Vidrala, S.A. and Subsidiaries

Consolidated Annual Accounts
31 December 2017

Consolidated Directors' Report
2017

(With Independent Auditor's Report Thereon)

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

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

Informe de Auditoría de Cuentas Anuales Consolidadas
emitido por un Auditor Independiente

VIDRALA, S.A. Y SOCIEDADES DEPENDIENTES
Cuentas Anuales Consolidadas e Informe de Gestión Consolidado
correspondientes al ejercicio anual terminado
el 31 de diciembre de 2017

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

A los accionistas de Vidrala, S.A.:

Informe sobre las cuentas anuales consolidadas

Opinión

Hemos auditado las cuentas anuales consolidadas de Vidrala, S.A. (la Sociedad dominante) y sus sociedades dependientes (el Grupo), que comprenden el balance a 31 de diciembre de 2017, la cuenta de pérdidas y ganancias, el estado del resultado global, el estado de cambios en el patrimonio neto el estado de flujos de efectivo y la memoria, todos ellos consolidados, correspondientes al ejercicio anual terminado en dicha fecha.

En nuestra opinión, las cuentas anuales consolidadas adjuntas expresan, en todos los aspectos significativos, la imagen fiel del patrimonio y de la situación financiera del Grupo a 31 de diciembre de 2017, así como de sus resultados y flujos de efectivo, todos ellos consolidados, correspondientes al ejercicio anual terminado en dicha fecha, de conformidad con las Normas Internacionales de Información Financiera, adoptadas por la Unión Europea (NIIF-UE), y demás disposiciones del marco normativo de información financiera que resultan de aplicación en España.

Fundamento de la opinión

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

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

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

Cuestiones clave de la auditoría

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

Domicilio Social: C/Raimundo Fernández Villaverde, 65. 28003 Madrid -Inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª, Madrid 9 de Marzo de 1.989. A member firm of Ernst & Young Global Limited. C.I.F. B-78970506.

Combinación de negocios: Adquisición Santos Barosa Vidros, S.A.

Descripción

Tal y como se describe en la Nota 5 de la memoria consolidada, con fecha 13 de octubre de 2017 el Grupo Vidrala completó la adquisición de la sociedad portuguesa Santos Barosa - Vidro, S.A. por un importe de 252,7 millones de euros. Dado que el proceso de identificación y asignación del precio de compra a los activos y pasivos adquiridos, que ha sido realizado con la colaboración de un experto independiente, no ha concluido a la fecha de formulación de estas cuentas anuales consolidadas, algunas de las cifras que figuran en el balance de situación, y en especial el fondo de comercio de consolidación originado en esta adquisición, que asciende a 150 millones de euros aproximadamente, se corresponden con cifras provisionales. La asignación del precio de compra de esta transacción ha sido definida como una cuestión clave en el marco de nuestra auditoria tanto por la significatividad de los importes como por el alto grado de juicio necesario.

Nuestra respuesta

Como parte de nuestros procedimientos de auditoria, hemos revisado la información financiera de la sociedad adquirida que soporta las principales magnitudes incorporadas en el balance, lo que ha incluido la revisión de los papeles de trabajo del auditor de Santos Barosa Vidros, S.A. Asimismo, hemos revisado los asientos contables registrados en relación a la combinación de negocios. Así, con la asistencia de nuestros especialistas en valoraciones hemos verificado la metodología de valoración aplicada por el experto independiente y analizado la razonabilidad de las asunciones y estimaciones empleadas para determinar el valor razonable de los activos adquiridos identificados así como de los pasivos asumidos. Adicionalmente, hemos revisado la coherencia matemática asociada a la metodología de cálculo utilizada y los desgloses incluidos en la memoria consolidada del ejercicio terminado el 31 de diciembre de 2017 en relación con la combinación de negocios llevada a cabo.

Deterioro de valor de fondos de comercio

Descripción

A 31 de diciembre de 2017, el epígrafe "Fondo de comercio de consolidación" del balance consolidado de Vidrala incluye un importe de 209.233 miles de euros. El valor recuperable de estos activos puede estar afectado por la existencia de posibles deterioros, cuya determinación depende del resultado de estimaciones complejas que requieren la aplicación de criterios, juicios e hipótesis por parte de la Dirección del Grupo. Hemos considerado esta materia una cuestión clave de auditoria por la significatividad de los importes y por la complejidad inherente a la asignación de valor a las hipótesis clave consideradas y a la variación de tales asunciones. El Grupo realiza una prueba anual para evaluar la potencial existencia de deterioros sobre los fondos de comercio, utilizando métodos de descuento de flujos de efectivo. Los cálculos de descuento de flujo de efectivo se realizan considerando que la actividad de las unidades generadoras de efectivo a las que están asociados estos fondos de comercio tienen una vida útil ilimitada realizándose las proyecciones de flujos de caja libre en base al presupuesto anual y planes estratégicos aprobados por la Dirección. La información relativa a los criterios aplicados por la Dirección del Grupo y las principales hipótesis utilizadas en la determinación de los deterioros de valor se encuentra recogidas en la Nota 7 (b) de la memoria consolidada adjunta.

Nuestra Respuesta

En relación con esta cuestión, nuestros procedimientos de auditoria han incluido, entre otros, el entendimiento de los criterios aplicados y revisión de los procesos establecidos por la Dirección del Grupo en la determinación de los deterioros de valor de los fondos de comercio; la revisión del modelo utilizado por la Dirección del Grupo, en colaboración con nuestros especialistas de valoraciones, cubriendo, en particular, la coherencia matemática del modelo, la razonabilidad de los flujos de caja proyectados, las tasas de descuento y las tasas de crecimiento, así como de los resultados de los análisis de sensibilidades realizados por la Dirección del Grupo; asimismo, hemos revisado los desgloses incluidos en la memoria consolidada.

Valoración y registro de instrumentos financieros derivados

Descripción

El Grupo utiliza instrumentos financieros derivados con el fin de eliminar o reducir el riesgo de variaciones en los tipos de interés, tipos de cambio y precio de commodities. Los derivados se valoran por su valor razonable en la fecha de las cuentas anuales consolidadas y el impacto en la cuenta de pérdidas y ganancias consolidada de los cambios en el valor razonable depende de la aplicación de determinados juicios por parte de la Dirección del Grupo. La estimación del valor razonable y la clasificación de los instrumentos derivados requieren de un elevado nivel de juicio por parte de la Dirección del Grupo y puede tener un impacto significativo en el balance de situación consolidado así como en el estado del resultado global consolidado. La descripción de las normas para el tratamiento contable de los instrumentos derivados y la información sobre los derivados contratados por el Grupo se encuentran recogidos en la Notas 3 (f) y 8 de la memoria consolidada adjunta.

Nuestra Respuesta

En relación con este área, nuestros procedimientos de auditoría han incluido, entre otros: el entendimiento de los procesos y controles establecidos por el Grupo para asegurar la adecuada valoración y tratamiento contable de los instrumentos derivados, incluyendo un análisis del diseño de los mismos; la realización de procedimientos de confirmación de terceros sobre la existencia y valoración de los instrumentos derivados; con el apoyo de nuestros especialistas en instrumentos financieros derivados realizamos procedimientos de contraste de valor razonable y análisis de la correcta clasificación contable; y la revisión de los desgloses incluidos en la memoria consolidada de conformidad con la normativa contable aplicable.

Otras cuestiones

Con fecha 22 de febrero de 2017 otros auditores emitieron su informe de auditoría acerca de las cuentas anuales consolidadas del ejercicio 2016 en el que expresaron una opinión favorable.

Otra información: Informe de gestión consolidado

La otra información comprende exclusivamente el informe de gestión consolidado del ejercicio 2017, cuya formulación es responsabilidad de los administradores de la Sociedad dominante y no forma parte integrante de las cuentas anuales consolidadas.

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

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

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

Sobre la base del trabajo realizado, según lo descrito anteriormente, hemos comprobado que la información mencionada en el apartado a) anterior se facilita en el informe de gestión consolidado y que el resto de la información que contiene el informe de gestión consolidado concuerda con la de las cuentas anuales consolidadas del ejercicio 2017 y su contenido y presentación son conformes a la normativa que resulta de aplicación.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Informe sobre otros requerimientos legales y reglamentarios

Informe adicional para la comisión de auditoría y cumplimiento de la Sociedad dominante

La opinión expresada en este informe es coherente con lo manifestado en nuestro informe adicional para la comisión de auditoría y cumplimiento de la Sociedad dominante de fecha 26 de febrero de 2018.

Periodo de contratación

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

AUDITORES
INSTITUTO DE CENSORES JURADOS DE CUENTAS DE ESPAÑA

ERNST & YOUNG, S.L.

Año 2018 Nº 03/18/00314
SELLO CORPORATIVO: 96,00 EUR

Informe de auditoría de cuentas sujeto a la normativa de auditoría de cuentas española o internacional

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

Francisco Rahola Carral
(Inscrito en el Registro Oficial de Auditores de Cuentas con el Nº 20597)

26 de febrero de 2018

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Balance Sheets

31 December 2017 and 2016

(Expressed in thousands of Euros)

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

	Note	2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	**6**	683,036	592,727
Goodwill	**7**	209,890	59,233
Other Intangible assets	**7**	23,354	12,010
Other financial assets		41	287
Deferred tax assets	**9**	35,304	39,768
Derivative financial instruments	**8**	1,701	4,256
Other non-current assets		234	107
		953,560	**708,388**
Current assets			
Inventories	**10**	189,829	180,973
Trade and other receivables	**11**	206,381	194,456
Current tax assets		391	391
Derivative financial instruments	**8**	3,568	2,777
Other current assets	**12**	9,127	8,834
Cash and cash equivalents		42,043	424
		451,339	**387,855**
Total assets		**1,404,899**	**1,096,243**

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

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Balance Sheets

31 December 2017 and 2016

(Expressed in thousands of Euros)

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

EQUITY AND LIABILITIES	**Note**	**2017**	**2016**
Equity	**13**		
Share capital		25,290	25,290
Other reserves		7,545	7,545
Retained earnings		551,362	481,879
Own shares		(3,347)	(2,824)
Other comprehensive income		(35,489)	(22,594)
Interim dividend distributed during the year		(17,225)	(14,362)
Equity attributed to equity holders of the Parent		**528,136**	**474,934**
Non-current liabilities			
Deferred income	**14**	25,411	31,535
Loans and borrowings	**15**	487,819	310,288
Derivative financial instruments	**8**	2,473	5,263
Deferred tax liabilities	**9**	45,115	47,866
Provisions	**19**	23,953	10,684
Other non-current liabilities		1,534	1,145
		586,305	**406,781**
Current liabilities			
Loans and borrowings	**15**	41,519	12,402
Derivative financial instruments	**8**	-	50
Trade and other payables	**16**	223,566	174,506
Current tax liabilities		4,136	5,188
Provisions	**19**	383	1,071
Other current liabilities	**12**	20,854	21,311
		290,458	**214,528**
Total liabilities		**876,763**	**621,309**
Total equity and liabilities		**1,404,899**	**1,096,243**

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

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Income Statements
for the years ended
31 December 2017 and 2016

(Expressed in thousands of Euros)

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

	Note	2017	2016
Revenues	**22**	823,197	773,570
Other income	**22**	8,533	8,456
Changes in inventories of finished goods and work in progress		4,240	(10,362)
Merchandise, raw materials and consumables used		(281,046)	(268,308)
Employee benefits expense	**24**	(174,929)	(166,131)
Amortisation and depreciation	**6 & 7**	(76,999)	(75,556)
Impairment of non-current assets	**6**	(1,253)	(2,116)
Other expenses	**23**	(184,561)	(166,514)
Finance income	**25**	1,964	979
Finance costs	**25**	(9,384)	(9,776)
Profit before income tax from continuing operations		109,762	84,242
Income tax expense	**9**	(20,616)	(16,571)
Profit for the year from continuing operations		**89,146**	**67,671**
Profit for the year		**89,146**	**67,671**
Profit for the year attributable to equity holders of the Parent		**89,146**	**67,671**
Earnings per share (expressed in Euros)			
- Basic and diluted		**3.61**	**2.73**

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

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
for the years ended
31 December 2017 and 2016

(Expressed in thousands of Euros)

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

	Note	2017	2016
Profit for the year		**89,146**	**67,671**
Other comprehensive income:			
Translation differences	**13**	(14,057)	(57,397)
Remeasurements of defined benefit plans		362	(1,308)
Items to be reclassified in profit or loss			
Cash flow hedges	**8**	1,111	12,213
Tax effect		(311)	(3,420)
Other comprehensive income, net of income tax		**(12,895)**	**(49,912)**
Total comprehensive income for the year		**76,251**	**17,759**
Profit for the year attributable to equity holders of the Parent		**76,251**	**17,759**

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

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
for the years ended
31 December 2017 and 2016
(Expressed in thousands of Euros)

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

	Equity attributable to equity holders of the Parent								
					Other comprehensive income				
	Share capital	Other reserves	Retained earnings	Own shares	Cash flow hedges	Translation differences	Defined benefit plans	Interim dividend paid during the year	Total equity
Balances at 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**
Total comprehensive income for the year	-	-	89,146	-	800	(14,057)	362	-	76,251
Own shares redeemed	-	-	-	(3,529)	-	-	-	-	(3,529)
Own shares sold	-	-	164	3,006	-	-	-	-	3,170
Distribution of 2016 profit									
Dividends	-	-	(19,827)	-	-	-	-	14,362	(5,465)
Interim dividend on account of 2017 profit	-	-	-	-	-	-	-	(17,225)	(17,225)
Balances at 31 December 2017	**25,290**	**7,545**	**551,362**	**(3,347)**	**2,058**	**(36,601)**	**(946)**	**(17,225)**	**528,136**

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
for the years ended
31 December 2017 and 2016
(Indirect Method)

(Expressed in thousands of Euros)

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

	Note	2017	2016
Cash flows from operating activities			
Profit for the year		89,146	67,671
Adjusted for:			
Amortisation and depreciation	6 & 7	76,999	75,557
Impairment of non-current assets	6	1,253	2,116
(Reversal of) impairment losses on trade receivables		(519)	409
(Reversal of) impairment losses on inventories		1,793	5,619
Exchange (gains) / losses	25	(1,942)	(805)
Changes in provisions	19	3,566	9,039
Government grants recognised in the income statement		(5,453)	(6,201)
Finance income	25	(22)	(174)
Finance costs	25	9,384	9,776
Income tax	9	20,616	16,571
		105,675	**111,907**
Changes in working capital			
Inventories		1,212	14,418
Trade and other receivables		13,792	5,422
Trade and other payables		9,720	(3,362)
Application of provisions		(485)	(388)
Other current liabilities		(923)	(10,000)
Effect of translation differences on operating assets and liabilities of foreign operations		(3,239)	(11,690)
Cash used in operating activities		**20,077**	**(5,600)**
Interest paid		(7,230)	(9,776)
Interest received		1,102	174
Income tax paid		(10,526)	(6,772)
Net cash from operating activities		**198,244**	**157,604**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	542
Acquisition of property, plant and equipment		(86,479)	(51,364)
Acquisition of intangible assets		(2,541)	(3,540)
Acquisition of financial assets		246	(284)
Acquisition of a subsidiary, net of the cash acquired		(235,233)	-
Net cash used in investing activities		**(324,007)**	**(54,646)**
Cash flows from financing activities			
Proceeds from issue of treasury shares and own equity instruments		3,170	1,214
Proceeds from loans and borrowings		201,268	12,808
Payments to redeem own shares and other own equity instruments		(3,529)	(3,757)
Payments of loans and borrowings		(13,700)	(110,000)
Dividends paid		(19,827)	(18,519)
Net cash from/(used in) financing activities		**167,382**	**(118,254)**
Net increase/(decrease) in cash and cash equivalents		41,619	(15,296)
Cash and cash equivalents at 1 December		424	15,720
Cash and cash equivalents at 31 December		**42,043**	**424**

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

1. Nature, Principal Activities and Composition of the Group

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

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

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

Details of the companies comprising the Vidrala Group, the interest held by the Parent (direct and/or indirect) at 31 December 2017 and the location and activity of each company that forms part of the consolidated group are as follows:

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

2. Basis of Presentation

The consolidated annual accounts for 2017 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 2017, as well as the consolidated financial performance and changes in consolidated equity and cash flows for the year then ended.

The Parent’s directors consider that the consolidated annual accounts for 2017, authorised for issue on 26 February 2018, will be approved without changes by the shareholders at their Shareholders’ Annual General Meeting.

(a) <u>Basis of preparation of the annual accounts</u>

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) <u>Comparative information</u>

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

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

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

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

- Goodwill impairment:

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

- Useful lives of property, plant and equipment:

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

- Valuation allowances for bad debts

  Valuation allowances for bad debts require a high degree of judgement by management and a review of individual balances based on customers' credit ratings, market trends, and historical analysis of bad debts at an aggregated level. This judgement is put into practice through the application of procedurised methodologies developed by the Vidrala Group, mainly based on the detailed analysis of credit ratings and historical sales and payments. Additionally, control over collection solvency is complemented through credit insurance coverage (see note 18).

- Income tax

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

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

  Group management estimates that any differences arising from the use of assumptions and judgements in estimating income tax for 2017 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) *<u>Changes in accounting estimates</u>*

Although estimates are calculated by the Company's directors based on the best information available at 31 December 2017, 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.

(iii) *<u>Sources of uncertainty</u>*

At 13 December 2017, a "Proposal of regional law amending several rules and taxes in the Alava tax system" was presented, which at the date of issue of this report is pending approval by the Alava General Meetings. This Proposal introduces a series of income tax measures expected to become effective from 1 January 2018, including, among others, a reduction in the corporate income tax rate to 26% for 2018 and 24% from 2019 onwards, a reduction to 35% in the limit for tax credits with limits, and a limit of 70% on deductions for R&D expenditure

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

The accounting policies used in the preparation of the accompanying consolidated annual accounts are the same as those used in the consolidated annual accounts for the year ended 31 December 2016, as no amendments to standards applicable for the first time in the year had an impact on the Group's accounting policies.

However, amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative* require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for the current period as follows:

Changes in liabilities arising from financing activities

	Thousands of Euros				
	1 January 2017	**Cash flows**	**Changes in fair value**	**Other**	**31 December 2017**
Current loans and borrowings	12,402	14,117	-	15,000	41,519
Non-current loans and borrowings	310,288	190,928	-	(13,397)	487,819
Dividends payable	14,362	(14,362)	-	17,225	17,225
Derivatives	5,313	1,486	(4,326)	-	2,473
Total liabilities arising from financing activities	**342,365**	**192,169**	**(4,326)**	**18,828**	**549,036**

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

Standard, interpretation or amendment	**Date of adoption by the EU**	**Date of application in the EU**	**Effective data of the IASB**
IFRS 9 *Financial Instruments*	September 2016	1 January 2018	1 January 2018
IFRS 15 *Revenue from Contracts with Customers.*	November 2016	1 January 2018	1 January 2018
IFRS 16 *Leases*	October, 2017	1 January 2019	1 January 2019

The Group intends to adopt the standards, interpretations and amendments issued by the IASB that are not mandatory in the European Union at the date of issuing of the accompanying consolidated annual accounts when they become effective, if applicable to it.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15, issued in May 2014 and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all previous revenue recognition requirements. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018.

The Vidrala Group has assessed the potential impacts of this standard on its revenue. The Group's principal activity is the manufacture and sale of glass containers. Based on the analyses carried out to date, the Group estimates that the initial application of this standard will not have a significant impact on its consolidated annual accounts.

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

<u>Classification and measurement</u>

The new standard requires financial assets to be classified on initial recognition as subsequently measured at amortised cost or at fair value.

The basis of classification depends on an entity's business model and the existence or not of certain contractual cash flows.

- The financial asset is measured at amortised cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest.
- The financial asset is measured at fair value through comprehensive income if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

On initial recognition of a financial asset, an entity may choose to measure it at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch.

All other financial assets are measured at fair value, with any gains or losses arising from subsequent measurement recognised in the consolidated income statement.

Based on the analyses performed, with the exception of derivative financial instruments, whose category corresponds to financial assets measured at fair value through profit or loss (or applicable, appropriate, of hedge accounting), the Group classifies virtually all of its financial assets in the amortised cost measurement category. This new category is not significantly different in terms of the measurement related to categories applied under IAS 39.

Expected loss

A new impairment model based on expected loss is introduced, compared to the incurred loss model of IAS 39.

Based on the analyses performed up to the date of issuing of the accompanying consolidated annual accounts and considering that the Vidrala Group assures most of its credit risk, the Group does not expect application of expected loss to have a significant impact on the consolidated annual accounts.

Hedge accounting.

The new model attempts to align accounting policies with risk management. The three types of hedging relationships at present are maintained (cash flow hedge, fair value hedge, and hedge of a net investment).

Taking into account the Vidrala Group's current portfolio of derivative financial instruments, the main impact arises from the effectiveness assessment, as the current rules are eliminated and assessment criteria are established that are aligned with risk management through the principle of “economic relationship”, removing the requirement of retrospective assessment..

Refinancing of borrowings

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

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

The Vidrala Group has a transaction subject to this interpretation related to a non-current syndicated financing agreement arranged by the Parent, Vidrala, S.A., which has undergone several novations since it was originally arranged in 2015 (see note 15).

The Vidrala Group is currently evaluating the impacts of the adoption of the standard in the Consolidated Financial Statements.

IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Vidrala Group is currently assessing and estimating the impact of IFRS 16. Therefore, it could not be quantified at the date of issuing of the accompanying consolidated annual accounts, although the impact is not expected to be significant on the group's consolidated annual accounts.

3. Significant Accounting Principles

(a) Subsidiaries

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

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

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

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

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

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

(b) Business combinations

The Group applies the acquisition method for business combinations.

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

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

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

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

(c) Property, plant and equipment

Initial recognition

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

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

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

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

Depreciation

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

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

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

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

Subsequent costs

Subsequent to initial recognition of the asset, only those costs incurred which will generate probable future profits and for which the amount may reliably be measured are capitalised.

Costs of day-to-day servicing are recognised in profit or loss as incurred.

Impairment

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

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

(iii) Internally generated intangible assets

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

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

- The Group has technical studies that demonstrate the feasibility of the production process.

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

- The asset will generate sufficient future economic benefits as, according to management’s best estimates, a market exists that will absorb production or the internal use of the asset.

- The Group has sufficient technical and financial resources to complete development of the asset (or to use the asset internally) and has devised budget control and cost accounting systems that enable monitoring of budgetary costs, modifications and the expenditure actually attributable to the different projects.

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

(iv) *CO2 emission allowances*

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

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

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

(v) *Other intangible assets*

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

(vi) *Useful life and amortisation rates*

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

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

(vii) *Impairment*

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

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

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

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

(f) 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.

(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).

(g) 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 gas used as fuel at production plants tied to Brent prices and the euro/dollar exchange rate.

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

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

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

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

(h) 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.

(i) Distribution to shareholders

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

(j) 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.

(k) Cash and cash equivalents

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

As of December 31, 2017, the Group has cash and other equivalent means amounting to 42,043 thousand euros, corresponding mainly to checking current accounts.

(l) 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.

(m) Employee benefits

(i) *Defined benefit plans*

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

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

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

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

(ii) *Defined contributions*

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

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

(iii) *Other commitments with employees*

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

(iv) *Termination benefits*

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

(v) *Short-term employee benefits*

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

(n) 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.

(o) 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.

(p) Income tax

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

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

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

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

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

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

(i) Recognition of deferred tax liabilities

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 14).

(iii) *Measurement*

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

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

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

(iv) *Offsetting and classification*

The Group only offsets 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.

(q) 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.

(r) 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.

(s) <u>Foreign currency transactions and balances</u>

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

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

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

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

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

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

4. Segment reporting

As described below, the Group is organised internally into operating segments, defined as strategic business units. The different strategic business units have similar products and services (the manufacture and sale of glass containers), which are managed separately and aggregated by geographical market as they require different market strategies. The bottling and logistics services provided in the United Kingdom (note 1) do not entail a separate segment in that they are considered a complementary service to the manufacture and sale of glass containers. The ordinary income generated by these services represents less than 10% of the Group's total ordinary income.

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

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

- Continental Europe
- United Kingdom & Ireland

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

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

	Thousands of Euros	
	2017	**2016**
Continental Europe	513,133	459,781
United Kingdom & Ireland	310,064	313,789
	823,197	**773,570**

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	
	2017	2016
Continental Europe	673,699	419,329
United Kingdom & Ireland	279,861	289,059
	953,560	**708,388**

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			
	2017		2016	
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	88,490	74,560	51,508	43,122
United Kingdom & Ireland	21,272	14,586	32,734	24,549
	109,762	**89,146**	**84,242**	**67,671**

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

	Thousands of Euros			
	2017		2016	
Area/location	**Expenses**	**Income**	**Expenses**	**Income**
Continental Europe	9,082	921	9,632	979
United Kingdom & Ireland	302	1,043	144	-
	9,384	**1,964**	**9,776**	**979**

Finance costs for the Continental Europe segment include Euros 3,224 thousand (Euros 5,469 thousand in 2016) related to the non current sindicated loan.

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			
	2017		2016	
Area/location	**Continental Europe**	**UK & Ireland**	**Continental Europe**	**UK & Ireland**
Impairment (reversal) of receivables	501	18	409	-
Impairment of inventory	(1,262)	(531)	1,684	(2,063)
Changes in provisions	11,711	870	580	(888)
	10,950	**357**	**2,673**	**(2,951)**

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

	Thousands of Euros					
	2017			2016		
Area/location	Assets	Liabilities	Investments made	Assets	Liabilities	Investments made
Continental Europe	938,249	773,782	79,700	641,312	529,186	30,407
United Kingdom & Ireland	466,650	102,981	29,168	454,931	92,123	17,193
	1,404,899	876,763	108,868	1,096,243	621,309	47,600

Investments for 2017 and 2016 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 2017 and 2016 is as follows:

	Thousands of Euros			
	Depreciation/amortisation			
	2017		2016	
Area/location	Property, plant and equipment	Intangible assets	Property, plant and equipment	Intangible assets
Continental Europe	46,674	2,473	45,884	1,243
United Kingdom & Ireland	28,944	161	29,302	-
	75,618	2,634	75,186	1,243

5. Business combinations

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

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

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

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

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

The amounts recognised in 2017, by significant class at the date of acquisition of the assets, liabilities and contingent liabilities are as follows:

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

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

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

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

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

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

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

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

6. Property, Plant and Equipment

Details of property, plant and equipment and movement during 2017 and 2016 are as follows:

	Thousands of Euros						
2017	**Balances at 31.12.2016**	**Additions**	**Business combination**	**Disposals**	**Translation differences**	**Transfers**	**Balances at 31.12.2017**
Cost							
Land and buildings	297,917	5,001	21,286	(2,102)	(3,679)	6,445	324,868
Technical installations and machinery	742,445	16,271	43,343	(28,906)	(9,160)	47,566	811,559
Moulds	83,863	9,691	2,175	-	(795)	2,303	97,237
Furniture	11,494	22	181	(474)	(13)	2	11,212
Other property, plant and equipment	3,582	-	230	(72)	-	24	3,764
Work in progress	35,389	70,169	8,955	-	(301)	(56,338)	57,874
	1,174,690	**101,154**	**76,170**	**(31,554)**	**(13,948)**	**2**	**1,306,514**
Depreciation							
Land and buildings	(87,598)	(7,560)	-	1,940	293	-	(92,925)
Technical installations and machinery	(417,392)	(56,247)	-	28,661	2,297	-	(442,681)
Moulds	(55,807)	(10,406)	-	-	435	-	(65,778)
Furniture	(10,789)	(112)	-	467	8	-	(10,426)
Other property, plant and equipment	(2,999)	(41)	-	3	-	-	(3,037)
	(574,585)	**(74,366)**	**-**	**31,071**	**3,033**	**-**	**(614,847)**
Impairment							
Moulds	(7,378)	(1,746)	-	493	-	-	(8,631)
Carrying amount	**592,727**						**683,036**

2016	Balances at 31.12.2015	Additions	Disposals	Translation differences	Transfers	Balances at 31.12.2016
	Thousands of Euros					
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)	(54,418)	1,455	8,260	-	(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)	**(74,214)**	**1,460**	**10,729**	**-**	**(574,585)**
Impairment						
Moulds	(5,262)	(2,116)	-	-	-	(7,378)
Carrying amount	**656,638**					**592,727**

The main additions and transfers for the year correspond to the investment plan for the complete update of the production plant located in Italy.

(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 16,772 thousand at 31 December 2017 (Euros 20,333 thousand at 31 December 2016) (see note 14).

(b) Commitments

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

	Thousands of Euros	
	2017	2016
Technical installations and machinery	**18,963**	**33,965**

(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 2017 the restated cost of fully depreciated property, plant and equipment in use amounts to Euros 207 million (Euros 182 million at 31 December 2016).

7. Intangible Assets

Details of intangible assets and movement during 2017 and 2016 are as follows:

	Thousands of Euros							
2017	**R&D expenditure**	**Emission allowances**	**Computer software**	**Work in progress**	**Other Intangible assets**	**Customer portfolio**	**Goodwill**	**Total**
Cost								
Balances at 31 December 2016	2,970	5,494	15,711	359	-	-	59,233	83,767
Additions	21	3,237	2,822	-	6	-	150,657	156,743
Business Combinations	-	154	-	-	273	13.237	-	13,664
Transfers	66	-	(74)	-	6	-	-	(2)
Disposals	-	(5,682)	-	-	-	-	-	
Translation differences	-	(8)	(81)	-	-	-	-	(5,682)
Balances at 31 December 2017	**3,057**	**3,195**	**18,378**	**359**	**285**	**13,237**	**209,890**	**248,401**
Amortisation								
Balances at 31 December 2016	(1,939)	-	(10,585)	-	-	-	-	(12,524)
Additions	(566)	-	(1,040)	-	(9)	(1,018)	-	(2,633)
Disposals	-	-	-	-	-	-	-	-
Balances at 31 December 2017	**(2,505)**	**-**	**(11,625)**	**-**	**(9)**	**(1,018)**	**-**	**(15,157)**
Carrying amount								
At 31 December 2016	**1,031**	**5,494**	**5,126**	**359**	**-**	**-**	**59,233**	**71,243**
At 31 December 2017	**552**	**3,195**	**6,753**	**359**	**276**	**12,219**	**209,890**	**233,244**

2016	R&D expenditure	Goodwill	Emission allowances	Computer software	Work in progress	Total
	Thousands of Euros					
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 2016	**(1,939)**	-	-	**(10,585)**	-	**(12.524)**
Carrying amount						
At 31 December 2015	**835**	**59,233**	**2,526**	**1,991**	**1,661**	**66,246**
At December 2016	**1,031**	**59,233**	**5,494**	**5,126**	**359**	**71,243**

(a) Impairment and allocation of goodwill to CGUs

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

Cash Generating Unit	Country	Thousands of Euros 2017	Thousands of Euros 2016
Gallo Vidro	**Portugal**	20,799	20,799
Castellar Vidrio	**Spain**	26,155	26,155
Vidrala Italia	**Italy**	12,279	12,279
Santos Barosa Vidrio	**Portugal**	150,657	-

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

The Vidrala Group carried out its impairment tests using the best information available on the growth of sales and gross margin for each CGU. It used data on past performance of each plant and the best forecasts for market performance and trends in manufacturing costs, as well as outlooks included in industry reports. The average increases in sales and gross margin for the projection period are 2.8% and 0.5%, respectively, which the Group considers reasonable in light of the current market environment.

The discount rates reflect the specific risks of each CGU.

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

Cash generating unit	Discount rate
Gallo Vidro	7.2%
Castellar Vidrio	6.9%
Vidrala Italia	7.1%

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

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

(b) Fully amortised assets

At 31 December 2017, there were fully amortised items of intangible assets still in use with an updated cost of Euros 12 million (Euros 5 million at 31 December 2016).

8. Derivative Financial Instruments

Details of derivative financial instruments are as follows:

	Thousands of Euros			
	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Hedging derivatives				
Interest rate swaps	-	2,473	-	5,313
Inflation swaps	300	-	72	-
Foreign currency options	-	-	195	-
Energy price options	4,969	-	6,766	-
Total (note 13)	**5,269**	**2,473**	**7,033**	**5,313**

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

Swaps and options

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

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

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

Interest rate hedging instruments contracted betweem 2015 and 2017 have an accumulated nominal of Euros 426,500 thousand at 31 December 2017. Under these contracts, effective until 2022, the Group will pay a fixed interest rate of between 0.1% and 0.67%

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.

The inflation hedging instruments contracted in the year 2017, recorded a cumulative nominal as of December 31, 2017 of 18,500 thousand euros for each of the three years covered until 2019. Through these contracts valid until 2019, the Group is guaranteed a maximum salary increase in certain costs related to salaries that will be between 0.85% and 0.955%.

Energy price hedging instruments have an accumulated nominal of Euros 58,026 thousand at December 31, 2017. As a result of these contracts, effective until 2020, 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)	
	2017	**2016**
Other comprehensive income	(375)	10,324
Reclassification to finance costs	1,486	1,889
	1,111	**12,213**

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

	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)
Exchange rate swaps	195	195	195	-	-	-	-	-
Inflation swaps	73	73	73	-	-	-	-	-
Energy price options	6,766	6,766	2,583	3,444	739	-	-	-

9. Income Tax

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

	Thousands of Euros					
Deferred tax assets	**Loans for losses to be offset**	**Provisions for personnel**	**Rights to tax deductions and credits**	**Financial liabilities**	**Other**	**Total**
At 31 December 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**
(Debit) credit to income statement	(3,112)	28	(2,672)	-	17	(5,739)
Debit (credit) to other comprehensive income	-	-	-	(795)	-	(795)
Business combinations	-	-	-	-	1,784	1,784
Translation differences	-	-	-	-	286	286
At 31 December 2017	**1,548**	**730**	**8,139**	**1,416**	**23,470**	**35,304**

Deferred tax liabilities	Thousands of Euros Goodwill	Property, plant and equipment	Financial assets	Other	Total
At 31 December 2015	20,624	24,565	12	2,201	47,402
Debit (credit) to income statement	1,140	(514)	-	(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**	**24,051**	**1,713**	**338**	**47,866**
Debit (credit) to income statement	1,944	4,236	-	(286)	5,894
Debit (credit) to other comprehensive income	-	-	203	(522)	(319)
Translation differences	-	(279)	-	-	(279)
Transfer	(11,733)	-	-	-	(11,733)
Business combinations	-	-	-	3,686	3,686
At 31 December 2017	**11,975**	**28,008**	**1,916**	**3,216**	**45,115**

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

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

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

Deferred taxes on items debited/(credited) directly to other comprehensive income in 2017, corresponding to hedging operations, amounted to Euros 311 thousand (Euros 3,420 thousand at 31 December 2016).

Details of the income tax expense are as follows:

	Thousands of Euros	
	2017	**2016**
Current tax		
Present year	10,523	16,670
Prior year adjustments	(488)	83
Deferred tax		
Source and reversal of temporary differences	6,310	(129)
Income from reduction in deferred tax liabilities	2,444	-
Adjustments for change type of tax	(520)	-
Expense for reduction of assets for taxes deferred	4,440	2,211
Prior year adjustments	470	-
Deferred income taken to income tax (note 14)	(2,563)	(2,264)
Total	**20,616**	**16,571**

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

	Thousands of Euros	
	2017	**2016**
Profit for the year before income tax from continuing operations	109,762	84,242
Compensation of negative tax bases from previous years	(2,536)	-
Tax calculated at the tax rate of each country	26,463	18,943
Deductions for the year	(1,018)	(236)
Prior year adjustments	(149)	525
Expense for reduction in deferred tax assets	4,440	2,112
Income from reduction in deferred tax liabilities	-	-
Deferred income taken to income tax (note 14)	(2,563)	(2,264)
Permanent differences	(6,037)	(2,509)
Income tax expense	**20,616**	**16,571**

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

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

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

- In accordance with applicable tax regulations, the Company has applied a 60% reduction to income deriving from the temporary transfer of intangible assets developed by the Company to Group companies for an amount of Euros 5,971 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 4,800 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 2017 all main applicable taxes since 31 December 2012 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 2017 consolidated annual accounts taken as a whole.

10. Inventories

Details of inventories are as follows:

	Thousands of Euros	
	2017	**2016**
Raw materials	14,278	20,811
Auxiliary and production materials	70,821	63,387
Finished goods and work in progress	118,501	108,753
	203,600	192,951
Impairment	(13,771)	(11,978)
	189,829	**180,973**

At 31 December 2017 and 2016 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	
	2017	2016
Trade receivables	204,919	190,794
Other loans	8,109	10,828
Less impairment due to uncollectibility	(6,647)	(7,166)
Total	**206,381**	**194,456**

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

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

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

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

At 31 December 2017 and 2016 the Company has no trade and other receivables discounted at financial institutions.

12. Other Current Assets and Liabilities

Details of other current assets are as follows:

	Thousands of Euros	
	2017	2016
Public entities		
Value added tax	8,946	8,650
Other items	181	184
	9,127	**8,834**

Details of other current liabilities are as follows:

	Thousands of Euros	
	2017	2016
Public entities		
Value added tax	10,749	14,914
Withholdings and payments on account	5,463	2,695
Social Security	3,564	2,858
Other	1,078	844
	20,854	**21,311**

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 2017 and 2016 is as follows:

	Number of shares outstanding	Thousands of Euros		
		Ordinary shares	Own shares	Total
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**
Acquisition of own shares	(70,918)	-	(3,529)	(3,529)
Sale of own shares	64,317	-	3,006	3,006
At 31 December 2017	**24,727,841**	**25,290**	**(3,347)**	**21,943**

At 31 December 2017 and 2016 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 Shareholder General Meeting held on 30 May 2017, 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.

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 2017, as a result of the increase in debt due to the extraordinary financing assumed for the acquisition of Santos Barosa in the year (see note 15), the Group's capital ratios decreased, as shown in the following ratios for 2017 and 2016:

	Thousands of Euros	
	2017	**2016**
Total equity	528,136	474,934
Total equity and liabilities	1,404,899	1,096,243
Total equity/total equity and liabilities	37.59%	43.32%

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	
	2017	**2016**
Net financial debt	487,295	322,266
Equity	528,136	474,934
Debt ratio	0.92	0.68

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

In conclusion, year-end solvency indicators for the Group have strengthened, showing a debt-to-equity ratio of 0.92 (0.68 at the 2016 close) and debt equivalent to 2.2 times accumulated EBITDA (1.89 at the 2016 close). The interest coverage ratio, measured as EBITDA for the year divided by the consolidated net finance cost, is 28.8.

(b) <u>Other reserves</u>

- **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**

  There were changes in this item in 2017.

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 2017 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.

(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 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**
Income and expenses generated during the year	(375)	105	(270)
Reclassification to profit or loss	1,486	(416)	1,070
Balances at 31 December 2017	**2,858**	**(800)**	**2,058**

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 14,057 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 362 thousand (see note 19).

(d) Dividends and restrictions on distribution of dividends

Total dividends distributed by Vidrala, S.A. to shareholders in 2017 amounted to Euros 19,827 thousand (Euros 17,853 thousand in 2016), which is equivalent to 80.16 euro cents per share outstanding (72.00 euro cents in 2016). The dividends reflect the distribution of 2016 profit.

The distribution of Company profits and reserves for the year ended 31 December 2016, approved by the shareholders at their annual general meeting held on May 30, 2017, was as follows:

Basis of allocation	Euros
Profit for the year	54,957,207.05
Distribution	
Other reserves	35,130,078.34
Dividend	5,466,311.68
Interim dividend	14,360,817.03
	54,957,207.05

On 21 December 2017 the directors agreed to distribute an interim dividend on 2017 profit of 69.67 euro cents per share to shareholders, totalling Euros 17,225 thousand, which was paid on February 14, 2018.

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 31.12.2017	
Interim dividend distributed	19,827
Forecast cash flow for the one-year period from 21 December 2017	
Cash and cash equivalents at agreement date	-
Credit facilities available at agreement date	50,944
Projected operating receipts and payments (net)	50,042
Projected cash and cash equivalent balances one year from agreement date	100,986
Credit facilities available (one year later)	**30,706**

The proposed distribution of 2017 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	121,652,807.75
Distribution	
Other reserves	97,869,198.28
Dividend	6,559,301.59
Interim dividend	17,224,307.88
	121,652,807.75

The proposed distribution of dividends is equivalent to a total unit dividend, including the interim dividend paid, of Euros 0.9619 per share outstanding at the reporting date.

14. Deferred Income

Details of this caption are as follows:

	Thousands of Euros	
	2017	2016
Capital grants (note 6(a))	16,772	20,333
Tax credits for investments	8,639	11,202
	25,411	31,535

In 2017 the Group did not incorporate additional capital grants (Euros 3,534 thousand in 2016), of which Euros 3,286 thousand was taken to income during the year (Euros 3,590 thousand in 2016) (see note 22).

Tax credits capitalised in 2004 and 2005 were recorded as deferred income and taken to the income statement in line with the depreciation of the financed assets, in the case of property, plant and equipment, or the recovery of the investments in the case of business combinations. In this regard, during fiscal year 2017 and 2016, 2,563 and 2,264 thousand euros, respectively, have been charged to the profit and loss account as a lower amount of the income tax item (see note 9).

15. Debt with Financial Institutions

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

	Thousands of Euros			
	2017		2016	
	Non-current	Current	Non-current	Current
Loans and borrowings	476,265	37,871	299,689	10,801
Other financial liabilities	11,554	3,255	10,599	1,275
Accrued interest	-	393	-	326
	487,819	41,519	310,288	12,402

Some of these contracts contain financial covenant clauses. At 31 December 2017 and 2016 the Group complies with these requirements.

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

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

Type	Extended	Maturity	Limit extended/ nominal amount	Thousands of Euros Current	Non-current
Loan	2015	2023	440,000	-	401,265
Loan	2014	2018	15,000	15,000	-
Loan	2017	2029	45,000	-	45,000
Credit facility	2010	2018	2,500	-	-
Credit facility	2010	2018	2,500	-	-
Credit facility	2010	2021	30,000	-	30,000
Other short-term credit facilities	2017	2018	99,250	22,871	-
				37,871	**476,265**

Non-current loans and borrowings mature as follows:

	Thousands of Euros 2017	2016
Between 1 and 2 years	11,498	23,386
Between 2 and 5 years	353,696	166,902
More than 5 years	122,625	120,000
	487,819	310,288

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

With a view to structuring its non-current defined financing model, on March 13, 2015 Vidrala cancelled the aforementioned agreement, refinancing it entirely through a single new non-current syndicated financing agreement with a group of nine financial institutions for an amount of Euros 465 million. The new financing agreement comprised a non-current loan of Euros 440 million, with maturity on March 21, 2021, and a revolving credit facility of up to Euros 25 million.

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

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

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

As a result, the balance of the non-current syndicated loan at year end is Euros 340 million, as early repayments totalling Euros 65 million have been made since the loan was extended. The applicable interest rate on the loan is a variable rate equivalent to Euribor plus a spread of 1.00%, reviewed on an annual basis by tranche based on the evolution of the net debt/consolidated EBITDA ratio. In 2018 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 December 31, 2017:

Net financial debt / consolidated EBITDA: 2.2

Consolidated EBITDA / consolidated net finance cost: 28.8

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

In 2017, new long-term bilateral financing facilities were arranged for an aggregate amount of Euros 30 million and an average duration of 4 years.

Loans and borrowings, including the financing facilities and loans described above, have a combined limit of Euros 634 million and Euros 431 million at December 31, 2017 and 2016, respectively. Consequently, Euros 147 million and Euros 118 million, respectively, were available for draw down at those dates. Furthermore, a limit of Euros 20 million was available in discounting lines in 2017 and 2016, with no amounts having been used at either of the year-end closes.

The average effective interest rates (APR) at the reporting dates for bank borrowings were approximately 1.41% and 1.90% in 2017 and 2016, respectively.

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

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

Group financial liabilities are measured in Euros.

16. Trade and Other Payables

Details of trade and other payables are as follows:

	Thousands of Euros	
	2017	**2016**
Trade payables	168,370	147,361
Salaries payable	15,735	10,938
Dividends to shareholders	17,225	14,362
Suppliers of fixed assets	20,401	-
Other payables	1,835	1,845
	223,566	**174,506**

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 2017 is as follows:

	Days	
	2017	**2016**
Average supplier payment period	68.60	68.34
Transactions paid ratio	74.19	72.83
Transactions payable ratio	44.59	46.46
	Amount (Thousands of Euros)	
Total payments made	170,950	172,498
Total payments outstanding	39,816	35,404

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 2017, 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. 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.

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

The electrofilters installed in Vidrala have been accompanied by systems for purifying SOx emissions, desulfurizers, which have considerably reduced the emission of this pollutant.

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

ii. Occupational health and safety

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

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

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

iii. Supply chain risk

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

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

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

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

Tax risk

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

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

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

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

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

- Prevention, taking decisions on taxes based on a reasonable and advised interpretation of regulations, avoiding potential disputes in interpretation by using instruments created by the related authorities, such as prior consultation or tax agreements, evaluating investments or transactions with special tax features before performing them and, above all, avoiding the use of opaque or contrived structures, or dealings with companies resident in tax havens or any others designed to avoid paying taxes.

- Cooperation with taxation authorities to find resolutions regarding tax practices in the countries where the Vidrala Group operates, providing information and tax documentation as requested by the taxation authorities promptly and completely, promoting agreement and, ultimately, fostering ongoing dialogue with tax administrations to reduce tax risks and prevent conduct that could give rise to them.

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

Financial risk

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

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

The most relevant financial risks are as follows:

i. Currency risk

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

The current business structure's exposure to currency risk is concentrated mainly in subsidiary Encirc Limited, which operates in the UK and Ireland. With 30.67% of sales and 28.34% of operating profit, or EBITDA, generated in pounds sterling, reporting in euros is exposed to translation risks arising from fluctuations in sterling's exchange rate vis-à-vis the euro. There is also risk in translating cash generated from business in the UK in sterling, as depreciation by the pound could reduce the equivalent value in euros, thereby reducing the cash generated by the business.

To quantify the sensitivity to currency risk, taking 2017 data, average depreciation by sterling of 5% in a full year, *ceterus paribus*, and assuming the absence of currency hedges, would have an impact of approximately 2% on the Group's consolidated profit and a reduction of approximately 2% in its annual cash flow.

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 2017 reporting date Vidrala has interest rate swaps for an accumulated equivalent of Euros 426.5 million, which start and expire progressively until 2022. As a result, it is expected that practically the entire cost to be assumed by the group in the form of interest on the debt during the year 2018 will be insured against fluctuations in the interest rate markets.

iii. Credit risk

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

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

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

As a result of the control procedures described during fiscal year 2017, there was no impact of insolvent commercial loans.

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 2017 the Vidrala Group had Euros 160.8 million in immediately available, external undrawn credit, representing 33% of total debt.

v. Debt and solvency

Vidrala had consolidated net financial debt of Euros 487.3 million at 31 December 2017, up Euros 165 million from 31 December 2016. The increase in debt was due to the acquisition of Portuguese company Santos Barosa, for a price of Euros 252.7 million. The amount was paid in full on 13 October 2017, with proceeds from new borrowings. The additional debt was partially offset by the Euros 108.5 million of cash flow generated organically over the course of 2017, of which Euros 87.7 million went to pay down debt.

As a result, the financial solvency indicators at the end of 2017 reflect an indebtedness equivalent to 2.2 times the EBITDA operating result of the last twelve months, pro forma. Despite the disbursement made for the acquisition, the resulting solvency indicator is similar to the average actually registered in the previous year 2016, evidencing the financial capacity of the business and the stability of Vidrala's equity position.

The long-term syndicated financing agreement entered into with a syndicate of nine banks, with an available amount at year-end of Euros 465 million, makes up the bulk of the financing structure. The loan falls due on 13 September 2023, and is gradually repayable from 13 November 2019. There is a grace period on repayment in 2018, with no obligations to repay principal. The average duration of the Group's total financing at the end of 2017 stood at around five years.

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

Net financial debt / consolidated EBITDA 2.2x

Consolidated EBITDA / consolidated net finance cost 28.8x

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 2017 reporting date Vidrala has hedging derivatives on energy commodities for a nominal equivalent of Euros 58 million.

vii. Other risks. Result of the Brexit referendum

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

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

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

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

19. Provisions

Movement in provisions in 2017 and 2016 is as follows:

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

	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**

The provision for emission allowances includes the estimated surrender of emission allowances in 2017 and 2016 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 3,460 thousand (Euros 3,794 thousand in 2016). 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 2017 to comply with the Kyoto Protocol and emissions analyses amounted to Euros 70 thousand (Euros 82 thousand in 2016).

Environmental expenses mainly related to waste management incurred during 2017 totalled Euros 2,074 thousand (Euros 816 thousand in 2016).

Environment-related plant investments came to Euros 20,013 thousand (Euros 4,513 thousand in 2016).

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	
	2017	2016
Operating grants	79	146
Capital grants taken to income (note 14)	3,286	3,590
Grants for emission allowances	2,361	2,611
Other income	2,807	2,109
	8,533	**8,456**

23. Other Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2017	2016
External services	45,196	35,918
Electricity	44,077	39,371
Sales expenses	77,753	73,456
Surrender of emission allowances (note 19)	4,461	3,956
Taxes	6,159	5,716
Impairment and uncollectibility of trade and other payables (note 11)	(497)	409
Other operating expenses	7,412	7,688
	184,561	**166,514**

24. Employee Benefits Expense

Details of the employee benefits expense in 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Salaries, wages and similar	139,278	141,081
Contributions to defined contribution plans	1,430	243
Other employee benefits	34,221	24,807
	174,929	**166,131**

The average headcount of the Group in 2017 and 2016, distributed by category, is as follows:

	Average headcount	
	2017	2016
Senior management and proxies	45	41
Junior management	386	296
Administrative staff	404	347
Operators	2,428	2,365
	3,263	**3,049**

At 31 December 2017 and 2016 the distribution by gender of Group personnel and directors is as follows:

	Number			
	2017		2016	
	Female	Male	Female	Male
Board members	3	8	3	8
Management	3	42	3	40
Junior management	54	311	56	323
Administrative staff	127	278	118	263
Operators	198	2,126	202	2,097
	385	**2,765**	**382**	**2,731**

25. Finance Income and Finance Costs

Details of finance income and finance costs are as follows:

	Thousands of Euros	
Finance income	2017	2016
Exchange gains	1,942	805
Other finance income	22	174
Total finance income	**1,964**	**979**

	Thousands of Euros	
Finance costs	2017	2016
Interest on loans and borrowings	5,034	6,042
Hedging derivatives	2,306	1,889
Exchange losses	-	-
Other finance costs	2,044	1,845
Total finance costs	**9,384**	**9,776**

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:

	2017	2016
Profit for the year attributable to equity holders of the Parent (thousands of Euros)	89,146	67,671
Weighted average number of ordinary shares outstanding (thousands)	24,722	24,728
Basic earnings per share (Euros per share)	3.61	2.73

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

	2017	2016
Ordinary shares outstanding at 1 January	24,34,442	24,794,341
Effect of own shares	(11,738)	(41,282)
Weighted average number of ordinary shares outstanding at 31 December	**24,722,704**	**24,753,059**

(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 2017 and 2016 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	
	2017	2016
Salaries and other current remuneration paid to employees, management and directors	**4,295**	**2,746**

The number of directors as of December 31, 2017 has amounted to 13 people (same number of people in 2016).

Loans to senior managers at 31 December 2017 amounted to Euros 610 thousand (no loans granted to senior managers at 31 December 2016).

(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 1,451 thousand (Euros 1,227 thousand in 2016).

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 2017 and 2016 as follows:

	Thousands of euros 2017
Ernst&Young, S.L.	
Audit services	252
Other services	46
Total EY	**298**

	Thousands of euros 2016
KPMG Auditores, S.L.	
Audit services	182
Other services	25
Total KPMG	**207**

These amounts include all fees for services rendered during 2017 and 2016, irrespective of the date of invoice.

During 2017, other auditors have invoiced the Group audit fees of Euros 106 thousand (Euros 159 thousand in 2016).

	Revaluation reserves	Legal reserve	Voluntary reserves	Reserves in fully consolidated companies	Profit for the year	Total
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
Other movements	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**
Distribution of 2015 profit						
Reserves	-	-	35,130	12,714	(47,844)	-
Dividends	-	-	-	-	(19,827)	(19,827)
Own shares sold	-	-	164	-	-	164
Profit for 2017	-	-	-	-	89,146	89,146
At 31 December 2017	**2,311**	**5,234**	**311,699**	**150,517**	**89,146**	**558,907**

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