# glaston

Annual Review 2016

# Contents

Click section headings to navigate directly to pages


3 Glaston – at the cutting edge of glass processing

4 Glaston 2016 in Figures

5 President and CEO's Review

7 Machines Business Review

9 Services Business Review

11 Events 2016

12 Corporate Governance Statement 2016

21 Information for Shareholders

23 Report of the Board of Directors

31 Consolidated Financial Statements

31 Consolidated Statement of Financial Position

32 Consolidated Statement of Profit or Loss

33 Consolidated Statement of Comprehensive Income

34 Consolidated Statement of Changes in Equity

35 Consolidated Statement of Cash Flows

37 Per Share Data

38 Financial Ratios

39 Definitions of Key Ratios

41 Notes to the Consolidated Financial Statements

90 Parent Company Financial Statements

90 Income Statement of the Parent Company (FAS)

91 Balance Sheet of the Parent Company (FAS)

92 Parent Company Cash Flow Statement (FAS)

93 Notes to Parent Company Financial Statements (FAS)

102 Proposal for the Distribution of Profits

103 Auditor's Report

# Glaston – at the cutting edge of glass processing

Glaston is a global pioneer in glass processing technology and a technology leader in its field. We provide our customers with the industry's broadest and most advanced range of heat-treatment machines, maintenance and upgrade services, tools and expert services. The company's share (GLA1V) is quoted on the NASDAQ Helsinki Ltd's Small Cap List.

Table of Contents

# Glaston
# 2016 in Figures

## Net sales and operating result

Net sales decreased by 13% from 2015, amounting to EUR 107.1 (123.4) million. Comparable operating result in 2016 was EUR 2.8 (6.1) million.

## Order book

Orders received grew by 5% in 2016, to EUR 112.9 (107.4) million. The order book increased by 18% compared to the end of 2015, totalling EUR 45.6 (38.5) million.

## Markets

North America and the EMEA region remained Glaston's strongest markets. The South American market was quiet, although a slight upswing was seen outside Brazil towards the end of the year. In Asia, Glaston's success varied from country to country. The positive trend in Australia and New Zealand continued. In Southeast Asia, the machine market was quiet, except for Vietnam. The Chinese market remained flat.

## Research and development

R&D expenditure amounted to EUR 1.7 (3.6) million; the most significant R&D investment was related to a California-based nanotechnology company.

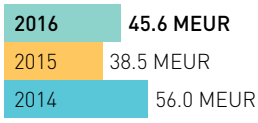
## Personnel

At the end of the year, Glaston employed 415 people.

Table of Contents

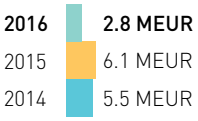
### Net sales


### Order book

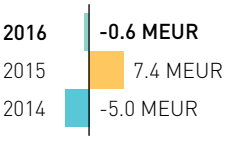



### Sales by region


### Comparable operating result




### Interest-bearing net debt



# Glaston is moving ahead stronger

At the end of 2015, the market showed signs of slowing. These signs proved correct, and Glaston started 2016 in a challenging situation. There was no help to be expected from the market in growing our business, which is why we focused on improving our own operations and efficiency as well as building growth. We succeeded in defending our market position, although the market remained sluggish until the final months of the year. Our efforts began to pay off and the market to recover late in the year.

When we entered 2016, the business environment was challenging, and the market continued to be quiet for the best part of the year. We operate in a world of major investment commodities, where global economic uncertainty caused delays in investments. Glaston's net sales decreased by 13% to EUR 107.1 million. Comparable operating profit fell to EUR 2.8 million. Due to a decline in deliveries and cost overruns in certain customer projects, we were unable to keep our profitability at the previous year's level.

Towards the end of the year, things were looking brighter and activity increased substantially. Stronger markets and an improved order book enhance our confidence for the year 2017.

## Changes clarified operations

The significance of own operations is emphasised in challenging times. We succeeded in defending our market position and taking our business forward in a tough environment through our own actions.

The organisational reform of the Machines business and the revamp of the Executive Management Group, carried out early in the year, clarified our operations. Glaston is managed by a team with a wide range of expertise and insight into various areas of responsibility.

We responded to the challenging economic situation by implementing actively targeted measures to improve efficiency at our sites around the world. We decided to close our factory in Brazil and concentrate the production of machines in two locations. In future, our factories are in Finland and China.

We managed to improve cost efficiency substantially and the results of the measures will be realised in full in 2017.

## Seeking growth in core business and around it

For Glaston, the year marked a move to a new strategic phase. We revised our strategy in the spring, and it is now built around growth, technology leadership and the industry's best customer experience. Our operations are guided by experience, efficiency and high quality. Our technological leadership is based on customer-driven product development and innovative exploration of new areas. We aim to achieve profitable growth by following our guiding principles of efficiency and high quality.

Glaston's core expertise is in flat tempering technology and related services. In these, we are number one in the world. We also intend to keep this position and grow further. In addition, we will look for growth opportunities in other safety glass categories, such as bending, tempering-bending and laminating.

We have been systematically developing products based on our strong expertise. In our core business, flat tempering, we strengthened our position by renewing the FC™ and RC™ Series. With the launch of new laminating and bending technology products, Glaston made a successful return to an area in which we previously had a solid position.

Intelligence is steadily increasing in our machines.

Digitalisation, new technologies and growing demand for architectural glass support our growth target. As an industry pioneer, we are often our own biggest competitor. We must succeed in continuously developing ourselves and our key products.

## Great variations between markets

Our most successful market last year was region Europe, the Middle East and Africa. We can be pleased with the development of the Eastern and Southern Europe in particular. We have also been able to compensate for the reduced sales to Russia in other areas.

Despite the longer decision-making times of customers, North America remained a strong market for Glaston. In South America, the first signs of the market picking up could be seen in Chile, Mexico and Columbia. In Asia, the situation varied from one country to another. The quiet situation in China improved slightly towards the year end. A change for the better is noticeable, since there is again readiness to invest in the production processes of high-quality glass in particular. Glaston is well-placed to respond to this trend.

## Customer trust is in our interests

Glaston is a global player with a particularly strong service organisation. Local presence and the market's best customer experience are our greatest assets.

Physical presence through our extensive service network and close cooperation with customers to improve their business contribute to the customer experience. We continuously provide our customers with more tools to support their operations. One proof of this is Glaston Insight, which we developed to provide real-time information for factory control and management.

We must be able to continue exceeding market and customer expectations. Our business is based on superior quality and customer experience. When our customer succeeds, we succeed. As a leading player, reliability is our most important characteristic: we do not let the customer down whatever the situation.

## Nanotechnology has great potential

Technology leadership calls for exploring new opportunities and boldly entering new areas. The nanotechnology project initiated in 2015 gained momentum and is proceeding as planned. New technologies also help us stabilise our business, which is currently highly cyclical. We believe that the nanotechnology project will have a positive impact on our net sales and result over the next few years.

There is currently a clear trend towards more functional glass. Customers want glass to collect information from the environment, adapt to the environment, improve safety, protect against air pollution and save – or even generate – energy. Smart glass has huge potential. As a pioneer, we want to deliver glass processing machines for these applications. We are working hard at Glaston in order to identify the best properties for the glass of the future.

## Determination is taking us forward

A steady order book, increased activity in the market towards the year end and successes as an organisation show that our determined efforts are taking us in the right direction. We have a tough and demanding year behind us during which we developed as a company. Despite the difficult situation, we even managed to increase our market share.

I would like to thank our shareholders for believing in Glaston. I also thank our customers and partners with whom we are growing and developing. All our employees have once again done a great job during the year, for which I want to sincerely thank them. It has been wonderful to see how our employees' motivation and commitment to the company keep on increasing.

Glaston is moving forward with determination. We are a pioneer in glass processing, providing machines and services that enable our customers to get more out of glass. Glass is valued, and it is in growing demand. We have this remarkable material in our hands that manages to surprise us time and again with its versatility. Glass is beautiful, safe and light. It can be shaped and recycled. It can even provide important information and save energy. Adding intelligence to glass will make it a true winning material of the future.

**Arto Metsänen**
President & CEO

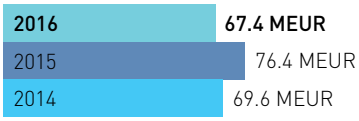
Table of Contents

# Changes and reforms drive the Machines business towards growth

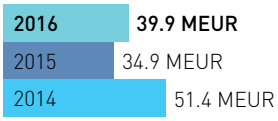
## Machines

Glaston's Machines business offers a wide, technologically advanced range of glass processing machines for flat tempering, bending, bending-tempering and laminating glass. A number of reforms were undertaken in the Machines business in 2016.

**Machines Net Sales**

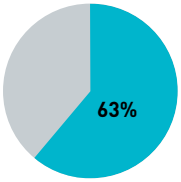



**Order Book**




**Machines' Share of Total Net Sales**

(Eliminations and adjustments in group -2%)




The Machines business had moderate expectations at the beginning of the year, but these were dampened by low volumes in the first half. Adjustments measures were taken during the year. Finally, towards the end of the year, expectations began to be fulfilled, with both orders and deliveries picking up.

Net sales amounted to EUR 67.4 (76.4) million. In the final quarter of the year, Glaston consolidated its leading position in the market for heat-treatment machines. The year-end order book was valued at EUR 39.9 (34.9) million.

### Success in EMEA, challenges in South America and China

Global urbanisation, energy efficiency and safety are the main drivers of development for the Machines business. In the review period, economic instability and political changes caused uncertainty and slowed customer investments.

The EMEA countries, particularly Italy and Eastern European countries, remained strong markets for the Machines business, delivering great successes. Investment aids used in certain countries gave a clear boost to business.

North America continued to be a strong market for Glaston, whereas South America, particularly Brazil, presented a challenge. In Brazil, Glaston adjusted its operations, closing down the factory in São Paulo.

In the Asia-Pacific region, market demand was moderate. China was quiet, and Glaston responded by implementing adjustment measures. The factories in Tianjin, China, and Tampere, Finland, will continue as the main factories of the Machines business. The engineering and project management functions of the factories were merged.

Measures to improve profitability were taken in China and Brazil as planned and were completed during the year.

### Reforms strengthen customer experience and technology leadership

In line with its revised strategy, Glaston focuses strongly on its core competence: heat-treatment technology. In addition to flat tempering, we are seeking growth in the categories of bending, bending-tempering and laminating. In the Machines business, the strategy was implemented by reorganising the business into two units: Flat Tempering and Bending and Laminating.

The objective of the organisational change is to continue

offering the best customer experience in the industry: the new model of two business units enables us to identify market needs more effectively and respond to them.

Organisational changes and innovation orientation also bolstered Glaston's technology leadership. The nanotechnology project launched in 2015 proceeded according to schedule. New technologies open up significant business opportunities, and the efforts to identify future growth areas continue.

## Most orders and deliveries made towards year end

Glaston's most significant product group, flat tempering machines strengthened its market share. Examples of major deals concluded during the year were the sales of the Glaston RC350™ tempering line and the Glaston ProL™ laminating line to Germany and the sale of the Glaston Probend™ bending-tempering line to Austria. Several deals for flat tempering and laminating lines were closed for the USA. The continuously operating CHF™ products were also successful. The organisation related to the automotive glass business was reinforced; this product group, featuring the Matrix™ machine, is a natural area of focus complementing Glaston's key competence.

The Glasstec trade show held in Germany and Glassbuild held in the USA were significant market catalysts, increasing the number of machine deals already in the last quarter.

## Technology leadership consolidated

Improving the optical quality of the end product and manufacturing ever larger pieces of glass – which is a clear trend – were the drivers highlighted at the trade shows, and Glaston's offering is already well aligned with these. Other R&D priorities included increasing the degree of automation and digitalisation. Major upgrades were made to the main product lines, the FC™ and RC™ product families, with the aim of improving end product quality and increasing the intelligence and degree of automation of the machines. The reforms were positively received, leading to the first orders for the FC series machines in late 2016.

The launch of the Glaston Pro-L™ laminating line marked a successful return to laminating technology for Glaston. Customers expressed great interest in the machine, and the first Pro-L™ deal has already been completed.

The software side was strongly developed. Glaston was the first in the industry to introduce an application enabling customers to monitor and improve production efficiency in real-time on a mobile device. Glaston Insight, a standard feature in new Glaston machines, goes to show what remarkable opportunities the Industrial Internet and digitalisation can bring to the glass industry.

## Major investments in the quality of products and overall operations

In 2016, the Machines business was built through operations strongly aligned with the strategy. The implemented organisational change and the measures to improve efficiency completed globally, coupled with successful product development, created a solid foundation for future growth.

As we enter 2017, the outlook for the Machines business is brighter than a year ago. A strong market position, long-term customer relationships and a product portfolio that meets customer needs are the key strengths on which the business can build to achieve its goals.

Table of Contents

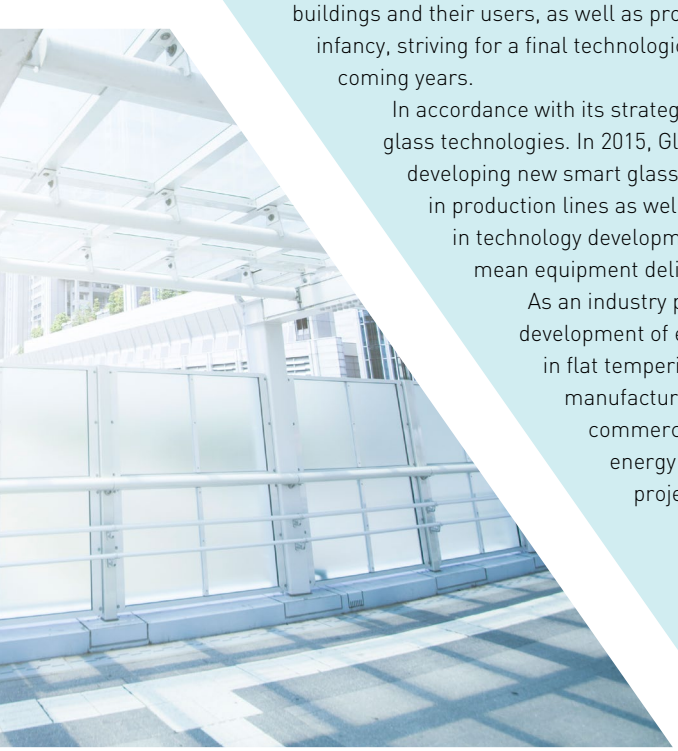
# Emerging glass technologies create new opportunities

The glass industry is clearly heading towards more functional glass, which may enhance the comfort and safety of buildings and their users, as well as provide information and save energy. The smart glass market is still in its infancy, striving for a final technological breakthrough. The market is expected to see rapid growth in the coming years.

In accordance with its strategy, Glaston is actively seeking new business opportunities in emerging glass technologies. In 2015, Glaston invested in a California-based nanotechnology company which is developing new smart glass technology for the market. Glaston's role in the project is to carry out R&D in production lines as well as to manufacture and sell them. Glaston has also invested its expertise in technology development in the USA. The completion of the project according to schedule would mean equipment deliveries for Glaston over the next few years.

As an industry pioneer and technology leader, Glaston wants to be involved in the development of emerging glass technologies. Glaston's superior technological expertise in flat tempering and close customer relationships with the world's leading glass manufacturers make it an attractive partner for companies developing and commercialising new glass technologies. Examples of potential areas are solar energy applications, smart glasses and automotive products. In possible future projects, Glaston would be the supplier of production lines.

In January 2017, Glaston established the Emerging Technologies unit, which provides consulting and engineering services for smart glass and energy glass production as well as solar energy applications. The unit will also sell and supply the required production lines. Glaston's investment in the Californian nanotechnology company is part of the Emerging Technologies unit's activities.

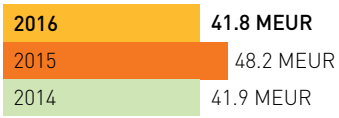


# Services business sharpened its operations, with a focus on building growth

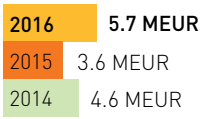
## Services

Glaston's Services business provides services for glass processing machines, machine upgrades and modernisations, spare parts and tools for glass pre-processing. The business's remote monitoring and diagnostics services, as well as training and consulting, help customers improve the efficiency of their processes.

**Services Net Sales**

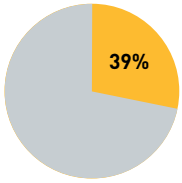



**Order Book**




**Services' Share of Total Net Sales**

(Eliminations and adjustments in group -2%)




2016 was challenging for the Services business, which started the year with realistic, yet high expectations. Market demand was not as expected in the first half of the year, but it finally turned upwards towards the year end. At the close of 2016, the order book of the Services business was 57% higher than the year before, standing at EUR 5.7 million. Net sales fell short of the previous year, amounting to EUR 41.8 (48.2) million. Net sales were afftected by low deliveries of modernisation products and pre-processing machines.

During the year, the business focused on improving its efficiency. Fast responses and actions stabilised the weakened situation. The new strategy was successfully embedded in the daily work of the Services business at all organisational levels.

For the Services business, 2016 was a year of optimising own processes and enabling future growth.

### EMEA and North America were strong, quiet in Asia and South America

The markets, weakened by uncertainty, offered no support for the Services business. EMEA and North America remained strong markets, with EMEA growing even stronger than before. The Services business has a solid presence and a broad base of installed machines in both Europe and North America.

The slowing of the markets in Asia and South America affected the demand for maintenance services. The South American market continued to be challenging. The situation in Asia was twofold: the Chinese market did not grow as predicted, but Glaston retained its good position in Asia owing to its technology leadership, and excellent individual deals were closed in the market. A part of Asia is still waiting for growth to materialise.

## Steady developments in product groups

The Services business advanced by providing continuous services, and by concluding individual deals. Glaston's market position in service remained strong.

There were fewer major modernisation and upgrade projects than in previous years. At the end of the year, modernisation and upgrade deals were closed in Europe, the USA and Asia, and two significant spare parts deals were concluded in Europe.

Sales increased in terms of the number of spare parts, but the size of individual deals decreased slightly. The spare part deliveries of the Services business were very successful and reliable.

## Benefiting from digitalisation

Digitalisation and increasing automation opened up new opportunities. The markets expressed great interest in new upgrade products, which enable customers to monitor production in real time and digitise operations using their existing machinery.

The flat tempering product line renewal was implemented in the Services business by launching new FC™ and RC™ modernisation products. For the ProL™ laminating line, the Services business developed an upgrade product that is available for all laminating machines. The ProL™ upgrades, which improve performance, were well received by customers. The iControL control system upgrade was expanded to cover flat tempering machine models manufactured in North and South America.

During the year, Glaston developed and launched services to help customers migrate to the world of Industrial Internet. The remote monitoring and diagnostics services provided by the Services business on the Glaston Insight platform have been greatly increased. Glaston Insight was also brought to the market as an additional feature of upgrade projects.

New tool types were introduced in the Tools product line. In addition, Parts Arena, a new-generation customer-specific spare parts service, was opened online.

## Building customer experience through global presence

The Services business focused on its core business and deeper understanding and continuous improvement of the customer's business.

The priority areas for development were global presence and customer experience. The success of the Services business is based on customer service and expertise that is available at a suitable distance from the customer. The reach of the service network remained wide: although the production of new machines was discontinued in Brazil, the service point will continue to operate there. The new Advisor model and the updated content of the Glaston Care™ service agreements – the aim of which was to increase flexibility – also improve customer experience.

The complete, company-wide reform of the CRM system was a major development project for the Services business. The entire product offering was systematically reviewed. The successful completion of the project increased the business's visibility and equipped it with more modern tools, adding flexibility which is demanded by the markets.

## A year that will enable growth

During the year, the Services business actively looked for solutions for a cost structure that would be permanently more flexible, and managed to greatly improve its efficiency. The efficient service production, proven concepts and products truly meet the market needs.

Orders received in late 2016 and highly active offering operations ensure that the Services business is better placed for the new year than in late 2015. The development of service concepts and a large base of installed machines provide a solid foundation.

Table of Contents

# Events 2016

**FEBRUARY**

**Artturi Mäki** starts as head of Services business and member of Glaston's Executive Management Group.

**MARCH**

Glaston releases its **new strategy,** the cornerstones of which are growth, technology leadership and best customer experience in the industry. Glaston's key expertise is in flat tempering technology.

Glaston participates in the **Baku Glass 2016** event in Azerbaijan and in the Istanbul **Glass Expo 2016** in Turkey. The GPD Seminar Baku and GPD Seminar Istanbul seminars take place in connection with these events.

**APRIL**

Glaston closes a 4 million euro machine deal with leading US glass manufacturer. **The order covers flat tempering and laminating lines and a Glaston Care™ service contract.**

Glaston presents its technology and services in the following industry fairs and events: **Glass TEXpo™ 2016** in the United States, **China Glass 2016** and **GPD China 2016** in China.

**MAY**

Glaston concludes **a major deal on the RC350™ tempering line and the ProL™ laminating line with the leading float glass manufacturer in Germany.**

**JUNE**

Glaston agrees on a **follow-up deal on the FC1000™** to the United States totalling more than 2 million euros.

Glaston participates in the **Glass South America 2016** event in São Paulo in Brazil and in the **MirStekla 2016** fair in Moscow, which is a key event for glass companies in the CIS and Eastern Europe.

**SEPTEMBER**

Glaston presents its updated FC and RC tempering machine series and the Glaston Insight service platform at **Glasstec 2016.** Insight services bring customers online information on factory control and management.

The customised **Parts Arena spare part portal is launched**. Moreover, Glaston make **two exclusive spare parts contacts in the EMEA area**.

**Päivi Lindqvist** starts as CFO and Executive Management Group member at Glaston.

**OCTOBER**

Glaston is present at the **GlassBuild America** fair in Las Vegas in the United States. **The iControL control system update** is expanded to cover BHF and FTF flat tempering machines manufactured in North and South America.

The restructuring of Glaston's South American operations was finalised. In the future, the South American operations will focus on sales and maintenance.

**NOVEMBER**

Glaston continues to showcase its new technology at the **Glasstech Asia 2016** fair in Hồ Chí Minh in Vietnam.

**DECEMBER**

Glaston sells **the ProBend bending tempering line to Austria** on a turnkey basis. **Cuba Glass 2016** event and the associated GPD Seminar Cuba is organised for the first time in Havanna in Cuba.

**The glass processing market picks up at year-end**. A cautious year comes to a strong finish. In the last quarter, new orders **increased by 39%** from Q4 2015. The EMEA area witnesses the strongest development, with **new machine orders going up 53%** from the previous quarter.

Table of Contents

# Governance

## Corporate Governance Statement 2016

Glaston Corporation's administration and management are based on the Company's Articles of Association, the Finnish Companies Act and Securities Markets Act, and the rules of NASDAQ Helsinki Stock Exchange. In addition, Glaston complies with the Finnish Corporate Governance Code 2015, which is publicly available at the address www.cgfinland.fi.

The report has been approved by the Company's Board of Directors and audited by the auditor. The Corporate Governance Statement is issued as a separate report and is published together with the financial statements, the Report of the Board of Directors and a salaries and remuneration statement on the Company's website at the address www.glaston.net/Investors/Governance. The information is also included in the Annual Review 2016.

### Duties and Responsibilities of Governing Bodies

The General Meeting of Shareholders, the Board of Directors and the President & CEO, whose duties are determined mainly in accordance with the Finnish Companies Act, are responsible for the management of Glaston Group. The General Meeting of Shareholders elects the Board of Directors and the Auditors. The Board of Directors appoints the President & CEO, who is responsible for Company's daily operational management. The President & CEO is supported by the Executive Management Group.

### General Meeting of Shareholders

The General Meeting of Shareholders is the Company's ultimate decision-making body. It decides on the duties for which it is responsible in accordance with the Finnish Companies Act and the Articles of Association, which include the adoption of the financial statements and the consolidated financial statements contained therein, the distribution of profits, and the discharge of the Members of the Board of Directors and the President & CEO from liability. In addition, the General Meeting of Shareholders elects the Board of Directors and the Auditors. The Annual General Meeting decides on the remuneration paid to Members of the Board and the Auditors. The Annual General Meeting, furthermore, may decide on, for example, amendments to the Articles of Association, issuances of shares, and the acquisition of the Company's own shares.

Glaston Corporation's General Meeting of Shareholders meets at least once per year. The Annual General Meeting must be held at the latest by the end of May. In accordance with the Articles of Association, the notice to attend a General Meeting of Shareholders must be published on the Company's website no earlier than two (2) months before the last day of registration and no later than three (3) weeks before the General Meeting, but at least nine (9) days before the record date of the General Meeting. The Board of Directors may also decide to publish the notice of the General Meeting in one or more Finnish- or Swedish-language national newspapers. In addition, Glaston publishes the notice to the General Meeting of Shareholders as a stock exchange release.

The minutes of the General Meeting, including the voting results and the appendices of the minutes that are part of the resolutions made by the meeting, are posted on the Company's website within two weeks of the meeting.

The President & CEO, the Chairman of the Board and the Members of the Board of the Board of Directors shall attend the General Meeting of Shareholders. In addition, the Auditor shall be present at the Annual General Meeting.

### Extraordinary General Meeting

An Extraordinary General Meeting of Shareholders is convened when the Board of Directors considers there is good cause to do so, or if the Auditor or shareholders who control one tenth of all the shares so demand in writing for the consideration of a certain issue.

### Shareholders' Rights

In accordance with the Finnish Companies Act, a shareholder shall have the right to have a matter falling within the competence of the General Meeting dealt with by the General Meeting, if the shareholder so requests in writing from the Board of Directors well in advance of the meeting, so that the matter can be mentioned in the notice to attend. Glaston shall publish on its website, at the latest by the end of the financial year preceding the Annual General Meeting, the date by which a shareholder must notify the Board of Directors of his/her request. At a General Meeting, shareholders shall have the right to make proposals and ask questions on the matters on the agenda of the meeting.

A shareholder shall have the right to participate in a General Meeting if the shareholder is registered in the Company's register of shareholders eight (8) days before a General Meeting. Owners of nominee-registered shares may be temporarily registered in the Company's list of shareholders for participation in a General Meeting. A shareholder may attend a General Meeting personally or through an authorised representative. A shareholder may also have an assistant at a General Meeting.

### Annual General Meeting 2016

Glaston Corporation's Annual General Meeting was held in Helsinki on 5 April 2016. The meeting was attended by 73 shareholders, representing a total of 69% of the Company's

voting rights. The Annual General Meeting adopted the financial statements and discharged the President & CEO and the Members of the Board of Directors from liability for financial year 2015. In accordance with the proposal of the Board of Directors, the Annual General Meeting resolved that a return of capital of EUR 0.01 per share be distributed. The return of capital was paid on 28 April 2016. The Annual General Meeting authorised the Board of Directors to decide on the issuance of shares as well as the issuance of options and other rights granting entitlement to shares. The authorisation covers a maximum of 20,000,000 shares. The authorisation is valid until 30 June 2017. All documents relating to the Annual General Meeting are available on the Company's website at the address www.glaston.net.

## Board of Directors

The Board of Directors is responsible for the appropriate arrangement of the Company's administration and operations. The Board of Directors consists of minimum of five (5) and a maximum of nine (9) members elected by a General Meeting of Shareholders. The term of office of Members of the Board of Directors expires at the end of the next Annual General Meeting that follows their election. According to the Articles of Association, a person who has reached 67 years of age cannot be elected a Member of the Board of Directors.

Under Recommendation 10 of the Finnish Corporate Governance Code, a majority of Members of the Board shall be independent of the Company, and at least two (2) Members who are independent of the Company shall also be independent of the Company's significant shareholders. In the selection of Members, attention shall be paid to the diversity of the Board of Directors, which means, among other things, that the Members' experience and competence in the Company's field of business and development stage are mutually complementary. In addition, education, age and gender are also taken into account. The Board of Directors should include both genders.

The notice to attend an Annual General Meeting shall include a proposal on the composition of the Board of Directors. The personal information of the candidates shall be published on Glaston's website in connection with the notice to attend an Annual General Meeting.

The Board of Directors shall elect from among its members a Chairman and a Deputy Chairman to serve for one year at a time. The Board of Directors has a quorum if more than half of its members are present at the meeting.

The Board of Directors' tasks and responsibilities are determined primarily by the Company's Articles of Association, the Finnish Companies Act and other legislation and regulations. It is the responsibility of the Board of Directors to further the interests of the Company and all of its shareholders.

The main duties and operating principles of the Board of Directors are defined in the board charter approved by the Board. It is the Board's duty to prepare the matters to be dealt with by a General Meeting and to ensure that the decisions made by a General Meeting are appropriately implemented. It is also the Board's task to ensure the appropriate arrangement of the control of the Company's accounts and finances. In addition, the Board directs and supervises the Company's executive management, appoints and dismisses the President & CEO and decides on the President & CEO's employment and other benefits. In addition, the Chairman of the Board approves the salary and other benefits of the Executive Management Group. The Board approves the Executive Management Group's charter.

The Board of Directors also decides on far-reaching and fundamentally important issues affecting the Group. Such issues are the Group's strategy, approving the Group's action plans and monitoring their implementation, monitoring the Group's financial development, acquisitions and the Group's operating structure, significant capital expenditures, internal control systems and risk management, key organisational issues and incentive schemes.

The Board of Directors is also responsible for monitoring the reporting process of the financial statements, the financial reporting process and the efficiency of the Company's internal control, internal auditing, if applicable, and risk management systems pertaining to the financial reporting process, monitoring the statutory audit of the financial statements and consolidated financial statements, evaluating the independence of the statutory auditor or audit firm, particularly with respect to the provision of services unrelated to the audit, and preparing a proposal for resolution on the election of the auditor.

The Board of Directors also regularly evaluates its own actions and working practices. This evaluation may be performed by the Board itself or by an external evaluator.

Meetings of the Board of Directors are held as a rule in the Company's head office in Helsinki. The Board of Directors also visits each year the Group's other operating locations and holds meetings there. The Board of Directors may also, if necessary, hold telephone conferences. The Board of Directors meets according to a timetable agreed in advance, generally 7-10 times per year and additionally, if necessary. The Company's President & CEO and Chief Financial Officer generally attend the meetings of the Board. The Company's General Counsel acts as Secretary to the Board. If necessary, such as in connection with the handling of strategy or the annual plan, other Members of the Executive Management Group may also attend meetings of the Board. The Auditor attends at least two meetings per year.

## Board of Directors in 2016

The Annual General Meeting, held on 5 April 2016, decided to re-elect all current Members of the Board of Directors, Andreas Tallberg, Teuvo Salminen, Claus von Bonsdorff, Kalle Reponen, Pekka Vauramo and Anu Hämäläinen as Members of the Board of Directors for a term of office ending at the closing of the next Annual General Meeting. In addition, it was decided to elect Sarlotta Narjus M.Sc. (Architecture) as Member of the Board of Directors for the same term of office.

Andreas Tallberg has served as Chairman of the Board, and Teuvo Salminen as Deputy Chairman.

In March, Glaston's Board of Directors adopted the Company's new strategic priorities and financial targets for the period 2016–2018. In addition, the Board focused on developing the Company's operations and improving profitability.

## Independence of Members of the Board

According to an independence assessment performed by the Company's Board of Directors, all of the Board's seven members are, in principle, independent of the Company. Excluding Andreas Tallberg, the Members of the Board are independent of the Company's significant shareholders. Andreas Tallberg is Managing Director of Oy G.W. Sohlberg Ab (Oy G.W. Sohlberg Ab's ownership was 17.5% on 31 December 2016). The Members of the Board have no conflicts of interest between the duties they have in the Company and their private interests.

## Information on Members of the Board of Directors

The shareholdings of Members of the Board of Directors also include shares of Glaston Corporation owned by companies controlled by the person in question.

**ANDREAS TALLBERG**, b. 1963, M.Sc.(Econ.)
Chairman of the Board, since 2007. Independent of the Company.
CEO of Oy G.W. Sohlberg Ab, a significant shareholder.
**Share ownership on 31.12.2016:** 1,500,000 shares.
**Main occupation:** Oy G.W.Sohlberg Ab, CEO
**Primary work experience:**
EQT, Senior Partner, 1997–2006
MacAndrews & Forbes International, President, 1992–1995
Amer Group, Director, Business Development, 1987–1991
**Key positions of trust:**
Detection Technology Oy, Chairman of the Board, since 2007
StaffPoint Holding Oy, Member of the Board, 2013, Chairman, since 2015
Wulff Group Plc, Member of the Board, since 2015
Nissala Oy, Chairman of the Board, since 1999
Nordic Regional Airlines, Member of the Board, since 2015
Toolmakers Oy, Chairman of the Board, since 2011

**CLAUS VON BONSDORFF**, b. 1967, M.Sc.(Eng.), M.Sc.(Econ.)
Member of the Board since 2006. Independent of the Company and of significant shareholders.
**Share ownership on 31.12.2016:** 172,600 shares
**Main occupation:** Nokia, Networks, Head of Customer Operations, Strategy and Business Development, since 2007
**Primary work experience:**
Nokia Plc, Expert and management positions, since 1994
**Key positions of trust:** –

**ANU HÄMÄLÄINEN**, b. 1965, M.Sc. (Econ.)
Member of the Board since 2012. Independent of the company and significant shareholders.
**Share ownership on 31.12.2016:** 150,000 shares
**Main occupation:** Vice President, Group Treasury and Financial Services & Support at Wärtsilä Corporation.
**Primary work experience:**
Wärtsilä Corporation 2008-2010, Director, Financial Accounting;
SRV Group 2006–2008: Senior Vice President, Financial Administration, IFRS & IPO project manager;
Quorum Group 2005–2006, Administration Director and Senior Partner;
Pohjola Group 2001-2005: Conventum Securities Ltd., Managing Director 2004–2005, Conventum Ltd. Administration Director 2001–2004
**Key positions of trust:**
Fingrid Oyj, Member of the Board since 2016

**SARLOTTA NARJUS**, b. 1966, M.Sc. (Architecture) SAFA.
Member of the Board since 2016.
Independent of the Company and of significant shareholders
**Share ownership on 31.12.2016:** no shares
**Main occupation:** SARC Architects Ltd, CEO
**Key positions of trust**:
Wood in Culture Association, Member of the Board
Senate Properties, Deputy Member of the Expert Committee

**KALLE REPONEN**, b. 1965, M.Sc.(Econ.). Member of the Board since 2014
Independent of the Company and of significant shareholders
**Share ownership on 31.12.2016:** 10,000 shares
**Main occupation:** Independent Consultant, Professional Board Member
**Primary work experience:**
Metso Corporation, Senior Vice President, Strategy and M&A, Member of Executive Team, 2006–2013
MCF Corporate Finance GmbH, Partner, 2003–2006
Nordea Corporate Finance, Director, 2000–2003
Metra Corporation, Business Development Director, 1999–2000
Wärtsilä, various managerial positions, 1995–2000:
Business Area Controller, Power Plants, Wärtsilä New Sulzer Diesel, 1997–1999
Business Development and Finance Manager, Wärtsilä Diesel, 1995–1997
Metra Corporation, Finance Manager, 1991–1995
Lohja Corporation, Finance Manager, 1988–1991
**Key positions of trust:**
Robit Plc, Member of the Board, since 2013
Swot Consulting Oy, Member of Advisory Board, since 2009
Marketing Clinic Oy, Member of the Board, since 2014
Monitera Oy, Chairman of the Board, since 2014
Koskitukki Oy, Member of the Board, since 2014
Premix Oy, Member of the Board, since 2014
Centenary Foundation of the Finnish Society of Crafts and Design, Member of the Board, since 2014

**TEUVO SALMINEN**, b. 1954, M.Sc.(Econ.), APA
Member of the Board since 2010, Deputy Chairman of the Board since 2014.
Independent of the Company and of significant shareholders.
**Share ownership on 31.12.2016:** 562,277 shares
**Main occupation:** Professional Board Member
**Primary work experience:**
Pöyry Plc, 1985–2010:
Senior Advisor 2010, Group Executive Vice President, Deputy to the CEO, 1999–2009
Head of Infrastructure & Environment Business Group, 1998–2000
Head of Construction Services Business Group, 1997–1998
Chief Financial Officer, 1988–1999
**Key positions of trust:**
Cargotec Plc, Member of the Board, since 2010
Evli Bank Plc, Member of the Board, since 2010
Pöyry Plc, Deputy Chairman of the Board, since 2015
Tieto Corporation, Member of the Board, 2010-2016
YIT Oy, Member of the Board, 2014–2016
3Step It Group, Member of the Board, since 2016
Havator Oy, Chairman of the Board, since 2010
Holiday Club Resorts Oy, Member of the Board, since 2015

**PEKKA VAURAMO**, b. 1957, M.Sc.(Mining)
Member of the Board since 2011. Independent of the Company and of significant shareholders
**Share ownership on 31.12.2016:** 250,000 shares
**Main occupation:** Finnair Plc, President & CEO
**Primary work experience:**
Cargotec Corporation, 2007–2013:
MacGregor, Chief Operating Officer, 2012–2013
Cargotec Corporation, Chief Operating Officer, Deputy to CEO, 2007–2012
Employed by Sandvik, 1985–2007:
President of the Underground Hard Rock Mining Division of Sandvik Mining and Construction (SMC) and Member of the SMC Management Team Sandvik Country Manager in Finland, 2005–2007, President of TORO Loaders Division of SMC, 2003–2005, President of Drills Division of SMC, 2001–2003
**Key positions of trust:**
Boliden Group, Member of the Board, since 2016
Ilmarinen Mutual Pension Insurance Company, Member of the Board, since 2016
Normet Group Oy, Member of the Board, 2008–2016
Finnish Fair Corporation, Member of the Board, since 2015
IS Mäkinen Oy, Member of the Board, since 2004
Service Sector Employers (Palta), Chairman of the Board, since 2017
Confederation of Finnish Industries, Member of the Board, since 2017
Savonlinna Opera Festival, Board of Trustees, since 2014

## Attendance at meetings of the Board

In 2016 Glaston's Board of Directors held 11 meetings, of which 1 was via a telephone conference. The attendance of Members of the Board at the meetings was 97%.

## Committees of the Board of Directors

The Company has no Audit Committee established by the Board of Directors and therefore the Board of Directors is responsible for the duties of the Audit Committee in accordance with the Finnish Corporate Governance Code. The Company's Board of Directors has considered that it wishes to participate as a whole in the preparation of issues specified for the Board and that the effectiveness of the Company's Corporate Governance is such that it does not currently require the establishment of separate committees.

## Nomination Board

The Nomination Board's task is to prepare and present annually for the Annual General Meeting and, if necessary, for an Extraordinary General Meeting, a proposal concerning the number of Members of the Board of Directors, a proposal on the identities of the Members of the Board, and a proposal on the remuneration of the Members of the Board. In addition, the task of the Nomination Board is to seek candidates as potential Members of the Board of Directors.

In its activities, the Nomination Board complies with current legislation, stock exchange rules applicable to the Company, and the Finnish Corporate Governance Code.

The Nomination Board consists of four members, all of which are appointed by the Company's four largest shareholders, who shall appoint one member each. The Chairman of the Company's Board of Directors shall serve as an advisory member of the Nomination Board.

The Company's largest shareholders entitled to appoint members to the Nomination Board shall be determined on the basis of the registered holdings in the company's shareholder register held by Euroclear Finland Ltd as of the first working day in September in the year concerned. The Nomination Board shall elect a Chairman from among its members. The Chairman of the Board of Directors shall convene the first meeting of the Nomination Board and the Nomination Board's Chairman shall be responsible for convening subsequent meetings.

A Nomination Board shall be established to serve until a General Meeting decides otherwise. The members of the Nomination Board shall be appointed annually and the term of office of the members shall expire when new members are appointed to the Board.

The members of the Nomination Board shall be independent of the company, and no person belonging to the Company's executive management shall be a member of the Board.

The members of the Nomination Board shall not be entitled to receive a fee for membership of the Board. The travel expenses of members of the Nomination Board shall be reimbursed in accordance with the Company's travel rules. The Nomination Board may within the scope of its duties use external experts, at the Company's approved expense, to identify and assess candidates as potential Members of the Board of Directors.

The Nomination Board shall submit its proposals to the Company's Board of Directors annually by the end of the January preceding the Annual General Meeting. Proposals for an Extraordinary General Meeting shall be submitted to the Company's Board of Directors so that they can be included in the notice to attend the meeting.

Individuals proposed as members of the Board of Directors shall possess the competence required of the position and the opportunity to spend an adequate amount of time in handling the duties required of the position.

A decision of the Nomination Board shall be the opinion of a majority of the members of Nomination Board. If the votes are tied, then the Chairman's vote shall be decisive. If the votes are tied in the election of the Chairman, the member candidate for Chairman nominated by the shareholder who had the largest number of shares when the Nomination Board was established shall be elected as Chairman.

A report on the activities of the Nomination Board shall be presented at the Annual General Meeting and published on the Company's website.

## Nomination Board 2016

In accordance with the ownership situation on 1 September 2016, the following were elected to the Nomination Board of Glaston Corporation: Ari Saarenmaa (Oy G.W.Sohlberg Ab), Stefan Björkman (Etera Mutual Pension Insurance Company), Markku Seppälä (Hymy Lahtinen Oy) and Mikko Koivusalo (Varma Mutual Pension Insurance Company). Andreas Tallberg, Chairman of Glaston's Board of Directors, served as an advisory member of the Nomination Board.

In its organising meeting held on 2 November 2016, the Nomination Board elected Ari Saarenmaa from among its members to be Chairman. The Board met two (2) times during 2016 and the average attendance of members was 88%. No fees were paid to the members of the Nomination Board. In accordance with its charter, the Nomination Board focused in its activities on preparing a proposal on the composition of the Board of Directors, on the identification of candidates as potential Members of the Board of Directors, and on remuneration issues pertaining to the Members of the Board of Directors. In its assessment of Members of the Board of Directors, the Nomination Board has taken into account the competence, experience and diversity of views of the Members of the Board.

## President and CEO

The President & CEO handles the operational management of the Company in accordance with instructions issued by the Board of Directors. He is responsible to the Board of Directors for fulfilling the targets, plans and goals that the Board sets. The President & CEO is responsible for ensuring that the Company's accounting is in compliance with the law and that financial management has been arranged in a reliable manner. The President & CEO is supported by the Executive Management Group.

Arto Metsänen has served as President & CEO since 1 September 2009. SVP, Machines Sasu Koivumäki serves as Deputy to the President & CEO.

## Executive Management Group

At the end of 2016, the Executive Management Group consisted of the President & CEO, the Chief Financial Officer, the Senior Vice Presidents of the business areas, the Senior Vice Presidents of the Americas, Asia and EMEA market areas, and the General Counsel and Senior Vice President, Human Resources. The Members of the Executive Management Group report to the

## Information on the Members of the Executive Management Group

**ARTO METSÄNEN**, b. 1956, M.Sc.(Eng.)
President and CEO
Employed by the Company and Chairman of the Executive Management Group, since 2009
**Share ownership on 31.12.2016:** 1,750,000 shares
**Primary work experience:**
CPS Colour Group Oy, President & CEO, 2005–2009
Consolis Oy, President & CEO, 2005
Sandvik Tamrock Oy, President, 2003–2005
Sandvik Tamrock, SVP USA and Mexico, 2002–2003
Sandvik Tamrock Oy, SVP South Europe and Middle East, 1998–2002

**SASU KOIVUMÄKI**, b. 1974, M.Sc.(Econ.)
Senior Vice President, Machines and Deputy CEO
Employed by the company since 2002, Member of the Executive Management Group since 2012
**Share ownership on 31.12.2016:** 300,000 shares
**Primary work experience:**
Glaston Corporation, CFO, 2012-2016
Glaston America Inc., Sales Director, 2010–2012
Glaston Corporation, Finance Manager, 2007–2010
Tamglass Finton Oy, Managing Director, 2005–2007
Tamglass Glass Processing Ltd, Business Controller, 2002–2005
Finnforest Oyj, Several financial management positions, 1998–2002

**TAINA TIRKKONEN**, b. 1975, LL.M., M.Sc.(Admin.), MBA
General Counsel and Senior Vice President, Human Resources
Employed by the Company since 2011, Member of the Executive Management Group since 2013
**Share ownership on 31.12.2016:** 75,000 shares
**Primary work experience:**
Metso Minerals Oy, Legal Counsel, 2008–2011
Cargotec Corporation, Legal Counsel, 2006–2008

**JUHA LIETTYÄ**, b. 1958, B.Sc.(Eng.)
Senior Vice President, Emerging Technologies since 2017
Employed by the company since 1986, Member of the Executive Management Group since 2007
**Share ownership on 31.12.2016:** 250,000 shares
**Primary work experience:**
Glaston Corporation, SVP, Americas, 2016
Glaston Corporation, SVP, Machines, 2014-2016
Glaston Finland Oy, SVP, Heat Treatment Product Line, 2012–2013
Glaston Finland Oy, SVP, Services Segment, 2009–2012
Glaston Corporation, SVP, Quality and Business Development, 2007–2009
Kyro Corporation, SVP, Technology, 2003–2007
Tamglass Engineering Ltd. Oy, Managing Director, 1999–2003
Tamglass Ltd. Oy, Several management positions, 1991–2003

**PÄIVI LINDQVIST**, b. 1970, M.Sc.(Econ), MBA
Chief Financial Officer
Employed by the company and Member of the Executive Management Group since 19 September 2016
**Share ownership on 31.12.2016:** 60,000 shares
**Primary work experience:**
Basware Corporation, Vice President, Business Control, 2014–2016
Outokumpu Plc, Divisional CFO, Stainless Coil EMEA, 2012–2013; SVP Communications and Investor Relations, 2007–2011
Tieto Corporation, Leadership positions in Communications and Investor relations, and specialist roles in finance, 1997-2007

**ARTTURI MÄKI**, b. 1969, M.Sc.(Eng.)
Senior Vice President, Services
Employed by the company and Member of the Executive Management Group since 2 February 2016
**Share ownership on 31.12.2016:** 12,531 shares
**Primary work experience:**
Valmet, Director, Roll Maintenance, 2015–2016
Valmet / Metso Paper, Director, Roll Operations, 2011–2015
Metso Paper: General Manager, Production Development, Service, 2008-2011; Vice President, Spare parts, Asia-Pacific, 2006-2007; Global Technology Manager, Process Parts, 2002-2005; Production Manager, Winders, 1998–2002

**FRANK CHENGDONG ZHANG**, b. 1968, e-MBA B.Sc. (Power Machinery Engineering)
Senior Vice President, Asia
Employed by the company since 2008, Member of the Executive Management Group since 2010
**Share ownership on 31.12.2016:** no shares
**Primary work experience:**
GE 2005–2008:
GE Motors & Controls, General Manager, Asia, 2005–2008
GE Lighting Systems, Product Line Director, 2005–2008

**PEKKA HYTTI**, b. 1955, M.Sc.(Eng.)
Senior Vice President, EMEA
Employed by the company since 2010, Member of the Executive Management Group since 2015
**Share ownership on 31.12.2016:** 100,000 shares
**Primary work experience:**
Sandvik Mining and Construction, Sub-region Med, General Manager, Sandvik Italy S.p.A., 2004–2009
Sandvik Tamrock, Business Line Manager, Tools, Sandvik Espanola SA, 2000–2004
Drilltech Mission LLC, USA, Sales and Marketing Manager, 1999
Tamrock Oy 1992–1998:
Surface Division, Sales and Marketing Manager, 1992–1995
Product Companies, Vice President, Product Support, 1995–1998
Product Companies, General and Plant Manager, Tampere, 1998
Oy Tampella Ab, Tamrock, 1982–1992:
Tamrock Japan, Area and Sales Management, 1987–1992
Various sales and product management positions, 1982–1987

**PEKKA HUUHKA**, b. 1956, M.Sc.(Eng.)
Senior Advisor
Employed by the company and Member of the Executive Management Group 2010–1 May 2016
**Primary work experience:**
Glaston Finland Oy, Senior Vice President, Supply Chain, 2010–2012
Swot Consulting Finland Oy, Managing Partner, 1998–2010
Tamrock Region Europe, Area Sales Director, Germany, 1993–1998
Tamrock Oy, Product Management, 1991–1993
Tamrock Oy, Production Management positions, 1982–1991

President & CEO and assist him in implementing the Company's strategy, operational planning and management, and in reporting the development of business operations. The Executive Management Group meets under the direction of the President & CEO.

The Chairman of the Company's Board of Directors appoints, on the proposal of the President & CEO, the Members of the Executive Management Group and confirms their remuneration and other contractual terms. The Company's President & CEO acts as the Chairman of the Executive Management Group. The Executive Management Group handles the Group's and business areas' strategy issues, capital expenditure, financial development, product policy, Group structure and control systems, and supervises the Company's operations.

## Executive Management Group in 2016

Artturi Mäki was appointed Senior Vice President of Glaston's Services business and member of the Executive Management Group as of 8 February 2016. Juha Liettyä, Senior Vice President, Machines and Member of the Executive Management Group was appointed Senior Vice President, Americas as of 1 July 2016, and Chief Financial Officer Sasu Koivumäki was appointed Senior Vice President, Machines as of the same date. Päivi Lindqvist was appointed Glaston's Chief Financial Officer and Member of the Executive Management Group on 19 September 2016.

The Executive Management Group convened nine (9) times in 2016.

The Extended Management Group included, in addition to members of the Executive Management Group mentioned above, Moreno Magon, Vice President Sales & Services, South America; Scott Steffy, Vice President Sales & Services, North America; Marko Pantti, Finance Director, Machines; and Heikki Halonen, Finance Director, Asia. The Extended Management Group met three (3) times during the year.

## Main Features of the Internal Control and Risk Management Pertaining to the Financial Reporting Process

Internal control is an essential part of the Company's administration and management. Its aim is to ensure that the Group's operations are efficient, productive and reliable and that legislation and other regulations are complied with. The Group has specified for the main areas of its operations Group-wide principles that form the basis for internal control.

The Group's internal control systems serve to provide reasonable assurance that the financial reports published by the Group give reasonably correct information about the Group's financial position. The Board of Directors and the President & CEO are responsible for arranging internal control. A report covering the Group's financial situation is supplied monthly to each Member of the Board of Directors. The Group's internal control is decentralised to different Group functions, which supervise compliance with instructions approved by the Board of Directors within their areas of responsibility. The Group's financial management and operational control are supported and coordinated by the Group's financial management and controller network.

The Group's financial reporting process complies with the Group's operating guidelines and standards relating to financial reporting. The interpretation and application of financial reporting standards has been concentrated in the Group's Financial Management organisation, which maintains operating guidelines and standards relating to financial reporting and is responsible for internal communication relating to them. The Group's Financial Management organisation also supervises compliance with these guidelines and standards. The Company has no separate internal auditing organisation. The Group's Financial Management organisation regularly monitors the reporting of the Group's units and addresses deviations perceived in reporting and, if necessary, performs either its own separate internal auditing or commissions the internal auditing from external experts. Control of reporting and forecasting processes is based on the Group's reporting principles, which are determined and centrally maintained by the Group's Financial Management organisation. The principles are applied consistently throughout the Group and a consistent Group reporting system is in place.

## Risk Management

Risk management is an essential part of Glaston's management and control system. The purpose of risk management is to ensure the identification, management and monitoring of risks relating to business targets and operations. Risk management principles and operating practices have been specified in a risk management policy approved by the Company's Board of Directors.

The principle guiding Glaston's risk management is the continuous, systematic and appropriate development and implementation of the risk management process, with the objective being the comprehensive recognition and appropriate management of risks. Glaston's risk management focuses on the management of risks relating to business opportunities and of risks that threaten the achievement of Group objectives in a changing operating environment. From the perspective of risk management, the Company has divided risks into four different groups: strategic risks, operational risks, financial risks and hazard risks. Risks relating to property, business interruption as well as liability arising from the Group's operations have been covered by appropriate insurances. Management of financial risks is the responsibility of the Group Treasury in the Group's parent company.

Glaston's risk management policy includes guidelines relating to the Group's risk management. Risk management policy also specifies the risk management processes and responsibilities. Glaston's risk management consists of the following stages: risk recognition, risk assessment, risk treatment, risk reporting and communication, control of risk management activities and processes, business continuity planning and crisis management. As part of the risk management process, the most significant risks and their possible impacts are reported to company management and the Board of Directors regularly, based on which management and the Board can make decisions on the level of risk that the Company's business areas are possibly ready to accept in each situation or at a certain time.

It is the duty of Glaston's Board of Directors to supervise the implementation of risk management and to assess the adequacy and appropriateness of the risk management process and of risk management activities. In practice, risk management consists of appropriately specified tasks, operating practices and tools, which have been adapted to Glaston's business area and Group-level management systems. Risk management is the responsibility of the directors and managers of each business area and Group-level function. Risk recognition is in practice the responsibility of every Glaston employee.

The Group Legal function is responsible for guidelines,

support, control and monitoring of risk management measures. In addition, the function consolidates business-area and Group-level risks. The Group Legal function reports on risk management issues to the President & CEO and the Executive Management Group and assesses in collaboration with them any changes in the probabilities of the impacts of identified risks and in the level of their management. The Group Legal function also reports the results of risk management processes to the Board of Directors.

Segment and group-level risk management is included in the regularly repeated group-wide risk management process. The process can also always be initiated when required if substantial strategic changes requiring the initiation of the risk management process take place in a certain area of operations.

The management group of each business area identifies and assesses its operational risks and specifies risk management measures by which an acceptable level of risk can be achieved.

With the aid of the risk management process, risks are systematically identified and assessed in each business area and at Group level. In addition, at each level measures are specified which, when implemented, will achieve an acceptable level of risk. Risks are consolidated at Group level. Action plans are prepared at each level of operations to ensure risks remain at an acceptable level.

The Group's risks are covered in more detail in the Report of the Board of Directors on page 23. The management and organisation of the Group's financial risks are presented in more detail in Note 3 of the consolidated financial statements on page 49.

## Insider administration

In addition to the statutory insider regulations, Glaston complies with the insider guidelines of NASDAQ Helsinki Ltd as well as the internal guidelines adopted by Glaston at any given time.

In accordance with the Market Abuse Regulation, Glaston prepares and maintains a list of persons discharging managerial responsibilities as well as persons and entities closely associated with them. In Glaston Corporation, the persons discharging managerial responsibilities are the Members of the Board of Directors, the President & CEO, the Deputy CEO, and the Chief Financial Officer. At least once a year, Glaston checks the information of persons discharging managerial responsibilities that have a duty to declare as well as persons and entities closely associated with them.

Currently, Glaston has decided that it will not establish and maintain an insider list relating to permanent insiders. During the preparation of significant projects and events, the Company maintains project- and event-specific lists of insiders.

The Company's persons discharging managerial responsibilities, persons serving in certain key positions and persons participating in the preparation of financial reports must not trade in the Company's financial instruments during the 30-day period before the publication of interim reports and financial statement releases. With respect to project-specific insiders, trading in the Company's financial instruments is prohibited until the cancellation or publication of the project.

The Company's insider administration, its implementation and supervision are the responsibility of Group Legal function and the Communications Department. Glaston's General Counsel is responsible for the Company's insider issues. The Company's Communications Director is responsible for maintaining the list of insiders and for overseeing the restriction on trading and duty to declare.

## Auditing

The Company has one Auditor, which must be an auditing firm authorised by the Finnish Central Chamber of Commerce. The Annual General Meeting elects the Auditor to audit the accounts for the financial year, and the Auditor's duties cease at the close of the subsequent Annual General Meeting. The Auditor's duty is to audit the consolidated and parent company financial statements and accounting as well as the parent company's governance, and to give reasonable assurance that the financial statements and the Report of the Board of Directors give a true and fair view of the Group's operations and result as well as its financial position. The Company's Auditor presents the audit report required by law to the Company's shareholders in connection with the annual financial statements and reports regularly to the Board of Directors. The Auditor, in addition to fulfilling general competency requirements, must also comply with certain legal independence requirements guaranteeing the execution of an independent and reliable audit.

## Audit 2016

At the 2016 Annual General Meeting, the accounting firm Ernst & Young Oy was elected as the Company's Auditor.

The auditor with principal responsibility was Kristina Sandin APA. Auditing units representing Ernst & Young have mainly served as the auditors of the Company's subsidiaries in each country. In 2016 the Group's auditing costs totalled approximately EUR 284,000, of which Ernst & Young received approximately EUR 265,000. Ernst & Young Oy's auditing expenses for the audit for financial year 2016 totalled approximately EUR 233,000. In addition, auditing units belonging to Ernst & Young have provided other advice to Group companies to a value of EUR 19,000.

## Related-party transactions

Glaston Group's related parties include the parent of the Group (Glaston Corporation), its subsidiaries and associated companies. Shareholders that have significant influence in Glaston through their shareholding are also considered to related parties, as are the companies controlled by these shareholders. Parties are considered to be related to each other if one party is able to exercise control or significant influence over the other party's financial and operating decision-making.

Members of the Board of Directors and the Group's Executive Management Group, the President & CEO and their family members are also considered to be related parties.

There is no special decision-making procedure with respect to related party transactions. In its transactions with associated companies and other related parties, Glaston adheres to the same commercial terms and conditions as in its transactions with external parties.

Table of Contents

# Information for Shareholders

## Annual General Meeting

The Annual General Meeting of Glaston Corporation will be held on Tuesday 4 April 2017 at 3p.m. in Hotel Scandic Marski, Mannerheimintie 10, Helsinki, Finland. The reception of persons registered for the meeting will commence at 2 p.m.

The Annual General Meeting may be attended by shareholders who, on the record date of the AGM, 23 March 2017, are registered in the shareholders' register held by Euroclear Finland. A shareholder whose shares are entered into his/her personal Finnish book-entry account is registered in the company's register of shareholders.

**Shareholders who wish to attend the AGM should register with the company by 10 a.m. on 30 March 2017 via one of the following options:**

- On the Glaston Corporation website at www.glaston.net
- By e-mail to agneta.selroos@glaston.net
- By telephone on +358 (0)10 500 6105;
- In writing to the following address: Glaston Corporation, Lönnrotinkatu 11, FI-00120 Helsinki, Finland.

Registrations must be made before the end of the registration period. A proxy entitling the authorised person to exercise the shareholder's voting rights at the meeting should be submitted to the company within the registration period.

## Proposal on the distribution of profits

The comparable earnings per share for 2016 were EUR 0.01. According to the dividend policy, the objective is to distribute annually a dividend or return of capital amounting to 30–50% of the company's comparable earnings per share. As the company is investing strongly in the development of new technologies and as comparable earnings per share are only EUR 0.01, the Board of Directors proposes that no dividend or return of capital be distributed for 2016.

## Glaston Corporation's financial reporting in 2017

Financial Statements for January 1-December 31, 2016 on Thursday, February 10, 2017

- Interim Report for January 1-March 31, 2017 on Wednesday, April 26, 2017
- Interim Report for January 1-June 30, 2017 on Thursday, August 10, 2017
- Interim Report January 1-September 30, 2017 on Monday, October 30, 2017

Glaston publishes its financial reports and stock exchange releases in Finnish and English, and they are also available on the company's website at www.glaston.net

A press conference for analysts and media will be held on the date of publication of each interim report, at a time to be announced later.

Glaston observes a silent period of 30 days prior to the announcements of financial results. During this time, the company's representatives do not meet investors or analysts or provide comments on the company's financial position.

## Ordering reports and releases

To order Glaston's annual reports, call +358 (0)10 500 500 or send an e-mail to info@glaston.net. Glaston Corporation's releases can be subscribed to via e-mail. When releases are published, they are automatically sent by e-mail to those who have registered with the service on the company's website at www.glaston.net > Stay tuned > Releases > Order Releases.

## Changes of address

In the event of a change of address, Glaston's shareholders are asked to notify the bank at which they have a book-entry account. Shareholders registered with Euroclear Finland are asked to send a written notice of a change of address to the following address:

Euroclear Finland Oy
P.O. Box 1110
FI-00101 Helsinki, Finland

The notice of change must include the shareholder's name, number of book-entry account or date of birth, as well as the old and new address. A change of address can also be made by filling in a Finnish-language electronic form at www.euroclear.fi > Osoitteenmuutos.

## Further information on Glaston

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Communications Director
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Table of Contents

# Glaston Corporation's Board of Directors' Review and Financial Statement
## 1.1.–31.12.2016

## Contents


| | page |
|---|---|
| **Board of Directors' Report** | 23 |
| **Consolidated Statement of Financial Position** | 31 |
| **Consolidated Statement of Profit or Loss** | 32 |
| **Consolidated Statement of Comprehensive Income** | 33 |
| **Consolidated Statement of Changes in Equity** | 34 |
| **Consolidated Statement of Cash Flows** | 35 |
| **Supplemental Information for Statement of Cash Flows** | 36 |
| **Per Share Data** | 37 |
| **Financial Ratios** | 38 |
| **Definition of Key Ratios** | 39 |

| | | page |
|---|---|---|
| **Notes to the Consolidated Financial Statements** | | 41 |
| 1 | Summary of Significant Accounting Policies | 47 |
| 2 | Critical Accounting Estimates and Judgements and Assessment of Going Concern | 48 |
| 3 | Management of Financial Risks | 49 |
| 4 | Shares and Shareholders | 52 |
| 5 | Segment Information | 56 |
| 6 | Construction Contracts | 59 |
| 7 | Other Operating Income | 59 |
| 8 | Materials and Other Operating Expenses | 60 |
| 9 | Employee Benefits and Number of Personnel | 61 |
| 10 | Financial Income and Expenses | 62 |
| 11 | Income Taxes | 63 |
| 12 | Depreciation, Amortization and Impairment of Assets | 66 |
| 13 | Discontinued Operations and Assets and Liabilities of Disposal Group Classified as Held for Sale | 69 |
| 14 | Intangible Assets | 70 |
| 15 | Property, Plant and Equipment | 71 |
| 16 | Subsidiary, with material non-controlling interest ownership | 72 |
| 17 | Available-for-sale Financial Assets | 72 |
| 18 | Inventories | 73 |
| 19 | Receivables | 73 |
| 20 | Total Comprehensive Income Included in Equity | 75 |
| 21 | Pensions and Other Defined Post-employment Employee Benefits | 75 |
| 22 | Interest-bearing Liabilities | 79 |
| 23 | Provisions | 80 |
| 24 | Interest-free Liabilities | 81 |
| 25 | Financial Assets and Liabilities | 82 |
| 26 | Derivative Instruments | 83 |
| 27 | Contingencies | 84 |
| 28 | Shares and Holdings | 85 |
| 29 | Share-based Incentive Plans | 86 |
| 30 | Related Parties | 87 |
| 31 | Events after End of the Reporting Period | 89 |
| **Parent Company Income Statement, FAS** | | 90 |
| **Parent Company Balance Sheet, FAS** | | 91 |
| **Parent Company Cash Flow Statement, FAS** | | 92 |
| **Notes to the Parent Company Financial Statements, FAS** | | 93 |
| **Proposal for the Distribution of Profits** | | 102 |
| **Auditor's Report (translation)** | | 103 |

# Report of the Board of Directors for 2016

## Operating environment

As we entered 2016, broad uncertainty was evident in the glass processing market. A significant change for the better was seen only in the last quarter of the year, when a pick-up was perceptible, particularly in the EMEA area. In the North American market, customers' decision-making slowed in the second quarter in both the USA and Mexico. The market situation remained reasonably good, however. In South America, the market continued to be quiet. In the Asian market area, development varied from country to country. The market in China is still on a downward trend, but in many other countries development has been positive.

### Machines

North America and the EMEA area remained the largest markets for Glaston's Machines business. A change took place in the North American market in the second half of the year, when customers' decision-making times lengthened. Competition intensified as Chinese operators strengthened their presence in the market. The South American market continued to be quiet, but outside Brazil a slight pick-up was seen towards the end of the year. In the EMEA area, particularly in Eastern Europe and in Italy, the market developed positively. In some countries, customers' investments were boosted by tax breaks on investments.

In the Asian market, Glaston's success varied from area to area. Due to its competitive product offering and increased presence, Glaston reinforced its leading position in the Australian and New Zealand tempering machine markets following a number of quieter years. Overall, the Southeast Asia machine market was quiet, with the exception of Vietnam. In China, customers' activity increased in the second half of the year.

The Machines business' most significant product group was flat tempering machines. Significant updates were made to the FC™ and RC™ main product series. The main focus of the updates was on raising the degree of automation as well as further improving the optical quality of glass. The new product series were well received in the market, and Glaston further strengthened its position as the technology leader in heat treatment machines.

In accordance with its strategy, Glaston invested in lamination technology and launched the Glaston ProL™ lamination line. The product has attracted much interest, and the first deals for the ProL™ line were concluded in Germany and USA. The continuously operating CHF™ flat tempering lines have also met with success. The automotive glass business organisation was strengthened.

The nanotechnology project, initiated in 2015, progressed according to plan. The assembly of a prototype line began in the autumn and it was tested in the latter part of the year. The line started production in January 2017. In 2016 Glaston participated in the project with the labour input of around five people. In addition to the nanotechnology project, Glaston is engaged in discussions with several potential partners on the development of new glass technologies. Glaston's role in possible new projects may, for example, be connected with the development and assembly of production lines for solar energy applications related to advanced glass coatings or glass. Investments in new technology had an estimated cost impact of EUR 0.5 million in 2016.

In order to support Glaston's strategic growth target, the Machines business renewed its organisation. Operations were divided into two business units: flat tempering, and bending and laminating.

### Services

In 2016 broad uncertainty was evident in the Services business market, with demand remaining subdued with the exception of the final quarter. The strongest areas for business continued to be North America and the EMEA area. The South American market remained quiet, although indications of a recovery were perceptible in automotive business. In the Asia market area, there was positive development in Australia, New Zealand and Southeast Asia. The service market in China remained quiet.

There were fewer large modernisation and upgrade projects than the previous year. In Australia and New Zealand, active new machine business slowed sales of upgrade products. Excluding the final quarter, demand for modernisation products remained subdued in the EMEA area. In North America, the machine investments of earlier years impacted sales of upgrade products, and modernisation of the machine stock will become due only after a few years.

Service and spare parts sales for heat treatment machines remained at a fairly high level. In terms of numbers, there were more deals than the previous year, but the average size of single orders fell slightly. The strongest sales areas continued to be North America and the EMEA area.

In the tools product group, competition remained aggressive. Despite the difficult market situation, sales of tools began to grow tentatively towards the end of the year. New types of tools were introduced into the product group during the year and the distribution network was expanded.

The further development of the customer experience as well as improving the efficiency of own operations were the business development priorities. The strategy published in March was introduced at all levels of the organisation.

## Orders received and order book

Glaston's orders received in January–December grew by 5% and totalled EUR 112.9 (107.4) million.

At the end of 2016, Glaston's order book was 18% higher than the previous year and stood at EUR 45.6 (38.5) million. The Machines business order book grew by 14% to EUR 39.9 (34.9) million. The Services business order book grew by 57% to EUR 5.7 (3.6) million.

## Net sales

Glaston's January-December net sales fell by 13% compared with 2015 and totalled EUR 107,1 (123.4) million. The net sales of the Machines business were EUR 67.4 (76.4) million. The net sales on the Services business were EUR 41.8 (48.2) million.

Net sales in the Asian market area fell in October–December, but for the full year development was positive. Full-year net sales rose to EUR 21.0 million, an increase of 15% compared to 2015. Despite the good fourth quarter, net sales in the EMEA area fell short of the previous year and totalled EUR 42.4 (48.0) million. Net sales in the Americas area fell by 24% compared with the previous year's high level and were 43.7 (57.2) million.

## Operating result and profitability

The full-year comparable operating profit was EUR 2.8 (6.1) million, i.e. 2.6 (4.9)% of net sales. Lower net sales than the previous year and cost overruns associated with a few customer projects adversely affected earnings. Earnings were improved, however, by cost-saving measures undertaken during 2016 and 2015.

Glaston's January-December operating result was EUR 2.3 (6.6) million. Financial expenses amounted to EUR -0.7 (-5.8) million. The result before taxes was a profit of EUR 1.6 (0.9) million. The result for the review period was a profit of EUR 1.0 (13.8 loss) million.

Continuing Operations' full-year earnings per share were EUR 0.01 (0.00). Discontinued Operations' earnings per share in 2015 were EUR -0.07. Continuing and Discontinued Operations' earnings per share totalled EUR 0.01 (-0.07).

## Financial position, cash flow and financing

Due to the good result and a reduction in working capital, cash flow from operating activities was strong, at EUR 8.9 (0.7) million. The change in working capital was EUR 4.6 (-0.1) million. Deliveries scheduled for the end of the year reduced the level of inventories, while purchase invoices related to them did not fall due for payment until this year. Moreover, a high level of advance payments related to new orders were also received at the end of the year.

Glaston's cash flow from operating activities, before the change in working capital, decreased to EUR 5.3 (6.5) million in January–December. The change in working capital was EUR 8.2 (-9.5) million. Cash flow from investments was EUR -3.8 (-6.9) million and cash flow from financing activities was EUR 1.4 (-5.1) million.

Due to the strong cash flow, Glaston's cash and cash equivalents grew to EUR 17.4 (6.1) million. At the same time, interest-bearing net debt turned negative to EUR -0.6 (7.4) million and net gearing was -1.7 (20.2)%.

At the end of the review period, the consolidated asset total was EUR 101.1 (100.3) million. The equity attributable to the owners of the parent was EUR 35.6 (36.5) million. Equity per share was EUR 0.18 (0.19). Return on equity in the reporting period was 2.8 (-31.5)%. Continuing Operations' return on capital employed (ROCE) was 4.6 (10.0)%.

| **Order book, EUR million** | **31.12.2016** | **31.12.2015** | **31.12.2014** restated |
|---|---|---|---|
| Machines | **39.9** | 34.9 | 51.4 |
| Services | **5.7** | 3.6 | 4.6 |
| **Total** | **45.6** | **38.5** | **56.0** |

| **Net sales, EUR million** | **2016** | **2015** | **2014** restated |
|---|---|---|---|
| Machines | **67.4** | 76.4 | 69.6 |
| Services | **41.8** | 48.2 | 41.9 |
| Other and internal sales | **-2.0** | -1.3 | -1.8 |
| **Total** | **107.1** | **123.4** | **109.7** |

| **Comparable operating result** | **2016** | **2015** | **2014** restated |
|---|---|---|---|
| **Operating result** | **2.3** | **6.6** | **10.8** |
| Items affecting comparability | **-0.5** | 0.6 | 5.3 |
| **Comparable operating result** | **2.8** | **6.1** | **5.5** |

| | **2016** | **2015** | **2014** restated |
|---|---|---|---|
| Operating result, EUR million | **2.3** | 6.6 | 10.8 |
| Operating result, % of net sales | **2.1%** | 5.4% | 9.8% |
| Profit/loss for the year attributable to owners of the parent, EUR million | **1.0** | -13.8 | 1.2 |
| Profit/loss for the year attributable to owners of the parent, % of net sales | **1.0%** | -11.2% | 1.0% |

## Strategy 2016–2018

In March, Glaston's Board of Directors adopted updated strategic priorities and financial targets for the period 2016–2018. The cornerstones of the strategy are growth, technology leadership and the industry's best customer experience.

Glaston aims to maintain its position as the industry's leading pioneer, whose identifying characteristics are technology leadership and high quality. The company's expertise is strongest in flat tempering technology. In this segment, the company will further strengthen its position through continuous product development and a regularly renewed product offering. Glaston will seek growth not only in flat tempering technology but also in other safety glass categories, such as bending, tempering-bending and laminating. In addition to these, innovative glass technologies and digitalisation will offer Glaston significant new business opportunities.

Glaston expects the glass machine market to grow at 3–5% per year up to 2018. The financial targets for the strategy period 2016–2018 are annual growth of net sales (CAGR) exceeding market growth, comparable operating profit margin (EBIT) over 8% at the end of the period, and return on capital employed (ROCE) over 20% at the end of the period.

## Research and product development

In 2016, Glaston's research and product development expenditure totalled EUR 1.7 (3.6) million, i.e. 1.6 (3.0)% of net sales.

Glaston's most significant product development investment related to the California-based nanotechnology company, which is developing new glass technology solutions. During the year, a project team of around five people from Finland participated in the project. The nanotechnology project proceeded according to plan during the year: the assembly of a prototype line began in the autumn and it was tested in the latter part of the year. Testing activities also took place in Finland.

Projects related to digitalisation and the industrial internet moved forward. The Glaston Insight service, which enables real-time monitoring of production, was launched in the autumn. The service provides information on, among other things, energy consumption, utilisation rate, quality, and maintenance needs. The service works with both a mobile device and an online connection, and it is available for machines that have an iControL system. For this reason, on the automation side, there was also a focus on developing and updating a standard control system for older models of machine for the iControL system.

The further development of GlastonAir continued and new patents were granted for the product. The first machine was installed and taken into use at the customer's premises in Colombia.

Updated FC™ and RC™ series flat tempering lines were launched in the autumn. The main focus of the updates was on raising the degree of automation as well as further improving the optical quality of glass.

Glaston responded to growing demand for highly demanding jumbo-size glazing solutions by customising the ProL™ flat laminating line to jumbo size and by undertaking the pre-development of tempering-bending machines all the way to jumbo size.

| | 2016 | 2015 | 2014 restated |
|---|---|---|---|
| Earnings per share, Continuing Operations, EUR | **0.01** | 0.00 | 0.04 |
| Earnings per share, Discontinued Operations, EUR | **-** | -0.07 | -0.03 |
| **Earnings per share, basic and diluted, EUR** | **0.01** | **-0.07** | **0.01** |

| | 2016 | 2015 | 2014 restated |
|---|---|---|---|
| Return on capital employed (ROCE), % | **4.6** | -13.8 | 7.9 |
| Return on equity, % | **2.8** | -31.5 | 2.2 |

| | 2016 | 2015 | 2014 restated |
|---|---|---|---|
| Equity ratio, % | **43.2** | 43.9 | 47.7 |
| Gearing, % | **46.7** | 36.7 | 29.6 |
| Net gearing, % | **-1.7** | 20.2 | -9.8 |
| Interest-bearing net debt, EUR million | **-0.6** | 7.4 | -5.0 |

| **EUR million** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Research and development expenditure, Continuing Operations | **1.7** | 3.6 | 3.5 |
| Research and development expenditure, Discontinued Operations | **-** | 0.2 | 0.4 |
| Research and product development expenditure, total | **1.7** | 3.9 | 3.9 |
| Capitalised development expenditure in the financial year, Continuing and Discontinued Operations | **1.4** | 1.3 | 1.2 |
| Research and development expenditure, Continuing Operations, % of Continuing Operations' net sales | **1.6%** | 3.0% | 3.2% |

## Environment

As the technology leader in its industry, Glaston strives to promote sustainable development both in terms of the products and services it offers to its customers and in its own operations. The environmental impact of Glaston's own production operations is very limited. The most significant environmental impacts arise from the life-cycle energy consumption of the machines manufactured by the company. Energy efficiency and its improvement have a key role in product development, in terms of both glass processing machines and end products.

The life cycle of Glaston's glass processing machines may even be decades. Glass processing machines are designed and built to withstand constant use at high production capacities. Regular maintenance extends the machines' useful life as well as product safety. The modernisation of machines with new technical features extends the life of machines and reduces energy consumption in glass processing. Glaston pays special attention to the recyclability of machine materials, particularly with respect to components susceptible to wear and thus often replaced.

Energy is the largest cost item during the economic life of buildings. More energy-efficient and environmentally aware solutions are being driven by new energy standards and stricter legislation as well as the strongly developing smart glass market. Glaston works actively to promote opportunities to use glass in energy-efficient construction and in utilisation of solar energy. Glaston's Emerging Technologies unit offers consulting and planning services for smart glass and energy glass window production as well as solar energy applications. Glaston is also the organiser of the industry's largest expert conference, the Glass Processing Days event, which is held every other year.

## Capital expenditure, depreciation and amortisation

Glaston's gross capital expenditure totalled EUR 3.9 (7.2) million. The most significant investments in 2016 related to product development and information systems.

In 2016, depreciation and amortisation of Continuing Operations on property, plant and equipment and on intangible assets totalled EUR 2.7 (3.4) million.

## Efficiency programmes

In 2015, Glaston initiated cost-saving measures in South America and Asia. These measures were enhanced and expanded in 2016.

In Asia, the efficiency measures were completed during the first half of the year: the number of employees was reduced, services management was restructured, and areas of responsibility clarified. In July, an extension to the factory located in Tianjin, China was leased to a third party on a 10-year agreement.

The efficiency plan for South American operations, presented at the end of June, was completed in the latter part of the year. Machine manufacturing in Sao Paolo ended in October. In future, the focus of South American operations will be on sales and service operations. Efficiency measures were also carried out in Finland, where employer-employee consultations on possible lay-offs and redundancies were held in August–September. As a result of the consultations, operations in Finland were reorganised. In the autumn, personnel lay-offs were initiated at the tools factory in Italy.

The cost-saving measures undertaken in 2016 are expected to have a total impact of more than EUR 1.5 million on the 2017 result.

## Changes in the company's management

Artturi Mäki was appointed Senior Vice President of Glaston's Services business and member of the Executive Management Group as of 8 February 2016. Senior Advisor Pekka Huuhka's service in Glaston ended on 1 May 2016.

Juha Liettyä, Senior Vice President, Machines was appointed Senior Vice President, Americas as of 1 July 2016, and Chief Financial Officer Sasu Koivumäki was appointed Senior Vice President, Machines as of the same date. In addition, Sasu Koivumäki will continue as Deputy to the CEO.

Päivi Lindqvist was appointed Glaston's Chief Financial Officer and Member of the Executive Management Group on 19 September 2016.

| EUR million | 2016 | 2015 | 2014 |
|---|---|---|---|
| Gross capital expenditure, Continuing Operations | **3.89** | 6.98 | 3.43 |
| Gross capital expenditure, Discontinued Operations | **-** | 0.26 | 0.191 |
| Gross capital expenditure, total | **3.89** | 7.24 | 3.62 |
| Gross capital expenditure, Continuing Operations, % Continuing Operations' net sales | **3.6%** | 5.7% | 3.1% |
| Depreciation and amortisation, Continuing Operations | **2.7** | 3.4 | 3.7 |

| EUR million | 2016 | 2015 | 2014 |
|---|---|---|---|
| Salaries and bonuses, Continuing Operations | **25.9** | 28.5 | 23.0 |
| Employees at end of year, Continuing Operations | **415** | 450 | 495 |
| Employees at end of year, total | **415** | 450 | 495 |
| Average number of employees | **437** | 494 | 494 |

## Organisation and employees

In Glaston, the skills level of employees was developed mainly through internal training, cooperation and sharing of expertise. Regular internal training events were held, particularly for service and installation monitoring personnel. During the year, a number of Genuine Care Days were arranged for service personnel, the themes of which included process skills as well as topics related to the servicing of machines delivered by Glaston.

To safeguard Glaston's future skills needs, career and succession plans for key positions are updated annually, and development measures agreed. In connection with this process, a multi-disciplinary team, whose development is a particular area of focus, is selected annually. The team is assigned development projects related to strategy, and thereby develops its expertise.

Personnel additions were made during the year mainly in engineering and in North American field service – a total of around 10 people. The number of employees was reduced due to efficiency measures in China and Brazil – a total around 50 people.

Glaston's Continuing Operations had a total of 415 (450) employees on 31 December 2016. Of the Group's employees, 39% worked in Finland and 15% elsewhere in the EMEA area, 30% in Asia and 16% in the Americas. The average number of employees was 437 (494).

## Share-based incentive schemes

On 19 January 2016, Glaston's Board of Directors decided on a new period in the share-based incentive scheme for the Group's key personnel that began in 2014. The incentive scheme is part of the long-term incentive and commitment scheme for the senior management of the Group and its subsidiaries, and it is linked to the development of Glaston's share price. The new period covers 2016–2018, and any rewards from the scheme will be paid in spring 2019. The incentive scheme launched in 2016 covers 18 key Glaston personnel.

In January 2015, Glaston's Board of Directors decided on a period for the same scheme covering 2015–2017. The scheme covers 31 key personnel, and any rewards from the scheme will be paid in spring 2018.

The first period of the incentive scheme covered 2014–2016. No rewards have been paid from the scheme. The incentive scheme covered 30 key Glaston personnel.

## Decisions of the Annual General Meeting

Glaston's Annual General Meeting, held on 5 April 2016, adopted the financial statements and discharged the President & CEO and the Members of the Board of Directors from liability for the financial year 2015.

### Dividend

In accordance with the proposal of the Board of Directors, the Annual General Meeting resolved that a return of capital of EUR 0.01 per share be distributed. The return of capital was paid on 28 April 2016.

### Board of Directors

The Annual General Meeting resolved that there be seven Members of the Board of Directors. Claus von Bonsdorff, Anu Hämäläinen, Sarlotta Narjus, Kalle Reponen, Teuvo Salminen, Andreas Tallberg and Pekka Vauramo were elected to the Board of Directors.

After the Annual General Meeting, the Board of Directors held an organising meeting, at which it elected Andreas Tallberg as Chairman of the Board and Teuvo Salminen as Deputy Chairman of the Board.

The Annual General Meeting resolved that the annual remuneration payable to Members of the Board of Directors would remain as follows: the Chairman of the Board will be paid EUR 40,000, the Deputy Chairman EUR 30,000 and the other Members of the Board EUR 20,000.

### Auditor

The Annual General Meeting elected as the company's auditor Authorised Public Accountants Ernst & Young Oy, which nominated Authorised Public Accountant Kristina Sandin as the main responsible auditor.

### Board authorisations

The Annual General Meeting authorised the Board of Directors to decide on the issuance of shares as well as the issuance of options and other rights granting entitlement to shares. The authorisation covers a maximum of 20,000,000 shares.

The authorisation does not exclude the Board of Directors' right to decide on a directed issue. It was proposed that the authorisation be used for executing or financing arrangements important from the company's point of view, such as business arrangements or investments, or for other such purposes determined by the Board of Directors in which a weighty financial reason would exist for issuing shares, options or other rights granting entitlement to shares and possibly directing a share issue.

The Board of Directors is authorised to resolve on all other terms and conditions of the issuance of shares, options and other rights entitling to shares as referred to in Chapter 10 of the Companies Act, including the payment period, grounds for the determination of the subscription price and the subscription price or allocation of shares, options or other rights without payment or that the subscription price may be paid besides in cash also with other assets either partially or entirely.

The authorisation is valid until 30 June 2017 and it invalidates earlier authorisations. The Board of Directors did not exercise its authorisation up to 31 December 2016.

## Nomination Board

Glaston Corporation's Nomination Board consists of the representatives of the four largest shareholders entered in the company's register on the first day of September. In addition, the Chairman of Glaston Corporation's Board of Directors serves as an advisory member of the Nomination Board.

In accordance with the ownership situation on 1 September 2016, the following were elected to the Nomination Board of Glaston Corporation: Ari Saarenmaa (Oy G.W.Sohlberg Ab), Stefan Björkman (Etera Mutual Pension Insurance Company), Markku Seppälä (Hymy Lahtinen Oy) and Mikko Koivusalo (Varma Mutual Pension Insurance Company). Andreas Tallberg, Chairman of the company's Board of Directors, served as an advisory member of the Nomination Board. In its organising meeting on 2 November 2016, the Nomination Board elected Ari Saarenmaa from among its members to be Chairman.

## Shares and share prices

Glaston Corporation's share capital on 31 December 2016 was EUR 12.7 million and the number of issued shares totalled 193,708,336. The company has one series of share. At the end of the year, the company held 788,582 of the company's own shares (treasury shares), corresponding to 0.41% of the total number of issued and registered shares and votes. The counter book value of the treasury shares is EUR 51,685.

Every share that the company does not hold itself entitles its owner to one vote at a General Meeting of Shareholders. The share has no nominal value. The counter book value of each registered share is EUR 0.07.

During 2016, approximately 31.9 (63.1) million of Glaston's shares were traded on NASDAQ Helsinki Ltd, i.e. 17 (33)% of the average number of registered shares. In the review period, the lowest price paid for a share was EUR 0.33 (0.37) and the highest price EUR 0.51 (0.60). The volume-weighted average price of shares traded in January-December was EUR 0.38 (0.50). The closing price on 31 December 2016 was EUR 0.40 (0.50).

On 31 December 2016, Glaston's market value, excluding treasury shares, was EUR 77.2 (96.5) million. The share issue-adjusted equity per share attributable to the owners of the parent was EUR 2.17 (2.64).

## Shareholders

At the end of the financial year, Glaston had 5,748 (5,963) shareholders. Glaston Corporation's largest shareholders on 31 December 2016, the distribution of share ownership by number of shares, and the distribution of ownership by shareholder group are presented in Note 4 of the consolidated financial statements. Information on the Glaston Corporation shares owned by Members of the Board of Directors and the President & CEO is presented in Note 30 of the consolidated financial statements.

Glaston Corporation is unaware of any shareholder agreements or arrangements relating to share ownership or the exercise of votes.

## Dividend policy

In March, Glaston's Board of Directors adopted an updated dividend policy, according to which the objective is to distribute annually a dividend or return of capital amounting to 30-50% of the company's comparable earnings per share.

The amounts and dates of payment of any future dividends or returns of capital will be influenced by, among other things, the company's financial position and future outlook. In addition, the dividend policy takes into account growth targets in line with strategy as well as financing requirements for growth.

## Flagging notifications

In 2016 Glaston did not receive any notifications, pursuant of Chapter 9 Section 5 of the Finnish Securities Market Act, on changes of share ownership.

## Information pursuant of Ministry of Finance Ordinance 153/2007 not presented in other sections of the financial statements

According to the Articles of Association of Glaston Corporation, a shareholder whose proportion of all the company's shares or votes conferred by the shares – either alone or together with other shareholders as defined hereinafter – reaches or exceeds 33 1/3% or 50%, is obligated on the demand of the other shareholders to redeem their shares. This redemption obligation does not affect a shareholder who can show that the shareholding or voting rights limit entailing the redemption obligation was reached or exceeded before the relevant provision of the Articles of Association was entered in the Trade Register.

Glaston Corporation is not a party to arrangements by which financial rights connected with shares or the management of securities are separated from each other.

According to the Articles of Association of Glaston Corporation, a General Meeting of Shareholders elects the Board of Directors. The term of office of Members of the Board of Directors expires at the end of the next Annual General Meeting that follows their election. The Board of Directors appoints and dismisses the President & CEO. The Board of Directors has no special agreements with the company relating to compensation when the Board of Directors resigns or is dismissed or its

| **Per share data** | **2016** | **2015** | **2014** restated |
|---|---|---|---|
| Equity per share attributable to owners of the parent, EUR | **0.18** | 0.19 | 0.26 |
| Return of capital/share, EUR* | - | 0.01 | 0.02 |
| Price / earnings (P/E) ratio | **75.3** | -7.0 | 63.7 |
| Price / equity attributable to owners of the parent per share | **2.17** | 2.64 | 1.45 |
| Share price at end of year, EUR | **0.40** | 0.50 | 0.38 |
| Market capitalisation, end of year, EUR million | **77.2** | 96.5 | 73.3 |
| Share turnover (1,000 shares) | **31,898** | 63,607 | 46,061 |
| Share turnover, % of average number of shares | **16.5** | 32.7 | 23.9 |
| Number of shares at end of the year | **193,708,336** | 193,708,336 | 193,708,336 |
| Average number of shares, excluding treasury shares | **192,919,754** | 192,919,754 | 192,919,754 |
| Average number of shares, including dilution effect of convertible bond and excluding treasury shares | **192,919,754** | 192,919,754 | 192,919,754 |

* Board of Directors' proposal to AGM

function otherwise terminates as a result of a public tender offer. The President & CEO has a special agreement relating to compensation in the event that more than 50% of the company's shares is transferred to a new owner in connection with a merger or acquisition. The terms and conditions of the President & CEO's employment contract are presented in more detail in Note 30 to the consolidated financial statements.

The Articles of Association of Glaston Corporation contain no special provisions on the amendment of the Articles of Association.

## Related party loans

At the end of the review period, Glaston had no related party loans.

## Corporate Governance Statement

Glaston's Corporate Governance Statement is issued separately in this Annual Report.

## Separate financial statements of the parent company

The separate financial statements of Glaston Corporation have been prepared according to the Finnish Accounting Act, the Accounting Ordinance and other laws and regulations relating to financial statements. The consolidated financial statements of Glaston Group have been prepared in compliance with the International Financial Reporting Standards (IFRS).

Glaston Corporation's net sales in the financial period were EUR 3.0 (3.3) million and the operating result was a loss of EUR 0.8 (6.0 loss) million. Glaston's net financial expenses were EUR -7.4 (-26.7) million. The result for the financial year was a loss of EUR 5.7 (22.6 loss) million.

The parent company had an average 10 (11) employees in the financial period and 10 (11) employees at the end of the year.

The parent company has no branches. The company has not granted related party loans other than to Group undertakings.

## Events after the closing date

Juha Liettyä, Senior Vice President, Americas and member of the Executive Management Group, was appointed Senior Vice President, Glaston Emerging Technologies as of 2 January 2017. Liettyä will continue to be a member of the Executive Management Group, reporting to President & CEO Arto Metsänen. Juha Liettyä is stationed in Florida, USA.

The Emerging Technologies unit offers consulting and planning services for smart glass and energy glass window production as well as solar energy applications. The unit also sells, supplies and services the machines and equipment required for production. Glaston's investment in a Californian nanotechnology company is part of the Emerging Technologies unit's activities.

## Risks and risk management

Glaston operates globally, and changes in the development of the world economy directly affect the Group's operations and risks. Glaston's order intake is highly dependent on global investment demand, which is affected by the growth outlook for the global economy and geopolitical developments. The general increase in uncertainty may reduce willingness to invest and thereby negatively impact Glaston's order intake, net sales and earnings.

One of Glaston's most significant strategic risks is technology risk, namely the entry into the market of a competing machine and glass processing technology, which would result in a reduction of Glaston's currently high market shares and require Glaston to make considerable product development investments. There is also a technology risk associated with the entry into the market of competing technologies in the projects of Glaston Emerging Technologies unit, which focuses on new technologies. The unit will invest in new early stage technologies whose effectiveness on a commercial scale is uncertain.

Competitive positions may also be changed by expansion into new areas by machine manufacturers of a lower segment in terms of price and technology. This risk is greatest in the price-conscious Asian and South American markets. A long-term strengthening of the euro against other key currencies, particularly the US dollar, may weaken Glaston's position relative to competitors outside the euro area. Intensified competition may lead to a deterioration of order intake, project-specific margins or terms of payment, and thus affect the Group's earnings and cash flow.

Glaston's most significant operational risks include management and possible quality problems related to large customer projects, availability of components, management of the contractual partner and subcontractor network, product development, succeeding in the protection and efficient production of intellectual property rights as well as the availability and permanence of expert personnel. Following a number of efficiency programmes, the Group's resources are in full use, and the successful growth of operations requires successful management and controlled growth of these resources.

The Glaston Group includes a number of units whose financial development has been unsatisfactory in recent years. Failure or delay in turning around these units may have a negative impact on the Group's earnings.

### Parent company information

| EUR million | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net sales | **3.0** | 3.3 | 3.6 |
| Operating result | **-0.8** | -6.0 | -1.6 |
| Result before taxes and appropriations | **-8.2** | -32.7 | 1.3 |
| Income taxes for the financial year | **0.0** | 0.0 | -0.7 |
| Result for the financial year | **-5.7** | -22.6 | 0.7 |
| | | | |
| Balance sheet total | **99.7** | 104.9 | 120.8 |
| Shareholders' equity | **54.2** | 61.8 | 88.3 |
| | | | |
| Salaries and bonuses paid | **1.2** | 1.7 | 1.4 |
| Average number of employees | **10** | 11 | 11 |

Glaston's balance sheet contains a substantial amount of goodwill. A prolonged period of low demand may lead to a situation in which Glaston's recoverable amounts are insufficient to cover the carrying amounts of asset items, particularly goodwill. If this happens, it will be necessary to recognise an impairment loss, which, when implemented, will weaken the result and equity.

Glaston continually develops its information systems and, despite careful planning, temporary disruptions to operations might be associated with the introduction stages. Due to the industrial internet, the significance of information security risks has increased, and the management of such risks is a subject of particular attention.

The Group's most significant financial risks are foreign exchange, credit and refinancing risks. Financial risks and their management are described in financial statements item Management of Financial Risks.

The Group's risk management processes are described in the Corporation Governance Statement.

## Uncertainties and risks in the near future

Glaston operates in a global market in which both political and economic instability arise. The company's uncertainties and risks in the near future are to a large extent linked to the development of global investment demand and, in some geographical areas, to customers' access to financing. The timing of investment decisions is also affected by geopolitical uncertainty, which has increased compared to previous years.

Glaston has taken into account in its forecasts for the near future the uncertain development outlook for the global economy and its impact on the development of the sector. If the demand situation of the sector deteriorates substantially, this will affect Glaston's net sales and earnings with a 3–6 month delay.

The Group's net sales are affected most by the level and timing of order intake as well as the geographical and product mix of orders. In terms of earnings, there is also uncertainty in meeting the planned delivery times and costs of customer projects.

## Outlook

The development of the glass processing market was positive at the end of 2016. There are currently no signs of a weakening of the market, and positive development is expected to continue. Despite good demand, customers are often taking longer to make their investment decisions due to the uncertain global economy and political developments.

A higher order book than the previous year, positive market development and the cost-saving measures undertaken create good conditions for the development of operations in 2017. For the first quarter, a relatively small number of deliveries are scheduled, as a result of which the comparable operating result for the period is expected to be lower than the corresponding period a year earlier.

Glaston expects the full-year comparable operating result to improve from 2016. (In 2016 the comparable operating result was EUR 2.8 million.)

## Board of Directors' proposal on the distribution of profits

The distributable funds of Glaston Corporation are EUR 16,241,163 of which EUR -5,664,105 represents the net loss for the financial year.

The comparable earnings per share for 2016 were EUR 0.01. According to the dividend policy, the objective is to distribute annually a dividend or return of capital amounting to 30–50% of the company's comparable earnings per share. As the company is investing strongly in the development of new technology and as comparable earnings per share are only EUR 0.01, the Board of Directors proposes that no dividend or return of capital be distributed for 2016.

Helsinki, 10 February 2017
**Glaston Corporation**
**Board of Directors**

Table of Contents

# Consolidated Financial Statements \ 2016

## Consolidated Statement of Financial Position

| EUR thousand | Note | at 31 December 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 12.14 | **30,551** | 30,551 |
| Intangible assets | 14 | **6,888** | 6,311 |
| Property, plant and equipment | | **9,211** | 8,778 |
| Available-for-sale financial assets | 17 | **3,230** | 3,249 |
| Loan receivables | 19 | **863** | 1,375 |
| Deferred tax assets | 11 | **2,165** | 2,419 |
| **Total non-current assets** | | **52,908** | **52,682** |
| **Current assets** | | | |
| Inventories | 18 | **11,898** | 17,279 |
| Assets for current tax | 11 | **182** | 356 |
| Trade and other receivables | 19 | **18,691** | 23,907 |
| Cash and cash equivalents | | | |
| Cash | | **17,374** | 6,066 |
| **Total current assets** | | **48,145** | **47,608** |
| **Total assets** | | **101,053** | **100,290** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | | **12,696** | 12,696 |
| Share premium account | | **25,270** | 25,270 |
| Other restricted equity reserves | | **75** | 77 |
| Reserve for invested unrestricted equity | | **41,556** | 43,484 |
| Treasury shares | 4 | **-3,308** | -3,308 |
| Fair value reserve | | **103** | 118 |
| Other unrestricted equity reserves | | **53** | 53 |
| Retained earnings and exchange differences | | **-41,861** | -28,104 |
| Net result attributable to owners of the parent | | **1,025** | -13,792 |
| **Attributable to owners of the parent** | | **35,608** | **36,493** |
| Non-controlling interest | | **280** | 305 |
| **Total equity** | | **35,888** | **36,798** |
| **Non-current liabilities** | | | |
| Non-current interest-bearing liabilities | 22 | **6,869** | 5,994 |
| Non-current provisions | 23 | **1,377** | 1,167 |
| Deferred tax liabilities | 11 | **358** | 421 |
| Defined benefit pension and other defined long-term employee benefit liabilities | 21 | **493** | 462 |
| **Total non-current liabilities** | | **9,097** | **8,044** |
| **Current liabilities** | | | |
| Current interest-bearing liabilities | 22 | **9,878** | 7,501 |
| Current provisions | 23 | **2,656** | 2,514 |
| Trade payables and other current interest-free liabilities | 24 | **43,470** | 44,357 |
| Liabilities for current tax | 11 | **64** | 1,077 |
| **Total current liabilities** | | **56,068** | **55,449** |
| **Total liabilities** | | **65,165** | **63,492** |
| **Total equity and liabilities** | | **101,053** | **100,290** |

Table of Contents

# Consolidated Statement of Profit or Loss

| EUR thousand | Note | 1 January - 31 December 2016 | 2015 |
|---|---|---|---|
| **Net sales** | 5 | **107,141** | **123,371** |
| Other operating income | 7 | **1,069** | 943 |
| Changes in inventories of finished goods and work in process | 18 | **-5,925** | 2,330 |
| Own work capitalized | | **225** | 236 |
| Materials | 8 | **-44,350** | -56,701 |
| Personnel expenses | 9 | **-25,947** | -28,459 |
| Other operating expenses | 8 | **-27,304** | -31,674 |
| Depreciation, amortization and impairment charges | 12 | **-2,653** | -3,404 |
| **Operating result, continuing operations** | | **2,257** | **6,642** |
| Financial income | 10 | **207** | 201 |
| Financial expenses | 10 | **-878** | -5,973 |
| Net financial expenses | | **-671** | -5,772 |
| **Profit / loss before income taxes, continuing operations** | | **1,585** | **870** |
| Income tax expense | 11 | **-574** | -719 |
| **Profit / loss for the year, continuing operations** | | **1,011** | **151** |
| **Profit / loss after tax for the period, discontinued operations** | 13 | **-** | **-13,973** |
| **Profit / loss for the year** | | **1,011** | **-13,821** |
| Attributable to non-controlling interest | | **-14** | -29 |
| **Attributable to owners of the parent** | | **1,025** | **-13,792** |
| **Total** | | **1,011** | **-13,821** |
| Earnings per share, EUR, continuing operations | | **0.01** | 0.00 |
| Earnings per share, EUR, discontinued operations | | **-** | -0.07 |
| **Earnings per share, EUR, basic and diluted** | | **0.01** | **-0.07** |
| Net result attributable to owners of the parent, EUR thousand | | **1,025** | -13,792 |
| Average number of shares (1,000 shares) | | **192,920** | 192,920 |
| **Earnings per share (EPS), EUR, basic and diluted** | | **0.01** | **-0.07** |

Table of Contents

# Consolidated Statement of Comprehensive Income

| EUR thousand | 1 January - 31 December 2016 | 2015 |
|---|---|---|
| **Profit / loss for the period** | **1,011** | **-13,821** |
| **Other comprehensive income that will be reclassified subsequently to profit or loss:** | | |
| Exchange differences on translating foreign operations | **42** | 3,604 |
| Fair value changes of available-for-sale assets | **-18** | 58 |
| Income tax on other comprehensive income | **4** | -12 |
| Total | **27** | 3,651 |
| **Other comprehensive income that will not be reclassified subsequently to profit or loss:** | | |
| Exchange differences on actuarial gains and losses arising from defined benefit plans | **-1** | -3 |
| Actuarial gains and losses arising from defined benefit plans | **-19** | -1 |
| Total | **-20** | -4 |
| **Other comprehensive income for the reporting period, net of tax** | **7** | 3,646 |
| **Total comprehensive income for the reporting period** | **1,018** | -10,175 |
| **Attributable to:** | | |
| Owners of the parent | **1,043** | -10,167 |
| Non-controlling interest | **-25** | -8 |
| **Total comprehensive income for the reporting period** | **1,018** | -10,175 |

Table of Contents

# Consolidated Statement of Changes in Equity

| EUR thousand<br>2015 | Note | Share capital | Share premium account | Reserve for invested unrestricted equity | Treasury shares | Fair value and other reserves | Retained earnings | Cumulative exchange difference | Attributable to owners of the parent | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Equity 1 January** | | **12,696** | **25,270** | **47,341** | **-3,308** | **196** | **-33,285** | **1,608** | **50,517** | **313** | **50,830** |
| Total comprehensive income for the year | 20 | - | - | - | - | 51 | -13,797 | 3,578 | -10,167 | -8 | -10,175 |
| Change in non-controlling interest | | - | - | - | - | - | - | - | - | - | - |
| Return of capital | | - | - | -3,857 | - | - | - | - | -3,857 | - | -3,857 |
| **Equity 31 December** | | **12,696** | **25,270** | **43,484** | **-3,308** | **248** | **-47,082** | **5,186** | **36,493** | **305** | **36,798** |

| EUR thousand<br>2016 | Note | Share capital | Share premium account | Reserve for invested unrestricted equity | Treasury shares | Fair value and other reserves | Retained earnings | Cumulative exchange difference | Attributable to owners of the parent | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Equity 1 January** | | **12,696** | **25,270** | **43,484** | **-3,308** | **248** | **-47,082** | **5,186** | **36,493** | **305** | **36,798** |
| Total comprehensive income for the year | 20 | - | - | - | - | -17 | 1,005 | 55 | 1,043 | -25 | 1,018 |
| Change in non-controlling interest | | - | - | - | - | - | - | - | - | - | - |
| Return of capital | | - | - | -1,928 | - | - | - | - | -1,928 | - | -1,928 |
| **Equity 31 December** | | **12,696** | **25,270** | **41,556** | **-3,308** | **230** | **-46,077** | **5,241** | **35,608** | **280** | **35,888** |

## Distributable equity of the parent (FAS)

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Reserve for invested unrestricted equity | **42,987** | 44,915 |
| Treasury shares | **-3,308** | -3,308 |
| Retained earnings | **-17,773** | 4,877 |
| Net profit / loss for the period | **-5,664** | -22,650 |
| **Total** | **16,241** | **23,834** |
| | | |
| Return of capital per share EUR* | - | 0.01 |

* Board of Directors' proposal to AGM

Table of Contents

# Consolidated Statement of Cash Flows

| EUR thousand | 1 January - 31 December 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net result attributable to owners of the parent - continued operations | **1,025** | 180 |
| Net result attributable to owners of the parent - discontinued operations | **-** | -13,973 |
| Adjustments to net result attributable to owners of the parent* | **2,845** | 18,309 |
| Depreciation, amortization and impairment | **2,653** | 3,404 |
| Interest received | **214** | 173 |
| Interest paid | **-611** | -465 |
| Dividends received | **7** | 6 |
| Other financing items | **-316** | -555 |
| Income taxes paid | **-565** | -589 |
| **Cash flows from operating activities before change in net working capital** | **5,252** | **6,491** |
| **Change in net working capital** | | |
| Change in inventories | **5,036** | -5,316 |
| Change in current receivables | **4,564** | 536 |
| Change in interest-free current liabilities | **-1,412** | -4,676 |
| **Change in net working capital, total** | **8,188** | **-9,456** |
| **Cash flows from operating activities** | **13,440** | **-2,965** |
| **Cash flows from investing activities** | | |
| Acquisition of other investments | **-** | -2,834 |
| Capital expenditure in property, plant and equipment and intangible assets | **-3,919** | -4,292 |
| Proceeds from sale of assets held for sale | **-** | 203 |
| Proceeds from sale of property, plant and equipment and intangible assets | **72** | 55 |
| **Cash flows from investing activities** | **-3,846** | **-6,867** |
| **Cash flow before financing** | **9,594** | **-9,832** |
| **Cash flows from financing activities** | | |
| Draw-down of non-current loans | **3,201** | 7,500 |
| Repayments of non-current loans | **-2** | -10,062 |
| Change in current loan receivables (decrease +, increase -) | **331** | 74 |
| Draw-down of current loans | **2,301** | 22,500 |
| Repayments of current loans | **-2,500** | -21,250 |
| Return of capital | **-1,928** | -3,857 |
| **Cash flows from financing activities** | **1,403** | **-5,094** |
| **Effect of exchange rate fluctuations** | **311** | **952** |
| **Net increase (- decrease) in cash and cash equivalents** | **11,308** | **-13,974** |
| Cash and cash equivalents at end of period | **17,374** | 6,066 |
| Cash and cash equivalents at beginning of period | **6,066** | 20,040 |
| **Net increase (- decrease) in cash and cash equivalents** | **11,308** | **-13,974** |

*Non-cash flow items included in net result attributable to owners of the parent (e.g. gains / losses on the sale of non-current assets).

The above figures cannot be directly derived from the statements of financial position.

# Supplemental Information for Statement of Cash Flows

| EUR thousand | 1 January - 31 December 2016 | 2015 |
|---|---|---|
| **Disposal of subsidiaries** | | |
| Purchase consideration received in cash | - | 750 |
| Expenses related to the sale, paid during the year | - | -276 |
| Cash and cash equivalents of divested subsidiaries | - | -271 |
| **Net cash flow** | **-** | **203** |

Table of Contents

# Per Share Data

| EUR thousand | 2016 | 2015 | 2014 restated |
|---|---|---|---|
| Earnings per share, EUR, continuing operations | **0.01** | 0.00 | 0.04 |
| Earnings per share, EUR, discontinued operations | **-** | -0.07 | -0.03 |
| Earnings per share, EUR, basic and diluted | **0.01** | -0.07 | 0.01 |
| | | | |
| Return of capital per share, EUR* | **-** | 0.01 | 0.02 |
| Return of capital ratio, % | **-** | - | 335.4 % |
| Return of capital yield | **-** | 2.0 % | 5.3 % |
| | | | |
| Equity attributable to owners of the parent per share, EUR | **0.18** | 0.19 | 0.26 |
| | | | |
| Price per earnings per share (P/E) ratio | **75.3** | -7.0 | 63.7 |
| Price per equity attributable to owners of the parent per share | **2.17** | 2.64 | 1.45 |
| | | | |
| Capital repayment, EUR million* | - | 1.9 | 3.9 |
| | | | |
| Number of shares at the end of the year | **193,708,336** | 193,708,336 | 193,708,336 |
| Number of shares at the end of the year, treasury shares excluded | **192,919,754** | 192,919,754 | 192,919,754 |
| Number of shares, average, adjusted with share issue, treasury shares excluded | **192,919,754** | 192,919,754 | 192,919,754 |

* Board of Directors' proposal to AGM

| **Share price and turnover** | | | |
|---|---|---|---|
| Share price, year high, EUR | **0.51** | 0.60 | 0.45 |
| Share price, year low, EUR | **0.33** | 0.37 | 0.32 |
| Share price, volume-weighted year average, EUR | **0.38** | 0.50 | 0.38 |
| Share price, end of year, EUR | **0.40** | 0.50 | 0.38 |
| | | | |
| Number of shares traded (1,000) | **31,898** | 63,067 | 46,061 |
| % of average number of registered shares | **16.5%** | 32.7% | 23.9% |
| Market capitalization, end of year, EUR million | **77.2** | 96.5 | 73.3 |

Table of Contents

# Financial Ratios

| EUR thousand | 2016 | 2015 | 2014 restated |
|---|---|---|---|
| **Income statement and profitability** | | | |
| Net sales | **107,141** | 123,371 | 109,746 |
| Operating result | **2,257** | 6,642 | 10,798 |
| % of net sales | **2.1%** | 5.4% | 9.8% |
| Comparable operating result | **2,760** | 6,082 | 5,532 |
| % of net sales | **2.6%** | 4.9% | 5.0% |
| Financial income and expenses (net) | **-671** | -5,772 | -634 |
| % of net sales | **0.6%** | 4.7% | 0.6% |
| Result of continuing operations before income taxes and non-controlling interests | **1,585** | 870 | 10,164 |
| % of net sales | **1.5%** | 0.7% | 9.3% |
| Income taxes | **-574** | -719 | -2,424 |
| Result of discontinued operations | **-** | -13,973 | -6,600 |
| Net profit / loss attributable to owners of the parent | **1,025** | -13,792 | 1,150 |
| % of net sales | **1.0%** | -11.2% | 1.0% |
| | | | |
| Return on capital employed (ROCE), %, total of continuing and discontinued operations | **4.6%** | -13.8% | 7.9% |
| Return on equity, % | **2.8%** | -31.5% | 2.2% |
| | | | |
| Research and development expenses, continuing operations | **1,708** | 3,642 | 3,492 |
| % of net sales of continuing operations | **1.6%** | 3.0% | 3.2% |
| Research and development expenses, discontinued operations | **-** | 240 | 456 |
| Research and development expenses, continuing and discontinued operations | **1,708** | 3,883 | 3,948 |
| % of net sales of continuing and discontinued operations | **1.6%** | 3.0% | 3.2% |
| | | | |
| Gross capital expenditure, continuing operations | **3,888** | 6,980 | 3,432 |
| % of net sales of continuing operations | **3.6%** | 5.7% | 3.1% |
| Gross capital expenditure, discontinued operations | **-** | 260 | 191 |
| Gross capital expenditure, continuing and discontinued operations | **3,888** | 7,239 | 3,623 |
| % of net sales of continuing and discontinued operations | **3.6%** | 5.6% | 2.9% |
| | | | |
| Order book, continuing operations, EUR million | **45.6** | 38.5 | 56.0 |
| Order book, discontinued operations, EUR million | **-** | - | 1.9 |
| Order book, EUR million | **45.6** | 38.5 | 57.9 |
| | | | |
| **Statement of financial position and solvency** | | | |
| Property, plant and equipment and intangible assets | **16,098** | 15,088 | 15,254 |
| Goodwill | **30,551** | 30,551 | 36,843 |
| Non-current assets total | **52,908** | 52,682 | 57,187 |
| Equity attributable to owners of the parent | **35,608** | 36,493 | 50,517 |
| Equity (includes non-controlling interest) | **35,888** | 36,798 | 50,830 |
| Liabilities | **65,165** | 63,492 | 77,832 |
| Total assets | **101,053** | 100,290 | 128,662 |
| Capital employed | **52,635** | 50,293 | 65,894 |
| Net interest-bearing debt | **-626** | 7,429 | -4,976 |
| Equity ratio, % | **43.2%** | 43.9% | 47.7% |
| Gearing, % | **46.7%** | 36.7% | 29.6% |
| Net gearing, % | **-1.7%** | 20.2% | -9.8% |
| | | | |
| **Personnel** | **2016** | **2015** | **2014** |
| Personnel, average | **437** | 494 | 494 |
| Personnel, continuing operations, at the end of the period | **415** | 450 | 495 |
| Personnel, discontinued operations, at the end of the period | **-** | - | - |
| Personnel, at the end of the period, total | **415** | 450 | 495 |
| in Finland | **162** | 164 | 146 |

Table of Contents

# Definitions of Key Ratios

## Per share data

**Earnings per share (EPS), continuing operations**

$$\frac{\text{Net result of continuing operations attributable to owners of the parent}}{\text{Adjusted average number of shares}}$$

**Earnings per share (EPS), discontinued operations**

$$\frac{\text{Net result of discontinued operations attributable to owners of the parent}}{\text{Adjusted average number of shares}}$$

**Earnings per share (EPS)**

$$\frac{\text{Net result attributable to owners of the parent}}{\text{Adjusted average number of shares}}$$

**Dividend per share***

$$\frac{\text{Dividends paid}}{\text{Adjusted number of issued shares at end of the period}}$$

**Dividend payout ratio***

$$\frac{\text{Dividend per share} \times 100}{\text{Earnings per share}}$$

**Dividend yield***

$$\frac{\text{Dividend per share} \times 100}{\text{Share price at end of the period}}$$

**Equity attributable to owners of the parent per share**

$$\frac{\text{Equity attributable to owners of the parent at end of the period}}{\text{Adjusted number of shares at end of the period}}$$

**Average trading price**

$$\frac{\text{Shares traded (EUR)}}{\text{Shares traded (volume)}}$$

**Price per earnings per share (P/E)**

$$\frac{\text{Share price at end of the period}}{\text{Earnings per share (EPS)}}$$

**Price per equity attributable to owners of the parent per share**

$$\frac{\text{Share price at end of the period}}{\text{Equity attributable to owners of the parent per share}}$$

**Share turnover**
The proportion of number of shares traded during the period to weighted average number of shares

**Market capitalization**
Number of shares at end of the period x share price at end of the period

**Number of shares at period end**
Number of issued shares - treasury shares

## Financial ratios

**EBITDA**
Profit / loss of continuing operations before depreciation, amortization and impairment, share of associates' results included

**Operating result (EBIT)**
Profit / loss of continuing operations after depreciation, amortization and impairment, share of associates' results included

**Cash and cash equivalents**
Cash + other financial assets (includes cash and cash equivalents classified as held for sale)

**Net interest-bearing debt**
Interest-bearing liabilities (includes interest-bearing liabilities classified as held for sale) - cash and cash equivalents

**Financial expenses**
Interest expenses of financial liabilities + fees of financing arrangements + foreign currency differences of financial liabilities (total of continuing and discontinued operations)

**Equity ratio, %**

$$\frac{\text{Equity (Equity attributable to owners of the parent + non-controlling interest)} \times 100}{\text{Total assets - advance payments received}}$$

**Gearing, %**

$$\frac{\text{Interest-bearing liabilities} \times 100}{\text{Equity (Equity attributable to owners of the parent + non-controlling interest)}}$$

**Net gearing, %**

$$\frac{\text{Net interest-bearing debt} \times 100}{\text{Equity (Equity attributable to owners of the parent + non-controlling interest)}}$$

**Return on capital employed, % (ROCE)**

$$\frac{\text{Profit / loss before taxes + financial expenses} \times 100}{\text{Equity + interest-bearing liabilities (average of 1 January and end of the reporting period)}}$$

**Return on equity, % (ROE)**

$$\frac{\text{Profit / loss for the reporting period} \times 100}{\text{Equity (Equity attributable to owners of the parent + non-controlling interest) (average of 1 January and end of the reporting period)}}$$

* Definitions are also applied with return of capital

# Alternative performance measures

## Alternative performance measures

**Comparable EBIT:**
Profit / loss of continuing operations after depreciation, amortization and impairment, share of associates' results included – items affecting comparability

**Comparable EBITDA:**
Profit / loss of continuing operations before depreciation, amortization and impairment, share of associates' results included – items affecting comparability

**Items affecting comparability:**
Items affecting comparability are related to restructuring and for events or activities, which are not part of the normal business operations. They can include expenses arising from personnel reduction, product portfolio rationalization, changes in production structure and from reduction of offices. In addition, items affecting comparability can include impairment loss of goodwill, exceptionally large gains or losses from disposals of property, plant and equipment and intangible assets as well as capital gains or losses arising from group restructuring.

Table of Contents

# Notes to the Consolidated Financial Statements

Note 1

## Summary of Significant Accounting Policies – Consolidated Financial Statements

The financial statements have been prepared on a going concern basis.

### Basic Information

Glaston Corporation is a public limited liability company organized under the laws of the Republic of Finland and domiciled in Helsinki, Finland. Glaston's shares are publicly traded in the NASDAQ Helsinki Ltd. Small Cap in Helsinki, Finland. Glaston Corporation is the parent of Glaston Group and its registered office is at Lönnrotinkatu 11, 00120 Helsinki, Finland.

Glaston Group is an international glass technology company. Glaston is a one of the leading manufacturers of glass processing machines globally. Its product range and service network are the most extensive in the industry. The operations of the Glaston Group are organized in one reportable segment, which consists of operating segments. Supporting activities include head office operations.

The Board of Directors of Glaston Corporation has in its meeting on 10 February 2017, approved these financial statements to be published. According to the Finnish Companies' Act, the shareholders have a possibility to approve or reject or make a decision on altering the financial statements in a General Meeting to be held after the publication of the financial statements.

### Basis of Presentation

The consolidated financial statements of Glaston Group are prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (SIC and IFRIC). International Financial Reporting Standards are standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the European Parliament and of the Council. The Notes to the Financial Statements are also in accordance with the Finnish Accounting Act and Ordinance and the Finnish Companies' Act.

The consolidated financial statements include the financial statements of Glaston Corporation and its subsidiaries. The functional and reporting currency of the parent is euro, which is also the reporting currency of the consolidated financial statements. Functional currencies of subsidiaries are determined by the primary economic environment in which they operate.

The financial year of Glaston Group as well as of the parent and subsidiaries is the calendar year ending 31 December.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The figures in Glaston's consolidated financial statements are mainly presented in EUR thousands. Due to rounding differences the figures presented in tables do not necessarily add up to the totals of the tables.

### Applied new and amended standards and interpretations

Glaston has applied the following new or revised or amended standards and interpretations from 1 January 2016:

**Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative**

The amendments are designed to encourage companies to apply judgement in determining what information to disclose in the financial statements. For example, the amendments clarify the application of the materiality concept and judgement when determining where and in what order information is presented in the financial disclosures. The interpretation do not have a material impact on the consolidated financial statements of Glaston.

Other new or amended standards or interpretations applicable from 1 January 2016 are not material for Glaston Group.

**New and amended IFRS standards and IFRIC interpretations published but mandatory in 2017 or later:**

**IFRS 15 Revenue from Contracts with Customers (to be applied for the reporting periods beginning on 1 January 2018 or later)**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. Under IFRS 15 an entity shall recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods delivered or services rendered. Glaston will apply the new standard in full retrospectively from 1 January 2018.

The impact of the IFRS 15 standard on Glaston's consolidated financial statements will be significant. In accordance with the principles of the new standard, Glaston will recognize the revenue from tailor-made glass processing machine deliveries over time. As a recognition practice, Glaston will apply the cost-to-cost method, i.e. the share of accumulated project costs compared to total estimated costs will be used as the degree of completion (progress towards the performance obligation under IFRS 15.39). Revenue recognition will take place over time as costs accumulate and are recognized for the project. Revenue recognition will be more front-loaded than with the current revenue recognition principle.

**IFRS 9 Financial Instruments (to be applied for the reporting periods beginning on 1 January 2018 or later)**

IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. The amendment to the standard will have no significant impact on the consolidated financial statements.

**IFRS 16 Leases (to be applied for the reporting periods beginning on 1 January 2019 or later; no EU approval)**

IFRS 16 replaces the existing guidance in IAS 17 Leases. Under IFRS 16, lessees must recognize in their balance sheets for nearly all leases a lease liability representing rent payable in the future as well as an asset item corresponding to the present value of future rental payments. The new standard will affect assets and liabilities when current leases, subject to certain exceptions, are recognized in the balance sheet.

Other new or amended standards or interpretations applicable from 1 January 2017 or in reporting periods beginning thereafter will have no significant impact on Glaston's consolidated financial statements.

## Consolidation Principles

The consolidated financial statements include the parent and its subsidiaries. Subsidiaries are companies in which the parent has, based on its holding, more than half of the voting rights directly or via its subsidiaries or over which it otherwise has control. Divested subsidiaries are included in the consolidated financial statements until the control is lost, and companies acquired during the reporting period are included from the date when the control has been transferred to Glaston. Acquisitions of subsidiaries are accounted for under the purchase method.

Associates, where the Group has a significant influence (holding normally 20 - 50 per cent), are accounted for using the equity method. The Group's share of the associates' net results for the financial year is recognized as a separate item in profit or loss. The Group's interest in an associate is carried in the statement of financial position at an amount that reflects its share of the net assets of the associate together with goodwill on acquisition, if such goodwill exists. When the Group's share of losses exceeds the carrying amount of associate, the carrying amount is reduced to nil and recognition of further losses ceases unless the Group is committed to satisfy obligations of the associate by guarantees or otherwise.

Other shares, i.e. shares in companies in which Glaston owns less than 20 per cent of voting rights, are classified as available-for-sale financial assets and presented in the statement of financial position at fair value, or if the fair value cannot be measured reliably, at acquisition cost, and dividends received from them are recognized in profit or loss.

All inter-company transactions are eliminated as part of the consolidation process. Unrealized gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the similar way as unrealized gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests are presented separately in arriving at the net profit or loss attributable to owners of the parent. They are also shown separately within equity. If the Group has a contractual obligation to redeem the share of the non-controlling interest with cash or cash equivalents, non-controlling interest is classified as a financial liability. The effects of the transactions made with non-controlling interests are recognized in equity, if there is no change in control. These transactions do not result in goodwill or gains or losses. If the control is lost, the possible remaining ownership share is measured at fair value and the resulting gain or loss is recognized in profit or loss. Total comprehensive income is attributed also to non-controlling interest even if this will result in the non-controlling interest having a deficit balance.

## Foreign Subsidiaries

In the consolidated financial statements, the income statements, statements of comprehensive income and statements of cash flows of foreign subsidiaries have been translated into euros using the average exchange rates of the reporting period and the statements of financial positions have been translated using the closing exchange rates at the end of the reporting period.

The exchange difference arising from translating the income statements, statements of comprehensive income and statements of financial position using the different exchange rates is recognized as other comprehensive income and included in equity as cumulative exchange difference. Exchange differences arising from the translation of the net investments in foreign subsidiaries and associates in non-euro-area are also recognized in other comprehensive income and included in equity as cumulative exchange difference.

On the disposal of all or part of a foreign subsidiary or an associate, the cumulative amount or proportionate share of the exchange difference is reclassified from equity to profit or loss as a reclassification item in the same period in which the gain or loss on disposal is recognized.

## Transactions in Foreign Currency

In their own day-to-day accounting the Group companies translate transactions in foreign currencies into their own reporting or functional currency at the exchange rates prevailing on the dates of the transactions. At the end of the reporting period, the unsettled balances of foreign currency transactions are measured at the exchange rates prevailing at the end of the reporting period. Foreign exchange gains and losses arising from trade receivables are entered as adjustments of net sales and foreign exchange gains and losses related to trade payables are recorded as adjustments of purchases. Foreign exchange gains and losses arising from financial items are recorded as financial income and expenses.

## Financial Assets and Liabilities

Financial assets and liabilities of Glaston have been classified as financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets and financial liabilities measured at amortized cost.

A financial asset is derecognized from the statement of financial position when Glaston's contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to an external party and the transfer fulfils the asset derecognition criteria of IAS 39.

A financial liability or a part of a financial liability is removed from the statement of financial position when the liability is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired.

**Derivative Financial Instruments at Fair Value through Profit or Loss and Hedge Accounting**

Derivatives, which do not meet hedge accounting criteria, are financial assets and liabilities at fair value through profit or loss, and changes in the fair values of these derivative instruments are recognized immediately in profit or loss.

Derivatives are recorded in the statement of financial position at their fair values. Fair values of publicly traded derivatives are calculated based on quoted market rates at the end of the reporting period. All Glaston's derivatives are publicly traded. Fair values of forward contracts are determined using forward exchange market rates at the end of the reporting period. At the end of the reporting periods 2016 and 2015, Glaston had electricity forward contracts.

The Group's derivative transactions, while providing economic hedges, do not qualify for hedge accounting under IAS 39, and therefore changes in the fair values of these derivative instruments have been recognized immediately in profit or loss. Group companies can hedge with currency derivatives their sales in foreign currency as well as those orders received, for which there are firm commitments. The hedging instruments used can be forward contracts mainly made with Group Treasury or directly with banks. These hedges are recognized in profit or loss as adjustment of net sales. In addition, the Group hedges its electricity purchases with electricity derivatives. The fair value changes of these derivative instruments are recognized immediately in profit or loss as an adjustment of expenses.

If the hedge accounting criteria are fulfilled, derivatives are reported as cash flow hedges in accordance with IAS 39 hedge accounting principles. Hedge accounting was not used during reporting periods 2016 and 2015.

Changes in the fair value of foreign currency derivatives designated as hedges of net investment in foreign entities, and which are effective hedges, are recognized in other comprehensive income net of tax, and included in the equity in cumulative exchange difference. Ineffective part of the hedge is recognized immediately in profit or loss. Glaston had no net investment hedges in foreign entities in 2016 or 2015.

Derivative instruments are included in current assets or liabilities in the statement of financial position. Trade date accounting is used in recognizing purchases and sales of derivative instruments.

**Other Assets and Liabilities at Fair Value through Profit or Loss**

Other assets and liabilities at fair value through profit or loss can include mainly Glaston's current investments, which are classified as held for trading, i.e. which have been acquired or incurred principally for the purpose of selling them in the near future. Other assets and liabilities at fair value through profit or loss are included in current assets or liabilities in the statement of financial position.

Fair values of other financial assets and liabilities at fair value through profit or loss are estimated to approximate their carrying amounts because of their short maturities. Trade date accounting is used in recognizing purchases and sales of other assets and liabilities at fair value through profit or loss.

**Loans and Receivables**

Loans and receivables are assets which are not included in derivative assets. Loans and receivables arise when money, goods or services are delivered to a debtor. They are not quoted in an active market and payments related to them are either fixed or determinable. Loans and receivables granted by the Group are measured at amortized cost.

Loans and receivables include loan receivables, trade receivables, other receivables and cash. They are included in current or non-current financial assets in accordance with their maturity. Loan and trade receivables falling due after 12 months are discounted, if no interest is charged separately, and the increase in the receivable which reflects the passage of time is recognized as interest income in financial income and expenses.

Trade receivables are carried at the original invoice amount less the share of the discounted interest and an estimate made for doubtful receivables. Estimate made for doubtful receivables is based on a periodic review of all outstanding amounts. For example payment defaults or late payments are considered as indications of impairment of the receivable. Impairment losses of trade receivables are recorded in a separate allowance account within trade receivables, and the impairment losses are recognized in profit or loss as other operating expenses. If the impairment loss is final, the trade receivable is derecognized from the allowance account. If a payment is later received from the impaired receivable, the received amount is recognized in profit or loss as a deduction of other operating expenses. If no impairment loss has been recognized in allowance account and the impairment loss of the trade receivable is found to be final, impairment loss is recognized directly as deduction of trade receivables.

Loan receivables are carried at the original amount less an estimate made for doubtful receivables. Estimate made for doubtful receivables is based on a review of all outstanding amounts at the end of the reporting period. For example payment defaults or late payments are considered as indications of impairment of the receivable. Impairment losses of loan receivables are recognized in profit or loss as financial expenses. If a payment is later received from the impaired receivable, the received amount is recognized in profit or loss in financial items.

**Available-for-sale Financial Assets**

Available-for-sale financial assets are assets not classified as derivative assets, assets at fair value through profit or loss or loans and receivables.

Glaston has classified other shares than shares in associates as available-for-sale financial assets.

Glaston records changes in fair value of available-for-sale assets as other comprehensive income net of tax, and they are included in the fair value reserve in equity until the assets are disposed of, at which time changes in fair value are reclassified from equity into profit or loss items.

Listed investments are measured at the market price at the end of the reporting period. Investments, for which fair values cannot be measured reliably, such as unlisted equities, are reported at cost or at cost less impairment. If the available-for-sale asset is impaired, impairment loss is recognized immediately in profit or loss.

Trade date accounting is used in recognizing purchases and sales of available-for-sale financial assets.

Available-for-sale assets are included in non-current assets in the statement of financial position.

**Cash and Cash Equivalents**

Cash and cash equivalents comprise cash and other financial

assets. Other financial assets are highly liquid investments with remaining maturities at the date of acquisition of three months or less. Bank overdrafts are included in current interest-bearing liabilities.

**Financial Liabilities Measured at Amortized Cost**

On initial recognition financial liabilities are measured at their fair values that are based on the consideration received. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. Transaction costs are included in the acquisition cost.

Financial liabilities measured at amortized cost include convertible bond, pension loans, loans from financial institutions, finance lease liabilities, debenture bond, trade payables and advances received. They are included in current or non-current liabilities in accordance with their maturity.

Interest expenses are accrued for and mainly recognized in profit or loss for each period. If an asset is a qualifying asset as defined in IAS 23 Borrowing Costs, the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized to the acquisition cost of the asset. The capitalization applies mainly to property, plant and equipment and intangible assets.

At the end of 2016 and 2015 Glaston had no convertible bond.

## Revenue Recognition

Net sales include the total invoicing value of products sold and services provided less discounted interest and sales tax, cash discounts and rebates. Foreign exchange differences arising from trade receivables are recognized as sales adjustments.

Revenue is recognized after the risks and rewards of ownership of the goods have been transferred to the buyer. Normally, revenue recognition takes place at the date of the delivery in accordance with the delivery terms. Revenue from services rendered and reparation work made is recognized in profit or loss when the service has been rendered or the work has been finished.

Revenue from tailor-made glass processing machine deliveries is recognized based on a milestone method with two milestones. Revenue from a glass processing machine is recognized when the machine delivery leaves the manufacturing plant and the revenue from the installation is recognized when the machine has been installed and is taken into use by the customer. The portion of the total estimated costs of the project, allocated to the revenue recognized, is recognized in profit or loss simultaneously with the revenue recognition. Costs which are attributable to a project, for which revenue is not yet recognized, are included in inventories as unfinished construction contracts.

## Pensions and Other Long-term Employee Benefits

The Group has various pension plans in accordance with the local conditions and practices in the countries where it operates. The pension plans are classified as defined contribution plans or defined benefit plans. The payments to the schemes are determined by actuarial calculations.

The contributions to defined contribution plans are charged to profit or loss in the period to which the contributions relate.

In addition to defined benefit pensions, Glaston has other long-term employee benefits, such as termination benefits. These benefits are accounted for as post-employment benefits, and they are presented separately from defined benefit pensions.

The obligations for defined benefit plans have been calculated separately for each plan. Defined benefit liabilities or assets, which have arisen from the difference between the present value of the obligations and the fair value of plan assets, have been entered in the statement of financial position.

The defined benefit obligation is measured as the present value of the estimated future cash flows using interest rates of government securities that have maturity terms approximating the terms of related liabilities or similar long-term interests.

For the defined benefit plans, costs are assessed using the projected unit credit method. Under this method the cost is charged to profit or loss so as to spread over the service lives of employees.

According to the standard Glaston records actuarial gains and losses in other comprehensive income. Only current and past service costs as well as net interest on net defined benefit liability can be recorded in profit or loss. Other changes in net defined benefit liability are recognized in other comprehensive income with no subsequent recycling to profit or loss.

## Share-based Payments

Glaston Corporation has share-based incentive plans for the Group's key personnel. Depending on the plan, the reward is settled in shares, cash, or a combination thereof, provided that the key employee's employment or service with the Group is in force and the criteria for the performance is fulfilled. If a key employee's employment or service with the Group ends before the payment of a reward, the main principle is that no reward will be paid.

The granted amount of the incentive plans settled in shares is measured at fair value at the grant date, and the cash-settled part of the plans is measured at fair value at the reporting or payment date.

The expenses arising from the incentive plans are recognized in profit or loss during the vesting periods. The cash-settled portion of the incentive plans is recorded as a liability in the statement of financial position, if it has not been paid, and the portion settled in shares is recorded in retained earnings in equity net of tax. Glaston records the personnel costs arising from the share-based incentive plans to the extent it is liable to pay them. The share-based incentive plans are described in Note 29 to the consolidated financial statements.

## Current and Deferred Taxes

The consolidated financial statements include current taxes, which are based on the taxable results of the group companies for the reporting period together with tax adjustments for previous reporting periods, calculated in accordance with the local tax rules, and the change in the deferred tax liabilities and assets.

Income taxes which relate to items recognized in other comprehensive income are also recognized in other comprehensive income.

The Group's deferred tax liabilities and assets have been calculated for temporary differences, which have been obtained by comparing the carrying amount of each asset or liability item with their tax bases. Deferred tax assets are recognized for deductible temporary differences and tax losses to the extent that it is probable that taxable profit will be available, against which tax credits and deductible temporary differences can be utilized. In calculating deferred tax liabilities and assets, the tax rate used is the tax rate in force at the time of preparing the financial

statements or which has been enacted by end of the reporting period.

Principal temporary differences arise from depreciation and amortization of property, plant and equipment and intangible assets, defined benefit plans, recognition of net assets of acquired companies at fair value, measuring available-for-sale assets and derivative instruments at fair value, inter-company inventory profits, share-based payments and confirmed tax losses.

## Items Affecting Comparability

Glaston includes in items affecting comparability mainly items arising from restructuring and structural changes. They can include expenses arising from personnel reduction, product portfolio rationalization, changes in production structure and from reduction of offices. Impairment loss of goodwill is also included in items affecting comparability. Items affecting comparability are recognized in profit or loss in the income or expense category where they belong by their nature and they are included in operating result. In its key ratios Glaston presents also comparable operating result.

If a non-comparable expense is reversed for example due to changes in circumstances, the reversal is also included in items affecting comparability.

In addition, exceptionally large gains or losses from disposals of property, plant and equipment and intangible assets as well as capital gains or losses arising from group restructuring are included in items affecting comparability.

## Intangible Assets

Intangible asset is recognized in the balance sheet if its cost can be measured reliably and it is probable that the expected future economic benefits attributable to the asset will flow to the Group. Intangible assets are stated at cost and amortized on a straight line basis over their estimated useful lives. Intangible assets with indefinite useful life are not amortized, but tested annually for impairment.

Acquired intangible assets recognized as assets separately from goodwill are recorded at fair value at the time of the acquisition of the subsidiary.

The estimated useful lives for intangible assets are as follows:

Computer software, patents, licenses,
trademarks, product rights..... 3-10 years
Capitalized development expenditure..... 5-7 years
Other intangible assets..... 5-10 years

Research costs are expensed as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products, is capitalized if the product is technically and commercially feasible and the Group has sufficient resources to complete development and to use or sell the intangible asset. Amortization of the capitalized expenditure starts when the asset is available for use. The intangible assets not yet available for use are tested annually for impairment. Research expenditure and development expenditure recognized in profit or loss are recognized in operating expenses.

Borrowing costs are capitalized as part of the acquisition cost of intangible assets if the intangible assets are qualifying assets as defined in IAS 23 Borrowing Costs. In 2016 or 2015 Glaston did not have any qualifying assets.

## Goodwill

Goodwill represents the excess of the acquisition cost over fair value of the assets less liabilities of the acquired entity. Goodwill arising from the acquisition of foreign entities of acquisitions made after 1 January 2004, is treated as an asset of the foreign entity and translated at the closing exchange rates at the end of the reporting period. Goodwill arising from the acquisitions of foreign entities made before 1 January 2004, has been translated into euros at the foreign exchange rate prevailing on the acquisition date.

Acquisitions made after 1 January 2004, have been recognized in accordance with IFRS 3. Purchase consideration has been allocated to intangible assets, if they have met the recognition criteria stated in IAS 38 (Intangible Assets). Acquisitions made before 1 January 2004, have not been restated to be in accordance with IFRS-standards. The revised IFRS 3 standard has been applied for business combinations made after 1 January 2010.

In accordance with IFRS 3 Business Combinations, goodwill is not amortized. The carrying amount of goodwill is tested annually for impairment. The testing is made more frequently if there are indications of impairment of the goodwill. Any possible impairment loss is recognized immediately in profit or loss.

Glaston's goodwill has been allocated to the cash generating units of the group.

## Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. When an asset consists of major components with different useful lives, they are accounted for as separate items. Assets from acquisition of a subsidiary are stated at their fair values at the date of the acquisition.

Depreciation is recorded on a straight-line basis over expected useful lives. Land is not depreciated since it is deemed to have indefinite useful life.

The most common estimated useful lives are as follows:

Buildings and structures..... 25-40 years
Heavy machinery.....10-15 years
Other machinery and equipment..... 3-5 years
IT equipment ..... 3-10 years
Other tangible assets..... 5-10 years

Gain on the sale of property, plant and equipment is included in other operating income and loss in operating expenses.

The costs of major inspections or the overhaul of property, plant and equipment items, that occur at regular intervals and are identified as separate components, are capitalized and depreciated over their useful lives. Ordinary maintenance and repair charges are expensed as incurred.

Borrowing costs are capitalized as part of the acquisition cost of tangible assets if the tangible assets are qualifying assets as defined in IAS 23 Borrowing Costs. In 2016 or 2015 Glaston did not have any qualifying assets.

## Discontinued Operations and Assets and Liabilities of Disposal Group Classified as Held for Sale

A discontinued operation is a segment or a unit representing a significant geographical area, which has been disposed of or is classified as held for sale. The profit for the period attributable to the discontinued operation is presented separately in the consolidated income statement. Also post-tax gains and losses

recognized on the measurement to fair value less costs to sell or on the disposal of the asset or disposal group are presented in the income statement as result of discontinued operations. Comparative information has been restated.

Non-current assets or disposal groups are classified as held for sale and presented separately in the statement of financial position if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. In order to be classified as held for sale the asset or disposal group must be available for immediate sale in its present condition and the sale must be highly probable. In addition, the sale should qualify for recognition of a complete sale within one year from the date of the classification.

An asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell and it is not depreciated or amortized.

Also liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations is not applied retrospectively if the valuations and other information required by the standard were not obtainable at the time the classification criteria were met.

## Impairment of Assets

Annual impairment tests for goodwill are performed during the fourth quarter of the year. If there is, however, an indication of impairment of goodwill, the impairment tests for goodwill are performed earlier during the financial year. Other assets of the Group are evaluated at the end of each reporting period or at any other time, if events or circumstances indicate that the value of an asset has been impaired. If there are indications of impairment, the asset's recoverable amount is estimated, based on the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognized in profit or loss whenever the carrying amount of an asset or cash generating unit exceeds its recoverable amount. If subsequently recording the impairment loss a positive change has occurred in the estimates of the recoverable amount, the impairment loss made in prior years is reversed no more than up to the value which would have been determined for the asset, net of amortization or depreciation, had not impairment loss been recognized in prior years. For goodwill, a recognized impairment loss is not reversed.

Cash flow projections have been calculated on the basis of reasonable and supportable assumptions. They are based on the most recent financial plans and forecasts that have been approved by management. Estimated cash flows are used for a maximum of five years. Cash flow projections beyond the period covered by the most recent plans and forecasts are estimated by extrapolating the projections. The discount rate is the weighted average cost of capital. It is a pre-tax rate and reflects current market assessments of the time value of money at the time of review and the risks related to the assets. Impairment of assets has been described in more detail in Note 12 to the consolidated financial statements.

## Inventories

Inventories are reported at the lower of cost and net realisable value. Cost is determined on a first in first out (FIFO) basis, or alternatively, weighted average cost. Net realisable value is the amount which can be realized from the sale of the asset in the normal course of business, after allowing for the estimated costs of completion and the costs necessary to make the sale.

The cost of finished goods and work in process includes materials, direct labour, other direct costs and a systematically allocated appropriate share of variable and fixed production overheads. As Glaston's machine projects are usually not considered to be qualifying assets as defined in IAS 23, borrowing costs are not included in the cost of inventory in normal machine projects.

Used machines included in the inventory are measured individually so that the carrying amount of a used machine does not exceed the amount that is expected to be received from the sale of the machine. In this measurement the costs arising from converting the used machine back to saleable condition are taken into account.

Prototypes of new machines included in inventory are measured at the lower of cost and net realisable value.

## Government Grants

Government or other grants are recognized in profit or loss in the same periods in which the corresponding expenses are incurred. Government grants received to acquire property, plant and equipment are reduced from the acquisition cost of the assets in question.

## Accounting for Leases

Glaston Group has entered into various operating leases, the payments under which are treated as rentals and charged to profit or loss over the lease term.

Leases of property, plant and equipment where Glaston has substantially all the rewards and risks of the ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Lease payments are allocated between liability and finance charges. The lease liabilities net of finance charges are included in interest-bearing liabilities, with the interest element charged to profit or loss over the lease period.

Property, plant and equipment acquired under finance lease contracts are depreciated over the shorter of the useful life of the asset or the lease period.

IFRIC 4 Determining Whether an Arrangement Contains a Lease is applied to such agreements, which are not leases in legal form, but which in substance convey the right to use an asset for an agreed period of time in return for a payment. If an arrangement or part of it is determined to be a lease, it or part of it is classified as finance or operating lease and accounted for under the guidance in IAS 17 Leases.

## Provisions

A provision is recognized when as a consequence of some previous event there has arisen a legal or constructive obligation, and it is probable that this will cause future expenses and the amount of the obligation can be evaluated reliably.

A restructuring provision is booked only when a detailed and fully compliant plan has been prepared for it and implementation of the plan has been started or notification of it has been made known to those whom the arrangement concerns. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the time value of money is material, provisions are discounted.

A provision for warranties is recognized when the underlying products are sold. The provision is estimated on the basis of historical warranty expense data. Warranty provision is presented as non-current or current provision depending on the length of the warranty period.

The amount and probability of provision requires management to make estimates and assumptions. Actual results may differ from these estimates.

## Segment Information

In June 2015, Glaston Corporation completed the sale of the pre-processing machines business and reorganized its business and reporting structure. As a result of the sale, Glaston re-evaluated its reporting segments and, as of 1 July 2015, combined the operating segments, Machines and Services, into a single reporting segment. The remaining business consists of the manufacture and sale of heat treatment glass machines as well as the service operations for these machines.

The reportable segment applies to Glaston Group's accounting and measurement principles. The reportable segment consist of operating segments, which have been aggregated in accordance with the criteria of IFRS 8.12. Operating segments have been aggregated, when the nature of the products and services is similar, the nature of the production process is similar, as well as the type or class of customers. Also the methods to distribute products or to provide services are similar. Glaston follows the same commercial terms in transactions within the segment as with third parties. The reportable segment is disclosed in more detail in the Note 5 to the consolidated financial statements.

## Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the end of the reporting period and the recognized amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

In addition, management uses judgment in applying the accounting principles and in choosing the applicable accounting policies, if IFRS allow alternative methods.

The following items include critical accounting estimates: impairment testing of assets; estimated fair values of property, plant and equipment and intangible assets acquired in an acquisition and their estimated useful lives; useful lives of other intangible assets and property, plant and equipment; future economic benefits arising from capitalized development cost; measurement of inventories and trade and loan receivables; recognition and measurement of deferred taxes; estimates of the amount and probability of provisions and actuarial assumptions used in defined benefit plans.

The critical accounting estimates and judgments are described in more detail in Note 2 to the consolidated financial statements.

## Dividends

Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the shareholders at the Annual General Meeting.

## Treasury Shares

Treasury shares acquired by the company and the related costs are presented as a deduction of equity. Gain or loss on surrender of treasury shares are recorded in reserve for invested unrestricted equity net of tax.

## Earnings per Share

Basic earnings per share are calculated by dividing the net result attributable to owners of the parent by the weighted share-issue adjusted average number of shares outstanding during the year, excluding shares acquired by the Group and held as treasury shares.

When calculating diluted earnings per share, the net result attributable to owners of the parent is adjusted with the effect on profit or loss of the convertible bond and the weighted share-issue adjusted average number of shares outstanding during the year is adjusted by the effect of the convertible bond on the number of shares.

Earnings per share arising from continuing and discontinued operations are presented separately.

## Order Book

Glaston's order book includes the binding undelivered orders of the Group at the end of the reporting period. Orders for new machines and machinery upgrades are recognized in the order book only after receiving a binding agreement and either a down payment or a letter of credit.

## Orders Received

Glaston's orders received include the binding orders received and recognized in the order book during the reporting period as well as net sales of the service business, including net sales of spare parts and tools. Machine upgrades, which belong to the service business, are included in orders received based on the binding orders received and recognized in the order book during the reporting period.

Note 2

# Critical Accounting Estimates and Judgements

The most significant management estimates relate to impairment tests, which require use of estimates in the calculations. In impairment testing management estimates recoverable amount of an asset or a cash generating unit. Recoverable amount is the higher of fair value less costs to sell and value in use. When calculating value in use, management estimates the future cash flows as well as the discount rates used in discounting the cash flows. Discount rates reflect current market assessments of the time value of money at the time of impairment testing and the risks related to the tested assets. Estimated cash flows include assumptions of, among other things, future prices, production levels, costs and development of the markets. Impairment loss is recorded if the carrying amount exceeds recoverable amount. The sensitivity analyses related to the impairment tests performed are described in Note 12 to the consolidated financial statements.

Useful lives of intangible assets and property, plant and equipment are based on management's best estimate of the period the asset is expected to be available for use by Glaston. The actual useful life can, however, differ from the expected useful life resulting in adjustment of annual depreciation or amortization of the asset or in recording of impairment loss.

Glaston capitalizes development costs of new products. In addition to other capitalization criteria, management has to estimate the future economic benefits arising from the development cost. If management estimates that there will not be future economic benefits, the development cost is recognized in profit or loss. Whether a development cost is capitalized or recognized immediately in profit or loss this can have an effect on the result of the reporting period. At the end of the reporting period of 2016, Glaston had EUR 4.4 (4.0) million of Continuing Operations' capitalized development expenditure on its balance sheet.

Measurement of inventories and trade and loan receivables includes some management estimates. Inventories are measured at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realisable value is used in testing the recoverable amount of inventories in order to avoid the inventories being carried in excess of amount expected to be realized from their sale or use. If management estimates that carrying amount of a trade or loan receivable exceeds its fair value, an impairment loss is recognized. For example, payment defaults or late payments are considered as indications of impairment of the receivable. The carrying amount of Continuing Operations' inventory at the end of the reporting period was EUR 11.9 (17.3) million, the carrying amount of Continuing Operations' trade receivables was EUR 16.2 (20.8) million and the carrying amount of loan receivables was EUR 1.1 (1.8) million.

Recognition and measurement of deferred tax liabilities and assets include management estimates, especially deferred tax assets arising from confirmed tax losses of group companies or from other temporary differences. Deferred tax assets are recognized for deductible temporary differences and tax losses to the extent that it is probable that taxable profit will be available against which tax credits and deductible temporary differences can be utilized. All tax liabilities and assets are reviewed at the end of the reporting period and changes are recognized in profit or loss. At the end of the reporting period, Glaston's had deferred tax assets of Continuing Operations totalling EUR 2.2 (2.4) million and deferred tax liabilities totalling EUR 0.4 (0.4) million.

If Glaston's management has assessed that as a result of a past event Glaston has a legal or constructive obligation, and that it is probable, that an outflow of resources will be required to settle the obligation, the management has estimated the amount of provision recognized from the obligation. The amount of the provision is the management's best estimate of the amount required to settle the obligation at the end of the reporting period. Glaston's most significant provision at the end of the reporting period was the warranty provision of Continuing Operations, totalling EUR 3.8 (3.5) million. The management's estimate of the warranty provision is based on previous experience. The estimate of the restructuring provision is based on the restructuring plan in which the locations and personnel concerned have been identified. If possible, external experts have been used in estimating the amount of the provision. If the management has estimated that it is unlikely, that Glaston has an obligation, a contingent liability is presented in the notes to the consolidated financial statements.

Calculation of defined benefit pensions and other defined long-term employee benefits requires choosing certain assumptions which actuaries use in calculation of the obligations arising from defined benefit plans. These assumptions include, among other things, discount rates used in the measurement of plan assets and liabilities as well as other actuarial assumptions such as future salary increases and mortality rate.

Note 3

# Management of Financial Risks

## Financial Risk Management

The main objectives for financial risk management within Glaston are to secure operational continuity, support the achievement of operational objectives and to implement treasury functions cost-effectively utilizing the Group's economies of scale.

The Group's treasury functions have been centralised to the parent which is responsible for relations with financial institutions, long-term financing arrangements and the investment of liquid assets as well as the Group's internal funding allocations according to the liquidity needs of different group companies. Group Treasury cooperates with the group companies to identify the risks and provides financial services for the group companies in order to manage these identified risks.

The management of financial risks in Glaston Group is conducted in accordance with the Glaston Group's Treasury Policy approved by the Board of Directors of Glaston Corporation. It is the responsibility of the CFO and Group Treasury to propose amendments to this policy as conditions within the Group and on the financial markets change. Group Treasury is responsible for monitoring compliance with the Treasury Policy as well as for presenting the need for changes to Treasury Policy to the parent's Board of Directors.

The Group's financial risks consist of foreign exchange, interest rate, credit, counterparty and liquidity risks. Due to its international operations the Group is exposed to risks arising from foreign exchange rate fluctuations. The effects of interest rate changes on the Group's annual result create an interest rate risk. Credit and counterparty risk primarily consists of risk related to credit granted to customers. Liquidity risk is defined as the risk that the Group's funds and borrowing facilities become insufficient to meet the needs of the business or that extra costs are incurred in order to arrange the financing needed.

Also investment of liquid funds is managed in accordance with the Treasury Policy. Liquid assets are invested in low risk instruments and only counterparties that possess good credit-worthiness are accepted.

## Market Risks

### Foreign Exchange Risk

The Group operates internationally and is therefore exposed to transaction and translation risks arising from fluctuations in foreign exchange rates which may have an effect on profit or loss and financial position. Transaction risks arise from cash flows generated by purchase and sales activities while translation risks arise from converting items in the statements of profit or loss and the statements of financial position of non-euro subsidiaries into the Group's functional currency.

The invoicing currency for a large proportion of the Group's deliveries is the euro, which is also the Group's functional currency. The most significant foreign exchange risk arises from exchange rate fluctuations between the euro and the US dollar, but the Group may also have significant exposures in Chinese Yuan, English Pound and Brazilian Real. The US dollar accounted for approximately 40 per cent of the net sales of Continuing Operations in 2016 (in 2015, 34 per cent). The Euro and US dollar together accounted for approximately 87 per cent of the invoicing of Continuing Operations in 2016 (in 2015, 80 per cent).

The Group did not have major foreign currency denominated loans at 31 December 2016. The Group's internal loans are either short-term working capital credit facilities or subordinated long-term loans denominated on a case-by-case basis either in the local currency of the foreign subsidiary or in the functional currency of the Group.

The objective for foreign exchange risk management is primarily to secure the results of group companies from unexpected currency fluctuations. Possible hedging of foreign exchange risk is conducted in accordance with the Treasury Policy and the group companies are responsible for reporting their respective foreign currency items. In 2016, currency hedging was not in use. The Group, moreover, has not hedged net investments in foreign entities nor internal loans.

Glaston did not apply hedge accounting as defined by IAS 39 in 2016 or 2015.

For the sensitivity analysis as defined in IFRS 7, a possible +/- 10 per cent change in the main currencies was assessed, with all other factors remaining unchanged. The sensitivity analysis is based on the foreign currency denominated assets and liabilities as of 31 December 2016. The analysis takes into consideration the impact of foreign exchange derivatives, if such instruments have been used, which offsets the effects of changes in foreign exchange rates.

In the table below, the effect of the main currencies on consolidated result before taxes has been analysed. Only risks that are related to financial instruments are included in the analysis.

| | | Change in currency rate | |
|---|---|---|---|
| EUR thousand | Gross position | -10 per cent | + 10 per cent |
| USD/EUR | -2,666 | 242 | -296 |
| BRL/EUR | -434 | 39 | -48 |
| CNY/EUR | -4,428 | 403 | -492 |
| GBP/EUR | 60 | -5 | 7 |
| | -7,468 | | |

### Interest Rate Risk

Possible changes in the interest rates cause a risk that will affect the result of the Group. The objective of interest risk management is to minimize, if necessary, the effect of interest rate fluctuations on the Group's annual result.

As a measurement for the management of interest rate risk an average interest fixing term for the Group's interest bearing liabilities has been used. The average interest fixing term at 31 December 2016 was 3 months (in 2015, 3 months).

On 31 December 2016, the Group's interest-bearing net debt mainly consisted of loans agreed with lenders in the financing agreement signed in June 2015 as well as a TyEL loan.

For the sensitivity analysis as defined by IFRS 7, a possible +1 / -0.5 percentage point change in the interest rates was assessed. The effect of the change on the Group's result before taxes given the level of debt with floating interest rates on 31 December 2016 is EUR -0.13 / +0.07 (-0.14 / +0.07) million.

## Credit and Counterparty Risk

The Group becomes exposed to credit and counterparty risks when it grants payment time to the customers. The credit worthiness of these counterparties may decrease and affect Group's result. Credit risk management is conducted in accordance with the Group's Credit Management Policy.

The objective for credit risk management is to reduce this risk as much as possible without compromising the flexibility needed by different business areas. Risk management is performed together with the business management with the objective to avoid major credit risk concentrations and to verify, that sufficient guarantees and collaterals are received. The Group reduces its credit risk by using letters of credit and various types of guarantees received from the customers to secure the receivables. In addition, the Group uses advance payments to reduce risk and to accelerate fund inflows.

At the end of 2016, 39.0 (15.0) per cent of Group's trade receivables were secured by various types of guarantees.

The Group's client base is diversified over several different geographical areas and customer segments which reduces major concentrations of credit risk. The largest single customer's share of the Group's receivables is not significant in terms of risk management. Significant unfavourable changes in the level of investment demand might, however, cause changes in the development of the Group's credit risk.

The Group's liquid funds are invested to mitigate risk and only counterparties with high credit rating are accepted. Investment portfolio consist mainly of money market deposits.

### Trade receivables

The quality of trade receivables is assessed by each group company based on the Group's Credit Management Policy. Based on these assessments, impairment losses on trade receivables are recognized in accordance with the Credit Policy.

The total carrying amount of trade receivables of Continuing Operations on 31 December 2016, was EUR 16.2 (20.8) million.

Ageing analysis and changes in allowance account of trade receivables are presented in Note 19 to the consolidated financial statements.

### Committed credit facilities

| EUR million | In use | Unused | Total |
|---|---|---|---|
| Committed credit facilities 31.12.2016 | 13.8 | 8.2 | 22.0 |
| Committed credit facilities 31.12.2015 | 11.8 | 10.2 | 22.0 |

### Maturity analysis of financial liabilities 31 December 2016

| EUR thousand<br>**Maturity of financial liabilities** | **Carrying amount** | **Contractual cash flows** | Maturing in<br>**< 12 months** | **1-2 years** | **> 2 years** |
|---|---|---|---|---|---|
| Financial liabilities | | | | | |
| Credit facilities | 9,801 | 9,874 | 9,874 | - | - |
| Other interest-bearing loans | 6,947 | 7,259 | 78 | 5,248 | 1,934 |
| Trade payables | 10,033 | 10,033 | 10,033 | - | - |
| Forward contracts | | | | | |
| - inflow | 331 | 331 | 331 | - | - |
| - outflow | 359 | 359 | 359 | - | - |

### Maturity analysis of financial liabilities 31 December 2015

| EUR thousand<br>**Maturity of financial liabilities** | **Carrying amount** | **Contractual cash flows** | Maturing in<br>**< 12 months** | **1-2 years** | **> 2 years** |
|---|---|---|---|---|---|
| Financial liabilities | | | | | |
| Credit facilities | 7,500 | 7,533 | 7,533 | - | - |
| Other interest-bearing loans | 5,995 | 6,258 | - | 2,503 | 3,754 |
| Trade payables | 11,291 | 11,291 | 11,291 | - | - |
| Forward contracts | | | | | |
| - inflow | 256 | 256 | 256 | - | - |
| - outflow | 403 | 403 | 403 | - | - |

Maturity of rental obligations is presented in Note 27 to the consolidated financial statements.

## Liquidity Risk

Liquidity risk is defined as the risk that the Group's funds and borrowing facilities become insufficient to meet the business needs or that significant extra costs are incurred in order to arrange the financing needed.

Liquidity risk is managed through effective use of advance payments in order to reduce the amount of working capital tied up in the operations. A special focus is set on the working capital management and the development is monitored regularly. Short- and long-term cash planning is part of group companies' operational activity together with the Group Treasury. As a measurement for the liquidity risk are the Group's liquid funds and unused credit facilities. Group Treasury reports the Group's liquidity position regularly to the management and to the Board of Directors of Glaston Corporation.

The Group's funding is mainly organized by using the approximately EUR 32 million facilities agreement signed 2015.

## Management of Capital

The objective for management of capital is to secure the continuation of operations at all times and to maintain appropriate capital structure. In the capital management planning process, both current and future needs of the business are taken into consideration together with securing flexibility and competitive pricing of financing.

The primary measure for the Group's capital structure is net gearing. It is calculated as the ratio between net interest-bearing debt to equity. The Group's equity ratio is also used as a measure for the capital structure. It is calculated as the ratio between equity to the total assets adjusted with advance payments received. Additionally, the Group's liquid funds are monitored regularly.

The Group's loan agreements include covenants and other terms and conditions which are linked to consolidated key figures. If the covenant terms are not fulfilled, negotiations with the lenders will be initiated. These negotiations may lead to notice of termination of financial agreements. The covenants in use are net interest-bearing debt to equity (gearing ratio) and interest-bearing debt to EBITDA (leverage). Group treasury is responsible for monitoring the covenants and reports the situation regularly to management and the Board of Directors of Glaston Corporation.

| EUR thousand | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **Interest-bearing net debt** | | |
| Non-current interest-bearing liabilities | **6,869** | 5,994 |
| Current interest-bearing liabilities | **9,878** | 7,501 |
| Cash and cash equivalents, continuing and discontinued operations | **-17,374** | -6,066 |
| **Total** | **-626** | **7,429** |
| **Equity** | | |
| Attributable to owners of the parent | **35,608** | 36,493 |
| Non-controlling interest | **280** | 305 |
| **Total** | **35,888** | **36,798** |
| Total assets | **101,053** | 100,290 |
| Advances received, continuing and discontinued operations | **-17,981** | -16,557 |
| **Total** | **83,072** | **83,733** |
| Equity ratio, % | **43.2%** | 43.9% |
| Net gearing, % | **-1.7%** | 20.2% |

The consolidated equity and thus the capital structure is decreased by dividends paid and acquisition of Glaston Corporation's own shares. The equity can be increased by disposal of own shares and share issues. The authorizations of the Board of Directors to acquire and dispose own shares, and to issue new shares, are disclosed in Note 4 to the consolidated financial statements. Equity is also affected by the result for the reporting period, as well as by changes in fair value reserve and exchange differences included in equity.

Note 4

# Shares and Shareholders

## Shares and Voting Rights

Glaston Corporation has one class of shares. The number of outstanding shares is 193,708,336 (treasury shares are included in the number of shares) and each share, with the exception of treasury shares, carries one vote at general meetings of shareholders. There are no limitations to transfer the shares. At the end of 2016 and 2015, Glaston Corporation's share capital amounted to EUR 12,696,000. The share has no nominal value. The share's counter book value is EUR 0.07 per share. Glaston's shares are registered in the book-entry securities system maintained by Euroclear Finland Ltd.

According to the Articles of Association of Glaston Corporation, a shareholder whose proportion of all the company's shares or the votes conferred by the shares - either alone or together with other shareholders as defined hereinafter - reaches or exceeds 33 1/3 per cent or 50 per cent is obligated, upon a demand by the other shareholders, to redeem their shares and the securities entitling their holders to shares under the Companies Act according to the provisions of this article.

**According to the Articles of Association of Glaston Corporation the redemption price in respect of shares shall be the higher of the following:**

a) the weighted average price of trading in the share during the last ten (10) trading days on the NASDAQ Helsinki Ltd. before the day when the company received from the Redeeming Shareholder a notification that the shareholding or voting rights limit as set forth above had been reached or exceeded or, should such notification be lacking or fail to be received by the deadline, when the company's Board of Directors otherwise received knowledge of it;

b) the average price, weighted by the number of shares, which the Redeeming Shareholder has paid for the shares which he has purchased or otherwise received during the last twelve (12) months before the day specified in paragraph a) above.

The redemption obligation set forth in the Articles of Association does not pertain to a shareholder who can prove that the shareholding or voting rights limit entailing a redemption obligation was reached or exceeded before the relevant provision of these Articles of Association was entered in the Trade Register.

## Share Trading

During 2016, the highest price of the Glaston share was EUR 0.51 (0.60) and the lowest price EUR 0.33 (0.37). The average volume-weighted share price was EUR 0.38 (0.50). At the end of 2016, the share price stood at EUR 0.40 (0.50). The turnover of the share in NASDAQ Helsinki Ltd. in 2016 was 31,898,450 (63,067,452) shares and in euro-terms EUR 12.1 (30.7) million. Number of shares traded was 16.5 (32.7) per cent of the average share stock. Market capitalization at the end of 2016 was approximately EUR 77.2 (96.5) million.

| | 2016 | 2015 |
|---|---|---|
| Number of shares and treasury shares | | |
| **Number of shares (registered)** | | |
| Number of shares 1 January | **193,708,336** | 193,708,336 |
| Number of shares 31 December | **193,708,336** | 193,708,336 |
| Treasury shares 31 December | **-788,582** | -788,582 |
| **Number of shares 31 December, excluding treasury shares** | **192,919,754** | 192,919,754 |
| | | |
| **Average number of shares 31 December, excluding treasury shares** | **192,919,754** | 192,919,754 |
| | | |
| **Acquisition and disposal of treasury shares** | | |
| Treasury shares 1 January, shares | **788,582** | 788,582 |
| **Treasury shares 31 December, shares** | **788,582** | **788,582** |
| | | |
| Treasury shares 1 January, EUR thousand | **3,308** | 3,308 |
| **Treasury shares 31 December, EUR thousand** | **3,308** | **3,308** |

Glaston's treasury shares consist of shares acquired for the share-based incentive scheme. Share acquisition and the scheme management have been outsourced to an external service provider. Irrespective of the legal form of the procedure, the shares have been treated as if Glaston would have acquired the shares itself.

## Notifications as per Section 5 of Chapter 9 of the Securities Market Act

In 2016 Glaston did not have any notifications as per Section 5 of Chapter 9 of the Securities Market Act.

## Authorizations of the Board of Directors

The Annual General Meeting of Glaston Corporation was held on 5 April 2016 in Helsinki. The General Meeting authorised the Board of Directors to decide on the issuance of shares as well as the issuance of options and other rights entitling to shares. The authorisation consists of up to 20,000,000 shares in the aggregate.

The authorisation does not exclude the Board of Directors' right to decide on a directed issue. The authorisation was proposed to be used for material arrangements from the company's point of view, such as financing or implementing business arrangements or investments or for other such purposes determined by the Board of Directors in which case a weighty financial reason for issuing shares, options or other rights and possibly directing a share issue would exist.

The Board of Directors is authorised to resolve on all other terms and conditions of the issuance of shares, options and other rights entitling to shares as referred to in Chapter 10 of the Companies Act, including the payment period, grounds for the determination of the subscription price and subscription price or allocation of shares, option or other rights free of charge or that the subscription price may be paid besides in cash also by other assets either partially or entirely.

The authorisation is effective until 30 June 2017. The authorisation supersedes earlier authorisations.

### Share-based incentive plan and management's shareholding

Share-based incentive plan is presented in detail in Note 29.

The Board of Directors' and Executive Management Group's share ownership is presented in detail in Note 30.

### Equity attributable to owners of the parent per share

| | 2016 | 2015 |
|---|---|---|
| Equity attributable to owners of the parent, EUR thousand | **35,608** | 36,493 |
| Number of shares | **192,919,754** | 192,919,754 |
| **Equity attributable to owners of the parent per share, EUR** | **0.18** | **0.19** |

### Distribution of profit

| | | |
|---|---|---|
| Return of capital per share, EUR* | - | 0.01 |

* Board of Directors' proposal to the AGM

## Largest shareholders 31 December 2016

| Shareholder | Number of shares | % of shares and votes |
|---|---|---|
| 1. Oy G.W.Sohlberg Ab | 33,928,353 | 17.5% |
| 2. Hymy Lahtinen Oy | 23,400,000 | 12.1% |
| 3. Etera Mutual Pension Insurance Company | 22,593,878 | 11.7% |
| 4. Varma Mutual Pension Insurance Company | 12,786,643 | 6.6% |
| 5. Evli Finnish Small Cap Fund | 9,589,091 | 5.0% |
| 6. OP-Finland Small Firms Fund | 5,168,323 | 2.7% |
| 7. Päivikki and Sakari Sohlberg Foundation | 3,965,600 | 2.0% |
| 8. Oy Investsum Ab | 3,408,000 | 1.8% |
| 9. Hulkko Juha Olavi | 3,100,000 | 1.6% |
| 10. Danske Invest Finnish Small Cap Fund | 2,895,896 | 1.5% |
| 11. The Central Church Fund | 2,730,000 | 1.4% |
| 12. Sijoitusrahasto Taaleritehdas Mikro Markka | 2,375,600 | 1.2% |
| 13. Säästöpankki Pienyhtiöt | 2,307,860 | 1.2% |
| 14. Sumelius-Fogelholm Birgitta | 1,994,734 | 1.0% |
| 15. Sumelius Bjarne Henning | 1,841,504 | 1.0% |
| 16. Metsänen Arto Juhani | 1,750,000 | 0.9% |
| 17. Von Christierson Charlie | 1,600,000 | 0.8% |
| 18. Oy Nissala Ab | 1,500,000 | 0.8% |
| 19. Sumelius Christer | 1,398,533 | 0.7% |
| 20. Sumelius-Koljonen Barbro | 1,235,988 | 0.6% |
| **20 largest shareholders total** | **139,570,003** | **72.1%** |
| Nominee registered | 1,644,476 | 0.8% |
| Other shares | 52,493,857 | 27.1% |
| **Total** | **193,708,336** | **100.0%** |
| Treasury shares | -788,582 | 0.4% |
| **Total excluding treasury shares** | **192,919,754** | **99.6%** |

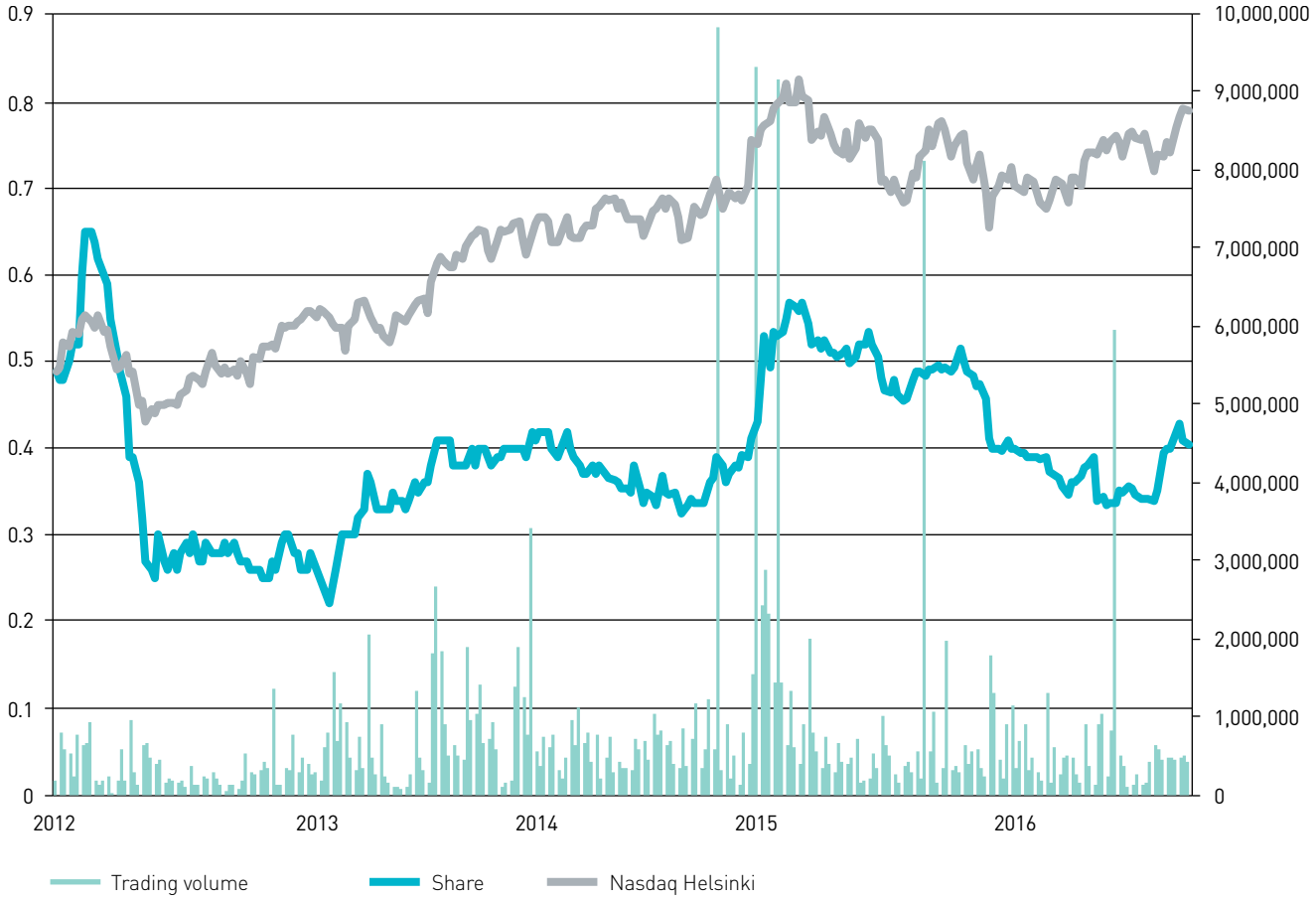
## Ownership distribution 31 December 2016

| | Number of shares | % of shares and votes |
|---|---|---|
| Households | 53,472,706 | 27.6% |
| Public sector institutions | 38,130,521 | 19.7% |
| Financial and insurance institutions | 18,814,895 | 9.7% |
| Corporations | 73,175,154 | 37.8% |
| Non-profit institutions | 4,417,080 | 2.3% |
| Foreign countries | 3,978,304 | 2.1% |
| Total | 191,988,660 | 99.1% |
| Nominee registered | 1,644,476 | 0.8% |
| Total | 193,633,136 | 100.0% |
| Common Accounts | 75,200 | 0.0% |
| **Total** | **193,708,336** | **100.0%** |

## Shareholders by share ownership 31 December 2016

| Number of shares | Number of shareholders | % of shareholders | Shares total | % of shares and votes |
|---|---|---|---|---|
| 1 - 100 | 426 | 7.4% | 24,877 | 0.0% |
| 101 - 1000 | 2,231 | 38.8% | 1,243,664 | 0.6% |
| 1 001 - 10 000 | 2,397 | 41.7% | 9,180,073 | 4.7% |
| 10001 - 100 000 | 580 | 10.1% | 17,013,333 | 8.8% |
| 100001 - 99 999 999 | 114 | 2.0% | 166,171,189 | 85.8% |
| Total | 5,748 | 100.0% | 193,633,136 | 100.0% |
| Common accounts | | | 75,200 | 0.0% |
| **Number of shares issues** | | | **193,708,336** | **100.0%** |

Share price development and trading volume



Note 5

# Segment Information

As a result of the sale of the pre-processing machines business in 2015, Glaston's remaining business operations have been reported as a single segment, starting from 1 July 2015 and the comparable figures have been restated accordingly. The reportable segment consists of two operating segments, Machines and Services. The reportable segment applies Glaston Group's accounting and measurement principles as described in Note 1 to the consolidated financial statements. Glaston follows the same commercial terms in transactions between the segment as with third parties.

The reportable segment consists of operating segments, which have been aggregated in accordance with the criteria of IFRS 8.12. Operating segments have been aggregated, when the nature of the products and services is similar, the nature of the production process is similar, as well as the type or class of customers. As of 1 July 2015, the remaining business consists of the manufacture and sale of heat treatment glass machines as well as the service operations for these machines. There is a high level of integration between safety glass machines and maintenance. Product development as well as sales and distribution are shared functions, serving both business areas. Their customers are the same, as is their market development, which is linked to the general development of the global market. Also the methods to distribute products or to provide services are similar. In the long term, also sales development and gross profit of the operating segments are similar.

Glaston's highest operative decision maker (CODM, Chief Operating Decision Maker) is Glaston Corporation's President & CEO, supported by the Executive Management Group. The President & CEO assesses the Group's financial position and its overall development.

## Reportable segment

| EUR thousand<br>**2016** | **Machines** | **Services** | **Total segment** | **Unallocated and eliminations and adjustments** | **Total** |
|---|---|---|---|---|---|
| External net sales | 66,957 | 40,033 | 106,989 | 151 | 107,141 |
| Internal net sales | 423 | 1,729 | 2,153 | -2,153 | - |
| **Total net sales** | **67,380** | **41,762** | **109,142** | **-2,002** | **107,141** |
| | | | | | |
| **Comparable operating result of the segment** | | | | | **2,762** |
| Items affecting comparability | | | | | -504 |
| **Operating result** | | | | | **2,258** |
| Financial items | | | | | -671 |
| Income taxes | | | | | -574 |
| Profit / loss for the year, discontinued operations | | | | | - |
| **Result for the reporting period** | | | | | **1,013** |
| | | | | | |
| Segment assets | | | | | 76,848 |
| Other assets | | | | | 24,205 |
| **Total assets** | | | | | **101,053** |
| | | | | | |
| Segment liabilities | | | | | 47,985 |
| Other liabilities | | | | | 17,180 |
| **Total liabilities** | | | | | **65,165** |
| **Operative net working capital** | | | | | **28,863** |

The items affecting comparability of January-December 2016, in total EUR 0,5 million negative, consist of personnel and other costs related to business restructuring in China and Brazil.

Segment assets include external trade receivables and inventory, and segment liabilities include external trade payables and advance payments received. In addition, segment assets and liabilities include business related prepayments and accruals as well as other business related receivables and liabilities. Segment assets and liabilities do not include loan receivables, prepayments and receivables related to financial items, interest-bearing liabilities, accruals and liabilities related to financial items, income and deferred tax assets and liabilities nor cash and cash equivalents.

| EUR thousand<br>2015 | Machines | Services | Total segment | Unallocated and eliminations and adjustments | Total |
|---|---|---|---|---|---|
| External net sales | 76,442 | 46,328 | 122,770 | 601 | 123,371 |
| Internal net sales | 4 | 1,852 | 1,856 | -1,856 | - |
| **Total net sales** | **76,446** | **48,180** | **124,626** | **-1,255** | **123,371** |
| | | | | | |
| **Comparable operating result of the segment** | | | | | **6,082** |
| Items affecting comparability | | | | | 560 |
| **Operating result** | | | | | **6,642** |
| Financial items | | | | | -5,772 |
| Income taxes | | | | | -719 |
| Profit / loss for the year, discontined operations | | | | | -13,973 |
| **Result for the reporting period** | | | | | **-13,821** |
| | | | | | |
| Segment assets | | | | | 92,557 |
| Other assets | | | | | 7,732 |
| **Total assets** | | | | | **100,290** |
| | | | | | |
| Segment liabilities | | | | | 48,498 |
| Other liabilities | | | | | 14,994 |
| **Total liabilities** | | | | | **63,492** |
| **Operative net working capital** | | | | | **44,060** |

The items affecting comparability of January-December 2015, in total EUR 0.6 million positive, consist of personnel and other costs related to business restructuring in China, Brazil and Finland and the group internal purchases that have been eliminated in group figures until 30.6.2015. Due to sale of the pre-processing machines business these are reported as external purchases starting from 1 July 2015.

## Non-cash income and expenses included in operating result*

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Segment total | **-3,668** | -3,395 |
| Unallocated | **0** | -22 |
| **Total non-cash expenses and income** | **-3,668** | **-3,416** |

* Excluding impairment.

Non-cash income and expenses in 2016 included the following items: impairment losses of trade receivables EUR -0.6 million, impairment losses of inventory EUR -0.6 million, changes in provisions EUR -2.4 million.

Non-cash income and expenses in 2015 included the following items: impairment losses of trade receivables EUR -0.8 million, impairment losses of inventory EUR -1.3 million, changes in provisions EUR -1.4 million.

| EUR million | 2016 | 2015 |
|---|---|---|

## Orders received and order book

| | | |
|---|---|---|
| **Orders received** | | |
| Machines | **72.3** | 59.9 |
| Services | **40.6** | 47.5 |
| **Total** | **112.9** | **107.4** |
| | | |
| **Order book** | | |
| Machines | **39.9** | 34.9 |
| Services | **5.7** | 3.6 |
| **Total** | **45.6** | **38.5** |

| | 2016 | 2015 |
|---|---|---|

## Personnel

| | | |
|---|---|---|
| **Number of personnel at the end of the year** | | |
| **Total continuing operations** | **415** | **450** |
| **Total number of personnel** | **415** | **450** |

| | | |
|---|---|---|
| **Number of personnel at the end of the year by geographical location** | | |
| Finland | **162** | 164 |
| Other EMEA* | **63** | 65 |
| Americas* | **65** | 80 |
| Asia* | **125** | 141 |
| **Total number of personnel** | **415** | **450** |

* EMEA = Europe, the Middle East and Africa
Americas = North, Central and South America
Asia = China and the rest of the Asia-Pacific area

| EUR thousand | 2016 | 2015 |
|---|---|---|

## Entity-wide disclosures

| | | |
|---|---|---|
| **Net sales by product groups, continuing operations** | | |
| Goods sold | **102,559** | 117,835 |
| Services rendered | **4,582** | 5,537 |
| **Total net sales** | **107,141** | **123,371** |

| | | |
|---|---|---|
| **Net sales by country by destination, continuing operations** | | |
| Finland | **619** | 1,869 |
| Other EMEA* | **41,806** | 46,121 |
| Americas* | **43,711** | 57,193 |
| Asia* | **21,005** | 18,188 |
| **Total** | **107,141** | **123,371** |

| | | |
|---|---|---|
| **Property, plant and equipment and intangible assets by geographical location (goodwill excluded)** | | |
| Finland | **10,130** | 9,222 |
| Other EMEA* | **290** | 321 |
| Americas* | **308** | 240 |
| Asia* | **5,370** | 5,306 |
| **Total property, plant and equipment and intangible assets, goodwill excluded** | **16,098** | **15,088** |

Glaston's revenues from any single external customer do not exceed 10 per cent of Glaston's total revenue.

Note 6

# Construction Contracts

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Construction contracts** | | |
| Total revenue from construction contracts included in net sales during the reporting period | **69,018** | 77,622 |
| Construction contracts in progress at the end of reporting period: revenue recognized during the reporting period and previous reporting periods | **38,998** | 51,410 |

## Gross amounts due from / to customers in 2016

| | Gross amount due from customers as an asset | Gross amount due to customers as a liability | Carrying amount, net |
|---|---|---|---|
| Projects where recognized revenue exceeds advances received | 44,307 | 35,208 | 9,100 |
| Projects where advances received exceed recognized revenue | 64 | 16,529 | 16,465 |
| Gross amounts due from / to customers | 44,372 | 51,737 | |

## Gross amounts due from / to customers in 2015

| | Gross amount due from customers as an asset | Gross amount due to customers as a liability | Carrying amount, net |
|---|---|---|---|
| Projects where recognized revenue exceeds advances received | 20,891 | 9,661 | 11,230 |
| Projects where advances received exceed recognized revenue | 442 | 15,095 | 14,653 |
| Gross amounts due from / to customers | 21,333 | 24,757 | |

Projects where recognized revenue exceeds advances received: net carrying amount is included in trade receivables (Note 19).
Projects where advances received exceed recognized revenue: net carrying amount is included in advances received (Note 24).

Note 7

# Other Operating Income

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Other operating income** | | |
| Capital gains on sale of property, plant and equipment | **5** | 25 |
| Rents | **785** | 772 |
| Government grants | **139** | 74 |
| Insurance compensation | **4** | 4 |
| Other income | **135** | 68 |
| **Other operating income total** | **1,069** | **943** |

Government grants are essentially related to regional headquarter compensation.

Note 8

# Materials and Other Operating Expenses

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Materials** | | |
| Materials and supplies, purchases during the period | -44,810 | -56,804 |
| Change in inventories of materials and supplies | 460 | 103 |
| **Total materials** | **-44,350** | **-56,701** |
| **Other operating expenses** | | |
| Leases | -2,845 | -3,333 |
| Losses on sale of property, plant and equipment | -15 | -23 |
| Losses from sale of investment | -0 | -0 |
| Subcontracting and maintenance | -3,634 | -4,565 |
| Commissions | -1,555 | -2,465 |
| Freight expenses | -3,198 | -3,474 |
| Travel expenses | -4,604 | -4,278 |
| External services, not production related | -2,488 | -2,505 |
| IT, internet and phone | -3,265 | -3,282 |
| Electricity, heating | -1,027 | -1,228 |
| Marketing expenses | -1,240 | -1,084 |
| Other expenses | -3,433 | -5,436 |
| **Total other operating expenses** | **-27,304** | **-31,674** |
| **Fees for professional services rendered by principal auditors** | | |
| Auditing, EY | -265 | -296 |
| Auditing, other auditing companies | -19 | -26 |
| Tax advisory, EY | - | -58 |
| Tax advisory, other auditing companies | - | -1 |
| Other services, EY | -19 | -12 |
| **Total** | **-303** | **-393** |

The principal auditor of Glaston Group during the financial years of 2016 and 2015 has been Ernst & Young. Auditor fees include fees in both continuing and discontinued operations.

| Principal auditor's audit fees of the audit of the financial year | | |
|---|---|---|
| Ernst & Young | -233 | -239 |

## Research and development costs, continuing operations

| | | |
|---|---|---|
| Recognized in profit or loss | -745 | -1,942 |
| Amortization, impairment losses and reversals of impairment losses of capitalized development costs during the reporting period, net | -962 | -1,701 |
| **Total** | **-1,708** | **-3,643** |
| As a percentage of net sales | 1.6% | 3.0% |
| | | |
| Capitalized development costs during the reporting period, continuing operations | 1,416 | 1,240 |
| Capitalized development costs during the reporting period, discontinued operations | - | 42 |
| **Capitalized development costs during the reporting period, total** | **1,416** | **1,282** |

Note 9

# Employee Benefits and Number of Personnel

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Employee benefits** | | |
| Wages and salaries | **20,036** | 22,375 |
| Pension expenses | **2,585** | 3,512 |
| Other personnel expenses | **3,317** | 2,563 |
| Other post-employment benefits | **9** | 9 |
| **Total personnel expenses** | **25,947** | **28,459** |

Share-based incentive plans are described in more detail in Note 29 to the consolidated financial statements.

## Pension expenses

| | | |
|---|---|---|
| Defined benefit plans | **-4** | 0 |
| Defined contribution plans | **2,589** | 3,512 |
| **Total pension expenses** | **2,585** | **3,512** |

Pension benefits are presented in more detail in Note 21 to the consolidated financial statements.

## Number of personnel

| | | |
|---|---|---|
| Number of personnel, average | **437** | 494 |
| | | |
| Personnel in Finland, end of the period | **162** | 164 |
| Personnel outside Finland, end of the period | **253** | 286 |
| **Total** | **415** | **450** |
| | | |
| Personnel, at the end of the period | **415** | 450 |

Note 10

# Financial Income and Expenses

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Recognized in profit or loss** | | |
| **Interest income** | | |
| Interest income on loans and receivables | 200 | 193 |
| Other interest income | 0 | 1 |
| Total interest income | 200 | 194 |
| | | |
| **Dividend income** | | |
| Dividend income on available-for-sale financial assets | 7 | 6 |
| | | |
| **Interest expenses** | | |
| Interest expenses on financial liabilities measured at amortized cost | -621 | -462 |
| Other interest expenses | -0 | -1 |
| Total interest expenses | -621 | -463 |
| | | |
| **Other financial expenses** | | |
| On financial liabilities measured at amortized cost | -189 | -333 |
| On bank fees | -113 | -125 |
| Other financial expenses | -57 | -33 |
| Total other financial expenses | -359 | -491 |
| | | |
| **Impairment losses on loans and receivables** | - | -2,290 |
| | | |
| **Foreign exchange differences, net** | | |
| On financial liabilities measured at amortized cost | 2,234 | -4,084 |
| On loans and receivables | 439 | 1,356 |
| Other foreign exchange gains and losses | -2,571 | 0 |
| Total foreign exchange differences | 102 | -2,728 |
| | | |
| **Total financial income and expenses in financial items** | -671 | **-5,772** |
| | | |
| **Net foreign exchange differences in operating result** | | |
| Net sales | -264 | -22 |
| Purchases | -77 | -234 |
| Other operating expenses | 305 | -890 |
| **Total** | -36 | **-1,146** |

## Derivatives recognized in profit or loss

| | | |
|---|---|---|
| **Electricity derivatives, non-hedge accounting** | | |
| Realized electricity derivatives recognized in operating expenses | 95 | 1 |
| Unrealized electricity derivatives recognized in operating expenses | -28 | 147 |
| **Total** | 67 | **148** |

## Recognized in other comprehensive income

| | | |
|---|---|---|
| Fair value changes of available-for-sale financial assets | -18 | 58 |
| **Total in other comprehensive income** | -18 | **58** |

Borrowing costs were not capitalized in Glaston Group in 2016 or 2015 as Glaston has not had any qualifying assets as defined in IAS 23 Borrowing Costs.

Impairment losses on trade receivables are presented in Note 19.

## Impairment losses of loan receivables

In 2016, no impairment loss of loan receivables was recognized. In 2015, an impairment loss of loan receivables of EUR 2.3 million was recognized, based on management's estimate of the debtor's ability to pay back the loan.

Note 11

# Income Taxes

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Income tax charge in income statement** | | |
| Current income tax charge | -238 | -433 |
| Adjustments in respect of current income tax of previous years | -59 | -63 |
| Deferred tax charge | -198 | -79 |
| Other | -79 | -144 |
| **Total income tax charge** | **-574** | **-719** |

| | | |
|---|---|---|
| **Income taxes recognized in other comprehensive income and in equity** | | |
| Deferred taxes | | |
| Available-for-sale assets, fair value changes recognized in other comprehensive income | 4 | -12 |
| Total deferred taxes recognized in other comprehensive income and equity | 4 | -12 |
| **Total taxes recognized in other comprehensive income and in equity** | **4** | **-12** |

| | | |
|---|---|---|
| **Reconciliation of income tax expense calculated at statutory tax rates with income tax expense in the income statement** | | |
| Profit before taxes | 1,585 | 870 |
| Tax at the tax rate applicable to the parent | -317 | -174 |
| Difference due to different tax rates of foreign subsidiaries | -135 | 279 |
| Tax exempt income and non-deductible expenses | -436 | -3,558 |
| Effect of changes in tax rates and tax laws | - | 14 |
| Losses, where no deferred tax benefit is recognized | 60 | 689 |
| Deferred taxes recognized during the reporting period in respect of previous years' temporary differences | 23 | 94 |
| Withholding taxes and adjustments in respect of current income tax of previous periods | -138 | -206 |
| Use of losses, where no deferred tax asset was recognized | 311 | 2,101 |
| Effect of taxes not based on taxable income | 58 | 42 |
| **Income taxes in the income statement** | **-574** | **-719** |
| **Effective tax rate** | **-36.21%** | **-82.65%** |

The Group companies have tax losses totalling EUR 37.9 (40.4) million, which can be applied against future taxable income. A deferred tax asset has not been recognized for all tax losses, due to the uncertainty regarding the extent to which they can be used. When preparing 2016 financial statements, the management has estimated that Glaston is able to utilize the unused tax losses for which deferred tax asset has been recognized. In addition, there are several years before the tax losses expire.

Deferred tax assets are recognized for deductible temporary differences and tax losses to the extent that it is probable that taxable profit will be available, against which tax credits and deductible temporary differences can be utilized. Changes in tax rates have been taken into account when calculating deferred taxes. Corporate tax rate in Finland is 20.0 percent.

Deferred tax liability has not been recognized in 2016 or 2015 of the undistributed earnings of Finnish or foreign subsidiaries as the majority of such earnings can be transferred to the owner without any tax consequences. Deferred tax liability of undistributed earnings of associates has also not been recognized.

| | | |
|---|---|---|
| **Tax assets and tax liabilities** | | |
| Deferred tax assets | 2,165 | 2,419 |
| Assets for current tax | 182 | 356 |
| Deferred tax liabilities | 358 | 421 |
| Liabilities for current tax | 64 | 1,077 |

## Reconciliation of deferred tax assets and deferred tax liabilities

| EUR thousand<br>**Deferred tax assets 2016** | **1 January** | **Exchange difference** | **Change in income statement (- tax expense)** | **Recognized in other comprehensive income** | **31 December** |
|---|---|---|---|---|---|
| Unrealized internal profits, inventory | 261 | - | -58 | - | 204 |
| Unrealized internal profits, property, plant and equipment and intangible assets | -0 | - | - | - | -0 |
| Confirmed tax losses carried forward* | 1,292 | - | -207 | - | 1,085 |
| Share-based payments | 45 | - | -45 | - | - |
| Other temporary differences | 820 | - | 56 | - | 876 |
| **Deferred tax assets in statement of financial position** | **2,419** | **-** | **-254** | **-** | **2,165** |

* No deferred tax asset from losses of the reporting period has been recognized during the reporting period.
Other temporary differences consist of expenses which were not tax deductible in the reporting period, but will be tax deductible in future.

| EUR thousand<br>**Deferred tax liabilities 2016** | **1 January** | **Exchange difference** | **Change in income statement (- tax expense)** | **Recognized in other comprehensive income** | **31 December** |
|---|---|---|---|---|---|
| Untaxed reserves | -339 | - | -62 | - | -401 |
| Defined benefit employee benefits | 15 | - | - | - | 15 |
| Available-for-sale financial assets at fair value | 36 | - | - | -4 | 32 |
| Share-based payments | -0 | - | - | - | -0 |
| Other temporary differences | 709 | - | 3 | - | 712 |
| **Deferred tax liabilities in statement of financial position** | **421** | **-** | **-59** | **-4** | **358** |

Other temporary differences consist of, among other things, differences between local and IFRS accounting principles, which create timing differences in recognizing revenue and expenses.

| | |
|---|---|
| Change in deferred taxes in income statement, continuing operations (- tax expense) | -198 |
| Change in deferred taxes in income statement in result of discontinued operations (- tax expense) | - |
| **Total change in deferred taxes in income statement (- tax expense)** | **-198** |

## Reconciliation of deferred tax assets and deferred tax liabilities

| EUR thousand<br>**Deferred tax assets 2015** | **1 January** | **Exchange difference** | **Change in income statement (- tax expense)** | **Recognized in other comprehensive income** | **31 December** |
|---|---|---|---|---|---|
| Unrealized internal profits, inventory | 387 | - | -126 | - | 261 |
| Unrealized internal profits, property, plant and equipment and intangible assets | -0 | - | - | - | -0 |
| Confirmed tax losses carried forward* | 1,380 | - | -88 | - | 1,292 |
| Share-based payments | -103 | - | 45 | - | -58 |
| Other temporary differences | 1,304 | 99 | -479 | - | 924 |
| **Deferred tax assets in statement of financial position** | **2,968** | **99** | **-648** | **-** | **2,419** |

* No deferred tax asset from losses of the reporting period has been recognized during the reporting period.
Other temporary differences consist of expenses which were not tax deductible in the reporting period, but will be tax deductible in future.

| EUR thousand<br>**Deferred tax liabilities 2015** | **1 January** | **Exchange difference** | **Change in income statement (- tax expense)** | **Recognized in other comprehensive income** | **31 December** |
|---|---|---|---|---|---|
| Untaxed reserves | -124 | - | -215 | - | -339 |
| Defined benefit employee benefits | 15 | - | - | - | 15 |
| Available-for-sale financial assets at fair value | 23 | - | - | 12 | 35 |
| Share-based payments | -0 | - | - | - | -0 |
| Other temporary differences | 1,152 | 30 | -473 | - | 709 |
| **Deferred tax liabilities in statement of financial position** | **1,067** | **30** | **-688** | **12** | **421** |

Other temporary differences consist of, among other things, differences between local and IFRS accounting principles, which create timing differences in recognizing revenue and expenses.

| | |
|---|---|
| Change in deferred taxes in income statement, continuing operations (- tax expense) | -79 |
| Change in deferred taxes in income statement in result of discontinued operations (- tax expense) | - |
| **Total change in deferred taxes in income statement (- tax expense)** | **-79** |

Note 12

# Depreciation, Amortization and Impairment of Assets

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Depreciation and amortization** | | |
| Intangible assets | | |
| Intangible rights | 571 | 638 |
| Capitalized development expenditure | 962 | 1,698 |
| Property, plant and equipment | | |
| Buildings and constructions | 344 | 245 |
| Machinery and equipment | 645 | 696 |
| Other tangible assets | 130 | 124 |
| **Total depreciation and amortization** | **2,653** | **3,402** |
| **Impairment losses** | | |
| Intangible assets | | |
| Intangible rights | - | 2 |
| **Total impairment losses** | **-** | **2** |
| **Total depreciation, amortization and impairment** | **2,653** | **3,404** |

## Impairment of assets

Goodwill and intangible assets with indefinite useful life are tested for impairment annually in accordance with IAS 36. Glaston does not have other intangible assets than goodwill with indefinite useful life and which are not amortized. Intangible assets not yet in use are also tested during the reporting period for impairment. Impairment testing is performed also always when there is indication that the recoverable amount of an asset or cash generating unit is lower than its carrying amount. During 2015 Glaston closed the sale of its pre-processing machines business and as a result, Glaston reports the goodwill of the pre-processing business in the Discontinued Operations.

Glaston's cash generating units are Machines/ Heat Treatment and Services.

Goodwill has been tested for impairment by comparing the recoverable amount of the cash generating unit, to which the goodwill has been allocated, with the carrying amount of the cash generating unit. Impairment loss is recorded if the recoverable amount is lower than the carrying amount. Consistent methods have been used in testing property, plant and equipment and intangible assets. If the asset has been classified as held for sale, the recoverable amount used is the fair value of the asset less costs of sale.

The recoverable amount of a cash generating unit is its value in use, based on its discounted future cash flows. These cash flows are based on the budgets and estimates approved by the management. Budgets and estimates are used as a basis of the future cash flows for a maximum of five years. Cash flows have, however, been adjusted so that the future cash flows used in impairment testing exclude any cash flows from uncommitted future restructuring and cash flows arising from improving or enhancing the asset's performance. The cash flows of restructuring programs, in which the Group was committed at the date of the testing, are included in testing.

Subsequent cash flows are estimated by extrapolating the cash flow estimates. Terminal values have been calculated using Western European long-range growth rate if Western Europe has been considered to be the main market area of the cash-generating unit. If the main market areas are considered to have moved or to move over to other areas, such as Asia or other emerging markets, this growth have been taken into account in terminal value.

The assumptions used in impairment calculations are mainly the same as in estimates. The assumptions, such as for example market development on short term and price development of products, are based on past experience and information gathered from external sources. Assumptions on market development on longer term are based on external sources, such as market studies on development of flat glass consumption, which has a major impact on Machines in particular. The new products is expected to receive good response from customers and this is expected to give Glaston better position on the market compared to competitors. Restructuring measures to improve cost structure have already improved and will further improve profitability.

The discount rate used in arriving at the recoverable amount is the pre-tax weighted average cost of capital, which reflects the current market assessment of time value of money and of risks related to the assets and the countries of operation. Also the industry's median capital structure has been taken into acccount in determining the discount rate as well as Glaston's cost of debt.

There are no major changes in the sources of information used in determining the discount rates. The importance of the different geographical areas has slightly changed due to the change in the geographical focus of business. This has had an impact on defining the risk-free interest rates and country risk premiums. The impact of the global economic uncertainty on the level of interest rates in different geographical areas has affected the determination of the discount rate.

Discount rates have been calculated separately for each cash generating unit and they can vary between the units. The discount rate depends, among other things, on the geographcial allocation of cash flows  as well as the relative importance of these cash flows. These can differ between the cash generating units.

| The most significant assumptions used in value in use calculations in 2016 | Machines/ Heat Treatment | Services |
|---|---|---|
| Pre-tax discount rate | 11.9% | 13.1% |
| Long-term growth rate | 2.0% | 2.0% |

| The most significant assumptions used in value in use calculations in 2015 | Machines/ Heat Treatment | Services |
|---|---|---|
| Pre-tax discount rate | 11.8% | 13.0% |
| Long-term growth rate | 2.0% | 2.0% |

## Impairment testing of goodwill

| **Goodwill,** EUR million<br>**Cash generating unit** | **1 January 2016** | **Impairment loss** | **Reclassfication to discontinued operations** | **31 December 2016** |
|---|---|---|---|---|
| Machines | | | | |
| Heat Treatment | 4,1 | - | - | 4,1 |
| Services | 26,5 | - | - | 26,5 |
| **Total** | **30,6** | **-** | **-** | **30,6** |

| **Cash generating unit** | **1 January 2015** | **Impairment loss** | **Reclassfication to discontinued operations** | **31 December 2015** |
|---|---|---|---|---|
| Machines | | | | |
| Heat Treatment | 4.1 | - | - | 4.1 |
| Pre-processing | 6.3 | - | 6.3 | - |
| Services | 26.5 | - | - | 26.5 |
| **Total** | **36.8** | **-** | **-** | **30.6** |

## Sensitivity analysis

The recoverable amounts used in impairment testing are subject to change if the assumption used in calculation of the recoverable amounts changes.

The management estimates, that in most cases, a reasonably possible change in a key assumption in the Machines/ Heat Treatment and Services do not cause the cash generating unit's carrying amount to exceed its recoverable amount. The cases in which a reasonably possible change in a key assumption would cause the carrying amount of a cash generating unit to exceed its recoverable amount are presented in the table below.

The recoverable amounts of these cash generating units exceed their carrying amounts by 36 per cent in the Services business and by 975 per cent in the Machines/ Heat Treatment business.

A change in an assumption which, other things being equal, would cause the recoverable amount to equal the carrying amount:

| Post-tax discount rate* | Value assigned to the assumption | Value Change |
|---|---|---|
| Services | 9.8% | 12.6% |
| Heat Treatment | 9.7% | 93.5% |

| Long-term growth rate* | Value assigned to the assumption | Value Change |
|---|---|---|
| Services | 2.0% | -2.1% |
| Heat Treatment** | 2.0% | - |

* The consequential effects of the change in the assumption on other variables used to measure recoverable amounts have not been incorporated in the sensitivity analysis. Terminal year growth rate of Heat Treatment has no effect on the recoverable value.

** The long term growth rate does not have an impact on the test, the recoverable amount exceeds the carrying value in the reporting period.

The costs of Machines/ Heat Treatment business are estimated to be 88 per cent of the estimated net sales during the testing period. Should the costs be 9 percentage points higher, the recoverable amount, other things being equal, would equal the carrying amount.

The costs of Services business are estimated to be 87 per cent of the estimated net sales during the testing period. Should the costs be 3 percentage points higher, the recoverable amount, other things being equal, would equal the carrying amount.

## Impairment of property, plant and equipment and intangible assets and reversal of impairment loss

In 2016 Glaston had no impairment losses. In 2015 an impairment loss of EUR 2 thousand was recognized in intangible assets.

Note 13

# Discontinued Operations and Assets and Liabilities of Disposal Groups Classified as Held for Sale

Glaston announced in May 2015 that it was negotiating the sale of its pre-processing machines business, and the sale of 100% of the shares of Glaston Italy S.p.A. was completed as the second quarter ended. The result of Glaston's Discontinued Operations includes the result of the pre-processing business and the sales loss on the disposal of the business area.

| EUR thousand<br>**Revenue, expenses and result of discontinued operations** | **2016** | **2015** |
|---|---|---|
| Revenue | - | 6,503 |
| Expenses | - | -10,371 |
| **Gross profit** | - | **-3,867** |
| Finance costs, net | - | -18 |
| **Profit / loss before tax from discontinued operations** | - | **-3,885** |
| Income tax | - | -176 |
| Loss from disposal of discontinued operations | - | -9,911 |
| **Profit / loss from discontinued operations** | - | **-13,973** |

| EUR thousand<br>**Effect of the sale of the pre-processing machine business on the financial position of Glaston Group** | **2016** | **2015** |
|---|---|---|
| Goodwill | - | - |
| Other intangible assets | - | 640 |
| Tangible assets | - | 139 |
| Receivables | - | 3,394 |
| Inventories | - | 8,520 |
| Cash equivalents | - | 271 |
| Deferred tax liability | - | -108 |
| Non-current liabilities and provisions | - | -1,696 |
| Current provisions | - | -413 |
| Advances received | - | -1,398 |
| Trade and other payables | - | -5,505 |
| **Total assets and liabilities** | - | **3,844** |
| | | |
| **Net cash flows of discontinued operations** | | |
| Operating | - | -4,615 |
| Investing | - | -482 |
| Financing | - | - |
| **Net cash flow** | - | **-5,097** |

Note 14

# Intangible Assets

Glaston has no other intangible assets than goodwill with indefinite useful life. All intangible assets with the exception of goodwill are amortized over their useful lives.

| EUR thousand<br>**2016** | **Capitalized development expenditure** | **Intangible rights** | **Goodwill** | **Other capitalized expenditure** | **Advances paid** | **Total** |
|---|---|---|---|---|---|---|
| Acquisition cost at beginning of year | 17,733 | 4,646 | 24,291 | 503 | 2,164 | 49,337 |
| Other increases | 222 | 57 | - | - | 1,901 | 2,180 |
| Decreases | - | -1,610 | - | - | -48 | -1,657 |
| Reclassifications and other changes | 1,483 | 1,190 | - | - | -2,676 | -2 |
| Exchange differences | -16 | 58 | - | - | -7 | 35 |
| **Acquisition cost at end of year** | **19,423** | **4,341** | **24,291** | **503** | **1,334** | **49,892** |
| Accumulated amortization and impairment at beginning of year | -15,206 | -3,025 | 6,260 | -503 | - | -12,474 |
| Accumulated amortization relating to decreases and transfers | - | 1,610 | - | - | - | 1,610 |
| Amortization during the reporting period | -962 | -571 | 0 | - | - | -1,534 |
| Reclassifications and other changes | - | -0 | - | - | - | -0 |
| Exchange differences | 5 | -61 | - | - | - | -56 |
| **Accumulated amortization and impairment at end of year** | **-16,163** | **-2,047** | **6,260** | **-503** | **-** | **-12,453** |
| **Carrying amount at end of year** | **3,259** | **2,294** | **30,551** | **0** | **1,334** | **37,439** |

| EUR thousand<br>**2015** | **Capitalized development expenditure** | **Intangible rights** | **Goodwill** | **Other capitalized expenditure** | **Advances paid** | **Total** |
|---|---|---|---|---|---|---|
| Acquisition cost at beginning of year | 23,252 | 6,941 | 53,401 | 682 | 1,275 | 85,552 |
| Other increases | - | 322 | - | - | 1,641 | 1,963 |
| Decreases | -5,856 | -2,808 | -29,110 | -180 | -89 | -38,043 |
| Reclassifications and other changes | 419 | 261 | - | - | -680 | -0 |
| Exchange differences | -82 | -70 | 0 | - | 16 | -136 |
| **Acquisition cost at end of year** | **17,733** | **4,646** | **24,291** | **503** | **2,164** | **49,337** |
| Accumulated amortization and impairment at beginning of year | -18,644 | -5,024 | -16,559 | -682 | - | -40,909 |
| Accumulated amortization relating to decreases and transfers | 5,367 | 2,579 | 22,819 | 180 | - | 30,944 |
| Amortization during the reporting period | -1,698 | -638 | - | - | - | -2,337 |
| Impairment losses (Note 12) | - | -2 | - | - | - | -2 |
| Reclassifications and other changes | - | -4 | - | - | - | -4 |
| Reclassified to discontinued operations (Note 13) | -168 | -16 | - | - | - | -184 |
| Exchange differences | -62 | 81 | - | - | - | 19 |
| **Accumulated amortization and impairment at end of year** | **-15,206** | **-3,026** | **6,260** | **-503** | **-** | **-12,474** |
| **Carrying amount at end of year** | **2,527** | **1,620** | **30,551** | **0** | **2,164** | **36,863** |

Note 15

# Property, Plant and Equipment

Glaston has given liens on chattel as security for liabilities. These as well as real estate mortgages provided as security for liabilities are presented in Note 27. At the end of 2016 and 2015 Glaston did not have any pledged property, plant and equipment or intangible assets as security for liabilities.

At the end of 2016 Glaston had not contractual commitments for the acquisition of property, plant and equipment (2015 EUR 0.8 million).

In 2016 or 2015, Glaston did not receive any material third party compensation for items of property, plant and equipment that were impaired, lost or given up.

In 2016 Glaston China reclassified the expansion of its factory as investment property. The expansion part was leased out to a third party for a period of ten years. Rental income in 2016 was 0.1 million.

| EUR thousand<br>**2016** | **Land and water areas** | **Buildings and constructions** | **Investment property** | **Machinery and equipment** | **Other tangible assets** | **Advances paid and assets under construction** | **Total** |
|---|---|---|---|---|---|---|---|
| Acquisition cost at beginning of year | 474 | 5,118 | - | 1,633 | 412 | 2,145 | 9,783 |
| Other increases | - | 17 | 908 | 169 | 24 | 589 | 1,708 |
| Decreases | - | - | - | -206 | - | - | -206 |
| Reclassifications and other changes | - | 39 | 1,870 | 188 | -164 | -1,933 | -0 |
| Exchange differences | - | -152 | - | 78 | -1 | -62 | -137 |
| **Acquisition cost at end of year** | **474** | **5,022** | **2,778** | **1,862** | **272** | **739** | **11,147** |
| Accumulated depreciation and impairment at beginning of year | - | -2,371 | - | 1,095 | 271 | - | -1,005 |
| Accumulated depreciation relating to decreases and transfers | - | - | - | 171 | 0 | - | 172 |
| Depreciation during the reporting period | - | -344 | - | -645 | -130 | - | -1,119 |
| Reclassifications and other changes | - | 97 | -115 | -114 | 132 | - | -0 |
| Exchange differences | - | 69 | - | -53 | 1 | - | 16 |
| **Accumulated depreciation and impairment at end of year** | **-** | **-2,548** | **-115** | **454** | **273** | **-** | **-1,937** |
| **Carrying amount at end of year** | **474** | **2,473** | **2,663** | **2,316** | **545** | **739** | **9,211** |

| EUR thousand<br>**2015** | **Land and water areas** | **Buildings and constructions** | **Investment property** | **Machinery and equipment** | **Other tangible assets** | **Advances paid and assets under construction** | **Total** |
|---|---|---|---|---|---|---|---|
| Acquisition cost at beginning of year | 474 | 4,638 | - | 6,368 | 319 | 689 | 12,487 |
| Other increases | - | 209 | - | 556 | 5 | 1,671 | 2,442 |
| Decreases | - | -0 | - | -5,490 | -88 | - | -5,578 |
| Reclassifications and other changes | - | - | - | 171 | 179 | -255 | 95 |
| Exchange differences | - | 271 | - | 28 | -3 | 41 | 337 |
| **Acquisition cost at end of year** | **474** | **5,118** | **-** | **1,633** | **412** | **2,145** | **9,783** |
| Accumulated depreciation and impairment at beginning of year | - | -2,018 | - | -3,260 | 244 | - | -5,034 |
| Accumulated depreciation relating to decreases and transfers | - | -0 | - | 5,305 | 80 | - | 5,385 |
| Depreciation during the reporting period | - | -245 | - | -696 | -124 | - | -1,065 |
| Reclassifications and other changes | - | - | - | -181 | 72 | - | -109 |
| Reclassified as discontinued operations (Note 13) | - | - | - | -34 | -3 | - | -37 |
| Exchange differences | - | -108 | - | -39 | 3 | - | -144 |
| **Accumulated depreciation and impairment at end of year** | **-** | **-2,371** | **-** | **1,095** | **271** | **-** | **-1,005** |
| **Carrying amount at end of year** | **474** | **2,747** | **-** | **2,728** | **683** | **2,145** | **8,778** |

| | |
|---|---|
| Carrying amount of machinery and equipment used in production 31 December 2016 | 1,619 |
| Carrying amount of machinery and equipment used in production 31 December 2015 | 1,813 |

Note 16

# Subsidiary, with material non-controlling interest ownership

The group has a 70 per cent ownership in Chinese Glaston Tools (Sanhe) Co., Ltd. The remaining 30 per cent of the company is held by one investor Sanhe New Stone Tools Super Hard Materials Co.,Ltd. The group has the right to nominate two out of three directors to the board of directors, including the chairman, who has a casting vote in case of equality of votes at the board meeting. Consequently, the entity is fully consolidated by the group, the part of the investor companion is reported as non-controlling interest.

Included in the consolidated financial statements are the following items, that represent the Group's interest in the asset and liabilities, revenue and expenses of the subsidiary. The financial information presented in the table is based on the financial statements of the subsidiary, prepared in accordance with IFRS.

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Non-current asset | **184** | 241 |
| Current assets | **905** | 985 |
| Long-term liabilites | **934** | 1,017 |
| Short-term liabilities | **156** | 209 |
| | | |
| Turnover | **798** | 1,064 |
| Expenses | **-844** | -1,160 |
| Profit / Loss for the period | **-47** | -97 |
| Profit / Loss attributable to parent company shareholders | **-33** | -68 |
| Profit / Loss attributable to non-controlling interest | **-14** | -29 |
| Net cash flow from operating activities | **-23** | -33 |
| Net cash flow from investing activities | **-15** | -1 |

Note 17

# Available-for-sale Financial Assets

| EUR thousand<br>**2016** | **Available-for-sale shares** |
|---|---|
| Carrying amount 1 January | 3,249 |
| Additions | - |
| Disposals | - |
| Reclassifications | - |
| Impairments | - |
| Fair value changes recognized in other comprehensive income | -18 |
| Reclassification to assets held for sale | - |
| **Carrying amount 31 December** | **3,231** |

| EUR thousand<br>**2015** | **Available-for-sale shares** |
|---|---|
| Carrying amount 1 January | 357 |
| Additions | 2,834 |
| Disposals | -0 |
| Reclassifications | - |
| Impairments | - |
| Fair value changes recognized in other comprehensive income | 58 |
| Reclassification to assets held for sale | - |
| **Carrying amount 31 December** | **3,249** |

Glaston has classified its non-current investments as available-for-sale shares and other available-for-sale investments. Glaston recognizes fair value changes of these investments in other comperehensive income and they are included in the fair value reserve in equity until the assets are disposed, at which time the cumulative gain or loss is reclassified to profit or loss as an reclassification item. Certain unlisted equities and investments, for which fair values can not be measured reliably, are recognized and measured at cost or at cost less impairment.

Impairment losses of available-for-sale financial assets are recognized in the income statement in financial items.

Note 18

# Inventories

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Inventories** | | |
| Materials and supplies | **3,072** | 2,491 |
| Work in process | **4,145** | 9,149 |
| Finished goods | **4,409** | 5,109 |
| Advances paid | **271** | 529 |
| **Total inventories** | **11,898** | **17,279** |
| | | |
| Impairment losses of inventory during the period | **-647** | -1,255 |
| Reversals of impairment losses of inventory during the period | **27** | - |
| **Total** | **-620** | **-1,255** |

Note 19

# Receivables

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Trade receivables | **16,048** | 20,441 |
| Trade receivables, falling due after 12 months | **151** | 378 |
| Total trade receivables | **16,199** | 20,819 |
| | | |
| Prepaid expenses and accrued income | **822** | 625 |
| Prepaid expenses and accrued income, falling due after 12 months | **157** | 318 |
| | | |
| Other receivables | **1,093** | 1,609 |
| Other receivables, falling due after 12 months | **139** | 163 |
| | | |
| Current loan receivables | **281** | 375 |
| Non-current loan receivables* | **863** | 1,375 |
| | | |
| **Total receivables** | **19,554** | **25,282** |

* In non-current assets

Prepaid expenses and accrued income consist mainly of accruals of financial items, fair values of derivative instruments, accruals related to sales, accruals related to insurances and other accruals.

Receivables falling due after 12 months have been discounted.

Prepaid expenses and accrued income related to derivative instruments are disclosed in more detail in Note 26.

Credit quality of other receivables is based on the debtors' payment history. Other receivables are not past due nor impaired.

Each loan receivable has been individually analyzed for a possible impairment loss. These analyses are based on the financial position and future cash flows of the debtor. Debtors have no external credit rating. In 2016, no impairment losses were recognized. In 2015, an impairment loss of loan receivables of EUR 2.3 million was recognized, based on management's estimate of the debtor's ability to pay back the loan.

Trade receivables related to construction contracts in progress, EUR 9.1 (11.2) million, are described in more detail in Note 6.

Ageing analysis of trade receivables at 31 December

| EUR thousand | Carrying amount of trade receivables after recognizing allowance account | Past due | | | | |
|---|---|---|---|---|---|---|
| | | Not past due | < 30 days | 31 - 180 days | 181 - 360 days | > 360 days |
| **2016** | 16,199 | 12,043 | 1,614 | 2,220 | 241 | 81 |
| **2015** | 20,819 | 15,365 | 1,399 | 3,115 | 775 | 164 |

Allowance account of trade receivables is used when an estimate of impairment losses arising from trade receivables is recognized. These impairment losses are recognized in profit or loss. If the impairment loss recognized in the allowance account becomes final, trade receivables are decreased with the amount of the impairment loss and allowance account is adjusted respectively.

The counterparties of trade receivables do not normally have external credit rating. The credit quality of these receivables is assessed based on the payment history of the customers.

If the counterparty of a trade receivable is insolvent, the trade receivable is individually determined to be impaired even though the trade receivable were not past due. Otherwise the trade receivables not past due are not determined to be impaired.

Also the trade receivables past due are individually analyzed. If the days past due exceed the time limits set in the Group's credit policy, an impairment loss is recognized of the trade receivable. The gross amount of impaired trade receivables at the end of the reporting period was EUR 1.9 (4.1) million, and an impairment loss of these receivables was EUR 1.6 (3.6) million.

| EUR thousand<br>**Impairment losses of trade receivables and changes in allowance account of trade receivables** | |
|---|---|
| **Allowance account 1 January 2015** | **4,014** |
| Exchange difference | -38 |
| Charge for the year | 1,310 |
| Utilized | -291 |
| Unused amounts reversed | -595 |
| Reclassification to discontinued operations | -818 |
| **Allowance account 31 December 2015** | **3,582** |
| Exchange difference | 81 |
| Charge for the year | 1,765 |
| Utilized | -2,655 |
| Unused amounts reversed | -1,152 |
| Reclassification to discontinued operations | - |
| **Allowance account 31 December 2016** | **1,621** |

| **Impairment losses of trade receivables recognized in profit or loss, net (- income), continuing operations** | |
|---|---|
| **2016** | 601 |
| **2015** | 764 |

Note 20

# Total Comprehensive Income Included in Equity

| EUR thousand<br>2016 | Other restricted equity reserves | Fair value reserve | Retained earnings | Cumulative exchange difference | Non-controlling interest | Total |
|---|---|---|---|---|---|---|
| **Total other comprehensive income** | | | | | | |
| Total exchange differences on translating foreign operations | -3 | - | -1 | 55 | -11 | 41 |
| Change in actuarial gains and losses | - | - | -19 | - | - | -19 |
| Available-for-sale financial assets, fair value changes | - | -18 | - | - | - | -18 |
| Income taxes on fair value changes of available-for-sale financial assets | - | -3 | - | - | - | -3 |
| **Other comprehensive income** | **-3** | **-21** | **-20** | **55** | **-11** | **1** |
| **Gain** | **-** | **-** | **1,025** | **-** | **-14** | **1,011** |
| **Total comprehensive income** | **-3** | **-21** | **1,005** | **55** | **-25** | **1,012** |

| EUR thousand<br>2015 | Other restricted equity reserves | Fair value reserve | Retained earnings | Cumulative exchange difference | Non-controlling interest | Total |
|---|---|---|---|---|---|---|
| **Total other comprehensive income** | | | | | | |
| Total exchange differences on translating foreign operations | 5 | - | -3 | 3,578 | 21 | 3,601 |
| Change in actuarial gains and losses | - | - | -1 | - | - | -1 |
| Available-for-sale financial assets, fair value changes | - | 58 | - | - | - | 58 |
| Income taxes on fair value changes of available-for-sale financial assets | - | -12 | - | - | - | -12 |
| **Other comprehensive income** | **5** | **47** | **-4** | **3,578** | **21** | **3,646** |
| **Loss** | **-** | **-** | **-13,792** | **-** | **-29** | **-13,821** |
| **Total comprehensive income** | **5** | **47** | **-13,797** | **3,578** | **-8** | **-10,175** |

Note 21

# Pensions and Other Defined Long-term Employee Benefits

The Group has defined benefit schemes in the countries where it operates. The plans include retirement and termination benefits.

The Group has a defined benefit pension plan in Finland. The Group has also defined contribution pension plans, of which the charge to the income statement was EUR 2.6 (3.5) million.

In addition to defined benefit pensions, Glaston has other long-term defined employee benefits, such as statutory defined benefit severance pay schemes in Italy and Mexico.

## Amounts in the statement of financial position relating to Finnish defined benefit pension plans

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Fair value of plan assets | - | - |
| Present value of unfunded obligations | 8 | 14 |
| Total deficit of defined benefit pension plans | - | - |
| **Difference** | **8** | **14** |
| | | |
| Amounts in the statement of financial position | | |
| Liabilities | 8 | 14 |
| Assets | - | - |
| **Net liability (asset -)** | **8** | **14** |

## Amounts in the statement of financial position relating to other long-term employee benefits

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Fair value of plan assets | - | - |
| Present value of unfunded obligations | 476 | 448 |
| Total deficit of defined benefit pension plans | - | - |
| **Difference** | **476** | **448** |
| | | |
| Amounts in the statement of financial position | | |
| Liabilities | 476 | 448 |
| Assets | - | - |
| **Net liability (asset -)** | **476** | **448** |

## Changes of Finnish defined benefit pension

| EUR thousand | Present value of obligation | Fair value on plan assets | Total |
|---|---|---|---|
| 1 January 2015 | 15 | - | 15 |
| Current service cost | - | - | - |
| Interest expense / income | 0 | - | 0 |
| Past service cost | - | - | - |
| **Total** | **15** | **-** | **15** |
| | | | |
| **Remeasurements** | | | |
| Return on plan assets excluding amounts included in interest expence / income | - | - | - |
| Gain (-) / loss (+) from change in financial assumptions | 2 | - | 2 |
| Experience gain (-) / loss (+) | - | - | - |
| **Total** | **2** | **-** | **2** |
| | | | |
| Exchange differences | - | - | - |
| Contributions: | | | |
| Employers (+) | - | 3 | 3 |
| Plan participants (+) | - | - | - |
| | | | |
| Benefit payments (-) | -3 | -3 | -6 |
| **31 December 2015** | **14** | **-** | **14** |
| | | | |
| 1 January 2016 | 14 | - | 14 |
| Current service cost | - | - | - |
| Interest expense / income | -1 | - | -1 |
| Past service cost | - | - | - |
| **Total** | **13** | **-** | **13** |
| | | | |
| **Remeasurements** | | | |
| Return on plan assets excluding amounts included in interest expence / income | - | - | - |
| Gain (-) / loss (+) from change in financial assumptions | - | - | - |
| Experience gain (-) / loss (+) | - | - | - |
| **Total** | **-** | **-** | **-** |
| | | | |
| Exchange differences | - | - | - |
| Contributions: | | | |
| Employers (+) | - | 3 | 3 |
| Plan participants (+) | - | - | - |
| | | | |
| Benefit payments (-) | -5 | -3 | -8 |
| **31 December 2016** | **8** | **-** | **8** |

## Changes of other long-term employee benefit plans

| EUR thousand | Present value of obligation | Fair value on plan assets | Total |
|---|---|---|---|
| 1 January 2015 | 1,598 | - | 1,598 |
| Divestments of subsidiaries | -1,529 | - | -1,529 |
| Current service cost | 5 | - | 5 |
| Interest expense / income | 5 | - | 5 |
| Past service cost | - | - | - |
| **Total** | **79** | **-** | **79** |
| | | | |
| **Remeasurements** | | | |
| Return on plan assets excluding amounts included in interest expence / income | - | - | - |
| Gain (-) / loss (+) from change in financial assumptions | 5 | - | 5 |
| Experience gain (-) / loss (+) | - | - | - |
| **Total** | **5** | **-** | **5** |
| | | | |
| Exchange differences | 7 | - | 7 |
| Contributions: | | | |
| Employers (+) | - | - | - |
| Plan participants (+) | - | - | - |
| | | | |
| Benefit payments (-) | 357 | - | 357 |
| **31 December 2015** | **448** | **-** | **448** |
| | | | |
| 1 January 2016 | 448 | - | 448 |
| Divestments of subsidiaries | - | - | - |
| Current service cost | 6 | - | 6 |
| Interest expense / income | 5 | - | 5 |
| Past service cost | - | - | - |
| **Total** | **459** | **-** | **459** |
| | | | |
| **Remeasurements** | | | |
| Return on plan assets excluding amounts included in interest expence / income | - | - | - |
| Gain (-) / loss (+) from change in financial assumptions | 16 | - | 16 |
| Experience gain (-) / loss (+) | - | - | - |
| **Total** | **16** | **-** | **16** |
| | | | |
| Exchange differences | 4 | - | 4 |
| Contributions: | | | |
| Employers (+) | - | - | - |
| Plan participants (+) | - | - | - |
| | | | |
| Benefit payments (-) | -3 | - | -3 |
| **31 December 2016** | **476** | **-** | **476** |

The Group expects to contribute with EUR 30.6 thousand to its other long-term employee benefit plans in 2017.

## Actuarial assumptions

| EUR thousand | 2016 Finnish defined pension plans | 2016 Other plans | 2015 Finnish defined pension plans | 2015 Other plans |
|---|---|---|---|---|
| Discount rate, % | 1.00% | 1,83%-6,70% | 1.00% | 2,18%-6,50% |
| Future salary increase, % | - | 5.50% | - | 5.50% |
| Future pension increases, % | 1.85% | - | 1.85% | - |
| Inflation, % | 1.60% | 1.50%-5.50% | 1.60% | 1,50%-5,50% |
| Expected remaining service period, years | - | 11 | - | 10 |

There are no plan assets.

| EUR thousand | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **Amounts for the current and previous periods, defined benefit pensions** | | | | | |
| Defined benefit pension obligation | **8** | 14 | 15 | 16 | 28 |
| Plan assets | **-** | - | - | - | - |
| **Surplus / deficit (-)** | **8** | **-14** | **-15** | **-16** | **-28** |
| Experience adjustments on plan liabilities (gain -) | **-** | - | 3 | -8 | 3 |
| **Amounts for the current and previous periods, other long-term employee benefit plans** | | | | | |
| Defined benefit obligation | **476** | 448 | 1,598 | 1,366 | 1,353 |
| Plan assets | **-** | - | - | - | - |
| **Surplus / deficit (-)** | **-476** | **-448** | **-1,598** | **-1,366** | **-1,353** |
| Experience adjustments on plan liabilities (gain -) | **-** | - | 219 | -51 | 203 |

Note 22

# Interest-bearing Liabilities

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Non-current interest-bearing liabilities** | | |
| Loans from financial institutions | **6,869** | 5,994 |
| Other non-current liabilities | **-** | - |
| **Total non-current interest-bearing liabilities** | **6,869** | **5,994** |
| **Maturity of non-current interest-bearing liabilities** | | |
| 2018 (2017) | **5,020** | 2,500 |
| 2019 (2018) | **573** | 3,494 |
| 2020 (2019) | **644** | - |
| 2021 (2020) | **633** | - |
| **Total** | **6,869** | **5,994** |
| **Non-current liabilities by currency** | | |
| EUR | **6,868** | 5,994 |
| Other currencies | **1** | - |
| **Total** | **6,869** | **5,994** |
| **Current interest-bearing liabilities** | | |
| Loans from financial institutions | **9,878** | 7,500 |
| Other current interest-bearing liabilities | **-** | 1 |
| **Total current interest-bearing liabilities** | **9,878** | **7,501** |
| **Interest-bearing net liabilities** | | |
| Non-current interest-bearing liabilities | **6,869** | 5,994 |
| Current interest-bearing liabilities | **9,878** | 7,501 |
| Cash | **-17,374** | -6,066 |
| **Total** | **-626** | **7,429** |

Group's funding is mainly organized by using the Facilitites Agreement signed in June 2015.

Some of the Group's loan agreements include covenants and other terms and conditions which are linked to consolidated key figures. If the covenant terms are not fulfilled, negotiations with the lenders will be initiated. These negotiations may lead to notice of termination of financial agreements. Covenant terms are described in more detail in Note 3.

The liquidity and currency risk related to interest-bearing debt is described in more detail in Note 3.

Note 23

# Provisions

## Non-current provisions

| EUR thousand<br>**2016** | **Warranty provision** | **Other provisions** | **Total** |
|---|---|---|---|
| Carrying amount 1 January | 1,158 | 9 | 1,167 |
| Reclassification | -1,195 | -9 | -1,204 |
| Increase in provisions | 1,414 | - | 1,414 |
| **Carrying amount 31 December** | **1,377** | **-** | **1,377** |

| **2015** | **Warranty provision** | **Other provisions** | **Total** |
|---|---|---|---|
| Carrying amount 1 January | 1,233 | 9 | 1,241 |
| Reclassification | -1,645 | - | -1,645 |
| Increase in provisions | 1,606 | - | 1,606 |
| Decrease in provisions due the disposals | -35 | -0 | -35 |
| **Carrying amount 31 December** | **1,158** | **9** | **1,167** |

## Current provisions

| EUR thousand<br>**2016** | **Warranty provision** | **Restructuring provision** | **Other provisions** | **Total** |
|---|---|---|---|---|
| Carrying amount 1 January | 2,318 | 42 | 153 | 2,514 |
| Exchange difference | 20 | 11 | 18 | 48 |
| Reclassification | 1,195 | - | - | 1,195 |
| Increase in provisions | 1,552 | 89 | 14 | 1,655 |
| Provisions used during the period | -2,123 | - | -11 | -2,134 |
| Provisions released during the period | -585 | -37 | - | -622 |
| **Carrying amount 31 December** | **2,377** | **105** | **174** | **2,656** |

| EUR thousand<br>**2015** | **Warranty provision** | **Restructuring provision** | **Other provisions** | **Total** |
|---|---|---|---|---|
| Carrying amount 1 January | 2,789 | 36 | 437 | 3,262 |
| Exchange difference | -9 | -9 | -23 | -41 |
| Reclassification | 1,645 | - | - | 1,645 |
| Increase in provisions | 746 | 333 | 113 | 1,193 |
| Provisions used during the period | -1,311 | -318 | -101 | -1,731 |
| Provisions released during the period | -1,401 | - | - | -1,401 |
| Decrease in provisions due the disposals | -140 | - | -272 | -413 |
| **Carrying amount 31 December** | **2,318** | **42** | **153** | **2,514** |

### Warranty provisions

Glaston grants to its machine deliveries a guarantee period of 1 to 2 years. During the guarantee period Glaston repairs the defects, if any, of the machines and carries the costs of the repairing. The warranty provisions are expected to be realized within the next two years.

### Restructuring provisions

Glaston has recorded restructuring provisions for rationalization measures by closing production units or reducing activities at the units. Restructuring provisions only include expenses that are necessarily entailed by the restructuring, and which are not associated with the on-going activities. The restructuring provision includes, but is not limited to, estimated provisions for employee benefits related to personnel whose employment has been terminated. For some of the provisions it is not possible to estimate timing of the outflow of economic benefits, for example due to the timing of such outflows are dependent on the actions of an external party.

### Other provisions

Other provisions include, among other things, litigation provisions and provisions for costs, for which third party compensation has not yet been recognized.

Note 24

# Interest-free Liabilities

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Current interest-free liabilities** | | |
| Trade payables | **10,033** | 11,291 |
| Advances received* | **17,981** | 16,557 |
| Accrued expenses and deferred income | **13,342** | 15,578 |
| Other current interest-free liabilities | **2,114** | 931 |
| **Total current interest-free liabilities** | **43,470** | **44,357** |

Accruals mainly consist of cost accruals for machinery deliveries, accrued personnel expenses, accruals related to net sales and purchases, accruals of interests and other accruals.

* Advances received include EUR 16.5 (14.7) million advances received from construction contracts in progress. These are described in more detail in Note 6.

Note 25

# Financial Assets and Liabilities

| EUR thousand<br>31 December 2016 | Note | Assets available-for-sale* | Financial assets and liabilities at fair value through profit and loss* | Loans and receivables | Financial liabilities at amortized cost | Total carrying amounts | Total fair value |
|---|---|---|---|---|---|---|---|
| Cash | 3 | - | - | 17,374 | - | 17,374 | |
| Trade receivables | 19 | - | - | 16,199 | - | 16,199 | |
| Other interest-free receivables | 19 | - | - | 1,093 | - | 1,093 | |
| Receivables related to financial liabilities | | - | - | - | 103 | 103 | |
| Current loan receivables | 19 | - | - | 281 | - | 281 | |
| Other non-current interest-free receivables | 19 | - | - | 139 | - | 139 | |
| Non-current loan receivables | 19 | - | - | 863 | - | 863 | |
| Available-for-sale shares | 17 | 3,231 | - | - | - | 3,231 | |
| Non-current interest-bearing liabilities | 22 | - | - | - | -6,869 | -6,869 | -6,527 |
| Current interest-bearing liabilities | 22 | - | - | - | -9,878 | -9,878 | -9,751 |
| Trade payables | 24 | - | - | - | -10,033 | -10,033 | |
| Other current interest-free liabilities | 24 | - | - | - | -2,114 | -2,114 | |
| Derivatives (in liabilities) | 26 | - | -28 | - | - | -28 | -28 |
| **Total** | | **3,231** | **-28** | **35,948** | **-28,792** | **10,359** | **-16,306** |

| EUR thousand<br>31 December 2015 | Note | Assets available-for-sale* | Financial assets and liabilities at fair value through profit and loss* | Loans and receivables | Financial liabilities at amortized cost | Total carrying amounts | Total fair value |
|---|---|---|---|---|---|---|---|
| Cash | 3 | - | - | 6,066 | - | 6,066 | |
| Trade receivables | 19 | - | - | 20,819 | - | 20,819 | |
| Other interest-free receivables | 19 | - | - | 1,609 | - | 1,609 | |
| Receivables related to financial liabilities | | - | - | - | 162 | 162 | |
| Current loan receivables | 19 | - | - | 375 | - | 375 | |
| Other non-current interest-free receivables | 19 | - | - | 163 | - | 163 | |
| Non-current loan receivables | 19 | - | - | 1,375 | - | 1,375 | |
| Available-for-sale shares | 17 | 3,249 | - | - | - | 3,249 | |
| Non-current interest-bearing liabilities | 22 | - | - | - | -5,994 | -5,994 | -5,771 |
| Current interest-bearing liabilities | 22 | - | - | - | -7,501 | -7,501 | -7,446 |
| Trade payables | 24 | - | - | - | -11,291 | -11,291 | |
| Other current interest-free liabilities | 24 | - | - | - | -931 | -931 | |
| Derivatives (in receivables) | 26 | - | -147 | - | - | -147 | -147 |
| **Total** | | **3,249** | **-147** | **30,407** | **-25,555** | **7,954** | **-13,364** |

If the fair value is not mentioned separately, the carrying amount is equal to fair value.

* Fair value measurement hierarchy

| | 2016 | 2015 |
|---|---|---|
| **Financial liabilities** | | |
| Level 2 | -16,278 | -13,217 |
| **Other long-term investments** | | |
| Level 3 | 2,834 | 2,834 |
| **Available-for-sale shares** | | |
| Level 1 | 149 | 167 |
| Level 3 | 248 | 248 |
| | 396 | 415 |
| **Derivatives** | | |
| Level 2 | -28 | -147 |

Fair value measurement hierarchy, Level 3, changes during the reporting period

| | 2016 | 2015 |
|---|---|---|
| 1 January | 3,082 | 248 |
| Additions | - | 2,834 |
| Impairment losses | - | - |
| Reclassification | - | - |
| **31 December** | **3,082** | **3,082** |

**Fair value measurement hierarchy:**

Level 1 = quoted prices in active markets
Level 2 = other than quoted prices included within Level 1 that are observable either directly or indirectly
Level 3 = not based on observable market data, fair value equals cost or cost less impairment

Note 26

# Derivative Instruments

The Group had no currency derivatives at the end of 2016 or 2015.

The Group hedges its electricity purchases with electricity derivatives. The fair value changes of these derivative instruments are recognized immediately in profit or loss as an adjustment of expenses.

Valuation methods of derivative instruments are presented in the Summary of Significant Accounting Policies and hedging principles in Note 3.

## Nominal and fair values of derivative instruments

| | 2016 | | 2015 | |
|---|---|---|---|---|
| EUR thousand | **Nominal value** | **Fair value** | **Nominal value** | **Fair value** |
| **Electricity derivatives** | | | | |
| Forward contracts | 359 | -28 | 403 | -147 |

| EUR thousand | **2016** | **2015** |
|---|---|---|
| **Derivative instruments in the income statement** | | |
| Items included in operating expenses | **67** | -148 |
| **Derivative instruments in the statement of financial position, receivables and liabilities** | | |
| **Accrued expenses and deferred income** | | |
| Electricity derivatives* | **28** | 147 |

* Carrying amount of electricity derivatives includes realized but unpaid electricity derivatives.

Note 27

# Contingencies

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Loans secured with mortgages or pledges** | | |
| Loans from financial institutions | **13,621** | 15,086 |
| Liens on chattel | **143,000** | 143,000 |
| Carrying amount of pledged securities | **23,941** | 23,941 |
| **Total loans secured with mortgages, liens on chattel and pledged assets** | **13,621** | **15,086** |
| **Total mortgages, liens on chattel and pledged assets** | **166,941** | **166,941** |

## Contingent liabilities

| | | |
|---|---|---|
| Liens on chattel | | |
| On behalf of own commitments | **143,000** | 143,000 |
| Securities pledged | | |
| On behalf of own commitments | **23,941** | 23,941 |
| Total | **166,941** | 166,941 |

| | | |
|---|---|---|
| Guarantees | | |
| On behalf of own commitments | **11,221** | 4,437 |
| On behalf of others | **251** | 62 |
| Repurchase obligation | **276** | 484 |
| Total | **11,749** | 4,983 |
| **Total contingent liabilities** | **178,690** | **171,924** |

## Operating leases

Glaston has various non-cancellable operating leases. The minimum future payments of these leasing contracts are presented in the table below.

| **Minimum future payments of operating lease commitments** | | |
|---|---|---|
| Maturity within one year | **2,441** | 2,257 |
| Maturity later than one year and not later than five years | **6,637** | 6,533 |
| Maturity later than five years | **5,686** | 6,769 |
| **Total minimum future payments of operating lease commitments** | **14,764** | **15,558** |

## Operating leases as a lessor

Glaston has some operating lease agreements in which the Group acts as a lessor. The minimum future payments to be received from non-cancellable operating lease agreements are presented in the table below.

| **Minimum future payments of operating leases** | | |
|---|---|---|
| Maturity within one year | **987** | 417 |
| Maturity later than one year and not later than five years | **4,432** | 456 |
| Maturity later than five years | **1,016** | - |
| **Total minimum future payments of operating leases** | **6,435** | **873** |

## Other contingent liabilities and litigations

Glaston Group has international operations and can be a defendant or plaintiff in a number of legal proceedings incidental to those operations. The Group does not expect the outcome of any unmentioned legal proceedings currently pending, either individually or in the aggregate, to have material adverse effect upon the Group's consolidated financial position or result.

Note 28

# Shares and Holdings

| Group companies | | | Group holding % | Parent holding % |
|---|---|---|---|---|
| Glaston Corporation | Helsinki | Finland | | |
| Uniglass Engineering Oy | Tampere | Finland | 100% | 100% |
| Glaston Services Ltd. Oy | Tampere | Finland | 100% | 100% |
| Glaston Finland Oy | Tampere | Finland | 100% | |
| Glaston International Oy | Tampere | Finland | 100% | |
| Glaston Germany GmbH | Nürnberg | Germany | 100% | |
| Glaston America, Inc. | Mount Laurel, NJ | United States | 100% | |
| Glaston USA, Inc. | Pittsburgh, PA | United States | 100% | |
| Glaston UK Ltd. | Derbyshire | United Kingdom | 100% | |
| Glaston France S.A.R.L. | Chassieu | France | 100% | |
| Glaston Singapore Pte. Ltd. | Singapore | Singapore | 100% | |
| Glaston Tianjin Co. Ltd. | Tianjin | China | 100% | |
| Glaston Management (Shanghai) Co. Ltd. | Shanghai | China | 100% | |
| Glaston China Co. Ltd. | Tianjin | China | 100% | |
| LLC Glaston | Moscow | Russia | 100% | |
| Glaston Mexico S.A. de C.V. | Jalisco | Mexico | 100% | |
| Glaston Brasil Ltda | São Paulo | Brazil | 100% | |
| Glaston Hong Kong Ltd. | Hong Kong | China | 100% | |
| Glaston Tools (Sanhe) Co., Ltd. | Sanhe | China | 70% | |
| Glaston Tools s.r.l . | Bregnano | Italy | 100% | |

## Changes in subsidiaries in 2016

Tamglass Project Development Oy was liquidated in February 2016.

## Changes in subsidiaries in 2015

Glaston Italy S.p.A. was sold in June 2015.
Glaston Tools s.r.l. was established in June 2015.

Note 29

# Share-based Incentive Plans

## Share-based incentive plans

Glaston's share-based incentive plans are directed to the Group's key personnel as part of the Group's incentive schemes. The plans aim to align the interests of the company's shareholders and key personnel in the Group in order to raise the value of Glaston.

The expenses arising from the incentive plans have been recognized in profit or loss during the vesting periods. The cash-settled portion of the incentive plans is recorded as a liability in the statement of financial position, if it has not been paid. Glaston has recorded the personnel costs arising from the share-based incentive plans to the extent it is liable to pay them.

## Share-based incentive plan 2016

On 19 January 2016, Glaston's Board of Directors approved a new period for the long-term incentive and commitment plan for the Group's key personnel including senior management of the Group and its subsidiaries.

The incentive plan is based on the development of Glaston's share price. The plan covers the years 2016–2018 and the possible rewards will be paid in spring 2019. The incentive plan for 2016 covers 18 key persons of Glaston.

## Share-based incentive plan 2015

On 27 January 2015, Glaston's Board of Directors approved a new period for the long-term incentive and commitment plan for the Group's key personnel including senior management of the Group and its subsidiaries.

The incentive plan is based on the development of Glaston's share price. The plan covers the years 2015–2017 and the possible rewards will be paid in spring 2018. The incentive plan for 2015 covers 31 key persons of Glaston.

## Share-based incentive plan 2014

On 21 January 2014, Glaston's Board of Directors approved a new long-term incentive and commitment plan for the Group's key personnel including senior management of the Group and its subsidiaries.

The incentive plan was based on the development of Glaston's share price. The plan covered the years 2014–2016 and ended 31 December 2016. Remuneration wasn't paid. 30 key persons of Glaston were part of the incentive plan that started in 2014.

| Basic information of the share-based plans | Share-based incentive plan 2016 | Share-based incentive plan 2015 | Share-based incentive plan 2014 |
|---|---|---|---|
| Grant date | 19 January 2016 | 27 January 2015 | 21 January 2014 |
| Nature of the plan | Cash | Cash | Cash |
| Target group | Key personnel | Key personnel | Key personnel |
| Maximum amount of cash | 1,770,000 | 1,941,600 | 2,024,000 |
| Total amount of cash at the end of the performance period | | | 0 |
| Performance period begins | 1 January 2016 | 1 January 2015 | 1 January 2014 |
| Performance period ends | 31 December 2018 | 31 December 2017 | 31 December 2016 |
| End of restriction period/ payment | 1 April 2019 | 1 April 2018 | 1 April 2017 |
| Vesting conditions | Share price | Share price | Share price |
| | Service period | Service period | Service period |
| Maximum contractual life, years | 3 | 3 | 3 |
| Remaining contractual life, years | 2 | 1 | 0 |
| Number of persons involved 31 December 2016 | 18 | 31 | 30 |

| Effect on the profit or loss for the period and on financial position | 2016 | 2015 | 2014 |
|---|---|---|---|
| Effect on the result of the reporting period, EUR thousand | **-225** | 225 | 231 |

The fair value of the share-based reward is defined on the date when the company and the target group have agreed on the plan (grant date). As the persons involved in the plan are not entitled to dividends during the performance period, the fair value of the equity-settled reward accounts for the share price at the grant date deducted by the dividends expected to be paid during the performance period.

Note 30

# Related Parties

Parties are considered to be related parties if a party is able to exercise control over the other or substantially influence its decision-making concerning its finances and business operations. Glaston Group's related parties include the parent of the Group (Glaston Corporation), subsidiaries and associates. Also the shareholders, which have significant influence in Glaston through shareholding, are considered to be related parties, as well as the companies controlled by these shareholders.

Related parties also include the members of the Board of Directors, the Group's Executive Management Group, the CEO and their family members.

Glaston follows the same commercial terms in transactions with associates and other related parties as with third parties. Associates are described in more detail in Note 16 to the consolidated financial statements.

Total accrual based remuneration of the Board of Directors and the Executive Management Group was EUR 1,535 (2,236) thousand.

## Remuneration of the Executive Management Group, accrual based

| EUR | 2016 | 2015 |
|---|---|---|
| **CEO Arto Metsänen** | | |
| Salaries | **328,607** | 519,924 |
| Bonuses* | **-5,000** | 40,000 |
| Share based benefit* | **-41,000** | 41,000 |
| Total | **282,607** | 600,924 |
| Fringe benefits | **1,252** | - |
| **Total** | **283,859** | **600,924** |
| | | |
| Statutory pension payments (Finnish TyEL or similar plan) | **71,634** | 30,122 |
| Voluntary pension payments | **54,475** | 63,671 |
| | | |
| **Other members of the Executive Management Group** | | |
| Salaries | **1,088,080** | 1,179,963 |
| Bonuses | **30,059** | 104,000 |
| Share based benefit* | **-95,000** | 95,000 |
| Total | **1,023,139** | 1,378,963 |
| Fringe benefits | **30,969** | 78,348 |
| **Total** | **1,054,108** | **1,457,311** |
| | | |
| Statutory pension payments (Finnish TyEL or similar plan) | **173,053** | 154,040 |
| Voluntary pension payments | **20,160** | 46,097 |

The remuneration includes salaries only for the period they have been members of the Executive Management Group.

* The negative amount is due to the bonus and the share based incentive plan allowances estimated too high the previous year.

The CEO's period of notice is 3 months. In the event the company would give notice to the CEO, he will receive an additional remuneration equaling 12 months' salary. If there is a change in control of the company where more than 50 per cent of the company's shares are transferred to a new owner, the CEO has the right to terminate his employment with 1 month's period of notice, in which case he would receive EUR 200,000 as compensation for temination of employment.

Compensation of the CEO and other members of the Executive Management Group consists of a fixed monthly salary, an annual bonus and a share-based incentive plan intended as a long-term incentive (described in more detail in Note 29). The criteria for bonus payments are consolidated result, result of the business area or business unit as well as functional targets. The maximum annual bonus of the CEO is 50 per cent of the annual salary. The maximum annual bonus of the other members of the Executive Management Group is 40 per cent of the annual salary

The CEO of Glaston Corporation is entitled to retire at the age of 63. The retirement age of other members of the Executive Management Group is according to the normal local legislation, ie. 63 - 68 years.

## Remuneration of the Board of Directors, accrual based

| EUR | 2016 annual fee | 2016 meeting fee | 2015 annual fee | 2015 meeting fee |
|---|---|---|---|---|
| Andreas Tallberg, Chairman of the Board of Directors | **40,000** | **7,300** | 40,000 | 6,700 |
| Teuvo Salminen, Deputy Chairman of the Board of Directors | **30,000** | **4,600** | 30,000 | 4,300 |
| Claus von Bonsdorff | **20,000** | **4,600** | 20,000 | 4,300 |
| Pekka Vauramo | **20,000** | **3,600** | 20,000 | 4,300 |
| Anu Hämäläinen | **20,000** | **4,600** | 20,000 | 4,300 |
| Kalle Reponen | **20,000** | **4,600** | 20,000 | 4,300 |
| Sarlotta Narjus* | **15,000** | **3,100** | - | - |
| Total | **165,000** | **32,400** | 150,000 | 28,200 |

The members of Glaston Corporation's Board of Directors were paid an annual remuneration and a meeting fee; other compensation was not paid. The Chairman of Glaston Corporation's Board of Directors was paid EUR 40,000 (40,000) annually, the Deputy Chairman EUR 30,000 (30,000) annually and each of the members EUR 20,000 (20,000) annually. In addition, a meeting fee of EUR 800 (800) per meeting was paid to the chairman of the meeting and EUR 500 (500) to the other participants of the meeting. The members of the Board of Directors did not receive any shares or share derivatives as remuneration during the year.

The members of Glaston Corporation's Board of Directors are covered by voluntary pension insurance accrued from board membership fees. The value of the pension insurance corresponds to the Finnish TyEL pension.

| Glaston shares | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **Board of Directors, share ownership** | | |
| Andreas Tallberg, Chairman of the Board of Directors | **1,500,000** | 1,500,000 |
| Teuvo Salminen, Deputy Chairman of the Board of Directors | **562,277** | 400,000 |
| Claus von Bonsdorff | **172,600** | 172,600 |
| Pekka Vauramo | **250,000** | 250,000 |
| Anu Hämäläinen | **150,000** | 150,000 |
| Kalle Reponen | **10,000** | 10,000 |
| Sarlotta Narjus* | **-** | - |
| **Executive Management Group, share ownership** | | |
| Arto Metsänen, CEO | **1,750,000** | 1,500,000 |
| Sasu Koivumäki | **300,000** | 300,000 |
| Juha Liettyä | **250,000** | 250,000 |
| Pekka Huuhka** | **150,000** | 150,000 |
| Frank Chengdong Zhang | **-** | - |
| Taina Tirkkonen | **75,000** | 75,000 |
| Pekka Hytti | **100,000** | 100,000 |
| Artturi Mäki*** | **12,531** | - |
| Päivi Lindqvist**** | **60,000** | - |

Share ownership includes also the ownership of Glaston Corporation shares by the related parties of the person in question and entities controlled by the person in question.

* Member of the Board of Directors from 5 April 2016
** Member of the the Executive Management Group until 1 May 2016
*** Member of the the Executive Management Group from 8 February 2016
**** Member of the the Executive Management Group from 19 September 2016

Note 31

# Events after End of the Reporting Period

Juha Liettyä, Senior Vice President, Americas and member of the Executive Management Group, has been appointed Senior Vice President, Glaston Emerging Technologies as of 2 January 2017. Liettyä will continue to be a member of the Executive Management Group, reporting to President & CEO Arto Metsänen. Liettyä will be based in Florida, USA.

At its meeting held on 11 January 2017, the Nomination Board appointed by the Annual General Meeting gave its proposal on the composition of the Board of Directors and the remuneration of the Board of Directors to the Annual General Meeting.

Table of Contents

# Parent Company Financial Statements \ 2016

## Income Statement of the Parent Company (FAS)

| EUR thousand | Note | 1 January - 31 December 2016 | 2015 |
|---|---|---|---|
| **Net sales** | 2 | **2,971** | **3,282** |
| Other operating income | 3 | **2,719** | 2,494 |
| Personnel expenses | 4 | **-1,569** | -2,111 |
| Depreciation, amortization and impairment losses | 5 | **-589** | -646 |
| Other operating expenses | 6 | **-4,352** | -9,030 |
| **Operating profit / loss** | | **-821** | **-6,012** |
| Net financial items | 7 | **-7,372** | -26,687 |
| **Profit /loss before appropriations and taxes** | | **-8,193** | **-32,698** |
| Appropriations | 8.9 | **2,545** | 10,085 |
| Income taxes | 10 | **-16** | -36 |
| **Profit / loss for the financial year** | | **-5,664** | **-22,650** |

Table of Contents

# Balance Sheet of the Parent Company (FAS)

| EUR thousand | Note | at 31 December 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 11 | **1,859** | 1,604 |
| Tangible assets | 11 | **338** | 358 |
| Subordinated loand receivable Group Companies | 12.13 | **36,846** | 36,846 |
| Investments | 12.13 | **20,292** | 20,292 |
| **Non-current assets, total** | | **59,335** | **59,100** |
| **Current assets** | | | |
| Non-current receivables | 14 | **3,883** | 10,388 |
| Current receivables | 14 | **27,272** | 35,370 |
| Cash and bank | | **9,206** | 7 |
| **Current assets, total** | | **40,361** | **45,765** |
| **Total assets** | | **99,695** | **104,865** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | | **12,696** | 12,696 |
| Share premium account | | **25,270** | 25,270 |
| Reserve for invested unrestricted equity | | **42,987** | 44,915 |
| Treasury shares | | **-3,308** | -3,308 |
| Retained earnings | | **-17,773** | 4,877 |
| Profit / loss for the financial year | | **-5,664** | -22,650 |
| **Total equity** | 15 | **54,207** | **61,800** |
| **Accumulated appropriations** | 16 | **6** | **25** |
| **Liabilities** | | | |
| Non-current liabilities | 17 | **4,243** | 6,264 |
| Current liabilities | 18 | **41,239** | 36,776 |
| **Total liabilities** | | **45,483** | **43,040** |
| **Total equity and liabilities** | | **99,695** | **104,865** |

Table of Contents

# Parent Company Cash Flow Statement (FAS)

| EUR thousand | 1 January - 31 December 2016 | 2015 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit/loss for the financial period | **-5,664** | -22,650 |
| Adjustments: | | |
| Income taxes for the period | **-** | 36 |
| Deferred taxes | **-20** | -63 |
| Group contribution | **-2,525** | -10,022 |
| Financial income and expenses | **7,372** | 26,687 |
| Depreciation, amortization and impairment | **589** | 646 |
| Proceeds from disposal of tangible and intangible assets | **-** | -8 |
| Proceeds from disposal of investments | **7,188** | - |
| Other adjustments | **22** | 3,016 |
| Cash flow before change in net working capital | **6,963** | -2,358 |
| | | |
| Change in net working capital | | |
| Change in current interest-free receivables | **-332** | -683 |
| Change in current interest-free liabilities | **-694** | 660 |
| Cash flow from operating activities before financial items and taxes | **5,937** | -2,380 |
| | | |
| Interests paid and payments made for other financial items and income taxes | | |
| Interests and other financial expenses paid | **-7,871** | -592 |
| Dividends received | **2** | 2 |
| Interest received | **222** | 1,500 |
| Income taxes paid | **-16** | - |
| Cash flow from operating activities before extraordinary items | **-1,727** | -1,470 |
| **Cash flow from operating activities** | **-1,727** | **-1,470** |
| | | |
| **Cash flow from investing activities** | | |
| Investments in tangible and intangible assets | **-824** | -519 |
| Proceeds from disposal of tangible and intangible assets | **-** | 44 |
| Cash flow from sales of business | **-** | -2,834 |
| **Cash flow from investing activities** | **-824** | **-3,309** |
| | | |
| **Cash flow from financing activities** | | |
| Drawn-down of non-current loans | **257** | 7,500 |
| Change in current intra-group receivables | **10,772** | -11,164 |
| Change in current intra-group loans | **3,150** | 97 |
| Drawn-down of current loans | **2,000** | 22,500 |
| Repayments of current loans | **-2,500** | -21,250 |
| Return of capital | **-1,928** | -3,857 |
| **Cash flow from financing activities** | **11,750** | **-6,174** |
| | | |
| **Change in cash and cash equivalents** | **9,199** | **-10,953** |
| | | |
| Cash and cash equivalents at the beginning of the period | **7** | 10,960 |
| Cash and cash equivalents at the end of the period | **9,206** | 7 |
| **Change in cash and cash equivalents** | **9,199** | **-10,953** |

Table of Contents

# Notes to Parent Company Financial Statements (FAS)

Note 1

## Summary of Significant Accounting Policies

Glaston Corporation is a public limited liability company organized under the laws of Republic of Finland. Glaston's shares are publicly traded in the NASDAQ Helsinki Ltd. Small Cap in Helsinki, Finland. Glaston Corporation is domiciled in Helsinki, Finland and its registered office is Lönnrotinkatu 11, 00120 Helsinki, Finland. Glaston Corporation is the parent of Glaston Group.

The financial statements of Glaston Corporation are prepared in accordance with Finnish Accounting Standards (FAS). The consolidated financial statements of Glaston Group are prepared in accordance with International Financial Reporting Standards (IFRS), and Glaston Corporation applies in its separate financial statements the same accounting principles as Glaston Group to the extent it is possible within the framework of Finnish accounting practice. The accounting principles of Glaston Group are presented in the Notes to the Consolidated Financial Statements (Note 1).

The main differences in the accounting principles between Glaston Corporations's separate financial statements and Glaston Group's consolidated financial statement are presented below.

### Pension Arrangements

Glaston Corporation has a pension arrangement, which is classified as a defined benefit plan in the IFRS financial statements. The obligation arising from this pension as well as the pension expense differ from the obligation and expense recognized in the consolidated financial statements.

### Financial Assets and Liabilities and Derivative Instruments

Financial assets and liabilities with the exception of derivative instruments are recorded at cost or at cost less impairment losses. Fair value changes of derivatives are recognized in financial items. Valuation methods of derivatives are presented in the accounting policies of Glaston Group.

### Finance Leasing

Lease payments are recognized as lease expenses. Leasing obligations are presented as contingent liabilities.

### Appropriations

The parent's appropriations consist of group contributions received from and given to subsidiaries and other appropriations in accordance with Finnish Accounting Standards.

### Untaxed Reserves

Untaxed reserves consist of a depreciation difference. This difference between scheduled depreciation and amortization and the depreciation and amortization deducted in arriving to taxable profit is presented as a separate item in the income statement and in the balance sheet.

Note 2

## Net Sales

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Net sales by business** | | |
| Manufacturing industry | **2,971** | 3,282 |
| **Net sales by country by destination** | | |
| Finland | **2,619** | 2,712 |
| Other EMEA | **-22** | 110 |
| Americas | **285** | 398 |
| Asia | **89** | 62 |
| **Total** | **2,971** | **3,282** |

EMEA = Europe, the Middle East and Africa
Americas = North, Central and South America
Asia = China and the rest of the Asia-Pacific area

Note 3

# Other Operating Income

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Charges from group companies | 2,719 | 2,482 |
| Proceeds from sale of business operations | - | 11 |
| **Other operating income, total** | **2,719** | **2,494** |

Note 4

# Personnel Expenses

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Salaries and fees | -1,234 | -1,661 |
| Pension expenses | -290 | -387 |
| Other personnel expenses | -45 | -63 |
| **Total** | **-1,569** | **-2,111** |

| | | |
|---|---|---|
| Salaries and remuneration paid to members of the Board of Directors and Managing Director | -601 | -738 |

The members of the Board of Directors are covered by voluntary pension insurance accrued from board membership fees. The value of the pension insurance corresponds to the Finnish TyEL pension.

| Employees during financial year, average | | |
|---|---|---|
| White collar | 10 | 11 |
| **Total** | **10** | **11** |

Note 5

# Depreciation, Amortization and Impairment Losses

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Depreciation and amortization according to plan** | | |
| Intangible assets | | |
| Intangible rights | -408 | -471 |
| Other capitalized expenditure | -44 | -40 |
| Tangible assets | | |
| Machinery and equipment | -138 | -136 |
| **Total depreciation and amortization according to plan** | **-589** | **-646** |
| | | |
| **Total depreciation and amortization according to plan and impairment losses** | **-589** | **-646** |

Note 6

# Other Operating Expenses

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Rents | -206 | -228 |
| Information and communications technology expenses | -3,472 | -3,475 |
| Travel expenses | -133 | -282 |
| Losses on disposals of assets | - | -3 |
| Intra-group credit loss | - | -3,016 |
| Other expenses | -541 | -2,026 |
| **Other operating expenses, total** | **-4,352** | **-9,030** |
| | | |
| **Fees paid to auditors** | | |
| Fees paid to principal auditors for audit | -59 | -61 |
| Fees paid to principal auditors for other services | -19 | -70 |
| **Total** | **-78** | **-131** |

Note 7

# Net Financial Items

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Dividend income** | | |
| From external parties | 2 | 2 |
| **Dividend income, total** | **2** | **2** |
| | | |
| **Interest and other financial income** | | |
| From group companies | 855 | 3,293 |
| From external parties | 0 | 0 |
| **Interest and other financial income** | **855** | **3,293** |
| | | |
| **Interest and other financial income, total** | **857** | **3,295** |
| | | |
| **Interest and other financial expenses** | | |
| To group companies | -208 | -188 |
| Impairment losses of investments in non-current assets | -7,188 | -29,100 |
| To external parties | -833 | -693 |
| **Interest and other financial expenses, total** | **-8,229** | **-29,981** |
| | | |
| **Net financial items, total** | **-7 372** | **-26 687** |
| | | |
| Other financial income and expenses include foreign exchange gains and losses (net) | 210 | 911 |

Note 8

# Appropriations, Group contributions

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Received group contributions | 2,525 | 10,022 |
| **Group contributions, total** | **2,525** | 10,022 |
| **Appropriations, Group contributions, total** | **2,525** | **10,022** |

Note 9

# Appropriations

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Difference between depreciation and amortization according to plan and depreciation and amortization in taxation | 20 | 63 |
| **Total** | **20** | **63** |

Note 10

# Income Taxes

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Income taxes for operations | -16 | - |
| Change in deferred tax assets | - | -36 |
| **Total** | **-16** | **-36** |

Note 11

# Fixed Assets

| EUR thousand<br>**Intangible assets** | **Intangible rights** | **Other capitalized expenditure** | **Advance payments and investments in progress** | **Total** |
|---|---|---|---|---|
| Acquisition cost 1 January 2016 | 5,381 | 566 | 677 | 6,623 |
| Additions | - | - | 707 | 707 |
| Disposals | -1,610 | - | - | -1,610 |
| Reclassifications | 1,126 | 64 | -1,190 | -0 |
| **Acquisition cost 31 December 2016** | **4,897** | **630** | 193 | **5,720** |
| Accumulated amortizations and impairment losses 1 January, 2016 | -4,540 | -479 | - | -5,019 |
| Accumulated amortizations of disposals and transfers | 1,610 | - | - | 1,610 |
| Amortization of the period | -408 | -44 | - | -452 |
| **Accumulated amortizations and impairment losses 31 December 2016** | **-3,339** | **-523** | **-** | **-3,861** |
| | | | | |
| **Carrying amount at 31 December 2016** | **1,558** | **108** | **193** | **1,859** |
| Carrying amount at 31 December 2015 | 840 | 87 | 677 | 1,604 |

| EUR thousand<br>**Tangible assets** | **Machinery and equipment** | **Other tangible assets** | **Advance payments and investments in progress** | **Total** |
|---|---|---|---|---|
| Acquisition cost 1 January 2016 | 1,092 | 24 | 31 | 1,147 |
| Additions | 94 | - | 24 | 118 |
| Disposals | - | - | - | - |
| Transfers between items | 55 | - | -55 | -0 |
| **Acquisition cost 31 December 2016** | **1,240** | **24** | **-0** | **1,264** |
| Accumulated depreciations and impairment losses 1 January 2016 | -789 | -0 | - | -789 |
| Depreciation for the period | -138 | - | - | -138 |
| **Accumulated depreciations and impairment losses 31 December 2016** | **-927** | **-0** | **-** | **-927** |
| | | | | |
| **Carrying amount 31 December 2016** | **313** | **24** | **-0** | **338** |
| Carrying amount at 31 December 2015 | 303 | 24 | 31 | 358 |

Note 12

# Investments

| EUR thousand | Shares Group companies | Shares Others | Subordinated loan receivable Group companies | Total |
|---|---|---|---|---|
| Carrying amount at 1 January, 2016 | 17,204 | 3,088 | 36,846 | 57,138 |
| Increase | 7,188 | - | - | 7,188 |
| Decrease | -7,188 | - | - | -7,188 |
| **Carrying amount at 31 December, 2016** | **17,204** | **3,088** | **36,846** | **57,138** |

Note 13

# Shares and holdings owned by the Parent

| **Subsidiary shares** EUR thousand | Ownership % | Number of shares | Nominal value | Carrying amount |
|---|---|---|---|---|
| **Subsidiary shares** | | | | |
| Uniglass Engineering Oy, Tampere, Finland | 100% | 20,000 | 400 | 2,351 |
| Glaston Services Ltd. Oy, Tampere, Finland | 100% | 1,800,000 | 3,600 | 14,853 |
| **Total** | | | | **17,204** |
| **Other** | | | | |
| Kiinteistö Oy Torikyrö, Finland | 63.4 % | 804 | 68 | 240 |
| Other shares and holdings | | | | 2,848 |
| **Total** | | | | **3,088** |

Note 14

# Receivables

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Non-current receivables** | | |
| **Receivables from group companies** | | |
| Loan receivables | 3,883 | 10,388 |
| Total | 3,883 | 10,388 |
| **Non-current receivables, total** | 3,883 | 10,388 |
| **Current receivables** | | |
| **Receivables from external parties** | | |
| Trade receivables | 2 | 18 |
| Other receivables | 74 | 104 |
| Prepaid expenses and accrued income | 364 | 464 |
| Total | 440 | 586 |
| **Receivables from group companies** | | |
| Trade receivables | 6,381 | 6,065 |
| Loan receivables | 17,925 | 18,675 |
| Group Contribution receivables | 2,525 | 10,022 |
| Prepaid expenses and accrued income | - | 22 |
| Total | 26,832 | 34,784 |
| **Current receivables, total** | 27,272 | 35,370 |
| **Prepaid expenses and accrued income** | | |
| Financial items | 271 | 449 |
| Other | 93 | 38 |
| **Prepaid expenses and accrued income, total** | 364 | 486 |

During the financial year changes have been made in the balance sheet presentation of the Group's internal rate of claims. Previously these have been shown in short-term accrued from Group companies. Now the internal interest receivables are presented in non-current loan receivables from Group companies.

Note 15

# Equity

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Share capital 1 January | 12,696 | 12,696 |
| Share capital 31 December | 12,696 | 12,696 |
| | | |
| Share premium account 1 January | 25,270 | 25,270 |
| Share premium account 31 December | 25,270 | 25,270 |
| | | |
| Reserve for invested unrestricted equity 1 January | 44,915 | 48,772 |
| Capital repayment | -1,928 | -3,857 |
| Reserve for invested unrestricted equity 31 December | 42,987 | 44,915 |
| | | |
| Treasury shares 1 January | -3,308 | -3,308 |
| Treasury shares 31 December | -3,308 | -3,308 |
| | | |
| Retained earnings 1 January | -17,773 | 4,877 |
| Retained earnings 31 December | -17,773 | 4,877 |
| | | |
| Profit / loss for the financial year | -5,664 | -22,650 |
| | | |
| **Equity at 31 December** | 54,207 | **61,800** |
| | | |
| **Distributable funds at 31 December** | | |
| Reserve for invested unrestricted equity | 42,987 | 44,915 |
| Treasury shares | -3,308 | -3,308 |
| Retained earnings | -17,773 | 4,877 |
| Profit / loss for the financial year | -5,664 | -22,650 |
| **Distributable funds** | 16,241 | **23,834** |

Note 16

# Accumulated Appropriations

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Accumulated depreciation difference 1 January | 25 | 88 |
| Increase (+) / decrease (-) | -20 | -63 |
| **Accumulated depreciation difference 31 December** | 6 | **25** |

Note 17

# Non-current Liabilities

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Liabilities to external parties** | | |
| Loans from financial institutions | **3,750** | 6,250 |
| Back loans from pension insurance institutions | **485** | |
| Other liabilities | **8** | 14 |
| Liabilities to external parties, total | **4,243** | 6,264 |
| | | |
| **Non-current liabilities, total** | **4,243** | **6,264** |

Note 18

# Current Liabilities

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Liabilities to external parties** | | |
| Loans from financial institutions | **9,500** | 7,500 |
| Trade payables | **355** | 324 |
| Other liabilities | **112** | 280 |
| Accrued expenses and deferred income | **365** | 907 |
| Liabilities to external parties, total | **10,332** | 9,012 |
| | | |
| **Liabilities to group companies** | | |
| Other interest-bearing liabilities | **30,908** | 27,758 |
| Trade payables | **-** | 7 |
| Liabilities to group companies, total | **30,908** | 27,765 |
| | | |
| **Current liabilities, total** | **41,239** | **36,776** |
| | | |
| **Accrued expenses and deferred income** | | |
| Salary and other personnel expense accruals | **220** | 387 |
| Interests | **2** | - |
| Other | **143** | 520 |
| **Accrued expenses and deferred income, total** | **365** | **907** |

Note 19

# Contingent Liabilities

| EUR thousand | 2016 | 2015 |
|---|---|---|
| **Leasing liabilities** | | |
| Maturity within one year | 25 | 60 |
| Maturity later than one year | 4 | 38 |
| **Total** | 29 | 98 |

The leasing agreements have normal terms.

| | | |
|---|---|---|
| **Other rental liabilities** | | |
| Maturity within one year | 142 | 93 |
| Maturity later than one year | 365 | - |
| **Total** | 506 | 93 |

| | | |
|---|---|---|
| **Pledges** | | |
| On behalf of group companies | 8,877 | 4,891 |
| **Loans secured with pledged assets and mortgages** | | |
| Loans from financial institutions | 13,250 | 15,086 |
| Liens on chattel | | |
| On own behalf | 50,000 | 50,000 |
| Carrying amount of pledged securities | 17,204 | 17,204 |

Mortgages, liens on chattel and pledged assets are given on own and other group companies behalf.

Table of Contents

# Board of Director's Proposal for Distribution of Profits

The distributable funds of Glaston Corporation are EUR 16,241,163 of which EUR -5,664,105 represents the net loss for the financial year. There are no funds that can be distributed as dividends.

The Board of Directors proposes to the Annual General Meeting to be held on 4 April 2017 that the loss for the financial year 2016 be placed in retained earnings and that no capital repayment be repaid from reserve for invested unrestricted equity. EUR 16,241,163 will be left in distributable funds.

Helsinki, 10 February, 2017

**Andreas Tallberg**
Chairman of the Board

**Teuvo Salminen**
Deputy Chairman of the Board

**Claus von Bonsdorff**

**Anu Hämäläinen**

**Pekka Vauramo**

**Kalle Reponen**

**Sarlotta Narjus**

**Arto Metsänen**
CEO

Table of Contents

# Auditor's Report

## To the Annual General Meeting of Glaston Corporation

**Report on the Audit of Financial Statements**

## Opinion

We have audited the financial statements of Glaston Corporation (business identity code 1651585-0) for the year ended 31 December, 2016. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

## Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

**1) Revenue recognition of construction contracts**

*Refer to the Summary of significant accounting policies and Note 6 (Construction contracts)*

Revenue from construction contracts included in net sales for the reporting period amounts to 69 million euro or 64% of total net sales (2015: 78 million euro or 63% of total net sales).

The Group recognizes revenue from tailored glass-processing machines based on a milestone method. Significant management judgment is required to assess the total estimated costs of the project allocated to the revenue recognized and assess the possible loss when it is expected that the total project costs will exceed the project revenues.

Our audit procedures to address the risk of material misstatement in respect of constructions contracts included among other things:

- Assessing the Group's accounting policies over revenue recognition of construction contracts.
- Examination of the project documentation such as contracts and other written communication.
- Analytical procedures throughout the audit period.
- Assessing key elements in management's estimates such as the future costs to complete.
- Considering the Group's disclosures in respect of revenue recognition.

**2) Valuation of goodwill**

*Refer to the Note 1 (Summary of significant accounting policies, Critical accounting estimates and judgments) and Note 12 (Depreciation, Amortization and Impairment of Assets) and Note 14 (Intangible Assets)*

As of balance sheet date December 31, 2016, the value of goodwill amounted to EURm 31 representing 30% of the total assets and 85% of equity (2015: EURm 31, 30% of the total assets and 83% of equity). This annual impairment test was significant to our audit because

- The assessment process is complex and judgmental;
- It is based on assumptions relating to market or economic conditions; and

- Because of the significance of the goodwill to the financial statements.
- The recoverable amount of a cash generating unit is based on value-in-use calculations, the outcome of which could vary significantly if different assumptions were applied. There are a number of assumptions used to determine the value in use, including the revenue growth, the operating margin and the discount rate applied. Changes in the above-mentioned assumptions may result in an impairment of goodwill.

Our audit procedures included, among others, assessing the assumptions and methodologies used by the Group. A valuation specialist assisted us in evaluating the assumptions relating to the weighted average cost of capital. We focused on the sensitivity in the available headroom by Cash Generating Unit and whether any reasonably possible change in assumptions could cause the carry amount to exceed its recoverable amount. We also assessed the historical accuracy of managements' estimates. We assessed the adequacy of the Group's disclosures in note 12 in the financial statements about the assumptions to which the outcome of the impairment tests were more sensitive.

## Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these

matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Other Reporting Requirements

### Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our report thereon. We obtained the report of the Board of Directors prior to the date of the auditor's report, and the Annual Report is expected to be made available to us after the date of the auditor's report.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Helsinki 10.2.2017

Ernst & Young Oy
Authorized Public Accountant Firm

**Kristina Sandin**
Authorized Public Accountant

Table of Contents

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