VIDRALA, S.A.
BUSINESS PERFORMANCE 2016

Main figures

	FY 2016	FY 2015	Change %	Change on a comparable currency basis %
Sales (EUR million)	**773.1**	802.6	*-3.7%*	*+1.6%*
EBITDA (EUR million)	**170.7**	161.3	*+5.8%*	*+11.2%*
EPS (EUR per share)	**2.73**	2.46	*+11.0%*	
Net debt (EUR million)	**322.3**	404.3	*-20.3%*	

- **Sales in the year 2016 amounted to EUR 773.1 million, showing an organic growth of 1.6% and a reported change, including forex variations, of -3.7%.**

- **Operating profit, EBITDA, was EUR 170.7 million representing an operating margin of 22.1%.**

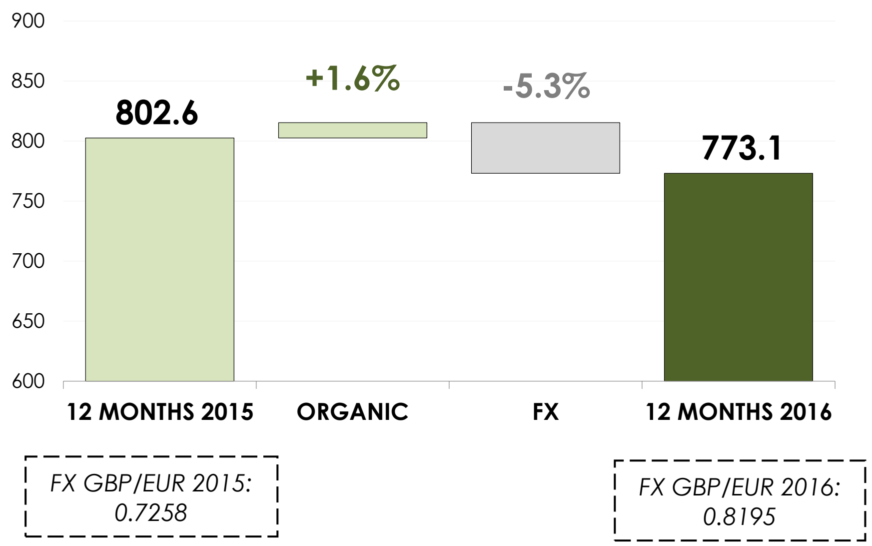
- **Earnings per share rose 11.0% over the same period last year.**

- **Net debt at December 31, 2016 stood at EUR 322.3 showing a reduction of 20.3% since last year end.**

Sales

Net sales registered by Vidrala during the FY 2016 amounted to EUR 773.1 million, representing a decrease of 3.7% over the previous year. On a constant currency basis, organic sales growth was 1.6%.

SALES
YEAR OVER YEAR CHANGE
EUR million

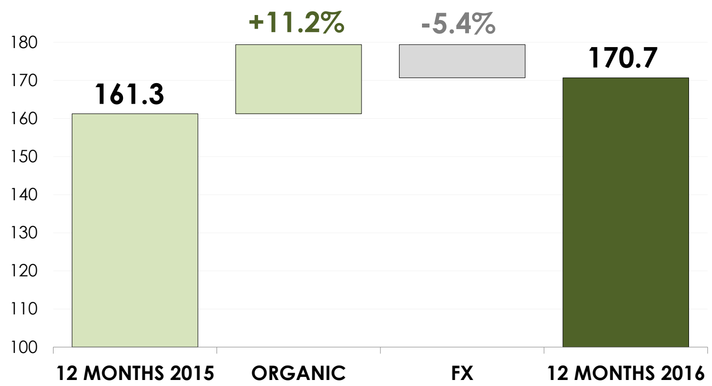


Operating results

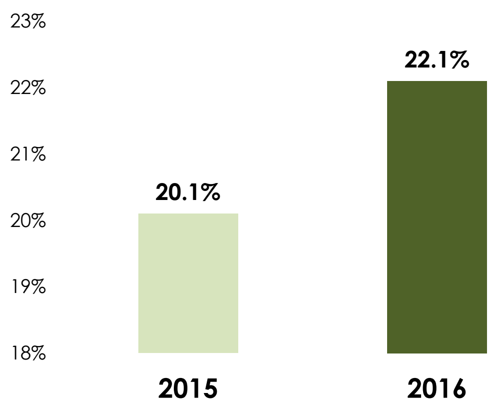
Operating profit –EBITDA– generated over 2016 reached EUR 170.7 million. This represents an increase of 5.9% over the figure reported last year reflecting an organic growth, on a constant currency basis, of 11.2%.

EBITDA margins reached 22.1% representing a growth of 200 basis points.

EBITDA
YEAR OVER YEAR CHANGE
EUR million



OPERATING MARGINS (EBITDA)
YEAR OVER YEAR CHANGE
As percentage of sales

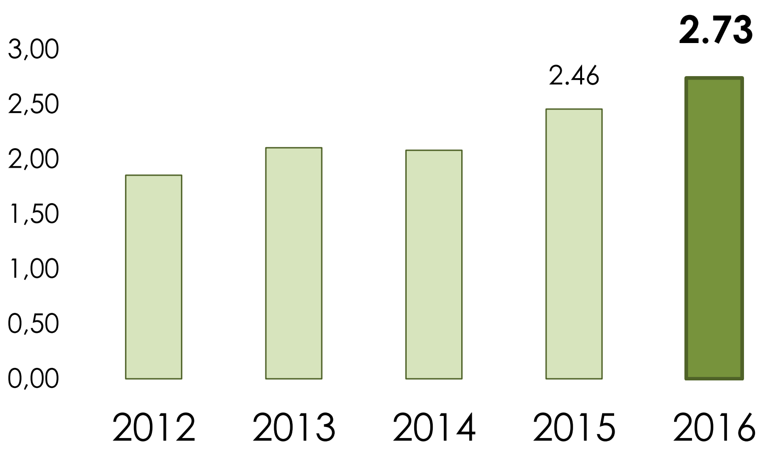


Results and financial position

Net profit obtained during the full year 2016 amounted to EUR 67.7 million, after recording financial expenses equivalent to 1.1% over sales and an effective tax rate of 19.7% over profits.

As a result, earnings per share during the period reached EUR 2.73 per share. This represents an increase of 11.0% over the previous period.

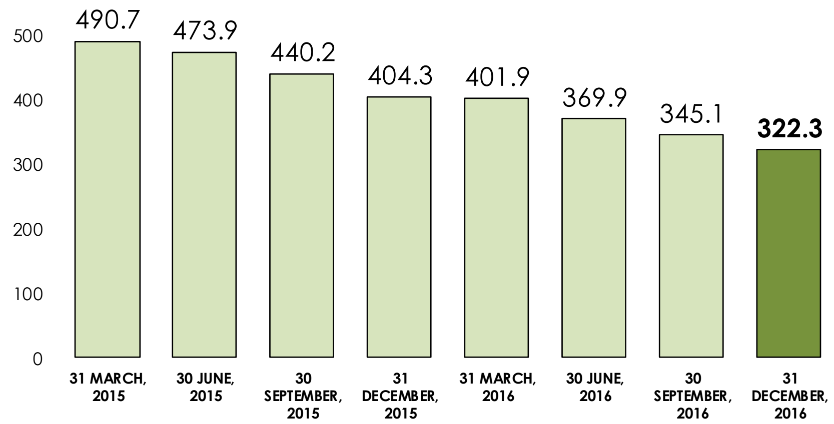
EARNINGS PER SHARE
FIRST NINE MONTHS SINCE 2012
EUR per share



Net debt at December 31, 2016 stood at EUR 322.3 million showing a reduction of 20.3% over the last twelve months. Leverage ratio stood at 1.9 times twelve months EBITDA.

The decrease in debt during 2016 arises from a free cash flow generation of EUR 102.6 million.

NET DEBT
QUARTERLY EVOLUTION
EUR in millions and times EBITDA



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

KEY FIGURES

EUR Million (except EBITDA margin %)	2016	2015
SALES	773.1	802.6
GROSS OPERATING PROFIT (EBITDA)	170.7	161.3
EBITDA MARGIN (%)	22.1%	20.1%
OPERATING PROFIT (EBIT)	93.0	86.3
PROFIT BEFORE TAX	84.2	75.6
NET PROFIT	67.7	60.9

FREE CASH FLOW	102.6	88.2
NET DEBT	322.3	404.3
NET DEBT / EBITDA (x)	1.9	2.5

Conclusions and business outlook

The above mentioned set of results proves a gradual business development that is consistent with the long-term strategic guidelines. During the last year, Vidrala has progressed, consolidating itself as a multinational and diversified company, a supplier of reference in the packaging industry with a strong vocation towards the conception of commercial relations with customers that are our "raison d'être".

Demand in the main European markets for glass containers remains stable, showing overall growth trends. This is consistent with the prevailing economic environment, the evolution observed in the consumption patterns of food and beverage products and the sustained preference of packers and consumers towards glass as the appropriate packaging material.

Under this context, the stability of sales expected for 2017 is partially supported by general estimates of economic growth in the different areas of activity. At an operational level, Vidrala will maintain internal actions aimed at guaranteeing the targeted levels of customer service, progressing in manufacturing efficiency, developing the competitiveness of the cost structure and, as a result, reinforcing the operating margins of the business.

In any case, the long-term guidelines will remain firmly oriented towards the optimisation of the key C's: customer service, cost competitiveness and sustained cash flow generation, as foundations of value creation.

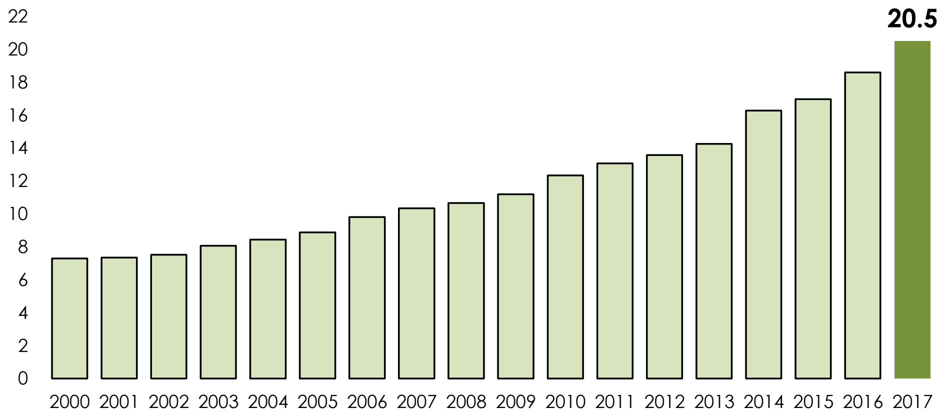
Relevant information for shareholders

The shareholder remuneration policy implemented by Vidrala is based on the gradual growth in cash dividends as the main way of distributing benefits. The shareholder remuneration policy implemented by Vidrala is based on the gradual growth in cash dividends as the main way of distributing benefits. Annual payments are typically increased by attendance bonuses to the shareholders´ annual general meeting.

Consistent with that policy, cash dividends distributed during the year 2016 amounted to EUR 72.00 cents per share. This represents an increase of ten percent over the prior year. In addition, EUR 3.00 cents per share were offered as an attendance bonus to the general meeting, accumulating an annual cash distribution of EUR 75.00 cents per share.

Regarding the dividend payments for 2017, Vidrala has proposed a results distribution that represents an increase in the annual dividend of 11.3 per cent. The first interim payment was paid on February 14, 2017 for EUR 58.06 cents per share, that represents an increase of 10% over the same interim payment last year. A second complementary payment is proposed to be paid on July 14, for an amount EUR 22.10 cents per share, that would represent an increase of 15% over the same complementary payment last year.

CASH DIVIDENDS (INCLUDES AGM ATTENDANCE BONUSES)
EUR million. Since 2000.



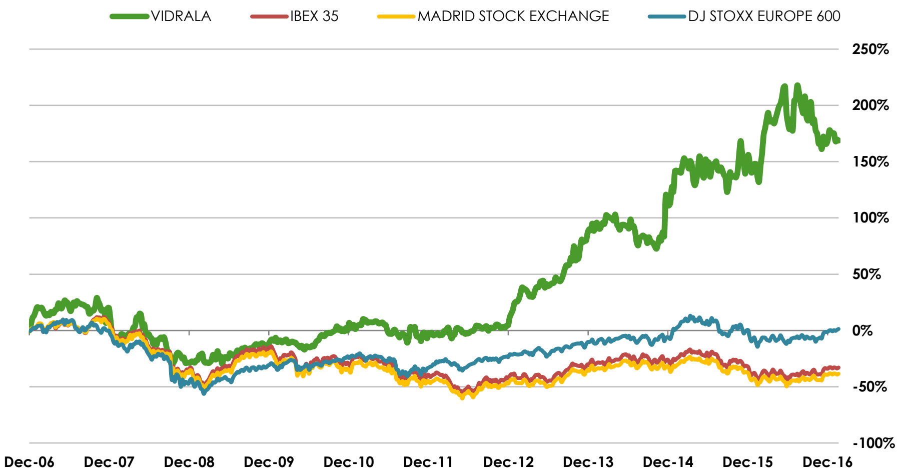
The Share

The share price closed 2016 at EUR 49.00, which reflects an increase over the year, excluding dividends, of 5.3%. This is equivalent to a market capitalisation at the end of the year of EUR 1,215 million.

The share's trading volume amounted to 5.3 million shares, 23% higher than the previous year, equivalent to an accumulated effective amount of EUR 243 million.

Share price performance.

Comparative, in percentage terms, based 2007.



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.

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 2016, 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.

Potential operating risks include the following:

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 the Group's production facilities have ISO 14001:2004 certification, demonstrating that Vidrala operates under the guidelines of a global, verified and recognised environmental management system. Furthermore, in line with its undertaking to continuous improvement, the implementation and certification of new environmental standards has begun, such as ISO 14064:2012, related to the voluntary declaration of CO2 emissions, or the ISO 50001:2011 energy management system standard, both of which, CO2 emissions and energy, are of clear environmental significance in our industrial process.

In addition, Vidrala maintains an investment commitment specifically designed to minimise the potential pollutant effect of its facilities. Of special importance during 2016, this concrete effort has materialised in the conclusion of an extensive investment project developed for the installation, in all the production centers, of special systems of purification of atmospheric emissions, denominated electrostatic precipitators or electrofilters. These installations, whose accumulated investment throughout the group amounted to more than EUR 20 million in the last eight years, are exclusively aimed at reducing emissions of pollutant particles and are recognized as the best technology available for this purpose by the European legislation. The installed electrofilters act to retain the particles generated in the melting process by attracting them through electric fields, reducing the usual emissions of glass melting furnaces by more than 90%.

Progress in the Group's environmental efficiency is certified annually and documented in a sustainability report.

ii. Occupational health and safety

The activity developed by Vidrala is cemented in the daily work of the 3,200 people employed in the group, most of which operate in a context of industrial or manufacturing work.

In this sense, the Vidrala group remains determined to establish the most effective measures of prevention and protection against occupational accidents. This commitment is evidenced by the progressive implementation of occupational health and safety systems, based on the OSHAS 18001:2007 standard, which are certified by independent entities accrediting the existence of an internationally recognized management framework.

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, appended to this report, details the evolution of the indicators linked to the management of occupational risk prevention. These plans are developed and disseminated among all the agents involved in the organisation, and allow the business to objectively document the trend in occupational safety indicators and, consequently, the actual effectiveness of the implemented control processes, evidencing whether additional corrective measures are necessary.

iii. Supply chain risk

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

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

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

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

Financial risk

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

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

The most relevant financial risks identified are as follows:

i. Currency risk

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

Currency risk affecting the Group's present structure arise, mainly, from the risks inherent in the global expansion of the Group after the incorporation of Encirc Ltd. in 2015, whose business is largely conducted in Pounds Sterling. Of the results obtained by this division in 2016, approximately 80% of its operating income was generated in Pounds, the rest being generated directly in Euros.

In order to quantify the sensitivity to the currency at a consolidated level, as a result of the above, approximately 30% of EBITDA is generated in Pounds, 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 2016 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, the consolidated profit of the group would be affected by approximately 2.8%, and the annual cash flow would be reduced by approximately 1.7%.

To control currency risk, the Group uses derivative instruments, principally forward foreign exchange contracts. As a result of this risk control policy, at the 2016 reporting date the Group has put options on Pound Sterling with expiration dates along 2017, for an accumulated volume of EUR 23 million. This is equivalent to approximately 65% of the cash generated in that currency during the year 2016.

ii. Interest rate risk

Interest rate risk affects the cost of borrowings used to finance the Group's operations. Borrowings contracted at variable interest rates expose the Group to the risk of interest rate fluctuations, which in turn affects forecast cash flows.

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

As a result of this risk control policy, at the end of 2016, Vidrala has contracted interest rate hedging instruments in the form of interest rate swaps for an accumulated value of EUR 405 million, with progressive maturities up to 2022, of which EUR 305 million are outstanding at year-end. As a result, it is expected that the entire cost to be borne by the group in 2017 in the form of interest on debt will be secured against fluctuations in interest rate markets.

iii. Credit risk

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

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

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

As a result, the impact of bad trade debts in 2016 was limited to 0.01% of turnover.

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

iv. Liquidity risk

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

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

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

v. Debt and solvency

At the 2016 reporting date, Vidrala's consolidated debt amounted to EUR 322.3 million, having reduced its debt by EUR 82 million, or 20.3%, during 2016. Indicators of financial solvency at year-end reflect a leverage of 1.9 times accumulated EBITDA for the last twelve months, compared to the level of 2.5 times at the end of the previous year.

The core of the financing structure is concentrated in a long-term syndicated loan agreement, signed on 13 March, 2015 between a selected group of nine lenders, for an original amount of EUR 465 million. After a second novation of the terms of such loan formalized in November 2016, a variable interest rate equivalent to the reference rate (Euribor) plus a margin of 1% per year will be applied during 2017, which is annually reviewable in tranches according to the evolution of the "net debt/consolidated EBITDA" ratio. The loan has also extended its maturity date to September 13, 2022, and is progressively amortizable from March 13, 2019. Consequently, during 2017 the loan will be in a grace period and there are 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 at 31 December 2016:

Leverage ratio (FND/EBITDA): 1.9x

Consolidated EBITDA / Net Financial Result: 17.8x

vi. Price risk in purchases of energy and raw materials

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

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

At the 2016 closing date, Vidrala had contracted energy commodity derivatives to hedge the price for a nominal amount equivalent to EUR 51.2 million.

Vii. Other risks:

Result of the referendum on the permanence of the United Kingdom in the European Union.

Vidrala maintains strategic business activities in the United Kingdom and Ireland through Encirc Ltd., acquired in early 2015. Encirc is a glass packaging manufacturer aimed at supplying domestic demand for food and beverage products in Ireland and the United Kingdom, where it operates two plants from which it offers a complete range of services including, in addition to the manufacture of glass containers, packaging processes of the latest technology and logistical services. Approximately 80% of the operating income is generated in Pound Sterling, the rest being generated directly in Euros. Overall, Encirc's business is primarily domestic, producing glass containers in the United Kingdom for marketing throughout the British Isles, including the Republic of Ireland, with the volume of exports being immaterial outside these regions.

On 23 June 2016, a referendum was held in the United Kingdom on its stay in the European Union, which resulted in a decision to depart. As a consequence, a political process has been opened to negotiate the conditions of the referendum, whose implications are still uncertain.

As an immediate effect, there has been a devaluation of the Pound Sterling which, with respect to the Euro, reflected at the reporting date a depreciation of approximately 11% from pre-referendum levels. In order to quantify the sensitivity of the business to the fluctuation of the Pound Sterling, as detailed in the section relating to the quantification of exchange rate risks, on the consolidated results of the Vidrala group, 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, the consolidated profit of the group would be affected by approximately 2.8%, and the annual cash flow would be reduced by approximately 1.7%.

In any case, the structural fundamentals of demand for glass packaging in the United Kingdom remain stable, supported by the region's socio-demographic development, the continued progress of consumer preferences towards quality products and the limited variability of demand for food and beverage products. Encirc optimizes these market fundamentals thanks to a business positioning endorsed in the relationships developed with world-class clients, the stability of its market share, the competitiveness of its modern industrial facilities and the added value of its filling business, whose demand has been strengthened.