

Vidrala, S.A. and Subsidiaries

Consolidated Annual Accounts

31 December 2022

Consolidated Directors' Report

2022

(With Independent Auditor's Report Thereon)

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

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

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Balance Sheets

31 December 2022 and 2021

(Expressed in thousands of Euros)

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

	<u>Note</u>	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>			
Non-current assets			
Property, plant and equipment	6	829,543	773,627
Right-of-use assets		2,302	770
Goodwill	7	209,890	209,890
Other Intangible assets	7	73,077	48,510
Other financial assets		33	26
Deferred tax assets	9	39,832	41,542
Derivative financial instruments	8	18,045	6,411
Other non-current assets		103	103
		<u>1,172,825</u>	<u>1,080,879</u>
Current assets			
Inventories	10	254,683	166,491
Trade and other receivables	11	318,696	240,536
Current tax assets		11,317	17,016
Derivative financial instruments	8	1,114	24,010
Other current assets	12	40,863	13,774
Cash and cash equivalents		154,029	160,540
		<u>780,702</u>	<u>622,367</u>
Total assets		<u>1,953,527</u>	<u>1,703,246</u>

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Balance Sheets

31 December 2022 and 2021

(Expressed in thousands of Euros)

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

<u>EQUITY AND LIABILITIES</u>	Note	2022	2021
Equity	13		
Share capital		31,341	30,438
Other reserves		8,399	8,109
Retained earnings		1,050,381	973,506
Own shares		-	(9,246)
Other comprehensive income		(29,298)	(10,839)
Interim dividend distributed during the year		(27,199)	(25,066)
		<u>1,033,624</u>	<u>966,902</u>
Equity attributed to equity holders of the Parent			
Non-current liabilities			
Deferred income	14	5,106	9,129
Loans and borrowings	15	273,464	184,003
Derivative financial instruments	8	-	480
Deferred tax liabilities	9	81,178	73,705
Provisions	18	70,794	69,120
Other non-current liabilities		799	947
		<u>431,341</u>	<u>337,384</u>
Current liabilities			
Loans and borrowings	15	50,089	73,613
Derivative financial instruments	8	2,715	29,552
Trade and other payables	16	386,779	259,271
Current tax liabilities		20,856	6,466
Provisions	18	1,744	9,971
Other current liabilities	12	26,379	20,087
		<u>488,562</u>	<u>398,960</u>
Total liabilities		<u>919,903</u>	<u>736,344</u>
Total equity and liabilities		<u>1,953,527</u>	<u>1,703,246</u>

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Income Statements
for the years ended
31 December 2022 and 2021

(Expressed in thousands of Euros)

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

	<u>Note</u>	<u>2022</u>	<u>2021 (*)</u>
Revenues	4 & 21	1,345,610	1,084,166
Services rendered		972	533
Other income	21	27,317	11,780
Changes in inventories of finished goods and work in progress		72,380	4,261
Merchandise, raw materials and consumables used	22	(767,014)	(472,228)
Employee benefits expense	24	(214,028)	(196,396)
Amortisation and depreciation	6 & 7	(85,460)	(86,284)
Impairment of non-current assets	6	(724)	(2,840)
Other expenses	23	(194,839)	(164,419)
Profit loss from operating activities		<u>184,214</u>	<u>178,573</u>
Finance income	25	2,819	114
Finance costs	25	(3,435)	(6,173)
Fair value variation in financial instruments		4,638	-
Gain on disposal of financial instruments		(488)	-
Profit before income tax from continuing operations		<u>187,748</u>	<u>172,514</u>
Income tax expense	9	(34,062)	(27,357)
Profit for the year from continuing operations		<u>153,686</u>	<u>145,157</u>
Profit for the year		<u>153,686</u>	<u>145,157</u>
Profit for the year attributable to equity holders of the Parent		<u>153,686</u>	<u>145,157</u>
Earnings per share (expressed in Euros)			
- Basic	26	4,97	4,88
- Diluted	26	4,97	4,88

(*) Restated. See Note 2

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
for the years ended
31 December 2022 and 2021

(Expressed in thousands of Euros)

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

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Profit for the year		<u>153,686</u>	<u>145,157</u>
Other comprehensive income:			
Translation differences	13	(21,647)	25,136
Remeasurements of defined benefit plans	13	2,671	1,523
Items to be reclassified in profit or loss		680	19,283
Cash flow hedges	8		
Tax effect	9	<u>(163)</u>	<u>(4,628)</u>
Other comprehensive income, net of income tax		<u>(18,459)</u>	<u>41,314</u>
Total comprehensive income for the year		<u>135,227</u>	<u>186,471</u>
Profit for the year attributable to equity holders of the Parent		<u>135,227</u>	<u>186,471</u>

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
for the years ended
31 December 2022 and 2021
(Expressed in thousands of Euros)

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

	Equity attributable to equity holders of the Parent								
	Share capital	Other reserves	Retained earnings	Own shares	Other comprehensive income			Interim dividend paid during the year	Total equity
Cash flow hedges					Translation differences	Defined benefit plans			
Balances at 1 January 2021	28,989	7,833	863,051	(7,679)	(6,195)	(43,295)	(2,663)	(23,885)	816,156
Total comprehensive income for the year	-	-	145,157	-	14,655	(25,136)	(1,523)	-	186,471
Own shares redeemed	-	-	-	(1,567)	-	-	-	-	(1,567)
Share capital increase	1,449	-	(1,449)	-	-	-	-	-	-
Dividends	-	-	(33,977)	-	-	-	-	23,885	(9,092)
Interim dividend on account of 2021 profit	-	-	-	-	-	-	-	(25,066)	(25,066)
Other movements	-	276	(276)	-	-	-	-	-	-
Balances at 31 December 2021	30,438	8,109	973,506	(9,246)	8,460	(18,159)	(1,140)	(25,066)	966,902
Total comprehensive income for the year	-	-	153,686	-	517	(21,647)	2,671	-	135,227
Own shares redeemed	-	-	-	(31,765)	-	-	-	-	(31,765)
Share capital increase	1,492	-	(1,492)	-	-	-	-	-	-
Share capital decrease	(589)	-	(40,422)	41,011	-	-	-	-	-
Dividends	-	-	(34,607)	-	-	-	-	25,066	(9,541)
Interim dividend on account of 2022 profit	-	-	-	-	-	-	-	(27,199)	(27,199)
Other movements	-	290	(290)	-	-	-	-	-	-
Balances at 31 December 2022	31,341	8,399	1,050,381	-	8,977	(39,806)	1,531	(27,199)	1,033,624

VIDRALA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
for the years ended
31 December 2022 and 2021
(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	2022	2021
Cash flows from operating activities			
Profit for the year		153,686	145,157
<i>Adjusted for:</i>			
Amortisation and depreciation	6 & 7	85,460	86,284
Impairment of non-current assets	6 & 7	724	2,840
		488	-
(Reversal of) impairment losses on trade receivables		(514)	(771)
(Reversal of) impairment losses on inventories	10	(5,300)	(8,435)
Exchange (gains) / losses	25	(1,475)	2,176
Changes in provisions		(6,553)	41,988
Government grants recognised in the income statement		(5,372)	(1,639)
Result from sales and disposals of financial instruments	5	(11,190)	11,190
Finance income	25	(1,344)	(114)
Finance costs	25	3,435	3,997
Fair value variation in financial instruments		(4,638)	-
Income tax	9	34,062	27,357
		87,783	164,873
Changes in working capital			
Inventories		(85,880)	7,126
Trade and other receivables		(82,341)	(13,476)
Trade and other payables		132,341	38,522
Other current liabilities		(84,515)	(26,962)
Effect of translation differences on operating assets and liabilities of foreign operations		2,686	(3,461)
		(117,546)	1,749
Cash used in operating activities			
Interest paid		(4,070)	(3,260)
Interest received		2,870	30
Income tax paid		(8,600)	(27,800)
		114,123	280,749
Cash flows from investing activities			
Payments from sale of property, plant and equipment		(117,296)	(107,604)
Payments from sale of other intangible assets		(2,904)	(2,196)
		(120,200)	(109,800)
Cash flows from financing activities			
Proceeds from loans and borrowings	15	112,500	25,000
Payments to redeem own shares and other own equity instruments	13	(31,765)	(1,567)
Payments of loans and borrowings		(24,500)	(28,043)
Payments from other debts	13	(22,063)	(85,000)
Dividends paid	13	(34,607)	(32,977)
		(435)	(122,587)
Net cash from/(used in) financing activities			
Net increase/(decrease) in cash and cash equivalents		(6,511)	48,362
Cash and cash equivalents at 1 December		160,540	112,178
Cash and cash equivalents at 31 December		154,029	160,540

VIDRALA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

1. Nature, Principal Activities and Composition of the Group

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

During the year 2022 there have been no changes in the name of the Company or the aforementioned registered office and tax office.

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

Details of the companies comprising the Vidrala Group, the interest held by the Parent (direct and/or indirect) at 31 December 2022 and 2021 and the location and activity of each company that forms part of the consolidated group are as follows:

<u>Company</u>	<u>Location</u>	<u>Investment</u>		<u>Activity</u>
		<u>2022</u>	<u>2021</u>	
Crisnova Vidrio, S.A.	Caudete (Albacete)	100%	100%	Manufacture and sale of glass containers
Inverbeira, Sociedad de Promoción de Empresas, S.A.	Llodio (Álava)	100%	100%	Promotion and development of companies
Aiala Vidrio, S.A.U.	Llodio (Álava)	100%	100%	Manufacture and sale of glass containers
Gallo Vidro, S.A.	Marinha Grande (Portugal)	100%	100%	Manufacture and sale of glass containers
Vidrala Logistics, Ltda.	Marinha Grande (Portugal)	100%	100%	Logistic services
Castellar Vidrio, S.A.	Castellar del Vallés (Barcelona)	100%	100%	Manufacture and sale of glass containers
Vidrala Italia, S.r.l.	Córsico (Italia)	100%	100%	Manufacture and sale of glass containers
Vidrala France, SARL	Burdeos (Francia)	100%	100%	Commercialisation
Vidrala Desarrollos, S.L.U.	Llodio (Álava)	100%	100%	Promotion and development of companies
Encirc Limited	Derrylin (Irlanda del Norte)	100%	100%	Manufacture of glass containers, packaging and logistical services
Encirc Distribution Limited	Ballyconnell (Irlanda)	100%	100%	Logistical services
Santos Barosa Vidros, S.A.	Marinha Grande (Portugal)	100%	100%	Manufacture and sale of glass containers

VIDRALA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

2. Basis of Presentation

The consolidated annual accounts have been prepared based on Vidrala, S.A. and descendants financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other provisions of the financial information reporting framework applicable to the Group, to present fairly the consolidated equity and consolidated financial position of Vidrala, S.A. and subsidiaries at 31 December 2022, 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 2022, authorised for issue on 28 February 2023, will be approved without changes by the shareholders at their Shareholders' Annual General Meeting.

(a) Basis of preparation of the annual accounts

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

(b) Comparative information

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

In addition, the Consolidated Income Statement for the year 2021 is restated as the Group has reclassified the expenses and revenues corresponding to CO2 emissions and the associated cost of electricity from "Other income" and "Other expenses" to "Merchandise, raw materials and consumables used" during the year 2022.

(c) Effects of the current macroeconomic situation and the conflict between Russia and Ukraine

In February 2022, Russia began the war in Ukraine. As of the reporting date, this conflict is still in force and its effects on the financial markets are intensifying.

The direct impact on Vidrala's business is limited, as the Group does not have assets or maintains any industrial or commercial activity, does not produce, sell or buy directly in Ukraine or Russia.

However, the indirect impact is evident in the growing difficulties in global supply chains and, specially, in the abnormal increases in energy prices. In particular, the price of natural gas, the main source of energy in glass manufacturing, which represented approximately 15% of the Group's total cost of production in 2021, generally dictated by organised pan-European markets, is behaving with abnormal volatility related to the perception of the risks of lower supply from Russia to central Europe. Thus, market gas prices have multiplied by almost 3 times from 2021 levels. Additionally, we observe collateral effects of higher electricity prices and some raw materials, which together accounted between 35% and 40% of production.

In response to this inflationary situation, Vidrala has implemented exceptional measures to adapt sales prices and temporary hedging by setting energy prices, which are

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Notes to the Consolidated Annual Accounts

discussed in detail in its specific section. On the costs side, and on top of the various initiatives taken by national governments to alleviate the industry's energy bill, Vidrala has increased the flexibility of its natural gas supply contracts to accommodate, if necessary, supplies of alternative, more competitive fuels in a situation of energy crisis. These measures should be efficient in preserving business margins at consistent levels over a normal period of time. However, in the short term, if extreme volatilities persist, a deterioration in operating margins would be unavoidable until the measures take full effect or markets stabilise. Regarding the risks of a cut in the gas supply, experts believe that the infrastructure in our regions of activity, Iberia, the United Kingdom and Italy, is particularly protected. However, there would be physical measures that would allow, in most of the facilities and for a short time, partial alternatives to natural gas supply to maintain production activity.

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

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

i) Relevant accounting estimates and assumptions

- Goodwill impairment:

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

- Useful lives of property, plant and equipment:

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

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- 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 2022 will be immaterial.

- Capitalised tax credits:

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

- Impairment of trade receivables:

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

- Write-downs of inventories:

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

(ii) Changes in accounting estimates

Although estimates are calculated by the Company's directors based on the best information available at 31 December 2022, future events may require changes to these estimates in subsequent years. Any effect on the consolidated annual accounts of adjustments to be made in subsequent years would be recognised prospectively.

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

The accounting policies used in the preparation of the accompanying consolidated financial statements are the same as those used in the consolidated financial statements for the year ended 31 December 2021, except for the following standards applied for the first time in this exercise:

- Amendments to:
 - IFRS 3 Business Combinations
 - IFRS 16 Property, Plant and Equipment
 - IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- Annual Improvements 2018-2020

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Notes to the Consolidated Annual Accounts

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

Rule, interpretation or amendment	Date of adoption by the EU	Date of implementation in the EU	Date of application of the IASB
IFRS 17 - Insurance contracts	November 19, 2021	January 1st, 2023	January 1st, 2023
IFRS 17 - Insurance contracts: initial application of IFRS 17 and IFRS 9 - comparative information	September 8, 2022	January 1st, 2023	January 1st, 2023
Definition of accounting estimates (Amendments to IAS 8)	March 2, 2022	January 1st, 2023	January 1st, 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement No. 2)	March 2, 2022	January 1st, 2023	January 1st, 2023
Deferred Taxes Relating to Assets and Liabilities Arising from a One-off Transaction - Amendments to IAS 12	August 11, 2022	January 1st, 2023	January 1st, 2023
IAS 1 Presentation of financial statements: classification of liabilities as current or non-current	Pending	Pending	January 1st, 2024

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

3. Significant Accounting Principles

(a) Subsidiaries

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

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

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

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

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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 on 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.

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

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

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

Subsequent costs

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

Impairment

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

(d) Leases

Group as a lessee

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

• Right-of-use assets

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

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

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

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

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

• **Lease liabilities**

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

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

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

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

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

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

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Group as a lessor

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

(e) Intangible assets

(i) Goodwill

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

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

(ii) Customer portfolio

“Other intangible assets” includes the allocation of the purchase price related to the acquisition of Santos Barosa Vidros, S.A. in 2017 attributable to customer acquisition in the business combination, which is amortised in 4 years over the estimated period in which the cash flows generated are received. As at 31 December 2022 it is fully amortised (Note 7).

(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

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control and cost accounting systems that enable monitoring of budgetary costs, modifications and the expenditure actually attributable to the different projects.

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

(iv) CO2 emission allowances

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

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

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

(v) Other intangible assets

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

(vi) Useful life and amortisation rates

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

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

(vii) Impairment

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

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

The Group assesses the existence of indications of potential impairment of the non-financial assets subject to amortisation and depreciation, in order to check whether carrying amount exceeds recoverable amount. The recoverable amount of assets is the higher of their fair value less costs to sell and their value in use determined based on the expected future cash flows.

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

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

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

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

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

(g) Financial instruments

(i) Classification of financial instruments

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

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

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

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

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(ii) Offsetting principles

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

(iii) Financial assets

The group classifies its financial assets after initial recognition according to whether they are measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss.

amortised cost, at fair value through other comprehensive income and at fair value through profit or loss.

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

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

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

- *Financial instruments at amortised costs*

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method. Gains and losses are recognised in profit or loss when the asset is derecognized.

- *Financial assets at fair value through other comprehensive income*

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

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although accrued interest is recognised in profit or loss. Amounts recognised in the statement of comprehensive income are recycled to profit or loss upon derecognition of the financial assets.

- *Financial assets at fair value through income*

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

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

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

(iv) *Financial liabilities*

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

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

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

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

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

(v) *Impairment of financial assets*

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

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Reversals of impairment losses are also recognised against the amount of the allowance account.

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

(vi) Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

(h) Hedge accounting

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

The Group has cash flow hedges.

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

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

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

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

Interest rate hedges

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

Energy price swaps

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

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

The Group recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in other comprehensive income. The ineffective portion and the specific component of the gain

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or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised with a debit or credit to finance costs or finance income.

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

(i) Parent own shares

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

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

(j) Distribution to shareholders

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

(k) Inventories

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

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

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

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

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

The previously recognised write-down is reversed against profit and loss when the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances. The reversal of the write-down is limited to the lower of the cost and the revised net realisable value of the inventories. Reductions and reversals of the value of inventories are classified under "Change in inventories of finished goods and

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work in progress” and “Merchandise, raw materials and consumables used” in the consolidated income statement.

(l) Cash and cash equivalents

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

(m) Government grants

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

(i) Capital grants

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

The accounting treatment of grants related to emission allowances is described in note 3.e.

(ii) Operating grants

Operating grants are recognised under other income.

(iii) Interest-rate grants

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

(n) Employee benefits

(i) Defined benefit plans

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

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

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

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

(ii) Defined contributions

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

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

(iii) Other commitments with employees

“Provisions” in the consolidated balance sheet include a provision for commitments assumed with the employees of one of the Group’s companies in accordance with legal requirements in the country of origin (Italy). According to this legislation, companies are obliged to provide for or contribute certain amounts to an externally managed pension plan, calculated on the basis of employees’ remuneration, which are redeemed when an employee’s working relationship with the company terminates. Likewise, this heading records a commitment for variable remuneration with certain employees of the UK subsidiary, related to the achievement of certain economic performance targets.

(iv) Termination benefits

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

(v) Short-term employee benefits

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

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(o) Provisions

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

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

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

(i) Provision for emission allowances

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

(ii) Provision for taxes

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

(p) Revenue recognition

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

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

A five-step model is established for recognising revenue

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

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

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

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

(q) Income tax

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

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

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

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

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

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

(i) Recognition of deferred tax liabilities

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

(ii) Recognition of deferred tax assets

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

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

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

(iii) Measurement

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

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

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

(iv) Offsetting and classification

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

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

(r) Segment reporting

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

(s) Environmental issues

The Group takes measures to prevent, reduce or repair the damage caused to the

Expenses related to the decontamination and restoration of contaminated sites, waste disposal and other expenses arising from compliance with environmental legislation are recorded in the year in which they are incurred.

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

(t) Foreign currency transactions and balances

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

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

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

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

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

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

4. Segment reporting

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

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

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

This segmentation coincides with the lowest level, or the most detailed level, of information used by management and the board of directors, which have information on

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production activity and manufacturing costs per production plant, and on sales, operating profit or loss, and margins for the identified segments.

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

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

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

Segment information related to the consolidated income statements for the years ended 31 December 2022 and 2021:

	Thousands of Euros			
	2022			
	Iberian Peninsula & Other	Italy	United Kingdom & Ireland	Consolidated Financial Statements
Revenues	752,802	106,009	487,771	1,346,582
Other income	14,555	2,565	10,197	27,317
Changes in inventories of finished goods and work in progress	36,180	5,517	30,683	72,380
Merchandise, raw materials and consumables used	(417,936)	(70,469)	(278,609)	(767,014)
Employee benefits expense	(104,596)	(13,172)	(96,260)	(214,028)
Amortisation costs	(39,202)	(9,967)	(36,291)	(85,460)
Impairment of non-current assets	(290)	(344)	(90)	(724)
Other expenses	(111,612)	(14,118)	(69,109)	(194,839)
Finance income	1,629	-	(78)	(3,435)
Finance costs	(1,757)	(1,600)	(78)	(3,435)
Change in fair value financial instruments	4,638	-	-	4,638
Impairment	(488)	-	-	(488)
Profit before income tax from continuing operations	133,923	4,421	49,404	187,748
Income Tax	(34,460)	7,751	(7,353)	(34,062)
Profit for the year from continuing operations	99,463	12,172	42,051	153,686

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	Thousands of Euros			
	2021(*)			
	Iberian Peninsula & Other	Italy	United Kingdom & Ireland	Consolidated Financial Statements
Revenues	607,969	83,933	392,797	1,084,699
Other income	3,609	2,117	6,054	11,780
Changes in inventories of finished goods and work in progress	231	(1,361)	5,391	4,261
Merchandise, raw materials and consumables used	(262,222)	(46,142)	(163,864)	(472,228)
Employee benefits expense	(101,762)	(12,652)	(81,982)	(196,396)
Amortisation costs	(41,193)	(9,108)	(35,983)	(86,284)
Impairment of non-current assets	(2,283)	(204)	(353)	(2,840)
Other expenses	(97,510)	(11,896)	(54,923)	(164,419)
Finance income	(14)	-	128	114
Finance costs	(2,295)	(1,691)	(2,187)	(6,173)
Profit before income tax from continuing operations	104,530	2,906	65,078	172,514
Income Tax	(12,443)	2,753	(17,667)	(27,357)
Profit for the year from continuing operations	92,087	5,659	47,411	145,157

(*)Restated see note 2

Non-current assets allocated at 31 December 2022 and 2021:

	Thousands of Euros	
	2022	2021
Iberian Peninsula & Other	707,903	581,218
Italy	126,057	136,875
United Kingdom & Ireland	<u>338,865</u>	<u>362,786</u>
	<u>1,172,825</u>	<u>1,080,879</u>

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

Location	Thousands of euros					
	2021			2020		
	Assets	Liabilities	Investments	Assets	Liabilities	Investments
Iberian Peninsula & Other						
Other	1,213,988	723,448	90,556	928,243	537,574	73,296
Italy	217,841	42,786	14,779	227,922	43,637	7,436
United Kingdom & Ireland	<u>521,698</u>	<u>153,669</u>	<u>55,878</u>	<u>547,081</u>	<u>155,133</u>	<u>32,597</u>
	<u>1,953,527</u>	<u>919,903</u>	<u>161,213</u>	<u>1,703,246</u>	<u>736,344</u>	<u>113,329</u>

Investments in 2022 and 2021 in the preceding table include additions to property, plant and equipment (see Note 6) and intangible assets (see Note 7) and do not reflect the value of emission rights allocated for the year (see Note 7).

5. Risk Management Policy

Business risks

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

The main external risk factors affecting our business results in the short-term future, under the current overall business context, are: the continuation of the solid sales context, global economic trends and their potential impact on end-consumer demand for our products; the management of needed inventory levels to serve our customers and subsequent adaptation of production capacities at our facilities; the abnormal inflation in the prices of energy, raw materials and other operating costs necessary to produce and sale glass containers and our ability to transfer these cost increases into our sales prices, through contractual pass through formulas or direct renegotiations; the investment intensity in our industrial perimeter to grow or diversify the business and reduce operating costs.

Operational risk

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

In this respect, during the year 2022, work continued on the review, evaluation and definition of business risks defined as operational and documented in a risk map. The aim was to engage in a dynamic process to identify potential risks, gain a perspective on their impact and probability of occurrence and, principally, to link each area of operations and each business process to adequate control and monitoring systems in order to minimise their potential adverse effects.

i. Environmental risks

The Vidrala Group declares itself firmly committed to protecting the environment. In order to minimise the impact on the environment, Vidrala implements specific action plans in relation to emissions in the atmosphere, dumping, waste, the consumption of raw materials, energy, water and noise.

Glass manufacturing is an energy-intensive process as melting furnaces are in operation 24 hours a day, 365 days a year. As a consequence of the industrial process, one of the primary management objectives is to reduce contaminating emissions. In order to do this, specific investments are made to upgrade factory facilities and adapt them to the most efficient technological systems for reducing environmental impacts. Additionally, operating priorities are focused on the growing use of recycled products as the main raw material for manufacturing glass, which not only avoids the consumption of natural raw materials but also contributes to reducing energy consumption and emissions volumes.

One of the Group's strategic guidelines is the implementation of environmental management systems. In line with this commitment, all Group's production facilities have ISO 14001:2015 certification, demonstrating that Vidrala operates under the guidelines of a global, verified and recognised environmental management system. Furthermore, in line with its undertaking to continuous improvement, we have started implementation and

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verification processes for new environmental standards such as ISO 14064:2018 in 5 of our manufacturing sites, related to the voluntary declaration of CO₂ emissions, or ISO 50001:2018, on energy management systems, already certified in 3 of our factories and another 2 of them in implementation phase.

In addition, Vidrala maintains an investment commitment specifically designed to minimise the potential pollutant effect of its facilities. Of special importance in recent years, this concrete effort has materialised in the conclusion of an extensive investment project developed for the installation, in all the production centres, of special systems of purification of atmospheric emissions, denominated electrostatic precipitators or electrofilters. These installations are aimed at reducing emissions of pollutant particles and are recognised as the best technology available for this purpose by the European legislation. The installed electrofilters act to retain the particles generated in the melting process by attracting them through electric fields, reducing the usual emissions of glass melting furnaces by more than 90%. The electrofilters installed in Vidrala have been accompanied by systems for purifying SO_x emissions, desulfurisers, which have considerably reduced the emission of this pollutant.

The impacts of climate change are already visible and will worsen without proper action. Reducing our carbon footprint and minimising our climate impact is vital for us. To do so, we have been investing in more energy efficient furnaces, as well as switching to renewable sources of energy to reduce reliance on fossil fuels. Additionally, our plans are formally aligned with the goal of limiting global warming to levels below 1.5°C, after being validated by the Science-based Target Initiative (SBTi).

Additionally, the Vidrala Group obtained an 'A-' rating for Climate Change and 'B' for Water Management in the Carbon Disclosure Project questionnaires. The Carbon Disclosure Project (CDP) qualification allows visualising the environmental performance, management and progress in corporate sustainability matters. The report published by the non-profit organisation reaffirms Vidrala's environmental commitment and its leadership position in sustainability.

Progress in the Group's environmental efficiency is certified annually and documented in a sustainability report / statement of non-financial information, part of the management report of the full year consolidated financial statements.

ii. Occupational health and safety

The activity developed by the Vidrala Group is grounded on the daily work of the more than 3,600 people employed, most of which operate in a context of industrial or manufacturing work.

In this sense, the Vidrala Group remains determined to establish the most effective measures of prevention and protection against occupational accidents. This commitment is evidenced by the progressive implementation of occupational health and safety systems, based on the ISO 45001:2018 standard, which are certified by independent entities accrediting the existence of an internationally recognised management framework.

With the aim of preventing labour-related accidents and, more relevant, with the guideline to improve health and well-being at work, Vidrala implements specific and systematic ongoing staff training and awareness plans. The sustainability report, included in the Group's full year consolidated financial statements, details the evolution of the indicators

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linked to the management of occupational risk prevention, having registered a 2022 accident rate 25% below that of 2021, with a total of 88 accidents. Part of this decrease is due to the investment of 15,271 training hours in this area. These plans are developed and disseminated among all the agents involved in the organisation and allow the business to objectively document the trend in occupational safety indicators and, consequently, the actual effectiveness of the implemented control processes, evidencing whether additional corrective measures are necessary.

iii. Supply chain risk

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

With regard to supply risk affecting key assets or products for the production process, management initiatives include the continual and specialised search for supply sources and strengthening ties with suppliers, diversifying and forging long-term relationships, establishing ongoing audit and standardisation processes and developing supply alternatives in all relevant areas. Besides, to ensure stability in volume, quality and price of certain key raw materials, Vidrala plans to move forward with the verticalisation of its activity, deploying a specific strategy for each of the regions in which it operates, adapting to particular risks and casuistry.

Steps taken to address customer service and product quality risks include the development of a specific departmental area, separate from the rest of the organisational areas dedicated exclusively to quality. Specific investments are being made across all the Group's facilities to guarantee quality targets and optimise product quality control in production plants through implementation of the latest available technological advances.

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

iv. Risks of inflation in the cost of energy and raw materials

Under the abnormal inflationary context in industrial production costs, current inflation for a typical structure of glass container production costs -at the reporting date- is estimated at >40% year on year.

In particular, energy consumption, principally natural gas and electricity, represents a significant source of costs inherent in most production-intensive industries. Supplies of other raw materials are an equally relevant cost for the Group. Volatility in the variables affecting their prices, represented by the natural variability of the global commodity markets, affects the cost of the production process and can have a greater or lesser impact on the business profitability.

Risk management is based on establishing processes to mitigate potential unforeseen effects on operating margins that would occur in the event of inflationary market trends.

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These measures consist of the implementation of adapted price-setting formulas, the continuous monitoring of market variables through specifically dedicated departments and risk control through price hedging strategies, including the contracting of tariffs at fixed prices and the use of derivative hedging instruments. In this extremely inflationary and volatile context, Vidrala has developed its supply capacity with alternative fuels to natural gas, as an additional measure of risk mitigation. This element also increases the security of supply in a highly uncertain context in natural gas markets.

Due to this risk management policy, as of December 21, 2022, the Vidrala Group had contracted protection or hedging instruments against increases in energy commodity prices for a nominal amount equivalent to EUR 39 million. Additionally, some energy supplies have been directly contracted at a fixed price. As a result of these measures, the Group estimates that it has approximately 55% and 13% of the consumption hedged for 2023 and 2024, respectively.

v. Cybersecurity risk

Cybersecurity risk refers to potential threats and vulnerabilities that may affect control systems or information and communication systems, as well as any other asset supported by information technology systems. Currently, the risk of suffering a cybersecurity attack is real and growing, although no relevant incident in this area has materialised in the Vidrala Group in 2022. The constant advancement of technology has great benefits, while also increases exposure to malicious attacks, sabotage, as well as other intentional acts that can lead to interruptions at the operational level, theft of sensitive information, intellectual and industrial property, etc. with significant impacts on the Group's activity.

In order to manage this risk, the Vidrala Group has a Cybersecurity Master Plan, launched in 2021, that has involved specific investments and spending after an intense analysis resulting from the advice of external consultants, self-assessment of risks and the development of policies and procedures for continuous improvement that help to continue strengthening our control environment. Some, but not all, of these improvement tools include the following:

- Cybersecurity manager has sufficient autonomy and independence to carry out his/her functions.
- Various cybersecurity management policies and procedures are in place to ensure compliance.
- Cyber-attack drills and third-party audits are carried out in order to continuously improve our response and business continuity protocols.
- Constant education and training of all workers is promoted as training for the first line of defence.
- There is a Security Operations Center that continuously detects, analyses and reports alerts and possible threats.

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Fiscal risk

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

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

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

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

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

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

Financial risk

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

Managing the Group's financial risks focuses on the identification, analysis and monitoring of natural market fluctuations in items that could affect the business's profits. This involves defining systematic measurement, control and monitoring processes to

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minimise any potential adverse effects and structurally reduce the volatility of results. To hedge certain risks, the Group employs, or is in a position to employ, derivative financial instruments which are described in the annual report.

The most relevant financial risks identified are as follows:

i. Currency risk

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

Currency risk affecting the Group's present structure arise, mainly, from the risks inherent in the global expansion of the Group after the incorporation of Encirc Ltd. in 2015, whose business is largely conducted in Pounds Sterling. In order to quantify the sensitivity to the currency at a consolidated level, as a result of the above, 33.54% of sales and 31.24% of operating income, EBITDA, obtained during the year 2022 is generated in Pounds Sterling, which may be affected by fluctuations in this currency against the Euro. There is also a risk of translating cash generated by the acquired business in Pounds Sterling to Euros, to repay a debt that was acquired in Euros. The depreciation of the Pound Sterling against the Euro could reduce its equivalent value in Euros, thus reducing cash.

Quantifying currency risk based on 2022 data, if the Pound Sterling depreciated against the Euro by an average of 5% over a year, without considering any hedging or insurance instruments, and the remaining variables remained constant, consolidated profit of the Group would be affected by approximately 1.3%, and annual cash flow would be reduced by approximately 3%.

To control currency risk, Vidrala uses derivative instruments, mainly forwards or options. Thus, as of December 31, 2022, Vidrala has contracted sales structures in pounds sterling with maturities during the year 2023, for an accumulated equivalent value of EUR 35 million, equivalent to approximately 40% protection on the net cash flow expected to be generated during the year 2023.

ii. Interest rate risk

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

The Group's financing policy concentrates the main part of its borrowings on variable rate instruments. The Group manages interest rate risks in cash flows mainly through interest rate swaps. These instruments convert variable-rate borrowings to fixed-rate, thus avoiding the risk of fluctuations in variable interest rates. Generally, the Group obtains long-term variable rate borrowings and swaps them for fixed interest rates. This normally give better rates than had the financing been obtained directly with fixed interest rates. Through interest rate swaps the Group undertakes to periodically exchange the difference between fixed and variable interest with other financial entities. The difference is calculated based on the contracted notional amount. Under interest rate caps the Group has the right, and the counterparty the obligation, to settle the difference between the variable interest rate and the established rate if this is positive. The effectiveness of these instruments as regards fixing the interest rate of contracted financing is assessed and documented using accepted methodologies under applicable accounting legislation.

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As a result of this risk control policy, as of December 31, 2022, Vidrala has contracted interest rate hedging instruments in the form of interest rate swaps for a notional of EUR 205 million, with progressive maturities up to 2026.

iii. Credit risk

The Vidrala Group has a well-diversified customer base made up of a combination of large owners of widely recognised global consumer brands, local or regional packers and packaging distribution companies. No customer accounts for more than 10% of revenue. Top ten clients represent approximately 32% of revenue. The 50th percentile of sales is composed of the main 24 customers.

The Vidrala Group has policies to ensure that sales are only made to customers with adequate credit records and solvency in order to minimise the risk of default. This control process involves ongoing solvency analysis, setting specific, assumable risk limits for each customer considering variables such as specific credit metrics, the segment or geographical area in which they operate and preparing detailed individual ratings typical of evolved credit control systems, using a proprietary rating system.

Furthermore, control of collection risk is intensified with a second level of control through policies of repeat contracting of credit insurance with external insurance policies to cover the impact of any bad debts. During 2022, the impact of bad debts has represented 0.03% of the Group's consolidated sales.

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

iv. Liquidity risk

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

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

As of December 31, 2022 the Group maintains EUR 702 million in external financing available resources, of which EUR 42 million correspond to promissory notes issued in the Alternative Fixed Income Market (MARF) whose maturities will take place in the short term.

Vidrala bases its financial liquidity management strategy on prudence, flexibility, cost efficiency and the appropriate duration long-term structure. For this reason, in order to maintain a solid financing position capable of assuming the repayment of the maturities of the currently arranged debt, the impact of any unforeseen or change of context in the markets, and maintain an adequate structure to face strategic operations that could require payments agility, the Group has –as of December 31, 2022– EUR 378 million in

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immediately available, undrawn credit, on top of EUR 154 million in cash and cash equivalents.

v. Debt and solvency

As of December 31, 2022 Vidrala's consolidated net debt amounted to EUR 167.2 million. As a result, indicators of financial solvency as of December 31, 2022 reflect a leverage of 0.6 times last twelve months EBITDA, evidencing the financial capacity and stability of Vidrala's equity position.

The core part of the financing structure is concentrated in a long-term syndicated financing agreement, signed by a selected group of nine financing entities, for an amount in force at the reporting date of EUR 260 million. Its maturity date is September 13, 2025, being progressively amortisable from September 13, 2024. Consequently, during 2023 the financing will be in a grace period with no obligations to repay the loan principal.

The mentioned loan contract contains certain covenants, mainly in relation to the net debt to EBITDA ratio. All these covenants had been met as of December 31, 2022:

Leverage ratio (Financial Net Debt / LTM Consolidated EBITDA): 0.62x

LTM Consolidated EBITDA / Net Financial Result: 147.88x

In addition to the syndicated structure, Vidrala has complementary financing. In the long term, in order to provide flexibility, financial strength and to adapt the Group's debt maturity structure to its future needs, the Vidrala Group has credit lines and additional loans for an amount of EUR 326 million, with maturities between 2023 and 2032. On top of that, for the short-term management of flows and cost efficiency, the Group has a Commercial Paper Program (CPP) registered in MARF for a limit of EUR 200 million which –as of December 31, 2022– is used in EUR 42 million. Finally, the Group has working capital credit lines for limits of EUR 74 million.

vi. Other risks: conflict between Russia and Ukraine

In February 2022, Russia began the war in Ukraine. As of the reporting date, this conflict is still in force and its effects on the financial markets are intensifying.

The direct impact on Vidrala's business is limited, as the Group does not have assets or maintains any industrial or commercial activity, does not produce, sell or buy directly in Ukraine or Russia.

However, the indirect impact is evident in the growing difficulties in global supply chains and, specially, in the abnormal increases in energy prices. In particular, the price of natural gas, the main source of energy in glass manufacturing, which represented approximately 15% of the Group's total cost of production in 2021, generally dictated by organised pan-European markets, is behaving with abnormal volatility related to the perception of the risks of lower supply from Russia to central Europe. Thus, market gas prices have multiplied by almost 3 times from 2021 levels. Additionally, we observe collateral effects of higher electricity prices and some raw materials, which together accounted between 35% and 40% of production.

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In response to this inflationary situation, Vidrala has implemented exceptional measures to adapt sales prices and temporary hedging by setting energy prices, which are discussed in detail in its specific section. On the costs side, and on top of the various initiatives taken by national governments to alleviate the industry's energy bill, Vidrala has increased the flexibility of its natural gas supply contracts to accommodate, if necessary, supplies of alternative, more competitive fuels in a situation of energy crisis. These measures should be efficient in preserving business margins at consistent levels over a normal period of time. However, in the short term, if extreme volatilities persist, a deterioration in operating margins would be unavoidable until the measures take full effect or markets stabilise. Regarding the risks of a cut in the gas supply, experts believe that the infrastructure in our regions of activity, Iberia, the United Kingdom and Italy, is particularly protected. However, there would be physical measures that would allow, in most of the facilities and for a short time, partial alternatives to natural gas supply to maintain production activity.

6. Property, Plant and Equipment

Details of property, plant and equipment and movement during 2022 and 2021 are as follows:

	Thousands of Euros					
	Balances at 12.31.21	Additions	Disposals	Transfers	Translation differences	
2022						
<u>Cost</u>						
Land and buildings	343,148	12,006	(1,534)	2,045	(7,037)	348,628
Technical installations and machinery	975,737	23,539	(2,513)	5,108	(16,900)	984,971
Moulds	119,686	13,797	(2,057)	-	(1,102)	130,324
Furniture	11,884	2,796	(629)	1,332	(649)	14,734
Other property, plant and equipment	9,650	2	-	-	-	9,652
Work in progress	116,851	106,094	(1,563)	(8,485)	(863)	212,034
	1,576,956	158,234	(8,296)	-	(26,551)	1,700,343
<u>Depreciation</u>						
Land and buildings	(123,737)	(8,812)	1,376	-	993	(130,180)
Technical installations and machinery	(562,201)	(64,139)	2,363	-	5,487	(618,490)
Moulds	(87,225)	(8,804)	1,861	-	1,021	(93,146)
Furniture	(7,819)	(287)	290	-	356	(7,460)
Other property, plant and equipment	(3,924)	(16)	1,563	-	-	(2,377)
	(784,906)	(82,058)	7,454	-	7,857	(851,653)
<u>Impairments</u>						
Moulds	(18,423)	(724)	-	-	-	(19,147)
	(18,423)	(724)	-	-	-	(19,147)
<u>Carrying amount</u>	773,627					829,543

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2021	Thousands of Euros					Balances at 12.31.21
	Balances at 12.31.20	Additions	Disposals	Transfers	Translation differences	
<u>Cost</u>						
Land and buildings	332,322	2,172	(562)	530	8,685	343,148
Technical installations and machinery	904,247	23,336	(9,925)	30,048	28,031	975,737
Moulds	111,421	5,823	(25)	176	2,291	119,686
Furniture	10,418	2,444	(1,264)	286	-	11,884
Other property, plant and equipment	8,225	544	-	66	815	9,650
Work in progress	75,716	71,558	-	(30,423)	-	116,851
	1,442,349	105,877	(11,776)	683	39,822	1,576,956
<u>Depreciation</u>						
Land and buildings	(113,470)	(8,771)	562	-	(2,058)	(123,737)
Technical installations and machinery	(495,827)	(64,045)	9,925	-	(12,254)	(562,201)
Moulds	(79,107)	(6,875)	25	-	(1,268)	(87,225)
Furniture	(6,913)	(2,170)	1,264	-	-	(7,819)
Other property, plant and equipment	(2,930)	(333)	-	-	(661)	(3,924)
	(698,247)	(82,194)	11,776	-	(16,241)	(784,906)
<u>Impairments</u>						
Moulds	(15,705)	(2,718)	-	-	-	(18,423)
	(15,705)	(2,718)	-	-	-	(18,423)
<u>Carrying amount</u>	728,397					773,627

Main additions for 2022 and 2021 correspond to the investment plans for the complete update of the production plants located in the United Kingdom (Euros 23,479 thousand and Euros 32,597 thousand respectively) and Portugal (Euros 94,557 thousand and Euros 39,792 thousand respectively).

No significant decreases have been recorded during 2022 and 2021.

During the financial year 2022, the Group formalized various "Sale & Leaseback" leasing contracts with financial institutions (Note 15), relating to fixed assets affecting their production plants in Spain.

(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 5,219 thousand at 31 December 2022 (Euros 9,212 thousand at 31 December 2021) (see note 14).

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b) Commitments

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

	Thousands of Euros	
	2022	2021
Technical installations and machinery	<u>50,645</u>	<u>61,769</u>

(c) Insurance

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

(d) Fully depreciated assets

At 31 December 2022 the restated cost of fully depreciated property, plant and equipment in use amounts to Euros 500 million (Euros 457 million at 31 December 2021).

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7. Intangible Assets

Details of intangible assets and movement during 2022 and 2021 are as follows:

Thousand of euros

2022

Cost

	R&D expenditure	Emission allowances	Computer software	Other Intangible assets	Customer portfolio	Goodwill	Total
Balances at December 31 2021	4,936	36,087	30,888	1,137	13,237	209,890	296,175
Additions	167	90,780	2,781	31	-	-	93,759
Disposals	(199)	(64,411)	-	-	-	-	(64,610)
Transfers	153	-	(629)	-	-	-	(476)
Translation differences	-	-	(732)	-	-	-	(732)
Balances at December 31 2022	5,057	62,456	32,308	1,168	13,237	209,890	324,116

Depreciation

Balances at December 31 2021	(3,512)	-	(20,283)	(621)	(13,237)	-	(37,653)
Additions	(361)	-	(3,034)	(7)	-	-	(3,402)
Disposals	77	-	-	-	-	-	77
Transfers	-	-	(49)	-	-	-	(49)
Translation differences	-	-	-	-	-	-	-
Balances at December 31 2022	(3,796)	-	(23,366)	(628)	(13,237)	-	(41,027)

Impairment

	-	-	(122)	-	-	-	(122)
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Carrying amount

At December 31 2021	1,424	36,087	10,483	516	-	209,890	258,400
At December 31 2022	1,261	62,456	8,820	540	-	209,890	282,967

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Notes to the Consolidated Annual Accounts

Thousand of euros

<u>2021</u>	R&D expenditure	Emission allowances	Computer software	Other Intangible assets	Customer portfolio	Goodwill	Total
<u>Cost</u>							
Balances at December 31 2020	3,953	17,462	25,715	300	13,237	209,890	270,557
Additions	724	37,359	5,900	827	-	-	44,810
Disposals	-	(18,734)	-	-	-	-	(18,734)
Transfers	259	-	(952)	10	-	-	(683)
Translation differences	-	-	225	-	-	-	225
Balances at December 31 2021	4,936	36,087	30,888	1,137	13,237	209,890	296,175
<u>Depreciation</u>							
Balances at December 31 2020	(3,077)	-	(17,174)	(75)	(13,237)	-	(33,563)
Additions	(435)	-	(3,109)	(546)	-	-	(4,090)
Translation differences	-	-	-	-	-	-	-
Balances at December 31 2021	(3,512)	-	(20,283)	(621)	(13,237)	-	(37,653)
<u>Impairment</u>	-	-	(122)	-	-	-	(122)
<u>Carrying amount</u>							
At December 31 2020	876	17,462	8,541	225	-	209,890	236,994
At December 31 2021	1,424	36,087	10,483	516	-	209,890	258,400

(a) **Impairment and allocation of goodwill to CGUs**

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

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

Accordingly, the Group's CGUs are:

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

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Notes to the Consolidated Annual Accounts

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	
		2022	2021
Gallo Vidro	Portugal	20,799	20,799
Castellar Vidrio	Spain	26,155	26,155
Vidrala Italia	Italy	12,279	12,279
Santos Barosa Vidros	Portugal	150,657	150,657

All Group CGUs are tested for impairment, irrespective of any goodwill allocated, annually or more frequently if there is any indication of a potential loss in the value of the asset. CGUs tested for impairment represent 96% of the value of the group's non-current assets.

Measurements to quantify value in use are based on assessing value in use of the production plants identified according to predictive business models, which have been updated on the basis of current economic conditions, and a valuation methodology based on discounted future cash flows.

The projections are based on the actual scenario 2022. In general, sales growth estimates are constructed as the combination of an expected 1% annual growth in sales volumes and an average sales price increase equal to the year-on-year change in the general consumer price indices forecast in each region. However, given the unprecedented escalation of commodity and energy prices in 2022, price increases are assumed in 2023 in line with the best internal estimates, reflecting a progressive moderation in the coming years. The figures for sales volume variation and industrial investment necessary for its sustainability are consistent with the business' history.

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

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

Average growth in sales and EBITDA for the forecast period is 0.4% and 14.2%, respectively (2021: 3.0% and 4.6%, respectively), respectively, increases that the Group considers reasonable in the current market context, considering the effects of the extraordinarily inflationary situation on the figures for 2022 and 2023. The increase in EBITDA compared to that recorded in 2022 is exceptionally high due to the temporary mismatch between price increases and the normalisation of energy prices in the medium to long term.

VIDRALA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

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

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

Cash Generating Unit	2022 Discount rate	2021 Discount rate
Aiala Vidrio	7.1%	7.1%
Crisnova Vidrio	7.0%	7.0%
Castellar Vidrio	7.1%	7.1%
Gallo Vidro	7.4%	7.4%
Vidrala Italia	7.2%	7.2%
Santos Barosa Vidros	7.4%	7.4%
Encirc	7.1%	7.1%

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

- The risk-free rate of the related GCU's country, which ranges from 2.0% to 2.6% (between 2.0% and 2.6% to 31 in fiscal 2021)
- A 7.0% risk premium (7.0% in 2021).
- A beta for the related GCU's country, which ranges from 1.05 to 1.11 (from 1.05 to 1.11 in 2021)
- A fixed liability structure of 1/3 debt, 2/3 equity (the same as in 2021)

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

- Changes in consumer price index

Estimated in 2022	2023	2024 and following
Spain	6,8%	1,5%
Portugal	9,9%	1,5%
Italy	11,8%	1,5%
United Kingdom	10,7%	2,0%

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Estimated in 2021	2022	2022 and following
Spain	4,8%	1,5%
Portugal	2,1%	1,9%
Italy	2,0%	1,8%
United Kingdom	3,5%	2,5%

- Estimated Brent barrel price, in euros:

	2022	2023	2024	2025	2026	2027
Estimated in 2022 (Gas)	-	95,80	86,80	68,48	40,17	32,58
Estimated in 2021 (Gas)	66,99	44,06	28,04	23,59	25,00	-

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

Exceptionally and due to the volatility of the economic situation derived from the collateral effects of the pandemic as well as those derived from the energy crisis, in order to carry out a sensitivity analysis of the discounted cash flow valuations, variations in sales and EBITDA of +/-3% in each of the years are analysed.

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

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

(b) Fully amortised assets

At 31 December 2022, there were fully amortised items of intangible assets still in use with an updated cost of Euros 43 million (Euros 28 million at 31 December 2021).

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Notes to the Consolidated Annual Accounts

8. Derivative Financial Instruments

Details of derivative financial instruments are as follows:

	Thousands of Euros			
	2022		2021	
	Assets	Liabilities	Assets	Liabilities
Hedging derivatives				
Interest rate swaps	18,408	480	-	480
Inflation swaps	460	729	-	729
Energy price options	<u>345</u>	<u>2,715</u>	<u>30,421</u>	<u>28,823</u>
Total	<u>19,159</u>	<u>2,715</u>	<u>30,421</u>	<u>30,032</u>

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

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

Swaps and options

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

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

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

Interest rate hedging instruments have an accumulated nominal value at 31 December 2022 of EUR 205 million (EUR 235 million in 2021), with maturities between 2023 and 2026. At 31 December 2022, the market value of these hedges amounted to EUR 18 million. Under these contracts, the Group will pay a fixed interest rate of between negative 0.266% and 0.195%.

Energy price hedging instruments have an accumulated nominal of Euros 39 million at December 31, 2022 (Euros 48 million at December 31, 2021).

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Notes to the Consolidated Annual Accounts

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

	Thousands of Euros Income/(Expenses)	
	2022	2021
Other comprehensive income	(68,610)	11,964
Reclassification to finance costs	<u>69,290</u>	<u>7,319</u>
	<u>680</u>	<u>19,283</u>

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

	Thousands of Euros						
	Carrying Amount	Expected Cash flows	2022				
			Occurrence of cash flows				
			2023	2024	2025	2026	2027
Interest rate swaps	18,408	18,408	6,035	5,673	4,327	2,373	-
Currency swap	(406)	(406)	(406)	-	-	-	-
Energy price options	(2,404)	(2,404)	(2,404)	-	-	-	-

	Thousands of Euros						
	Carrying Amount	Expected Cash flows	2021				
			Occurrence of cash flows				
			2022	2023	2024	2025	2026
Interest rate swaps	(480)	(501)	(261)	(125)	(65)	(45)	(5)
Currency swap	(729)	(729)	(729)	-	-	-	-
Energy price options	1,598	1,598	(4,813)	5,587	824	-	-

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Notes to the Consolidated Annual Accounts

9. Income Tax

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

Thousand euros						
Deferred tax assets	Loans for losses to be offset	Provisions for personnel	Rights to tax deductions and credits	Financial liabilities	Other	Total
At 31 December 2020	7,632	1,373	-	4,496	25,885	39,116
(Debit) credit to income statement	-	(636)	4,875	-	(68)	4,171
Debit (credit) to other comprehensive income	-	-	-	(1,745)	-	(1,745)
Translation differences	-	-	-	-	-	-
At 31 December 2021	7,362	737	4,875	2,751	25,817	41,542
(Debit) credit to income statement	-	-	1,782	-	(3,885)	(2,103)
Debit (credit) to other comprehensive income	-	-	-	393	-	393
Translation differences	-	-	-	-	-	-
At 31 December 2022	7,362	737	6,657	3,144	21,932	39,832

Thousand euros					
Deferred tax assets	Goodwill	Tangible Assets	Financial liabilities	Other	Total
At 31 December 2020	21,579	30,324	2,558	-	54,461
(Debit) credit to income statement	3,616	-	-	9,810	13,426
Debit (credit) to other comprehensive income	-	-	2,876	-	2,876
Translation differences	-	3,032	-	-	3,032
At 31 December 2021	25,195	33,356	5,344	9,810	73,705
(Debit) credit to income statement	3,616	-	-	4,468	8,084
Debit (credit) to other comprehensive income	-	-	(105)	-	(105)
Translation differences	-	(506)	-	-	(506)
At 31 December 2022	28,811	32,850	5,239	14,278	81,178

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

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

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

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

Deferred taxes on items debited/(credited) directly to other comprehensive income in 2022, corresponding to hedging operations, amounted to Euros 163 thousand (Euros 4,628 thousand at 31 December 2021).

Details of the income tax expense are as follows:

	Thousands of Euros	
	2022	2021
Current tax		
Present year	23,599	15,878
Prior year adjustments	(743)	84
Deferred tax		
Source and reversal of temporary differences	2,809	735
Application on capitalized deductions	4,399	358
Adjustments for change type of tax	-	5,500
Expense for reduction of deferred tax assets	40	1,301
Income for increase of deferred tax assets	(84)	(6,643)
Expense for increase of deferred tax liabilities	2,121	4,215
Income for reduction of deferred tax liabilities	480	4,866
Prior year adjustments	554	-
Other	887	1,063
Total	<u>34,062</u>	<u>27,357</u>

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

	Thousands of Euros	
	2022	2021
Profit for the year before income tax from continuing operations	<u>187,748</u>	<u>172,514</u>
Tax calculated at the tax rate of each country	43,733	38,682
Carry forward of unused tax losses	-	-
Deductions for the year	(9,885)	(7,466)
Prior year adjustments	(189)	(2,045)
Adjustments for changes in tax rate	-	5,500
Income for reduction in deferred tax liabilities	480	1,264
Other adjustments	1,047	(2,818)
Deferred income taken to income tax (note 14)		
Permanent differences	<u>(1,124)</u>	<u>(5,760)</u>
Income tax expense	<u>34,062</u>	<u>27,357</u>

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

The years open to inspection by the taxation authorities vary for the different companies of the consolidated tax group between four and five years for those located in Spain and between three and four years for those located out of Spain.

The Company applied in 2021 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 14,500 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 or the four to five year statute of limitations period has elapsed. Due to the treatment permitted by fiscal legislation of certain transactions, additional tax liabilities could arise in the event of inspection. In any event, the directors do not consider that any such liabilities that could arise would have a significant effect on the 2022 consolidated annual accounts taken as a whole.

10. Inventories

Details of inventories are as follows:

	Thousands of Euros	
	2022	2021
Raw materials	22,499	15,015
Auxiliary and production materials	85,055	76,746
Finished goods and work in progress	176,028	108,928
Supplier down payments	<u>160</u>	<u>161</u>
	283,742	200,850
Impairment	<u>(29,059)</u>	<u>(34,359)</u>
	<u>254,683</u>	<u>166,491</u>

At 31 December 2022 and 2021 there are no inventories with a recovery period of more than 12 months from the consolidated balance sheet date.

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

Impairment on finished goods amounted to Euros 4,147 thousand (2021: Euros 9,427 thousand), and on auxiliary and production materials to Euros 24,912 thousand (2020: Euros 24,932 thousand).

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

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Notes to the Consolidated Annual Accounts

11. Trade and Other Receivables

Details of trade and other receivables are as follows:

	Thousands of Euros	
	2022	2021
Trade receivables	318,279	245,074
Other loans	11,799	7,358
Less impairment	<u>(11,382)</u>	<u>(11,896)</u>
Total	<u>318,696</u>	<u>240,536</u>

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

There is no concentration of credit risk in respect of trade receivables, as the Group has a diversified commercial base comprising a large number of customers spread across different geographies.

At 31 December 2022 and 2021 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	
	2022	2021
Public entities		
Value added tax	28,861	10,420
Other items	<u>12,002</u>	<u>3,354</u>
	<u>40,863</u>	<u>13,774</u>

Details of other current liabilities are as follows:

	Thousands of Euros	
	2022	2021
Public entities		
Value added tax	18,629	12,545
Withholdings and payments on account	2,971	3,222
Social Security	4,346	4,272
Other	<u>433</u>	<u>48</u>
	<u>26,379</u>	<u>20,087</u>

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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 2021 and 2020 is as follows:

	Number Of shares outstanding	Thousand of euros		
		Ordinary shares	Own shares	Total
At December 31 2020	28,322,881	28,989	(7,679)	21,310
Acquisition of own shares	(21,451)	-	(1,567)	(1,567)
Share capital decrease	1,421,020	1,449	-	1,440
At December 31 2021	29,732,450	30,438	(9,246)	21,192
Acquisition of own shares	(468,852)	-	(31,765)	(31,765)
Share capital increase	1,463,179	1,492	-	1,492
Share capital decrease	-	(589)	41,011	40,422
At December 31 2022	30,726,777	31,241	-	31,341

The movement on own shares is the following:

	Number of own shares	
	2022	2021
At January 1	108,973	87,522
Acquisition of own shares	468,852	21,451
Sale of own shares	(577,825)	-
At December 31	-	108,973

At 31 December 2021, the share capital of Vidrala, S.A. was represented by 29,841,423 ordinary shares, represented by book entries with a par value of 1.02 euros each, fully paid up and listed on the Madrid and Bilbao Stock Exchanges.

On 23 June 2022, the Board of Directors of the Company resolved to reduce capital by EUR 306 thousand through the redemption of 300 thousand treasury shares - approximately 1% of the share capital prior to the reduction - acquired under share buyback programmes, in compliance with the objective communicated therein.

In addition, on 4 October 2022, the Board of Directors resolved to carry out a further capital reduction of EUR 283 thousand through the redemption of 278 thousand treasury shares (approximately 0.95% of the share capital prior to the reduction).

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Furthermore, the Ordinary General Shareholders' Meeting of Vidrala, S.A. held on 27 April 2022 resolved to increase the share capital by 1,492 thousand euros by issuing and putting into circulation 1,463,179 new ordinary shares a par value of 1.02 euros each, through the issue of new ordinary shares with a par value of one euro and two euro cents (1.02 euros) each, without share premium, of the same class and series as those in circulation, charged to freely distributable reserves, in order to allocate them free of charge to the Company's shareholders, in the proportion of one (1) new share for every twenty (20) existing shares of the Company.

Thus, following approval by the Spanish National Securities Market Commission of the admission to trading of the new shares of the Company on 23 December 2022 and their registration in the corresponding Mercantile Register, at 31 December 2022 the share capital of Vidrala, S.A. was set at 31,341 thousand euro, divided into 30,726,777 shares of one euro and two euro cents (1.02 euro) par value each.

In relation to treasury shares, the Ordinary General Shareholders' Meeting of Vidrala, S.A. celebrated on April 27, 2022 granted powers to proceed with their derivative acquisition, directly or through group companies, and to reduce the share capital, where appropriate, in order to redeem treasury shares, delegating to the Board of Directors the necessary powers for their execution.

Within the framework of this agreement, once the previous treasury share purchase program has been completed, the Board authorised a new share buyback programme for a duration of 12 months for the acquisition of up to 300,000 shares for an ongoing effective amount of EUR 30 million. The purpose of this programme will be to redeem treasury shares, increasing the earnings per share accruing to each shareholder as a complementary shareholder remuneration tool in addition to cash dividends.

However, on 1 September 2022, the Company announces the termination of the buy-back programme prior to its deadline - set for 15 May 2023 - having reached the maximum number of shares for an effective amount of EUR 20.5 million, equivalent to an average price of EUR 68.36 per share.

Thus, on the basis of the programmes described above, 468,852 and 21,451 shares were acquired on the continuous market in 2022 and 2021, respectively, for a total amount of 31,765 thousand euros and 1,567 thousand euros, respectively.

All shares, except treasury shares, have the same voting and dividend rights. The voting rights of treasury shares are suspended. The economic rights, with the exception of the right to the free allotment of new shares, are attributed proportionally to the remaining shares, in accordance with the regime established in article 148 of the Capital Companies Act.

All of the Company's shares are listed on the Bilbao and Madrid Stock Exchanges. There are no restrictions on the free transferability of these shares. No shareholder holds 10% or more of the share capital.

Vidrala's objectives in capital management are to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefit other stakeholders by maintaining an optimal equity structure to reduce its cost of capital.

In order to adapt the capital structure to each economic situation, Vidrala can adjust the amount of dividends to be paid to shareholders, buy back or sell treasury shares, reduce

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capital through the redemption of treasury shares, return capital, issue shares or sell assets to reduce indebtedness.

The Vidrala Group monitors its capital structure on the basis of various indicators. One of these is the ratio of shareholders' equity to total equity and liabilities on the balance sheet, ensuring that this ratio is not less than 20% in terms of the consolidated balance sheet.

In 2022, the Group's capital ratios increased, as shown in the following ratios for 2022 and 2021:

	Thousands of Euros	
	2022	2021
Total equity	1,033,624	966,902
Total equity and liabilities	1,953,527	1,703,246
Total equity/total equity and liabilities	<u>52.91%</u>	<u>56.77%</u>

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

This calculation was performed as follows:

	Thousands of euros	
	2022	2021
Net financial debt	167,124	97,076
Equity	1,033,624	966,902
Debt ratio	<u>0.16</u>	<u>0.10</u>

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

As mentioned in Note 15 and the financing contract, Net Financial Debt does not include the effect of IFRS 16, which represents an increase of EUR 2.4 million under "Debts to credit institutions"

The Group's financial solvency indicators at year-end reflect a total debt equivalent to 0.62 times accumulated EBITDA in the last year (0.36 at the end of the previous year) and lower than equity, at a ratio of 0.16 times to 1 (0.10 at the end of the previous year). Likewise, the interest coverage ratio, measured as EBITDA for the year over consolidated net financial result, amounts to 147.88 times (79.01 at the end of the previous year).

VIDRALA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(b) Other reserves

- Revaluation reserve Provincial Law 4/1997

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

- Revaluation reserve

In fiscal year 2022 and 2021 no movements have been recorded under this heading.

- Capitalisation reserve

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

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

At December 31, 2022 the Group has included a non-distributable capitalisation reserve of Euros 520,000,000 (same amount in 2021) 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.

VIDRALA, S.A. AND SUBSIDIARIES

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(c) Other comprehensive income – Cash flow hedges

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

	Thousands of Euros		
	Cash flow hedges	Tax effect	Net
Balances at December 31 2020	(8,091)	1,896	(6,195)
Income and expenses generated during the year	11,964	(2,871)	9,093
Reclassification to profit or loss	7,318	(1,756)	5,562
Balances at December 31 2021	11,191	(2,731)	8,460
Income and expenses generated during the year	(68,610)	16,466	(52,144)
Reclassification to profit or loss	69,290	(16,629)	52,661
Balances at December 31 2022	11,871	(2,894)	8,977

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 21,647 thousand (Euros 25,136 thousand positive in 2021) 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 2,671 thousand (Euros 1,523 thousand in 2021) (see note 18).

(d) Dividends and restrictions on distribution of dividends

Total dividends distributed by Vidrala, S.A. to shareholders in 2022 amounted to Euros 34,607 thousand (Euros 32,977 thousand in 2021), which is equivalent to 1.2039 euro per share outstanding (1,1639 euro in 2021). The dividends reflect the distribution of 2021 profit.

The amount paid as an attendance bonus to the General Shareholders' Meeting during the financial year 2022 amounted to Euros 1,1015 thousand (Euros 998 thousand in 2021).

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The distribution of Company profits and reserves for the year ended 31 December 2021, approved by the shareholders at their annual general meeting held on April 27, 2022, was as follows:

<u>Basis of allocation</u>	<u>Euros</u>
Profit for the year	133,201,683.90
 <u>Distribution</u>	
Legal reserves	289,888.08
Other reserves	98,306,197.61
Dividend	9,541,143.21
Interim dividend	<u>25,064,455.00</u>
	<u>133,201,683.90</u>

On 16 December 2022 the Board of Directors of the Parent Company agreed to distribute an interim dividend on 2022 profit of 0.8852 euro per share to shareholders, totalling Euros 27,199 thousand, which was paid on February 15, 2023.

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

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

	<u>Thousands of Euros</u>
Forecast distributable profit for 2022	
Projected profit after income tax to 12.31.2022	
Interim dividend distributed	27,199
 Forecast cash flow for the one-year period from December 16, 2022	
Cash and cash equivalents at agreement date	94,023
Credit facilities available at agreement date	339,000
Projected operating receipts and payments (net)	111,573
Other cash disbursements	(8,998)
<u>Credit facilities available (one year later)</u>	<u>535,598</u>

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The proposed distribution of 2022 profit and other Parent reserves to be submitted to the shareholders for approval at their annual general meeting is as follows:

<u>Basis of application</u>	<u>Euros</u>
Profit for the year	171,290,073.03
<u>Distribution</u>	
Legal reserve	180,612.22
Other reserves	133,558,266.64
Dividend	10,351,851.17
Interim dividend	27,199,343.00
	<u>171,290,073.03</u>

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

14. Deferred Income

Details of this caption are as follows:

	<u>Thousands of Euros</u>	
	<u>2022</u>	<u>2021</u>
Capital grants (note 6(a))	5,219	9,212
Tax credits for investments	<u>(113)</u>	<u>(83)</u>
	<u>5,106</u>	<u>9,129</u>

During 2022 and 2021, the Group has not added any additional capital grants being the gross allocation during 2022 to the consolidated profit and loss account amounting to 5,372 thousand euros (1,639 thousand euros in 2021) (see note 21).

15. Debt with Financial Institutions

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

	<u>Thousands of Euros</u>			
	<u>2022</u>		<u>2021</u>	
	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>	<u>Current</u>
Loans and borrowings	209,500	4,874	161,500	6,370
Finance Lease	62,364	274	20,462	212
Other financial liabilities	1,600	44,697	2,041	66,895
Accrued interest	-	244	-	136
	<u>273,464</u>	<u>50,089</u>	<u>184,003</u>	<u>73,613</u>

Non-current loans and borrowings mature as follows:

	<u>Thousands of Euros</u>	
	<u>2022</u>	<u>2021</u>
Between 1 and 2 years	115,600	81,503
Between 2 and 5 years	143,364	93,500
More than 5 years	<u>14,500</u>	<u>9,000</u>
	<u>273,464</u>	<u>184,003</u>

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Some of these contracts contain financial covenant clauses. At 31 December 2022 and 2021 the Group complies with these requirements.

On July 26, 2022, the Group Parent company, Vidrala S.A., placed a commercial paper programme on the Spanish Alternative Fixed Income Market (MARF), with a maximum limit of Euros 200 million. The programme is for one year, renewable annually. Through this programme, the Company may issue commercial paper with terms of between 3 and 730 days. Rates will be set according to supply and demand upon issuance, which will depend on market conditions, the time structure of the yield curve, and the investor appreciation or interest in the issuer's credit rating. Interest rates on the Company's commercial paper issued in 2022 ranged from -0.09% to 2.40% p.a., excluding the placement fee. The total amount of commercial paper issued in 2022 was Euros 170.9 million, of which Euros 42 million were pending maturity at 31 December 2021, recognised in the "Other financial liabilities". These mature between January and December 2023. In these conditions, the Company expects to meet the maturities of these issues in 2023 via the issuance of new securities, gradually attempting to optimise the term and interest rate structure and further diversifying its funding sources. Anyway, the Group had sufficient liquidity at year-end 2022 in the form of immediately available, undrawn long-term bank borrowings to meet all its maturities.

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

<u>Type</u>	<u>Extended</u>	<u>Maturity</u>	<u>Limit extended/ Nominal amount</u>	<u>Thousand euros</u>			
				<u>2022</u>		<u>2021</u>	
				<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Loan	2015	2024	80,000	-	80,000	-	80,000
Credit facility	2015	2025	180,000	-	-	-	-
Loan	2018	2027	40,000	-	40,000	-	25,000
Credit facility	2018	2027	40,000	-	-	-	-
Loan	2017	2029	45,000	4,500	27,500	-	-
Loan	2021	2024	25,000	-	25,000	4,500	31,500
Loan	2022	2032	17,500	-	17,500	-	25,000
Loan	2022	2027	20,000	-	20,000	-	-
Loan	2022	2027	40,000	-	-	-	-
Credit facility	2010	2027	50,000	-	-	-	-
Other short-terms credit facilities	-	2023	75,500	<u>374</u>	-	<u>1,870</u>	-
				<u>4,874</u>	<u>209,500</u>	<u>6,370</u>	<u>161,500</u>

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

	Thousands of Euros				31 December 2022
	1 January 2022	Cash flows	Changes in fair value	Other	
Current loans and borrowings	73,613	(23,524)	-	-	50,089
Non-current loans and borrowings	184,003	89,461	-	-	273,464
Dividends payables (Note 16)	25,066	(25,066)	-	27,199	27,199
Total liabilities from financing activities	282,682	40,871	-	27,199	350,752

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

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

On October 11, 2017 and for the acquisition of Santos Barosa Vidros, S.A. paid out on October 13, 2017 through the subsidiary Inverbeira Sociedad Promoción de Empresas, S.A, this loan was again renewed as agreed previously between Vidrala and the financial institutions on 1 August 2017. The applicable interest rate was maintained, but there were changes to the repayment period and maturity, which was extended to September 13, 2023. The amount was also increased by Euros 150 million, Euros 50 million in a long-term loan and Euros 100 in a revolving credit facility.

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

On 29 July 2020, Vidrala extended the maturity of Euros 114 million of the Euros 180 million revolving credit facility from 2023 and 2024. The remaining Euros 66 million still mature in 2023.

Thus, on 19 July 2021, it was agreed to extend the revolving credit line for its full amount (EUR 180 million) until 2025, and there were no substantial modifications to the formalised agreement.

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As a result, at 31 December 2022 and 2021, the long-term syndicated loan amounted to EUR 80 million and the EUR 180 million revolving credit facility is undrawn and fully available.

The interest rate applicable to the syndicated financing structure can be reviewed every six months based on the evolution of the "Net debt / Consolidated EBITDA" ratio.

The abovementioned ratio, as it appears in the financing contract, does not include the effect of IFRS 16, which implies an increase of 2.4 million euros in the heading "Debts with credit institutions" and of 0.6 million euros in Consolidated Ebitda (1.1 and 0.3 million euros, respectively, in the 2021 financial year).

In 2023 the loan will be in a grace period and there will be no principal repayment obligations.

The contract contains clauses with commitments linked to certain financial stipulations (covenants), customary in contracts of this nature, the non-fulfilment of which could give rise to a situation of early maturity of the financing.

At the date of authorisation for issue of these financial statements, these covenants had been met, with the following indicators having been certified as at 31 December 2022:

Net financial debt / consolidated EBITDA: 0.62x

Consolidated EBITDA / consolidated net finance cost: 147.88x

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

CO₂ emissions = Tonnes of CO₂ emitted by the Group/tonnes of glass containers (palletized and labelled).

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

In addition to the sustainable syndicated financing structure and the promissory note programme described above, the Vidrala Group has long-term ancillary financing contracts.

Vidrala S.A. has a long-term loan from the European Investment Bank "EIB" for an initial amount of EUR 45 million and due on 23 October 2029 signed on 17 July 2018 on the occasion of the investment plan in the Italian production plant. According to the agreed repayment schedule, the current debt of this financing at 31 December 2022 is EUR 31.5 million, of which during 2023 there will be a repayment of 10% of the principal of this loan amounting to EUR 4.5 million.

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Vidrala S.A. also has a fixed interest rate loan of EUR 25 million formalized on 19 July 2022 with maturity in 2024. In addition, during the year 2022 Vidrala formalized three new loans amounting to EUR 17.5 million, 20 and 40 million euros respectively, and maturities between 2027 and 2032. Also, on February 24, 2022, the extensions of the limits of a loan and a credit subscribed by Vidrala S.A., extending the amount of previous 25 million to 40 million euros, extending its maturity from 2023 to 2027. Finally, on March 29, 2022, Vidrala agreed to the maturity extension of an existing credit for a nominal of EUR 50 million, from 2024 to the year 2027.

In addition, the companies of the Crisnova Vidrio Group, S.A. and Castellar Vidrio, S.A.U. have two commercial leasing contracts worth 40 million euros, 20 million euros in each case, formalized on February 7, 2022, with maturity in the year 2027. Likewise, the Company of the Aiala Vidrio Group, S.A., has a commercial lease agreement of 20 million, formalized on November 17, 2022 with maturity in 2027.

The concept of loans and credit facilities with banks has, as a whole, including all bank financing structures detailed above, ceilings granted as at 31 December 2022 of EUR 660 million (31 December 2021: EUR 529 million). As a result, undrawn and immediately available bank financing balances were available at 31 December 2022 in the amount of EUR 378 million (EUR 336 million at 31 December 2021), and in addition cash balances in the amount of EUR 154 million (EUR 161 million at 31 December 2021), of which EUR 60 million relates to the balance held in pounds sterling (EUR 34 million at 31 December 2021).

The average effective interest rates at the balance sheet date for the group's financing as a whole were 0.77% and 1.27% APR for the financial years 2022 and 2021, approximately and respectively.

The category of financial liabilities included under this heading corresponds to payables and payables, carried at amortized cost.

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

The carrying amount of the Group's financial liabilities is denominated entirely in euro.

16. Trade and Other Payables

Details of trade and other payables are as follows:

	Thousands of Euros	
	2022	2021
Trade payables	270,900	212,721
Salaries payable	15,070	16,999
Dividends to shareholders (Note 15)	27,199	25,066
Suppliers of fixed assets	71,426	2,315
Other payables	<u>2,184</u>	<u>2,170</u>
	<u>386,779</u>	<u>259,271</u>

The balance of fixed assets suppliers reflects the Group's significant investments in fixed assets.

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The carrying value of commercial and other accounts payable balances recorded does not differ significantly from the fair value of those balances.

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 2022 and 2021 is as follows:

		Days	
		2022	2021
	Average supplier payment period	51.44	56.92
	Transactions paid ratio	53.87	58.57
	Transactions payable ratio	38.27	41.90
		Amount	
		(Thousands of Euros)	
	Total payments made	433,586	322,571
	Total payments outstanding	80,184	35,554
	Total amount invoices paid	433,586	
	Amount invoices paid within the legal deadline	263,998	
	%	61%	
	Total number of invoices paid	26,295	
	Número de facturas pagadas dentro del plazo legal	7,019	
	%	27%	

18. Provisions

Movement in provisions in 2022 and 2021 is as follows

Thousands of Euros				
	Emission allowances	Personnel	Other provisions	Total
At 31 December 2021	62,541	6,342	10,208	79,091
Charge against profit or loss	71,485	-	-	71,485
Actuarial gains and losses on changes in financial assumptions	-	(3,520)	88	(3,432)
Reversion	-	(705)	(4,869)	(5,574)
Payments	(62,541)	(3,995)	(2,536)	(69,032)
Other	-	2,100	(2,100)	-
At 31 December 2022	71,485	262	791	72,538

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	Thousands of Euros			
	Emission allowances	Personnel	Other provisions	Total
At 31 December 2020	18,403	9,071	9,629	37,103
Charge against profit or loss	62,541	325	5,337	68,203
Actuarial gains and losses on changes in financial assumptions	-	(2,101)	-	(2,101)
Reversion	-	-	(5,711)	(5,711)
Payments	(18,403)	-	-	(18,403)
Other	-	(953)	953	-
At 31 December 2021	62,541	6,342	10,208	79,091

The provision for emission allowances includes the estimated surrender of emission allowances in 2022 and 2021 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.

19. Contingencies

The Group has contingent liabilities for bank and other guarantees related to routine business operations amounting to Euros 4,638 thousand (Euros 4,268 thousand in 2021). These guarantees mainly comprise those extended to public entities for commitments assumed. The Group's directors do not expect any significant liabilities to arise from these guarantees.

20. Environmental Information

The continuous improvement in the environmental area is recorded in detail in the annual report of sustainability and recognized in the positive results have been obtained in the ISO 14001/2004 certification which guarantee the correct environmental performance of the organization.

The total cost of initiatives taken by the Vidrala Group in 2022 to comply with the Kyoto Protocol and emissions analyses amounted to Euros 1,511 thousand (Euros 1,395 thousand in 2021).

Environmental expenses mainly related to waste management incurred during 2022 totalled Euros 2,750 thousand (Euros 2,598 thousand in 2021).

Environment-related plant investments came to Euros 14,014 thousand (Euros 20,000 thousand in 2021).

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21. Revenue and Other Income

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

Details of other income are as follows:

	Thousands of Euros	
	2022	2021(*)
Capital grants taken to income (note 14)	5,372	1,639
Other income	<u>21,945</u>	<u>10,141</u>
	<u>27,317</u>	<u>11,780</u>

(*)Restated. See Note 2

22. Merchandise, raw materials and consumables used

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

	Thousand euros	
	2022	2021 (*)
Net purchases	(782,827)	(473,163)
Change in inventories	15,793	(1,395)
Impairment	20	2,330
	<u>(767,014)</u>	<u>(472,228)</u>

(*)Restated. See Note 2

23. Other Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2022	2021(*)
External services (note 23.1)	(54,233)	(47,484)
Sales expenses (note 23.2)	(129,083)	(104,684)
Taxes	(3,005)	(2,319)
Impairment and bad debt of trade and other payables (note 11)	514	771
Other operating expenses	<u>(9,032)</u>	<u>(10,703)</u>
	<u>(194,839)</u>	<u>(164,419)</u>

(*)Restated. See Note 2

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23.1 External services

The detail of "External services" is as follows:

	Thousand euros	
	2022	2021
Repair and maintenance	(33,647)	(30,577)
Independent profesional services	(1,861)	(1,401)
Insurance	(5,328)	(4,773)
Supplies	(965)	(925)
Other services	(12,432)	(9,808)
	<u>(54,233)</u>	<u>(47,484)</u>

23.2 Sales expenses

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

24. Employee Benefits Expense

Details of the employee benefits expense in 2022 and 2021 are as follows:

	Thousands of Euros	
	2022	2021
Salaries, wages and similar	175,328	155,667
Contributions to defined contribution plans	3,073	2,476
Other employee benefits	35,627	38,253
	<u>214,028</u>	<u>196,396</u>

The average headcount of the Group in 2022 and 2021, distributed by category, is as follows:

	Average headcount	
	2022	2021
Senior management and proxies	47	49
Junior management	469	452
Administrative staff	461	424
Operators	2,696	2,595
	<u>3,673</u>	<u>3,520</u>

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As of 31 December 2022 and 2021 the distribution by gender of Group personnel and directors is as follows:

	Number			
	2022		2021	
	Female	Male	Female	Male
Board members	4	7	3	8
Management	2	45	1	48
Junior management	98	371	90	362
Administrative staff	180	281	154	270
Operators	<u>250</u>	<u>2,446</u>	<u>254</u>	<u>2,341</u>
	<u>534</u>	<u>3,150</u>	<u>502</u>	<u>3,029</u>

25. Finance Income and Finance Costs

Details of finance income and finance costs are as follows:

Finance income	Thousands of Euros	
	2022	2021
Exchange gains	1,475	-
Other finance income	<u>1,344</u>	<u>114</u>
Total finance income	<u>2,819</u>	<u>114</u>
Finance costs	Thousands of Euros	
	2022	2021
Interest on loans and borrowings	(3,041)	(2,128)
Hedging derivatives	(314)	(1,750)
Other finance costs	(80)	(119)
Exchange losses	-	<u>(2,176)</u>
Total finance costs	<u>(3,435)</u>	<u>(6,173)</u>

26. Earnings per Share

(a) Basic

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

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

	<u>2022</u>	<u>2021</u>
Profit for the year attributable to equity holders of the Parent (thousands of Euros)	<u>153,686</u>	<u>145,157</u>
Weighted average number of ordinary shares outstanding (thousands)	<u>30,942</u>	<u>29,742</u>
Basic earnings per share (Euros per share)	<u>4.97</u>	<u>4.88</u>

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

	<u>2022</u>	<u>2021</u>
Ordinary shares outstanding at 1 January	30,726,777	29,841,423
Effect of own shares	<u>(215,394)</u>	<u>99,458</u>
Weighted average number of ordinary shares outstanding at 31 December	<u>30,942,171</u>	<u>29,741,965</u>

The profit per share for the 2021 financial year, adjusted for the effect of the increase of released capital carried out in December 2022, would amount to 4.65 euros per share.

(b) Diluted

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

27. Related Party Balances and Transactions

(a) Commercial transactions

During 2022 and 2021 the Group has not carried out any transactions with related parties vis-à-vis the sale or purchase of goods or the rendering of services.

(b) Related party balances

The Group has no related party balances.

(c) Conflicts of interest concerning the directors

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

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(d) **Remuneration of key management personnel and directors**

Details are as follows:

	Thousands of Euros	
	2022	2021
Salaries and other current remuneration paid to employees, management and directors	<u>3,719</u>	<u>3,320</u>

During the year 2022, incentives of 4,885 thousand euros have accrued and no amount has been received in 2021.

The number of directors as of December 31, 2022 has amounted to 12 people (12 number of people in 2021).

As at 31 December 2022, there are no loans granted to senior management personnel, the amount being EUR 103 thousand in 2021.

(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 1,535 thousand (Euros 1,453 thousand in 2021).

In 2022, incentives amounting to 455 thousand euros were received in 2022, and no amount was received in 2021.

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 2022 and 2021 as follows:

	Thousands of Euros	
	2022	2021
Ernst&Young, S.L.		
Audit services	376	357
Other services	<u>36</u>	<u>21</u>
Total EY	<u>412</u>	<u>378</u>

These amounts include all fees for services rendered during 2022 and 2021, irrespective of the date of invoice.

During 2022 and 2021, other auditors have invoiced the Group audit fees of Euros 57 and 57 thousand for auditing fees.

VIDRALA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

29. Events after the reporting period

On 9 February 2023 Vidrala announced the acquisition, through its subsidiary Inverbeira Sociedad de Promoción de Empresas S.A., of a minority stake of 29.36% of the share capital of the Brazilian company Vidroporto, S.A. for 297 million Brazilian reais, approximately EUR 53 million. Inverbeira has also reached an agreement to purchase the remaining 70.64% of Vidroporto's share capital once certain legal disputes currently affecting its majority shareholder have been resolved.

Also on 31 January 2023, the Group's subsidiary Encirc Ltd has completed the acquisition of the filling facilities and logistics infrastructure of the business known as "The Park" from the wine producer Accolade Wines Ltd amounting to GBP 35 million.

NOTE. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

VIDRALA, S.A. AND SUBSIDIARIES

Detail of the Movement of Other Reserves and Accumulated Earnings
for the years ended
31 December 2022 and 2021

(Expressed in thousands of Euros)

	Revaluation reserves	Legal reserve	Voluntary reserves	Reserves in fully consolidated companies	Profit for the year	Total
At January 1 2021	2,311	5,522	555,186	148,402	159,463	870,884
Distribution of 2020 profit						
Reserves	-	276	51,472	74,738	(126,486)	-
Dividends	-	-	-	-	(32,977)	(32,977)
Share capital increase	-	-	(1,449)	-	-	(1,449)
Share capital decrease	-	-	-	-	-	-
Profit for 2021	-	-	-	-	145,157	145,157
Other	-	-	-	-	-	-
At December 31 2021	2,311	5,798	605,209	223,140	145,157	918,615
Distribution of 2021 profit						
Reserves	-	290	98,306	11,954	(110,550)	-
Dividends	-	-	-	-	(34,607)	(34,607)
Share capital increase	-	-	(1,492)	-	-	(1,492)
Share capital decrease	-	-	(40,422)	-	-	(40,422)
Profit for 2022	-	-	-	-	153,686	153,686
Other	-	-	-	-	-	-
At December 31 2022	2,311	6,088	661,601	235,094	153,686	1,058,780