Intangible assets	7	**12,010**	7,013
Other financial assets		**287**	8
Deferred tax assets	9	**39,768**	41,860
Derivative financial instruments	8	**4,256**	1,556
Other non-current assets		**107**	102
		708,388	766,410
Current assets			
Inventories	10	**180,973**	201,010
Trade and other receivables	11	**194,456**	205,278
Current tax assets		**391**	5,049
Derivative financial instruments	8	**2,777**	-
Other current assets	12	**8,834**	6,736
Cash and cash equivalents		**424**	15,720
		387,855	433,793
Total assets		**1,096,243**	**1,200,203**

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

CONSOLIDATED BALANCE SHEET

31 December 2016 and 2015 (Expressed in thousands of Euros)

	Note	2016	2015
EQUITY AND LIABILITIES			
Equity	13		
Share capital		**25,290**	25,290
Other reserves		**7,545**	5,234
Retained earnings		**481,879**	431,780
Own shares		**(2,824)**	-
Other comprehensive income		**(22,594)**	27,318
Interim dividend distributed during the year		**(14,362)**	(13,086)
Equity attributed to equity holders of the Parent		**474,934**	476,536
Non-current liabilities			
Deferred income	14	**31,535**	33,663
Loans and borrowings	15	**310,288**	415,832
Derivative financial instruments	8	**5,263**	5,638
Deferred tax liabilities	9	**47,866**	47,402
Provisions	19	**10,684**	3,771
Other non-current liabilities		**1,145**	2,604
		406,781	508,910
Current liabilities			
Loans and borrowings	15	**12,402**	4,050
Derivative financial instruments	8	**50**	6,399
Trade and other payables	16	**174,506**	167,721
Current tax liabilities		**5,188**	7,039
Provisions	19	**1,071**	-
Other current liabilities	12	**21,311**	29,548
		214,528	214,757
Total liabilities		**621,309**	723,667
Total equity and liabilities		**1,096,243**	**1,200,203**

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

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

31 December 2016 and 2015 (Expressed in thousands of Euros)

	Note	2016	2015
Sales	22	**773,570**	803,365
Servicing		**500**	800
Other income	22	**8,456**	9,892
Changes in inventories of finished goods and work in progress		**(10,362)**	(14,713)
Merchandise, raw materials and consumables used		**(268,308)**	(289,159)
Employee benefits expense	24	**(166,131)**	(166,115)
Amortisation and depreciation	6 & 7	**(75,556)**	(75,062)
Impairment of non-current assets	6	**(2,116)**	90
Other expenses	23	**(166,514)**	(182,011)
Finance income	25	**979**	1,650
Finance costs	25	**(9,776)**	(12,314)
Profit before income tax from continuing operations		**84,242**	75,623
Income tax expense	9	**(16,571)**	(14,763)
Profit for the year from continuing operations		**67,671**	60,860
Profit for the year		**67,671**	60,860
Profit for the year attributable to equity holders of the Parent		**67,671**	60,860
Earnings per share (expressed in Euros)			
Basic and diluted		**2.73**	2.46

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

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

31 December 2015 and 2014 (Expressed in thousands of Euros)

	Note	2016	2015
Profit for the year		**67,671**	60,860
Other comprehensive income:			
Translation differences	13	**(57,397)**	34,853
Remeasurements of defined benefit plans		**(1,308)**	-
Items to be reclassified in profit or loss			
Cash flow hedges	8	**12,213**	(9,753)
Tax effect		**(3,420)**	2,731
Other comprehensive income, net of income tax		**(49,912)**	27,831
Total comprehensive income for the year		**17,759**	88,691
Profit for the year attributable to equity holders of the Parent		**17,759**	88,691

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

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

31 December 2015 and 2014 (Expressed 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 2014	25,290	5,234	386,581	(236)	(513)	-	-	(11,891)	404,465
Total comprehensive income for the year	-	-	60,860	-	(7,022)	34,853	-	-	88,691
Own shares redeemed	-	-	-	(6,498)	-	-	-	-	(6,498)
Own shares sold	-	-	497	6,734	-	-	-	-	7,231
Share capital increase	-	-	-	-	-	-	-	-	-
Share capital reduction	-	-	-	-	-	-	-		-
Distribution of 2014 profit								-	-
Dividends	-	-	(16,225)	-	-	-	-	11,891	(4,334)
Interim dividend on account of 2015 profit	-	-	-	-	-	-	-	(13,086)	(13,086)
Other movements	-	-	67	-	-	-	-	-	67
Balances at 31 December 2015	25,290	5,234	431,780	-	(7,535)	34,853	-	(13,086)	476,536
Total comprehensive income for the year	-	-	67,671	-	8,793	(57,397)	(1,308)	-	17,759
Revaluation of property, plant and equipment,net of tax (note 13(b))	-	2,311	-	-	-	-	-	-	2,311
Own shares redeemed	-	-	-	(3,757)	-	-	-	-	(3,757)
Own shares sold	-	-	281	933	-	-	-	-	1,214
Share capital increase	-	-	-	-	-	-	-	-	-
Share capital reduction	-	-	-	-	-	-	-		-
Distribution of 2015 profit								-	-
Dividends	-	-	(17,853)	-	-	-	-	13,086	(4,767)
Interim dividend on account of 2016 profit	-	-	-	-	-	-	-	(14,362)	(14,362)
Balances at 31 December 2016	**25,290**	**7,545**	**481,879**	**(2,824)**	**1,258**	**(22,544)**	**(1,308)**	**(14,362)**	**474,934**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

31 December 2016 and 2015 (Expressed in thousands of Euros)

	Note	2016	2015
Cash flows from operating activities			
Profit for the year		**67,671**	60,860
Adjusted for:			
Amortisation and depreciation	6 & 7	**75,557**	75,062
Impairment of non-current assets	6	**2,116**	(346)
(Reversal of) impairment losses on trade receivables		**409**	522
(Reversal of) impairment losses on inventories		**5,619**	5,171
Exchange (gains) / losses	25	**(805)**	(637)
Changes in provisions	19	**9,039**	-
Government grants recognised in the income statement		**(6,201)**	(6,937)
Finance income	25	**(174)**	(1,650)
Finance costs	25	**9,776**	11,677
Income tax	9	**16,571**	14,763
		111,907	97,625
Changes in working capital			
Inventories		**14,418**	(1,440)
Trade and other receivables		**5,422**	(44,770)
Trade and other payables		**(3,362)**	22,302
Application of provisions		**(388)**	3,188
Other current liabilities		**(10,000)**	-
Effect of translation differences on operating assets and liabilities of foreign operations		**(11,690)**	15,138
Cash used in operating activities		**(5,600)**	(5,582)
Interest paid		**(9,776)**	(10,313)
Interest received		**174**	1,650
Income tax paid		**(6,772)**	(5,790)
Other amounts received		**-**	67

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

Continúa en la pág. siguiente ▶

FINANCIAL STATEMENTS vidrala

CONSOLIDATED STATEMENTS OF CASH FLOWS

31 December 2016 and 2015 (Expressed in thousands of Euros)

Net cash from operating activities	**157,604**	138,517
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**542**	223
Proceeds from sale of intangible assets	**-**	10
Proceeds from sale of financial assets	**-**	1,358
Acquisition of property, plant and equipment	**(51,364)**	(58,931)
Acquisition of intangible assets	**(3,540)**	(569)
Acquisition of financial assets	**(284)**	-
Investments in Group companies, associates and jointly controlled entities (notes 3 and 5)	**-**	(403,191)
Net cash used in investing activities	**(54,646)**	(461,100)
Cash flows from financing activities		
Proceeds from issue of treasury shares and own equity instruments	**1,214**	7,231
Proceeds from loans and borrowings	**12,808**	440,000
Payments to redeem own shares and other own equity instruments	**(3,757)**	(6,498)
Payments of loans and borrowings	**(110,000)**	(89,492)
Dividends paid	**(18,519)**	(16,750)
Grants, donations and bequests received	**-**	3,750
Net cash from/(used in) financing activities	**(118,254)**	338,241
Net increase/(decrease) in cash and cash equivalents	**(15,296)**	15,658
Cash and cash equivalents at 1 December	**15,720**	62
Cash and cash equivalents at 31 December	**424**	15,720

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

FINANCIAL STATEMENTS

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.

On 14 January 2015 the Group company Inverbeira Sociedad de Promoción de Empresas, S.A. acquired Encirc Limited, which in turn owns Encirc Distribution Limited (see note 5).

As a result of this acquisition, in addition to the manufacture of glass containers, the Group now carries out beverage packaging activities and offers integrated logistical services for packaged food products within the United Kingdom.

Details of the companies comprising the Vidrala Group, the interest held by the Parent (direct and/or indirect) at 31 December 2016 and the location and activity of each company that forms part of the consolidated group are as follows:

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

FINANCIAL STATEMENTS

2. Basis of Presentation

The accompanying consolidated annual accounts have been prepared on the basis of the accounting records of Vidrala, S.A. and of the consolidated companies. The consolidated annual accounts for 2016 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other provisions of the financial information reporting framework applicable to the Group, to present fairly the consolidated equity and consolidated financial position of Vidrala, S.A. and subsidiaries at 31 December 2016, as well as the consolidated financial performance and changes in consolidated equity and cash flows for the year then ended.

The Group adopted IFRS-EU on 1 January 2004 and applied IFRS 1, "First-time adoption of International Financial Reporting Standards".

The Parent's directors consider that the consolidated annual accounts for 2016, authorised for issue on 21 February 2017, will be approved without changes by the shareholders at their annual general meeting.

a. Basis of preparation of the annual accounts

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

b. Comparative information

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

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

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

i. Relevant accounting estimates and assumptions

» Goodwill impairment:

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

FINANCIAL STATEMENTS

» Useful lives of property, plant and equipment:

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

» Valuation allowances for bad debts

Valuation allowances for bad debts require a high degree of judgement by management and a review of individual balances based on customers' credit ratings, market trends, and historical analysis of bad debts at an aggregated level. This judgement is put into practice through the application of procedurised methodologies developed by the Vidrala Group, mainly based on the detailed analysis of credit ratings and historical sales and payments. Additionally, control over collection solvency is complemented through credit insurance coverage (see note on risks).

» 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 2016 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 2016, 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 not applied

The standards effective as of 1 January 2014 have not given rise to changes in the Group's accounting policies. The IASB has issued new accounting standards (IFRS) and interpretations (IFRIC) which are due to become effective for accounting periods beginning on or after 1 January 2014. Details of the nature of the changes in accounting policy and a summary of Group management's assessment of the impact these new standards could have on the Group's financial statements are as follows:

FINANCIAL STATEMENTS

IFRS 9 Financial instruments – issued October 2010 (pending adoption by the European Union)

This standard, which partially replaces IAS 39, simplifies the classification and measurement criteria for financial instruments, maintaining a mixed measurement model and establishing only two main financial asset categories: amortised cost and fair value. The classification criteria are based on the entity's business model and the characteristics of the financial asset's contractual cash flows.

The Group will assess the impact of this standard for the first year in which it becomes effective.

This standard is ready to be applied immediately, but is pending adoption by the EU.

Annual improvements to IFRSs project – 2010-2012 Cycle – issued December 2013

The annual improvements project introduces amendments or clarifications that affect a wide range of standards.

he Group will assess the impact of these improvements for the first year in which they become effective.

This standard is effective for periods beginning on or after 1 February 2015.

Annual improvements to IFRSs project – 2011-2013 Cycle – issued December 2013

The annual improvements project introduces amendments or clarifications that affect a wide range of standards.

The Group will assess the impact of these improvements for the first year in which they become effective.

This standard is effective for periods beginning on or after 1 January 2015.

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.

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b. Business combinations

The Group applies the acquisition method for business combinations.

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

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

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

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

c. Property, plant and equipment

» Initial recognition

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

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

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

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

» Depreciation

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

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

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

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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 (e).

d. 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. 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.

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ii. 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.

iv. Other intangible assets

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

v. 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.

vi. Impairment

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

e. Impairment losses of non-financial amortisation or depreciation

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

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

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f. Leases

» Lessee accounting

The Group has the right to use certain assets through lease contracts.

» Operating leases

Lease payments under operating leases, net of incentives received, are recognised as an expense on a straight-line basis over the lease term.

g. Financial instruments

i. Classification of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument in IAS 32 “Financial Instruments: Presentation”.

Financial instruments are classified into the following categories: financial assets and financial liabilities at fair value through profit or loss, loans and receivables and financial liabilities at amortised cost. The Group classifies financial instruments into different categories based on the nature of the instruments and management’s intentions on initial recognition.

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. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other financial asset categories.

These assets are recognised initially at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

iv. Impairment and uncollectibility of financial assets

The Group recognises impairment losses and defaults on loans and other receivables in an allowance account for financial assets. Recognition is based on ageing, monitoring, and third party data and reports on the economic circumstances of the debtors. When impairment and uncollectibility are considered irreversible as all avenues for collecting the debt, including the courts, have been exhausted, the carrying amount is written off with a charge to the allowance account. Impairment reversals are also recognised against the allowance account.

» Impairment of financial assets carried at amortised cost

In the case of financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The amount of an impairment loss is recognised in profit or loss and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recognised. The impairment loss is reversed against the allowance account.

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v. Financial liabilities at amortised cost

Financial liabilities, including trade and other payables, which are not classified at fair value through profit or loss, are initially recognised at fair value less any transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

vi. Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received, net of transaction costs, including any new asset obtained less any new liability assumed and any cumulative gain or loss deferred in other comprehensive income, is recognised in profit or loss.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the consideration received is recognised as a liability. Transaction costs are recognised in profit or loss using the effective interest method.

vii. Derecognition of financial liabilities

A financial liability is derecognised when the Group either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.

If there is an exchange of debt instruments between the Group and the lenders, and the conditions thereof are substantially different, the original financial liability is derecognised and the new financial liability is recognised. If the conditions are not substantially different, the financial liability is not derecognised from the balance sheet and any commission paid is recognised as an adjustment in the carrying amount of the liability. The amortised cost of the financial liability is determined applying the effective interest rate, which is the rate that equates the carrying amount of the financial liability at the audit date with the cash flows to be paid as per the new conditions. In this regard, the conditions of the contracts are considered to be substantially different when the present value of the cash flows of the new financial liability, including net commissions paid or received, is different by at least 10% of the present value of the recurring cash flows of the original financial liability, both updated to the effective interest rate of the latter (see note 15).

The Group has contracted reverse factoring facilities with various financial institutions to manage payments to suppliers. Trade payables settled under the management of financial institutions are recognised under trade and other payables only if the Group has transferred management of the payment to the financial institutions but retains primary responsibility for settling the debt with the trade creditors.

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Hedge accounting

Derivative financial instruments which qualify for hedge accounting are initially measured at fair value, plus any transaction costs that are directly attributable to the acquisition, or less any transaction costs directly attributable to the issue of the financial instruments.

The Group has cash flow hedges.

At the inception of the hedge the Group formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges. Hedge accounting is only applicable when the hedge is expected to be highly effective at the inception of the hedge and in subsequent years in achieving offsetting changes in cash flows attributable to the hedged risk, throughout the period for which the hedge was designated (prospective analysis) and the actual effectiveness, which can be reliably measured, is within a range of 80%-125% (retrospective analysis).

For cash flow hedges of forecast transactions, the Group assesses whether these transactions are highly probable and if they present an exposure to variations in cash flows that could ultimately affect profit or loss.

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 energy referenced to certain fuels.
- Hedging instrument: derivative instrument swaps or purchase option caps through which the Group converts the variable purchase cost of certain fuels to a fixed cost (swaps) or limits the variable cost to a maximum price (caps).

Hedged risk: changes in the cash flows of the hedged item in the event of changes in benchmark fuel prices.

- The Group recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in other comprehensive income. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised with a debit or credit to finance costs or finance income.
- The Group recognises in profit or loss amounts accounted for in other comprehensive income in the same year or years during which the forecast hedged transaction affects profit or loss and in the same caption of the consolidated income statement.

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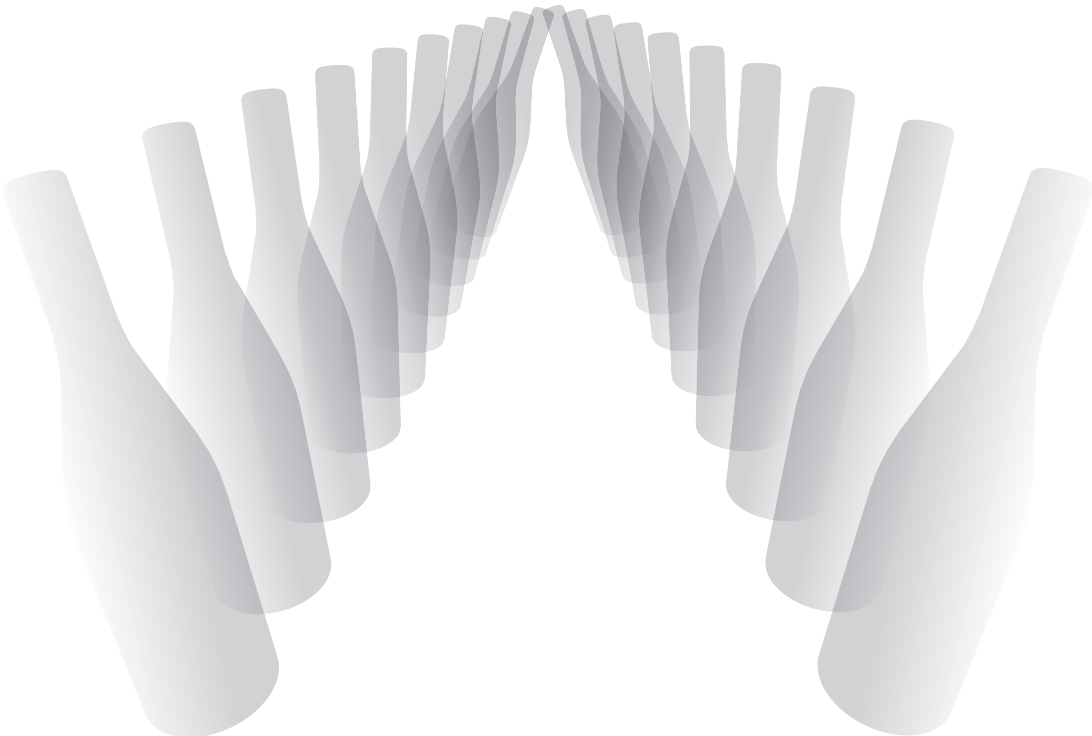
i. Parent own shares

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 shareholders.



k. Inventories

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

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

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

a. Raw materials: at weighted average cost.

b. Finished goods and work in progress: at actual cost, which includes raw materials, direct labour and direct and indirect manufacturing overheads (based on normal operating capacity).

c. Auxiliary and production materials: at weighted average cost.

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

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

l. Cash and cash equivalents

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

The Group recognises interest received as cash flows from investing activities and interest paid as cash flows used in operating activities. Dividends received are classified under investing activities and dividends paid under financing activities.

m. Government grants

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

i. Capital grants

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

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

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.

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iv. Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring that involves the payment of termination benefits.

For termination benefits payable as a result of an employee’s decision to accept an offer, the time when the Group can no longer withdraw the offer of termination benefits is the earlier of when the employee accepts the offer and when a restriction on the Group’s ability to withdraw the offer takes effect

For termination benefits payable as a result of involuntary redundancy, the Group can no longer withdraw the offer when: it has communicated the termination plan to the affected employees or their trade union representatives; the actions required to complete the plan indicate that it is unlikely that significant changes will be made to the plan; the plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations and the expected completion date; the plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

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.

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o. Provisions

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

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

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

i. Provision for emission allowances

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

ii. Provision for defined benefit plans

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

p. Revenue recognition

Revenue from the sale of goods or services is measured at the fair value of the consideration received or receivable. Volume rebates, prompt payment and any other discounts are recognised as a reduction in the consideration. Revenue is presented net of value added taxes and any other amount or tax which, in substance, corresponds to amounts received on behalf of third parties.

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

Revenue is only recognised when there is evidence of an agreement between the parties, the goods have been delivered or the services rendered, amounts are agreed and collection is reasonably assured

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.

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

i. Recognition of deferred tax liabilities

The Group recognises deferred tax liabilities in all cases.

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 13).

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.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 current tax assets and liabilities if it has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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.

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

In 2016, as part of the process of integrating the subsidiary Encirc (note 5), the Group redefined its operating segments as follows:

» Continental Europe

» United Kingdom and Ireland

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

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

	Thousands of Euros 2016	Thousands of Euros 2015
Continental Europe	**459,781**	479,502
United Kingdom & Ireland	**313,789**	323,863
	773,570	803,365

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

Non-current assets a 31 December are as follows:

	Thousands of Euros 2016	Thousands of Euros 2015
Continental Europe	**419,329**	421,170
United Kingdom & Ireland	**289,059**	345,240
	708,388	766,410

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

	Thousands of Euros 2016		Thousands of Euros 2015	
Area/location	Profit before income tax from continuing operations	Profit after income tax	Profit before income tax from continuing operations	Profit after income tax
Continental Europe	51,508	43,122	47,847	41,602
United Kingdom & Ireland	32,734	24,549	27,776	19,258
	84,242	**67,671**	75,623	60,860

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

	Thousands of Euros 2016		Thousands of Euros 2015	
Area/location	Costs	Income	Costs	Income
Continental Europe	9,632	979	11,365	1,650
United Kingdom & Ireland	144	-	949	-
	9,776	**979**	12,314	1,650

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Finance costs for the Continental Europe segment include Euros 5,469 thousand (Euros 7,283 thousand in 2015) in financing obtained for the acquisition of Encirc Limited (see note 15).

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

	Thousands of Euros			
	2016		2015	
Area/location	Continental Europe	UK & Ireland	Continental Europe	UK & Ireland
Impairment (reversal) of receivables	409	-	(207)	729
Impairment of inventory	1,684	(2,063)	(3,517)	-
Changes in provisions	580	(888)	(1,951)	-
	2,673	**(2,951)**	(5,675)	729

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

	Thousands of Euros					
	2016			2015		
Area/ location	Assets	Liabilities	Invest-ments made	Assets	Liabilities	Invest-ments made
Continental Europe	550,912	135,671	30,407	574,573	167,469	41,154
United Kingdom & Ireland	446,330	67,359	17,193	524,537	89,669	18,346
	997,242	**203,030**	**47,600**	1,099,110	257,138	59,500

Segment assets mainly include property, plant and equipment, intangible assets, inventories, accounts receivable and operating cash flow. Deferred tax assets and goodwill are not included.

Segment liabilities comprise non-current and operating liabilities and exclude deferred tax liabilities and borrowings.

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Investments for 2016 and 2015 comprise additions of property, plant and equipment (see note 6) and intangible assets (see note 6) and do not reflect the value of emission allowances allocated for the year (see note 6).

The sum of impairment losses and amortisation and depreciation by segments for 2016 and 2015 is as follows:

	Thousands of Euros			
	Depreciation/amortisation			
	2016		2015	
Area/location	Property, plant and equipment	Intangible assets	Property, plant and equipment	Intangible assets
Continental Europe	45,884	1,243	42,056	1,564
United Kingdom & Ireland	29,302	-	31,352	-
	75,186	**1,243**	73,408	1,564

5. Business combinations

On 14 January 2015 the Group acquired 100% of the share capital of Encirc Limited through its subsidiary Inverbeira Sociedad de Promoción de Empresas, S.A. Encirc Limited is registered in Northern Ireland (UK) and its principal activity is the manufacture of glass containers for food and beverage products, the bottling of beverages and the rendering of logistics services for the packaging of food products mainly targeted at the UK and Ireland markets. The main reason for this business combination was to enhance the positioning of the Vidrala Group in the European glass container market and to diversify towards markets considered to be strategic.

The acquired business generated revenue and consolidated profit before tax of Euros 323,863 thousand and Euros 27,776 thousand, respectively, between the acquisition date and the date of the 2015 financial statements.

If the acquisition had been made on 1 January 2015, the Group's revenue and consolidated profit for the year ended 31 December 2015 would not have changed significantly compared to the aforementioned amounts.

The Company valued the acquired business at Euros 408.6 million (enterprise value). Additionally, adjustments were made in accordance with the agreed 'locked box' mechanism that raised the amount of cash paid to Euros 415.1 million and made it possible to fully assume the acquiree's existing cash at the payment date, which amounted to Euros 11.9 million. Consequently, the net cash outflow for the acquisition came to Euros 403.2 million.

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The amounts recognised in 2015 by significant class at the date of acquisition of the assets, liabilities and contingent liabilities are as follows:

	Fair value
Property, plant and equipment	317,027
Deferred tax assets	10,964
Other current assets	1,397
Inventories	81,072
Trade and other receivables	51,435
Cash and cash equivalents of the acquiree	11,885
	473,780
Total assets	
Trade and other payables	53,715
Provisions	1,299
Deferred tax liabilities	3,690
Total liabilities and contingent liabilities	58,704
Total net assets acquired	415,076
Cash paid	415,076
Cash and cash equivalents of the acquiree	(11,885)
Cash outflow for the acquisition	403,191

The above amount, which was fully paid through new financing obtained for the acquisition (see note 15), comprised the price of the assets and the assumption of all debt (payable by the acquiree exclusively to its former shareholder).

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6. Property, Plant and Equipment

Details of property, plant and equipment and movement during 2016 and 2015 are as follows:

	Thousands of Euros					
2016	Balances at 31.12.2015	Additions	Disposals	Translation differences	Transfers	**Balances at 31.12.2016**
Cost						
Land and buildings	311,488	1,366	(34)	(15,528)	625	**297,917**
Technical installations and machinery	743,430	29,983	(1,440)	(37,753)	8,225	**742,445**
Moulds	76,818	10,723	(504)	(3,174)	-	**83,863**
Furniture	9,427	2,283	(4)	(815)	603	**11,494**
Other property, plant and equipment	3,547	9	-	-	26	**3,582**
Work in progress	29,750	15,542	-	(498)	(9,405)	**35,389**
	1,174,460	59,906	(1,982)	(57,768)	74	**1,174,690**
Depreciation						
Land and buildings	(81,549)	(7,000)	4	947	-	**(87,598)**
Technical installations and machinery	(372,689)	(55,878)	1,455	9,720	-	**(417,392)**
Moulds	(46,790)	(10,459)	-	1,442	-	**(55,807)**
Furniture	(8,552)	(2,318)	1	80	-	**(10,789)**
Other property, plant and equipment	(2,980)	(19)	-	-	-	**(2,999)**
	(512,560)	(75,674)	1,460	12,189	-	**(574,585)**
Impairment						
Moulds	(5,262)	(2,116)	-	-	-	**(7,378)**
Carrying amount	**656,638**					**592,727**

Thousands of Euros

2015	Balances at 31.12.2014	Additions consolidated group	Additions	Disposals	Translation differences	Transfers	Balances at 31.12.2015
Cost							
Land and buildings	198,982	105,636	200	(306)	6,833	143	311,488
Technical installations and machinery	504,864	199,959	39,479	(18,300)	15,818	1,610	743,430
Moulds	55,202	10,749	10,072	-	795	-	76,818
Furniture	7,260	683	1,260	(2)	45	181	9,427
Other property, plant and equipment	3,541	-	3	-	-	3	3,547
Work in progress	17,792	-	13,694	-	-	(1,736)	29,750
	787,641	317,027	64,708	(18,608)	23,491	201	1,174,460
Depreciation							
Land and buildings	(74,808)	-	(6,594)	4	(151)	-	(81,549)
Technical installations and machinery	(334,944)	-	(54,944)	18,379	(1,180)	-	(372,689)
Moulds	(37,145)	-	(9,499)	-	(146)	-	(46,790)
Furniture	(6,276)	-	(2,268)	2	(10)	-	(8,552)
Other property, plant and equipment	(2,953)	-	(27)	-		-	(2,980)
	(456,126)	-	(73,332)	18,385	(1,487)	-	(512,560)
Impairment							
Moulds	(5,609)	-	(725)	1,072	-	-	(5,262)
Carrying amount	325,906						656,638

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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 20,333 thousand at 31 December 2016 (Euros 22,385 thousand at 31 December 2015) (see note 14).

b. Commitments

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

	Thousands of Euros	
	2016	**2015**
Technical installations and machinery	33,965	18,583

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 2016 the restated cost of fully depreciated property, plant and equipment in use amounts to Euros 182 million (Euros 159 million at 31 December 2015).

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7. Intangible Assets

Details of intangible assets and movement during 2016 and 2015 are as follows:

	Thousands of Euros					
2016	R&D expenditure	Goodwill	Emission allowances	Computer software	Work in progress	Total
Cost						
Balances at 31 December 2015	2,453	59,233	2,526	11,555	1,661	77,428
Additions	116	-	6,437	4,048	-	10,601
Transfers	401	-	-	204	(679)	(74)
Disposals	-	-	(3,434)	-	(623)	(4,057)
Translation differences	-	-	(35)	(96)	-	(131)
Balances at 31 December 2016	2,970	59,233	5,494	15,711	359	83,767
Amortisation						
Balances at 31 December 2015	(1,618)	-	-	(9,564)	-	(11,182)
Additions	(321)	-	-	(1,021)	-	(1,342)
Disposals	-	-	-	-	-	-
Balances at 31 December 2015	(1,939)	-	-	(10,585)	-	(12,524)
Carrying amount						
At 31 December 2015	835	59,233	2,526	1,991	1,661	66,246
At 31 December 2016	**1,031**	**59,233**	**5,494**	**5,126**	**359**	**71,243**

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	Thousands of Euros					
2015	R&D expenditure	Goodwill	Emission allowances	Computer software	Work in prog-ress	Total
Cost						
Balances at 31 December 2014	2,425	59,233	3,231	11,722	1,104	77,715
Additions	2		3,129	197	430	3,758
Transfers	26	-	-	(364)	137	(201)
Disposals	-	-	(3,834)	-	(10)	(3,844)
Balances at 31 December 2015	2,453	59,233	2,526	11,555	1,661	77,428
Amortisation						
Balances at 31 December 2014	(1,283)	-	-	(8,169)	-	(9,452)
Additions	(335)	-	-	(1,395)	-	(1,730)
Disposals	-	-	-	-	-	-
Balances at 31 December 2015	(1,618)	-	-	(9,564)	-	(11,182)
Carrying amount						
At 31 December 2014	1,142	59,233	3,231	3,552	1,104	68,263
Balance at 31 December 2015	835	59,233	2,526	1,991	1,661	66,246

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a. Emission allowances

In 2016 Euros 1,130 thousand (Euros 3,955 thousand in 2015) has been paid to public entities with a charge to the provision for emission allowances (see note 19).

The cost of emission allowances for 2016, which has been recorded against the corresponding provision (see note 19), amounted to Euros 3,956 thousand and mainly consists of the estimated surrender of emission allowances for 2016 of 493,265 tonnes (487,614 tonnes in 2015).

Movement in the number of allowances in 2016 and 2015 is as follows:

	Free of charge
Balance at 31 December 2014	706,300
Additions	340,336
Purchases	150,000
Deliveries	(491,347)
Balance at 31 December 2015	705,289
Additions	334,074
Purchases	150,000
Deliveries	(488,777)
Balance at 31 December 2016	**700,586**

b. Impairment and allocation of goodwill to CGUs

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

		Thousands of Euros	
Cash Generating Unit	Country	**2016**	2015
Gallo Vidro	Portugal	**20,799**	20,799
Castellar Vidrio	Spain	**26,155**	26,155
Vidrala Italia	Italy	**12,279**	12,279

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

The after-tax discount rates used at 31 December 2016 and 2015 were 8.52% for Gallo Vidro CGU, 8.47% for Castellar Vidrio CGU and 8.81% for Vidrala Italia CGU, and the growth rate was 1.5% per annum for all CGUs.

The key assumptions used were sales and gross margin.

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The Group determines budgeted gross margins based on past experience, forecast market performance and production costs. The weighted average growth rates are consistent with the forecasts included in industry reports. The discount rates used are pre-tax values and reflect specific risks related to the relevant segments.

The average projected increase in sales and gross margin is 1.8% and 0.7%, respectively.

» Sensitivity analysis

The Group has performed a sensitivity analysis on the main key assumptions, considering variations in these based on differences between the estimations made in the prior year and actual figures.

This analysis shows that an increase or decrease in sales and gross margin in each of the periods considered for the purposes of calculating the valuation, including terminal value, entails an average increase or decrease in the valuation of 7.5% or 5.3%, respectively.

This analysis reflects no impairment in any of the aforementioned CGUs.

Based on the recoverable amounts resulting from the analysis carried out, goodwill is not impaired at 31 December 2016 and 2015. There are deemed to be no reasonably possible changes in the key assumptions which would result in the carrying amount of the CGU exceeding its recoverable amount, thus giving rise to impairment.

8. Derivative Financial Instruments

Details of derivative financial instruments are as follows:

	Thousands of Euros			
	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Hedging derivatives				
Interest rate swaps	-	5,313	-	3,029
Inflation swaps	72	-	-	-
Foreign currency options	195	-	-	-
Energy price options	6,766	-	1,556	9,008
Total (note 13)	7,033	5,313	1,556	12,037

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.

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» 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 in 2015 and 2016 have an accumulated nominal of Euros 405,000 thousand at 31 December 2016 and 2015. Under these contracts, effective until 2022, the Group will pay a fixed interest rate of between 0.1% and 0.67% (between 0.1% and 0.25% in 2015).

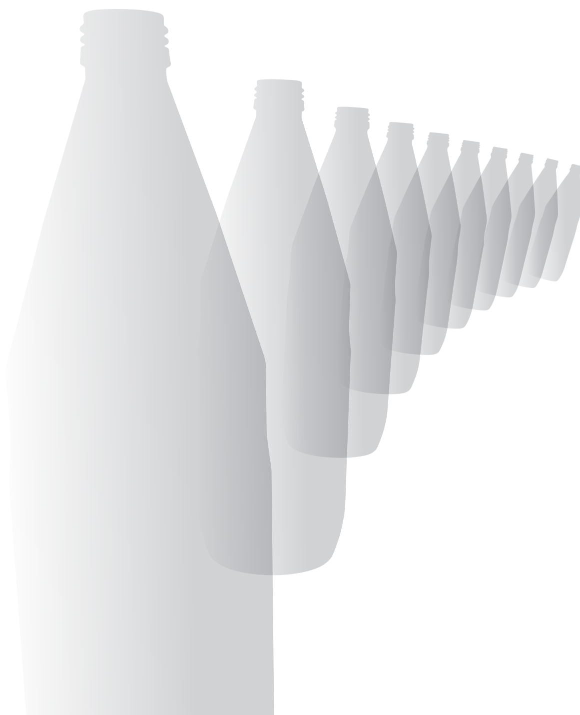
Currency hedging instruments contracted in 2016 have an accumulated nominal of GBP 20,000 thousand at 31 December 2016 Under these contracts, effective until 2017, the Group will receive a fixed rate of between Euros 0.815 and 0.889 per GBP.

Inflation hedging instruments contracted in 2016 have an accumulated nominal at 31 December 2016 of Euros 18,500 thousand for each of the four years hedged up to 2019. Under these contracts, effective until 2019, the Group guarantees a maximum increase in certain costs relating to salaries of between 0.85% and 0.955%.

Energy price hedging instruments have an accumulated nominal of Euros 51,200 thousand at 31 December 2016. As a result of these contracts, effective until 2019, the Group estimates that it has hedged approximately 50% 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)	
	2016	**2015**
Other comprehensive income	10,324	(11,204)
Reclassification to finance costs	1,889	1,451
	12,213	(9,753)



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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							
	2016							
	Carrying amount	Expected cash flows	Occurrence of cash flows					
			2017	2018	2019	2020	2021	2022
Interest rate swaps	(5,313)	(5,397)	(1,352)	(1,075)	(1,370)	(781)	(481)	(338)
Foreign currency swaps	195	195	195	-	-	-	-	-
Inflation swaps	73	73	73	-	-	-	-	-
Energy price options	6,766	6,766	2,583	3,444	739	-	-	-

	Thousands of Euros							
	2015							
	Carrying amount	Expected cash flows	Occurrence of cash flows					
			2016	2017	2018	2019	2020	2021
Interest rate swaps	(3,029)	(3,102)	(978)	(948)	(373)	(643)	(83)	(77)
Energy price options	(7,452)	(7,452)	(5,421)	(2,031)	-	-	-	-

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9. Income Tax

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

	Thousands of Euros					
Deferred tax liabilities	Goodwill	Property, plant and equipment	Depreciation and amortisation	Financial assets	Other	Total
At 31 December 2014	19,492	13,793	1,642	12	4,131	39,070
Debit (credit) to income statement	1,132	4,916	-	-	(1,930)	4,118
Additions consolidated group	-	3,690	-	-	-	3,690
Translation differences	-	524	-	-	-	524
At 31 December 2015	20,624	22,923	1,642	12	2,201	47,402
Debit (credit) to income statement	1,140	2,442	(2,956)	-	(3,460)	(2,834)
Debit (credit) to other comprehensive income	-	-	-	1,701	-	1,701
Translation differences	-	-	-	-	1,597	1,597
At 31 December 2016	**21,764**	**25,365**	**(1,314)**	**1,713**	**338**	**47,866**

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Deferred tax assets	Tax loss carryforwards	Provisions for personnel	Rights to tax deductions and credits	Financial liabilities	Other	Total
	Thousands of Euros					
At 31 December 2014	6,871	297	16,943	200	8,237	32,548
(Debit) credit to income statement	-	-	(5,126)	-	(138)	(5,264)
Debit (credit) to other comprehensive income	-	-	-	2,731	-	2,731
Additions consolidated group	-	-	-	-	10,964	10,964
Translation differences	-	-	-	-	881	881
At 31 December 2015	6,871	297	11,817	2,931	19,944	41,860
(Debit) credit to income statement	(2,211)	43	(1,006)	-	1,553	(1,620)
Debit (credit) to other comprehensive income	-	362	-	(720)	-	(358)
Translation differences	-	-	-	-	(114)	(114)
At 31 December 2016	**4,660**	**702**	**10,811**	**2,211**	**21,383**	**39,768**

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Other mainly includes temporary differences arising upon the acquisition of Encirc (see note 5). The directors consider that the current level of profits ensure the recoverability of the full amount of deferred tax assets.

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

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

Details of deferred tax assets and liabilities that are expected to be realised or reversed in periods exceeding 12 months, are as follows:

	Thousands of Euros	
	2016	**2015**
Deferred tax assets	31,928	32,797
Deferred tax liabilities	(46,726)	(40,460)
	(14,798)	(7,663)

Deferred taxes on items debited/(credited) directly to other comprehensive income in 2016, corresponding to hedging operations, amounted to Euros 3,420 thousand (Euros 2,731 thousand at 31 December 2015).

Details of the income tax expense are as follows:

	Thousands of Euros	
	2016	**2015**
Current tax		
Present year	**16,670**	16,522
Prior year adjustments	**83**	305
Deferred tax		
Source and reversal of temporary differences	**(129)**	3,403
Expense for reduction in deferred tax assets	**2,211**	-
Income from reduction in deferred tax liabilities	**-**	(1,048)
Prior year adjustments	**-**	(2,155)
Deferred income taken to income tax (note 14)	**(2,264)**	(2,264)
Total	**16,571**	14,763

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

	Thousands of Euros	
	2016	**2015**
Profit for the year before income tax from continuing operations	**84,242**	75,623
Tax calculated at the tax rate of each country	**18,943**	19,087
Deductions for the year	**(236)**	(711)
Capitalisation of deductions for shortfall in income tax		
Prior year adjustments	**525**	(1,963)
Expense for reduction in deferred tax assets	**2,112**	-
Income from reduction in deferred tax liabilities	**-**	(1,048)
Deferred income taken to income tax (note 14)	**(2,264)**	(2,264)
Permanent differences	**(2,509)**	1,662
Income tax expense	**16,571**	14,763

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

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

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

- In accordance with applicable tax regulations, the Company has applied a 60% reduction to income deriving from the temporary transfer of intangible assets developed by the Company to Group companies for an amount of Euros 9,339 thousand.
- The Company has applied a reduction of 10% of the amount of the increase in its equity for tax purposes compared to the average for the two prior periods for an amount of Euros 9,000 thousand. In this regard, it has apportioned an amount equal to non-distributable reserves for a minimum period of five years, except for the portion of the increase that is incorporated into capital.

In accordance with current legislation in Spain, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed. At 31 December 2016 all main applicable taxes since 31 December 2011 are open to inspection by the taxation authorities. Due to the treatment permitted by fiscal legislation of certain transactions, additional tax liabilities could arise in the event of inspection. In any event, the directors do not consider that any such liabilities that could arise would have a significant effect on the 2016 consolidated annual accounts taken as a whole.

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10. Inventories

Details of inventories are as follows:

	Thousands of Euros	
	2016	**2015**
Raw materials	20,811	14,512
Auxiliary and production materials	63,387	72,522
Finished goods and work in progress	108,753	120,335
	192,951	207,369
Impairment	(11,978)	(6,359)
	180,973	201,010

At 31 December 2016 and 2015 there are no inventories with a recovery period of more than 12 months from the consolidated balance sheet date.

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

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

11. Trade and Other Receivables

Details of trade and other receivables are as follows:

	Thousands of Euros	
	2016	**2015**
Trade receivables	190,794	202,391
Personnel	-	6
Other loans	10,828	9,638
Less impairment due to uncollectibility	(7,166)	(6,757)
Total	**194,456**	205,278

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

Based on recoverability levels, the Company considers all balances older than 30 days to be past due. At 31 December 2016 there are matured loans amounting to Euros 6.1 million, which is equivalent to 0.79% of sales.

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 2016 and 2015 the Company has no trade and other receivables discounted at financial institutions.

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12. Other Current assets and Liabilities

Details of other current assets are as follows:

	Thousands of Euros	
	2016	**2015**
Public entities		
Value added tax	8,650	6,624
Other items	184	112
	8,834	6,736

Details of other current liabilities are as follows:

	Thousands of Euros	
	2016	**2015**
Public entities		
Value added tax	14,914	17,446
Withholdings and payments on account	2,695	9,960
Social Security	2,858	1,730
Other	844	412
	21,311	29,548

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 2016 and 2015 is as follows:

			Thousands of Euros	
	Number of shares outstanding	Ordinary shares	Own shares	Total
At 31 December 2014	24,783,120	25,290	(236)	25,054
Acquisition of own shares	(151,386)	-	(6,498)	(6,498)
Sale of own shares	162,607	-	6,734	6,734
At 31 December 2015	24,794,341	25,290	-	25,290
Acquisition of own shares	(80,727)	-	(3,757)	(3,757)
Sale of own shares	20,828	-	933	933
At 31 December 2016	**24,734,442**	**25,290**	**(2,824)**	**22,466**

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At 31 December 2016 and 2015 the share capital of Vidrala, S.A. is represented by 24,794,341 ordinary shares represented by book entries of Euros 1.02 par value each, fully paid and listed on the on the Madrid and Bilbao stock exchanges. No company directly or indirectly holds more than 10% of share capital.

These shares are freely transferable.

At the Vidrala, S.A. annual general meeting held on 31 May 2016, the shareholders authorised and granted the board of directors the necessary powers to carry out a derivative acquisition of own shares, either directly or indirectly through Group companies, and to reduce share capital, if appropriate, in order to redeem own shares.

In 2016 and 2015, 80,727 and 151,386 Parent shares were acquired on the organised market for Euros 3,757 thousand and Euros 6,498 thousand, respectively. Similarly, 20,828 and 162,607 Parent shares were sold for Euros 1,214 thousand and Euros 7,231 thousand, respectively.

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

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

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

In 2016, despite the increase in debt due to the extraordinary financing assumed for the acquisition of Encirc Limited in the prior year (see note 15), the Group's capitalisation has strengthened, as shown by the following ratios for 2016 and 2015:

	Thousands of Euros	
	2016	**2015**
Total equity	**474,934**	476,536
Total equity and liabilities	**1,096,243**	1,200,033
Total equity/total equity and liabilities	**43.32%**	39.71%

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	
	2016	**2015**
Net financial debt	**322,266**	404,162
Equity	**474,934**	476,536
Debt ratio	**0.68**	0.85

Net financial debt is understood as current and non-current loans and borrowings less cash and cash equivalents.

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In conclusion, year-end solvency indicators for the Group have strengthened, showing a debt-to-equity ratio of 0.68 (0.85 at the 2015 close) and debt equivalent to 1.89 times accumulated EBITDA (2.51 at the 2015 close). The interest coverage ratio, measured as EBITDA for the year divided by the consolidated net finance cost, is 17.8.

b. Other reserves

» Revaluation reserve Provincial Law 4/1997

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

» Revaluation reserve Decree Law 66/2016

Euros 2,311 thousand was recognised in revaluation reserves in 2016 comprising the revaluation carried out in the subsidiary Gallo Vidro, S.A., as permitted by Decree Law 66/2016 of 3 November 2016 on the revaluation of commercial assets enacted by the Portuguese government.

» Capitalisation reserve

The capitalisation reserve has been appropriated in accordance with articles 25 and 62 of the Spanish Income Tax Law, which require that an amount equal to the reduction in the tax group's taxable income for the year be appropriated to the reserve. The amount by which the tax group is entitled to reduce taxable income is equal to 10% of the increase in its equity, as defined in the aforementioned article. In no case may this reduction exceed 10% of the tax group's taxable income for the tax period prior to the reduction, before the integration referred to in article 11.12 of the Law and before offsetting tax loss carryforwards. However, if the reduction cannot be applied because the tax group does not generate sufficient taxable income, the outstanding amounts may be applied in the tax periods ending in the two years immediately after the end of the tax period in which the tax group became entitled to the reduction, together with any reduction applicable in that period, subject to the limit indicated. The reserve is restricted and the increase in the tax group's equity must be maintained for a five-year period from the end of the tax period in which the group became entitled to the reduction, unless accounting losses are incurred.

At 31 December 2016 the Group has included a non-distributable capitalisation reserve of Euros 150,671,076.11 within voluntary reserves.

» Legal reserve

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

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

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c. Other comprehensive income

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

	Thousands of Euros		
	Cash flow hedges	Tax effect	Net
Balances at 31 December 2014	(713)	200	(513)
Income and expenses generated during the year	(11,204)	3,137	(8,067)
Reclassification to profit or loss	1,451	(406)	1,045
Balances at 31 December 2015	(10,466)	2,931	(7,535)
Income and expenses generated during the year	10,324	(2,891)	7,433
Reclassification to profit or loss	1,889	(529)	1,360
Balances at 31 December 2016	**1,747**	**(489)**	**1,258**

» Translation differences

Translation differences fully comprise the effect of converting the financial statements of the subsidiary Encirc, the functional currency of which is the Pound Sterling, giving a negative impact for the year of Euros 57,397 thousand deriving from the appreciation of the euro against the pound.

» Defined benefit plans

These fully comprise the cost of defined benefit plans for pensions and other post-employment medical benefits for the subsidiary Encirc, the impact of which on other comprehensive income is Euros 1,308 thousand (see note 19).

d. Dividends and restrictions on distribution of dividends

Total dividends distributed by Vidrala, S.A. to shareholders in 2016 amounted to Euros 17,853 thousand (Euros 16,225 thousand in 2015), which is equivalent to 72.00 euro cents per share outstanding (65.46 euro cents in 2015). The dividends reflect the distribution of 2015 profit.

The distribution of Company profits and reserves for the year ended 31 December 2015, approved by the shareholders at their annual general meeting held on 31 May 2016, was as follows:

Basis of allocation	Euros
Profit for the year	36,980,147,56
Distribution	
Other reserves	19,127,279,85
Dividend	4,767,455,89
Interim dividend	13,085,411,82
	36,980,147,56

On 20 December 2016 the directors agreed to distribute an interim dividend on 2016 profit of 58.00 euro cents per share to shareholders, totalling Euros 14,360 thousand, which was paid on 14 February 2017.

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

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

	Thousands of Euros
Forecast distributable profit for 2016	
Projected profit after income tax to 31.12.2016	
Interim dividend distributed	17,853
Forecast cash flow for the one-year period from 20 December 2016	
Cash and cash equivalents at agreement date	-
Credit facilities available at agreement date	54,165
Projected operating receipts and payments (net)	42,757
Projected cash and cash equivalent balances one year from agreement date	96,922
Credit facilities available (one year later)	**18,211**

The proposed distribution of 2016 profit and other Parent reserves to be submitted to the shareholders for approval at their annual general meeting is as follows:

Basis of application	Euros
Profit for the year	54,957,207,04
Distribution	
Other reserves	35,130,078,34
Dividend	5,466,311,68
Interim dividend	14,360,817,02
	54,957,207,04

The proposed distribution of dividends is equivalent to a total unit dividend, including the interim dividend paid, of Euros 0.8016 per share outstanding at the reporting date.

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14. Deferred Income

Details of this caption are as follows:

	Thousands of Euros	
	2016	**2015**
Capital grants (note 6(a))	**20,333**	22,385
Tax credits for investments	**11,202**	11,278
	31,535	33,663

In 2016 the Group incorporated additional capital grants amounting to Euros 3,534 thousand (Euros 3,750 thousand in 2015), of which Euros 3,590 thousand was taken to income during the year (Euros 3,278 thousand in 2015) (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. Euros 2,264 thousand was taken to profit or loss as a reduction in income tax in 2016 and 2015 (see note 9).

15. Debt with Financial Institutions

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

	Thousands of Euros			
	2016		**2015**	
	Non-current	Current	Non-current	Current
Loans and borrowings	299,689	10,801	409,129	3,099
Other financial liabilities	10,599	1,275	6,703	405
Accrued interest	-	326	-	546
	310,288	**12,402**	415,832	4,050

Some of these contracts contain financial covenant clauses. At 31 December 2016 and 2015 the Group complies with these requirements.

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

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

				Thousands of Euros	
Type	Extended	Maturity	Limit extended/ nominal amount	Current	Non-current
Loan	2015	2021	440,000	-	284,615
Loan	2014	2018	15,000	-	15,000
Credit facility	2010	2018	5,000	-	74
Credit facility	2010	2018	7,500	-	-
Credit facility	2010	2018	25,000	-	-
Other short-term credit facilities	2016	2017	88,250	10,801	-
				10,801	299,689

Non-current loans and borrowings mature as follows:

	Thousands of Euros	
	2016	**2015**
Between 1 and 2 years	**23,386**	37,820
Between 2 and 5 years	**166,902**	216,101
More than 5 years	**120,000**	161,911
	310,288	415,832

On 12 January 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 14 January 2015 through its subsidiary Inverbeira Sociedad Promoción de Empresas, S.A.

With a view to structuring its non-current defined financing model, on 13 March 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 21 March 2021, and a revolving credit facility of up to Euros 25 million. Several Group companies acted as guarantors of the 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 10 December 2015 Vidrala agreed with all of the financial institutions to renew the loan, changing the applicable interest rate.

On 14 November 2016 Vidrala agreed with the financial institutions to further renew the loan, changing the applicable interest rate, the repayment period and maturity date, which was extended to 13 September 2022. As the conditions of the new loan are not substantially different from the previous one (the percentage difference between the current value of the cash flows of the new financial liability compared to the amended one is 2.5%), it is considered an amendment of the previous loan rather than an exchange of liabilities (see note 3(g)).

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As a result, the balance of the non-current syndicated loan at year end is Euros 290 million, as early repayments totalling Euros 175 million have been made since the loan was extended. The applicable interest rate on the loan is a variable rate equivalent to Euribor plus a spread of 1.25%, reviewed on an annual basis by tranche based on the evolution of the net debt/consolidated EBITDA ratio. In 2017 the loan will be in a grace period and as such the Company has no obligation to repay the principal. The first repayment of the principal falls due on 13 September 2019 for an amount of Euros 10 million.

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 31 December 2016:

Net financial debt / consolidated EBITDA: 1.9

Consolidated EBITDA / consolidated net finance cost: 17.8

The credit facilities included under loans and borrowings have a combined limit, including the aforementioned loan, of Euros 431 million and Euros 557 million at 31 December 2016 and 2015, respectively. Consequently, Euros 118 million and Euros 146 million were available for drawdown at those dates. Furthermore, a limit of Euros 20 million was available in discounting lines in 2016 and 2015, with no amounts having been used at the year-end closes.

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.

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16. Trade and Other Payables

Details of trade and other payables are as follows:

	Thousands of Euros	
	2016	**2015**
Trade payables	**147,361**	138,049
Salaries payable	**10,938**	9,374
Dividends to shareholders	**14,362**	13,086
Suppliers of fixed assets	**-**	385
Other payables	**1,845**	6,827
	174,506	167,721

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 2016 is as follows:

	Days	
	2016	**2015**
Average supplier payment period	8,34	6,55
Transactions paid ratio	12,83	8,96
Transactions payable ratio	13,54	8,43
	Amount (thousands of Euros)	
Total payments made	172,498	208,518
Total payments outstanding	35,404	33,431

18. Risk Management Policy

» Business risks

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

» Operational risk

The Vidrala Group's manufacturing and sales activity, carried out through eight industrial centres, is continuous, intensive and subject to inherent risks linked to routine operations. In 2016, 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.

Potential operating risks include the following:

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i. Environmental risks

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

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

One of the Group's strategic guidelines is the implementation of environmental management systems. In line with this commitment, all the Group's production facilities have ISO 14001:2004 certification, demonstrating that Vidrala operates under a global, externally verified and recognised environmental management system. Furthermore, in keeping with its undertaking to continuous improvement, the implementation and certification of new environmental standards has begun, such as ISO 14064:2012, related to the voluntary declaration of CO_2 emissions, or the ISO 50001:2011 energy management system standard, both of which, CO_2 emissions and energy, are of clear environmental significance in our industrial process.

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In addition, Vidrala has a specific commitment to invest in minimising the potential polluting effect of its facilities. Of particular relevance during 2016 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%.

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.

ii. Occupational health and safety

Vidrala's daily activity is carried out by more than 3,000 employees, the majority of whom work in an industrial or manufacturing environment.

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

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

iii. Supply chain risk

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

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

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

Concerning inventory risk, the Group systematically carries out a specific and periodic controls to ensure the quality of finished products in the warehouse, and optimise ageing and rotation so that both the volume and value of stocks are balanced to sales forecasts. These controls have resulted in the implementation of automated stock monitoring processes and the subsequent application of specific adaptation, physical and valuation measures, which in 2016 are giving rise to inventory impairment adjustments in the income statement.

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» 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.

Managing Vidrala's financial risks focuses 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.

Currency risk affecting the Group's present structure mainly stems from the exposure inherent in the global expansion of the Group after the incorporation of Encirc Ltd. in 2015, with activities in the UK and Ireland. Approximately 80% of operating results generated by this division over the past year were in pounds sterling, and the remainder directly in euros.

In order to quantify the sensitivity to the currency at consolidated Group level, as a result of the above, approximately 30% of EBITDA is generated in pounds sterling. Consequently, reporting this in euros is subject to translation risks that may arise from fluctuations in sterling against the euro. There is also a risk when converting sterling cash generated in the UK to euros, in that the depreciation of sterling could reduce the equivalent value in euros, thus reducing the amount of cash generated by the business.

To quantify the sensitivity to this risk, based on 2016 data, had sterling depreciated by an average of 5% during year, and the remaining variables remained constant, and assuming there were no instruments to hedge this risk, the Group's consolidated profit would have varied by approximately 2.8% and annual cash flow would have fallen by approximately 1.7%.

To control currency risk, Vidrala uses derivative instruments, principally forward sale contracts or currency put options. To manage the risks described, at the 2016 reporting date Vidrala had sterling put options expiring in 2017, for an accumulated equivalent of Euros 23 million. This is equivalent to approximately 65% of the cash generated in this currency during 2016.

ii. Interest rate risk

Interest rate risk affects the cost of borrowings used to finance the Group's operations. Borrowings contracted at variable interest rates expose Vidrala 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. 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 2016 reporting date Vidrala has interest rate swaps for an accumulated equivalent of Euros 405 million, which start and expire progressively until 2022, of which Euros 305 million are in force at the reporting date. As a result, the total debt interest cost to be assumed by the Group during 2017 is hedged against fluctuations in market interest rates.

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iii. Credit risk

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

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

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

As a result of the control procedures described, the actual impact of bad trade debts during 2016 was limited to 0.01 % of turnover

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

iv. Liquidity risk

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

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

At 31 December 2016 the Vidrala Group had Euros 118.4 million in immediately available, external undrawn credit, representing 37% of total debt.

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v. Debt and solvency

At 31 December 2016, the Vidrala Group had consolidated net financial debt of Euros 322.3 million, having reduced indebtedness by Euros 82 million, or 20.3%, during the year. The financial solvency indicators at the reporting date reflect a debt equivalent to 1.9 times accumulated EBITDA for the last twelve months, representing a financial deleveraging compared to the ratio of 2.5 at the prior year end.

The core of the financing structure is a long-term syndicated loan signed on 13 March 2015 with a consortium of nine financial institutions, for an original amount of Euros 465 million. After a second novation of the loan terms was signed in November 2016, the applicable interest rate on the loan in 2017 will be a variable rate pegged to Euribor plus a spread of 1%. The due date of the loan has been extended to 13 September 2022, and is gradually repayable from 13 March 2019. Consequently, in 2017 the loan will be in a grace period, with no obligation to repay the principal.

This loan has certain covenants attached, which are typical in these types of contract. At the reporting date, these commitments have been fully complied with, as reflected by the results of the following indicators:

Net financial debt / consolidated EBITDA: 1.9x

Consolidated EBITDA / consolidated net finance cost: 17.8x

vi. Price risk in energy purchases

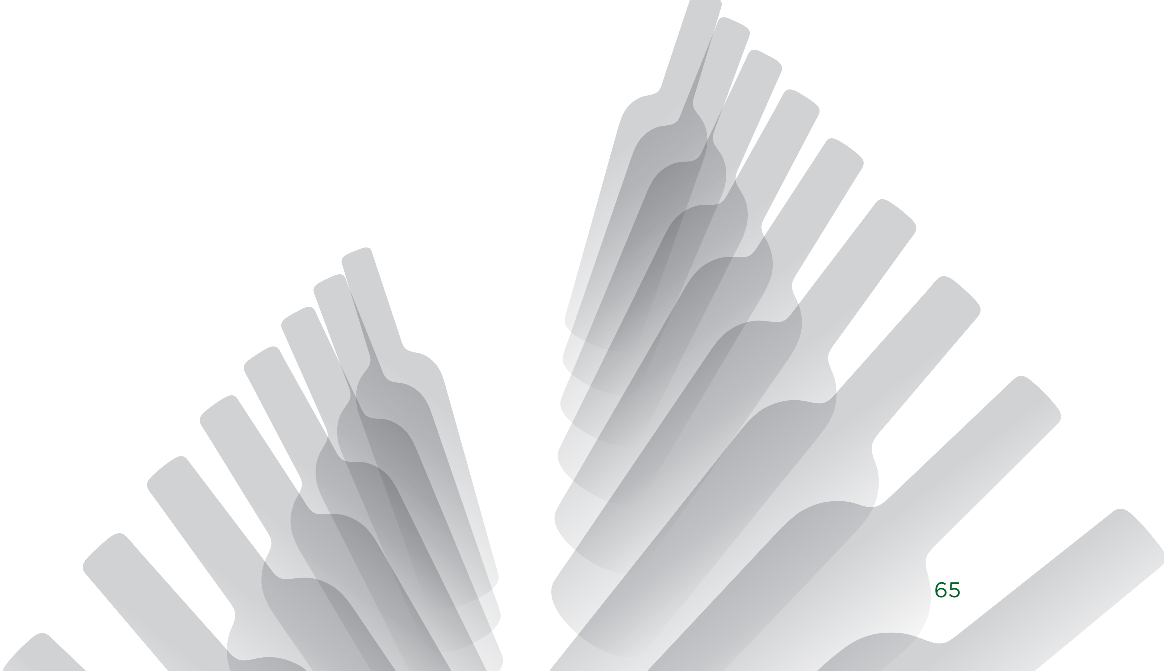
Energy consumption, principally natural gas and electricity, represents a significant source of operating costs inherent in Vidrala´s glass production and manufacturing activity.

Fluctuations in the variables that determine their prices, represented in the natural volatility of the global energy commodities markets, has a bearing on the profitability of the business. In order to manage the potential impact of this risk, the Group employs specific control processes to mitigate potential unexpected effects on operating margins that would arise in the event of inflationary tendencies in the market. These measures involve implementing adapted price-setting formulas, continuous monitoring of market variables through dedicated management and control departments and risk control through price hedging strategies, including the contracting of tariffs at fixed prices and the use of derivative hedging instruments.

As a result of this risk control policy, at the 2016 reporting date Vidrala has hedging derivatives on energy commodities for a nominal equivalent of Euros 51.2 million.

vii. Other risks. Result of the Brexit referendum

Vidrala has strategic business interests in the UK and Ireland through its Encirc



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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. Of the profits obtained by this division over the past year, approximately 80% of operating results are generated in sterling, and the remainder directly in euros. As a whole, Encirc is eminently domestic, producing glass containers in the UK for sale throughout the British Isles, including the Republic of Ireland, and the volume of exports outside these regions is immaterial.

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

One instant effect was the devaluation of sterling, which at the reporting date had depreciated by approximately 11.8% against the euro compared to pre-referendum levels. For the purposes of quantifying the sensitivity of the business to fluctuations in sterling, as in the section on the quantification of currency risks, if sterling had depreciated by an average of 5% during the year, with the rest of the variables remaining constant, and not considering hedging instruments, the Group's annual consolidated profit would have varied by approximately 2.8% and annual cash flow would have fallen by approximately 1.7%.

In any event, the structural foundations of demand for glass packaging in the UK remain stable, backed by the region's level of socio-demographic development, the progressive lean towards greater consumption of quality products and the natural limited variability of demand for food and drink products. Encirc optimises these market foundations thanks to a commercial position endorsed by relationships fostered with world class customers, market share stability, competitiveness backed by modern industrial facilities and the added value they give to packaging services, whose unique competitive advantages for owners interested in exporting bulk materials to the growing demand in the UK have been boosted.

19. Provisions

Movement in provisions in 2016 and 2015 is as follows:

	Thousands of Euros			
	Emission allowances	Personnel	Other provisions	Total
At 31 December 2015	2,481	952	338	3,771
Charge against profit or loss	3,956	1,569	1,011	6,536
Actuarial gains and losses due to changes in financial assumptions	-	1,308		1,308
Payments	(1,130)	-	-	(1,130)
Other	-	1,270	-	1,270
At 31 December 2016	**5,307**	**5,099**	**1,349**	**11,755**

	Thousands of Euros			
	Emission allowances	Personnel	Other provisions	Total
At 31 December 2014	3,158	1,776	453	5,387
Charge against profit or loss	3,278	-	-	3,278
Payments	(3,955)	(824)	(115)	(4,894)
At 31 December 2015	2,481	952	338	3,771

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The provision for emission allowances includes the estimated surrender of emission allowances in 2016 and 2015 measured at the grant date, as described in note 3.

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

20. Contingencies

The Group has contingent liabilities for bank and other guarantees related to routine business operations amounting to Euros 3,794 thousand (Euros 16,611 thousand in 2015). 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 2016 to comply with the Kyoto Protocol and emissions analyses amounted to Euros 82 thousand (Euros 107 thousand in 2015).

Environmental expenses mainly related to waste management incurred during 2016 totalled Euros 816 thousand (Euros 875 thousand in 2015).

Environment-related plant investments came to Euros 4,513 thousand (Euros 13,937 thousand in 2015).

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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	
	2016	**2015**
Operating grants	**146**	224
Capital grants taken to income (note 14)	**3,590**	3,278
Grants for emission allowances	**2,611**	3,659
Other income	**2,109**	2,731
	8,456	9,892

23. Other Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2016	**2015**
External services	**35,918**	37,981
Electricity	**39,371**	46,801
Sales expenses	**73,456**	79,889
Surrender of emission allowances (note 19)	**3,956**	3,278
Taxes	**5,716**	5,493
Impairment and uncollectibility of		
trade and other payables (note 11)	**409**	522
Other operating expenses	**7,688**	8,047
	166,514	182,011

FINANCIAL STATEMENTS vidrala

24. Employee Benefits Expense

Details of the employee benefits expense in 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	**2015**
Salaries, wages and similar	**141,081**	142,502
Contributions to defined contribution plans	**243**	246
Other employee benefits	**24,807**	23,367
	166,131	166,115

The average headcount of the Group in 2016 and 2015, distributed by category, is as follows.

	Average headcount	
	2016	**2015**
Senior management and proxies	**41**	40
Junior management	**296**	362
Administrative staff	**347**	280
Operators	**2,365**	2,370
	3,049	3,052

At 31 December 2016 and 2015 the distribution by gender of Group personnel and directors is as follows:

	Number			
	2016		**2015**	
	Female	Male	Female	Male
Board members	3	8	3	8
Management	3	40	2	37
Junior management	56	323	56	338
Administrative staff	118	263	117	254
Operators	202	2,097	204	2,059
	382	**2,731**	382	2,696

FINANCIAL STATEMENTS

25. Finance Income and Finance Costs

Details of finance income and finance costs are as follows:

	Thousands of Euros	
	2016	**2015**
Finance income		
Exchange gains	**805**	-
Other finance income	**174**	1,650
Total finance income	**979**	1,650

	Thousands of Euros	
	2016	2015
Finance costs		
Interest on loans and borrowings	**6,042**	8,578
Hedging derivatives	**1,889**	1,451
Exchange losses	**-**	637
Other finance costs	**1,845**	1,648
Total finance costs	**9,776**	12,314

26. Earnings per Share

a. Basic

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

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

	2016	**2015**
Profit for the year attributable to equity holders of the Parent (thousands of Euros)	**67,671**	60,860
Weighted average number of ordinary shares outstanding (thousands)	**24,728**	24,787
Basic earnings per share (Euros per share)	**2.73**	2.46

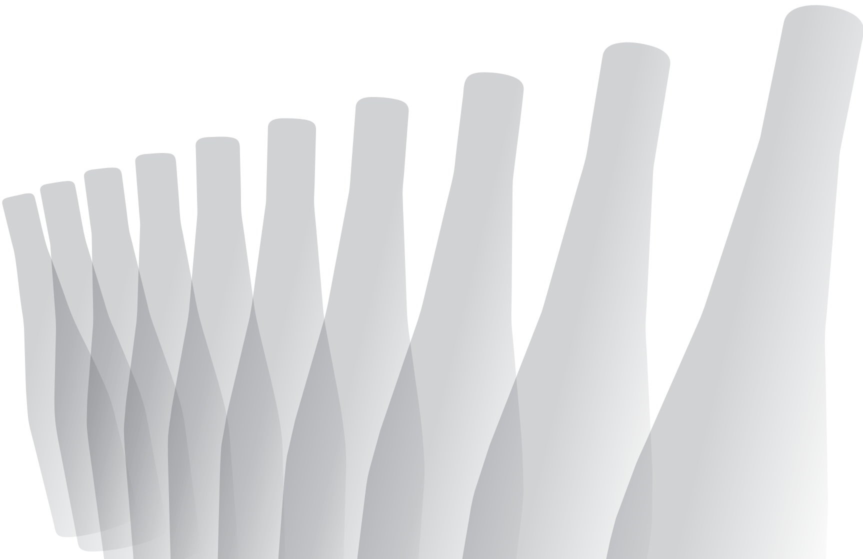
FINANCIAL STATEMENTS

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

	2016	2015
Ordinary shares outstanding at 1 January	**24,794,341**	24,776,281
Effect of own shares	**(41,282)**	11,221
Weighted average number of ordinary shares outstanding at 31 December	**24,753,059**	24,787,502

b. Diluted

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



27. Related Party Balances and Transactions

a. Commercial transactions

During 2016 and 2015 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:

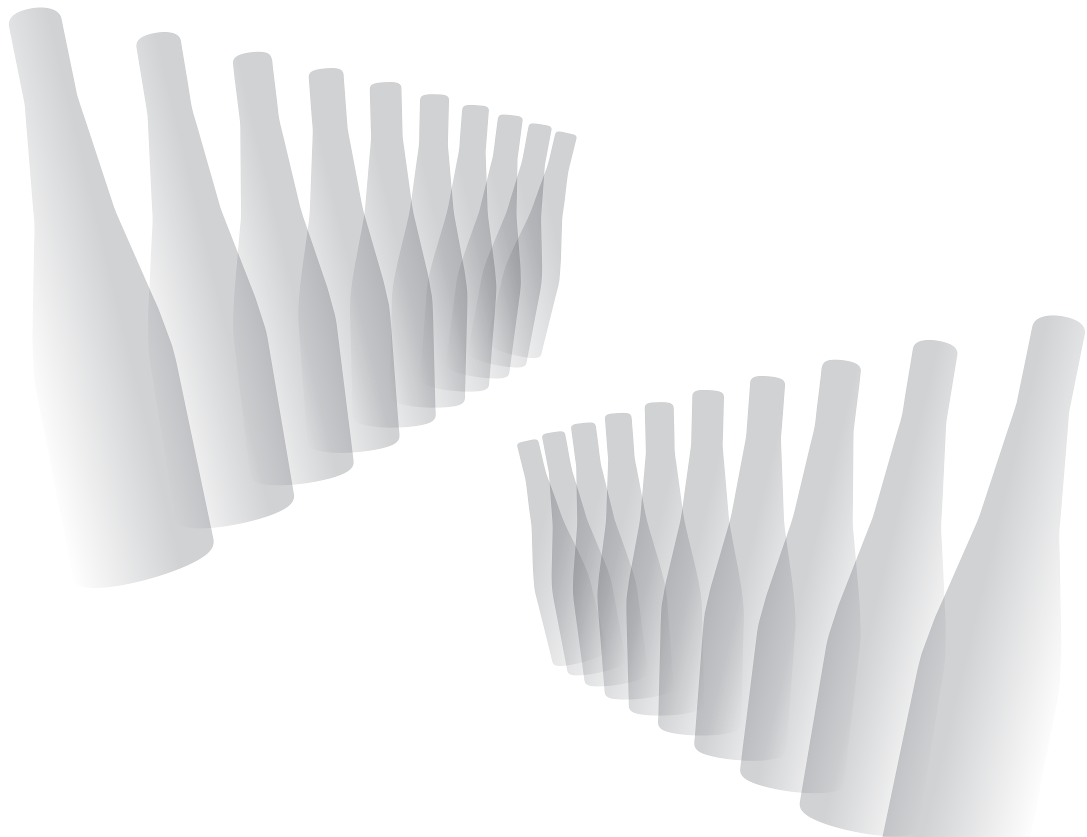
	Thousands of Euros	
	2016	2015
Salaries and other current remuneration paid to employees, management and directors	3,973	6,784

FINANCIAL STATEMENTS

During 2016 the Group has reviewed its organisational structure and redefined senior management positions. At 31 December 2016, the directors and senior management numbered 23 in total (50 in 2015).

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 1,227 thousand (Euros 1,111 thousand in 2015).



28. Audit Fees

The firm auditing the annual accounts of the Group has accrued net fees for professional services during the years ended 31 December 2016 and 2015 as follows:

	Thousands of Euros	
	2016	**2015**
KPMG Auditores, S.L.		
Audit services	**182**	180
Other services	**25**	6
	207	206
Total KPMG	**207**	206

These amounts include all fees for services rendered during 2016 and 2015, irrespective of the date of invoice.

During 2016, other auditors have invoiced the Group audit fees of Euros 159 thousand (Euros 148 thousand in 2015).

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DETAILS OF OTHER RESERVES AND RETAINED EARNINGS AND MOVEMENT

31 December 2015 and 2014 (Expressed in thousands of Euros)

	Revaluation reserves	Legal reserve	Voluntary reserves	Reserves in fully consolidated companies	Profit for the year	Total
At 31 December 2014	-	5,234	216,623	118,350	51,607	391,814
Share capital increase	-	-	-	-	-	-
Share capital decrease	-	-	-	-	-	-
Distribution of 2014 profit						
Reserves	-	-	39,809	(4,427)	(35,382)	-
Dividends	-	-	-	-	(16,225)	(16,225)
Own shares sold	-	-	497	-	-	497
Other movements	-	-	68	-	-	68
Profit for 2015	-	-	-	-	60,860	60,860
At 31 December 2015	-	5,234	256,997	113,923	60,860	437,014
Distribution of 2015 profit						
Reserves	-	-	19,127	23,880	(43,007)	-
Dividends	-	-	-	-	(17,853)	(17,853)
Own shares sold	-	-	281	-	-	281
Revaluation of property, plant and equipment	2,311	-	-	-	-	2,311
Profit for 2016	**-**	**-**	**-**	**-**	**67,671**	**67,671**
At 31 December 2016	**2,311**	**5,234**	**276,405**	**137,803**	**67,671**	**489,424**

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

vidrala

2016

ANNUAL REPORT

MANAGEMENT REPORT

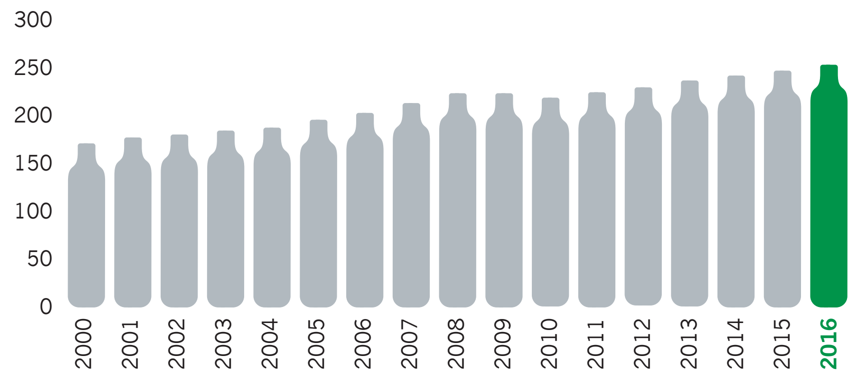
MANAGEMENT REPORT

The Market

Consumer packaging is an essential part of modern lifestyles. It protects, preserves and enables efficient distribution of products that require them to be consumed in optimal conditions. It also helps brand owners to inform end users, identifying and promoting their goods, playing a basic marketing tool and an iconic representation of the product inside. Modern day living, and the vast availability of consumer products we take for granted, is predicted, in part, on the existence of an efficient packaging supply chain.

Consumer trends are changing. Not simply what we drink, but where we drink it and what we expect the packaging to deliver above and beyond traditional expectations. This is the result of the demographic progress and social trends like the impulse of middle classes, the increasing weight of urbanisation or the transformation in purchasing patterns derived from the technological advances.

GLOBAL RIGID PACKAGING MARKET FOR FOOD AND BEVERAGES PRODUCTS
USD Billion



In this context of progress, glass as a packaging material plays a prevailing role. Consumers increasingly demand healthy and sustainable packaging solutions that protect and preserve flavour and properties of the product within, thereby improving the consumption experience. Likewise, brand owners seek to provide quality assurance, differentiation, design and attractiveness to their product. These are characteristics that differentiate glass and elevate it as the preferred packaging material.

MANAGEMENT REPORT

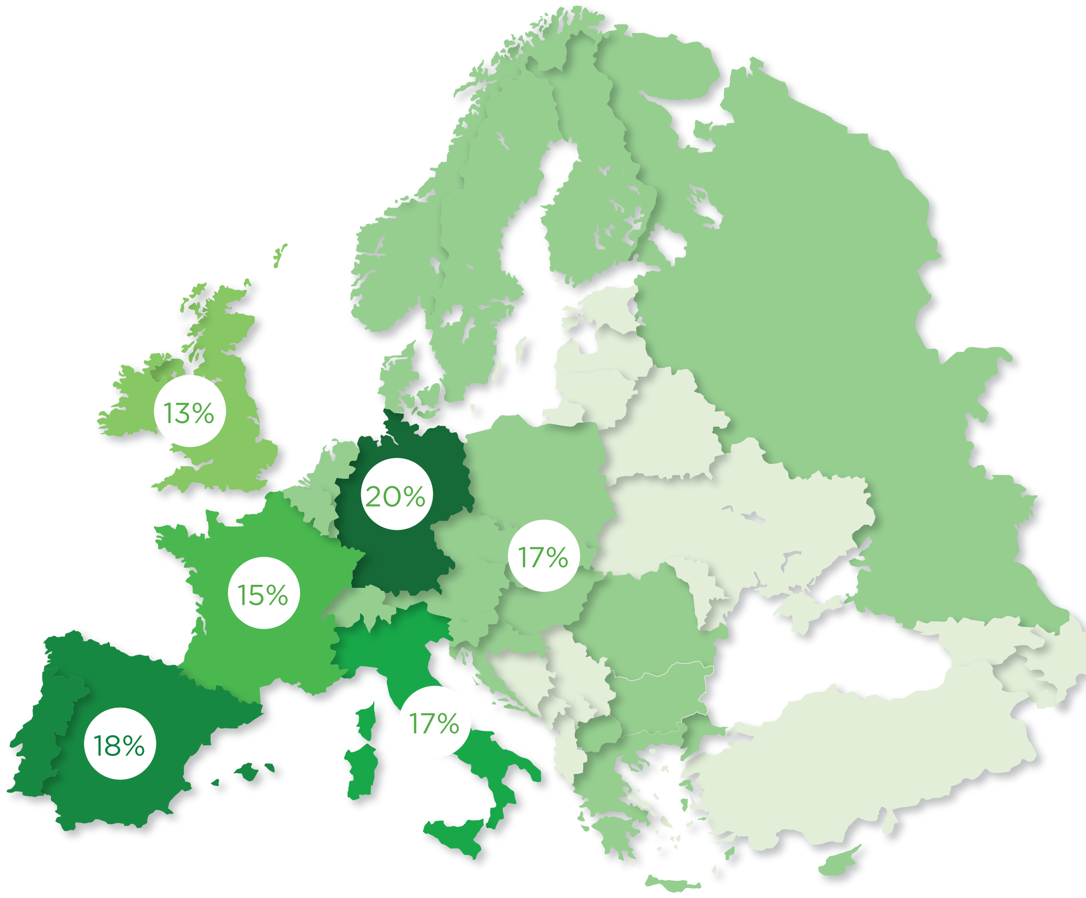
THE RIGID PACKAGING MARKET FOR FOOD AND BEVERAGES PRODUCTS

Glass market share in continental europe, 2016

At a geographical level, Europe consolidates as the world's largest glass market, bringing together a number of developed economies, whose demographic structures and consumption habits guide consumer preferences towards quality, added value products in recyclable and healthy packaging formats. In addition, due to its knowledge and infrastructure conditions, Europe concentrates production and packaging areas of growing interest for subsequent export of products to consumers all over the world. All these factors contribute to the build up of a stable and sustainable market structure.

THE GLASS PACKAGING MARKET FOR FOOD AND BEVERAGES PRODUCTS

European market distribution, by main regions



MANAGEMENT REPORT

2016 Directors' report

RELEVANT INDICATORS

	Sales (EUR million)	EBITDA (EUR million)	Earnings per share (Euros/share)	Net debt (EUR million)
2016	773.1	170.7	2.73	322.3
2015	802.6	161.3	2.46	404.3
Variation	**-3.7%**	**+5.8%**	**+11.0%**	**-20.3%**
Variation at constant exchange rate %	**+1.6%**	**+11.2%**		

- **Sales in 2016 amounted to Euros 773.1 million,** an organic increase of 1.6% on the prior year, but down -3.7% in reported terms if the exchange rate effect is included.
- **Gross operating profit, EBITDA, totalled Euros 170.7 million,** equivalent to a sales margin of 22.1%.
- **Earnings per share** for the year **were 11.0% higher** than the prior year.
- **Debt during the year fell by 20.3%** to Euros 322.3 million, equivalent to 1.9 times EBITDA.

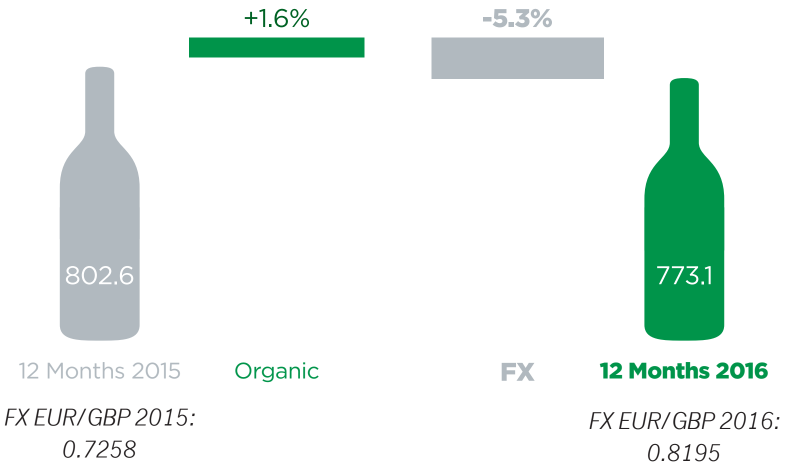
MANAGEMENT REPORT

Sales

Vidrala sales in 2016 amounted to Euros 773.1 million, a drop of 3.7% on the prior year. At a constant exchange rate, sales witnessed organic growth of 1.6%.

SALES YEAR-ON-YEAR

EUR million



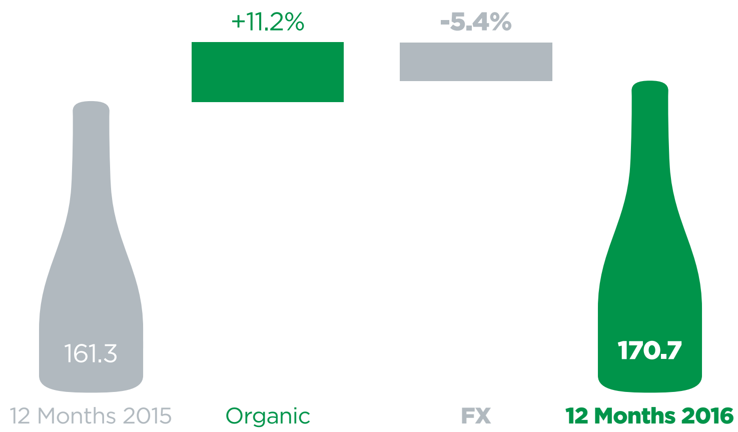
Operating activity

Gross operating profit, EBITDA, for the year amounted to Euros 170.7 million. This represents a reported increase of 5.9% on the prior year in organic terms, and 11.2% at a constant exchange rate.

EBITDA represents a sales margin of 22.1%.

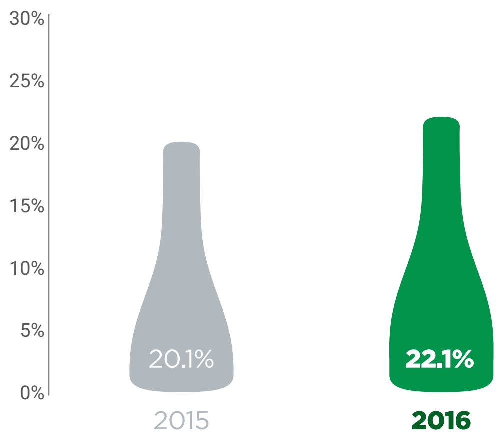
EBITDA YEAR-ON-YEAR

EUR million



MANAGEMENT REPORT

OPERATING MARGINS EBITDA
ANNUAL TREND
As a percentage of sales

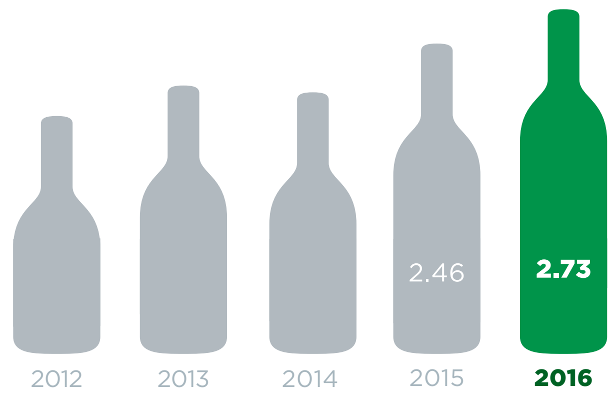


Profit and balance sheet

Net profit for 2016 amounted to Euros 67.7 million, after recognising an annual finance cost equivalent to 1.1% of sales and income tax of 19.7%.

Earnings per share in 2016 amounted to Euros 2.73/share, a rise of 11.0% on the prior year.

EARNINGS PER SHARE SINCE 2012
In Euros per share

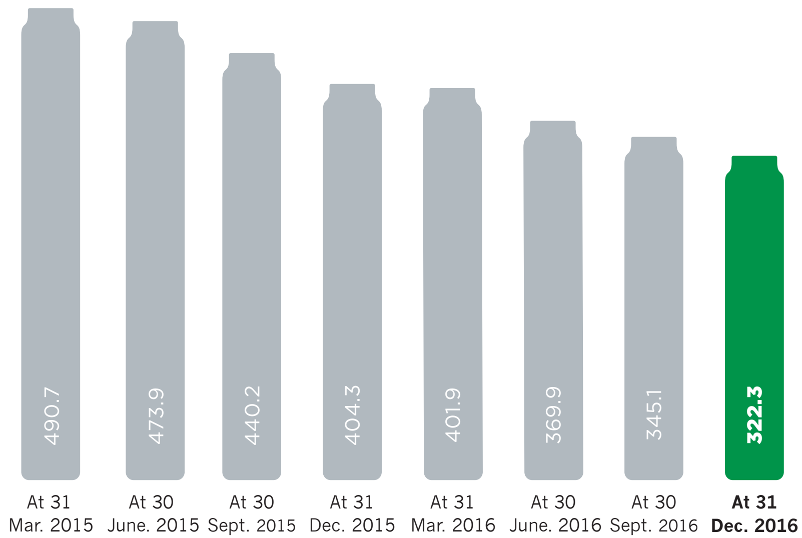


At balance sheet level, debt at 31 December 2016 stood at Euros 322.3 million, having been reduced by 20.3% during the year. This represents a leverage ratio equivalent to 1.9 times EBITDA for the period.

The decline in debt during 2016 is due to the generation of accumulated free cash flow of Euros 102.6 million.

MANAGEMENT REPORT

DEBT
QUARTERLY TREND
EUR million. Since 2015



DEBT/ EBITDA	2.95x	2.87x	2.72x	2.51x	2.45x	2.19x	2.04x	**1.89x**

KEY FIGURES

EUR million (except operating margin in %)	**2016**	**2015**	**Var. %**
SALES	**773.1**	802.6	-3.7%
GROSS OPERATING PROFIT (EBITDA)	**170.7**	161.3	+5.9%
OPERATING MARGIN EBITDA (percentage)	**22.1%**	20.1%	+200 pbs
NET OPERATING PROFIT (EBIT)	**93.0**	86.3	+7.9%
PROFIT BEFORE TAX	**84.2**	75.6	+11.4%
NET PROFIT	**67.7**	60.9	+11.2%
FREE CASH FLOW	**102.6**	81.2	+26.4%
NET DEBT	**322.3**	404.3	-20.3%
DEBT / EBITDA (multiple)	**1.9x**	2.5x	-0.6x

MANAGEMENT REPORT

Conclusions and outlook

Profit for 2016 is a reflection of how the business has developed in line with long-term strategic guidelines. Over the past year, Vidrala has evolved and consolidated itself as a diversified, multinational company; a leading supplier in the packaging industry with a firm commitment to fostering trade relations with our customers, our raison d'être.

As regards outlook, demand for glass packaging in the main European markets remains stable, with a general tendency towards growth. This is a reflection of the economic environment, with changing consumption patterns of food and drink products and the sustained preference of packagers and consumers for glass, a tried and tested packaging material.

Against this backdrop, sales stability for 2017 will depend, in part, on the extent to which economic growth expectations in the different areas of activity are met. At operating level, Vidrala will take steps aimed at guaranteeing customer service levels, progressing in industrial efficiency, developing cost structure competitiveness and, as a result, improving operating margins.

In any event, long-term priorities will remain firmly focused on optimising the three key elements of customer service, cost competitiveness and sustained cash flow generation as the cornerstones for creating value.

Shareholder remuneration policy

Vidrala's shareholder remuneration policy is based on maintaining dividends in the long term as the principal means of distributing profits and securing the loyalty of its shareholders. Cash payments are generally supplemented by premiums for attending general shareholders' meetings.

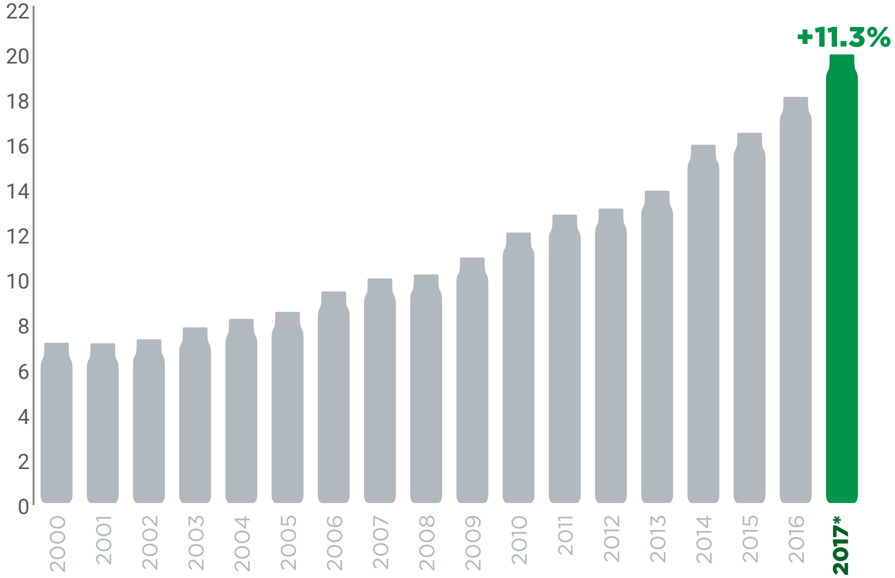
In line with this policy, in 2016 the Group distributed dividends of 72 euro cents per share. This represents an increase of 10% on the prior year. Additionally, 3 euro cents per share was offered as a premium to attend the general meeting of shareholders, thus bringing the total effective dividend to 75 euro cents per share.

As regards payments for 2017, Vidrala has proposed a profit distribution representing an annual dividend increase of 11.3%. The first interim dividend of 58.06 euro cents per share was paid on 14 February 2017, a 10% increase on the prior year. An increase of 15% on the prior year has been proposed for the second interim dividend, bringing the dividend to 22.10 euro cents per share, payable on 14 July 2017. Additionally, 3 cents per share will be offered as a premium for attending the general meeting of shareholders. The effective accumulated dividend for 2017 will thus total 83.16 euro cents per share.

MANAGEMENT REPORT

SHAREHOLDER REMUNERATION
CASH DIVIDENDS AND AGM ATTENDANCE BONUSES

EUR cents per share. Since 2000.



Proposed 2016 results distribution.

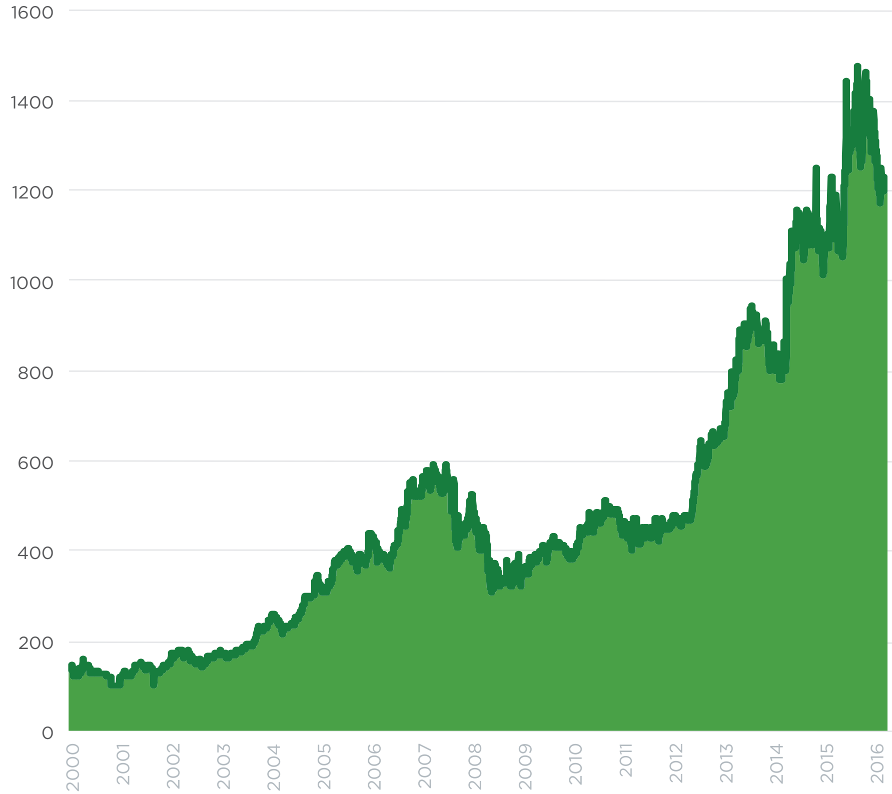
Shares

Vidrala's share price at the end of 2016 was Euros 49.00, an annual increase of 5.3%, excluding dividends. This is equivalent to a market capitalisation of Euros 1,215 million.

5.3 million shares were traded on the stock exchange in 2016, which is 23% up on the prior year and equivalent to an accumulated total of Euros 243 million.

MARKET CAP

EUR in million, since 2000



MANAGEMENT REPORT

Business risks

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

Operational risk

The Vidrala Group's manufacturing and sales activity, carried out through eight industrial centres, is continuous, intensive and subject to inherent risks linked to routine operations. In 2016, 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.

Potential operating risks include the following:

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. The efforts geared towards energy efficiency have a global effect on the business, reducing consumption, cutting costs and minimising the impact on the environment. Additionally, operating priorities are focused on intensifying the growing use of recycled products as the main raw material for manufacturing glass, the effect of which is twofold as it not only avoids the consumption of natural raw materials, but also contributes to reducing fossil fuel consumption and the resulting pollution.

One of the Group's strategic guidelines is the implementation of environmental management systems. In line with this commitment, all the Group's production facilities have ISO 14001:2004 certification, demonstrating that Vidrala operates under a global, externally verified and recognised environmental management system. Furthermore, in keeping with its undertaking to continuous improvement, the implementation and certification of new environmental standards has begun, such as ISO 14064:2012, related to the voluntary declaration of CO_2 emissions, or the ISO 50001:2011 energy management system standard, both of which, CO_2 emissions and energy, are of clear environmental significance in our industrial process.

MANAGEMENT REPORT

In addition, Vidrala has a specific commitment to invest in minimising the potential polluting effect of its facilities. Of particular relevance during 2016 in this regard was the conclusion of a major project to install special atmospheric emissions purification systems, called electrostatic precipitators or electrofilters, in all production centres. These installations, which have cost the Group more than Euros 20 million over the last eight years, are aimed exclusively at reducing emissions of particulate pollutants, and are recognised under European legislation as the best currently available technology in this regard. Electrofilters work by attracting and retaining particles generated during the melting process through electrical fields, and reduce typical melting furnace emissions by more than 90%.

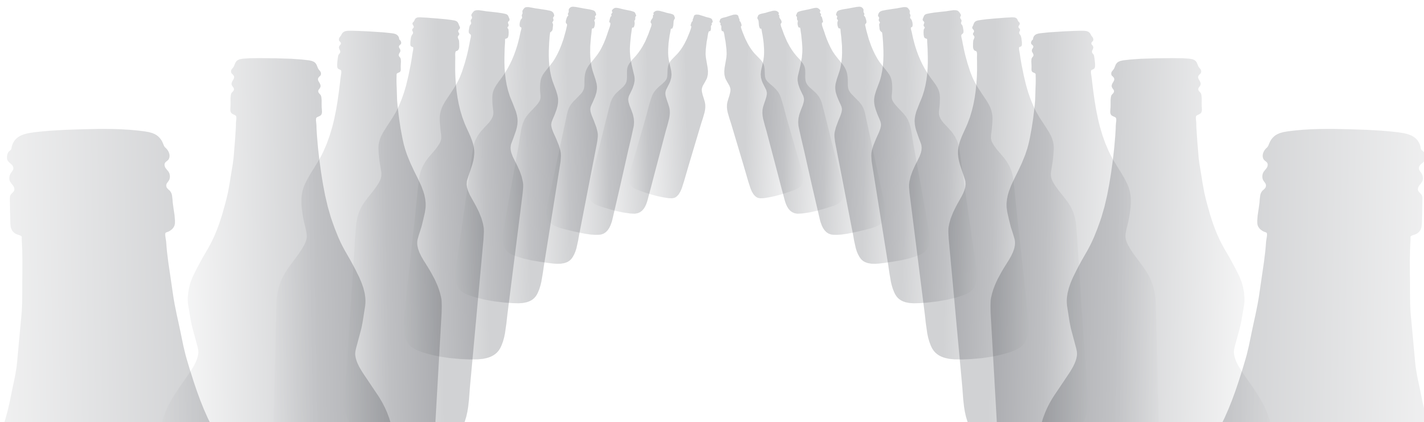
As proof of our environmental commitment, Vidrala´s advancement towards environmental efficiency is documented in detail in its annual sustainability report published on the Company’s website.

ii. Occupational health and safety

Vidrala’s daily activity is carried out by some 3,200 employees, the majority of whom work in an industrial or manufacturing environment.

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

With a specific view to preventing labour-related accidents, and more importantly, to improving health in the workplace, 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.



MANAGEMENT REPORT

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 separated 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 in 2016 are giving rise to inventory impairment adjustments in the income statement.

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.

Managing Vidrala's financial risks focuses 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:

MANAGEMENT REPORT

i. Currency risk

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

Currency risk affecting the Group's present structure mainly stems from the exposure inherent in the global expansion of the Group after the incorporation of Encirc Ltd. in 2015, with activities in the UK and Ireland. Approximately 80% of operating results generated by this division over the past year were in pounds sterling, and the remainder directly in euros.

In order to quantify the sensitivity to the currency at consolidated Group level, as a result of the above, approximately 30% of EBITDA is generated in pounds sterling. Consequently, reporting this in euros is subject to translation risks that may arise from fluctuations in sterling against the euro.

There is also a risk when converting sterling cash generated in the UK to euros, in that the depreciation of sterling could reduce the equivalent value in euros, thus reducing the amount of cash generated by the business.

To quantify the sensitivity to this risk, based on 2016 data, had sterling depreciated by an average of 5% during year, and the remaining variables remained constant, and assuming there were no instruments to hedge this risk, the Group's consolidated profit would have varied by approximately 2.8% and annual cash flow would have fallen by approximately 1.7%.

To control currency risk, Vidrala uses derivative instruments, principally forward sale contracts or currency put options. To manage the risks described, at the 2016 reporting date Vidrala had sterling put options expiring in 2017, for an accumulated equivalent of Euros 23 million. This is equivalent to approximately 65% of the cash generated in this currency during 2016.

ii. Interest rate risk

Interest rate risk affects the cost of borrowings used to finance the Group's operations. Borrowings contracted at variable interest rates expose Vidrala 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. Vidrala 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 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 2016 reporting date Vidrala has interest rate swaps for an accumulated equivalent of Euros 405 million, which start and expire progressively until 2022, of which Euros 305 million are in force at the reporting date. As a result, the total debt interest cost to be assumed by the Group during 2017 is hedged against fluctuations in market interest rates.

MANAGEMENT REPORT

iii. Credit risk

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

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

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

As a result of the control procedures described, the actual impact of bad trade debts during 2016 was limited to 0.01 % of turnover

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

iv. Liquidity risk

Vidrala's liquidity risk basically stems from the maturing of 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 2016 the Vidrala Group had Euros 118.4 million in immediately available, external undrawn credit, representing 37% of total debt.

MANAGEMENT REPORT

v. Debt and solvency

At 31 December 2016, the Vidrala Group had consolidated net financial debt of Euros 322.3 million, having reduced indebtedness by Euros 82 million, or 20.3%, during the year. The financial solvency indicators at the reporting date reflect a debt equivalent to 1.9 times accumulated EBITDA for the last twelve months, representing a financial deleveraging compared to the ratio of 2.5 at the prior year end.

The core of the financing structure is a long-term syndicated loan signed on 13 March 2015 with a consortium of nine financial institutions, for an original amount of Euros 465 million. After a second novation of the loan terms was signed in November 2016, the applicable interest rate on the loan in 2017 will be a variable rate pegged to Euribor plus a spread of 1%, reviewed on an annual basis by tranche based on the evolution of the net debt/consolidated EBITDA ratio. The due date of the loan has been extended to 13 September 2022, and is gradually repayable from 13 March 2019. Consequently, in 2017 the loan will be in a grace period, with no obligation to repay the principal.

This loan has certain covenants attached, which are typical in these types of contract. At the reporting date, these commitments have been fully complied with, as reflected by the results of the following indicators:

Net financial debt / consolidated EBITDA: 1.9x

Consolidated EBITDA / Consolidated net finance cost: 17.8x

vi. Price risk in energy purchases

Energy consumption, principally natural gas and electricity, represents a significant source of operating costs inherent in Vidrala´s glass production and manufacturing activity.

Fluctuations in the variables that determine their prices, represented in the natural volatility of the global energy commodities markets, has a bearing on the profitability of the business. In order to manage the 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 monitoring 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 2016 reporting date Vidrala has hedging derivatives on energy commodities for a nominal equivalent of Euros 51.2 million.

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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. Of the profits obtained by this division over the past year, approximately 80% of operating results are generated in sterling, and the remainder directly in euros. As a whole, Encirc is eminently domestic, producing glass containers in the UK for sale throughout the British Isles, including the Republic of Ireland, and the volume of exports outside these regions is immaterial.

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

One instant effect was the devaluation of sterling, which at the reporting date had depreciated by approximately 11% against the euro compared to pre-referendum levels. For the purposes of quantifying the sensitivity of the business to fluctuations in sterling, as in the section on the quantification of currency risks, if sterling had depreciated by an average of 5% during the year, with the rest of the variables remaining constant, and not considering hedging instruments, the Group's annual consolidated profit would have varied by approximately 2.8% and annual cash flow would have fallen by approximately 1.7%.

In any event, the structural foundations of the demand for glass packaging in the UK remain stable, backed by the region's level of socio-demographic development, the progressive lean towards increasing consumption of quality products and the natural limited variability of demand for food and drink products. Encirc optimises these market foundations thanks to a commercial position endorsed by relationships fostered with world class customers, market share stability, competitiveness backed by modern industrial facilities and the added value they give to packaging services, whose unique competitive advantages for owners interested in exporting bulk materials to the growing demand in the UK have been boosted.

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2016 SUSTAINABILITY REPORT

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I. Prologue

Vidrala presents its sustainability report for 2016, a document that shows the performance of the company in the field of sustainability with facts and figures. Every year, Vidrala commits itself to the parties that make up our value chain, by communicating and transmitting the objectives that have been achieved, the challenges which require a response and the expectations of the organisation.

Since it published its first sustainability report in 2010, Vidrala has undergone great changes. Vidrala has opted for an improvement in production, a change in strategy and a commitment to people, as reflected in the annual reports. Vidrala is changing, evolving. Over more than five decades, it has grown from being a bottle factory to an organisation driving what should be the new way to produce: creating the best product, satisfying its customers, taking care of the environment and being involved with people. These principles govern the daily activities of Vidrala and also structure this report.

Vidrala is proud to be able to work with an exemplary material in terms of the circular economy: glass. The most recent European policies and strategies commit to a cycle closure model as a way to minimise the generation of waste, optimise energy consumption and foster economic growth that is compatible with being environmentally-friendly. For this reason, glass and its production cycle represent the way in which industry, citizens and public bodies can interact to generate profit in all of these areas. Consuming products packaged in glass and depositing them in the green container is a common gesture for the majority of citizens, who trust glass as a preferred material for storing food and beverages. As a result, the glass industry pushes for the material to be returned to the manufacturing cycle of containers, keeping the circular economy alive.

During the past year, therefore, it has been possible to demonstrate the ability of all of the people that make up the Vidrala team to achieve the objectives of every plant and the Vidrala Group as a whole. With this spirit of improvement, we will continue to work so that during 2017 Vidrala remains at the forefront of innovation, sustainability and commitment to its customers.

II. Magnitudes 2016 del Grupo Vidrala

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III. Sustainability as a fundamental value

Vidrala SA has been manufacturing glass containers for the food and beverage industry since 1965. It is a company that is growing and evolving, an organisation with a clear vision: to put people, customers and suppliers at the centre of all of the actions implemented. This is the only way we could achieve the figures that certify the growth of Vidrala in 2016: more than 17 million glass containers created daily. This effort has allowed Vidrala to position itself as the 4th largest European operator, offering a service that, in addition to the manufacture of glass containers, includes packaging/bottling processes, logistics services and the Vidrala Academy, a new way to create training and expertise in the glass container sector.

The Vidrala Group has always had four strategic pillars that have kept alive the spirit of sustainability of the Group: customers, people, operational excellence and the creation of value through optimum investments. These four axes have been the key to implement policies that structure the work of Vidrala: the satisfaction of its people, operational performance and continuous improvement. For the Vidrala Group, sustainability involves developing its vision in an orderly, stable and safe manner, so that, in the future, Vidrala people integrate environmental sustainability and safe, healthy work into their decisions. This has positioned the organisation as a leading company, which is appreciated and respected by its stakeholders. Values such as environmental and social commitment, continuous collaboration and innovation are now part of the daily work of Vidrala. Working with and for glass is a commitment to sustainability. The Vidrala Group is committed to sustainable development, which creates value for all stakeholders without losing sight of the present and future for its people. A business model that enables the company to ensure a future of healthy people and a healthy environment.

IV. Vidrala principles

a. Creating the best product

Excellence as a work philosophy. After more than five decades of continuous work and thanks to the efforts of many people, the Vidrala Group has managed to position itself solidly in the market, ensuring its independence, providing competitive differentiation and being a profitable company that is committed to growth in the future. The group's results position it as a leader among glass container manufacturers in many areas. To consolidate all of this work, the Vidrala Group is working for operational excellence from the most sincere commitment to service.

The main objective of operational excellence in the Vidrala Group is to promote the formalisation of an industrial management system that optimises processes by increasing their efficiency and effectiveness and improving the service level at a competitive cost. The full potential for improvement associated to the operational differences between plants is captured in this way and further integration and growth is facilitated through the deployment of the system.

All of this is achieved thanks to promoting a systematic approach to improving operations, which is capable of responding to the challenges posed by an increasingly global, volatile and complex market.

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Customer satisfaction

One of the cornerstones of the Vidrala Group's commitment to operational excellence is working to achieve maximum customer satisfaction. This is one of the basic principles: creating the best product to exceed the expectations of all those who rely on Vidrala as their supplier of glass containers. A close, continuous relationship with customers is the best way for the Vidrala Group to understand their needs, analyse their interests and thus be able to offer current and future solutions.

Trust is a fundamental value in the relationship with customers. For years, the Vidrala Group has assessed satisfaction by means of surveys. Knowing customers' perception is key to Vidrala, as it is the most direct channel for assessing the most strategic aspects and being able to evolve and continue to improve in those areas that are considered to be the least satisfactory.

In 2016, following in the footsteps of previous years, a new edition of the survey was prepared, which most customers were invited to take part in. The results were the best obtained since assessments started through this survey in 2005. Customers provided a positive assessment of the Vidrala Group, with a score of more than 8 out of 10 and there was high confidence in the brand, demonstrated by the fact that the vast majority (85%) of people surveyed would recommend the Vidrala Group as a leading supplier. The survey allowed the Vidrala Group to highlight other elements that are key to it, such as food safety. In this sense, good manufacturing and hygiene practices and the degree of depth of risk analyses are two of the most valued attributes for those who responded to the survey. In 2016, it is noteworthy how, out of all of the attributes assessed, the organisation's attitude in terms of friendliness and courtesy was valued very highly. It is no coincidence that, in times like these, it is the human quality of the manufacturers that is valued, as well as the quality of the product. The Vidrala Group continues to work daily to achieve maximum customer satisfaction.

As a result of this close relationship with its customers, in 2016 the Vidrala Group released a video detailing the success story developed with Acesur.

The relation of cooperation and association that both share stands out, the oldest oil company in the world with commercial presence in 110 countries. It is a strategic collaboration, in which the international vision, quality of the products and consumer focus of both companies to anticipate their needs is highlighted.

Thanks to this relationship policy, the Vidrala Group has been able to count on customers like the Diageo Group, the owner of the Smirnoff vodka brand, for more than 10 years. Last year, the Vidrala Italy plant made the symbolic billionth bottle of Smirnoff vodka, which it bottled at its plant in Santa Vittoria d'Alba. To celebrate the event, the representatives of Diageo went to the Vidrala Italy facilities in Corsico (Milan), where they received the bottle with a special engraving to highlight this symbolic milestone. This recognition reinforced and displayed the commitment to building stable, long-lasting relationships of trust, like the one that has linked the Vidrala Group and Diageo for more than 10 years.

"One billion bottles represents the road that we have come along together, though our focus is on what is still to come."

Giovanni Cussino

Another way to highlight ongoing dialogue and joint work with customers is new product launches. In 2016, a number of collaboration projects were launched: with La Casera to develop the El Vermúdez container, the new Mahou Maestra, García Carrión Premium nectar, Alhambra Roja beer, the spirit Thunder Bitch, Maniva water, Veterano brandy and the redesign of Marqués de la Concordia wines, among others.

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Vidrala Group and its customers: Trust generates innovation

The new bottle for Mahou Maestra beer, a distinctive product model of high quality

The new García Carrión nectars are presented in a container developed by Vidrala

Alhambra Roja beer is presented by spotlighting the glass bottle as a differentiating element

Veterano brandy, from Bodegas Osborne, is another brand that has redesigned its bottle thanks to the Vidrala team

Marqués de la Concordia is a vineyard which bottles its wines and cavas in bottles produced by Vidrala

Thunder Bitch is a Canadian whisky which has burst onto the Spanish market, presented in Vidrala Group bottles

Maniva is a premium bottled water that comes from the Alps and is sold in Vidrala bottles

Smirnoff, one billion bottles manufactured by Vidrala for the Diageo Group brand

2016 SUSTAINABILITY REPORT

A safe product

The Vidrala Group is aware that the containers that it puts on the market play a vital role in the preservation of the safety and quality of food products. Therefore, the Vidrala Group is a key link in the value chain of the food industry. As a result, it is proud to be able to say that Vidrala makes glass the only material which has received the GRAS (generally recognized as safe) rating by the Food and Drug Administration in the United States. The Vidrala Group goes beyond and puts food safety and defence as a paradigm in its daily management and activity. As a result of this commitment, the Food Safety & Defence Department of the Vidrala Group has gained momentum towards transforming and developing the organisation in the interests of food safety and defence. To the benefit, therefore, of its customers and end consumers.

The main objective of the organisation in this field is the production of food containers which are safe against both potential accidental (food safety) and voluntary (food defence) contamination. The current challenge is to move from a theoretical and reactive approach to a realistic, critical and proactive approach.

Vidrala at the forefront of food glass packaging

Once again, the Vidrala Group is at the forefront of food glass packaging. Food quality, safety and defence are the bastion and guarantee of a safe product for customers, ensuring food safety and defence in their containers throughout the supply chain.

Throughout 2016, the Vidrala Group continued to work on the continuous improvement of the food safety and defence system. The Crisnova Vidrio and Gallo Vidro plants have achieved AA grade BRC Global Standard for Packaging & Packaging Materials certification, the highest possible rating, and Aiala Vidrio has an A grade, the second highest possible rating. At the same time, the Food Defence pilot project at Gallo Vidro, which was started last year, is still in the development phase, with the phase of analysing food defence vulnerabilities also extending to the Aiala, Crisnova and Castellar Vidrio plants.

It is important to know the context to understand the scale of the achievement, given that, at the beginning of 2017, the BRC public directory (www.globalstandards.com) is showing more than 3,000 companies globally certified in food packaging, with less than 40 being in glass food containers. Of these, only 20 are rated with an AA grade and 12 with an A grade, 22 and 13 respectively if the qualifications obtained by Vidrala are included. In addition, work is continuing to gradually implement the standard at the Castellar plant.

The Vidrala Group is aiming to continue to promote continuous improvement through the creation of a new Supplier Quality and Development Department in the quality area. The main objective is to generate a cultural change in the management of the quality and development of suppliers throughout the supply chain, to improve the level of service provided by suppliers. In this way, the action plans required to make it possible to create value and promote improvement in the management and quality of the service will be generated and promoted.

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b. Caring for the environment[1]

Commitment to the circular economy

Having fully integrated glass recycling into the industrial processes for decades and by promoting the selective glass waste collection system in Europe, the glass container manufacturing sector is a pioneer in promoting the circular economy. In this regard, the Vidrala Group is part of the Spanish Association of Glass Container Manufacturers (ANFEVI), which, in turn, is part of the European Federation of Glass Container Manufacturers (FEVE). Similarly, the Vidrala Group is also part of the respective national associations for the sector in those countries in which it is present. A group like Vidrala contributes actively in these organisations to promote technical knowledge in the sector, so that there is active progress in terms of sustainability. In recent years, the development of the circular economy has been of utmost interest to the sector, as it represents a unique opportunity to position itself as a leader on the subject. Only a material such as glass represents the purest essence of the circular economy: being able to be recycled endless times without losing its properties and creating a new container.

Through its eight plants, the Vidrala Group is able to close the cycle of a valuable material, which is commonly accepted as being the most eco-friendly to its contents. This concept of protection is put into practice using the principles based on the circular economy model, which is promoted at a Community level. This strategy, which is endorsed by the Vidrala Group, recognises the importance of selective waste collection as a mechanism to prevent materials from leaving the recycling chain. In other words, the end of the glass cycle and its recycling can only be made to happen as a result of the commitment of industry, public administrations and citizens. Without the appropriate recycling mechanisms, the circular economy would not make much sense. Moreover, the quality and sustainability of glass containers are directly linked to it.

This is especially important in countries with an unfavourable balance of glass collection, such as Spain or Italy, where more glass container products are exported than imported. Promoting quality selective waste glass collection and raising public awareness regarding glass recycling are key elements, that Vidrala supports at a sectoral level to implement the circular economy.

European recycling targets are ambitious: obtaining 75% and 85% of glass recovered by 2025 and 2030 respectively. In 2015, citizens in 28 European countries contributed to recycling 74% of the packaging put on the market. These figures highlight how the glass packaging manufacturing sector is ready to take on a leading role in support of the European circular economy strategy. The Vidrala Group, as an organisation with a presence in five European countries, prides itself on working daily to make statistics a roadmap that makes it possible to achieve increasingly environmentally-friendly performance.

*1 *Methodological note: in this report, the Vidrala Group's environmental performance figures include the historical data for the period 2010-2014 at the plants located in Spain, Portugal, Italy and Belgium and the central services of the group. The 2015 and 2016 data also include the plants in Northern Ireland and the United Kingdom.*

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Sustainable management

The Vidrala Group is an organisation which is strongly committed to protecting the environment. This objective is used to implement specific action programmes on various environmental aspects focused on reducing emissions into the atmosphere, the generation of discharges and waste and the consumption of raw materials, energy and water.

Glass manufacturing is, by its very nature, intensive in terms of energy consumption (glass melting furnaces operate continuously, 24 hours a day, 365 days a year). Therefore, reducing the environmental impact associated with this stage is a priority objective in the management of each plant. Aspects such as increasing energy efficiency or incorporating cullet from recycling have a global effect on business, by reducing consumption, improving costs and minimising the environmental impact. Specifically, when dealing with a material such as glass, intensifying the use of recycled materials has a double positive effect on environmental efficiency: it reduces the consumption of natural raw materials and helps reduce fossil energy consumption (thus significantly reducing the volume of polluting emissions).

Vidrala's strategy has always prioritised the implementation of management systems that are consistent with the sustainability policy. An example of this commitment is that all of the group's production facilities are certified under standards ISO14001: 2004 and verified externally.

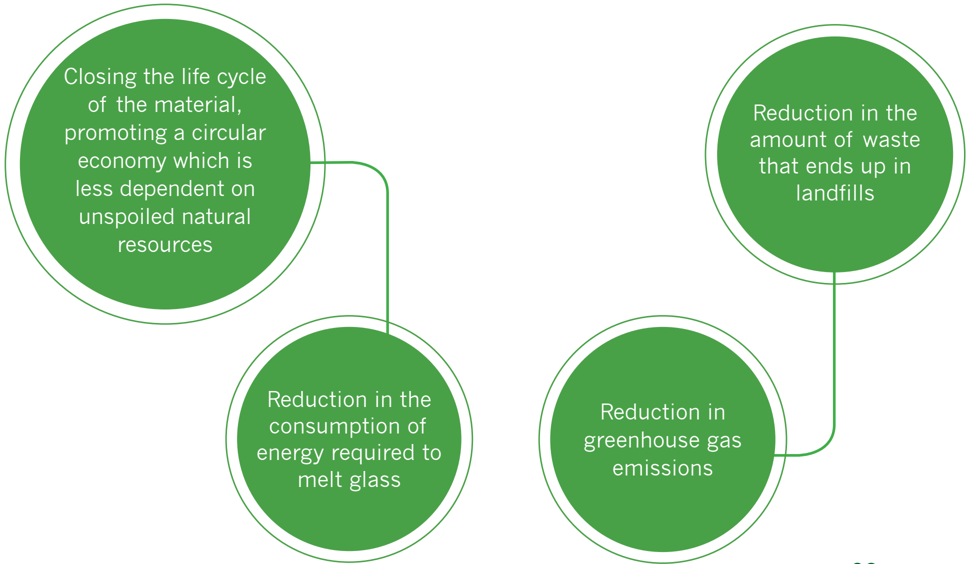
To complement this, there are processes for implementing and certifying standards of an environmental nature, such as ISO14064: 2012 (focused on the voluntary declaration of CO_2) and ISO 50001: 2011 (associated with the implementation of energy management systems). The choice of these two certification schemes is no coincidence. Both aspects, CO_2 emissions and energy, have a significant impact on Vidrala's industrial process, as they are the environmental vectors with the greatest impact coming out of production plants. A significant amount of resources are allocated to improving behavior and performance in each of these vectors, as detailed in each of the sections of this sustainability report.

"Glass is a fully recyclable material and the cycle of production and recycling can be repeated in perpetuity without changes to the material or its properties"

Department of Glass of the Institute of Ceramics and Glass, Spanish National Research Council

The Vidrala Group is committed to sustainable development based on the new production model, closer to the principles of the circular economy. Whenever the availability of materials and technical characteristics allow it, Vidrala includes a high percentage of recycled glass in the formulation of the containers it makes. This represents a considerable saving of natural resources and a reduction in the energy intensity of the process. It should be noted that there are factors outside the group's activities that affect the supply of cullet. In cases such as Spain, Portugal or Italy, they are net exporters of cullet. This means that part of the production will not re-enter the glass recycling loop. Together with the customer's container requirements, this determines the final amount of recycled cullet incorporated.

Why recycle glass containers?



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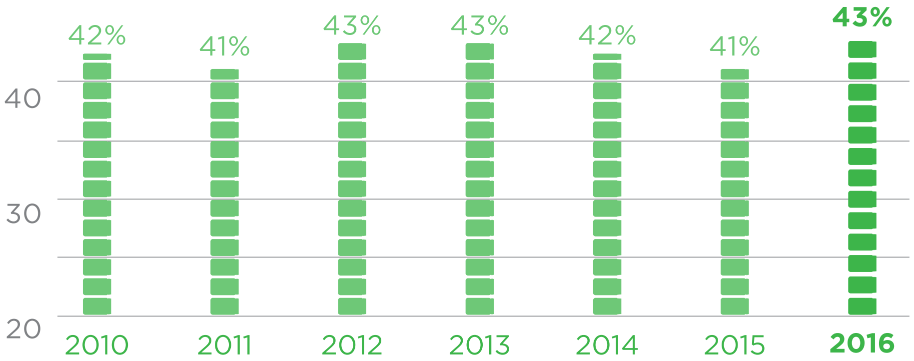
Although located in an environment of low cullet availability, Vidrala has managed to increase the percentage of cullet incorporated into its furnaces, which demonstrates its willingness to further advance the sustainability of glass containers.

EVOLUTION OF THE INCORPORATION OF CULLET 2010-2016

RATE OF CULLET (%)

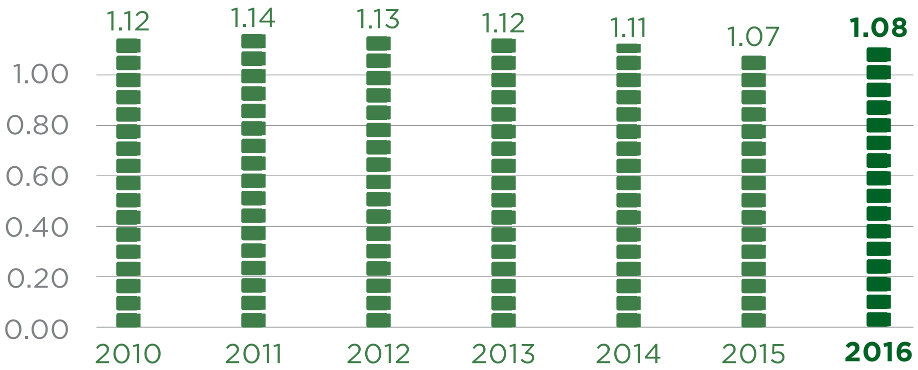


During 2016, the Vidrala Group increased the overall amount of containers that it put on the market, as well as the tonnage of molten glass extracted from its furnaces.

EVOLUTION OF THE CONSUMPTION OF MATERIALS 2010-2016

TOTAL RAW MATERIALS CONSUMED

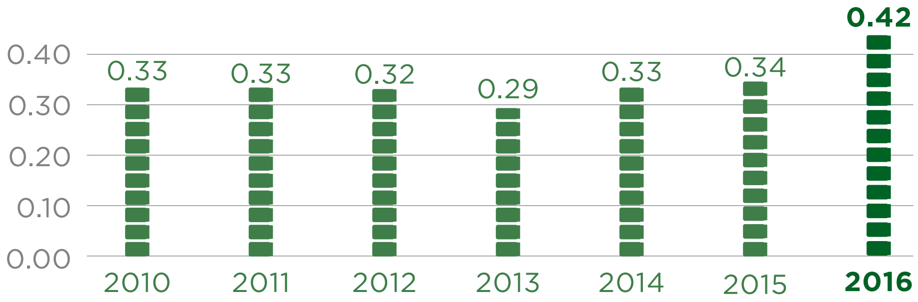
(t/t.m.g)* *tonne/tonne of molten glass



Consumption of materials by the Vidrala Group (t/t.m.g.[2])

AUXILIARY MATERIALS CONSUMED

(kg/t.m.g)* *kg/tonne of molten glass



Consumption of materials by the Vidrala Group (t/t.m.g.[2])

2. The tonnage of molten glass (t.m.g.) has been implemented as a unit of reference throughout the report. Thanks to this approach, improvement can be assessed over the years and compared to the performance of other companies in the same sector.

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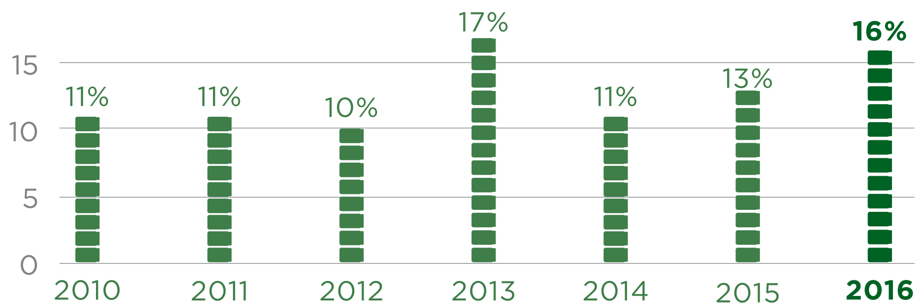
The Vidrala Group is working constantly to develop more advanced measures to improve the indicators of raw material consumption. The greater number of containers produced means that the relative weight of auxiliary materials increases more than the weight of raw materials, as a greater amount of additional materials is required in the production process to form each container. In this regard, Vidrala is working to minimise the consumption of these types of materials and to prioritise recycling, provided that technology allows these to come from their own production process. An example of the recovery of materials is sulphate. Like cullet, the Vidrala Group recovers sulphate from the purification systems of gases generated by various sources, mainly the melting furnaces. The increase experienced in 2016 in the percentage of powders recovered from the gas purification systems is remarkable, continuing the upward trend of the last three years.

SULPHATE RECOVERY 2010-2016

SULPHATE RECOVERED (%)



During 2016, the Vidrala Group made a special effort to increase efficiency in sulphate recovery. Specifically, investments were made to install electrostatic precipitators or electrofilters in all production centres. These are special air emission purification systems aimed at reducing particulate emissions, recognised as the best technology available for these purposes by European legislation. Specifically, the electrofilters installed act by retaining the particles generated in the melting process by attracting them through electric fields, reducing the usual emissions from glass melting furnaces by more than 90%. In total, these facilities have received an accumulated investment throughout the group of more than 20 million euros in the last eight years.

Water and glass

When manufacturing glass containers, the use of water is associated with the processes to cool the different circuits and rejected hot glass. Moreover, the main discharges come from the processes of purging these cooling systems operating on a closed circuit and those coming from services and showers. In any case, the Vidrala Group is authorised to capture this resource, complying in all cases with the stipulations of the competent authorities. The origins may vary depending on the geographic location of each plant, although it is always water collected through the supply network, channel or supplied by private wells. The new plants incorporated into the group in United Kingdom and Ireland include packaging as well as manufacturing processes. These processes are more intensive in terms of water consumption due to their characteristics, resulting in an increased consumption ratio of this resource.

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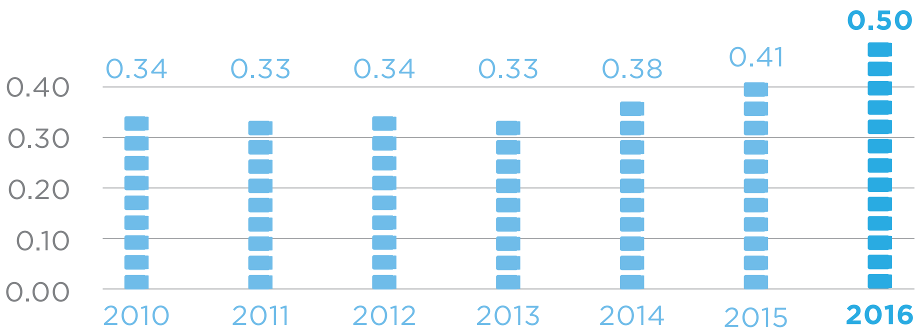
EVOLUTION OF THE CONSUMPTION OF WATER 2010-2016

TOTAL WATER CONSUMPTION

(m^3/t.m.g.)* *m^3/tonne of molten glass



Encirc continues to set the standard with water usage on its sites. The Derrylin site is working towards a completely closed loop recycling system.

In Elton 2016 saw the introduction of a new aerobic water system. This has dramatically improved the quality of water, once it has been used by the site and goes back into natural habitats. The quality of water leaving the site is now actually better than the quality the site receives from the near-by River Mersey.

Energy and glass

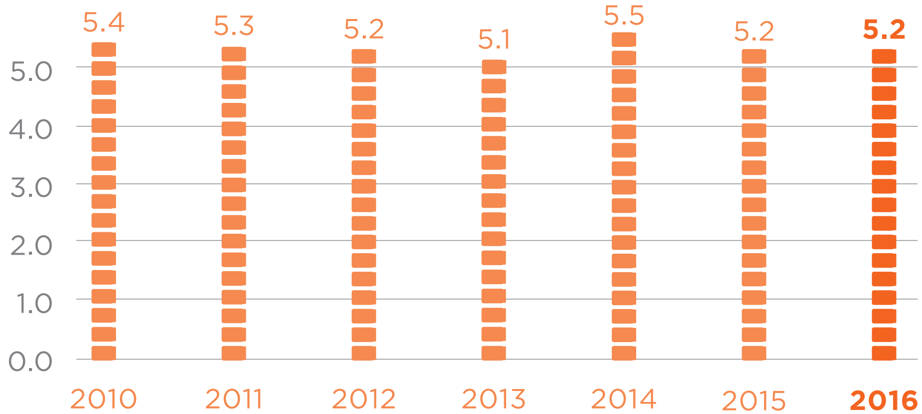
For Vidrala, harmonising glass container manufacture with environmental protection is a key objective. One of the most significant impacts is that relating to energy consumption, both direct and indirect. Therefore, the Vidrala Group focuses much of its efforts on improving this aspect. This is not only an issue linked to a direct economic benefit from lower consumption, but it also reduces emissions associated to this, with a consequent improvement of the air quality in the immediate environment. Glass container manufacturing is energy intensive, so this aspect is critical in assessing the environmental performance of the sector.

An example of the commitment to optimising energy processes is that the Group is implementing an energy-efficient management model, based on the international standard ISO 50001:2011 on Energy Management Systems. For an organisation like Vidrala, this system becomes part of the other standards already implemented in the Group, continuing the policy of continuous improvement in the environmental performance of all glass container manufacturing plants. As a result of the efforts made at each production centre, the Vidrala Group has managed to increase container production while maintaining the same rate of energy consumption per ton of molten glass as in the preceding year.

EVOLUTION OF THE DIRECT CONSUMPTION OF ENERGY 2010-2016

DIRECT ENERGY CONSUMED

(GJ/t.m.g.)* *Gigajoules/tonne of molten glass



Direct energy consumption is linked to fossil fuels, mainly natural gas and fuel, used in glass furnaces. In a lesser extent, other glass container manufacturing processes require fossil fuels input such as feeders, annealing boxes, heating elements, etc. In this case, consumption is basically of electricity. Indirect energy consumption is related to electricity. In this case, main consumers are boosting in furnaces, compress air generation and other uses. In both cases, the Vidrala Group carries out an exhaustive control of both direct (fossil fuels) and indirect (electricity) energy consumption. By optimizing the electricity consumption linked to the post-fusion steps3, Vidrala has also managed to keep indirect energy consumption stable.

3. *The post-fusion stages are those applied to the containers once moulded.*

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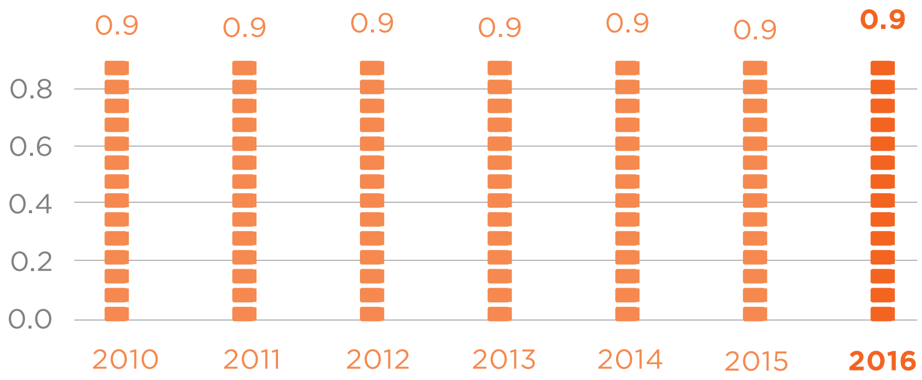
INDIRECT ENERGY CONSUMED

(GJ/t.m.g.)* *Gigajoules/tonne of molten glass



Gallo Vidro and the new Vidrala Group furnaces. Taking advantage of the modernisation of one of the Gallo Vidro furnaces, during the definition phase of the project, along with plant equipment, a detailed study was carried out to identify all of the actions that needed to be implemented in order to bring the ex-fusion consumption[4] of this production plant to the "Best of Class" levels of the group. The highest gas consumption takes place in the annealing boxes of the bottles. After the start-up of the new furnace, a management system of the annealing process was implemented which reduced gas consumption by 60%, bringing this equipment to the levels of least consumption in our group.

4. *Ex-fusion refers to all of the different energy used in the process for melting and preparing glass (furnaces and channels)*

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Emissions to the atmosphere

"Climate change affects all countries on all continents. It has a negative impact on the national economy and on the lives of individuals, communities and countries.

In the future, the consequences will be even worse."

Objective of Sustainable Development No. 13:

Adopt urgent measures to combat climate change and its effects. United Nations, 2017.

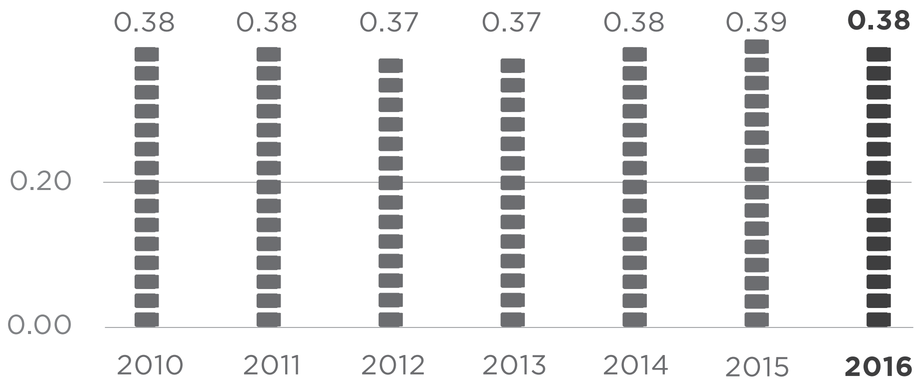
Mitigating the effects of climate change requires actions by all social stakeholders. The Vidrala Group is aware of this and, as a result, actively works on applying measures that allow it to combine the production of glass containers while reducing greenhouse gas emissions. This commitment is linked to the availability of best available techniques and the dependence on fossil fuels.

In 2016, the Vidrala Group continued to work on mobilising its human, technical and financial resources to reduce the impact of emissions from the main source: the melting furnaces. In view of the correlation between the increase in production figures and maintenance of emission rates, this confirms that Vidrala has managed to reduce the total emissions of one of the main gases that contributes to global warming.

EVOLUTION OF GHG EMISSIONS 2010-2016

GREENHOUSE GAS EMISSIONS

(t/t.m.g.)* *tonne/tonne of molten glass



Each production centre, including those located in the UK and Northern Ireland, follows the regulations of the Directive on Emission Allowances to reduce Greenhouse Gases in the atmosphere. The work to implement the group's commitment to the environment has been applied throughout the life cycle of glass containers: from the design of the containers, where it has been possible to keep the qualities of the containers with a reduced need for material, through the addition of cullet, the strict control of fuel consumption and emissions of molten glass, up to the final stages, where more efficient methods are applied in post-fusion processes.

To maintain air quality and reduce the impact on the environment in which the production plants are located, the Vidrala Group is working on controlling not only CO_2 emissions, but also NOx, SOx and particulate emissions. These are the three main parameters that are benefiting from implementing the technologies that Vidrala uses. As a result, all of the Vidrala Group container production plants meet the legal requirements for emission limits.

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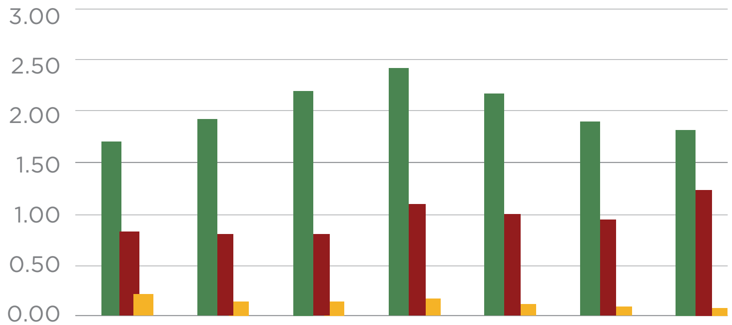
EVOLUTION OF NOx, SOx AND OTHER SIGNIFICANT EMISSIONS 2010-2016

NOx, SOx AND OTHER SIGNIFICANT EMISSIONS

(kg/t.m.g.)* *kg/tonne of molten glass



	2010	2011	2012	2013	2014	2015	**2016**
NOx Emissions (kg/t.m.g.)	1.71	1.91	2.21	2.43	2.17	1.91	**1.78**
SOx Emissions (kg/t.m.g.)	0.83	0.78	0.81	1.08	1.00	0.93	**1.19**
Particulate Emissions (kg/t.m.g.)	0.22	0.14	0.14	0.17	0.12	0.09	**0.08**

The Vidrala Group uses the latest technology in its glass melting furnaces, which allows it to work towards reducing nitrogen oxide emissions from its facilities. Primary measures, such as the use of burners with low NOx emissions, strict combustion control and electrical boosting, meant that 2016 continued the trend of reducing NOx emissions at Vidrala plants. The levels reached are at similar levels to those at the beginning of the decade, while production is higher than that recorded at that time. Similarly, the pollutant load emitted linked to particulates continues to decrease, reaching the lowest relative level in the last seven years. Vidrala's environmental policy is therefore effective, achieving measurable results year after year.

Impulso al transporte por ferrocarril. La planta del Grupo Vidrala situada en Elton ha mejorado el desempeño en sostenibilidad de su cadena de valor a través del impulso al transporte por ferrocarril gracias a una nueva terminal inaugurada en 2016. Este nuevo proyecto implica que hasta un 50% de todas las materias primas necesarias pueden ser transportadas a la planta directamente en tren. Esto se traduce en beneficios medioambientales al ahorrar alrededor de 6.000 viajes de camión al año (evitando la emisión de más 800 toneladas de CO_2) y ahorrando 1 millón de kilómetros en viajes por las carreteras del Reino Unido. Encirc estudia nuevas formas de aprovechamiento de este medio de transporte para el futuro.

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Waste management

Maybe glass is one of the few materials that can position itself as a true example of a circular economy. Only a glass container can be recycled and produce a new one. It is a process that is capable of being carried out an infinite number of times. In line with this vision of sustainability, the Vidrala Group is incorporating measures aimed at complying with the principles of circular economy and hierarchy in waste treatment. Whenever technically feasible, it opts for assessing them for use in other processes, avoiding landfills wherever possible. All of the group's plants minimise, segregate and apply the best possible management system for each type of waste:

Hazardous waste (HW): this is managed by third parties, ensuring that it is isolated and minimising any possible effect on the environment.

Non-hazardous non-recoverable waste (NHNRW): waste which, due to its composition or characteristics, cannot be managed as a new material, as a result of which the authorised manager ensures its treatment up to the end of its useful life.

Non-hazardous recoverable waste (NHRW): waste that can have a second use as a by-product or destined for recycling.

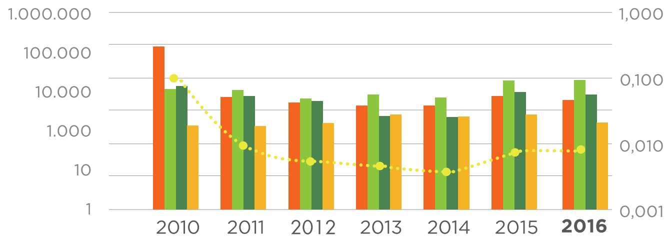
Waste similar to urban waste (WSUW): waste which has a composition like that generated by citizens, as a result of which the traditional method of collection and municipal management is followed.

With regard to the figures for waste generation, three of the four categories (HW, NHNRW, WSUW) have seen reductions in the overall volume of waste generated in total amounts. It should be pointed out that the work to repair and/or reconstruct furnaces so that they operate properly has a significant impact on waste generation figures. However, in relative terms, the Vidrala Group has succeeded in reducing the amount of waste generated per ton of molten glass: last year Vidrala was able to manufacture more containers while generating less waste.

EVOLUTION OF WASTE GENERATION BY TYPE, 2010-2016

WASTE GENERATION

By waste type and year (tonne)



	2010	2011	2012	2013	2014	2015	**2016**
Total HW (in tonnes) (Hazardous Waste)	115.136	3.171	2.117	1.640	1.615	3.032	**2.598**
Total NHRW (in tonnes) (Non Hazardous Recoverable Waste)	5.538	5.135	2.656	3.706	2.944	9.751	**10.543**
Total NHNRW (in tonnes)(Total Non-Hazardous, Non-Recoverable Waste)	6.975	3.454	2.305	846	736	4.428	**3.584**
Total USW (in tonnes)(Total Urban Solid Waste)	404	377	467	855	722	881	**504**
Total (t/t.m.g) (tonne/tonne of molten glass)	0,108	0,010	0,006	0,005	0,004	0,009	**0,008**

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Natura range, real commitment to eco-design

Overall, applying the principles to promoting eco-design involves improving the environmental performance of products throughout their life cycle. This means addressing the creation of packaging in its entirety: design, use of raw materials including cullet, manufacturing, transport and distribution and end of life. From an overall point of view, eco-design addresses environmental issues at each stage of the life of the product. For the Vidrala Group, its environmental performance is passed on in each of the containers it puts on the market. The Natura range represents the philosophy of environmentally-friendly work: containers that meet all expectations with minimum impact on the environment. Natura is a range of bottles that are lighter than their equivalent models on the market. On average, these containers incorporate 43% less glass to create the same type of container, resulting in less need for raw materials, water and energy. Sales of these models grew in the last period, thanks to Vidrala's ability to adapt the Natura range models to the specific needs of its customers.

Environmental investments

In terms of the initiatives to mitigate the environmental impacts of the glass container manufacturing processes, the Vidrala Group is making significant financial investments in the environmental area. During 2016, the Group allocated over 5.3 million euros to items directly related to the sustainability of its plants, Including routine and unscheduled expenses and investments. Making repairs to the furnaces, applying new designs, adopting Best Available Techniques (BATs) and implementing actions aimed at improving energy efficiency and other process improvements have involved a significant amount of financial resources and have, ultimately, made it possible to improve the environmental performance of the Vidrala Group. In short, the resources mobilised by the Vidrala Group promote the sustained refurbishment of the manufacturing facilities, seeking to update existing technology to more efficient systems with a reduction in environmental impact.

c. Engaging with the community

For the Vidrala Group, people are the axis on which it drives all of its daily work at its production centres and in their vicinity. In this regard, it pays special attention to dialogue and the needs and expectations of both its professional teams and the social community around its activity. The Vidrala Group ended 2016 with about 3,000 workers on the payroll. It is a team that is strategic for the organisation, with which it meets the needs of its customers satisfactorily. Promoting the health and well-being of all of the people in the various Vidrala teams is a priority in our sector. With the aim of offering a stable, quality work environment, the percentage of permanent contracts in the Vidrala Group is 94.5%, and the average time people have worked there is about 12 years. Also, being concerned about the turnover and intake of young people, the average age of the workforce is about 42. In addition to employment stability, equality and non-discrimination are unquestionable principles across the board at the Vidrala Group in developing people.

Development and professional growth

Another key aspect in managing people within the Vidrala Group is the training and education of its human capital. It is a priority for the organisation to have a trained workforce that constitutes a group of professional and well-trained individuals. Only in this way will the Vidrala Group be able to meet the increasingly demanding requirements of the food and beverage market. Efforts to identify training needs and programming activities have been extended geographically to all plants, including central services, and from the bottom up in the whole structure of the Vidrala Group. In 2016, a level of compliance of more than 80% was achieved regarding training plans, representing more than 65,000 hours of training and learning.

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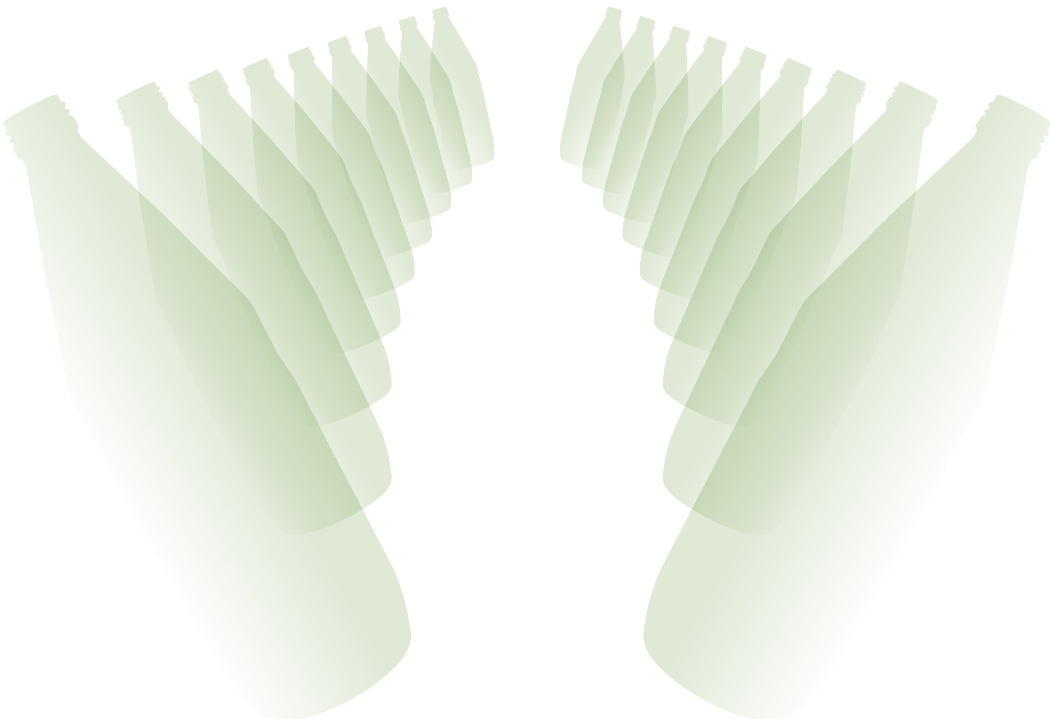
In 2016, the MD Verre plant in Belgium improved its performance, recovering higher levels of quality and production stability. To do this, the plant added new people to its workforce, while providing the training necessary to meet the requirements of the production, including Quality, Health and Safety and Environment issues.



MdC: the Vidrala Group model of leadership development

The Vidrala Group is implementing a new concept to promote the personal and professional development of all of the people in the organization. This is an initiative to promote a culture of continuous learning and interdependence of professionals to make the vision of the Vidrala Group a reality. The implementation of this corporate development model received the backing of the management of each plant, along with the respective human resource departments and direct collaboration of managers. During this first stage, this was carried out at in Spain, Portugal, Belgium and Italy for managers and directors. This project has enhanced the role of managers, through a comprehensive training programme with study activities and preliminary preparation and with classroom sessions and after-work activities, training them to achieve strategic objectives and tackle operational challenges in a competitive environment, like the sector in which the Vidrala Group operates.

In 2016, professional development interviews were carried out, as well, with the production team (this year, this was carried out in Spain, Portugal, Belgium and Italy). In this way, it was possible to carry out more than 1,800 interviews, with a high involvement of the people.

These conversations represent a clear commitment to direct communication between people, encouraging personal and professional development.

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Vidrala Open Knowledge

Growing, evolving and advancing in your career are synonymous with continuous improvement in professional training. The Vidrala Group is aware of this and will also commit to applying new technologies to training people within the organisation. The Vidrala Open Knowledge platform, VOK, is being developed as an evolution of the Vidrala Campus by combining simplification and efficiency. The VOK platform will make it possible to manage all training-related aspects more intuitively, offering advantages for internal trainers, organisers and attendees (from the identification of training needs, proposed training activities and evaluation of their effectiveness). Vidrala Open Knowledge is one of the ways in which the group invests resources to get a highly qualified professional team.

Vidrala Academy

In 2016, the Encirc Academy was incorporated and renamed as the Vidrala Academy. This platform already existed as a business unit linked to activities in the UK, being considered a reference in training and consultancy in the hollow glass industry. In 2016, the Vidrala Academy worked in the sector in countries such as: South Africa, Turkey, Mexico, USA, Thailand, Russia and Brazil. This specialist support responds to the needs of the industry, providing training, support and assistance to organisations outside the UK to help achieve higher levels of productivity in the production processes of the glass container manufacturing sector. In 2016, the platform was recognised for its work on innovation by British Glass.

Safe, healthy work centres

In its efforts to meet the requirements of its main stakeholders (society, customers, consumers and governments), the Vidrala Group has integrated the need to develop its activities in a healthy and safe working environment into its organisation. To facilitate this integration into the daily lives of all of the people who work for the organisation or on its behalf, all of the plants in Spain, Portugal, Italy and Belgium have implemented and certified an Integrated Environmental and Occupational Health and Safety Management System, in accordance with the ISO 14001 and OHSAS 18000 standards. Using the IMS as a work tool not only ensures compliance with the law (in terms of risk reduction and possible penalties) but also, and more importantly, achieves remarkable improvements in performance, by reducing the accident rate. Similarly, environmental management costs (linked to waste management) have been reduced and greater market competitiveness has been achieved (thanks to the design and development of projects with the support of customers).

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The efforts of the Vidrala Group's entire team translate into these figures:

The number of accidents with sick leave has decreased by 70% compared to 2011

In this regard, 2016 ended 9% better than the target set at the start of the year

The severity index has come down by 40% compared to 2011

In order to further improve the indicators obtained, during 2016 work was done to accommodate processes and their configuration, so that this information could be incorporated into a computer tool to consolidate the gains achieved and deal with new challenges, ensuring compliance with management processes and facilitating strategic planning of the business approach.

As an example of what occupational health and safety means for the Vidrala Group, the effort put into preventive training at the plants in Spain is noteworthy. Specifically, more than 6,000 hours have been invested in preventive resource training at the Llodio and Castellar del Vallés plants and almost 300 hours in training on safety instructions in the hot and cold areas at 3 Spanish plants.

The work of the various Vidrala Group teams on occupational health and safety has also been rewarded externally. In particular, the reduction in accidents experienced by Crisnova Vidrio has been recognised. The plant has become part of a plan to monitor the reduction in accidents promoted by the Junta de Castilla-La Mancha (Regional Government of Castilla-La Mancha) . The "Reduce Plan" recognises this Vidrala Group plant as an active collaborator with the regional government, both in the training of technicians from the Regional Government of Castilla-La Mancha and in joint preventive improvement projects.

The Vidrala Group is proud to have a team of people who demonstrate this level of commitment. The work was carried out jointly and the whole Crisnova plant contributed (from operators with their progress in increased awareness and preventive culture, to managers) to the work of integrating prevention into all layers of the organisational structure. Occupational health and safety is inherent in the work carried out in any daily task at the Vidrala Group.

Social commitment

For the Vidrala Group, social commitment remains an essential pillar on which to articulate its activity. It is a commitment that is embodied in an approach of involvement with the region in which the different plants are located, as well as actively listening to the concerns and needs expressed by different agents.

For Vidrala, social commitment integrates this approach of closeness and unites it to the community of people who make up the group towards a common initiative aimed at local groups. In this regard, the plant in Italy has focused its social project on helping the recovery of areas affected by the earthquake in Central Italy, together with the Italian association Assovetro (Associazione Nazionale degli Industriali in Vetro). For its part, the plant in Portugal has collaborated with Adeser, an organisation that works to promote integration and reduce inequality in Marinha Grande. The other plants have collaborated with Aldeas Infantiles SOS (SOS Children's Villages), in the project to aid the children's community in Haiti, which was hit by hurricane Matthew. In all, Vidrala Group personnel put almost € 25,000 towards the Social Project in 2016.

The importance of the local factor

When it comes to strengthening ties with the immediate environment and taking part in the local community where each of the Vidrala Group plants carries out its activity, promoting closeness and proximity as added values to social projects is of the utmost importance.

From that perspective, the Vidrala Group has been supporting sports, cultural, educational, health and social initiatives that are carried out in their immediate environment, either under the initiative of the plants themselves, or at the request of one of the organisations that operates in this local environment. The Vidrala Group contributed more than € 20,000 to these local sponsorship initiatives last year.

In an effort to encourage performance and internal participation, the Llodio plant has been working for several years in a collaboration system between the organisation and the workers, to target resources for a social cause. In 2016, it was decided that the beneficiary of this system would be Cruces Hospital, through BioCruces, devoting resources to researching paediatric oncology, adding the corresponding contribution to the suggestions received and the additional contribution of the Vidrala Group.

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Visits to Vidrala Group plants

Another of the forms of approach that the Vidrala Group is committed to is the open door policy. On the one hand, it increases trust, proximity and transparency to the organisation. On the other, it promotes knowledge and raises the awareness of those involved, thanks to a visit, on the ground, in an industrial environment such as the glass industry.

In 2016, all the plants within the Vidrala Group opened their doors to numerous visits, schools, colleges, Insitutions, etc. Specially, the Castellar plant has continued with its educational project in collaboration with the town council of Castellar del Vallés, Ecovidrio and Friends of Glass. In this project, various groups are received at the plant (both educational and non-educational), shown the installation, and informed and educated about issues related to energy consumption and the use and recycling of glass.

Sectoral participation

Throughout the year, there were a number of meetings which the Vidrala Group attended or was represented at. Attendance at sector-specific events makes it possible to establish synergies and meet the real needs of other organisations which share common interests with the Vidrala Group, either at the request of one of the groups concerned, or in the interests of the group itself in promoting a close relationship with all aspects of the organisation.

As an example of the monitoring work and presence in the technical forums of the sector, in 2016 the Vidrala Group took part in the 90th Technical Glass Conference of the German glass society in order to carry out close technological monitoring.

Specifically, a study entitled “Continuous use of a redox probe to control shrink-fitted glass” was presented. The results and conclusions obtained from installing a redox probe in Castellar Vidrio furnace 1 to monitor dark glass was explained at the conference. Once again, the attendees showed great interest in the results of the test, in many cases proposing their own collaboration to help with future problems. As a result of these actions, the Vidrala Group is strengthening its presence in the European glass community, largely thanks to the eminently practical and industrial focus of the work presented and the quality of the results.

In a sectoral and commercial sense, Vidrala has attended meetings such as the annual meal with the La Rioja Winemakers, the annual dinner with the Cava Brotherhood, and there was a Vidrala presence at the Vinitech Sifel Fair in Bordeaux, where the products and services of the group were put on show.

The Vidrala Group also attended La Noche de la Economía. This is an institutional meeting organised by the financial daily El Economista, which recognises the professionalism, prestige, support and promotion of the economic activity of various organisations in the business sector. At this meeting, Vidrala received the Internationalisation Award, thanks to the incorporation of the United Kingdom and Ireland plants, which has allowed it to become one of the leading glass manufacturers in Europe for the food and beverage sector, with a production of more than 17 million bottles and jars a day.

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Master Glass Design Contest

In 2015, following the 50th anniversary, the “Master Glass Design Contest”, a glass container design contest, was organised. The contest is organised in collaboration with the Faculty of Engineering of the University of Deusto and supported by EIDE (Association of Designers in the Basque Country). It is a contest that seeks to promote innovation, creativity and feasibility in the design of glass containers, always within an environmentally sustainable and efficient process. At the first call for entries in 2016, the prize was awarded to the “4D Wine” project, by students from the University of Mondragón. The projects “IZPI”, also from Mondragon, and “Secret” from ESIDE were equally outstanding projects.

Given the success of the call for entries and the commitment of the group to search for talent and new ideas among the universities and technical schools nationwide, the agreement with the Faculty of Engineering of the University of Deusto has been renewed to organise a second edition of the Master Glass Design Contest nationally during 2017.

Hau Da Green Challenge

During Christmas 2016, the Vidrala Group collaborated actively with the Hau da Green challenge. Starting on November 30, the challenge had a double role: to recycle as much glass as possible and to help protect the rights of children. The initiative was launched by the newspaper EL CORREO and the Ecovidrio organisation. The target was to reach one thousand tons of recycled glass in the whole of Alava over the Christmas period. Having achieved the challenge, a donation of 5,000 euros was made to the NGO Save the Children for its project to support the education and leisure of children in Vitoria. On this occasion, the Vidrala Group donated 2,200 bottles for the Christmas tree installed in Vitoria-Gasteiz, in aid of the charity campaign.

Awards in the field of Social Responsibility

In 2016, the British Glass manufacturers association awarded the Encirc plants with the Glass Focus Award for their contribution in terms of Corporate Social Responsibility among the manufacturers of glass bottles in the country. In addition, the involvement of the business with the community was also awarded during the year, in recognition of the development of innovative products that inspire responsible behaviour and promote more sustainable lifestyles. Finally, at the Drinks Business Awards, together with Australian Vintage, the work of improving efficiency in the value chain by reducing the impact of road transport and reducing the consumption of energy at the plant was recognised.

V. 2017 Challenges

For the Vidrala Group, last year meant the consolidation of a growth model based on sustainability, the human factor and commitment to quality. The work done in the field of the environment and risk prevention helped lay the groundwork for an even more sustainable and innovative way to manufacture glass containers. From this perspective, adopting the right position and incorporating the growing concern about maintaining the environmental and social setting in the best possible condition will be key.

Having started down this route, the future of an international organisation like the Vidrala Group is to consolidate the integration of all environmental and risk prevention systems across the board, keeping the operating performance at the level of the current results. New strategic projects will have to include the new EU recommendations in terms of emissions, waste treatment, recycling and promotion of the circular economy. For the Vidrala Group, these aspects are opportunities to constantly reinvent itself, to evolve towards a new business model which is more responsible towards its environment.

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