glaston


# Through vision, innovation and cooperation

## We are changing the way the world sees glass

ANNUAL REVIEW 2013

In 2013, Glaston's financial position improved substantially, and business operations returned to positive. The company published updated strategic and financial targets for 2013–2016. In addition, Glaston continued to invest in product development.

**DURING THE FIRST** quarter, the company carried out extensive measures to improve its financial position. These measures included a share issue, the conversion of convertible and debenture bonds into shares, a new long-term financing agreement, the completion of the sale of the Software Solutions segment, and the sale and leaseback of the Tampere factory property complex. In addition, the adjustment programme carried out in late 2012 was realised in full in 2013, and savings amounted to EUR 5 million.

Thanks to the success of these measures, the company is on a firm financial footing. In September, Glaston released its updated strategy and financial targets. The major focuses are securing profitable growth and ensuring the best customer experience in the industry.

## GROWTH IN ALL MARKET AREAS

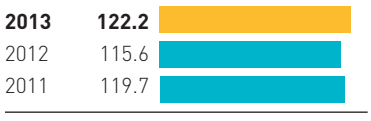
The glass processing market and business environment remained relatively muted in 2013 due to the uncertain economic situation and the glass processor's regional overcapacity. In spite of this, Glaston increased its net sales. Glaston's net sales by market area in 2013 were: EMEA 41%, Asia 22% and America 36%. In EMEA, the market remained challenging during the entire year, but positive sales trends were seen in the latter half of the year in countries such as Spain, the UK and Germany. The North American construction industry continued its cautious recovery thus increasing demand. The South American market remained largely flat. Stable market development was seen in Asia, where demand increased thanks to higher glass quality requirements and stricter safety regulations.

## CUSTOMERS INVEST IN NEW GLASS PROCESSING MACHINES

The net sales of the Machines segment rose, driven especially by the growing need of Glaston's customers to manufacture even higher-quality glass. As a result, the FC500™, RC200™ and RC350™ flat tempering machines further consolidated their already strong market position. The Machines segment posted net sales of EUR 92.6 million in 2013 (2012: EUR 84.7 million), up 9.3 per cent on the previous year.

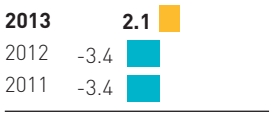
CONSOLIDATED NET SALES

EUR MILLION




OPERATING RESULT EXCLUDING NON-RECURRING ITEMS

EUR MILLION



## GLASTON – ENABLING GLASS PROCESSING AND USE OF GLASS

Glaston is an international glass technology company. We help our customers to succeed by providing them with the industry's most extensive and highest-quality product and service portfolio. As the innovation and technology leader in glass processing, we continuously invest in product development. Our glass processing machines manufacture the most demanding and energy-efficient glass for the architectural, solar energy, furniture, appliance and automotive industries – to the highest standard of quality. We serve our customers worldwide.

Our solutions cover all glass processing needs over the entire life cycle of products. Our product and service range includes heat-treatment and pre-processing machines, maintenance and upgrade services, tools, as well as consulting and expert services. In our operations, we focus on the customer and put the emphasis on top-notch product and service quality, continuous product development, as well as agility and reliability.

Glaston's segments are Machines and Services. The industry's most extensive customer service network responds to customers' local needs and covers around 20 operating locations worldwide. We have production facilities in four countries on three continents. At the end of 2013, Glaston employed approximately 580 glass industry professionals.

Glaston's share is quoted on the NASDAQ OMX Helsinki Small Cap List. Glaston has around 5,600 shareholders. ■

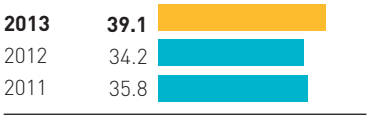
In the Services segment, demand focused particularly on services for stepping up energy efficiency and capacity. Net sales declined slightly in the Services segment, not only because of the difficult market situation, but also due to challenges faced in sales of spare parts and upgrades for heat treatment machines, and the fact that customers invested in new machines instead of modernising their existing stock. The Services segment posted net sales of EUR 30.2 million in 2013 (2012: EUR 32.3 million).

Glaston continued to invest in product development by rolling out many new glass processing machines and services during the review year. For instance, the company showcased its offerings in connection to the Glass Performance Days 2013 conference and the VITRUM trade fair. The company also kept developing its existing product range. Investments in product development amounted to EUR 4.8 million in 2013 (EUR 5.3 million in 2012).

Glaston's net sales in 2013 totalled EUR 122.2 (115.6) million. Earnings rose into the black and operating profit before extraordinary items was EUR 2.1 (-3.4) million. The major factor behind the earnings improvement was the full-scale completion of the savings programme, which amounted to about EUR 5 million. At the end of 2013, the order book stood at EUR 39.1 (34.2) million. Glaston's Continuing Operations had a total of 581 (602) employees at the end of 2013. Market capitalisation at the end of 2013 amounted to EUR 77.2 million, increase of about 183 per cent from the end of 2012. ■

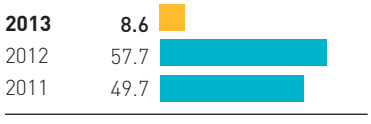
ORDER BOOK 31.12.

EUR MILLION



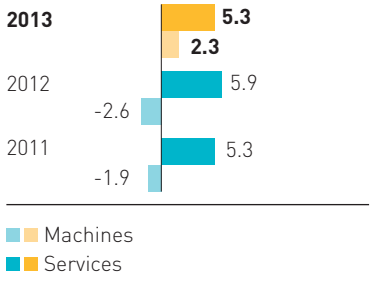

INTEREST-BEARING NET DEBT 31.12.

EUR MILLION




OPERATING RESULT BY SEGMENT EXCLUDING NON-RECURRING ITEMS

EUR MILLION



## GLASTONAIR™ LAUNCHED


JUNE

During Glass Performance Days 2013, Glaston gave demonstrations of the new GlastonAir™ flat tempering line, which employs air flotation technology. GlastonAir can temper glass as thin as two millimetres with excellent results. The benefits of the machine also include low energy consumption when tempering thicker glass and highest optical quality of the tempered glass. Tempering two millimetre thin glass opens up new opportunities, particularly in the construction and solar energy industries. Glaston is assessing opportunities for utilising GlastonAir technology in its other products. ■

January February March April May June

MARCH

## SUCCESSFUL SHARE ISSUE IMPROVED THE EQUITY RATIO

In March, Glaston carried out a directed share issue to the public and a conversion issue to the holders of convertible and debenture bonds, the total subscriptions totalling EUR 21.4 million. The share issues substantially improved Glaston's equity ratio. On 31 December 2013, the equity ratio was 45.4 per cent, as compared to 21.6 per cent at the end of 2012. In the first quarter, Glaston carried out several other measures to strengthen its financial position, such as signing a new long-term financing agreement, the sale and leaseback of the Tampere property complex and completing the sale of the Software Solutions segment. ■

JUNE

## GLASS PERFORMANCE DAYS 2013 CONFERENCE

In June, Glaston organised the Glass Performance Days conference for the fourteenth time. Glass Performance Days is one of the most prominent expert events of the glass industry. The theme of the conference, that is held every other year in Tampere, was glass architecture and the environmental impacts of buildings. It attracted more than 500 glass professionals. The event featured about 180 presentations from experts and 20 workshops. In addition, industry innovations were presented at the Glass Expo product fair. Many Glaston employees participated in the event – as visitors, speakers and workshop leaders. ■


SEPTEMBER

## MAJOR MACHINERY DEALS CLOSED IN THE UNITED STATES AND SPAIN

Glaston closed several major deals in September. These deals demonstrate the suitability of the company's product range for satisfying customers' needs. Glaston closed a deal valued at about EUR 5.5 million with Cardinal Glass Industries, one of the leading suppliers of residential glass in the United States. The first flat tempering line was delivered to the customer at the end of 2013. The next deliveries are scheduled for 2014. With the Spanish company Tvitec, Glaston closed a deal valued at about EUR 3 million for a RC350™ flat tempering line for jumbo-sized glass with a Vortex Pro™ heat control system. The deal also included an iLooK™ quality measurement system and a comprehensive Glaston Care™ contract package for maintenance, training and consulting services. ■

## REVISED STRATEGY AND FINANCIAL TARGETS

Glaston published its updated strategic guidelines and financial targets for 2013-2016. The strategy focuses on delivering profitable growth through innovation and technology leadership in selected product groups as well as the best customer experience and benefits in the industry.

Glaston's financial targets for 2013-2016:

- Average annual net sales growth over 8 per cent (CAGR)
- Operating profit margin (EBIT) over 6 per cent by 2016
- Return on capital employed (ROCE) over 10 per cent by 2016 ■

SEPTEMBER

July August September October November December


OCTOBER


MAY
NOVEMBER

DECEMBER

### NEW SOLUTIONS SHOWCASED AT THE VITRUM FAIR

In October, Glaston presented many new products at the VITRUM glass industry fair in Milan. In pre-processing machines, the company showcased its new UC™ series of automatic cutting lines, and the innovative Omnia double-edging machine for the solar energy, furniture and appliance industries. Glaston also presented its GlastonAir™ flat tempering technology for thin glass, as well as IriControL™ technology, which measures and minimizes the iridescence of tempered glass. Reducing iridescence enhances the appearance and appeal of glass. During the fair, the company rolled out its life-cycle services for the first time under the Glaston Genuine Care™ brand. ■

### A CLOSER PARTNERSHIP WITH A LONG-TERM CUSTOMER

During the reporting year, Glaston firmed up its cooperation with the Jin Jing Group, a long-term Chinese customer. In May, Glaston closed a EUR 3.4 million agreement for two Glaston CCS900™ double-chamber tempering furnaces, one Glaston FC500™ flat tempering furnace, one Glaston XtraEdge™ 2640-10 double-edging line and one real-time Glaston iLooK™ quality measurement system. In November, the two companies signed a framework agreement on long-term partnership, with a particular focus on developing the energy-efficiency of Low-E glass. ■

### EFFECTS OF STRATEGY IMPLEMENTATION ON THE BUSINESS SEGMENTS

In December, Glaston announced that it transfers tools sales from the Machines segment to the Services segment as from 1 January 2014. This enables the business development of the Services segment and more efficient customer service thanks to the shared customer service and logistics network. One of the objectives of the transfer is to provide the best customer experience in the industry. ■

# On track in developing our profitability and operations

**FOR 2013, OUR GOAL** was to return our operating result to profit and pave the way for long-term profitability. We were successful in reaching our goal; our net sales grew and the operational result returned to positive. In addition, we updated our strategy to achieve profitable growth. The review year forged us into a new and improved Glaston – an even stronger market leader.

## FINANCIAL POSITION IS ONCE AGAIN HEALTHY

During the first quarter, we bolstered our financial position with several systematic and successful measures. Our success in this effort improved our financial position. We are now on a firm financial footing. This means that we are in a stronger position to develop our business operations and provide even better customer service.

Despite global market remaining challenging due to the uncertain economic climate and the overcapacity in the glass-processing industry, we returned our business back to profit, largely thanks to our measures to improve profitability.

## CUSTOMERS ARE AT THE CORE OF OUR STRATEGY

In September, we published our updated strategy and financial targets for 2013-2016. Our most important strategic target is to secure profitable growth. Our success requires innovation and technology leadership, skilled and motivated employees and the best customer experience in the industry for our clients. Our strategy also focuses on improving the quality and efficiency of our operations as well as identifying new growth opportunities.

We develop Glaston continuously. We are already the market leader and the most innovative and highest-quality player of the industry. Now that we are in firm financial shape, we are better poised to develop our strengths. We aim to be the most customer-focused, reliable and quality-conscious company in the industry.

## EVEN HIGHER EFFICIENCY

During the review year, we took several steps to implement our updated strategy. By developing the Heat Treatment product line in the Machines segment, we were able to shorten delivery times significantly and boost the efficiency of logistics. In addition, we enhanced machine quality while also decreasing quality costs. Our objective for 2014 is to carry out similar development measures in the Pre-processing product line.

We also clarified the offerings of our segments by transferring tool sales from the Machines segment to the Services segment, effective as from 1 January 2014. This enables us to harness our shared customer service and logistics network to develop the business operations and customer focus of the Services segment. In the Services

segment, we also continued to develop our service network – which already provides the greatest coverage in the industry.

## SUCCESS STEMS FROM PRODUCT DEVELOPMENT

Glaston is the innovation and technology leader in the glass industry. Our mission is to develop technology and solutions that enable our customers to process the world's highest-quality and most energy-efficient glass, giving them a competitive edge. This would not be possible without continuous product development, which is one of our major strengths. During the review year, we presented and launched many new heat treatment and pre-processing machines.

The excellence of our product development is evident in our sales figures. In 2013, the machines we launched during the past three years accounted for more than 80 per cent of our machine sales. Our product development is excellent at catering to our customers' evolving needs. In particular, the FC500™ and RC200™ series flat tempering machines reaped even greater success during the review year.

The GlastonAir™ flat tempering line launched in 2013 is a great example of an innovation that revolutionises the idea of quality in glass processing. We are the first company that enables our customers to temper glass as thin as two millimetres with excellent quality. We expect that this technology will open up new opportunities for us. We also seek to harness our technological innovations even better in all our product groups.

## OUR MARKETS ARE EVOLVING

We seek to achieve long-term profitable growth. Major factors that support this goal are the recovery of construction, the greater need for higher-quality glass solutions, growing demand for energy glass due to tighter energy regulations, stricter safety regulations that promote demand for safety glass and rising solar energy production. By continuously developing our product range, we can tap into the growth opportunities in the market.

In retrospect, I am satisfied with our achievements in 2013. Thanks to our strong financial position and return to positive, we can face the future with greater confidence and focus on vigorously developing our business operations, customer cooperation and personnel. I would like to thank our personnel, who have done good work during difficult times, for the great year. I also extend my thanks to our customers, partners and shareholders for their unwavering trust and open cooperation. ■

Arto Metsänen
President and CEO

# Information for Shareholders

## ANNUAL GENERAL MEETING

The Annual General Meeting of Glaston Corporation will be held on Wednesday 2 April 2014 at 4 p.m. in the Veranda 1 meeting room in Finlandia-talo, Mannerheimintie 13 e, Helsinki, Finland. The reception of persons registered for the meeting will commence at 3 p.m.

The Annual General Meeting may be attended by shareholders who, on the record date of the AGM, 21 March 2014, 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 28 March 2014 via one of the following options:

- On the Glaston Corporation website at www.glaston.net;
- By e-mail to katriina.istolahti@glaston.net;
- By telephone on +358 (0)10 500 6001;
- In writing to the following address: Glaston Corporation, Yliopistonkatu 7, FI-00100 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.

## DIVIDEND

Glaston's Board of Directors proposes to the Annual General Meeting that no dividend be paid for the 2013 financial year.

## GLASTON CORPORATION'S FINANCIAL REPORTING IN 2014

- Financial Statements for January 1-December 31, 2013 on Thursday, February 6, 2014
- Interim Report for January 1-March 31, 2014 on Wednesday, April 23, 2014
- Interim Report for January 1-June 30, 2014 on Thursday, July 24, 2014
- Interim Report January 1-September 30, 2014 on Tuesday, October 28, 2014

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 three weeks 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 STOCK EXCHANGE RELEASES

To order Glaston's annual reports and interim reports, call +358 (0)10 500 500 or go to the company's website at www.glaston.net > Media > Publications > Order Publications.

Glaston Corporation's stock exchange 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 > Media > Stock Exchange 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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Director, Communications and Marketing
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E-mail: agneta.selroos@glaston.net

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# Board of Directors' review
# 1 January – 31 December 2013

## MARKETS

Glaston's market developed positively but cautiously in 2013. The recovery of the North American market continued throughout the year. In the EMEA area, the market situation was challenging but positive trends were evident, for example in Eastern Europe, the UK and Germany. In the South American and Asian markets, development was stable.

## MACHINES

The market situation of the Machines segment was satisfactory in 2013. In North America, the cautious recovery from a low level continued throughout the year, which boosted customers' willingness to invest. In South America and in Asia, development was stable. In the EMEA area, the market continued to be challenging, but it picked up in the final quarter, particularly in the UK and Eastern Europe.

The heat treatment machines market developed positively in the second half of the year, with demand being directed at new products. The popularity of the Glaston FC500™ heat treatment machine in particular grew, but high-capacity multi-chamber solutions also met with success. In pre-processing machines, the market situation was challenging throughout the year. Demand for tools was on the previous year's level.

Investments in product development continued. In pre-processing machines, the new UC1000™ cutting line and the Omnia double edging machine were launched onto the market. In heat treatment machines, the Glaston FC500™ product series further strengthened its position, and deals for more than 30 machines were signed in the financial year. In the second half of the year, a new product, the ProL500™ flat laminating line, was launched onto the market. The lines are manufactured at Glaston's factory in Brazil. The development continued of the GlastonAir™ air flotation technology, intended for the tempering of thin (2 mm) glass.

Determined work to cut delivery times and reduce the production costs of main products continued. As a result of efficiency measures, Glaston managed to cut the delivery time of the RC 200™ machine by more than 30 per cent during the year.

Orders received in the Machines segment totalled EUR 94.5 (86.3) million in 2013. January-December net sales totalled EUR 92.6 (84.7) million. The January-December operating result was a profit of EUR 2.3 (7.3 loss) million, and the operating result excluding non-recurring items was a profit of EUR 2.3 (2.6 loss) million. At the end of 2013, the segment had 441 (461) employees. The segment's result was positively influenced by the successful execution of a fairly high production load in the final quarter, an acceleration of deliveries, and lower costs in the quality and delivery chain.

## SERVICES

As in the previous year, the operating environment of the Services segment remained challenging in 2013, particularly with respect to upgrade products. In Asia, sales of maintenance work on pre-processing machines developed positively, despite challenges relating to sales of heat treatment machine spare parts and upgrade products. In the South and North American markets, other product groups, excluding upgrades, did well. The EMEA area developed positively in all product groups.

During the year, the global launch of new products brought to the market in 2012 continued and the Glaston Genuine Care™ concept was developed further. The segment's product portfolio corresponds well with customer needs, which without exception relate to improving energy efficiency and quality, increasing capacity, and boosting the performance and utilisation efficiency of machines and equipment. The service network, the industry's largest, remained the same during the year.

Orders received in the Services segment totalled EUR 28.7 (31.8) million in 2013. January-December net sales totalled EUR 30.2 (32.3) million. The January-December operating result was a profit of EUR 5.3 (5.8) million, and the operating result excluding non-recurring items was a profit of EUR 5.3 (5.9) million. More intense competition in spare parts, customers' removal of their oldest machines, and more buoyant sales of new machines impacted the development of the segment's net sales, while profitability was maintained at a good level. At the end of 2013, the segment had 128 (130) employees.

## CONTINUING OPERATIONS' ORDERS RECEIVED AND ORDER BOOK

Glaston's order intake in the review period totalled EUR 123.3 (118.1) million. Of orders received, the Machines segment accounted for 77% and the Services segment 23%.

Glaston's order book on 31 December 2013 was EUR 39.1 (34.2) million. Of the order book, the Machines segment accounted for EUR 38.0 (33.1) million and the Services segment for EUR 1.1 (1.1) million.

## CONTINUING OPERATIONS' NET SALES AND OPERATING RESULT

Glaston's January-December net sales totalled EUR 122.2 (115.6) million. The Machines segment's net sales in the review period totalled EUR 92.6 (84.7) million and the Services segment's net sales totalled EUR 30.2 (32.3) million.

The operating result, excluding non-recurring items, was a profit of EUR 2.1 (3.4 loss) million, i.e. 1.7 (-2.9)% of net sales. In January-December, the Machines segment's operating result, excluding non-recurring items, was a profit of EUR 2.3 (2.6 loss) million and the Services segment's operating result, excluding non-recurring items, was a profit of EUR 5.3 (5.9) million. Of the non-recurring items totalling EUR 3.7 million recognised in the first quarter of the year, the most significant was the sale of the Tampere property complex. A goodwill impairment loss of EUR 3.0 million directed

at the Pre-processing operating segment, which belongs to the Machines segment, was recognised as a non-recurring item in the first quarter of 2012.

During the first quarter, Glaston repurchased convertible bonds with a nominal value of EUR 2 million at a price below the nominal value. This repurchase yielded financial income of EUR 0.9 million. Similarly, during the first quarter, the remaining convertible bond with accrued interest and the debenture bond with accrued interest were used as payment in a share issue (conversion issue). As the subscription price of the share in the conversion issue was higher than the fair value of the share at the time of subscription, financial income of EUR 1.9 million arose to Glaston in connection with the conversion issue. These financial income items had no impact on cash flow. The Group's net financial items in 2013 were EUR -1.0 (-8.6) million.

Continuing Operations result in January-December was a profit of EUR 1.3 (18.2 loss) million. The result, after the result of Discontinued Operations, was a profit of EUR 1.3 (22.4 loss) million. In January-December, the return on capital employed (ROCE) was 9.9 (-12.6)%.

## EARNINGS PER SHARE

Continuing Operations' earnings per share were EUR 0.01 (-0.16) in 2013, while Discontinued Operations' earnings per share were EUR 0.0 (-0.04) euros, i.e. a total of EUR 0.01 (-0.20).

## FINANCIAL POSITION, CASH FLOW AND FINANCING

In the first quarter of the year, Glaston implemented extensive measures to strengthen the company's financial position. These measures included a share issue, the completion of the sale of the Software Solutions segment, the conversion of convertible and debenture bonds into shares by using them as payment in the conversion issue, a new long-term financing agreement, and the sale and leaseback of the Tampere factory property complex.

In February 2013, Glaston signed a new long-term financing agreement. The financing agreement is for three years and it is valid until 31 January 2016. The covenants in use are interest cover, net debt/EBITDA, cash and cash equivalents, and gross capital expenditure. The covenants will be monitored, depending on the covenant, monthly, quarterly, semi-annually or annually. With respect to the interest cover covenant, the first monitoring date is at the end of the first quarter of 2014.

The Group's liquid funds at the end of the review period totalled EUR 16.4 (10.6) million. Interest-bearing net debt totalled EUR 8.6 (57.7) million and net gearing was 16.9 (188.4)%.

The share issues executed during the first quarter improved Glaston's equity ratio sig-

| Order book, EUR million | 31.12.2013 | 31.12.2012 | 31.12.2011 |
|---|---|---|---|
| Machines | **38.0** | 33.1 | 34.6 |
| Services | **1.1** | 1.1 | 1.2 |
| **Total** | **39.1** | 34.2 | 35.8 |

| Net sales, EUR million | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Continuing Operations** | | | |
| Machines | **92.6** | 84.7 | 90.0 |
| Services | **30.2** | 32.3 | 31.2 |
| Other and internal sales | **-0.6** | -1.4 | -1.5 |
| **Total** | **122.2** | 115.6 | 119.7 |

| Operating result, EUR million | 2013 | 2012 | 2011 |
|---|---|---|---|
| Machines | **2.3** | -2.6 | -1.9 |
| Services | **5.3** | 5.9 | 5.3 |
| Other and eliminations | **-5.5** | -6.7 | -6.8 |
| **Operating result, excl. non-recurring items** | **2.1** | -3.4 | -3.4 |
| Non-recurring items | **3.7** | -5.4 | 0.3 |
| **Operating result** | **5.9** | -8.8 | -3.1 |

| | 2013 | 2012 Adjusted | 2011 Adjusted |
|---|---|---|---|
| Operating result, EUR million | **5.9** | -8.8 | -3.1 |
| Operating result, % of net sales | **4.8** | -7.6 | -2.6 |
| Profit/loss for the year attributable to owners of the parent, EUR million | **1.3** | -22.4 | -14.4 |
| Profit/loss for the year attributable to owners of the parent, % of net sales | **1.1** | -19.3 | -12.1 |
| Return on capital employed (ROCE), % | **9.9** | -12.6 | 0.3 |
| Return on equity, % | **3.2** | -53.6 | -31.3 |
| Earnings per share, Continuing Operations, EUR | **0.01** | -0.16 | -0.15 |
| Earnings per share, Discontinued Operations, EUR | **0.00** | -0.04 | 0.02 |
| Earnings per share, undiluted and diluted, total, EUR | **0.01** | -0.20 | -0.13 |

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Equity ratio, % | **45.4** | 21.6 | 31.0 |
| Gearing, % | **49.3** | 224.0 | 128.9 |
| Net gearing, % | **16.9** | 188.4 | 93.8 |
| Interest-bearing net debt, EUR million | **8.6** | 57.7 | 49.7 |

nificantly. The equity ratio was 45.4 (21.6)% on 31 December 2013.

At the end of 2013, the consolidated asset total was EUR 125.6 (158.0) million. The equity attributable to the owners of the parent was EUR 50.4 (30.3) million. The share issue-adjusted equity per share was EUR 0.26 (0.27). Return on equity in January-December was 3.2 (-53.6)%.

Cash flow from the operating activities of Continuing and Discontinued Operations, before the change in working capital, was EUR 6.3 (1.1) million in January-December. The change in working capital was EUR 0.9 (-2.3) million. Cash flow from investing activities was EUR 22.5 (-5.5) million. Cash flow from investing activities was influenced by proceeds from the sales of the Software Solutions segment and the Tampere factory property, a total of EUR 25.3 million. Cash flow from financing activities in January-December was EUR -23.1 (-0.5) million.

## ADJUSTMENT MEASURES

At the end of the 2012, Glaston initiated consultations on the adjustment of its operations to the company's new structure and to the prevailing market situation. The annual savings of the adjustment programme, around EUR 5 million, were realised in full during 2013.

## RESEARCH AND PRODUCT DEVELOPMENT

Glaston's research and product development expenditure in 2013 totalled EUR 4.8 (5.3) million, i.e. 3.9 (4.6)% of net sales. Product development investments were directed at the product series expansion and further development of the GlastonAir™ concept, intended for the tempering of thin glass, the development of multi-chamber solutions for the FC500™ and RC350™ machines, and upgrades to the automation system and process control of flat tempering automation machines, and the modernisation of machines with RC200™ -technology replacement chamber solutions.
The early part of the year saw the launch of the GlastonAir™ flat tempering machine representing the industry's most advanced technology, in which glass is supported by hot air instead of rollers. The main advantage of air flotation is uniform support, which facilitates the tempering of glass as thin as 2 mm without compromising optical quality. With respect to the GlastonAir™ technology, interest was stimulated not only by the tempering of glass as thin as 2 mm, but also by low energy consumption in the tempering of thicker glasses and the high optical quality of the tempered glass. Another new product launch was IriControL™ technology, with which glass processors can measure and minimise so-called anisotropic phenomena in tempered glass. In Asia, the RC and CCS flat tempering product series were expanded with new machine models to meet customers' needs.

In pre-processing machines, the new automatic UC cutting lines, which combine high performance with a competitive price, were launched onto the market, as was the Omnia double edging machine, which is suitable for the needs of both the solar energy and furnishing industries.

In the Services segment, the global launch of products introduced onto the market in 2012 continued. These products include the Glaston iControL™ automation system upgrade, the Glaston RHC™ automatic roller heat control technology, the RC200-zone™ replacement chamber upgrade and the RC200-2-zone™ additional chamber.

## STRATEGY

On 9 September 2013, Glaston published its updated strategic guidelines and financial targets for 2013–2016. Glaston's goal is to deliver profitable growth through innovation and technology leadership in selected product groups, while at the same time ensuring the best customer value and experience in the industry.

The safety glass market, which is Glaston's main field of business, is expected to grow by nearly 7% per year up to 2017. In addition, the company is seeking to grow particularly in tools (consumables relating to pre-processing machines) and in services covering the entire lifecycle of products.

The financial targets underlying Glaston's strategy will run until 2016 and they are: average growth in net sales of over 8% per year (CAGR), operating profit margin (EBIT) over 6%, and return on capital employed (ROCE) over 10%.

## ENVIRONMENT

The energy efficiency of glass processing machines and, moreover, the energy-efficiency of the end products manufactured with them are highly significant from an environmental perspective. Glaston aims to be as environmentally friendly as possible in its operations. The company does not cause air pollution or create emissions into land or water areas. The company's operations may give rise to minor environmental effects, such as noise.

Glaston's glass processing machines and the components used in them have been designed to withstand intense use. The life cycle of machines and equipment may be measured in decades. The Glaston Genuine Care™ service concept is the most extensive in the industry, and it offers customers continuous service throughout the entire lifecycle of a product. The service covers maintenance services, spare parts and tools for all machines and equipment as well as upgrade products and modernisations.

Energy efficiency and its development play a key role in product development. A result of the further development of flat tempering technology, the new Glaston FC500+RC350™ double-chamber tempering lines deliver high capacity and at the same time high quality energy glass production with a smaller carbon footprint.

## CAPITAL EXPENDITURE, DEPRECIATION AND AMORTISATION

The gross capital expenditure of Glaston's Continuing and Discontinued Operations totalled EUR 2.8 (5.6) million. The most significant investments in 2013 were in product development.

In 2013, depreciation and amortisation of Continuing Operations on property, plant and equipment and on intangible assets totalled EUR -4.6 (-5.4) million.

## DISCONTINUED OPERATIONS

In October 2012, Glaston announced that it was entering into negotiations on the sale of the Software Solutions segment. The deal was concluded on 4 February 2013, when the sale of Albat+Wirsam Software GmbH's shares to Friedman Corporation was completed after the terms of sale were fulfilled.

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Research and development expenditure, Continuing Operations, EUR million | **4.8** | 5.3 | 5.0 |
| Research and development expenditure, Discontinued Operations, EUR million | **-** | 2.5 | 3.1 |
| Research and development expenditure, total, EUR million | **4.8** | 7.8 | 8.1 |
| Capitalised development expenditure in the financial year, Continuing and Discontinued Operations, EUR million | **1.2** | 4.4 | 4.2 |
| Research and development expenditure, Continuing Operations, % of Continuing Operations' net sales | **3.9** | 4.6 | 4.2 |

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Gross capital expenditure, Continuing Operations, EUR million | **2.5** | 2.5 | 3.2 |
| Gross capital expenditure, Discontinued Operations, EUR million | **0.3** | 3.1 | 2.5 |
| Gross capital expenditure, total, EUR million | **2.8** | 5.6 | 5.7 |
| Gross capital expenditure, Continuing Operations, % Continuing Operations' net sales | **2.0** | 2.2 | 2.7 |
| Depreciation and amortisation, Continuing Operations, EUR million | **4.6** | 5.4 | 5.5 |
| Impairment losses on asset items, Continuing Operations, EUR million | **-** | 3.0 | 0.2 |

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Salaries and bonuses, Continuing Operations, EUR million | **24.3** | 23.8 | 27.2 |
| Employees at end of year, Continuing Operations | **581** | 602 | 675 |
| Employees at end of year, Discontinued Operations | **-** | 175 | 195 |
| Employees at end of year, total | **581** | 776 | 870 |
| Average number of employees | **590** | 820 | 899 |

The sales price was approximately EUR 18 million, of which a portion is contingent. The result of Glaston's Discontinued Operations in 2013 includes the result of the Software Solutions segment for the period 1 January-31 January 2013 as well as the result on the sale of the segment.

## CHANGES IN THE COMPANY'S MANAGEMENT

On 1 February 2013, General Counsel Taina Tirkkonen was appointed to the Executive Management Group. Following the sale of the shares of Albat+Wirsam Software GmbH, Senior Vice President, Software Solutions Uwe Schmid resigned from Glaston's Executive Management Group on 4 February 2013.

## EMPLOYEES

Glaston's Continuing Operations had a total of 581 (602) employees on 31 December 2013. Of the Group's employees, 22% worked in Finland and 29% elsewhere in the EMEA area, 34% in Asia and 15% in the Americas. The average number of employees was 590 (634).

## SHARE-BASED INCENTIVE PLAN

On 7 February 2013, Glaston's Board of Directors decided on a new share-based incentive plan for the Group's key personnel. The purpose of the new plan is to unite the objectives of shareholders and key personnel in order to raise the company's value, and to commit key personnel to the company and offer them a competitive bonus plan based on long-term ownership of the company's shares. The share bonus plan has one performance period, which began on 15 March 2013 and ends on 15 March 2014.

Participation in the plan and receipt of rewards for the performance period requires that a key employee subscribed for the company's shares in the share issue organised in spring 2013. Rewards of the plan will be paid in April 2014 as cash instead of shares in accordance with a decision of the Board of Directors, provided that the key employee's employment or service with the Group is in force and that he or she still owns the shares subscribed for in the share issue. 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 share bonus plan's target group consists of 24 people.

On 12 December 2011, Glaston's Board of Directors decided on a share-based incentive plan for the Group's key personnel. The share bonus plan has three performance periods, namely the calendar years 2012, 2013 and 2014. The company's Board of Directors decides on the plan's performance criteria and the targets set for them at the beginning of each performance period. The share bonus plan's target group consists of around 25 people. Glaston's Board of Directors decided in January 2014 that the plan will be withdrawn. No rewards were paid under the plan during its period of validity.

The President & CEO also has a separate share bonus arrangement, according to which 50,000 Glaston Corporation shares were transferred to him one year after the beginning of his employment relationship, namely in September 2010. The shares earned cannot be transferred for two years from the date of acquisition of the shares. If the President & CEO's employment ends during the restriction period, the shares will be returned to the

company. The performance period of this scheme ended in 2012.

## GROUP STRUCTURAL CHANGES IN 2013

On 4 February 2013, Glaston completed the sale of the Software Solutions segment, when the shares of Albat+Wirsam Software GmbH were sold to Friedman Corporation, a subsidiary of Constellation Software Inc.

Glaston Finland Oy's branch office in Sweden was closed in December 2013.

## EXTRAORDINARY GENERAL MEETING

The Extraordinary General Meeting held on 12 February 2013 authorised the Board of Directors to decide on one or more issuances of shares. Based on the authorisation, the Board has the right to issue new shares or to dispose of shares in the possession of the company up to 86,000,000 shares.

The authorisation entitles the Board to decide on a directed share issue. The authorisation may be used for executing or financing arrangements important from the company's point of view, such as the restructuring of the company's financing structure or implementing business arrangements or investments, or for other such purposes determined by the Board of Directors in which a weighty financial reason for directing a share issue would exist.

The Board of Directors was authorised to decide on all other terms and conditions of the issuance of shares, such as the payment period, grounds for the determination of the subscription price and the subscription price. Based on the authorisation, the subscription price may be paid also by other assets, such as by setting off a receivable from the company, either partially or entirely.

The authorisation was valid until 30 June 2013 and it did not invalidate the authorisation granted by the Annual General Meeting on 5 April 2011.

## DECISIONS OF THE ANNUAL GENERAL MEETING

The Annual General Meeting of Glaston Corporation was held in Helsinki on 17 April 2013. The Annual General Meeting adopted the financial statements and consolidated financial statements for the period 1 January – 31 December 2012. In accordance with the proposal of the Board of Directors, the Annual General Meeting resolved that no dividend be distributed for the financial year ending 31 December 2012.

The Annual General Meeting discharged the Members of the Board of Directors and the President & CEO from liability for the financial year 1 January – 31 December 2012.

The number of the Members of the Board of Directors was resolved to be six. The Annual General Meeting decided to re-elect Claus von Bonsdorff, Anu Hämäläinen, Teuvo Salminen, Christer Sumelius, Pekka Vauramo and Andreas Tallberg as Members of the Board of Directors for the following term ending at the closing of the next Annual General Meeting. 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 Christer Sumelius as Deputy Chairman of the Board.

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

The Annual General Meeting elected as auditor Public Accountants Ernst & Young Oy, with Authorised Public Accountant Harri Pärssinen as the responsible auditor.

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 by other assets either partially or entirely. The authorisation is valid until 30 June 2014 and it invalidates earlier authorisations.

## NOMINATION BOARD

The Annual General Meeting resolved to establish a permanent Nomination Board consisting of shareholders or representatives of shareholders to prepare and present for the next Annual General Meeting and, if necessary, to an Extraordinary General Meeting, proposals concerning the number and identities of the members of the Board of Directors and the remuneration of the Board of Directors. In addition, the task of the Nomination Board is to seek candidates as potential board members. 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 Chairman of the Board of Directors shall request each of the four largest shareholders to appoint one member to the Nomination Board. In the event that a shareholder does not wish to exercise his or her right to appoint a representative, it shall pass to the next-largest shareholder who would not otherwise be entitled to appoint a member to the Nomination Board.

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 conven-

ing subsequent meetings. The Nomination Board shall deliver its proposal, which will be included in the notice to the Annual General Meeting, to the Company's Board of Directors by the end of January preceding the next Annual General Meeting.

## SHARE ISSUE

At its meeting on 28 February 2013, Glaston's Board of Directors decided, based on the authorisations granted by the Extraordinary General Meeting held on 12 February 2013 and by the Annual General Meeting held on 5 April 2011, to execute a share issue by offering a maximum of 50,000,000 new shares for subscription by the public, in derogation of the pre-emptive subscription right of shareholders, at the subscription price of EUR 0.20 per share. Furthermore, the Board of Directors decided, based on the authorisation granted by the Extraordinary General Meeting held on 12 February 2013, to execute a share issue directed at the holders of the convertible bond issued by Glaston in 2009 and the debenture bond issued by Glaston in 2011. This conversion issue offered a maximum of 38,119,700 new shares in the company for subscription by the holders of the convertible bond and the debenture bond, in derogation of the pre-emptive subscription right of shareholders. The conversion issue was executed as a private placement arrangement to the holders of the bonds. The subscription price of the new shares offered in the conversion issue was EUR 0.30 per share.

On 11 March 2013, Glaston's Board of Directors approved the subscriptions of 50,000,000 issued shares made in the share issue and the subscriptions of 38,119,700 new shares made in the conversion issue. As a result of the share issue and the conversion issue, the number of the company's shares increased by 88,119,700 shares to 193,708,336 shares. The new shares were entered in the Trade Register on 27 March 2013. The total subscriptions of the share issue and the conversion issue were approximately EUR 21.4 million.

## SHARES AND SHARE PRICES

Glaston Corporation's paid and registered share capital on 31 December 2013 was EUR 12.7 million and the number of issued and registered 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 treasury shares is EUR 51,682.

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.

On 31 December 2013, the market capitalisation of the company's registered shares, treasury shares excluded, was EUR 77.2 (27.2) million. During 2013, approximately 35.6 million of the company's shares were traded, i.e. around 20.7% of the average number of registered shares. The lowest price paid for a share was EUR 0.22 (0.23) and the highest price EUR 0.44 (0.74). The volume-weighted average price of shares traded during January-December was EUR 0.35 (0.39). The closing price on 31 December 2013 was EUR 0.40 (0.26).

The share issue-adjusted equity per share attributable to the owners of the parent was EUR 0.26 (0.27).

## DISCLOSURES UNDER CHAPTER 9, SECTION 5 OF THE SECURITIES MARKETS ACT

During 2013, Glaston was informed of the following changes in ownership:

On 11 March 2013, Glaston received notification from GWS Trade Oy and Oy G.W.Sohlberg that both companies' share of the total number of shares and voting rights in Glaston Corporation had fallen below 10%. Oy G.W.Sohlberg's holding (12,819,400 shares) of Glaston's total number of shares and voting rights declined from 12.14% to 6.62% and GWS Trade Oy's holding (13,446,700 shares) of Glaston's total number of shares and voting rights declined from 12.73% to 6.94%. On the same day, Glaston received notification from Hymy Lahtinen Oy that the company's share of the total number of shares and voting rights in Glaston Corporation had risen above 5%. Hymy Lahtinen Oy's ownership rose to 10,150,200 shares, which is 5.24% of all Glaston shares and votes.

| Share-issue adjusted per share data | 2013 | 2012 | 2011 |
|---|---|---|---|
| Equity per share attributable to owners of the parent, EUR | **0.26** | 0.27 | 0.46 |
| Dividend per share, EUR *) | **0.00** | 0.00 | 0.00 |
| Price / earnings (P/E) ratio | **53.8** | -1.3 | -3.4 |
| Price / equity attributable to owners of the parent per share | **1.53** | 0.97 | 0.97 |
| Share price at end of year, EUR | **0.40** | 0.26 | 0.45 |
| Market capitalisation, end of year, EUR million | **77.2** | 27.2 | 47.2 |
| Share turnover (1,000 shares) | **35,594** | 17,736 | 8,447 |
| Share turnover, % of average number of shares | **20.7** | 16.9 | 8.5 |
| Number of shares at end of the year | **193,708,336** | 105,588,636 | 105,588,636 |
| Average share-issue adjusted number of shares, excluding treasury shares | **174,146,044** | 113,240,777 | 108,946,156 |
| Average share-issue adjusted number of shares, including dilution effect of convertible bond and excluding treasury shares | **175,859,686** | 120,513,650 | 110,537,735 |

*) Board of Director's proposal

On 12 March 2013, Glaston received a notification from Etera Mutual Pension Insurance Company that the company's share of the total number of shares and voting rights in Glaston Corporation had risen above 10%. Etera Mutual Pension Insurance Company's ownership rose to 26,764,885 shares, which is 13.82% of all Glaston shares and votes. On the same day, Glaston received notification from Yleisradio eläkesäätiö (Yleisradio Pension Fund) that its share of the total number of shares and voting rights in Glaston Corporation had risen above 5%. Yleisradio eläkesäätiö's ownership rose to 10,481,369 shares, which is 5.41% of all Glaston shares and votes. All of the notifications were related to Glaston's share issue directed to the public and the conversion issue directed to holders of the convertible bond 2009 and the debenture bond 2011.

On 19 September 2013, Glaston received a notification that Yleisradio eläkesäätiö's ownership had fallen below 5% of the total number of shares and voting rights in Glaston Corporation.

On 27 September 2013, Glaston received a notification that Oy G.W.Sohlberg Ab's share of the total number of shares and voting rights in Glaston Corporation had risen above 10% following the merger of GWS Trade Oy with its parent company Oy G.W Sohlberg Ab. Oy G.W.Sohlberg Ab's ownership rose to 26,266,100 shares, which is 13.56% of all Glaston shares and votes.

## SHAREHOLDERS

Glaston Corporation's largest shareholders on 31 December 2013, 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.

## 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 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.

Glaston Corporation has a clause in the terms of a loan, according to which the lenders have the option to demand payment of the loan if control in Glaston changes.

## 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 3.3 (3.7) million and the operating result was a loss of EUR 0.7 (3.1 loss) million. Net financial expenses were EUR 0.6 (-8.1) million, of which in 2012 EUR -6.2 million consisted of impairment losses on shares of subsidiaries and on Group receivables. The result for the financial year was a profit of EUR 4.2 (11.1 loss) million.

The parent company had an average of 10 (12) employees in the financial period and 11 (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 REVIEW PERIOD

On 21 January 2014, Glaston Corporation's Board of Directors decided on a new incentive plan for the Group's key personnel as part of a long-term incentive and commitment plan for the senior management of the Group and its subsidiaries. The incentive plan is tied to the development of Glaston's share price. The plan covers the years 2014–2016 and the possible rewards will be paid in spring 2017. The incentive plan covers 34 key Glaston personnel.

In addition, the Board of Directors decided that the share-based incentive plan for 2012–2014, announced on 12 December 2011, will be withdrawn. No rewards were paid under the plan during its period of validity.

At its meeting held on 23 January 2014, the Nomination Board appointed by the Annual General Meeting gave its proposal on the number of the Members of the Board of Directors and on the composition and remuneration of the Board of Directors.

## RISKS AND RISK MANAGEMENT

Glaston operates globally, and changes in the development of the world economy directly affect the Group's operations and risks. A strategic risk for Glaston is above all the loss of the Group's market shares, particularly in the most strongly developing markets in Asia and South America as well as in Europe. The arrival of a competing machine and glass processing technology on the market in connection with technological development, which would require Glaston to make considerable product development investments, as well as changes to legislation regulating the company are also strategic risks. Glaston's most significant operational risks include cost development relating to operational activity, management of large customer projects, the availability of components, management of the contractual partner and subcontractor network, product development, succeeding in the effective protection of intellectual property rights and efficient production as well as the availability and permanence of expert personnel. Glaston continually develops its information systems and despite careful planning, temporary disruptions to operations might be associated with the introduction stages.

The Group's financial risks consist of foreign exchange, interest rate, credit loss, counterparty and liquidity risks. The nature of international business means that the Group has risks arising from fluctuations in foreign exchange rates. The effect of changes in interest rate levels on Group result represent an interest rate risk. Credit loss and counterparty risks arise mainly from risks associated with the payment period granted to customers. Liquidity risk is the risk that the Group's negotiated credit facilities are insufficient to cover the financial needs of the business or that obtaining new funding for these needs will cause a significant increase in financing costs.

## UNCERTAINTIES AND RISKS IN THE NEAR FUTURE

In Glaston's business environment there continues to be uncertainty, which impacts customers' investment activity.

Global economic uncertainty and its impact on the development of the sector have been taken into account in the short-term forecasts. If the recovery of the sector is delayed further or slows, this will have a negative effect on future cash flows.

Glaston performs annual goodwill impairment testing during the final quarter of the year. In addition, goodwill impairment testing is performed if there are indications of impairment. Due to prolonged market uncertainty, it is possible that Glaston's recoverable amounts will be insufficient to cover the carrying amounts of assets, particularly goodwill. If this happens, it will be necessary to recognise an impairment loss, which, when implemented, will weaken the result and equity.

Glaston has recognised a total of approximately EUR 3.6 million of loan, interest and trade receivables from a counterparty whose financial situation is challenging. Glaston is continuously monitoring the situation and will recognise an impairment loss on these receivables, if necessary.

General business risks and risk management are outlined in more detail in Glaston's 2013 Annual Report and on the company's website www.glaston.net.

| Parent Company, EUR million | 2013 | 2012 | 2011 |
|---|---|---|---|
| Net sales | **3.3** | 3.7 | 3.7 |
| Operating result | **-0.7** | -3.1 | -3.6 |
| Result before taxes and appropriations | **6.3** | -11.1 | -33.0 |
| Income taxes for the financial year | **-2.1** | -0.0 | -0.2 |
| Result for the financial year | **4.2** | -11.1 | -33.1 |
| | | | |
| Balance sheet total | **118.2** | 113.1 | 120.9 |
| Shareholders' equity | **89.6** | 63.9 | 75.0 |
| | | | |
| Salaries and bonuses paid | **1.7** | 1.5 | 1.6 |
| Average number of employees | **10** | 12 | 13 |

## OUTLOOK

The company's financial position is stable, our operations have been adjusted to correspond with the current market situation, and our product portfolio is competitive. Now we are able to focus fully on developing and growing our business.

We expect our markets to grow moderately in 2014. We believe that stable development will continue in Asia and South America. We expect the recovery in the North American market to continue. In the EMEA area, signs of recovery were evident towards the end of 2013, and with respect to heat treatment machines we expect this positive trend to continue.

Strong investment in product development will continue. In addition to the RC and FC product series, we expect increased sales of new pre-processing machines and the new GlastonAir™ technology.

Glaston operates in growing markets. Drivers of growth include increasing use of safety glass, more widespread utilisation of energy-saving glass in both renovations and new construction, and greater use of glass in construction generally. In accordance with our new strategy, as well as on traditional key areas of expertise, namely glass processing machines and related services covering the entire lifecycle of products, we will increasingly focus on enhancing customer benefit and customer experience.

Glaston expects 2014 net sales and operating profit to grow.

## BOARD OF DIRECTORS' PROPOSAL ON THE DISTRIBUTION OF PROFITS

The distributable funds of Glaston Corporation, the parent of Glaston Group, total EUR 51,587,237, of which the profit for the financial year is EUR 4,421,694.

The Board of Directors proposes to the Annual General Meeting that no dividend be distributed from the profit for the year nor from retained earnings, and that equity is not returned from the reserve for invested unrestricted equity. EUR 51,587,237 will be left in distributable funds.

Helsinki, 6 February 2014
Glaston Corporation
Board of Directors

# Corporate Governance Statement 2013

Glaston Corporation complies with its Articles of Association, the Finnish Companies Act and the rules of NASDAQ OMX Helsinki Stock Exchange. In addition, Glaston complies with the Finnish Corporate Governance Code for listed companies. The Finnish Corporate Governance Code, published by the Securities Market Association, is publicly available at the website www.cgfinland.fi.

This report has been prepared in accordance with Chapter 7 Section 7 of the Securities Markets Act and Recommendation 54 of the Finnish Corporate Governance Code. 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 Board of Directors' Review and a salaries and remuneration statement on the Company's website www.glaston.net/investors/corporate governance. The information is also included in the Annual Report 2013.

## 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.

## GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the Company's ultimate decision-making body. It decides the duties for which it is responsible in accordance with the Companies Act and the Articles of Association. The Annual General Meeting (AGM) decides on, among other things, the adoption of the financial statements and the consolidated financial statements contained therein, the distribution of profits and the discharge of the Board Members and the President & CEO from liability. In addition, the AGM elects the Members of the Board and the auditors, and decides on the remuneration paid to Members of the Board and the auditors. The AGM, furthermore, may decide on, for example, amendments to the Articles of Association, share issues 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 months before the last day of registration and no later than three weeks before the General Meeting, but at least nine 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 a sufficient number of Members of the Board must attend a General Meeting of Shareholders. In addition, the auditor must 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 demands in writing from the Board of Directors well in advance of the meeting, so that the matter can be mentioned in the notice. At a General Meeting, shareholders shall have the right to make proposals and ask questions on the matters being dealt with.

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 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.

## EXTRAORDINARY GENERAL MEETING 2013

An Extraordinary General Meeting of Glaston Corporation was held in Helsinki on 12 February 2013.

The meeting was attended by 45 shareholders, representing a total of 52% per cent of the company's voting rights. The Extraordinary General Meeting authorised the Board of Directors to decide on a directed share issue. The authorisation may be used for executing or financing arrangements important from the company's point of view, such as the restructuring of the company's financing structure or implementing business arrangements or investments, or for other such purposes determined by the Board of Directors in which a weighty financial reason for directing a share issue would exist.

## ANNUAL GENERAL MEETING 2013

Glaston Corporation's Annual General Meeting was held in Helsinki on 17 April 2013.

The meeting was attended by 70 shareholders, representing a total of 63% 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 2012. All documents relating to the

Annual General Meeting are available on the Company's website at the address www.glaston.net.

## NOMINATION BOARD

The Annual General Meeting on 17 April 2013 decided to establish a Nomination Board consisting of shareholders or representatives of shareholders.

The Nomination Board's task is to prepare and present for the next Annual General Meeting and, if necessary, to an Extraordinary General Meeting, proposals concerning the number and identities of the members of the Board of Directors and the remuneration of the Board of Directors. In addition, the task of the Nomination Board is to seek candidates as potential board members. 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 Chairman of the Board of Directors shall request each of the four largest shareholders to appoint one member to the Nomination Board. In the event that a shareholder does not wish to exercise his or her right to appoint a representative, it shall pass to the next-largest shareholder who would not otherwise be entitled to appoint a member to the Nomination Board.

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.

The Nomination Board shall deliver its proposal, which will be included in the notice to the Annual General Meeting, to the Company's Board of Directors by the end of January preceding the next Annual General Meeting.

## NOMINATION BOARD 2013

In accordance with a decision of the Annual General Meeting, the Nomination Board consists of the representatives of the four largest shareholders of the Company as of 2 September 2013 and, in addition, the Chairman of the Company's Board of Directors, who serves as an advisory member of the Nomination Board.

Jari Puhakka (Etera Mutual Pension Insurance Company), Mikko Koivusalo (Varma Mutual Pension Insurance Company), Kimmo Viertola (Finnish Industry Investment Ltd) and Ari Saarenmaa (GWS Trade Oy, merged with Oy G.W.Sohlberg Ab) were elected as members of the Nomination Board. Andreas Tallberg, Chairman of Glaston's Board of Directors, serves as an advisory member of the Nomination Board.

In its organising meeting held on 27 September 2013, the Nomination Board elected Ari Saarenmaa from among its members to be Chairman.

The Board met twice and the average attendance of members was 100%. No fees were paid to the members of the Nomination Board.

## 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 and a maximum of nine 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.

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 CEO and decides on the 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 budget and action plans and monitoring their implementation, 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 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 normally meets 7-10 times per year. 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.

A majority of the Members of the Board must be independent of the Company. In addition, at least two of the members belonging to the aforesaid majority must be independent of the Company's significant shareholders.

## BOARD OF DIRECTORS IN 2013

The Annual General Meeting on 17 April 2013 resolved that the number of the Members of the Board of Directors be six and re-elected as Members of the Board Claus von Bonsdorff, Anu Hämäläinen, Teuvo Salminen, Christer Sumelius, Andreas Tallberg and Pekka Vauramo. After the Annual General Meeting, the Board of Directors elected Andreas Tallberg as Chairman of the Board and Christer Sumelius as Deputy Chairman.

The personal information of Members of the Board and information on their ownership of Glaston's shares are presented at the end of this statement. According to an independence assessment performed by the Company's Board of Directors, all of the Board's six 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 13.56% on 31 December 2013). Based on an overall assessment, however, the Board considers that Christer Sumelius is not independent of the Company, because he has served as a Member of Board for more than 12 consecutive years. The Members of the Board, the President & CEO and the Members of Executive Management Group have no conflicts of interest between the duties they have in the Company and their private interests.

In 2013 Glaston's Board of Directors held 13 meetings, of which 4 were via telephone conference. The attendance of Members of the Board at meetings was 97%.

## COMMITTEES OF THE BOARD OF DIRECTORS

The Company has no committees established by the Board of Directors and therefore the Board is responsible for the duties of the Audit Committee in accordance with the Finnish Corporate Governance Code for listed companies. 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.

## PRESIDENT & CEO

The President & CEO handles the operational management of the Company in accordance with instructions issued by the Board. 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. The personal information of the President & CEO and information on his ownership of Glaston's shares are presented at the end of this statement.

## EXECUTIVE MANAGEMENT GROUP

The Company's Executive Management Group comprises the President & CEO, the Business Areas' Senior Vice Presidents, the General Manager, Asia, the General Counsel and the Chief Financial Officer. The Members of the Executive Management Group report to the 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 segments' strategy issues, capital expenditure, product policy, Group structure and control systems, and supervises the Company's operations. Information of the Members of the Executive Management Group is presented on the Company's website at the address www.glaston.net.

## EXECUTIVE MANAGEMENT GROUP IN 2013

The composition of Glaston's Executive Management Group changed during 2013. On 1 February 2013, General Counsel Taina Tirkkonen was appointed to the Executive Management Group. Following the sale of the shares of Albat+Wirsam Software GmbH, Senior Vice President, Software Solutions Uwe Schmid resigned from Glaston's Executive Management Group on 4 February 2013. At the end of 2013 the

| Member of the Board | Attendance at meetings of the Board | Attendance per centage |
|---|---|---|
| Andreas Tallberg | 13 | 100 |
| Christer Sumelius | 13 | 100 |
| Claus von Bonsdorff | 13 | 100 |
| Anu Hämäläinen | 13 | 100 |
| Teuvo Salminen | 12 | 92 |
| Pekka Vauramo | 11 | 85 |

Executive Management Group had 7 members. The composition of the Executive Management Group, the personal information of its members, and information on their ownership of Glaston's shares are presented at the end of this statement.

The Executive Management Group met 11 times in 2013.

## REMUNERATION OF BOARD OF DIRECTORS AND THE EXECUTIVE MANAGEMENT GROUP IN 2013

### Remuneration of the Board of Directors

The Annual General Meeting 2013 decided on the following fees of the Board of Directors (fee per year, euros):
Chairman of the Board EUR 40,000,
Deputy Chairman of the Board EUR 30,000 and Member of the Board EUR 20,000.
In addition, the Chairman of the Board was paid a meeting fee of EUR 800 and the other Members of the Board EUR 500 for those meetings of the Board that they attended. Remuneration for meetings held by telephone was paid on a different basis. The travel expenses of Members of the Board are compensated in accordance with the Company's travel rules. None of the Members of the Board receives from the Company remuneration unconnected with their work on the Board of Directors. The Members of the Board are covered by voluntary pension insurance accrued from their Board of Directors' remuneration. The value of the pension insurance corresponds with the Finnish TyEL pension scheme. Remuneration paid to the Board of Directors is outlined in more detail in Note 30 of the consolidated financial statements and in a separate salaries and bonuses report.

Fees paid to the Members of the Board of Directors in 2013 totalled EUR 180,600.

### Remuneration of the President & CEO and the Executive Management Group

Remuneration of the President & CEO and the Members of the Executive Management Group consists of a fixed monthly salary, an annual bonus (variable salary component) and a share-based incentive plan (variable salary component) intended as a long-term reward. The annual bonus is determined on the basis of Glaston's financial performance. The indicators used are the Group's result and the business segment's or business unit's result as well as function-specific targets. The maximum amount of the President & CEO's annual bonus is 50% of annual salary. For the other members of the Executive Management Group, the maximum amount of annual bonus is 40% of annual salary.

In addition, the President & CEO has a separate share bonus plan, on the basis of which he received one year after the start of his employment relationship, i.e. on 3 September 2010, a total of 50,000 Glaston Corporation shares as well as cash to the sum required for the taxes and tax-related payments arising from the distributed shares on the date that the shares were awarded. Metsänen also participates in the Company's current incentive schemes for key individuals.

The President & CEO's period of notice is three months. In addition, the President & CEO is paid compensation

**Salaries and bonuses paid to the Group's Executive Management Group**

| EUR | 2013 | 2012 |
|---|---|---|
| **President & CEO Arto Metsänen** | | |
| Paid salary | 374,319 | 355,530 |
| Paid bonuses | - | 84,000 |
| Total salary | 374,319 | 439,530 |
| Fringe benefits | 18,722 | 18,065 |
| **Total** | **393,041** | **457,595** |
| Statutory pension contributions (TyEL or similar scheme) | 70,747 | 82,367 |
| Voluntary pension contributions | 45,429 | 57,162 |
| **Other Executive Management Group, total *)** | | |
| Paid salaries | 1,008,509 | 1,293,328 |
| Severance pay | - | 540,000 |
| Paid bonuses | 165,700 | 185,576 |
| Total salaries | 1,174,209 | 2,018,904 |
| Fringe benefits | 28,494 | 99,731 |
| **Total** | **1,202,703** | **2,118,635** |
| Statutory pension contributions (TyEL or similar scheme) | 146,661 | 192,886 |
| Voluntary pension contributions | 27,804 | 71,767 |

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

corresponding to 12 months' salary if he is dismissed by the Company. If more than 50% of the Company's shares are transferred to a new owner in connection with a merger or acquisition, the President & CEO shall have the right to terminate his employment contract with 1 month's notice, in which case he shall be paid one-off severance pay of EUR 200,000.

The President & CEO has the opportunity to retire at 63 years of age. The President & CEO and one member of the Executive Management Group are entitled to a supplementary pension that exceeds the statutory scheme. The retirement age of other members of the Executive Management Group is in accordance with normal local legislation.

The table on page 13 presents the total remuneration of the President & CEO and the Members of the Executive Management Group in 2013.

On 12 December 2011, Glaston's Board of Directors decided on a new share-based incentive plan for the Group's key personnel. The share bonus plan has three performance periods, namely the calendar years 2012, 2013 and 2014. The company's Board of Directors decides on the plan's performance criteria and the targets set for them at the beginning of each performance period. The share bonus plan's target group consists of around 25 people. The bonuses payable on the basis of the plan will correspond during three years to a maximum of 4.8 million Glaston Corporation shares. In January 2014, the Company's Board of Directors decided to withdraw the plan. No rewards were paid during the plan's period of validity.

On 7 February 2013, Glaston's Board of Directors decided on a new share-based incentive plan for key individuals. The share bonus plan has one performance period, which began on 15 March 2013 and ends on 15 March 2014. Participation in the plan and receipt of rewards for the performance period require that a key employee subscribed for the company's shares in the share issue organised in spring 2013. Rewards of the plan will be paid in April 2014 as cash instead of shares in accordance with a decision of the Board of Directors, provided that the key employee's employment or service with the Group is in force and that he or she still owns the shares subscribed for in the share issue. The share ownerships of the Executive Management Group are presented at the end of this statement.

## AUDITING

The Company has one auditor, which must be an auditing firm authorised by the Finnish Central Chamber of Commerce. 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.

At the 2013 Annual General Meeting, the accounting firm Ernst & Young Oy was elected as the Company's auditor. The responsible auditor was Harri Pärssinen APA. Auditing units representing Ernst & Young have mainly served as the auditors of the Company's subsidiaries in each country. In 2013 the Group's auditing costs totalled EUR 524,000, of which Ernst & Young received EUR 497,000. Ernst & Young Oy's auditing expenses for the audit for financial year 2013 totalled EUR 301,000. In addition, auditing units belonging to Ernst & Young have provided other advice to Group companies to a value of EUR 73,000.

## 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 within their areas of responsibility compliance with the policies approved by the Board of Directors. 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 segments 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 budgeting processes is based on the Group's reporting principles, which are determined and centrally administered 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 have been specified in a risk management policy approved by the Company's Board of Directors, and operating practices in a risk management process description and in risk management guidelines.

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 segments and group-level management systems. Risk management is the responsibility of the senior manager of each segment 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 segment 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 be initiated during the year 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 segment identifies and assesses segment risks and specifies the segment's 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 segment 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 from segment level to 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 Board of Directors' Review on page 9. 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 35.

## INSIDER ADMINISTRATION

In addition to statutory insider regulations, Glaston complies with the insider guidelines for listed companies approved by NASDAQ OMX Helsinki Stock Exchange as well as the regulations and guidelines of the Finnish Financial Supervisory Authority (FIN-FSA).

Glaston's permanent insiders include the statutory insiders, namely the Board of Directors, the President & CEO and the main responsible auditor. In addition to these, Members of the Executive Management Group are also permanent insiders with a duty to disclose their ownership in Glaston.

Glaston's company-specific non-public insider register also includes some other management personnel and white-collar employees according to their job descriptions. At the preparation stage of significant projects, the company also keeps a project-specific insider register. Insiders are given a written statement of their inclusion in an insider register as well as guidelines on insider obligations.

The company's insider registers are maintained by Corporate Communications, which is responsible for updating the information. Shareholding information on the company's permanent insiders as well as their related parties' shareholdings are available in the SIRE system of Euroclear Finland Ltd. The information is also on Glaston's website.

# Board of Directors 1 January 2014


Andreas Tallberg


Pekka Vauramo


Christer Sumelius


Claus von Bonsdorff


Anu Hämäläinen


Teuvo Salminen

## 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 31.12.2013: 1,500,000 shares

Main occupation: Oy G.W. Sohlberg Ab, Managing Director, since 2007

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, 2007–
Svenska Handelsbanken AB (publ), Finnish branch, Member of the Board 2008–
StaffPoint Holding Oy, Member of the Board, 2012–
Wulff Group Plc, Chairman of the Board, 2012–
Nissala Oy, Chairman of the Board, 1999–

## PEKKA VAURAMO

b. 1957 M.Sc.(Mining)

Member of the Board, since 2011

Independent of the Company and of significant shareholders

Share ownership on 31.12.2013: 250,000 shares

Main occupation: Finnair Plc , President & CEO 2013–

Primary work experience:
Cargotec Corporation, 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:
Normet Group Oy, Member of the Board 2008–

## CHRISTER SUMELIUS

b. 1946, M.Sc.(Econ.)

Deputy Chairman of the Board, since 1995

Dependent of the company, independent of significant shareholders

Share ownership on 31.12.2013: 4,878,933 shares, including shares in the ownership of related parties and controlling interest companies

Main occupation: Oy Investsum Ab, Chairman of the Board, since 1984

Primary work experience:
Se-Center Oy, Managing Director, 1987–2007
Graphex GmbH, Director, 1979–1988
Pyramid Advertising Co. Ltd. (Lagos), Chairman, 1983–1985
Pyramid Paper Products Ltd. (Lagos), Managing Director, 1982–1984
Pyramid Inks Manufacturing Co. Ltd. (Lagos), Director, 1981–1985
Finska Papperbruksföreningen, Finnpap, (Singapore), Area Representative, 1980–1981

Key positions of trust:
Oy Investsum Ab, Chairman of the Board, 1984–
Tecnotree Corporation, Member of the Board, 2001–
Finnish Association of Professional Board Members, Member, 2003–
Chemdyes Sdn. Bhd. Penang (Malaysia), Member of the Board, 2006–
Xemet Oy, Member of the Board, 2008–
Nicholas Sourcing Ltd., Member of the Board, 2008–
I-Hygiene Solutions (Malaysia), Member of the Board, 2009–

## 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 31.12.2013: 172,600 shares

Main occupation: Nokia Siemens Networks, Head of Customer Operations, Strategy, Business Development and Marketing, since 2007–

Primary work experience:
Nokia Siemens Networks, Management positions, since 2007
Nokia Plc, Expert and management positions, 1994–2007

Key positions of trust: –

## ANU HÄMÄLÄINEN

b. 1965, M.Sc.(Econ.) – Member of the Board, since 2012

Independent of the Company and of significant shareholders

Share ownership on 31.12.2013: 150,000 shares

Main occupation: Wärtsilä Corporation, Vice President, Group Control, 2010–

Primary work experience:
Wärtsilä Corporation, Director, Financial Accounting, 2008–2010
SRV Group, Senior Vice President, Financial Administration, 2006–2008, IFRS & IPO Project Manager
Quorum Group, Administration Director and Senior Partner, 2005–2006
Pohjola Group: Conventum Securities Ltd, Managing Director, 2004–2005; Conventum Ltd, Administrative Director and Partner, 2001–2004
Metra Group, Economic and financial positions, 1991–1999

Key positions of trust: –

## TEUVO SALMINEN

b. 1954, M.Sc.(Econ.), APA – Member of the Board, since 2010

Independent of the Company and of significant shareholders

Share ownership on 31.12.2013: 300,000 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:
CapMan Plc, Member of the Board, 2001–2005, Deputy Chairman of the Board, 2005–
Holiday Club Resorts Oy, Chairman of the Board, 2008–
Havator Oy, Chairman of the Board, 2010–
Cargotec Plc, Member of the Board, 2010–
Evli Bank Plc, Member of the Board, 2010–
Tieto Corporation, Member of the Board, 2010–
3Stepit Oy, Member of the Board, 2011–
Kasarmin Kulma Oy, Member of the Board, 2013–
As TREV-2 Grupp, Member of the Supervisory Board, 2013–

# Executive Management Group 1 January 2013


Arto Metsänen


Pekka Huuhka


Sasu Koivumäki


Taina Tirkkonen


Juha Liettyä


Roberto Quintero


Frank Chengdong Zhang

## ARTO METSÄNEN

b. 1956, M.Sc.(Eng.)

President & CEO

Employed by the company and Chairman of the Executive Management Group, since 2009

Share ownership on 31.12.2013: 1,500,000 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

## PEKKA HUUHKA

b. 1956, M.Sc.(Eng.)

Senior Vice President, Services Segment, 2012–

Employed by the company and Member of the Executive Management Group, since 2010

Share ownership on 31.12.2013: 150,000 shares

Primary work experience:
Glaston Finland Oy, Senior Vice President, Supply Chain, 2010–30.6.2012
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, 1982–1991

## SASU KOIVUMÄKI

b. 1974, M.Sc.(Econ.)

Chief Financial Officer

Employed by the Company since 2002, Member of the Executive Management Group, since 1 October 2012

Share ownership on 31.12.2013: 300,000 shares

Primary work experience:
Glaston America Inc., Sales Director, 2010–9.2012
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.)

General Counsel

Employed by the company since 2011, Member of the Executive Management Group, since 4 February 2013

Share ownership on 31.12.2013: 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, Machines Segment, since 1.1.2014

Employed by the Company since 1986, Member of the Executive Management Group, since 2007

Share ownership on 31.12.2013: 250,000 shares

Primary work experience:
Glaston Finland Oy, SVP Heat Treatment Product Line, 2012–2013
Glaston Finland Oy, Services, 2009–30.6.2012
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
Tamglass Engineering Ltd Oy, Maintenance Manager, 1989–1991
Tamglass Engineering Ltd Oy, Project Engineer, 1986–1989

## ROBERTO QUINTERO

b. 1975, B.Sc.(Eng.)

Senior Vice President, Pre-processing and Tools Product Lines, since 1.7.2012

Employed by the Company 2008-28.2.2014, Member of the Executive Management Group, 1.7.2012–14.2.2014

Share ownership on 31.12.2013: 50,000 shares

Primary work experience:
Glaston Finland Oy, Product Line Director, Heat Treatment, 2010–30.6.2012
Glaston Finland Oy, Managing Director, 2011–2012
Glaston Finland Oy, Product Development Director, 5.2009–12.2009
Glaston Finland Oy, Director, Quality and Business Development, 2008–31.4.2009
Metso Minerals Oy, Sales and Marketing Director, CIS, 2006–2007
Metso Minerals Oy, Business Development Director, Mining Industry, 2005–2006
Metso Minerals Oy, several product management positions, 2000–2005

## FRANK CHENGDONG ZHANG

b. 1968, EMBA, B.Sc.
(Power Machinery Engineering)

General Manager, Asia

Employed by the Company since 2008, Member of the Executive Management Group, since 2010

Share ownership on 31.12.2013: no shares

Primary work experience:
GE Motors & Controls, General Manager, Asia, 2005–2008
GE Lighting Systems, Product Line Director, 2005–2008

# Consolidated Financial Statements

## Consolidated Statement of Financial Position

| EUR thousand | Note | at 31 December 2013 | 2012 restated |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 12,14 | 36,843 | 36,843 |
| Intangible assets | 14 | 8,738 | 10,736 |
| Property, plant and equipment | 15 | 6,905 | 7,292 |
| Holdings in associates | 16 | - | - |
| Available-for-sale financial assets | 17 | 341 | 329 |
| Loan receivables | 19 | 1,787 | 1,819 |
| Deferred tax assets | 11 | 3,722 | 6,747 |
| **Total non-current assets** | | **58,335** | **63,765** |
| **Current assets** | | | |
| Inventories | 18 | 19,667 | 21,767 |
| Assets for current tax | 11 | 712 | 886 |
| Trade and other receivables | 19 | 30,512 | 31,163 |
| Cash and cash equivalents | | | |
| Cash | | 16,376 | 10,583 |
| Assets of disposal group classified as held for sale | 13 | - | 29,830 |
| **Total current assets** | | **67,268** | **94,229** |
| **Total assets** | | **125,603** | **157,994** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | | 12,696 | 12,696 |
| Share premium account | | 25,270 | 25,270 |
| Other restricted equity reserves | | 66 | 5 |
| Reserve for invested unrestricted equity | | 47,341 | 26,805 |
| Treasury shares | 4 | -3,308 | -3,308 |
| Fair value reserve | | 59 | 50 |
| Other unrestricted equity reserves | | 53 | 53 |
| Retained earnings and exchange differences | | -33,086 | -8,882 |
| Net result attributable to owners of the parent | | 1,294 | -22,364 |
| **Attributable to owners of the parent** | | **50,384** | **30,323** |
| Non-controlling interest | | 294 | 297 |
| **Total equity** | | **50,678** | **30,620** |
| **Non-current liabilities** | | | |
| Convertible bond | 22 | - | 8,224 |
| Non-current interest-bearing liabilities | 22 | 11,565 | 4,075 |
| Non-current interest-free liabilities | 24 | 531 | 0 |
| Non-current provisions | 23 | 815 | 1,171 |
| Deferred tax liabilities | 11 | 975 | 1,325 |
| Defined benefit pension and other defined long-term employee benefit liabilities | 21 | 1,382 | 1,380 |
| **Total non-current liabilities** | | **15,268** | **16,175** |
| **Current liabilities** | | | |
| Current interest-bearing liabilities | 22 | 13,399 | 56,230 |
| Current provisions | 23 | 2,596 | 3,519 |
| Trade payables and other current interest-free liabilities | 24 | 43,290 | 46,434 |
| Liabilities for current tax | 11 | 372 | 302 |
| Liabilities of disposal group classified as held for sale | 13 | - | 4,715 |
| **Total current liabilities** | | **59,658** | **111,199** |
| **Total liabilities** | | **74,926** | **127,374** |
| **Total equity and liabilities** | | **125,603** | **157,994** |

# Consolidated Statement of Profit or Loss

| EUR thousand | Note | 1 January–31 December 2013 | 2012 restated |
|---|---|---|---|
| **Net sales** | 5 | **122,218** | **115,637** |
| Other operating income | 7 | 4,423 | 1,061 |
| Changes in inventories of finished goods and work in process | 18 | -1,501 | -1,887 |
| Own work capitalized | | 11 | 53 |
| Materials | 8 | -50,507 | -45,964 |
| Personnel expenses | 9 | -31,215 | -30,938 |
| Other operating expenses | 8 | -32,950 | -38,318 |
| Share of results of associates | 16 | - | - |
| Depreciation, amortization and impairment charges | 12 | -4,608 | -8,433 |
| **Operating result, continuing operations** | | **5,871** | **-8,790** |
| Financial income | 10 | 3,602 | 1,026 |
| Financial expenses | 10 | -4,560 | -9,663 |
| Net financial expenses | | -957 | -8,637 |
| **Profit / loss before income taxes, continuing operations** | | **4,913** | **-17,427** |
| Income tax expense | 11 | -3,636 | -821 |
| **Profit / loss for the year, continuing operations** | | **1,277** | **-18,248** |
| **Profit / loss after tax for the period, discontinued operations** | 13 | **18** | **-4,163** |
| **Profit / loss for the year** | | **1,295** | **-22,412** |
| Attributable to non-controlling interest | | 1 | -47 |
| **Attributable to owners of the parent** | | **1,294** | **-22,364** |
| Total | | 1,295 | -22,412 |
| Earnings per share, EUR, continuing operations | | 0.01 | -0.16 |
| Earnings per share, EUR, discontinued operations | | - | -0.04 |
| **Earnings per share, EUR, basic and diluted** [*] | | **0.01** | **-0.20** |
| Net result attributable to owners of the parent, EUR thousand | | 1,294 | -22 364 |
| Average number of shares (1,000 shares) [*] | | 174,146 | 113 241 |
| **Earnings per share (EPS), EUR, basic and diluted** | | **0.01** | **-0.20** |

[*] Share-issue adjusted

# Consolidated Statement of Comprehensive Income

| EUR thousand | 1 January - 31 December 2013 | 2012 restated |
|---|---|---|
| **Profit / loss for the period** | **1,295** | **-22,412** |
| **Other comprehensive income that will be reclassified subsequently to profit or loss:** | | |
| Exchange differences on translating foreign operations | 566 | 189 |
| Fair value changes of available-for-sale assets | 12 | 3 |
| Income tax on other comprehensive income | -3 | -0 |
| **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 | 0 |
| Actuarial gains and losses arising from defined benefit plans | -43 | -209 |
| Income tax on other actuarial gains and losses arising from defined benefit plans | - | 62 |
| **Other comprehensive income for the reporting period, net of tax** | **534** | **45** |
| **Total comprehensive income for the reporting period** | **1,829** | **-22,367** |
| **Attributable to:** | | |
| Owners of the parent | 1,832 | -22,318 |
| Non-controlling interest | -4 | -49 |
| **Total comprehensive income for the reporting period** | **1,829** | **-22,367** |

# Consolidated Statement of Changes in Equity

EUR thousand

| Restated | 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, 2012** | | **12,696** | **25,270** | **26,805** | **-3,308** | **48** | **-8,602** | **-269** | **52,640** | **346** | **52,986** |
| Total comprehensive income for the year | 20 | - | - | - | - | 2 | -22,511 | 191 | -22,318 | -49 | -22,367 |
| Reversal of unpaid dividends | | - | - | - | - | - | 4 | - | 4 | - | 4 |
| Share-based incentive plan | | - | - | - | - | - | -4 | - | -4 | - | -4 |
| Share-based incentive plan, tax effect | | - | - | - | - | - | 1 | - | 1 | - | 1 |
| Reclassifications and other changes | | - | - | - | - | 56 | -56 | - | - | - | - |
| **Equity 31 December, 2012** | | **12,696** | **25,270** | **26,805** | **-3,308** | **107** | **-31,169** | **-78** | **30,323** | **297** | **30,620** |

| | 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, 2013** | | **12,696** | **25,270** | **26,805** | **-3,308** | **107** | **-31,169** | **-78** | **30,323** | **297** | **30,620** |
| Total comprehensive income for the year | 20 | - | - | - | - | 9 | 1,252 | 571 | 1,832 | -4 | 1,829 |
| Share issue | | - | - | 10,000 | - | - | - | - | 10,000 | - | 10,000 |
| Share issue, costs | | - | - | -900 | - | - | - | - | -900 | - | -900 |
| Share issue paid with convertible and debenture bonds | | - | - | 11,436 | - | - | -1,906 | - | 9,530 | - | 9,530 |
| Result effect of the conversion issue | | - | - | - | - | - | -401 | - | -401 | - | -401 |
| Reclassifications and other changes | | - | - | - | - | 61 | -61 | - | - | - | - |
| **Equity 31 December, 2013** | | **12,696** | **25,270** | **47,341** | **-3,308** | **177** | **-32,285** | **493** | **50,384** | **294** | **50,678** |

**Distributable equity of the parent (FAS)**

EUR thousand

| | 2013 | 2012 |
|---|---|---|
| Reserve for invested unrestricted equity | 48,772 | 26,805 |
| Retained earnings | -3,308 | 13,514 |
| Treasury shares | 1,882 | -3,308 |
| Net profit / loss for the period | 4,242 | -11,102 |
| **Total** | **51,587** | **25,910** |
| | | |
| Dividend per share, EUR | 0.00 | 0.00 |

# Consolidated Statement of Cash Flows

| EUR thousand | 1 January - 31 December 2013 | 2012 restated |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net result attributable to owners of the parent - continued operations | 1,276 | -18,210 |
| Net result attributable to owners of the parent - discontinued operations | 18 | -4,163 |
| Adjustments to net result attributable to owners of the parent [1] | 5,560 | 13,169 |
| Depreciation, amortization and impairment | 4,608 | 15,588 |
| Interest received | 322 | 2,199 |
| Interest paid | -1,599 | -4,513 |
| Dividends received | 6 | 6 |
| Proceeds from disposal of available-for-sale shares | -3,746 | - |
| Other financing items | 627 | -1,546 |
| Income taxes paid | -789 | -1,392 |
| **Cash flows from operating activities before change in net working capital** | **6,283** | **1,138** |
| | | |
| **Change in net working capital** | | |
| Change in inventories | 2,270 | 2,022 |
| Change in current receivables | 330 | 1,869 |
| Change in interest-free current liabilities | -1,737 | -6,144 |
| **Change in net working capital, total** | **863** | **-2,252** |
| **Cash flows from operating activities** | **7,145** | **-1,114** |
| | | |
| **Cash flows from investing activities** | | |
| Business combinations less of acquired cash and cash equivalents | - | -60 |
| Capital expenditure in property, plant and equipment and intangible assets | -2,806 | -5,608 |
| Proceeds from sale of business | 12,868 | - |
| Proceeds from sale of property, plant and equipment and intangible assets | 35 | 159 |
| Proceeds from sale of assets held for sale | 12,354 | - |
| **Cash flows from investing activities** | **22,451** | **-5,509** |
| **Cash flow before financing** | **29,596** | **-6,624** |
| | | |
| **Cash flows from financing activities** | | |
| Share issue and conversion of convertible bond, net | 9,100 | - |
| Draw-down of non-current loans | 14,750 | 148 |
| Repayments of non-current loans | -43,512 | -1,597 |
| Change in non-current loan receivables (decrease +, increase -) | - | 22 |
| Change in current loan receivables (decrease +, increase -) | 105 | 49 |
| Draw-down of current loans | 44,381 | 11,168 |
| Repayments of current loans | -47,875 | -10,252 |
| **Cash flows from financing activities** | **-23,051** | **-462** |
| | | |
| **Effect of exchange rate fluctuations** | **-1,049** | **-634** |
| | | |
| **Net increase (- decrease) in cash and cash equivalents** | **5,495** | **-7,720** |
| | | |
| Cash and cash equivalents at end of period | 16,376 | 10,880 |
| Cash and cash equivalents at beginning of period | 10,880 | 18,601 |
| **Net increase (- decrease) in cash and cash equivalents** | **5,495** | **-7,720** |

[1] 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 2013 | 2012 |
|---|---|---|
| **Business combinations** | | |
| Purchase consideration of acquisitions made in previous years | - | -60 |
| **Cash flow on acquisitions net of cash acquired** | - | -60 |
| **Disposal of subsidiaries** | | |
| Purchase consideration received in cash | 15,542 | - |
| Expenses related to the sale, paid in 2013 | -1,088 | - |
| Cash and cash equivalents of divested subsidiaries | -1,586 | - |
| **Net cash flow** | **12,868** | **-** |

# Per Share Data

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | | restated | restated |
| Earnings per share, EUR, continuing operations | 0.01 | -0.16 | -0.15 |
| Earnings per share, EUR, discontinued operations | - | -0.04 | 0.02 |
| Earnings per share, EUR, basic and diluted | 0.01 | -0.20 | -0.13 |
| Dividend per share, EUR [1] | - | - | - |
| Equity attributable to owners of the parent per share, EUR | 0.26 | 0.27 | 0.46 |
| Price per earnings per share (P/E) ratio | 53.8 | -1.3 | -3.4 |
| Price per equity attributable to owners of the parent per share | 1.53 | 0.97 | 0.97 |
| Dividends paid, EUR million [1] | - | - | - |
| Number of shares at the end of the year | 193,708,336 | 105,588,636 | 105 588 636 |
| Number of shares at the end of the year, treasury shares excluded | 192,919,754 | 104,800,054 | 104 800 054 |
| Number of shares, average, adjusted with share issue, treasury shares excluded | 174,146,044 | 113,240,777 | 108,946,156 |
| Number of shares, dilution effect of the convertible bond taken into account, average, adjusted with share issue, treasury shares excluded | 175,859,686 | 120,513,650 | 110,537,735 |

[1] The 2013 dividend is the Board of Directors' proposal to the Annual General Meeting.

**Share price and turnover**

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Share price, year high, EUR | 0.44 | 0.74 | 1.27 |
| Share price, year low, EUR | 0.22 | 0.23 | 0.40 |
| Share price, volume-weighted year average, EUR | 0.35 | 0.39 | 0.84 |
| Share price, end of year, EUR | 0.40 | 0.26 | 0.45 |
| Number of shares traded (1,000) | 35,594 | 17,736 | 8,447 |
| % of average number of registered shares | 20.7 % | 16.9 % | 8.5 % |
| Market capitalization, end of year, EUR million | 77.2 | 27.2 | 47.2 |

# Financial Ratios

| EUR thousand | 2013 | 2012 restated | 2011 restated |
|---|---|---|---|
| **Income statement and profitability** | | | |
| Net sales | 122,218 | 115,637 | 119,711 |
| Operating result | 5,871 | -8,790 | -3,101 |
| % of net sales | 4.8 % | -7.6 % | -2.6 % |
| Operating result, non-recurring items excluded | 2,126 | -3,387 | -3,406 |
| % of net sales | 1.7 % | -2.9 % | -2.8 % |
| Financial income and expenses (net) | -957 | -8,637 | -10,819 |
| % of net sales | 0.8 % | 7.5 % | 9.0 % |
| Result of continuing operations before income taxes and non-controlling interests | 4,913 | -17,427 | -13,921 |
| % of net sales | 4.0 % | -15.1 % | -11.6 % |
| Income taxes | -3,636 | -821 | -2,506 |
| Result of discontinued operations | 18 | -4,163 | 1,947 |
| Net profit / loss attributable to owners of the parent | 1,294 | -22,364 | -14,463 |
| % of net sales | 1.1 % | -19.3 % | -12.1 % |
| Return on capital employed (ROCE), %, total of continuing and discontinued operations | 9.9 % | -12.6 % | 0.3 % |
| Return on equity, % | 3.2 % | -53.6 % | -31.3 % |
| Research and development expenses, continuing operations | 4,809 | 5,267 | 4,970 |
| % of net sales of continuing operations | 3.9 % | 4.6 % | 4.2 % |
| Research and development expenses, discontinued operations | - | 2,500 | 3,107 |
| Research and development expenses, continuing and discontinued operations | 4,809 | 7,767 | 8,077 |
| % of net sales of continuing and discontinued operations | 3.9 % | 5.7 % | 5.7 % |
| Gross capital expenditure, continuing operations | 2,484 | 2,493 | 3,185 |
| % of net sales of continuing operations | 2.0 % | 2.2 % | 2.7 % |
| Gross capital expenditure, discontinued operations | 283 | 3,115 | 2,524 |
| Gross capital expenditure, continuing and discontinued operations | 2,768 | 5,608 | 5,709 |
| % of net sales of continuing and discontinued operations | 2.2 % | 4.1 % | 4.0 % |
| Order book, continuing operations, EUR million | 39.1 | 34.2 | 35.8 |
| Order book, discontinued operations, EUR million | - | 1.4 | 1.8 |
| Order book, EUR million | 39.1 | 35.6 | 37.6 |
| **Statement of financial position and solvency** | | | |
| Property, plant and equipment and intangible assets | 15,642 | 18,028 | 36,818 |
| Goodwill | 36,843 | 36,843 | 52,601 |
| Non-current assets total | 58,335 | 63,765 | 101,169 |
| Equity attributable to owners of the parent | 50,384 | 30,323 | 52,640 |
| Equity (includes non-controlling interest) | 50,678 | 30,620 | 52,986 |
| Liabilities | 74,926 | 127,374 | 134,170 |
| Total assets | 125,603 | 157,994 | 187,157 |
| Capital employed | 75,642 | 99,198 | 121,282 |
| Net interest-bearing debt | 8,588 | 57,698 | 49,696 |
| Equity ratio, % | 45.4 % | 21.6 % | 31.0 % |
| Gearing, % | 49.3 % | 224.0 % | 128.9 % |
| Net gearing, % | 16.9 % | 188.4 % | 93.8 % |
| **Personnel** | | | |
| Personnel, average | 590 | 820 | 899 |
| Personnel, continuing operations, at the end of the period | 581 | 602 | 675 |
| Personnel, discontinued operations, at the end of the period | - | 175 | 195 |
| Personnel, at the end of the period, total | 581 | 776 | 870 |
| in Finland | 129 | 140 | 145 |

# 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)**

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

**Diluted earnings per share**

$$\frac{\text{Net result attributable to owners of the parent adjusted with the result effect of the convertible bond}}{\text{Adjusted average number of shares, dilution effect of the convertible bond taken into account}}$$

**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

**Operating result (EBIT) excluding non-recurring items**

Profit / loss of continuing operations after depreciation, amortization and impairment, share of associates' results included, non-recurring items excluded

**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)**

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

## 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 OMX Helsinki Ltd. Small Cap in Helsinki, Finland. Glaston Corporation is the parent of Glaston Group and its registered office is at Yliopistonkatu 7, 00100 Helsinki, Finland.

Glaston Group is an international glass technology company. Glaston is 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 Glaston Group are organized in two reportable segments, which are Machines and Services. Supporting activities include head office operations.

The Board of Directors of Glaston Corporation has in its meeting on 6 February, 2014, 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.

### NEW ACCOUNTING STANDARDS

Glaston has applied the following new or revised or amended standards and interpretations from 1 January, 2013:

**Revised IAS 19 Employee Benefits**

The standard changes the recognition of actuarial gains and losses. The corridor method is no longer allowed in recognizing actuarial gains and losses but they are recognized 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 not subsequent recycling to profit or loss. The revised IAS 19 standard is applied retrospectively. As a result of applying the revised IAS 19, Glaston's liabilities from defined benefit plans increased approximately EUR 0.4 million and equity decreased approximately EUR 0.5 million.

**IFRS 13 Fair Value Measurement**

The new standard sets out the requirement to determine fair value and to disclose related information in the financial statements. IFRS 13 extends the disclosure requirement for assets measured at fair value not included in financial assets.

The new standard did not have material impact on consolidated financial statements.

**IAS 1 (amended) Presentation of Financial Statements**

The most significant change is the requirement to group the items included in the statement of comprehensive income, depending on their potential recognition through profit or loss in the future (reclassification adjustments). The amendment has no effect on which items are presented in the statement of comprehensive income but they do affect the method of presentation in consolidated financial statements.

Other new or amended standards or interpretations applicable from 1 January, 2013 are not material for Glaston Group.

Glaston will apply the following new or revised or amended standards and interpretations from 1 January, 2014, if EU has approved them:

**IFRS 10 Consolidated Financial Statements**

The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The standard defines the principles of control and establishes control as the basis for consolidation. The amendment of IFRS 10 does not affect the consolidated financial statements of Glaston.

**IFRS 11 Joint Arrangements**

The standard outlines the accounting by entities that jointly control an arrangement. Joint control involves the contractual agreed sharing of control and arrangements subject to joint control and classified as either a joint venture or joint operation.

The amendment does not have an impact on the consolidated financial statements.

**IFRS 12 Disclosure of Interests in Other Entities**

The standard is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The new standard extends the scope of Group disclosures about its interests in other entities.

**IFRS 27 (revised 2011) Separate Financial Statements**

The amended IAS 27 outlines the accounting and disclosure requirements for separate financial statements remaining after sections regarding control were included in the new IFRS 10. The amendment does not have a material impact on the consolidated financial statements.

**IFRS 28 (revised) Investments in Associates and Joint Ventures**

The amended standard outlines how to apply the equity method to investments in associates and joint ventures.

The amendment does not have a material impact on the consolidated financial statements.

**IAS 32 (amended) Financial Instruments: Presentation**

The amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

The amendment does not have a material impact on the consolidated financial statements.

**IAS 36 (amended) Impairment of assets on recoverable amount disclosures**

The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

Other new or amended standards or interpretations applicable from 1 January, 2014 are not material for Glaston Group.

## 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 fulfills 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 2013 and 2012, 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 applied during the reporting periods 2013 and 2012.

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 2013 or 2012.

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 pediod. 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 fair value reserve in equity until the assets are disposed, at which time the cumulative gain or loss is reclassified from equity in profit or loss as a reclassification item.

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 2013 Glaston had no convertible bond. During the first quarter, Glaston repurchased convertible bonds with a nominal value EUR 2 million at a price which was below the nominal value.

In 2012, Glaston's convertible bond was classified and recognized partly as equity and partly as a financial liability in accordance with IAS 32 Financial Instruments: Presentation. The fair value of the convertible bond is presented in Note 25 to the consolidated financial statements. In 2012 the fair value of the convertible bond was calculated using a new conversion price, which the Board of Directors of Glaston proposed to holders of the 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.

The recognition of defined benefit plans changed starting from 1 January, 2013, as amendments to IAS 19 came into effect. Comparative information has been restated retrospectively during the first quarter of 2013.

According to the new 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. The revised IAS 19 standard is applied retrospectively. As a result of applying the revised IAS 19, Glaston's liabilities from defined benefit plans increased approximately EUR 0.4 million and equity decreased approximately EUR 0.5 million.

### SHARE-BASED PAYMENTS

Glaston's share-based incentive plans are directed to the Group's key personnel as part of the Group's incentive plans. 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 share-based incentive plans of Glaston are a combination of shares and cash payments. Glaston has the option to settle the possible rewards in cash in its entirety. 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 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, and the portion settled in shares has been recorded in retained earnings in equity net of tax. Glaston has recorded 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.

### NON-RECURRING ITEMS

Glaston includes in non-recurring items 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 non-recurring items. Non-recurring items 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 operating result excluding non-recurring items.

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

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 non-recurring items.

### 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 capitalised as part of the acquisition cost of intangible assets if the intangible assets are qualifying assets as defined in IAS 23 Borrowing Costs. In 2013 or 2012 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 reportable segments. The goodwill allocated to the Machines reportable segment, is allocated further to the operating segments within the Machines reportable segment (Heat Treatment, Pre-processing and Tools).

## 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 capitalised as part of the acquisition cost of tangible assets if the tangible assets are qualifying assets as defined in IAS 23 Borrowing Costs. In 2013 or 2012 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 recognised 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 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.

The Group has acquired machinery and equipment under finance leases.

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.

### SEGMENT INFORMATION

The reportable segments of Glaston are Machines and Services. The reportable segments apply Glaston Group's accounting and measurement principles. Glaston follows the same commercial terms in transactions between segments as with third parties.

The reportable segments 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.

The reportable segments are disclosed in more detail in 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 judgement 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 prop-

erty, 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 judgements 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. Also orders of software licenses of discontinued operations have been 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. For Software Solutions, which has been reclassified as discontinued operations, orders received include binding undelivered software license orders as well as the net sales of software services.

### AUDIT

Quarterly information as well as interim reports are not audited.

## Note 2

## Critical Accounting Estimates And Judgements And Assessment Of Going Concern

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 can have an effect on the result of the reporting period. At the end of the reporting period of 2013, Glaston's continuing operations had EUR 6.3 (7.5) million of capitalized development expenditure in the statement of financial position.

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 was at the end of the reporting period EUR 19.7 (21.8 ) million, the carrying amount of trade receivables continuing operations was EUR 21.0 (23.9) million and the carrying amount of loan receivables was EUR 2.5 (2.6) 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, the carrying amount of deferred tax assets of continuing operations was EUR 3.7 (EUR 6.7) million and the carrying amount of deferred tax liabilities EUR 1.0 (1.3) million.

If Glaston's management has assessed that as a result of a past event Glaston has a legal or constructive obligation, and that is its 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 warranty provision of continuing operations, EUR 3.0 (2.5) 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. The most significant defined benefit plan is the severance plan of Glaston's Italian subsidiary. The carrying amount of the liability of this plan was EUR 1.3 (1.3) million at the end of the reporting period. The revised IAS 19 Employee Benefits, which has been applied from 1 January, 2013, and which was applied retrospectively, changes the recognition of actuarial gains and losses. From 1 January, 2013 on, actuarial gains and losses have been recognized in Other Comprehensive Income and they affect equity.

# Note 3

# Management of Financial Risks

## FINANCIAL RISK MANAGEMENT

The main objectives for the financial risk management within Glaston are to secure the sufficient funding of the Group while taking into consideration the current and future needs of the business and at the same time to secure competitive cost of financing.

The Group's treasury functions have been centralized 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 the use of the Policy.

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 high credit-worthiness are accepted. Counterparties are approved annually by the Board of Directors of Glaston Corporation.

## 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 main invoicing currency is the euro which is the Group's functional currency. The most significant foreign exchange risk arises from exchange rate fluctuations between the euro and the US dollar, but group has significant exposures of brazilian Real, chinese Yuan and English Pound. US dollar accounted for approximately 23 per cent of the net sales of continuing operations in 2013 (in 2012, total of continuing and discontinued operarations 21 per cent). Euro and US dollar together account for approximately 71 per cent of the invoicing of continuing operations (in 2012, total of continuing and discontinued operations 79 per cent).

The Group did not have major foreign currency denominated loans at 31 December, 2013. The working capital credit facilities of foreign subsidiaries are in their domestic currencies.

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 currency positions. In 2013, currency hedging was not in use. The Group has not hedged the net investments in foreign entities.

Glaston does not apply hedge accounting as defined by IAS 39.

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 million | Gross position | -10 per cent | +10 per cent |
| USD/EUR | -3.0 | -0.3 | 0.3 |
| BRL/EUR | 1.0 | 0.1 | -0.1 |
| CNY/EUR | -2.6 | -0.3 | 0.2 |
| GBP/EUR | 1.0 | 0.1 | -0.1 |
| | -3.6 | | |

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, 2013. The analysis takes into consideration the impact of foreign exchange derivatives, if such instruments are in use, which offsets the effects of changes in foreign exchange rates.

### Interest Rate Risk

Possible changes in the interest rates cause a risk that will affect the result of the Group. The objective for the interest risk management is to minimize 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 the end of 31 December, 2013 was 4.2 months in comparison to 7.5 months at the end of the previous year. The current average interest fixing term is clearly lower than the limit set by Board of Directors of Glaston Corporation.

On 31 December, 2013, the Group's interest-bearing net debt consisted mainly of loans agreed with the lenders in the financing agreement made in February 2011 (renegotiated in February 2013).

For the sensitivity analysis as defined by IFRS 7, a possible +1 / -0.5 percentage point change in the interest rates was assessed, with all other factors remaining unchanged. The effect of the change on the Group's result before taxes considering the level of debt with flexible interest rates on 31 December, 2013, is EUR -0.2 / 0.1 (-0.7 / + 0.4) million. In reality, the current low level of short interests (the Group's financing is tied to short interests) in the market makes a decrease of 0.5 per centage points impossible.

## 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 eliminate the risk as far 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 accelerates fund inflows and reduces risk by using advance payments.

At the end of 2013, 30.7 (14.4) per cent of Group's trade receivables were secured by guarantees. The carrying amounts of trade receivables equal their maximum credit risk.

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 un-

favorable changes in the level of business, particularly in construction sector, could negatively impact 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. Portfolio investments consist mainly of money market deposits. The risk profile of accepted counterparties and maximum risk to a single counterparty are approved annually by the Board of Directors of Glaston Corporation.

**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, 2013, was EUR 21.0 million (in 2012, total of continuing and discontinued operations EUR 23.9 million). Of this amount the receivables, which have been renegotiated in line with IFRS 7 were EUR 0.0 (0.0) million.

Ageing analysis and changes in allowance account of trade receivables are presented in Note 19 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

**Committed credit facilities**

| EUR million | In use | Unused | Total |
|---|---|---|---|
| Committed credit facilities 31.12.2013 | 15.3 | 2.7 | 18.0 |
| Committed credit facilities 31.12.2012 | 12.5 | 8.5 | 21.0 |

**Maturity analysis of financial liabilities 31 December, 2013**

| EUR thousand | | | Maturing in | | |
|---|---|---|---|---|---|
| **Maturity of financial liabilities** | **Carrying amount** | **Contractual cash flows** | **< 12 months** | **1-2 years** | **> 2 years** |
| Financial liabilities | | | | | |
| Credit facilities | 10,750 | 10,910 | 10,910 | - | - |
| Other interest-bearing loans | 14,214 | 14,951 | 3,048 | 2,922 | 8,981 |
| Trade payables | 8,212 | 8,212 | 8,187 | 25 | - |
| Forward contracts | | | | | |
| - inflow | 354 | 354 | 354 | - | - |
| - outflow | 415 | 415 | 415 | - | - |

**Maturity analysis of financial liabilities 31 December, 2012**

| EUR thousand | | | Maturing in | | |
|---|---|---|---|---|---|
| **Maturity of financial liabilities** | **Carrying amount** | **Contractual cash flows** | **< 12 months** | **1-2 years** | **> 2 years** |
| Financial liabilities | | | | | |
| Credit facilities | 3,055 | 3,055 | 3,086 | - | - |
| Other interest-bearing loans | 53,250 | 53,994 | 53,911 | 79 | 4 |
| Convertible bond and commercial papers | 12,224 | 14,706 | 978 | 13,728 | - |
| Trade payables | 11,255 | 11,255 | 11,179 | 76 | - |
| Other liabilities | 1,339 | 1,339 | 1,339 | - | - |
| Forward contracts | | | | | |
| - inflow | 329 | 329 | 329 | - | - |
| - outflow | 343 | 343 | 343 | - | - |
| Guarantees | | | | | |
| - on behalf of own commitments | - | 418 | 418 | - | - |
| - on behalf of others | - | 1 | 1 | - | - |

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

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's 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 on a monthly basis to the management and to the Board of Directors of Glaston Corporation.

Group's funding is mainly organized by using the approroximately EUR 44 million financial package renegotiated with the lenders in February 2013.

The Group executed a share issue, renegotiated the new long-term financial package as well as negotiatied with holders of the convertible and debenture bonds to convert the bonds to equity during the first quarter of 2013.

**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 the 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 terms and other commitments 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 interest cover, net debt /EBITDA, cash reserves and gross capital expenditure. The covenants are monitored regularly.

The covenant terms of the new loan agreement signed on 7 February, 2013 are mainly the same as in the previous loan agreement, but the levels of the covenant terms are more favourable to Glaston. The new financial arrangement includes restrictions on dividend to be paid. The restrictions apply only to dividends to be paid from the financial years of 2012 and 2013.

| EUR thousand | 31 December, 2013 | 31 December, 2012 |
|---|---|---|
| **Interest-bearing net debt** | | |
| Non-current interest-bearing liabilities | 11,565 | 12,299 |
| Current interest-bearing liabilities | 13,399 | 56,230 |
| Liabilities related to non-current assets held for sale | - | 49 |
| Cash and cash equivalents, continuing and discontinued operations | -16,376 | -10,880 |
| **Total** | **8,588** | **57,698** |
| | | |
| **Equity** | | |
| Attributable to owners of the parent | 50,384 | 30,323 |
| Non-controlling interest | 294 | 297 |
| **Total** | **50,678** | **30,620** |
| | | |
| Total assets | 125,603 | 157,994 |
| Advances received, continuing and discontinued operations | -14,019 | -16,115 |
| **Total** | **111,584** | **141,879** |
| | | |
| Equity ratio, % | 45.4% | 21.6% |
| Net gearing, % | 16.9% | 188.4% |

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 2013 and 2012, 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 OMX 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 2013, the highest price of the Glaston share was EUR 0.44 (in 2012 EUR 0.74) and the lowest price EUR 0.22 (0.23). The average volume-weighted share price was EUR 0.35 (0.39). At the end of 2013, the share price stood at EUR 0.40 (0.26). The turnover of the share in NASDAQ OMX Helsinki Ltd. in 2013 was 35,593,605 (17,736,025) shares and in euro-terms EUR 12.3 (7.0) million. Number of shares traded was 20.7 (16.9) per cent of the average share stock. Market capitalization at the end of 2013 was approximately EUR 77.2 (27.2) million.

## NOTIFICATIONS AS PER SECTION 5 OF CHAPTER 9 OF THE SECURITIES MARKET ACT

On 27 September, 2013 Glaston received a notification of change in holdings in accordance with Chapter 9, Section 5 of the Securities Markets Act that Oy G.W.Sohlberg Ab's share of the total number of shares and voting rights had exceeded 10 per cent.

On 19 September 2013 Glaston received a notification of change in holdings in accordance with Chapter 9, Section 5 of the Securities Markets Act that Yleisradion eläkesäätiö's (Yleisradio Pension Fund) share of the total number of shares and voting rights had fallen below 5 per cent.

Glaston Corporation received on 11 March 2013 the following notifications of change in holdings in accordance with Chapter 9, Section 5 of the Securities Markets Act. All changes in holdings were related to a share issue directed to the public and a conversion issue directed to the holders of Glaston Corporation's convertible bond 2009 and debenture bond 2011 as described in a stock exchange release issued by Glaston Corporation on 11 March 2013:

Hymy Lahtinen Oy´s share of the total number of shares and voting rights in Glaston Corporation has exceeded 5 per cent. Hymy Lahtinen Oy's shareholding following the share issues is 10,150,200 shares and the share of the total number of shares and voting rights is 5.24 per cent.

Oy G.W. Sohlberg Ab's share of the total number of shares and voting rights in Glaston Corporation has fallen below 10 per cent, G.W. Sohlberg's number of shares is 12,819,400 shares and share of the total number of shares and voting rights is 6.62 per cent.

GWS Trade Oy's share of the total number of shares and voting rights in Glaston Corporation has fallen below 10 per cent. GWS Trade Oy's shareholding following the share issues is 13,446,700 shares and the share of the total number of shares and voting rights is 6.94 per cent.

Glaston Corporation received on 12 March 2013 the following notifications of change in holdings in accordance with Chapter 9, Section 5 of the Securities Markets Act. All changes in holdings were related to a share issue directed to the public and a conversion issue directed to the holders of Glaston Corporation's convertible bond 2009 and debenture bond 2011 as described in a stock exchange release issued by Glaston Corporation on 11 March 2013:

Etera Mutual Pension Insurance Company´s share of the total number of shares and voting rights in Glaston Corporation has exceeded 10 per cent. Etera Mutual Pension Insurance Company's shareholding following the share issues is 26,764,885 shares and the share of the total number of shares and voting rights is 13.82 per cent.

Yleisradion eläkesäätiö's (Yleisradio Pension Fund) share of the total number of shares and voting rights in Glaston Corporation has exceeded 5 per cent. Yleisradion eläkesäätiö's shareholding following the share issues is 10,481,369 shares and share of the total number of shares and voting rights is 5.41 per cent.

## RESTRICTIONS ON DIVIDEND PAYMENT

The new financial arrangement concluded on 7 February, 2013 includes restrictions on dividends to be paid. The restriction does now allow dividends to be paid from the financial years of 2012 and 2013. These restrictions do not apply to statutory dividends.

## AUTHORIZATIONS OF THE BOARD OF DIRECTORS

The Extraordinary General Meeting held on 12 February 2013 authorised the Board of Directors to decide on one or more issuances of shares. At its meeting on 28 February 2013, Glaston's Board of Directors decided, based on the authorisations granted by the Extraordinary General Meeting held on 12 February 2013 and by the Annual General Meeting held on 5 April 2011, to execute a share issue by offering a maximum of 50,000,000 new shares for subscription by the public, in derogation of the preemptive subscription right of shareholders, at the subscription price of EUR 0.20 per share. Furthermore, the Board of Directors decided, based on the authorisation granted by the Extraordinary General Meeting held on 12 February 2013, to execute a share issue directed at the holders of the convertible bond issued by Glaston in 2009 and the debenture bond issued by Glaston in 2011. This conversion issue offered a maximum of 38,119,700 new shares in the company for subscription by the holders of the convertible bond 2009 and debenture bond 2011, in derogation of the pre-emptive subscription right of shareholders. The subscription price of the new shares offered in the conversion issue was EUR 0.30 per share.

The Annual General Meeting of Glaston Corporation was held in Helsinki on 17 April 2013. 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 by other assets either partially or entirely. The authorisation is valid until 30 June 2014 and it invalidates earlier authorisations.

## THE EFFECT OF THE CONVERTIBLE BOND ON NUMBER OF SHARES

On 11 March 2013, Glaston's Board of Directors approved the subscriptions of 50,000,000 issued shares made in the share issue and the subscriptions of 38,119,700 new shares made in the conversion issue. As a result of the share issue and the conversion issue, the number of the company's shares increased by 88,119,700 shares to 193,708,336 shares. The new shares were entered in the Trade Register on 27 March 2013. The total subscriptions of the share issue and the conversion issue were approximately EUR 21.4 million.

Glaston Corporation's paid and registered share capital on 31 March 2013 as well as on 31 December 2013 was EUR 12.7 million and the number of issued and registered shares totalled 193,708,336. The company has one series of share. At the end of March as well as on 31 December 2013, 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 treasury shares is EUR 51,685.

| Number of shares and treasury shares | 2013 | 2012 |
|---|---|---|
| **Number of shares (registered)** | | |
| Number of shares 1 January | 105,588,636 | 105,588,636 |
| Conversion of convertible bond | 38,119,700 | - |
| Share issue | 50,000,000 | - |
| Number of shares 31 December | 193,708,336 | 105,588,636 |
| Treasury shares 31 December | -788,582 | -788,582 |
| **Number of shares 31 December, excluding treasury shares** | **192,919,754** | **104,800,054** |
| **Average share-issue adjusted number of shares 31 December, excluding treasury shares** | **174,146,077** | **113,240,777** |
| Average share-issue adjusted number of shares 31 December, excluding treasury shares, dilution effect of the convertible bond taken into account | 175,859,686 | 120,513,650 |
| **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.

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

Glaston's 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 | 2013 | 2012 |
|---|---|---|
| Equity attributable to owners of the parent, EUR thousand | 50,384 | 30,323 |
| Share-issue adjusted number of shares | 192,919,754 | 113,240,777 |
| **Equity attributable to owners of the parent per share, EUR** | **0.26** | **0.27** |

**Dividend**

| | | |
|---|---|---|
| Dividend per share, EUR | 0.00 | 0.00 |

The 2013 dividend is the Board of Directors' proposal to the Annual General Meeting.

**Largest shareholders 31 December, 2013**

| | Shareholder | Number of shares | % of shares and votes |
|---|---|---|---|
| 1 | Etera Mutual Pension Insurance Company | 27,593,878 | 14.25% |
| 2 | Oy G.W.Sohlberg Ab | 26,266,100 | 13.56% |
| 3 | Varma Mutual Pension Insurance Company | 17,331,643 | 8.95% |
| 4 | Finnish Industry Investment Ltd | 16,601,371 | 8.57% |
| 5 | Hymy Lahtinen Oy | 10,000,000 | 5.16% |
| 6 | Yleisradio Pension Foundation | 8,887,235 | 4.59% |
| 7 | Päivikki and Sakari Sohlberg Foundation | 4,815,600 | 2.49% |
| 8 | Investsum Oy | 3,480,000 | 1.80% |
| 9 | Sumelius Bjarne Henning | 2,406,504 | 1.24% |
| 10 | Sijoitusrahasto Danske Invest Suomen Pienyhtiöt | 2,244,114 | 1.16% |
| 11 | Sijoitusrahasto Säästöpankki Pienyhtiöt | 2,107,860 | 1.09% |
| 12 | Sumelius-Fogelholm Birgitta Christina | 1,994,734 | 1.03% |
| 13 | Vakuutusosakeyhtiö Henki-Fennia | 1,752,820 | 0.90% |
| 14 | von Christierson Charlie | 1,600,000 | 0.83% |
| 15 | Metsänen Arto Juhani | 1,500,000 | 0.77% |
| 16 | Oy Nissala Ab | 1,500,000 | 0.77% |
| 17 | Sijoitusrahasto Nordea Pro Suomi | 1,400,000 | 0.72% |
| 18 | Sumelius Bertil Christer | 1,398,533 | 0.72% |
| 19 | Sumelius-Koljonen Barbro | 1,350,238 | 0.70% |
| 20 | Oy Cacava Ab | 1,200,000 | 0.62% |
| | **Total 20 largest shareholders** | **135,430,630** | **69.91%** |
| | Other shareholders | 58,202,506 | 30.05% |
| | Not in the book-entry securities system (in joint account) | 75,200 | 0.04% |
| | **Total** | **193,708,336** | **100.0 %** |
| | Treasury shares | -788,582 | 0.41% |
| | **Total excluding treasury shares** | **192,919,754** | |

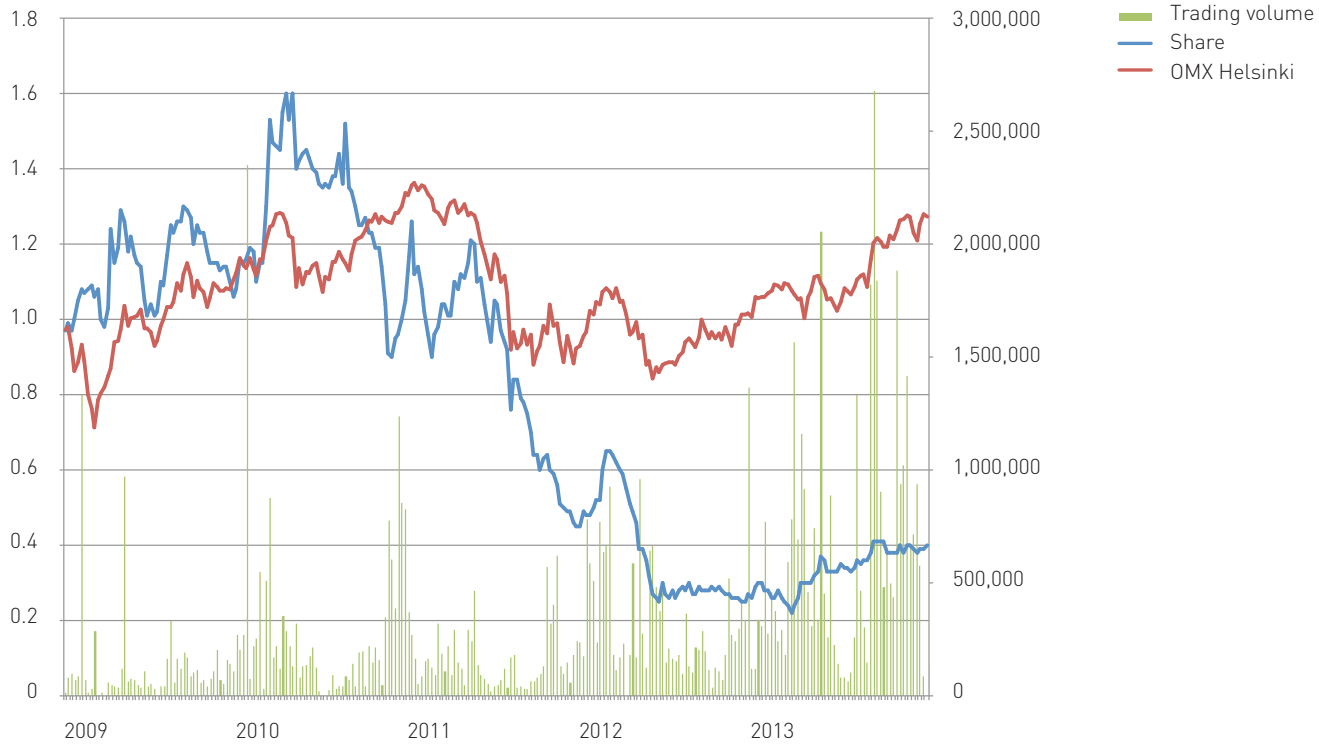
**Ownership distribution 31 December, 2013**

| | Shares total | % of shares and votes |
|---|---|---|
| Corporations | 71,930,609 | 37.1% |
| Financial and insurance corporations | 6,623,736 | 3.9% |
| Non-profit institutions | 6,109,616 | 3.2% |
| Households | 47,922,219 | 24.7% |
| Foreign countries | 6,164,960 | 3.2% |
| General government | 53,832,756 | 27.8% |
| Total | 192,583,896 | 100.0% |
| Nominee registered | 1,049,240 | 0.5% |
| Total | 193,633,136 | 100.0% |
| Not in the book-entry securities system (in joint account) | 75,200 | 0.0% |
| **Total** | **193,708,336** | **100.0%** |

**Shareholders by share ownership 31 December, 2013**

| Number of shares | Number of shareholders | % of shareholders | Shares total | % of shares and votes |
|---|---|---|---|---|
| 1–100 | 383 | 6.9% | 23,624 | 0.0% |
| 101–1,000 | 2,302 | 41.7% | 1,294,776 | 0.7% |
| 1,001–10,000 | 2,219 | 40.2% | 8,122,159 | 4.2% |
| 10,001–100,000 | 491 | 8.9% | 14,379,320 | 7.4% |
| 100,001–99,999,999 | 124 | 2.2% | 169,813,257 | 87.7% |
| Total | 5,519 | | 193,633,136 | 100.0% |
| Not in the book-entry securities system (in joint account) | | | 75,200 | 0.0% |
| **Number of shares issued** | | | **193,708,336** | **100.0%** |

**Share price development and trading volume**



# Note 5

## Segment Information

EUR thousand

The reportable segments of Glaston are Machines and Services. Software Solutions segment, which previously belonged to reportable segments is presented as discontinued operations. The reportable segments apply 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 segments as with third parties.

The reportable segments 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.

The reportable Machines segment consists of Glaston's operating segments manufacturing glass processing machines and related tools. The Machines segment includes manufacturing and sale of glass tempering, bending and laminating machines, glass pre-processing machines as well as sale and manufacturing of tools.

Services segment includes maintenance and service of glass processing machines and sale of spare parts and upgrades. In addition, in 2012 the services segment also included software business in North Asia which previously belonged to Software Solutions segment. This business ended during 2013. Comparable information has been restated.

The unallocated operating result consists of head office operations of the Group.

Glaston's chief operating decision maker is the CEO of Glaston Corporation, with the help of the Group's Executive Management Group. The segment information reported to the chief operating decision maker includes segment revenue (net sales), operating result, orders received and order book as well as operative net working capital.

| Reportable segments 2013 | Machines | Services | Software Solutions (discontinued operations) | Total segments | Unallocated and eliminations and adjustments | Total |
|---|---|---|---|---|---|---|
| External net sales | 92,604 | 28,931 | 1,754 | 123,290 | -1,071 | 122,218 |
| Internal net sales | 30 | 1,290 | - | 1,320 | -1,320 | - |
| **Total net sales** | **92,634** | **30,221** | **1,754** | **124,610** | **-2,391** | **122,218** |
| **Operating result of the segments, non-recurring items excluded** | **2,324** | **5,304** | **1,610** | **9,239** | **-7,113** | **2,126** |
| Operating result includes share of results of associates | - | - | - | - | - | - |
| Non-recurring items | -3 | 2 | - | -1 | 3,746 | 3,745 |
| **Operating result, non-recurring items included** | **2,321** | **5,307** | **1,610** | **9,237** | **-3,367** | **5,871** |
| Financial items | | | | | | -957 |
| Income taxes | | | | | | -3,636 |
| Profit / loss for the year, continuing operations | | | | | | 18 |
| **Result for the reporting period** | | | | | | **1,295** |
| Segment assets | 66,225 | 27,669 | 0 | 93,894 | 4,867 | 98,761 |
| Other assets | | | | | | 26,842 |
| **Total assets** | | | | | | **125,603** |
| Segment liabilities | 40,861 | 5,803 | - | 46,664 | 1,943 | 48,607 |
| Other liabilities | | | | | | 26,318 |
| **Total liabilities** | | | | | | **74,926** |
| **Operative net working capital** | **25,364** | **21,866** | **0** | **47,230** | **2,924** | **50,154** |

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.

The non-recurring items of 2013, in total EUR 3.7 million positive, consist mainly of the gain from the sale of Tampere real estate. Other non-recurring items are adjustments made to restructuring costs initially recognized in 2012.

| Reportable segments 2012, restated | Machines | Services | Software Solutions (discontinued operations) | Total segments | Unallocated and eliminations and adjustments | Total |
|---|---|---|---|---|---|---|
| External net sales | 84,672 | 30,838 | 20,984 | 136,494 | -20,857 | 115,637 |
| Internal net sales | 16 | 1,466 | 25 | 1,506 | -1,506 | - |
| **Total net sales** | **84,688** | **32,304** | **21,009** | **138,000** | **-22,363** | **115,637** |
| **Operating result of the segments, non-recurring items excluded** | **-2,583** | **5,919** | **1,754** | **5,090** | **-8,477** | **-3,387** |
| Operating result includes share of results of associates | - | - | 1 | 1 | -1 | -0 |
| Non-recurring items | -4,739 | -109 | -5,685 | -10,533 | 5,130 | -5,403 |
| **Operating result, non-recurring items included** | **-7,322** | **5,810** | **-3,931** | **-5,443** | **-3,347** | **-8,790** |
| Financial items | | | | | | -8,637 |
| Income taxes | | | | | | -821 |
| Profit / loss for the year, continuing operations | | | | | | -4,163 |
| **Result for the reporting period** | | | | | | **-22,412** |
| Segment assets | 73,399 | 29,045 | 19,684 | 122,128 | -16,895 | 105,233 |
| Other assets | | | | | | 52,762 |
| **Total assets** | | | | | | **157,994** |
| Segment liabilities | 43,435 | 5,990 | 2,611 | 52,036 | -295 | 51,741 |
| Other liabilities | | | | | | 75,633 |
| **Total liabilities** | | | | | | **127,374** |
| **Operative net working capital** | **29,964** | **23,055** | **17,073** | **70,092** | **-16,600** | **53,492** |

The non-recurring items of 2012 consist of goodwill impairment loss (EUR 3.0 million), goodwill impairment loss arising from measurement of disposal group classified as held for sale at fair value less costs to sell (EUR 5.2 million, in result of discontinued operations) and personnel and other costs arising from restructuring (EUR 2.9 million, of which EUR 0.5 million in the result of discontinued operations).

| Non-cash income and expenses included in operating result [*] | 2013 | 2012 restated |
|---|---|---|
| Machines | -2,059 | -3,608 |
| Services | -647 | -938 |
| Segments total | -2,706 | -4,547 |
| Unallocated | -334 | -214 |
| **Total non-cash expenses and income** | **-3,040** | **-4,761** |

[*] Excluding impairment.

Non-cash income and expenses in 2013 included the following items: impairment losses of trade receivables EUR -1.1 million, impairment losses of inventory EUR -0.5 million, changes in provisions EUR -1.4 million.

Non-cash income and expenses in 2012 included the following items: impairment losses of trade receivables EUR -1.4 million, impairment losses of inventory EUR -1.4 million, changes in provisions EUR -1.9 million. Non-cash income and expenses of discontinued operations were EUR 0.2 million.

| Goodwill, depreciation, amortization and impairment losses by segment | 2013 | 2012 restated |
|---|---|---|
| **Goodwill**, EUR million | | |
| Machines | 20.0 | - 20.0 |
| Services | 16.8 | 16.8 |
| Software Solutions | - | 7.6 |
| Total | 36.8 | 44.4 |
| Reclassification to assets held for sale | - | -7.6 |
| **Segments total** | **36.8** | **36.8** |
| | | |
| **Depreciation and amortization by segment**, EUR thousand | | |
| Machines | 3,398 | 3,750 |
| Services | 404 | 772 |
| Software Solutions | 186 | 2,439 |
| Total | 3,988 | 6,961 |
| Unallocated | 806 | 923 |
| Reclassification to discontinued operations | -186 | -2,439 |
| **Total depreciation and amortization** | **4,608** | **5,445** |
| | | |
| **Impairment losses and reversals of impairment losses of property, plant and equipment and intangible assets, net** [*], EUR thousand | | |
| Machines | 1 | 2,988 |
| Services | 0 | - |
| Software Solutions | - | 5,200 |
| Segments total | 1 | 8,188 |
| Unallocated | - | - |
| Reclassification to discontinued operations | - | -5,200 |
| **Total impairment losses** | **1** | **2,988** |

[*] Includes impairment loss of goodwill (for 2012).

Orders received and order book by segment

| **Orders received**, EUR million | 2013 | 2012 |
|---|---|---|
| Machines | 94.5 | 86.3 |
| Services | 28.7 | 31.8 |
| **Total continuing operations** | **123.3** | **118.1** |
| Software Solutions (discontinued operations) | - | 16.5 |
| **Total** | **123.3** | **134.7** |

| **Order book** | 31 December, 2013 | 31 December, 2012 |
|---|---|---|
| Machines | 38.0 | 33.1 |
| Services | 1.1 | 1.1 |
| **Total continuing operations** | **39.1** | **34.2** |
| Software Solutions (discontinued operations) | - | 1.4 |
| **Total** | **39.1** | **35.6** |

Personnel

| | 2013 | 2012 |
|---|---|---|
| **Number of personnel at the end of the year by segment** | | |
| Machines | 441 | 461 |
| Services | 128 | 130 |
| Parent and other | 12 | 11 |
| **Total continuing operations** | **581** | **602** |
| Software Solutions (discontinued operations) | - | 175 |
| **Total number of personnel** | **581** | **776** |
| | | |
| **Number of personnel at the end of the year by geographical location** | | |
| Finland | 129 | 140 |
| Other EMEA | 168 | 158 |
| Americas | 88 | 110 |
| Asia | 196 | 194 |
| **Total number of personnel** | **581** | **602** |

| Entity-wide disclosures<br>EUR thousand | 2013 | 2012<br>restated |
|---|---|---|
| **Net sales by product groups, continuing operations** | | |
| Goods sold | 116,509 | 110,478 |
| Services rendered | 5,709 | 5,159 |
| **Total net sales** | **122,218** | **115,637** |
| | | |
| **Net sales by country by destination, continuing operations** | | |
| Finland | 310 | 2,011 |
| Other EMEA | 50,289 | 46,175 |
| Americas | 44,415 | 42,038 |
| Asia | 27,204 | 25,413 |
| **Total** | **122,218** | **115,637** |

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

| **Property, plant and equipment and intangible assets by geographical location (goodwill excluded)** [*] | | |
|---|---|---|
| Finland | 10,108 | 20,796 |
| Other EMEA | 1,574 | 1,950 |
| Americas | 411 | 679 |
| Asia | 3,549 | 3,931 |
| **Total property, plant and equipment and intangible assets, goodwill excluded** | **15,642** | **27,356** |

[*] 2012 only continuing operations

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

| Construction contracts | 2013 | 2012 |
|---|---|---|
| Total revenue from construction contracts included in net sales during the reporting period | 69,211 | 69,485 |
| Construction contracts in progress at the end of reporting period:<br>revenue recognized during the reporting period and previous reporting periods | 42,033 | 37,445 |

| Gross amounts due from / to customers in 2013 | 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 | 35,646 | 26,013 | 9,633 |
| Projects where advances received exceed recognized revenue | 6,387 | 18,458 | 12,070 |
| Gross amounts due from / to customers | 42,033 | 44,470 | |

| Gross amounts due from / to customers in 2012 | 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 | 25,401 | 20,506 | 4,895 |
| Projects where advances received exceed recognized revenue | 2,651 | 15,556 | 12,905 |
| Gross amounts due from / to customers | 28,053 | 36,062 | |

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

| Other operating income | 2013 | 2012 |
|---|---|---|
| Capital gains on sale of property, plant and equipment | 1 | 65 |
| Rents | 491 | 564 |
| Gain on sales of assets held for sale | 3,746 | - |
| Government grants | 123 | 314 |
| Other income | 61 | 118 |
| **Other operating income total** | **4,423** | **1,061** |

Government grants are related to regional headquarter compensation.

# Note 8

## Materials and Other Operating Expenses

EUR thousand

| Materials | 2013 | 2012 |
|---|---|---|
| Materials and supplies, purchases during the period | -49,867 | -44,795 |
| Change in inventories of materials and supplies | -640 | -1,168 |
| **Total materials** | **-50,507** | **-45,964** |

| Other operating expenses | | |
|---|---|---|
| Leases | -3,774 | -3,301 |
| Losses on sale of property, plant and equipment | -131 | -16 |
| Subcontracting and maintenance | -6,693 | -6,785 |
| Commissions | -1,942 | -2,211 |
| Freight expenses | -2,867 | -2,826 |
| Travel expenses | -3,366 | -3,947 |
| External services, not production related | -2,553 | -4,767 |
| IT, internet and phone | -3,186 | -3,492 |
| Electricity, heating | -1,373 | -1,484 |
| Marketing expenses | -1,144 | -1,391 |
| Other expenses | -5,921 | -8,098 |
| **Total other operating expenses** | **-32,950** | **-38,318** |

| Fees for professional services rendered by principal auditors | | |
|---|---|---|
| Auditing, Ernst & Young | -457 | -446 |
| Auditing, other auditing companies | -27 | -92 |
| Other services, EY | -40 | -106 |
| Other services, other auditing companies | - | -2 |
| **Total** | **-524** | **-645** |

The principal auditor of Glaston Group during the financial years of 2013 and 2012 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 | -301 | -328 |

| Research and development costs, continuing operations | 2013 | 2012 |
|---|---|---|
| Recognized in profit or loss | -2,690 | -3,325 |
| Amortization, impairment losses and reversals of impairment losses of capitalized development costs during the reporting period, net | -2,119 | -1,942 |
| **Total** | **-4,809** | **-5,267** |
| As a per centage of net sales | 3.9% | 4.6% |
| | | |
| Capitalized development costs during the reporting period, continuing operations | 947 | 1,568 |
| Capitalized development costs during the reporting period, discontinued operations | 230 | 2,853 |
| **Capitalized development costs during the reporting period, total** | **1,177** | **4,421** |

# Note 9

## Employee Benefits and Number of Personnel

EUR thousand

| Employee benefits | 2013 | 2012 restated |
|---|---|---|
| Wages and salaries | 24,291 | 23,783 |
| Pension expenses | 4,229 | 4,232 |
| Other personnel expenses | 2,696 | 2,919 |
| Other post-employment benefits | -1 | 4 |
| **Total personnel expenses** | **31,215** | **30,938** |

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

| Pension expenses | | |
|---|---|---|
| Defined benefit plans | -0 | 0 |
| Defined contribution plans | 4,229 | 4,232 |
| **Total pension expenses** | **4,229** | **4,232** |

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

| Number of personnel | | |
|---|---|---|
| Number of personnel, average, continuing and discontinued operations | 590 | 820 |
| Number of personnel, average, continuing operations | 590 | 634 |
| | | |
| Personnel in Finland, end of the period, continuing operations | 129 | 140 |
| Personnel outside Finland, end of the period, continuing operations | 452 | 462 |
| **Total, continuing operations** | **581** | **602** |
| | | |
| Personnel, continuing operations, at the end of the period | 581 | 602 |
| Personnel, discontinued operations, at the end of the period | - | 175 |
| **Personnel, at the end of the period** | **581** | **776** |

# Note 10

## Financial Income and Expenses

EUR thousand

| Recognized in profit or loss | 2013 | 2012 restated |
|---|---|---|
| **Interest income** | | |
| Interest income on loans and receivables | 808 | 775 |
| Other interest income | 1 | 0 |
| Total interest income | 809 | 776 |
| | | |
| **Dividend income** | | |
| Dividend income on available-for-sale financial assets | 6 | 6 |
| | | |
| **Other financial income** | | |
| Conversion issue | 1,906 | - |
| Convertible bond repurchase | 881 | - |
| Financial income on emission right receivable | - | 244 |
| Total other financial income | 2,787 | 244 |
| | | |
| **Interest expenses** | | |
| Interest expenses on financial liabilities measured at amortized cost | -1,586 | -5,087 |
| Other interest expenses | -15 | -169 |
| Total interest expenses | -1,601 | -5,256 |
| | | |
| **Other financial expenses** | | |
| On financial liabilities measured at amortized cost | -928 | -1,297 |
| On loans and receivables | -205 | -194 |
| Other financial expenses | -122 | -14 |
| Total other financial expenses | -1,255 | -1,506 |
| | | |
| **Impairment losses on loans and receivables** | - | -2,000 |
| | | |
| **Foreign exchange differences, net** | | |
| On financial liabilities measured at amortized cost | -1,057 | -679 |
| On loans and receivables | -642 | -214 |
| Other foreign exchange gains and losses | -5 | -9 |
| Total foreign exchange differences | -1,704 | -902 |
| | | |
| **Total financial income and expenses in financial items** | **-957** | **-8,637** |

During the first quarter Glaston purchased back convertible bonds with a nominal value of EUR 2 million. The price paid for the bonds was less than the nominal value which resulted in a EUR 0.9 million financial income.

In addition, during the first quarter the remaining convertible bonds with accrued interest as well as debenture bond with accrued interest were used as payment in a share issue (conversion issue). As the conversion price was higher than the fair value of the share at the time of conversion, a financial income of EUR 1.9 million was recognized.

| Net foreign exchange differences in operating result | | |
|---|---|---|
| Net sales | 45 | -88 |
| Purchases | -188 | -35 |
| Other operating expenses | -370 | -69 |
| **Total** | **-513** | **-192** |

Derivatives recognized in profit or loss

| Electricity derivatives, non-hedge accounting | | |
|---|---|---|
| Realized electricity derivatives recognized in operating expenses | -32 | -38 |
| Unrealized electricity derivatives recognized in operating expenses | -61 | -14 |
| **Total** | **-93** | **-52** |

Recognized in other comprehensive income

| | | |
|---|---|---|
| Fair value changes of available-for-sale financial assets | 12 | 3 |
| **Total in other comprehensive income** | **12** | **3** |

Borrowing costs were not capitalized in Glaston Group in 2013 or 2012 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 2013, no impairment loss of loan receivables was recognized. In 2012, an impairment loss of loan receivables of EUR 2.0 million was recognized, based on managements estimate of the debtor's ability to pay back the loan.

# Note 11

# Income Taxes

EUR thousand

| Income tax charge in income statement | 2013 | 2012 restated |
|---|---|---|
| Current income tax charge | -709 | -132 |
| Adjustments in respect of current income tax of previous years | 86 | -225 |
| Deferred tax charge | -2,646 | 471 |
| Other | -366 | -936 |
| **Total income tax charge** | **-3,636** | **-821** |

Income taxes recognized in other comprehensive income and in equity

| | | |
|---|---|---|
| Deferred taxes | | |
| Share-based incentive plan recognized in equity | - | 1 |
| Available-for-sale assets, fair value changes recognized in other comprehensive income | -3 | -0 |
| Total deferred taxes recognized in other comprehensive income and equity | -3 | 1 |
| **Total taxes recognized in other comprehensive income and in equity** | **-3** | **1** |

| Reconciliation of income tax expense calculated at statutory tax rates with income tax expense in the income statement | 2013 | 2012 restated |
|---|---|---|
| Profit before taxes | 4,913 | -17,427 |
| Tax at the tax rate applicable to the parent | -1,204 | 4,270 |
| Difference due to different tax rates of foreign subsidiaries | 157 | 72 |
| Impairment losses of goodwill | - | -732 |
| Tax exempt income and non-deductible expenses | -2,351 | -2,173 |
| Effect of changes in tax rates and tax laws | -859 | - |
| Losses, where no deferred tax benefit is recognized | -63 | -3,538 |
| Deferred taxes recognized during the reporting period in respect of previous years' temporary differences | -70 | 33 |
| Withholding taxes and adjustments in respect of current income tax of previous periods | -280 | -1,161 |
| Use of losses, where no deferred tax asset was recognized | 540 | 164 |
| Eliminations | - | 1,197 |
| Effect of taxes not based on taxable income | 494 | 1,048 |
| **Income taxes in the income statement** | **-3,636** | **-821** |

The Group companies have tax losses, totalling EUR 75.5 (84.0) 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 2013 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 24.5 per cent.

Deferred tax liability has not been recognized in 2013 or 2012 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 | 2013 | 2012 restated |
|---|---|---|
| Deferred tax assets | 3,722 | 6,747 |
| Assets for current tax | 712 | 886 |
| Deferred tax liabilities | 975 | 1,325 |
| Liabilities for current tax | 372 | 302 |

**Reconciliation of deferred tax assets and deferred tax liabilities**

**2013**

| Deferred tax assets | 1 January | Exchange difference | Reclassification | Charge in income statement (- tax expense) | Recognized in equity | Recognized in other comprehensive income | 31 December |
|---|---|---|---|---|---|---|---|
| Unrealized internal profits, inventory | 387 | - | - | -81 | - | - | 306 |
| Unrealized internal profits, property, plant and equipment and intangible assets | 3 | - | - | -3 | - | - | -0 |
| Confirmed tax losses carried forward [*] | 5,543 | - | - | -2,760 | - | - | 2,783 |
| Share-based payments | -0 | - | - | 79 | - | - | 79 |
| Other temporary differences | 814 | -25 | - | -235 | - | - | 554 |
| **Deferred tax assets in statement of financial position** | **6,747** | **-25** | **-** | **-3,000** | **-** | **-** | **3,722** |

[*] 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.
Reclassification = reclassification to disposal group classified as held for sale.

| Deferred tax liabilities | 1 January | Exchange difference | Reclassification | Charge in income statement (- tax expense) | Recognized in equity | Recognized in other comprehensive income | 31 December |
|---|---|---|---|---|---|---|---|
| Untaxed reserves | 325 | - | - | -289 | - | - | 36 |
| Defined benefit employee benefits | 48 | - | - | -1 | - | - | 47 |
| Available-for-sale financial assets at fair value | 16 | - | - | - | - | 3 | 19 |
| Share-based payments | -0 | - | - | - | - | - | -0 |
| Other temporary differences | 937 | -1 | - | -63 | - | - | 873 |
| **Deferred tax liabilities in statement of financial position** | **1,326** | **-1** | **-** | **-353** | **-** | **3** | **975** |

| | |
|---|---|
| Change in deferred taxes in income statement, continuing operations (- tax expense) | -2,647 |
| Change in deferred taxes in income statement in result of discontinued operations (- tax expense) | - |
| **Total change in deferred taxes in income statement (- tax expense)** | **-2,647** |

2012
restated

| Deferred tax assets | 1 January | Exchange difference | Reclassification | Charge in income statement (- tax expense) | Recognized in equity | Recognized in other comprehensive income | 31 December |
|---|---|---|---|---|---|---|---|
| Defined benefit employee benefits | 2 | - | - | -2 | - | - | - |
| Unrealized internal profits, inventory | 510 | - | - | -123 | - | | 387 |
| Unrealized internal profits, property, plant and equipment and intangible assets | 6 | - | - | -3 | - | - | 3 |
| Confirmed tax losses carried forward [*] | 5,543 | - | - | - | - | - | 5,543 |
| Share-based payments | 9 | - | - | -10 | 1 | - | -0 |
| Other temporary differences | 853 | -6 | -26 | -7 | - | - | 814 |
| **Deferred tax assets in statement of financial position** | **6,923** | **-6** | **-26** | **-145** | **1** | **-** | **6,747** |
| | | | | | | **-** | |

[*] 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.
Reclassification = reclassification to disposal group classified as held for sale.

| Deferred tax liabilities | 1 January | Exchange difference | Reclassification | Charge in income statement (- tax expense) | Recognized in equity | Recognized in other comprehensive income | 31 December |
|---|---|---|---|---|---|---|---|
| Untaxed reserves | 264 | - | - | 61 | - | - | 325 |
| Defined benefit employee benefits | 177 | - | - | 4 | - | -134 | 47 |
| Intangible assets recognized at fair value | 160 | - | -160 | - | - | - | - |
| Available-for-sale financial assets at fair value | 17 | - | - | - | - | -0 | 16 |
| Share-based payments | 8 | - | - | -8 | - | - | -0 |
| Other temporary differences | 2,928 | 1 | -1,315 | -676 | - | - | 937 |
| **Deferred tax liabilities in statement of financial position** | **3,553** | **1** | **-1,475** | **-620** | **-** | **-134** | **1,325** |

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) | 475 |
| Change in deferred taxes in income statement in result of discontinued operations (- tax expense) | -359 |
| **Total change in deferred taxes in income statement (- tax expense)** | **116** |

## Note 12

## Depreciation, Amortization and Impairment of Assets

EUR thousand

| | 2013 | 2012 |
|---|---|---|
| **Depreciation and amortization** | | restated |
| Intangible assets | | |
| Intangible rights | 1,183 | 1,279 |
| Capitalized development expenditure | 2,119 | 1,942 |
| Property, plant and equipment | | |
| Buildings and constructions | 213 | 890 |
| Machinery and equipment | 1,028 | 1,244 |
| Other tangible assets | 64 | 90 |
| **Total depreciation and amortization** | **4,607** | **5,445** |
| | | |
| **Impairment losses** | | |
| Intangible assets | | |
| Goodwill | - | 2,988 |
| Intangible rights | 1 | - |
| Property, plant and equipment | | |
| Machinery and equipment | 0 | - |
| **Total impairment losses** | **1** | **2,988** |
| **Total depreciation, amortization and impairment** | **4,608** | **8,433** |

**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 2013 Glaston has performed impairment testing of goodwill for certain cash generating units (Pre-processing and Tools) quarterly.

Glaston's cash generating units consist of reportable segments, generating cash flows, which are largely independent of the cash flows of other reportable segments. The goodwill allocated to the Machines reportable segment has been allocated further to the operating segments within the Machines reportable segment (Heat Treatment, Pre-processing and Tools).

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 has been 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, where the estimated growth is expected to be higher than in the Western Europe, this growth have been taken into account in terminal value. This can be seen in the higher terminal year growth rates in these cash generating units. The growth in the emerging markets exceeds the growth estimates of Western European markets.

The assumptions used in impairment calculations are mainly the same as in budgets and 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 the Machines segment in particular. The new products have received 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.

In 2013 cautious development was perceptible in Glaston's markets. In Asia and South America market development was stable and this is expected to continue. The recovery of the North American market continued as the outlook for the construction industry is more positive than in 2012. The market situation in the EMEA area remained challenging. The fundamentals of the industry are, however, expected to remain unchanged, so flat glass production is expected to grow in the subsequent years. As the investments in new production machinery have been in standstill after the recession the production machinery will soon be outdated, which increases the pressure for new machinery investments. Also increased demands for better quality of flat glass increases the investment needs. The use of glass for example in the construction industry has increased, especially in the emerging markets. Also enhanced enegy efficiency regulations increase demand for energy-saving glass.The recovery of automotive market increases the demand for flat glass. The solar energy markets are expected to grow from the current level in long term.

The discount rate used in arriving in recoverable amount is the pre-tax weighted average cost of capital, which reflects the market assessment of time value of money and risks specified to the assets and the countries where the segments operate. Also the industry's median capital structure has been taken into account 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 rate. 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.

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

| The most significant assumptions used in value in use calculations in 2013 | Machines: Heat Treatment | Machines: Pre-processing | Machines: Tools |
|---|---|---|---|
| Pre-tax discount rate | 13.7% | 11.4% | 14.8% |
| Long-term growth rate | 2.0% | 3.0% | 2.0% |

| | Services |
|---|---|
| Pre-tax discount rate | 12.3% |
| Long-term growth rate | 2.0% |

| The most significant assumptions used in value in use calculations in 2012 | Machines: Heat Treatment | Machines: Pre-processing | Machines: Tools |
|---|---|---|---|
| Pre-tax discount rate | 14.8% | 16.5% | 19.0% |
| Long-term growth rate | 2.0% | 3.0% | 2.0% |

| | Services |
|---|---|
| Pre-tax discount rate | 13.9% |
| Long-term growth rate | 2.0% |

Impairment testing of goodwill

**Goodwill**
EUR million

| Segment | 1 January, 2013 | Impairment loss | Reclassification to assets held for sale | 31 December, 2013 |
|---|---|---|---|---|
| Machines | | | | |
| Heat Treatment | 4.1 | - | - | 4.1 |
| Pre-processing | 10.2 | - | - | 10.2 |
| Tools | 5.7 | - | - | 5.7 |
| Services | 16.8 | - | - | 16.8 |
| Software Solutions | - | - | - | - |
| **Total** | **36.8** | **-** | **-** | **36.8** |

| Segment | 1 January, 2012 | Impairment loss | Reclassification to assets held for sale | 31 December, 2012 |
|---|---|---|---|---|
| Machines | | | | |
| Heat Treatment | 4.1 | - | - | 4.1 |
| Pre-processing | 13.2 | -3.0 | - | 10.2 |
| Tools | 5.7 | - | - | 5.7 |
| Services | 16.8 | - | - | 16.8 |
| Software Solutions | 12.8 | -5.2 | -7.6 | - |
| **Total** | **52.6** | **-8.2** | **-7.6** | **36.8** |

**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 Heat Treatment and Services segments 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 137 per cent in the Services segment, by 154 per cent in the Heat Treatment operating segment, by 44 per cent in the Tools operating segment and by 9 per cent in the Pre-processing operating segment. As the sensitivity analyses of the Pre-processing operating segment indicate, that there is a possibility for impairment of goodwill in case the cash flows differ from estimated cash flows, Glaston monitors continuosly the performace of this operating segment and performs impairment testing of goodwill immediately, if actual cash flows differ negatively from the estimated cash flows.

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 Changed |
|---|---|---|
| Services | 9.4% | 20.0% |
| Heat Treatment | 10.7% | 25.3% |
| Pre-processing | 9.7% | 10.2% |
| Tools | 11.2% | 14.7% |

| Long-term growth rate [*] | Value assigned to the assumption | Value Changed |
|---|---|---|
| Services | 2.0% | -20.4% |
| Heat Treatment | 2.0% | -41.5% |
| Pre-processing | 3.0% | 2.4% |
| Tools | 2.0% | -3.3% |

[*] 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.

Net sales of Pre-processing operating segment is forecast to grow 11 percent in 2014 compared with net sales of 2013. If the net sales would decrease 3 percentage points more, the recoverable amount, other things being equal, would equal the carrying amount.

Net sales of Tools operating segment is forecast to grow 9 per cent in 2018. If net sales growth would be only 6 percentage points less, the recoverable amount, other things being equal, would equal the carrying amount.

The costs of Heat Treatment operating segment are estimated to be 89 per cent of the estimated net sales during the testing period. Should the costs be 4 percentage points higher, the recoverable amount, other things being equal, would equal the carrying amount.

The costs of Services operating segment are estimated to be 81 per cent of the estimated net sales during the testing period. Should the costs be 10 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 2013 Glaston had no impairment losses. In 2012 Glaston had no other impairment losses than goodwill impairment loss.

# Note 13

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

EUR thousand

Glaston announced in October 2012 that it was negotiating the sale of Software Solutions business area. Glaston published in November 2012 that it has signed a binding contract of the sale ot the business area. The closing of the sale took place on 4 February, 2013.

Software Solutions business area was earlier presented as one of Glaston's reportable segment, but in 2012 financial statements the result of Software Solutions is presented as discontinued operations and assets and liabilities related to Software Solutions business area have been classified held for sale. Software business in North Asia, which previously belonged to Software Solutions segment, was transferred to Services segment as Glaston continued this business during 2012. The business ended in 2013.

| **Revenue, expenses and result of discontinued operations** | **2013** | **2012** |
|---|---|---|
| **Revenue** | 1,755 | 20,984 |
| Expenses | -1,240 | -19,239 |
| **Gross profit** | **515** | **1,745** |
| Finance costs, net | 15 | -17 |
| Impairment loss recognized on the remeasurement to fair value less cost to sell | - | -5,200 |
| **Profit / loss before tax from discontinued operations** | **530** | **-3,473** |
| Income tax | -87 | -691 |
| Income tax related to measurement to fair value less costs to sell | - | - |
| Loss from disposal of discontinued operations | -425 | - |
| **Profit / loss from discontinued operations** | **18** | **-4,163** |

Profit / loss from discontinued operations for 2012 includes EUR 5.2 million goodwill impairment loss. The goodwill impairment loss arose from measurement of net assets held for sale to fair value less costs of sale.

**Assets and liabilities of disposal groups classified as held for sale**

In 2012 assets and liabilities of disposal groups included, in addition to assets and liabilities related to discontinued operations, also the real estate in Tampere, Finland, which Glaston had classified as non-current asset held for sale. On 28 March 2013, Glaston Corporation closed the sale and leaseback of its factory property complex located in Tampere, Finland. As a result, the 2012 carrying amount of the real estate was recovered through a sale transaction and not through continuing use. The lease agreement that arose from the transaction is an operating lease.

| | | |
|---|---|---|
| **Assets** | | |
| Goodwill | - | 7,573 |
| Other intangible assets | - | 7,260 |
| Tangible assets | - | 9,556 |
| Investments in associates | - | 50 |
| Available-for-sale assets | - | 4 |
| Deferred tax asset | - | 30 |
| Inventories | - | 33 |
| Assets for current tax | - | 2 |
| Trade and other receivables | - | 5,025 |
| Cash equivalents | - | 297 |
| **Assets classified as held for sale** | **-** | **29,830** |
| | | |
| **Liabilites** | | |
| Deferred tax liability | - | 1,838 |
| Non-current interest-free liabilities and provisions | - | 134 |
| Current provisions | - | 375 |
| Current interest-bearing liabilities | - | 49 |
| Trade and other payables | - | 2,126 |
| Liabilities for current tax | - | 192 |
| **Liabilities related to assets held for sale** | **-** | **4,715** |

| Net cash flows of discontinued operations | 2013 | 2012 |
|---|---|---|
| Operating | 984 | 2,763 |
| Investing | -283 | -3,097 |
| Financing | -49 | 49 |
| **Net cash flow** | **651** | **-285** |

# Note 14

## Intangible Assets

EUR thousand

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.

| 2013 | Capitalized development expenditure | Intangible rights | Goodwill | Other capitalized expenditure | Advances paid | 2013 total |
|---|---|---|---|---|---|---|
| Acquisition cost at beginning of year | 20,276 | 11,557 | 53,401 | 733 | 1,685 | 87,653 |
| Other increases | 83 | 131 | - | - | 1,229 | 1,443 |
| Decreases | - | -3,320 | 2 | - | - | -3,318 |
| Reclassifications and other changes | 453 | - | - | - | -453 | - |
| Exchange differences | -11 | -75 | -2 | - | -6 | -94 |
| **Acquisition cost at end of year** | **20,800** | **8,293** | **53,401** | **733** | **2,455** | **85,684** |
| Accumulated amortization and impairment at beginning of year | -14,477 | -8,306 | -16,559 | -733 | - | -40,074 |
| Accumulated amortization relating to decreases and transfers | - | 3,189 | - | - | - | 3,189 |
| Amortization during the reporting period | -2,119 | -1,184 | - | - | - | -3,303 |
| Exchange differences | 13 | 71 | - | - | - | 84 |
| **Accumulated amortization and impairment at end of year** | **-16,583** | **-6,230** | **-16,559** | **-733** | **-** | **-40,104** |
| **Carrying amount at end of year** | **4,217** | **2,065** | **36,843** | **0** | **2,455** | **45,580** |

| 2012 | Capitalized development expenditure | Intangible rights | Goodwill | Other capitalized expenditure | Advances paid | 2012 total |
|---|---|---|---|---|---|---|
| Acquisition cost at beginning of year | 30,830 | 11,312 | 66,172 | 733 | 4,007 | 113,053 |
| Other increases | 294 | 291 | - | - | 1,380 | 1,966 |
| Decreases | - | -595 | - | - | - | -595 |
| Reclassifications and other changes | 1,664 | 687 | - | - | -2,371 | -19 |
| Reclassified to assets held for sale (Note 13) | -12,507 | -83 | -12,771 | - | -1,329 | -26,690 |
| Exchange differences | -6 | -55 | - | - | -2 | -63 |
| **Acquisition cost at end of year** | **20,276** | **11,557** | **53,401** | **733** | **1,685** | **87,653** |
| Accumulated amortization and impairment at beginning of year | -20,328 | -7,666 | -13,571 | -733 | - | -42,298 |
| Accumulated amortization relating to decreases and transfers | - | 561 | - | - | - | 561 |
| Amortization during the reporting period | -1,942 | -1,279 | - | - | - | -3,221 |
| Impairment losses (Note 12) | - | - | -2,988 | - | - | -2,988 |
| Reclassified to assets held for sale (Note 13) | 7,788 | 25 | - | - | - | 7,813 |
| Exchange differences | 5 | 53 | - | - | - | 58 |
| **Accumulated amortization and impairment at end of year** | **-14,477** | **-8,306** | **-16,559** | **-733** | **-** | **-40,074** |
| **Carrying amount at end of year** | **5,799** | **3,252** | **36,843** | **0** | **1,685** | **47,579** |

# Note 15

## Property, Plant and Equipment

EUR thousand

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. In addition, Glaston has pledged property, plant and equipment and intangible assets as security for liabilities. The carrying amount of the pledged assets is EUR 0.2 million, and the majority consists of property, plant and equipment.

At the end of 2013 and 2012 Glaston did not have contractual commitments for the acquisition of property, plant and equipment.

In 2013 and 2012, Glaston did not receive any material third party compensation for items of property, plant and equipment that were impaired, lost or given up.

| 2013 | Land and water areas | Buildings and constructions | Machinery and equipment | Other tangible assets | Advances paid and assets under construction | 2013 Total |
|---|---|---|---|---|---|---|
| Acquisition cost at beginning of year | - | 3,694 | 10,658 | 1,555 | 204 | 16,111 |
| Other increases | - | - | 267 | 56 | 719 | 1,042 |
| Decreases | - | - | -1,560 | -889 | - | -2,449 |
| Reclassifications and other changes | - | 41 | -869 | 19 | -91 | -901 |
| Reclassified to assets held for sale (Note 13) | 474 | 567 | - | - | - | 1,041 |
| Exchange differences | - | -57 | -249 | -12 | -0 | -318 |
| **Acquisition cost at end of year** | **474** | **4,245** | **8,247** | **729** | **831** | **14,527** |
| Accumulated depreciation and impairment at beginning of year | - | -1,144 | -6,287 | -1,388 | - | -8,819 |
| Accumulated depreciation relating to decreases and transfers | - | - | 1,532 | 883 | - | 2,414 |
| Depreciation during the reporting period | - | -213 | -1,028 | -64 | - | -1,305 |
| Reclassifications and other changes | - | - | 202 | - | - | 202 |
| Reclassified to assets held for sale (Note 13) | - | -315 | - | - | - | -315 |
| Exchange differences | - | 22 | 173 | 6 | - | 201 |
| **Accumulated depreciation and impairment at end of year** | **-** | **-1,650** | **-5,408** | **-563** | **-** | **-7,621** |
| **Carrying amount at end of year** | **474** | **2,595** | **2,838** | **167** | **831** | **6,905** |

| 2012 | Land and water areas | Buildings and constructions | Machinery and equipment | Other tangible assets | Advances paid and assets under construction | 2012 Total |
|---|---|---|---|---|---|---|
| Acquisition cost at beginning of year | 1,633 | 25,485 | 11,299 | 1,936 | 115 | 40,470 |
| Other increases | - | - | 248 | 11 | 269 | 528 |
| Decreases | - | -14 | -301 | - | - | -316 |
| Reclassifications and other changes | 58 | 72 | 433 | -378 | -180 | 4 |
| Reclassified to assets held for sale (Note 13) | -1,691 | -21,821 | -863 | - | - | -24,375 |
| Exchange differences | - | -28 | -157 | -15 | -0 | -201 |
| **Acquisition cost at end of year** | **-** | **3,694** | **10,658** | **1,555** | **204** | **16,111** |
| Accumulated depreciation and impairment at beginning of year | - | -14,451 | -5,733 | -1,623 | - | -21,806 |
| Accumulated depreciation relating to decreases and transfers | - | 4 | 268 | - | - | 272 |
| Depreciation during the reporting period | - | -890 | -1,244 | -90 | - | -2,225 |
| Reclassifications and other changes | - | - | -303 | 317 | - | 14 |
| Reclassified to assets held for sale (Note 13) | - | 14,183 | 628 | - | - | 14,811 |
| Exchange differences | - | 10 | 96 | 8 | - | 114 |
| **Accumulated depreciation and impairment at end of year** | **-** | **-1,144** | **-6,287** | **-1,388** | **-** | **-8,819** |
| **Carrying amount at end of year** | **-** | **2,550** | **4,371** | **167** | **204** | **7,292** |

| | |
|---|---|
| Carrying amount of machinery and equipment used in production 31 Dec. 2013 | 2,011 |
| Carrying amount of machinery and equipment used in production 31 Dec. 2012 | 3,201 |

# Note 16

## Associates

EUR thousand

**Investment in associates**

| | 2013 | 2012 |
|---|---|---|
| Carrying amount 1 January | - | 50 |
| Share of net result (in discontinued operations) | - | 1 |
| Reclassification to assets held for sale | - | 50 |
| **Carrying amount 31 December** | **-** | **-** |

The carrying amount of investment in associates does not include goodwill.

| **Associates** | | | **Group's ownership, %** | |
|---|---|---|---|---|
| | | | **2013** | **2012** |
| Bitec GmbH Büro fur Informationstechnik | Chemnitz | Germany | - | 49 |

Associated company Bitec GmbH Büro für Informationstechnik was sold in February 2013 to Friedman Corporation

### Associated company balances

In 2012 Glaston Group companies did not have any receivables from or payables to associates.

### Transactions with associates

In 2012 Glaston Group companies did not have any transactions with associates.

### Financial information of the associate

The Group's share of the result of the associate is consolidated using the equity method. The result used in the consolidation in 2012 is from the 2011 financial statements of Bitec GmbH Büro für Informationstechnik as the 2012 financial statements of Bitec GmbH Büro für Informationstechnik were not available when preparing Glaston's consolidated financial statements.

| Profit | 2013 | 2012 |
|---|---|---|
| Assets | - | 1 |
| Liabilities | - | 441 |
| | - | 241 |

# Note 17

## Available-for-sale Financial Assets

EUR thousand

| 2013 | Available-for-sale shares |
|---|---|
| Carrying amount 1 January | 329 |
| Fair value changes recognized in other comprehensive income | 12 |
| Reclassification to assets held for sale | - |
| **Carrying amount 31 December** | **341** |

| 2012 | Available-for-sale shares |
|---|---|
| Carrying amount 1 January | 330 |
| Fair value changes recognized in other comprehensive income | 3 |
| Reclassification to assets held for sale | -4 |
| **Carrying amount 31 December** | **329** |

Glaston has classified its non-current investments as available-for-sale shares and other available-for-sale investments. Glaston recognizes fair value changes of available-for-sale assets 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

| | 2013 | 2012 |
|---|---|---|
| **Inventories** | | |
| Materials and supplies | 6,542 | 7,300 |
| Work in process | 8,238 | 7,884 |
| Finished goods | 4,543 | 6,152 |
| Advances paid | 345 | 430 |
| **Total inventories** | **19,667** | **21,767** |

| | | |
|---|---|---|
| Impairment losses of inventory during the period, continuing operations | -764 | -1,418 |
| Reversals of impairment losses of inventory during the period, continuing operations | 236 | - |
| **Total** | **-528** | **-1,418** |

# Note 19

## Receivables

EUR thousand

| | 2013 | 2012 |
|---|---|---|
| **Receivables** | | |
| Trade receivables | 20,400 | 23,149 |
| Trade receivables, falling due after 12 months | 634 | 754 |
| Total trade receivables | 21,034 | 23,904 |
| | | |
| Prepaid expenses and accrued income | 2,579 | 3,670 |
| Prepaid expenses and accrued income, falling due after 12 months | 282 | 294 |
| | | |
| Other receivables | 5,552 | 2,066 |
| Other receivables, falling due after 12 months | 393 | 478 |
| | | |
| Current loan receivables | 671 | 751 |
| Non-current loan receivables [*] | 1,787 | 1,819 |
| | | |
| **Total receivables** | **32,300** | **32,982** |

[*] 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 2013, no impairment losses were recognized. In 2012, an impairment loss of loan receivables (EUR 2.0 million) was recognized, based on management's estimate of the debtor's ability to pay back the loan. In relation to the same debtor company still has EUR 3.6 million consisting of EUR 1.8 million short term and 1.8 million long term receivables. The receivable is under renegotiations and as a result the company expects it to be changed from short term into long term.

Trade receivables related to construction contracts in progress, EUR 9.6 (4.9) million, are described in more detail in Note 6.

Pledged receivables are disclosed in Note 27.

**Ageing analysis of trade receivables at 31 December**

| | Carrying amount of trade receivables after recognizing allowance account | Not past due | Past due | | | |
|---|---|---|---|---|---|---|
| | | | < 30 days | 31–180 days | 181–360 days | > 360 days |
| **2013** | 21,034 | 15,728 | 2,454 | 2,246 | 607 | - |
| **2012** | 23,904 | 18,064 | 2,927 | 2,110 | 803 | - |

The 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 was 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 4.5 (4.4) million, and the impairment loss of these receivables was EUR 4.1 (3.7) million.

Carrying amount of trade receivables, which would be past due, but whose terms have been renegotiated, was EUR 0.2 (0.0) million.

**Impairment losses of trade receivables and changes in allowance account of trade receivables**

| | |
|---|---|
| Allowance account 1 January, 2012 | 5,870 |
| Exchange difference | -56 |
| Charge for the year | 2,200 |
| Utilized | -2,325 |
| Unused amounts reversed | -839 |
| Reclassification to assets held for sale | -1,158 |
| **Allowance account 31 December, 2012** | **3,691** |
| Exchange difference | 29 |
| Charge for the year | 2,170 |
| Utilized | -477 |
| Unused amounts reversed | -1,294 |
| Reclassification to assets held for sale | - |
| **Allowance account 31 December, 2013** | **4,119** |

Impairment losses of trade receivables recognized in profit or loss, net (- income), continuing operations

| | |
|---|---|
| 2013 | 1,087 |
| 2012 | 1,443 |

## Note 20

## Total Comprehensive Income Included in Equity

EUR thousand

| | Other restricted equity reserves | Fair value reserve | Retained earnings | Cumulative exchange difference | Non-controlling interest | Total |
|---|---|---|---|---|---|---|
| **Total other comprehensive income for 2013** | | | | | | |
| Total exchange differences on translating foreign operations | -0 | - | 1 | 571 | -5 | 567 |
| Change in actuarial gains and losses | - | - | -43 | - | - | -43 |
| Available-for-sale financial assets, fair value changes | - | 12 | - | - | - | 12 |
| Income taxes on fair value changes of available-for-sale financial assets | - | -3 | - | - | - | -3 |
| **Other comprehensive income** | **-0** | **9** | **-42** | **571** | **-5** | **534** |
| **Gain for 2013** | **-** | **-** | **1,294** | **-** | **1** | **1,295** |
| **Total comprehensive income for 2013** | **-0** | **9** | **1,252** | **571** | **-4** | **1,829** |

| Restated | Other restricted equity reserves | Fair value reserve | Retained earnings | Cumulative exchange difference | Non-controlling interest | Total |
|---|---|---|---|---|---|---|
| **Total other comprehensive income for 2012** | | | | | | |
| Total exchange differences on translating foreign operations | -0 | - | 0 | 191 | -2 | 189 |
| Change in actuarial gains and losses | - | - | -209 | - | - | -209 |
| Deferred taxes, actuarial gains and losses | - | - | 62 | - | - | 62 |
| Available-for-sale financial assets, fair value changes | - | 3 | - | - | - | 3 |
| Income taxes on fair value changes of available-for-sale financial assets | - | -0 | - | - | - | -0 |
| **Other comprehensive income** | **-0** | **2** | **-147** | **191** | **-2** | **45** |
| **Loss for 2012** | **-** | **-** | **-22,364** | **-** | **-47** | **-22,412** |
| **Total comprehensive income for 2012** | **-0** | **2** | **-22,511** | **191** | **-49** | **-22,367** |

## Note 21

## Pensions and Other Defined Long-term Employee Benefits

EUR thousand

The Group has defined benefit plans 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 4.2 (2012 restated 4.2) 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.

| | 2013 | 2012 |
|---|---|---|
| **Amounts in the statement of financial position relating to Finnish defined benefit pension plans** | | |
| Fair value of plan assets | - | - |
| Present value of unfunded obligations | 16 | 28 |
| Total deficit of defined benefit pension plans | - | - |
| **Difference** | **16** | **28** |
| | | |
| Amounts in the statement of financial position | | |
| Liabilities | 16 | 28 |
| Assets | - | - |
| **Net liability (asset -)** | **16** | **28** |

| Amounts in the statement of financial position relating to other long-term employee benefits | 2013 | 2012 |
|---|---|---|
| Fair value of plan assets | - | - |
| Present value of unfunded obligations | 1,366 | 1,353 |
| Total deficit of defined benefit pension plans | - | - |
| **Difference** | **1,366** | **1,353** |
| | | |
| Amounts in the statement of financial position | | |
| Liabilities | 1,366 | 1,353 |
| Assets | - | - |
| **Net liability (asset -)** | **1,366** | **1,353** |

| Changes of Finnish defined benefit pension | Present value of obligation | Fair value on plan assets | Total |
|---|---|---|---|
| 1 January 2012 | 28 | - | 28 |
| Current service cost | - | - | - |
| Interest expence / income | 1 | - | 1 |
| Past service cost | - | - | - |
| | **29** | - | **29** |
| **Remeasurements :** | | | |
| Return on plan assets excluding amounts included in interest expence / income | - | - | - |
| Gain (-) /loss (+) from change in financial assumptions | 5 | - | 5 |
| Experience gain (-) /loss (+) | - | - | - |
| | 5 | - | 5 |
| | | | |
| Exchange differences | - | - | - |
| Contributions: | | | |
| Employers (+) | - | 5 | 5 |
| Plan participants (+) | - | - | - |
| | | | |
| Benefit payments (-) | -5 | -5 | -10 |
| 31 December 2012 | 28 | - | 28 |
| | | | |
| 1 January 2013 | 28 | - | 28 |
| Current service cost | - | - | - |
| Interest expence / income | 0 | - | 0 |
| Past service cost | - | - | - |
| | **28** | **-** | **28** |
| **Remeasurements:** | | | |
| Return on plan assets excluding amounts included in interest expence / income | - | - | - |
| Gain (-) /loss (+) from change in financial assumptions | -8 | - | -8 |
| Experience gain (-) /loss (+) | - | - | - |
| | -8 | - | -8 |
| | | | |
| Exchange differences | - | - | - |
| Contributions: | | | |
| Employers (+) | - | 5 | 5 |
| Plan participants (+) | - | - | - |
| | | | |
| Benefit payments (-) | -5 | -5 | -9 |
| 31 December 2013 | 16 | - | 16 |

| Changes of other long-term employee benefit plans | Present value of obligation | Fair value on plan assets | Total |
|---|---|---|---|
| 1 January 2012 | 1,273 | - | 1,273 |
| Current service cost | 4 | - | 4 |
| Interest expence / income | 34 | - | 34 |
| Past service cost | - | - | - |
| | **1,312** | **-** | **1,312** |
| **Remeasurements:** | | | |
| Return on plan assets excluding amounts included in interest expence / income | - | - | - |
| Gain (-) /loss (+) from change in financial assumptions | 203 | - | 203 |
| Experience gain (-) /loss (+) | - | - | - |
| | 203 | - | 203 |
| Exchange differences | 3 | - | 3 |
| Contributions | | | |
| Employers (+) | - | - | - |
| Plan participants (+) | - | - | - |
| Benefit payments (-) | -165 | - | -165 |
| 31 December 2012 | 1,353 | - | 1,353 |
| 1 January 2013 | 1,353 | | 1,353 |
| Current service cost | 5 | - | 5 |
| Interest expence / income | 20 | - | 20 |
| Past service cost | - | - | - |
| | **1,377** | **-** | **1,377** |
| **Remeasurements:** | | | |
| Return on plan assets excluding amounts included in interest expence / income | - | - | - |
| Gain (-) /loss (+) from change in financial assumptions | 51 | - | 51 |
| Experience gain (-) /loss (+) | - | | - |
| | 51 | - | 51 |
| | | - | |
| Exchange differences | -2 | | -2 |
| Contributions | | - | - |
| Employers (+) | - | | - |
| Plan participants (+) | - | - | - |
| | | - | |
| Benefit payments (-) | -60 | | -60 |
| 31 December 2013 | 1,366 | - | 1,366 |
| | | - | |

The Group expects to contribute EUR 95.5 thousand to its other long-term employee benefit plans in 2014.

| Actuarial assumptions | 2013 | | 2012 | |
|---|---|---|---|---|
| | Finnish defined pension plans | Other plans | Finnish defined pension plans | Other plans |
| Discount rate, % | 1.90% | 3.55%–6.00% | 1.50% | 3.75%–6.00% |
| Future salary increase, % | - | 5.50% | - | 5.50% |
| Future pension increases, % | 2.10% | - | 2.10% | - |
| Inflation, % | 2.00% | 2.00%–4.00% | 2.00% | 2.00%–4.00% |
| Expected remaining service period, years | - | 10 | - | 9 |

There are no plan assets.

**Amounts for the current and previous periods, defined benefit pensions**

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Defined benefit pension obligation | 16 | 28 | 28 | 39 | 39 |
| Plan assets | - | - | - | - | - |
| Surplus / deficit (-) | -16 | -28 | -28 | -39 | -39 |
| | | | | | |
| Experience adjustments on plan assets | - | - | - | - | - |
| Experience adjustments on plan liabilities (gain -) | -8 | 3 | -7 | 3 | -8 |

**Amounts for the current and previous periods, other long-term employee benefit plans**

| | 2013 | 2012 restated | 2011 restated | 2010 | 2009 |
|---|---|---|---|---|---|
| Defined benefit obligation | 1,366 | 1,353 | 1,273 | 1,700 | 3,181 |
| Plan assets | - | - | - | - | - |
| Surplus / deficit (-) | -1,366 | -1,353 | -1,273 | -1,700 | -3,181 |
| | | | | | |
| Experience adjustments on plan liabilities (gain -) | -51 | 203 | -126 | -34 | -158 |

# Note 22

## Interest-bearing Liabilities

EUR thousand

| | 2013 | 2012 |
|---|---|---|
| **Non-current interest-bearing liabilities** | | |
| Convertible bond | - | 8,224 |
| Debenture bond | - | 4,000 |
| Loans from financial institutions | 11,559 | - |
| Other non-current liabilities | 6 | 75 |
| **Total non-current interest-bearing liabilities** | **11,565** | **12,299** |
| **Maturity of non-current interest-bearing liabilities** | | |
| 2015 (2014) | 2,605 | 2 |
| 2016 (2015) | 8,960 | - |
| 2017 (2016) | - | - |
| 2018 (2017) | - | - |
| 2019 (2018) or later | - | - |
| **Total** | **11,565** | **2** |
| **Non-current liabilities by currency** | | |
| EUR | 11,559 | 12,224 |
| Other currencies | 6 | 75 |
| **Total** | **11,565** | **12,299** |
| **Current interest-bearing liabilities** | | |
| Loans from financial institutions | 13,350 | 55,329 |
| Other current interest-bearing liabilities | 49 | 901 |
| **Total current interest-bearing liabilities** | **13,399** | **56,230** |
| **Interest-bearing net liabilities** | | |
| Non-current interest-bearing liabilities | 11,565 | 12,299 |
| Current interest-bearing liabilities | 13,399 | 56,230 |
| Liabilities of disposal group classified as held for sale | - | 49 |
| Cash | -16,376 | -10,583 |
| Cash of disposal group classified as held for sale | - | -297 |
| **Total** | **8,588** | **57,698** |

Glaston's main liquidity reserve is based on loans agreed with the lenders in the financing agreement renegotiated in February 2013 (first negotiated in 2011).

The remaining convertible bonds, issued in 2009 and 2011, a total of EUR 8.2 million were converted into equity in March 2013.

The Board of Directors of Glaston Corporation also negotiated with the holders of the debenture bond on conversion of the bonds into Glaston shares and the conversion was done in March 2013.

Some of the Group's loan agreements include terms and other commitments 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 terms of agreement also include restrictions on the distribution of dividends. 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.

### Finance leasing

Glaston has some minor finance lease agreements concerning machinery and equipment. The liability arising from these agreements is fully paid.

The carrying amount of machinery and equipment financed with finance leasing was EUR 0.0 (0.1) million on 31 December 2013, and depreciation thereon was EUR 0.0 (0.0) million.

# Note 23

# Provisions

EUR thousand

**Non-current provisions**

**2013**

| | Warranty provision | Other provisions | Total |
|---|---|---|---|
| Carrying amount 1 January | 1,166 | 5 | 1,171 |
| Reclassification | -1,619 | - | -1,619 |
| Increase in provisions | 1,296 | - | 1,296 |
| Provisions used during the period | -31 | - | -31 |
| **Carrying amount 31 December** | **811** | **5** | **815** |

**2012**

| | Warranty provision | Other provisions | Total |
|---|---|---|---|
| Carrying amount 1 January | 671 | 248 | 918 |
| Reclassification | -461 | - | -461 |
| Increase in provisions | 1,098 | - | 1,098 |
| Provisions used during the period | -105 | -19 | -124 |
| Provisions released during the period | -36 | - | -36 |
| Reclassification to assets held for sale | - | -224 | -224 |
| **Carrying amount 31 December** | **1,166** | **5** | **1,171** |

**Current provisions**

**2013**

| | Warranty provision | Restructuring provision | Other provisions | Total |
|---|---|---|---|---|
| Carrying amount 1 January | 1,351 | 1,703 | 465 | 3,519 |
| Exchange difference | -40 | -32 | -10 | -82 |
| Reclassification | 1,619 | - | - | 1,619 |
| Increase in provisions | 917 | 17 | 83 | 1,017 |
| Provisions used during the period | -886 | -1,636 | -67 | -2,588 |
| Provisions released during the period | -783 | -15 | -91 | -889 |
| **Carrying amount 31 December** | **2,180** | **37** | **379** | **2,596** |

**2012**

| | Warranty provision | Restructuring provision | Other provisions | Total |
|---|---|---|---|---|
| Carrying amount 1 January | 3,375 | 100 | 665 | 4,140 |
| Exchange difference | -35 | - | -11 | -46 |
| Reclassification | 461 | - | - | 461 |
| Increase in provisions | 1,017 | 1,703 | 45 | 2,765 |
| Provisions used during the period | -910 | -46 | -204 | -1,159 |
| Provisions released during the period | -1,854 | -54 | -27 | -1,935 |
| Reclassification to assets held for sale | -702 | - | -4 | -706 |
| **Carrying amount 31 December** | **1,351** | **1,703** | **465** | **3,519** |

**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

| | 2013 | 2012 |
|---|---|---|
| **Non-current interest-free liabilities** | | |
| Other non-current interest-free liabilities | 531 | 0 |
| | | |
| **Current interest-free liabilities** | | |
| Trade payables | 8,212 | 11,255 |
| Advances received [*] | 14,019 | 15,832 |
| Accrued expenses and deferred income | 19,230 | 17,722 |
| Other current interest-free liabilities | 1,830 | 1,625 |
| **Total current interest-free liabilities** | **43,290** | **46,434** |

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 12.1 (12.9) 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

| 31 December, 2013 | 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 | - | - | 16,376 | - | 16,376 | - |
| Trade receivables | 19 | - | - | 21,034 | - | 21,034 | - |
| Other interest-free receivables | 19 | - | - | 5,552 | - | 5,552 | - |
| Receivables related to financial liabilities | | - | - | - | 212 | 212 | - |
| Current loan receivables | 19 | - | - | 626 | - | 626 | - |
| Other non current interest-free receivables | 19 | - | - | 393 | - | 393 | - |
| Non-current loan receivables | 19 | - | - | 1,787 | - | 1,787 | - |
| Available-for-sale shares | 17 | 341 | - | - | - | 341 | - |
| Non-current interest-bearing liabilities | 22 | - | - | - | -11,565 | -11,565 | -10,900 |
| Convertible bond | 22 | - | - | - | - | - | - |
| Current interest-bearing liabilities | 22 | - | - | - | -13,399 | -13,399 | -13,191 |
| Trade payables | 24 | - | - | - | -8,212 | -8,212 | - |
| Other current interest-free liabilities | 24 | - | - | - | -1,830 | -1,830 | - |
| Derivatives (in liabilities) | 26 | - | -61 | - | - | -61 | -61 |
| | | 341 | -61 | 45,768 | -34,794 | 11,254 | -24,152 |

| 31 December, 2012, continuing operations | 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 | - | - | 10,583 | - | 10,583 | - |
| Trade receivables | 19 | - | - | 23,904 | - | 23,904 | - |
| Other interest-free receivables | 19 | - | - | 2,066 | - | 2,066 | - |
| Receivables related to financial liabilities | | - | - | - | 728 | 728 | - |
| Current loan receivables | 19 | - | - | 751 | - | 751 | - |
| Other non current interest-free receivables | 19 | - | - | 478 | - | 478 | - |
| Non-current loan receivables | 19 | - | - | 1,819 | - | 1,819 | - |
| Available-for-sale shares | 17 | 329 | - | - | - | 329 | - |
| Non-current interest-bearing liabilities | 22 | - | - | - | -4,075 | -4,075 | -4,075 |
| Convertible bond | 22 | - | - | - | -8,224 | -8,224 | -2,019 |
| Current interest-bearing liabilities | 22 | - | - | - | -56,230 | -56,230 | -56,230 |
| Trade payables | 24 | - | - | - | -11,255 | -11,255 | - |
| Other current interest-free liabilities | 24 | - | - | - | -1,625 | -1,625 | - |
| Derivatives (in receivables) | 26 | - | -14 | - | - | -14 | -14 |
| | | 329 | -14 | 39,601 | -80,681 | -40,765 | -62,338 |

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

| (* Fair value measurement hierarchy | 2013 | 2012 |
|---|---|---|
| Financial liabilities | | |
| Level 2 | -24,091 | -62,324 |
| | | |
| Available-for-sale shares | | |
| Level 1 | 93 | 81 |
| Level 3 | 248 | 248 |
| | 341 | 329 |
| Derivatives | | |
| Level 2 | -61 | -14 |

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

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

| | 2013 | 2012 |
|---|---|---|
| 1 January | 248 | - 252 |
| Impairment losses | - | - |
| Reclassification | - | -4 |
| 31 December | 248 | 248 |

# Note 26

## Derivative Instruments

EUR thousand

The Group had no currency derivatives at the end of 2013 or 2012.

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.

**Nominal and fair values of derivative instruments**

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Nominal value | Fair value | Nominal value | Fair value |
| **Electricity derivatives** | | | | |
| Forward contracts | 415 | -61 | 343 | -14 |

| | 2013 | 2012 |
|---|---|---|
| **Derivative instruments in the income statement** | | |
| Items included in net sales | - | - |
| Items included in operating expenses | -93 | -52 |
| **Derivative instruments in the statement of financial position, receivables and liabilities** | | |
| Prepaid expenses and accrued income | | |
| Electricity derivatives [*] | - | - |
| Accrued expenses and deferred income | | |
| Electricity derivatives | 61 | 14 |

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

# Note 27

# Contingencies

EUR thousand

| | 2013 | 2012 |
|---|---|---|
| **Loans secured with mortgages or pledges, continuing and discontinued operations** | | |
| Loans from financial institutions | 24,159 | 51,814 |
| Other interest-bearing liabilities | - | 575 |
| Mortgages given | 21,000 | 181,000 |
| Liens on chattel | 143,000 | 143,000 |
| Carrying amount of pledged securities | 90,690 | 106,660 |
| Carrying amount of pledged receivables and other assets | 46,599 | 40,084 |
| **Total loans secured with mortgages, liens on chattel and pledged assets** | **24,159** | **52,389** |
| **Total mortgages, liens on chattel and pledged assets** | **301,289** | **470,744** |

| | | |
|---|---|---|
| **Contingent liabilities, continuing and discontinued operations** | | |
| Mortgages | | |
| On behalf of own commitments | 21,000 | 181,000 |
| Liens on chattel | | |
| On behalf of own commitments | 143,000 | 143,000 |
| Securities pledged [*] | | |
| On behalf of own commitments | 90,690 | 106,660 |
| Receivables and other assets pledged [**] | | |
| On behalf of own commitments | 48,599 | 40,166 |
| On behalf of others | 44 | 96 |
| Total | 303,334 | 470,923 |

[*] Pledged subsidiary shares: The ownership of the shares in Glaston Hong Kong Ltd. (carrying amount EUR 122 thousand) are for technical reasons temporarily transferred to a lender by means of a mortgage agreement. This agreement is valid until the loan has been repaid in accordance with the terms of the loan agreement. Irrespective of the legal form of the procedure Glaston Hong Kong Ltd. has been consolidated as a group company as in accordance with the terms of the mortgage agreement the control remains in Glaston.
[**] The pledged receivables include EUR 44.0 million intra-group receivables.

| | | |
|---|---|---|
| Other commitments | | |
| On behalf of own commitments | - | 540 |
| Guarantees | | |
| On behalf of own commitments | 4,085 | 418 |
| On behalf of others | 2 | 1 |
| Total | 4,087 | 418 |
| **Total contingent liabilities** | **307,421** | **471,881** |

## Operating leases, continuing and discontinued operations

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

| | 2013 | 2012 |
|---|---|---|
| **Minimum future payments of operating lease commitments** | | |
| Maturity within one year | 3,163 | 3,288 |
| Maturity later than one year and not later than five years | 6,380 | 3,882 |
| Maturity later than five years | 8,935 | - |
| **Total minimum future payments of operating lease commitments** | **18,478** | **7,170** |

## 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.

| | 2013 | 2012 |
|---|---|---|
| **Minimum future payments of operating leases** | | |
| Maturity within one year | 552 | 559 |
| Maturity later than one year and not later than five years | 179 | 666 |
| **Total minimum future payments of operating leases** | **730** | **1,225** |

## 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 | | |
| | | | 100.0% | 100.0% |
| Uniglass Engineering Oy | Tampere | Finland | 100.0% | 100.0% |
| Glaston Services Ltd. Oy | Tampere | Finland | 100.0% | |
| Glaston Finland Oy | Tampere | Finland | 100.0% | |
| Tamglass Project Development Oy | Tampere | Finland | 100.0% | |
| Glaston International Oy | Tampere | Finland | 100.0% | |
| Glaston Germany GmbH | Nürnberg | Germany | 100.0% | |
| Glaston America, Inc. | Mount Laurel, NJ | United States | 100.0% | |
| Glaston USA, Inc. | Pittsburgh, PA | United States | 100.0% | |
| Glaston UK Ltd. [****] | Derbyshire | United Kingdom | 100.0% | |
| Bavelloni UK Ltd. [*] | Derbyshire | United Kingdom | 100.0% | |
| Glaston France S.A.R.L. | Chassieu | France | 100.0% | |
| Glaston Singapore Pte. Ltd. | Singapore | Singapore | 100.0% | |
| Glaston Tianjin Co. Ltd. | Tianjin | China | 100.0% | |
| Glaston Management (Shanghai) Co. Ltd. | Shanghai | China | 100.0% | |
| Glaston China Co. Ltd. | Tianjin | China | 100.0% | |
| LLC Glaston | Moscow | Russia | 100.0% | |
| Glaston Mexico S.A. de C.V. | Jalisco | Mexico | 100.0% | |
| Z. Bavelloni South America Ltda | São Paulo | Brazil | 100.0% | |
| Glaston Hong Kong Ltd. [**] | Hong Kong | China | 70.0% | |
| Bavelloni Tools (Tianjin) Co., Ltd. [***] | Tianjin | China | 70.0% | |
| Glaston Tools (Sanhe) Co., Ltd. | Sanhe | China | 100.0% | |
| Glaston Italy S.p.A. | Bregnano | Italy | | |

[*] Merger process is ongoing. The company will be merged with Glaston UK Ltd.
[**] The ownership of the shares in Glaston Hong Kong Ltd. are for technical reasons temporarily transferred to a lender by means of a mortgage agreement. This agreement is valid until the loan has been repaid in accordance with the terms of the loan agreement. Irrespective of the legal form of the procedure Glaston Hong Kong Ltd. has been consolidated as a group company as in accordance with the terms of the mortgage agreement the control remains in Glaston.
[***] Liquidation process is ongoing.
[****] For the year ending 31.12.2013, Glaston UK Ltd. was entitled to exemption from audit under section 479A of the UK Companies Act 2006.

**Changes in subsidiaries in 2013**

The shares in Albat + Wirsam Software Group were sold in February 2013 to Friedman Corporation. The following companies were included
- Albat+Wirsam Software GmbH
- Albat+Wirsam Polska Sp.z.o.o.
- Albat+Wirsam North America Inc.

Associated company: Bitec GmbH Büro für Informationstechnik

Glaston Finland Oy's branch in Sweden was liquidated.

**Changes in subsidiaries in 2012**

- Glaston Australia Pty. Ltd. was liquidated in May, 2012.
- Albat+Wirsam Software GmbH's branches in Austria and Belgium were liquidated.
- The shares in Glaston Germany GmbH were sold in December to Glaston Services Ltd. Oy

# 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 shares can be held by Glaston Corporation's own treasury or they may be purchased in public trading. Therefore, the incentive plan has no dilution effect on the share value.

The share-based incentive plans of Glaston are a combination of shares and cash payments. Glaston has the option to settle the possible rewards in cash in its entirety. 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 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, and the portion settled in shares has been recorded in retained earnings in equity net of tax. 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 2012

On 12 December, 2011 The Board of Directors of Glaston decided to establish a long-term share ownership plan for years 2012, 2013 and 2014. The company's Board of Directors decides on the plan's performance criteria and the targets set for them at the beginning of each performance period. The share bonus plan's target group consists of around 25 people. Glaston's Board of Directors decided in January 2014 that the plan will be withdrawn. No reward have been paid for this plan.

The CEO has a separate share bonus plan according to which the CEO received 50,000 Glaston shares in September 2010, one year after his emloyment in Glaston began. The shares cannot be transferred further within two years from the date of aquisition. The vesting penod of this incentive plan ended in 2012.

## SHARE-BASED INCENTIVE PLAN 2013

On 7 February 2013, Glaston's Board of Directors decided on a new share-based incentive plan for the Group's key personnel. The purpose of the new plan is to unite the objectives of shareholders and key personnel in order to raise the company's value, and to commit key personnel to the company and offer them a competitive bonus plan based on long-term ownership of the company's shares. The share bonus plan has one performance period, which began on 15 March 2013 and ends on 15 March 2014.

Participation in the plan and receipt of rewards for the performance period requires that a key employee subscribed for the company's shares in the share issue organised in spring 2013. Rewards of the plan will be paid in April 2014 as cash instead of shares in accordance with a decision on 21 January 2014 by the Board of Directors, provided that the key employee's employment or service with the Group is in force and that he or she still owns the shares subscribed for in the share issue. 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 share bonus plan's target group consists on 31 December 2013 of 24 people.

| Basic information of the share-based plans | Share-based incentive plan 2013 | Share-based incentive plan 2012 |
|---|---|---|
| Grant date | 7 February, 2013 | 12 December, 2011 |
| Nature of the plan | Cash | Shares and cash |
| Target group | Key personnel | Key personnel |
| Maximum number of shares, settled in shares | - | 1,020,000 |
| Maximum number of shares, settled in cash (calculated as a number of shares) [* | 1,759,333 | 1,060,000 |
| Performance period begins | 15 March, 2013 | 1 January, 2012 |
| Performance period ends | 15 March, 2014 | 31 December, 2012 |
| End of restriction period | 15 March, 2014 | 1 January, 2015 |
| Vesting conditions | Share price<br>Service period | EBIT and net result<br>Service period |
| Maximum contractual life, years | 1 | 3.1 |
| Remaining contractual life, years | 0.3 | 0.0 |
| Number of persons involved 31 December | 24 | 17 |

[* When the plan is settled in shares, also a cash settlement is made to cover income taxes and related payments arising from the transaction.

| **Transactions in 2013**<br>in number of shares | **Performance period 2013** | **Performance period 2012** | **Total** |
|---|---|---|---|
| **Gross number of shares [* 1 January, 2013** | | | |
| Outstanding at the beginning of the period | - | 1,900,000 | 1,900,000 |
| **Changes during the reporting period** | | | |
| Granted | 1,759,333 | 40,000 | 1,799,333 |
| Forfeited | - | 540,000 | 540,000 |
| Settled in cash | - | - | - |
| Expired | - | 1,400,000 | 1,400,000 |
| **Gross number of shares [* 31 December, 2013** | | | |
| Outstanding at the end of the period | - | - | - |
| Excercisable at the end of the period | 1,759,333 | - | 1,759,333 |

[* The number of shares includes the cash-settled part (in shares).

| **Effect on the profit or loss for the period and on financial position in 2013** | **Performance period 2013** | **Performance period 2012** |
|---|---|---|
| Effect on the result of the 2013 reporting period, EUR thousand | 743 | -8 |
| Recognized in equity during the reporting period, EUR thousand | - | -4 |
| Carrying amount of liability 31 December, 2013 | 743 | - |

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 consider 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 2,408 (2,539) thousand.

Glaston had rented premises from companies owned by individuals belonging to the management. The rents paid correspond with the local level of rents. The related party connection ceased at 30 November, 2012.

| | 2013 | 2012 |
|---|---|---|
| **Transactions with related parties** | | |
| EUR thousand | | |
| Rents paid | - | 510 |

| **Remuneration of the Executive Management Group, accrual based** | | |
|---|---|---|
| EUR | | |
| **CEO Arto Metsänen** | | |
| Salaries | 381,629 | 359,629 |
| Bonuses | 65,131 | 47,493 |
| Share based benefit | 159,452 | - |
| Total | 606,212 | 407,122 |
| Fringe benefits | 18,722 | 18,065 |
| **Total** | **624,934** | **425,187** |
| | | |
| Statutory pension payments (Finnish TyEL or similar plan) | 60,443 | 105,142 |
| Voluntary pension payments | 45,429 | 57,162 |
| | | |
| **Other members of the Executive Management Group** | | |
| Salaries | 1,029,220 | 1,271,534 |
| Compensations for termination of employment | - | 540,000 |
| Bonuses | 278,399 | 22,750 |
| Share based benefit | 266,545 | - |
| Total | 1,574,164 | 1,834,284 |
| Fringe benefits | 28,494 | 99,731 |
| **Total** | **1,602,658** | **1,934,015** |
| | | |
| Statutory pension payments (Finnish TyEL or similar plan) | 207,924 | 196,519 |
| Voluntary pension payments | 270,804 | 71,767 |

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

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. The CEO has also a separate share-based payment incentive plan. According to the plan, the CEO received in 2010 50,000 shares in Glaston Corporation in September, ie. one year after the date when his employment in Glaston began. Restrictions related to these shares ceased in September, 2012.

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 | 2013 | | 2012 | |
|---|---|---|---|---|
| | annual fee | meeting fee | annual fee | meeting fee |
| Andreas Tallberg, Chairman of the Board of Directors | 40,000 | 7,600 | 40,000 | 7,200 |
| Christer Sumelius, Deputy Chairman of the Board of Directors | 30,000 | 4,900 | 30,000 | 4,000 |
| Claus von Bonsdorff | 20,000 | 4,400 | 20,000 | 4,500 |
| Teuvo Salminen | 20,000 | 4,900 | 20,000 | 4,500 |
| Pekka Vauramo | 20,000 | 3,900 | 20,000 | 4,500 |
| Anu Hämäläinen (* | 20,000 | 4,900 | 15,000 | 3,000 |
| Carl-Johan Rosenbröijer (** | - | - | 5,000 | 2,000 |
| **Total** | **150,000** | **30,600** | **150,000** | **29,700** |

(* Member of the Board of Directors from 27 March, 2012
(** Member of the Board of Directors until 27 March, 2012

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. This pension liability is covered. The value of the pension insurance corresponds to the Finnish TyEL pension.

**Board of Directors, share ownership**

| | Glaston shares | |
|---|---|---|
| | 31.12.2013 | 31.12.2012 |
| Andreas Tallberg, Chairman of the Board of Directors | 1,500,000 | - |
| Christer Sumelius, deputy Chairman of the Board of Directors | 4,878,933 | 3,838,933 |
| Claus von Bonsdorff | 172,600 | 122,600 |
| Teuvo Salminen | 300,000 | 50,000 |
| Pekka Vauramo | 250,000 | 10,000 |
| Anu Hämäläinen (* | 150,000 | - |
| Carl-Johan Rosenbröijer (** | - | - |

(* Member of the Board of Directors from 27 March, 2012
(** Member of the Board of Directors until 27 March, 2012

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.

**Executive Management Group, share ownership**

| | Glaston shares | |
|---|---|---|
| | 31.12.2013 | 31.12.2012 |
| Arto Metsänen, CEO | 1,500,000 | 86,394 |
| Sasu Koivumäki | 300,000 | - |
| Juha Liettyä | 250,000 | - |
| Roberto Quintero | 50,000 | - |
| Pekka Huuhka | 150,000 | - |
| Frank Chengdong Zhang | - | - |
| Taina Tirkkonen | 75,000 | - |
| Uwe Schmid | - | - |

Taina Tirkkonen joined the Executive Management Group and Uwe Schmid left the Executive Management Group in 2013.

# Note 31

## Restatement of Previous Financial Period

EUR thousand

The revised IAS 19 Employee benefits standard has been applied retrospectively. The effects of the revised standard on consolidated statement of financial position are presented in the table below. The effects on consolidated statement of profit or loss were not material. The effects on Glaston's statement of profit or loss of 2012 are presented in the table below. The restatement did not affect the result of discontinued operations. The restatement of defined benefit pension and other defined long-term employee benefit liabilities affected mainly the Machines segment. Glaston recognizes interest expenses arising from defined benefit plans in financial items.

**Restatement of statement of financial position**

| EUR thousand | 31.12.2012 | restatement | restated 31.12.2012 |
|---|---|---|---|
| Equity attributable to owners of the parent | 30,925 | -305 | 30,620 |
| Defined benefit pension and other defined long-term employee benefit liabilities | 941 | 439 | 1,380 |
| Deferred tax liabilities | 1,459 | -134 | 1,325 |

**Restatement of statement of profit or loss**

| EUR thousand | 1-12/2012 | restatement | restated 1-12/2012 |
|---|---|---|---|
| Expenses | -117,101 | 47 | -117,055 |
| Operating result | -8,837 | 47 | -8,790 |
| Financial items | -8,603 | -34 | -8,637 |
| Income taxes | -818 | -4 | -821 |
| Result of continuing operations | -18,258 | 9 | -18,248 |

# Note 32

## Events after End of the Reporting Period

On 21 January 2014, Glaston Corporation's Board of Directors decided on a new incentive plan for the Group's key personnel as part of a long-term incentive and commitment plan for the senior management of the Group and its subsidiaries. The incentive plan is tied to the development of Glaston's share price. The plan covers the years 2014–2016 and the possible rewards will be paid in spring 2017. The incentive plan covers 34 key Glaston personnel.

In addition, the Board of Directors decided that the share-based incentive plan for 2012–2014, announced on 12 December 2011, will be withdrawn. No rewards were paid under the plan during its period of validity.

At its meeting held on 23 January 2014, the Nomination Board appointed by the Annual General Meeting gave its proposal on the number of the Members of the Board of Directors and on the composition and remuneration of the Board of Directors.

# Parent Company Financial Statements

## Income Statement of the Parent Company (FAS)

EUR thousand

| | | 1 January–31 December | |
|---|---|---|---|
| | Note | 2013 | 2012 |
| **Net sales** | 2 | **3,292** | **3,697** |
| Other operating income | 3 | 3,925 | 2,289 |
| Personnel expenses | 4 | -2,038 | -2,010 |
| Depreciation, amortization and impairment losses | 5 | -1,112 | -1,216 |
| Other operating expenses | 6 | -4,791 | -5,903 |
| **Operating profit / loss** | | **-725** | **-3,143** |
| Net financial items | 7 | 604 | -8,131 |
| **Profit / loss before extraordinary items** | | **-121** | **-11,274** |
| Extraordinary items | 8 | 6,427 | 180 |
| **Profit /loss before appropriations and taxes** | | **6,306** | **-11,094** |
| Appropriations | 8 | -92 | - |
| Income taxes | 9 | -1,972 | -8 |
| **Profit / loss for the financial year** | | **4,242** | **-11,102** |

# Balance Sheet of the Parent Company (FAS)

EUR thousand

| | Note | at 31 December 2013 | 2012 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 10 | 2,086 | 2,655 |
| Tangible assets | 10 | 274 | 2,009 |
| Investments | 11, 12 | 46,558 | 63,558 |
| **Non-current assets, total** | | **48,918** | **68,222** |
| **Current assets** | | | |
| Non-current receivables | 13 | 451 | 2,423 |
| Current receivables | 13 | 59,736 | 39,545 |
| Cash and bank | | 9,099 | 2,874 |
| **Current assets, total** | | **69,286** | **44,842** |
| **Total assets** | | **118,204** | **113,063** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | | 12,696 | 12,696 |
| Share premium account | | 25,270 | 25,270 |
| Reserve for invested unrestricted equity | | 48,772 | 26,805 |
| Treasury shares | | -3,308 | -3,308 |
| Retained earnings | | 1,882 | 13,514 |
| Profit / loss for the financial year | | 4,242 | -11,102 |
| **Total equity** | 14 | **89,553** | **63,875** |
| **Accumulated appropriations** | 15 | **92** | **-** |
| **Liabilities** | | | |
| Non-current liabilities | 16 | 548 | 12,750 |
| Current liabilities | 17 | 28,011 | 36,438 |
| **Total liabilities** | | **28,559** | **49,188** |
| **Total equity and liabilities** | | **118,204** | **113,063** |

# Parent Company Cash Flow Statement (FAS)

EUR thousand

| | 1 January–31 December | |
|---|---|---|
| | 2013 | 2012 |
| **Cash flow from operating activities** | | |
| Profit / loss for the financial period | 4,242 | -11,102 |
| Adjustments: | | |
| Deferred taxes | 1,972 | 8 |
| Appropriations | 92 | - |
| Group contribution | -6,427 | -180 |
| Financial income and expenses | -604 | 8,131 |
| Depreciation, amortization and impairment | 1,112 | 1,216 |
| Proceeds from disposal of tangible and intangible assets | 1,475 | 16 |
| Other adjustments | -12 | -1 |
| Cash flow before change in net working capital | 1,851 | -1,912 |
| Change in net working capital | | |
| Change in current interest-free receivables | -2,778 | 444 |
| Change in current interest-free liabilities | -986 | -248 |
| Cash flow from operating activities before financial items and taxes | -1,912 | -1,717 |
| Interests paid and payments made for other financial items and income taxes | | |
| Interests and other financial expenses paid | -3,718 | -4,367 |
| Dividends received | 2 | 2 |
| Interest received | 3,502 | 1,170 |
| Income taxes paid | - | -238 |
| Cash flow from operating activities before extraordinary items | -2,127 | -5,150 |
| **Cash flow from operating activities** | **-2,127** | **-5,150** |
| **Cash flow from investing activities** | | |
| Investments in tangible and intangible assets | -544 | -422 |
| Proceeds from disposal of tangible and intangible assets | 1,549 | 47 |
| Cash flow from sales of business | 12,868 | - |
| **Cash flow from investing activities** | **13,873** | **-376** |
| **Cash flow from financing activities** | | |
| Share issue and conversion of convertible bond, net of costs | 10,000 | - |
| Drawn-down of non-current loans | 591 | - |
| Repayments of non-current loans | -9,640 | -1,441 |
| Change in current intra-group receivables | -5,973 | 6,831 |
| Change in current intra-group loans | -499 | 100 |
| Drawn-down of current loans | 40,000 | - |
| Repayments of current loans | -40,000 | - |
| **Cash flow from financing activities** | **-5,521** | **5,490** |
| **Change in cash and cash equivalents** | **6,225** | **-36** |
| Cash and cash equivalents at the beginning of the period | 2,874 | 2,910 |
| Cash and cash equivalents at the end of the period | 9,099 | 2,874 |
| **Change in cash and cash equivalents** | **6,225** | **-36** |

# Notes to the Parent Company's 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 OMX Helsinki Ltd. Small Cap in Helsinki, Finland. Glaston Corporation is domiciled in Helsinki, Finland and its registered office is Yliopistonkatu 7, 00100 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.

### EXTRAORDINARY INCOME AND EXPENSES

The parent's extraordinary income and expenses consist of group contributions received from and given to subsidiaries.

### 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.

### SHARE-BASED INCENTIVE PLAN

The share-based incentive plan of Glaston Corporation is a combination of shares and a cash payment. Glaston has the option to settle the possible reward in cash in its entirety.

## Note 2

## Net Sales

EUR thousand

| | 2013 | 2012 |
|---|---|---|
| **Net sales by country by destination** | | |
| Finland | 1,411 | 1,524 |
| Other EMEA | 843 | 1,193 |
| South-America | 434 | 581 |
| Asia | 604 | 398 |
| **Total** | **3,292** | **3,697** |

EMEA = Europe, the Middle East and Africa
Asia = China and the rest of the Asia-Pacific area

## Note 3

## Other Operating Income

EUR thousand

| | | |
|---|---|---|
| Charges from group companies | 2,450 | 2,289 |
| Proceeds from sale of business operations | 1,289 | - |
| Proceeds from sale of fixed assets | 186 | - |
| **Other operating income, total** | **3,925** | **2,289** |

## Note 4

## Personnel Expenses

EUR thousand

| | 2013 | 2012 |
|---|---|---|
| Salaries and fees | -1,685 | -1,544 |
| Pension expenses | -277 | -422 |
| Other personnel expenses | -76 | -45 |
| **Total** | **-2,038** | **-2,010** |
| | | |
| Salaries and remuneration paid to members of the Board of Directors and Managing Director | -574 | -634 |

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

| | | |
|---|---|---|
| Employees during financial year, average, management and administrative personnel | 10 | 12 |

## Note 5

## Depreciation, Amortization and Impairment Losses

EUR thousand

| | | |
|---|---|---|
| **Depreciation and amortization according to plan** | | |
| Intangible assets | | |
| Intangible rights | -869 | -812 |
| Other capitalized expenditure | -83 | -116 |
| Tangible assets | | |
| Buildings and structures | -29 | -117 |
| Machinery and equipment | -131 | -171 |
| **Total depreciation and amortization according to plan** | **-1,112** | **-1,216** |
| | | |
| **Impairment losses** | | |
| Impairment loss of intangible rights | - | - |
| **Total depreciation and amortization according to plan and impairment losses** | **-1,112** | **-1,216** |

## Note 6

## Other Operating Expenses

EUR thousand

| | | |
|---|---|---|
| Rents | -211 | -343 |
| Information and communications technology expenses | -3,039 | -2,436 |
| Travel expenses | -157 | -238 |
| Other expenses | -1,384 | -2,886 |
| **Other operating expenses, total** | **-4,791** | **-5,903** |

**Fees paid to auditors**

| | | |
|---|---|---|
| Fees paid to principal auditors for audit | -76 | -58 |
| Fees paid to principal auditors for other services | -38 | -92 |
| **Total** | **-114** | **-150** |

## Note 7

## Net Financial Items

| EUR thousand | 2013 | 2012 |
|---|---|---|
| **Dividend income** | | |
| From external parties | 2 | 2 |
| **Dividend income, total** | **2** | **2** |
| | | |
| **Interest and other financial income** | | |
| From group companies | 2,282 | 2,456 |
| From external parties | 1,000 | 399 |
| **Interest and other financial income** | **3,282** | **2,855** |
| | | |
| **Interest and other financial income, total** | **3,284** | **2,857** |
| | | |
| **Interest and other financial expenses** | | |
| To group companies | -231 | -419 |
| Impairment losses of investments in non-current assets | - | -5,780 |
| Impairment losses of of intra-group receivables | - | -464 |
| To external parties | -2,449 | -4,324 |
| **Interest and other financial expenses, total** | **-2,681** | **-10,988** |
| | | |
| **Net financial items, total** | **604** | **-8,131** |
| | | |
| Other financial income and expenses include foreign exchange gains and losses (net) | -388 | -195 |

## Note 8

## Extraordinary income

EUR thousand

| | | |
|---|---|---|
| **Extraordinary income** | | |
| Received group contributions | 6,427 | 180 |
| **Total** | **6,427** | **180** |

## Note 9

## Appropriations

EUR thousand

| | 2013 | 2012 |
|---|---|---|
| Difference between depreciation and amortization according to plan and depreciation and amortization in taxation | -92 | - |
| **Total** | **-92** | **-** |

## Note 10

## Income Taxes

EUR thousand

| | | |
|---|---|---|
| Change in deferred tax assets | -1,972 | -8 |
| **Total** | **-1,972** | **-8** |

## Note 11

## Fixed Assets

EUR thousand

| Intangible assets | Intangible rights | Other capitalized expenditure | Advance payments and investments in progress | Total |
|---|---|---|---|---|
| Acquisition cost 1 January, 2013 | 5,981 | 1,250 | 865 | 8,096 |
| Additions | 5 | 14 | 364 | 384 |
| Disposals | - | - | - | - |
| Reclassifications | -1 | 1 | - | - |
| **Acquisition cost 31 December, 2013** | **5,985** | **1,266** | **1,229** | **8,480** |
| Accumulated amortizations and impairment losses 1 January, 2013 | -3,534 | -1,067 | -840 | -5,441 |
| Accumulated amortizations of disposals and transfers | - | - | - | - |
| Amortization for the period | -854 | -99 | - | -953 |
| Impairment losses | - | - | - | - |
| **Accumulated amortizations and impairment losses 31 December, 2013** | **-4,388** | **-1,166** | **-840** | **-6,394** |
| | | | | |
| **Carrying amount at 31 December, 2013** | **1,597** | **100** | **389** | **2,086** |
| Carrying amount at 31 December, 2012 | 2,447 | 183 | 25 | 2,655 |

| Tangible assets | Land and water areas | Buildings | Machinery and equipment | Advance payments and investments in progress | Total |
|---|---|---|---|---|---|
| Acquisition cost 1 January, 2013 | 1,033 | 1,806 | 1,859 | - | 4,698 |
| Additions | - | - | 105 | 56 | 160 |
| Disposals | -1,033 | -1,806 | - | - | -2,839 |
| Reclassifications | - | - | - | - | - |
| **Acquisition cost 31 December, 2013** | **-** | **-** | **1,964** | **56** | **2,020** |
| Accumulated depreciations and impairment losses 1 Jan, 2013 | - | -1,074 | -1,615 | - | -2,689 |
| Accumulated depreciations of disposals and transfers | - | 1,103 | - | - | 1,103 |
| Depreciation for the period | - | -29 | -131 | - | -160 |
| **Accumulated depreciations and impairment losses 31 Dec, 2013** | **-** | **-** | **-1,746** | **-** | **-1,746** |
| | | | | | |
| **Carrying amount 31 December, 2013** | **-** | **-** | **218** | **56** | **274** |
| Carrying amount at 31 December, 2012 | 1,033 | 732 | 245 | - | 2,009 |

## Note 12

## Investments

EUR thousand

| | Shares Group companies | Shares Others | Total |
|---|---|---|---|
| Carrying amount 1 January, 2013 | 63,304 | 254 | 63,558 |
| Decrease | -17,000 | 254 | -17,000 |
| **Carrying amount at 31 December, 2013** | **46,304** | **254** | **46,558** |

## Note 13

## Shares and holdings owned by the Parent

EUR thousand

| Subsidiary shares | Ownership % | Number of shares | Nominal value | Carrying amount |
|---|---|---|---|---|
| Uniglass Engineering Oy, Tampere, Finland | 100% | 20,000 | 400 | 2,351 |
| Glaston Services Ltd. Oy, Tampere, Finland | 100% | 1,800,000 | 3,600 | 43,953 |
| **Total** | | | | **46,304** |

| Other | | | | |
|---|---|---|---|---|
| Kiinteistö Oy Torikyrö, Finland | 63.4% | 804 | 68 | 240 |
| Other shares and holdings | | - | - | 14 |
| **Total** | | - | - | **254** |

# Note 14

## Receivables

| EUR thousand | 2013 | 2012 |
|---|---|---|
| **Non-current receivables** | | |
| **Receivables from external parties** | | |
| Deferred tax assets | 451 | 2,423 |
| **Non-current receivables, total** | **451** | **2,423** |
| **Current receivables** | | |
| **Receivables from external parties** | | |
| Trade receivables | 23 | 15 |
| Other receivables | 2,722 | 300 |
| Prepaid expenses and accrued income | 484 | 925 |
| Total | 3,229 | 1,240 |
| **Receivables from group companies** | | |
| Trade receivables | 5,229 | 3,415 |
| Loan receivables | 40,349 | 31,892 |
| Group Contribution receivables | 6,427 | 180 |
| Other receivables | 572 | - |
| Prepaid expenses and accrued income | 3,931 | 2,818 |
| Total | 56,508 | 38,305 |
| **Current receivables, total** | **59,736** | **39,545** |
| **Prepaid expenses and accrued income** | | |
| Interest income | 3,521 | 2,818 |
| Financial items | 212 | 782 |
| Prepaid insurances | - | 8 |
| Other | 681 | 134 |
| Prepaid expenses and accrued income, total | **4,415** | **3,742** |

# Note 15

# Equity

EUR thousand

| | 2013 | 2012 |
|---|---|---|
| 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 | 26,805 | 26,805 |
| Share issue | 10,000 | - |
| Share issue paid with convertible and debenture bonds | 11,436 | - |
| Correction of retained earnings [*] | 531 | - |
| Reserve for invested unrestricted equity 31 December | 48,772 | 26,805 |
| | | |
| Treasury shares 1 January | -3,308 | -3,308 |
| Treasury shares 31 December | -3,308 | -3,308 |
| | | |
| Retained earnings 1 January | 2,413 | 13,511 |
| Correction of retained earnings [*] | -531 | - |
| Reversal of unpaid dividends | - | 4 |
| Retained earnings 31 December | 1,882 | 13,514 |
| | | |
| Profit / loss for the financial year | 4,242 | -11,102 |
| | | |
| **Equity at 31 December** | **89,553** | **63,875** |
| | | |
| **Distributable funds at 31 December** | | |
| | | |
| Reserve for invested unrestricted equity | 48,772 | 26,805 |
| Treasury shares | -3,308 | -3,308 |
| Retained earnings | 1,882 | 13,514 |
| Profit / loss for the financial year | 4,242 | -11,102 |
| **Distributable funds** | **51,587** | **25,910** |

[*] Retained earnings have been adjusted with 530.850 euro during 2013, due to recognition of financial expenses related to the share issue in 2011. The expenses have been recognized in reserve for invested unrestricted equity in 2011 in accordance with IFRS.

# Note 16

# Accumulated Appropriations

EUR thousand

| | | |
|---|---|---|
| Accumulated depreciation difference 1 January | - | - |
| Increase (+) / decrease (-) | 92 | - |
| **Accumulated depreciation difference 31 December** | **92** | **-** |

## Note 17

## Non-current Liabilities

| EUR thousand | 2013 | 2012 |
|---|---|---|
| Convertible bond | - | 8,750 |
| Debenture bond | - | 4,000 |
| Loans from financial institutions | 548 | - |
| **Non-current liabilities, total** | **548** | **12,750** |

## Note 18

## Current Liabilities

| EUR thousand | | |
|---|---|---|
| **Liabilities to external parties** | | |
| Loans from financial institutions | 10,000 | 18,049 |
| Trade payables | 260 | 647 |
| Accrued expenses and deferred income | 804 | 1,547 |
| Liabilities to external parties, total | 11,064 | 20,243 |
| | | |
| **Liabilities to group companies** | | |
| Trade payables | 24 | 5 |
| Other liabilities | 16,923 | 15,609 |
| Accrued expenses and deferred income | - | 581 |
| Liabilities to group companies, total | 16,947 | 16,195 |
| | | |
| **Current liabilities, total** | **28,011** | **36,438** |
| | | |
| **Accrued expenses and deferred income** | | |
| Salary and other personnel expense accruals | 562 | 291 |
| Interests | 1 | 672 |
| Other | 242 | 1,166 |
| **Accrued expenses and deferred income, total** | **804** | **2,129** |

# Note 19

## Contingent Liabilities

| EUR thousand | 2013 | 2012 |
|---|---|---|
| **Leasing liabilities** | | |
| Maturity within one year | 49 | 62 |
| Maturity later than one year | 1 | 48 |
| **Total** | **50** | **111** |

The leasing agreements have normal terms.

| | | |
|---|---|---|
| **Other rental liabilities** | | |
| Maturity within one year | 93 | 93 |
| **Total** | **93** | **93** |

| | | |
|---|---|---|
| **Pledges** | | |
| On behalf of group companies | 35,585 | 56,191 |
| **Loans secured with pledged assets and mortgages** | | |
| Loans from financial institutions | 10,000 | 18,049 |
| Real estate mortgages | - | 90,000 |
| Liens on chattel | 50,000 | 50,000 |
| Carrying amount of pledged securities | 46,544 | 63,544 |
| Carrying amount of pledged receivables | 40,234 | 31,892 |
| Other pledged assets | 23 | 23 |

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

# Board of Directors' Proposal for the Distribution of Profits

The distributable funds of Glaston Corporation, the parent of Glaston Group, are EUR 51,587,237 of which EUR 4,241,694 represents the profit for the financial year.

The Board of Directors proposes to the Annual General meeting that no dividend will be distributed from the net profit for the year and from retained earnings and that no capital will be repaid from reserve for invested unrestricted equity. EUR 51,587,237 will be left in distributable funds.

Helsinki, 6 February, 2014

Andreas Tallberg
Chairman of the Board

Christer Sumelius
Deputy Chairman of the Board

Claus von Bonsdorff

Anu Hämäläinen

Teuvo Salminen

Pekka Vauramo

Arto Metsänen
CEO

# Auditor's report

## TO THE ANNUAL GENERAL MEETING OF GLASTON CORPORATION

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Glaston Corporation for the year ended 31 December, 2013. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

## RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

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, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

## OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

## OPINION ON THE COMPANY'S FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, February 6, 2014

Ernst & Young Oy
Authorized Public Accountant Firm

Harri Pärssinen
Authorized Public Accountant

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