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Glaston Corporation  
Financial Statements 2011

**glaston**

# Information for Shareholders

## Annual General Meeting

The Annual General Meeting of Glaston Corporation will be held on Tuesday 27 March 2012 at 4 p.m. in the Terrace Hall in Finlandia Hall, Mannerheimintie 13 e, 00100 Helsinki, Finland. Entry to the building is from door M4 on Mannerheimintie or door K4 on Karamzininkatu. 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, 15 March 2012, 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 22 March 2012 via one of the following options:

- On the Glaston Corporation website at [www.glaston.net](http://www.glaston.net);
- By e-mail to [tanja.spare@glaston.net](mailto:tanja.spare@glaston.net);
- By telephone on +358 (0)10 500 6438;
- 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 2011 financial year.

## Glaston Corporation's financial reporting in 2012

- Financial Statements for the period 1 January - 31 December 2011 on Thursday 9 February 2012
- Annual Report 2011 in Week 10
- Interim Report for the period 1 January - 31 March 2012 on Thursday 3 May 2012
- Interim Report for the period 1 January - 30 June 2012 on Wednesday 8 August 2012
- Interim Report for the period 1 January - 30 September 2012 on Wednesday 31 October 2012

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](http://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](http://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](http://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](http://www.euroclear.fi) > Osoitteenmuutos.

## Further information on Glaston

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<sup>\*1</sup> Not included in the official Board of Directors' Review and Financial Statements

# Board of Directors' Review

## 1 January – 31 December 2011

### Markets

The cautiously positive development of the glass processing market in the early part of 2011 slowed in the second half of the year. The poorer economic outlook and market uncertainty in the latter part of the year were reflected in customers' willingness to invest, increasing their caution with respect to new machine investments in particular.

Glaston's market situation was challenging in 2011, despite the positive development of some market areas. The South American market developed positively throughout the year. In Western Europe, demand remained weak, while in Eastern Europe the glass processing machine market picked up at the end of the year. In Asia, the levelling off of the market that began in the second quarter continued in the second half of the year. In North America, demand for machines remained weak.

### Machines

Besides a few country-specific exceptions, 2011 was challenging for the Machines segment. In the EMEA area, demand was low throughout the year, which particularly affected the number of new orders for heat treatment machines. An exception was Eastern Europe, where demand showed signs of recovery in the second half of the year. Demand for pre-processing machines picked up in the latter part of the year, particularly in Russia.

Uncertain economic development impacted the development of the North American market, and demand was modest throughout the year. The South American market developed positively. In the Asian market, demand grew at the start of 2011, but owing to uncertainty in

the world economy, demand levelled off in the second quarter.

In 2011 the Machines segment's investments in product development continued, and during the year a number of new products were brought to the market. The new Solar Line concept, the market's first integrated production line unit for the grinding, washing and tempering of solar panel glass, was presented at the China Glass Fair, held in Shanghai in May. In autumn 2011, at the Vitrum Fair in Italy, Glaston launched the Glaston Bavelloni straight-line edging machine Hiyon™ and the double-edging machine Xtraedge™ and introduced the GlastonToolEx™ service for material management of diamond and polishing tools.

During 2011 the profitability of the segment was improved by enhancing the operations of the global sourcing organisation. The restructuring of the segment was completed in July when the previously separate pre-processing and heat treatment machine factories in Brazil were combined into a single manufacturing facility. Measures to adjust production capacity to correspond with demand continued in Finland and Italy. At the end of 2011, the segment had 541 (577) employees.

Orders received in the Machines segment totalled EUR 89.2 (96.2) million in 2011. In January-December, net sales totalled EUR 90.0 (95.0) million. The January-December operating result was a loss of EUR 1.7 (20.4 loss) million, and the operating result excluding non-recurring items was a loss of EUR 1.9 (8.5 loss) million.

### Services

In 2011 the Services segment market developed positively. Demand was good, despite a challenging market situation.

Demand was directed particularly at upgrade products and spare parts. Compared with the previous year, the Services segment grew in Asia, South America and North America.

Customers showed particular interest in products that raise capacity and improve quality. The Vortex Pro convection system, which improves production line capacity and glass quality, was very well received in the North American market during the year. At the Vitrum Fair, Glaston introduced the GlastOnline™ spare parts web shop as well as the Warranty5 reliability programme for new flat tempering machines.

Orders received in the Services segment totalled EUR 31.3 (29.8) million in 2011. In January-December, net sales totalled EUR 31.1 (32.0) million. Operational profitability improved further due to a higher invoicing rate for maintenance work, growing sales of upgrade products and spare parts, and faster spare parts deliveries. During the year, no significant changes took place in the segment's worldwide maintenance service network and number of service locations. At the end of 2011, the segment had 117 (149) employees. The January-December operating profit was EUR 5.7 (1.1) million, and the operating profit excluding non-recurring items was EUR 5.6 (3.3) million.

### Software Solutions

In 2011 the Software Solutions segment's most significant market areas were Central, Western and Northern Europe, North America and Japan. Sales of maintenance contracts developed positively during the year. Demand for production control and monitoring systems was also good.

At the beginning of the year, the Software Solutions segment brought to the market the new window and glass industry applications CantorCockpit and Cockpit 2000, which have been developed for the iPhone and are available to registered Albat+Wirsam (A+W) customers in the Apple Store. With the aid of the applications, users can receive key business information directly to their phones.

The segment presented a new bar-code reader solution at the Vitrum Fair in the autumn. The Dragonfly enterprise resource planning system, which enables better usability of glass processing machines as well as more efficient production scheduling, was introduced to medium-sized glass processors.

During 2011, the Software Solutions segment restructured product development and the sales organisation, and continued intensive measures to improve profitability. Orders received in the Software Solutions segment totalled EUR 20.9 (21.7) million in 2011. In January-December, net sales totalled EUR 23.1 (23.9) million. At the end of 2011, the segment had 200 (214) employees. The January-December operating result was EUR 1.8 (1.5) million, and the operating result excluding non-recurring items was EUR 1.7 (1.1) million.

## Orders Received and Order Book

Glaston's orders received during the financial year totalled EUR 141.3 (147.7) million. Of orders received, the Machines segment accounted for 63%, Services 22% and Software Solutions 15%.

Glaston's order book on 31 December 2011 was EUR 37.6 (41.5) million. Of the order book, the Machines segment accounted for EUR 34.6 (37.4) million, the Services segment EUR 1.2 (1.2) million and Software Solutions segment EUR 1.8 (2.9) million.

## Net Sales and Operating Result

Glaston's January-December net sales totalled EUR 142.7 (149.4) million. Net sales development was impacted by the instability of the glass processing market. As the economic outlook deteriorated, customers became significantly

more cautious about new investments after the summer, which was reflected most strongly in sales of Heat Treatment machines.

The Machines segment's net sales in the review period were EUR 90.0 (95.0) million, the Services segment's net sales EUR 31.1 (32.0) million and the Software Solutions segment's net sales EUR 23.1 (23.9) million.

The operating result was a loss of EUR 1.1 (24.9 loss) million, i.e. -0.8 (-16.7)% of net sales. The operating

result, excluding non-recurring items, was a loss of EUR 1.4 (11.3 loss) million, i.e. -1.0 [-7.5]% of net sales.

Although the operating result was a loss, there was a significant improvement from the previous year. All segments improved their result compared with the previous year. The biggest improvement was in the Machines segment.

In January-December, the Machines segment's operating result, excluding non-recurring items, was a loss of EUR 1.9 (8.5 loss) million. In January-Decem-

Order book, EUR million	31.12.2011	31.12.2010	31.12.2009
Machines	34.6	37.4	39.8
Services	1.2	1.2	1.6
Software Solutions	1.8	2.9	4.1
<b>Total</b>	<b>37.6</b>	<b>41.5</b>	<b>45.5</b>

Net sales, EUR million	2011	2010	2009
Machines	90.0	95.0	92.5
Services	31.1	32.0	37.7 *
Software Solutions	23.1	23.9	23.9
Other and internal sales	-1.6	-1.5	-2.4
<b>Total</b>	<b>142.7</b>	<b>149.4</b>	<b>151.8</b>

\* includes Tamglass Glass Processing EUR 5.7 million.

Operating result, EUR million	2011	2010	2009
Machines	-1.9	-8.5	-22.4
Services	5.6	3.3	-2.4 *
Software Solutions	1.7	1.1	0.4
Other and eliminations	-6.8	-7.1	-9.3
<b>Total</b>	<b>-1.4</b>	<b>-11.3</b>	<b>-33.6</b>
Non-recurring items	0.3	-13.7	-21.6
<b>Operating result, including non-recurring items</b>	<b>-1.1</b>	<b>-24.9</b>	<b>-55.3</b>

\* includes Tamglass Glass Processing EUR -4.2 million.

	2011	2010	2009
Operating result, EUR million	-1.1	-24.9	-55.3
Operating result, % of net sales	-0.8	-16.7	-36.4
Profit/loss for the year attributable to owners of the parent, EUR million	-14.4	-32.0	-53.6
Profit/loss for the year attributable to owners of the parent, % of net sales	-10.1	-21.4	-35.3
Earnings per share, undiluted and diluted, total, EUR	-0.14	-0.39	-0.65
Return on capital employed (ROCE), %	0.3	-19.0	-32.1
Return on equity, %	-31.2	-58.7	-55.5

Calculation formulas for key figures are presented in the consolidated financial statements.

ber, the Services segment's operating result, excluding non-recurring items, was EUR 5.6 [3.3] million and the Software Solutions segment's operating result, excluding non-recurring items, was EUR 1.7 [1.1] million.

The result for the review period was a loss of EUR 14.4 [32.0 loss] million. In January-December, the return on capital employed (ROCE) was 0.3 [-19.0]%. Earnings per share were EUR -0.14 [-0.39].

Glaston has no significant revenue or expense items recognised directly in equity.

Calculation formulas for key figures are presented in the consolidated financial statements.

## Financial Position, Cash Flow and Financing

At the end of the review period, the consolidated asset total was EUR 187.2 [194.9] million. The equity attributable to owners of the parent was EUR 52.8 [39.1] million, i.e. EUR 0.50 [0.48] per share. The equity ratio on 31 December 2011 was 31.1 [22.1]%.

Return on equity in January-December was -31.2 [-58.7]%.

Cash flow from operating activities, before the change in working capital, was EUR -7.7 [-13.7] million in the review period. Cash flow from operating activities was positively influenced by the improved result, while interest paid and other financial expenses as well as income taxes grew from the previous year and had a weakening impact. The change in working capital was EUR 12.2 [2.7] million. Cash flow from investments was EUR -5.5 [-3.5] million. Cash flow from financing activities in January-December was EUR 3.8 [11.9] million.

In February 2011, Glaston signed a financing package of around EUR 84 million whereby the company's short-term funding was converted to long-term, financial flexibility was improved and equity strengthened.

Around EUR 74 million of the funding is a syndicated loan, which has a maturity of three years. The funding agreement includes typical funding covenants. According to the funding agreement, the

payment of a dividend is conditional on a net debt to EBITDA ratio of less than 2.75. These restrictions do not apply to statutory dividends.

In addition, Glaston issued new shares valued at approximately EUR 6 million and also a EUR 4.0 million debenture bond with a maturity of three years.

In 2011 convertible bonds to the value of EUR 21,250,000 were converted into shares, at which time 16,346,135 new shares were issued. In addition, as additional compensation to those who converted their convertible bonds into shares, a total of 3,092,501 shares were issued in a directed share issued without payment. Of the convertible bond issued in June 2009, EUR 8,750,000 remains after the 2011 conversions. In accordance with the IAS 32 standard, a financial expense item of around EUR 3.4 million was recognised in the statement of profit or loss for the additional consideration given in connection with the conversion of the convertible bond. The expense, however, had no effect on Glaston's equity or cash flow.

The converted amount of the convertible bond, as with the share issue, was credited fully in the reserve for invested unrestricted equity.

The Group's liquid funds at the end of the review period totalled EUR 18.6 [15.7] million. Interest-bearing net debt totalled EUR 49.7 [74.6] million and net gearing was 93.5 [189.0]%.

## Adjustment Measures

In 2011, the operational development priorities were a clear improvement in business profitability and the completion of adjustment measures.

Measures to adjust production capacity to correspond with demand continued throughout the year in Italy and Finland. In Italy, negotiations to cut

around 40 jobs were completed during the first quarter of 2011. In the summer, the restructuring of the Pre-processing product line was completed when the Heat Treatment and Pre-processing production functions in Brazil were transferred to the same factory. In Finland, a programme to enhance the operational efficiency and improve the profitability of the Heat Treatment product line was launched in the autumn. During the year, lay-offs continued in Italy and Finland.

During the second half of the year, extensive measures were launched in the Software Solutions segment to boost operational efficiency and improve profitability. The measures were directed mainly at product development and the sales organisation. Substantial lay-offs were under way in the segment during the final quarter.

## Research and Product Development

Glaston's research and product development expenditure in 2011 totalled EUR 8.1 [9.6] million, i.e. 5.7 [6.4]% of net sales. In product development, the main focus of attention was on bringing new products to the market, expanding the product portfolio and further development of the company's main products.

During the year, a number of new products were launched: new series of Glaston Bavelloni Hiyon™ straight-edging machines and XtraEdge™ double-edging machines as well as the Glaston-Online™ web shop, which in the first stage offers more than 1,000 spare parts for Tamglass™ and Uniglass™ machines. In addition, Glaston introduced for new heat treatment machines the five-year Warranty5 reliability programme and the new GlastonToolEx™ tool service concept for diamond and grinding wheels. In software solutions, Glaston launched the

	2011	2010	2009
Equity ratio, %	31.1	22.1	33.1
Gearing, %	128.5	228.6	114.3
Net gearing, %	93.5	189.0	91.9
Interest-bearing net debt, EUR million	49.7	74.6	63.7

Albat+Wirsam barcode reader solution as well as an enterprise resource planning system, directed at medium-sized glass processors, which facilitates better usability of machines.

## Capital Expenditure, Depreciation and Amortisation

Glaston's gross capital expenditure totalled EUR 5.7 (4.6) million. The most significant investments in 2011 were in capitalised development expenditure.

During 2011 depreciation and amortisation on property, plant and equipment, and intangible assets totalled EUR 7.9 (7.5) million. Impairment losses on tangible and intangible assets totalled EUR 0.2 (7.0) million.

	2011	2010	2009
Research and development expenditure, EUR million	8.1	9.6	13.9
Capitalised development expenditure in the financial year, EUR million	4.2	2.8	3.1
Research and development expenditure, % of net sales	5.7	6.4	9.1

	2011	2010	2009
Gross capital expenditure, EUR million	5.7	4.6	8.5
Gross capital expenditure, % of net sales	4.0	3.1	5.6
Depreciation and amortisation, EUR million	7.9	7.5	8.4
Impairment losses, EUR million	0.2	7.0	12.5

	2011	2010	2009
Wages and salaries, EUR million	38.7	44.8	55.7
Personnel at end of year	870	957	1,160
Personnel (average)	899	1,028	1,344

## Changes in the Company's Management

Topi Saarenhovi, Senior Vice President, Machines and member of the Executive Management Group, left Glaston on 1 February 2011. No new Senior Vice President, Machines was appointed; the segment now reports directly to the President & CEO.

Uwe Schmid was appointed Senior Vice President, Software Solutions and member of the Executive Management Group on 8 April 2011. He assumed full business responsibility for the Software Solutions segment as of 1 September 2011. In connection with the appointment, the former Senior Vice President, Günter Befort, became a Senior Advisor. He also continues as a member of the Executive Management Group.

## Personnel

During the year, measures to adjust personnel numbers to the market situation continued. These were directed mainly at Europe (-109 people) and particularly at Finland and Italy. In Asia, human resources were strengthened (+20). In the Americas, there was no change in number of personnel.

On 31 December 2011, Glaston had a total of 870 (957) employees. Of the Group's employees, 17% worked in Finland and 40% elsewhere in the EMEA area, 28% in Asia and 15% in the Ameri-

cas. The average number of employees was 899 (1,028).

## Group Structural Changes in 2011

In 2011 the following Group companies were liquidated: Glaston Estonia Oü in Estonia, Glasto Holding B.V. and Glaston Netherlands B.V. in the Netherlands, Glaston Spain S.L. in Spain and Glaston Belgium GmbH in Belgium.

At the beginning of 2011, Albat+Wirsam Software GmbH founded a branch in Belgium. In July 2011, the shares of Glaston Germany GmbH were sold to Albat+Wirsam Software GmbH. Tamglass Glass Processing Ltd. merged with Glaston Finland Ltd. in December 2011.

## Environment

Glaston aims to be as environmentally friendly as possible in its operations. As a rule, Glaston's own production operations do not adversely affect the environment. In product development, attention to energy efficiency is of key importance in terms of both glass processing machines and end products.

The machines manufactured by Glaston have long lifetimes, and the entire life cycle of each machine is taken into account in its design. Glass processing machines are developed

and manufactured to withstand constant use at high production capacities. The new Tamglass FC500 tempering line consumes up to 40% less energy than traditional technology products, because it utilises, among other things, air recirculation in glass heating. Moreover, through the insulation material used in machines, every effort is made to minimise heat loss. The new Bavelloni Hiyon™ edging machine's GRIND&STOP function automatically sets the machine to standby once the glass moves to the next phase of processing and the edger is no longer required, resulting in considerable energy savings. In pre-processing machines that use water for cooling, Glaston has developed in cooperation with customers the machines' recirculation and re-use of water.

The modernisation of machines with new technical features extends the life of machines and reduces energy consumption in glass processing. Launched in 2011, the Vortex Pro convection system upgrade for old Tamglass tempering machines enables the production of modern energy glass while bringing energy savings of 30% to the processing of glass.

## Shares and Share Prices

On 25 February 2011, Glaston published a stock exchange release outlining the

company's new financial package. As part of the arrangement, Glaston's convertible bond holders were offered the opportunity to convert their bond holdings into the company's shares, and in addition, 6.8 million shares were issued in a directed share issue. A total of 18,530,768 new shares were subscribed for in the directed share issue and in the conversion of the convertible bonds into shares. These new shares were entered in the Trade Register on 4 March 2011 and became available for trading on the NASDAQ OMX Helsinki Stock Exchange on 7 March 2011. In addition, on 28 March 2011, the Board of Directors of Glaston approved bond conversion undertakings totalling EUR 6.0 million, for which bond holders received in the conversion a total of 4,615,367 Glaston shares. These shares were entered in the Trade Register on 4 April 2011 and became available for trading on the NASDAQ OMX Helsinki Stock Exchange on 5 April 2011.

The Board of Directors of Glaston Corporation decided on 28 April 2011 to implement a directed share issue without payment on the basis of the authorisation granted to it by the Annual General Meeting on 5 April 2011. In the share issue, a total of 3,092,501 new company shares were issued without payment to those investors who had converted into company shares the convertible bonds issued by the company on 16 June 2009 and 18 February 2010. The new shares were entered into the Trade Register on 6 May 2011 and became available for public trading on the NASDAQ OMX Helsinki Stock Exchange on 9 May 2011.

Glaston Corporation's paid and registered share capital on 31 December 2011 was EUR 12.7 million and the number of issued and registered shares totalled 105,588,636. 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 0.75% of the total number of issued and registered shares and votes. The counter book value of treasury shares is EUR 94,819.

Every share that the company does not hold itself entitles its owner to one

vote at the Annual General Meeting. The share has no nominal value. The counter book value of each share is EUR 0.12.

During 2011, a total of 8,446,549 of the company's shares were traded, representing 8.5% of the average number of shares. The lowest price paid for a share was EUR 0.40 (in 2010: EUR 0.80) and the highest price EUR 1.27 (1.65). The volume-weighted average price of shares traded in January-December was EUR 0.84 (1.17). The closing price on 31 December 2011 was EUR 0.45 (1.13).

On 31 December 2011, the market capitalisation of the company's shares, treasury shares excluded, was EUR 47.2 (88.8) million. The equity per share attributable to owners of the parent was EUR 0.50 (0.88).

Calculation formulas for key figures are presented in the consolidated financial statements. The impact of the convertible bond on the number of the company's shares is presented in Note 4 to the consolidated financial statements.

## Disclosures under Chapter 2, Section 9 of the Securities Markets Act

During 2011, Glaston was informed of the following changes in ownership:

On 25 February 2011, Glaston was informed that Finnish Industry Investment Ltd. and Varma Mutual Pension Insurance Company had subscribed for shares in Glaston's directed share offering and had converted their Glaston convertible bond holdings into the company's shares. Finnish Industry Investment Ltd.'s ownership rose to 8.32% of Glaston's total shares and votes and Varma Mutual Pension Insurance Company's ownership to 8.31%.

On 29 March 2011, Glaston was informed that the holdings of both Oy G.W.Sohlberg Ab and GWS Trade Oy in Glaston Corporation had fallen below 15% as part of the convertible bond conversion relating to Glaston's financing arrangement. Oy G.W.Sohlberg Ab's ownership fell to 12.51% of Glaston's total shares and votes and GWS Trade Oy's ownership to 13.12%.

On 29 April 2011, Glaston was informed that the holding in Glaston Corporation of Oy G.W. Sohlberg Ab and its controlled undertaking (GWS Trade Oy) had fallen below 25% as part of the directed share issue without payment relating the financing arrangement described in Glaston's stock exchange release of 28 April 2011. Oy G.W. Sohlberg Ab's ownership fell to 12.14% and GWS Trade Oy's ownership fell to 12.73%.

## Shareholders

Glaston Corporation's largest shareholders on 31 December 2011, the distribution of ownership by shareholder group on 31 December 2011, and the distribution of share ownership by number of shares 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. Glaston's largest shareholders Oy G.W.Sohlberg Ab and GWS Trade Oy have separately undertaken not to claim minority dividends as prescribed in Chapter 13 Section 7 of the Finnish Companies Act.

## Share-based Incentive plans

On 9 June 2010, Glaston's Board of Directors decided on a share-based incentive plan for the Group's key personnel. The plan had one performance period covering 2010 and 2011, with the vesting condition being the development of the Group's operating result. The plan did not vest, as the vesting condition was not fulfilled.

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 will decide on the plan's per-

Share-issue adjusted per share data	2011	2010	2009
Equity per share attributable to owners of the parent, EUR	0.50	0.48	0.84
Dividend per share, EUR <sup>*1</sup>	0.00	0.00	0.00
Price / earnings (P/E) ratio	-3.1	-2.9	-1.7
Price / equity attributable to owners of the parent per share	0.89	2.37	1.28
Share price at end of year, EUR	0.45	1.13	1.08
Market capitalisation, end of year, EUR million	47.2	88.8	84.8
Share turnover (1,000 shares)	8,447	15,419	7,033
Share turnover, % of average number of shares	8.5	19.6	9.0
Number of shares at end of the year	105,588,636	79,350,000	79,350,000
Average number of shares, excluding treasury shares	104,825,545	82,144,592	82,139,474
Average number of shares, including dilution effect of convertible bond and excluding treasury shares	110,537,735	104,646,445	92,831,304

\*1 Board of Directors' proposal to the Annual General Meeting

Calculation formulas for key figures are presented in the consolidated financial statements.

formance criteria and the targets set for them at the beginning of each performance period. The possible bonus of the plan for performance period 2012 will be based on the Glaston Group's operating result (EBIT) and net profit. 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 addition to the above-mentioned incentive plan, the President & CEO of Glaston Corporation has a separate share bonus arrangement, on the basis of which he was awarded a total of 50,000 Glaston Corporation shares on 3 September 2010.

## Decisions of the Annual General Meeting

The Annual General Meeting of Glaston Corporation was held in Helsinki on 5 April 2011. The Annual General Meeting approved the financial statements and consolidated financial statements for 2010 and released the President & CEO and the Members of Board of Directors from liability for the financial year 1 January–31 December 2010.

The Annual General Meeting approved the proposal of the Board of Directors that

no dividend be distributed for the financial year ending 31 December 2010.

The Annual General Meeting confirmed the re-election of the following Members of the Board of Directors for a year-long term of office: Claus von Bonsdorff, Carl-Johan Rosenbröjter, Teuvo Salminen, Christer Sumelius and Andreas Tallberg. A new member, Pekka Vauramo, was also elected. Klaus Cawén and Jan Lång stood down from the Board of Directors.

The Annual General Meeting decided to maintain the Chairman of the Board's annual remuneration at EUR 40,000 and the Deputy Chairman's annual remuneration at EUR 30,000. It was also decided to maintain the remuneration of the other Members of the Board at EUR 20,000 euros per year.

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

The Annual General Meeting approved an amendment to Article 1 of the Articles of Association so that the domicile of the company shall be Helsinki.

At its organising meeting on 5 April 2011, Glaston's Board of Directors elected Andreas Tallberg to continue as the Chairman of the Board and Christer

Sumelius to continue as the Deputy Chairman of the Board.

## Authorisations given by the Annual General Meeting

The Annual General Meeting authorised the Board of Directors to decide on the issuance of new shares and/or the conveyance of the own shares held by the company. By virtue of the authorisation, the Board of Directors is entitled to decide on the issuance of a maximum of 20,000,000 new shares and on the conveyance of a maximum of 20,000,000 own shares held by the company. However, the total number of shares to be issued and/or conveyed may not exceed 20,000,000 shares.

The new shares may be issued and own shares held by the company may be conveyed either against payment or without payment.

The new shares may be issued and/or own shares held by the company conveyed to the company's shareholders in proportion to their existing shareholdings in the company, or by means of a directed share issue, in derogation of the pre-emptive subscription right of the shareholders, if there is a weighty reason for the company to do so, such as the shares are to be used to improve the capital structure of the company or as consideration in future acquisitions or other arrangements that are part of the company's business or as part of the company's or its subsidiaries' incentive plans.

Shares may be issued or conveyed without payment in derogation of the pre-emptive subscription right of shareholders only if there is an especially weighty financial reason for the company to do so, taking the interests of all shareholders into account.

The Board of Directors may decide on a share issue without payment also to the company itself. A decision regarding a share issue to the company itself cannot be made such that the total number of shares held jointly by the company or its subsidiaries would exceed one tenth of all shares of the company.

The subscription price of new shares issued and the consideration paid for

the conveyance of the company's own shares shall be credited to the reserve for invested unrestricted equity.

By virtue of the share issue authorisation, the Board of Directors shall decide on other matters relating to the issuance and conveyance of shares. The share issue authorisation is valid until the end of the 2013 Annual General Meeting.

The Board of Directors decided on 28 April 2011 to implement a directed share issue without payment. In the share issue, a total of 3,092,501 new company shares were issued without payment. At the end of 2011, the Board of Directors still had an authorisation to issue 16,907,499 shares. The Board of Directors has no other authorisations.

## 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 possible arrival of a competing machine technology on the market, which would require Glaston to make considerable product development investments. Moreover, loss of the Group's market shares, particularly in the most strongly emerging markets (Asia, South America) is a strategic risk. Glaston's most significant operational risks include management of large customer projects, the availability and price development of components, management of the subcontractor network, and the availability and permanence of personnel. Glaston is developing 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. Changes in interest rates 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 cash and 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.

The Group loan agreements contain covenant terms and other commitments that 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 and gross capital expenditure. The covenants are monitored partly quarterly and partly monthly. At the end of the fourth quarter, Glaston renegotiated some of the loan covenants with lenders.

Financial risks and their management are explained in more detail in the consolidated financial statements and the general principles of risk management in the Corporate Governance Statement.

## Information pursuant to Ministry of Finance Ordinance 153/2007

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 control over the 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 Mem-

bers 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 3.7 (3.6) million and the operating result was a loss of EUR 3.6 (4.4 loss) million.

Parent company information, EUR million	2011	2010	2009
Net sales	3.7	3.6	4.2
Operating result	-3.6	-4.4	-5.5
Result before taxes and appropriations	-33.0	-4.7	-6.1
Income tax	-0.2	0.2	1.4
Result for the financial period	-33.1	-4.4	-4.6
Balance sheet total	120.9	177.5	176.7
Shareholders' equity	75.0	81.3	85.6
Salaries and bonuses paid	1.6	2.7	3.6
Personnel (average)	13	22	29

Net financial items were EUR -29.4 (-0.3) million, of which EUR 29 million consisted of impairment losses on subsidiary shares. The result for the financial period was a loss of EUR 33.1 (4.4 loss) million.

The parent company had an average 13 (22) employees in the financial period and 12 (17) employees at the end of the year.

The parent company has no branches. The company has not granted any other related party loans than loans to group companies.

### Events after the Review Period

On 5 January 2012, Glaston announced that it had signed an undertaking on the sale and leaseback of its factory property complex located at Vehmainen in Tampere, Finland. Glaston believes that the transaction will be completed during the first half of 2012. The property complex will be presented in Glaston's balance sheet as a held for sale asset when all conditions under IFRS 5 are fulfilled.

### Uncertainties in the Near Future

Economic uncertainty increased in the second half of 2011. Slower economic growth may lead to the postponement of orders and changes in machine delivery schedules. The uncertain market outlook will also affect customers' investment opportunities.

The underlying nature of the sector is expected to remain unchanged,

so development in the coming years is expected to be positive. If the recovery of the sector is delayed or slows, this will have a negative effect on Glaston's result. The shift of the geographical focus of activity to areas of higher economic growth will, however, dampen the economic effects of a possibly slower recovery in Western Europe and North America, despite a levelling off of the Asian market.

Due to 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.

General business risks and risk management are outlined in more detail in Glaston's 2011 Annual Report and on the company's website [www.glaston.net](http://www.glaston.net).

### Outlook

Glaston's market will remain challenging in 2012. Economic uncertainty will continue to impact customers' investment decisions, with orders for heat treatment machines being particularly affected.

In Asia market growth is expected to level off. In North America and the EMEA area, the market will continue to be challenging. We believe that the positive development of the South American market will continue.

The cornerstones of Glaston's operations remain the architectural glass

segment and the solar energy market. In the longer term, prospects for the solar energy segment are good.

We will purposefully continue our investment in those areas which do not require significant investments from our customers, namely maintenance services and tools. We expect the good development of the maintenance market to be sustained in 2012.

Glaston expects that 2012 net sales will be at least at the 2011 level and that the operating result will be positive.

### Board of Directors' Proposal on the Distribution of Profits

The distributable funds of Glaston Corporation, the parent of Glaston Group, total EUR 37,007,425, of which the loss for the review period is EUR 33,093,461. Of the distributable funds, funds available for dividend distribution total EUR 10,202,178.

The Board of Directors proposes to the Annual General Meeting that no dividend be distributed from the result for the year nor from retained earnings. EUR 37,007,425 will be left in distributable funds.

Helsinki, 9 February 2012  
Glaston Corporation  
Board of Directors

# Corporate Governance Statement 2011

[Not included in the Board of Directors' Review and the Financial Statements]

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, which came into force in 2010. The Finnish Corporate Governance Code is publicly available at the internet address [www.cgfinland.fi](http://www.cgfinland.fi).

## Duties and Responsibilities of Governing Bodies

The Annual General Meeting, 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 Members of Board 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 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 announced no later than three weeks before the meeting and at least nine days before the last day of registration for the meeting in one Finnish-language and one Swedish-language daily newspaper specified by the Board of Directors. In addition, Glaston publishes the notice to the General Meeting of Shareholders as a stock exchange release and on its website.

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 of Shareholders

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 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 can be temporarily registered in the company's register 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.

## 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 accounts and finances. In addition, the Board directs and supervises the company's executive management, appoints and dismisses the CEO, decides on the CEO's employment and other benefits, and 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 matters 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. 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.

## Independence of Members of the Board

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 Chairman of the Board of GWS Trade Oy (GWS Trade Oy's ownership of Glaston Corporation shares was 12.74% on 31 December 2011) and Managing Director of Oy G.W. Sohlberg Ab (Oy G.W. Sohlberg Ab's ownership was 12.14% on 31 December 2011). Based on a broader assessment, however, the Board considers that Carl-Johan Rosenbröjter and Christer Sumelius are not independent, because they have served as Board Members 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.

## Composition of the Board of Directors

In 2011 the company's Board of Directors has no female members, and the company deviates in this respect from Recommendation 9 of the Finnish Corporate Governance Code for listed companies. The composition of the Board of Directors is of key importance for the company's future, and when proposing members Glaston strives to ensure that as wide and diverse expertise as possible is represented on the Board. The Board of Directors proposes to the 2012 Annual General Meeting that a female member be elected to the Board of Directors.

## 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 affairs have been arranged in a reliable manner. The President & CEO is supported by the Executive Management Group.

## Executive Management Group

The company's Executive Management Group comprises the President & CEO (also representing the Machines segment), the Senior Vice Presidents of the Software Solutions and Services segments, the General Manager, Asia, the Senior Vice President, Supply Chain, the company's Senior Advisor (as of July 2011), the Senior Vice President, Human Resources 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](http://www.glaston.net).

## Insider Administration

In addition to statutory insider regulations, Glaston complies with the insider guidelines for listed companies of NASDAQ OMX Helsinki Ltd as well as the regulations and guidelines of the Finnish Financial Supervisory Authority.

Glaston's permanent insiders include the statutory insiders, namely the Board of Directors, the President & CEO and the 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 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 the Group's Communications Department, 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.

## Auditing

The company has one auditor, which must be an auditing firm authorised by the Finnish Central Chamber of Commerce. The Annual General Meeting elects the auditor to audit the accounts for the financial year, and the auditor's duties cease at the close of the subsequent Annual General Meeting. The auditor's duty is to audit the consolidated and parent company financial statements and accounting as well as the parent company's governance, and to give reasonable assurance that the financial statements and the Board of Directors' Review give a true and fair view

of the Group's operations and result as well as its financial position. In connection with the annual financial statements the company's auditor presents the audit report required by law to the company's shareholders 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.

## 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, handling of risk, 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 8. 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 34.

#### **Andreas Tallberg**, b. 1963, M.Sc.(Econ.)

Chairman of the Board since 2007

Independent of the company. Chairman of the Board of Directors of GWS Trade Oy, a significant shareholder, and Managing Director of Oy G.W. Sohlberg Ab, a significant shareholder.

Share ownership on 31.12.2011: no shares

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

#### **Christer Sumelius**, b. 1946, M.Sc.(Econ.)

Deputy Chairman of the Board since 1995

Dependent on the company, independent of significant shareholders

Share ownership on 31.12.2011: 3,624,200 shares, including shares owned by related parties and controlling interest companies

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

#### **Carl-Johan Rosenbröjjer**, b. 1964, Ph.D.(Econ.)

Member of the Board since 1996

Dependent on the company, independent of significant shareholders

Share ownership on 31.12.2011: 12,600 shares

Main occupation: Senior Teacher, Arcada University of Applied Sciences since 2003

#### **Claus von Bonsdorff**, b. 1967, M.Sc.(Eng.), M.Sc.(Econ.)

Member of the Board since 2006

Independent of the company, independent of significant shareholders

Share ownership on 31.12.2011: 122,600 shares

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

#### **Teuvo Salminen**, b. 1954, M.Sc.(Econ.), APA

Member of the Board since 2010

Independent of the company, independent of significant shareholders

Share ownership on 31.12.2011: 50,000 shares

Main occupation: Professional Board Member

#### **Pekka Vauramo**, b. 1957, M.Sc.(Eng.)

Member of the Board since 2011

Independent of the company, independent of significant shareholders

Share ownership on 31.12.2011: 10,000 shares

Main occupation: COO and Deputy to CEO, Cargotec Corporation since 2007

## Corporate Governance in 2011

### Annual General Meeting

Glaston's Annual General Meeting, held on 5 April 2011, confirmed the financial statements and discharged the President & CEO and the Members of the Board of Directors from liability for financial year 2010. All documents relating to the Annual General Meeting are available on the company's website [www.glaston.net](http://www.glaston.net).

### Composition of the Board of Directors

From 1 January to 4 April 2011, the Members of the Board were Claus von Bonsdorff, Klaus Cawén, Jan Lång, Carl-Johan Rosenbröjjer, Christer Sumelius, Andreas Tallberg and Teuvo Salminen. Members of the Board Klaus Cawén and Jan Lång were not available when the Members of the Board of Directors were elected for the term of office 2011–2012.

The 2011 Annual General Meeting on 5 April 2011 elected to the company's Board of Directors the following persons listed below:

In 2010 Glaston's Board of Directors held 15 meetings, of which 5 were via telephone conference. The attendance of Members of the Board at meetings was 94%.

## Remuneration of Board of Directors and the Executive Management Group in 2011

### Remuneration of the Board of Directors

The 2011 Annual General Meeting approved annual remuneration to the Chairman of the Board of Directors amounting to EUR 40,000, to the Deputy Chairman EUR 30,000 and to other Members 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.

### 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, the business area's or business unit's result as well as personal targets agreed with supervisors. The maximum amount of the President & CEO's annual bonus is 50% of annual salary. For the 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. The awarded shares cannot be conveyed or otherwise used within two years of the date they were awarded.

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

## President & CEO and Executive Management Group

The company's President & CEO in 2011 was Arto Metsänen M.Sc.(Eng.), (b. 1956). At the end of 2011, the Executive Management Group had 8 members. The Executive Management Group met 11 times in 2011.

**Arto Metsänen**, b. 1956, M.Sc.(Eng.)

President & CEO and Chairman of the Executive Management Group since 1 September 2009

**Tapio Engström**, b. 1963, M.Sc.(Econ.)

Chief Financial Officer

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

**Günter Befort**, b. 1954, B.Sc.(Eng.)

Senior Vice President, Software Solutions segment until 17 July 2011, Senior Advisor since 18 July 2011

Employed by the company and Member of the Executive Management Group since 2007

**Juha Liettyä**, b. 1958, B.Sc.(Eng.)

Senior Vice President, Services segment

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

**Frank Chengdong Zhang**, b. 1968, EMBA

General Manager, Asia

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

**Tapani Lankinen**, b. 1968, M.A.

Senior Vice President, Human Resources

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

**Pekka Huuhka**, b. 1956, M.Sc.(Eng.)

Senior Vice President, Supply Chain

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

**Uwe Schmid**, b. 1963, Ph.D.(Phys.)

Senior Vice President, Software Solutions

Employed by the company and Member of the Executive Management Group since 18 July 2011

**Topi Saarenhovi**, b. 1967, M.Sc.(Eng.)

Senior Vice President, Machines segment

Employed by the company and Member of the Executive Management Group from 2007 to 31 January 2011

Management Group is in accordance with normal local legislation.

The table below presents the total remuneration of the President & CEO and the Members of the Executive Management Group in 2011.

On 9 June 2010, Glaston's Board of Directors decided on a new share-based incentive plan for the Group's key personnel. The plan had one performance period covering 2010 and 2011, with the vesting condition being the development of the Group's operating result. The plan did not vest, as the vesting condition was not fulfilled.

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 will decide on the plan's performance criteria and the targets set for them at the beginning of each performance period. The possible bonus of the plan for performance period 2012 will be based on the Glaston Group's operating result (EBIT) and net profit. 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.

## Auditing

At the 2011 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 2011 the Group's auditing costs totalled EUR 578 thousand of which Ernst & Young received EUR 492 thousand. Ernst & Young Oy's auditing expenses for the audit for financial year 2011 totalled EUR 350 thousand. In addition, auditing units belonging to Ernst & Young have provided other advice to Group companies to a value of EUR 57 thousand.

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

EUR	2011	2010
<b>President &amp; CEO Arto Metsänen</b>		
Salary	325,955	316,920
Share-based incentive plan, paid in cash	-	70,312
Share-based incentive plan, value of shares awarded	-	65,500
Performance bonuses	105,168	-
Total salary	431,123	452,732
Fringe benefits	16,117	19,080
<b>Total</b>	<b>447,240</b>	<b>471,812</b>
Statutory pension contributions (TyEL or similar scheme)	79,161	54,768
Voluntary pension contributions	40,320	61,844
<b>Other Executive Management Group, total</b>		
Salary	1,163,756	1,140,288
Severance pay	94,482	327,161
Performance bonuses	198,455	44,819
Total salary	1,456,693	1,512,268
Fringe benefits	42,441	81,058
<b>Total</b>	<b>1,499,134</b>	<b>1,593,326</b>
Statutory pension contributions (TyEL or similar scheme)	181,346	163,143
Voluntary pension contributions	51,242	20,515

### Share ownership of the Board of Directors and Executive Management Group on 31 December 2011

Rosenbröijer, Carl-Johan	12,600	Befort, Günter	-
Salminen, Teuvo	50,000	Engström, Tapio	7,000
Sumelius, Christer	3,624,200	Huuhka, Pekka	-
Tallberg, Andreas	-	Lankinen, Tapani	-
von Bonsdorff, Claus	122,600	Liettyä, Juha	-
Vauramo, Pekka	10,000	Metsänen, Arto	86,394
		Schmid, Uwe	-
		Zhang, Frank	-

# Consolidated Financial Statements

## Consolidated Statement of Financial Position

		at 31 December	
EUR thousand	Note	2011	2010
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	12,14	52,601	52,598
Intangible assets	14	18,155	18,762
Property, plant and equipment	15	18,663	19,549
Holdings in associates and joint ventures	16	50	47
Available-for-sale financial assets	17	330	331
Loan receivables	19	4,447	4,480
Deferred tax assets	11	6,923	8,866
<b>Total non-current assets</b>		<b>101,169</b>	<b>104,634</b>
<b>Current assets</b>			
Inventories	18	25,240	27,910
Assets for current tax	11	1,336	801
Trade and other receivables	19	40,811	43,092
Cash and cash equivalents			
Cash		18,601	15,670
Non-current assets held for sale	13	-	2,811
<b>Total current assets</b>		<b>85,987</b>	<b>90,284</b>
<b>Total assets</b>		<b>187,157</b>	<b>194,917</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital		12,696	12,696
Share premium account		25,270	25,270
Other reserves		1	1
Reserve for invested unrestricted equity		26,805	102
Treasury shares	4	-3,308	-3,308
Fair value reserve		47	47
Retained earnings and exchange differences		5,726	36,274
Net result attributable to owners of the parent		-14,430	-31,939
<b>Attributable to owners of the parent</b>		<b>52,807</b>	<b>39,142</b>
Non-controlling interest		346	337
<b>Total equity</b>		<b>53,153</b>	<b>39,479</b>
<b>Non-current liabilities</b>			
Convertible bond	22	7,937	26,199
Non-current interest-bearing liabilities	22	37,740	47
Non-current interest-free liabilities	24	0	54
Non-current provisions	23	918	2,701
Deferred tax liabilities	11	3,553	4,705
Defined benefit pension and other defined long-term employee benefit liabilities	21	1,059	1,540
<b>Total non-current liabilities</b>		<b>51,207</b>	<b>35,247</b>
<b>Current liabilities</b>			
Current interest-bearing liabilities	22	22,620	61,409
Current provisions	23	4,139	6,951
Trade payables and other current interest-free liabilities	24	55,328	48,187
Liabilities for current tax	11	710	835
Liabilities related to non-current assets held for sale	13	-	2,811
<b>Total current liabilities</b>		<b>82,797</b>	<b>120,191</b>
<b>Total liabilities</b>		<b>134,004</b>	<b>155,438</b>
<b>Total equity and liabilities</b>		<b>187,157</b>	<b>194,917</b>

## Consolidated Statement of Profit or Loss

EUR thousand	Note	1 January - 31 December	
		2011	2010
<b>Net sales</b>	5	<b>142,652</b>	<b>149,438</b>
Other operating income	7	917	891
Changes in inventories of finished goods and work in process	18	-2,239	-9,706
Own work capitalized		6	13
Materials	8	-45,903	-46,433
Personnel expenses	9	-49,260	-57,306
Other operating expenses	8	-39,143	-46,835
Share of results of joint ventures and associates	16	2	-442
Depreciation, amortization and impairment charges	12	-8,105	-14,540
<b>Operating result</b>		<b>-1,072</b>	<b>-24,921</b>
Financial income	10	1,289	3,120
Financial expenses	10	-12,049	-10,009
Net financial expenses		-10,760	-6,889
<b>Profit/ loss before income taxes</b>		<b>-11,832</b>	<b>-31,810</b>
Income tax expense	11	-2,614	-152
<b>Profit/ loss for the year</b>		<b>-14,446</b>	<b>-31,962</b>
Attributable to non-controlling interest		-16	-23
<b>Attributable to owners of the parent</b>		<b>-14,430</b>	<b>-31,939</b>
Total		-14,446	-31,962
<b>Earnings per share, EUR, basic and diluted <sup>1*</sup></b>		<b>-0,14</b>	<b>-0,39</b>
Net result attributable to owners of the parent, EUR thousand		-14,430	-31,939
Average number of shares (1,000 shares) <sup>1*</sup>		100,826	82,145
<b>Earnings per share (EPS), EUR, basic and diluted</b>		<b>-0,14</b>	<b>-0,39</b>

<sup>1\*</sup> Share-issue adjusted

## Consolidated Statement of Comprehensive Income

EUR thousand	1 January - 31 December	
	2011	2010
<b>Profit / loss for the period</b>	<b>-14,446</b>	<b>-31,962</b>
<b>Other comprehensive income</b>		
Total exchange differences on translating foreign operations	474	1,029
Fair value changes of available-for-sale assets	-1	2
Income tax on other comprehensive income	1	0
<b>Other comprehensive income for the year, net of tax</b>	<b>474</b>	<b>1,031</b>
<b>Total comprehensive income for the year</b>	<b>-13,972</b>	<b>-30,932</b>
<b>Attributable to</b>		
Owners of the parent	-13,981	-30,945
Non-controlling interest	9	13
<b>Total comprehensive income for the year</b>	<b>-13,972</b>	<b>-30,932</b>

## Consolidated Statement of Changes in Equity

EUR thousand

	Note	Share capital	Share premium account	Other reserves	Reserve for invested unrestricted equity	Fair value reserve	Treasury shares	Retained earnings	Cumulative exchange difference	Attributable to owners of the parent	Non-controlling interest	Total equity
<b>Equity 1 January, 2010</b>		<b>12,696</b>	<b>25,270</b>	<b>1</b>	<b>209</b>	<b>46</b>	<b>-3,518</b>	<b>35,604</b>	<b>-1,280</b>	<b>69,027</b>	<b>323</b>	<b>69,351</b>
Total comprehensive income for the year	20	-	-	0	-	1	-	-31,939	993	-30,945	13	-30,932
Reversal of unpaid dividends		-	-	-	-	-	-	5	-	5	-	5
Share-based incentive plan		-	-	-	-145	-	210	232	-	297	-	297
Share-based incentive plan, tax effect		-	-	-	38	-	-	-60	-	-23	-	-23
Equity part of convertible bond		-	-	-	-	-	-	780	-	780	-	780
<b>Equity 31 December, 2010</b>		<b>12,696</b>	<b>25,270</b>	<b>1</b>	<b>102</b>	<b>47</b>	<b>-3,308</b>	<b>4,622</b>	<b>-287</b>	<b>39,142</b>	<b>337</b>	<b>39,479</b>

	Note	Share capital	Share premium account	Other reserves	Reserve for invested unrestricted equity	Fair value reserve	Treasury shares	Retained earnings	Cumulative exchange difference	Attributable to owners of the parent	Non-controlling interest	Total equity
<b>Equity 1 January, 2011</b>		<b>12,696</b>	<b>25,270</b>	<b>1</b>	<b>102</b>	<b>47</b>	<b>-3,308</b>	<b>4,622</b>	<b>-287</b>	<b>39,142</b>	<b>337</b>	<b>39,479</b>
Total comprehensive income for the year	20	-	-	0	-	0	-	-14,000	19	-13,981	9	-13,972
Reversal of unpaid dividends		-	-	-	-	-	-	27	-	27	-	27
Share-based incentive plan		-	-	-	-	-	-	-235	-	-235	-	-235
Share-based incentive plan, tax effect		-	-	-	-	-	-	61	-	61	-	61
Share issue		-	-	-	5,867	-	-	-	-	5,867	-	5,867
Conversion of convertible bond, net of costs		-	-	-	20,836	-	-	-2,344	-	18,492	-	18,492
Cost effect of the share price compensation related to convertible bond		-	-	-	-	-	-	3,433	-	3,433	-	3,433
<b>Equity 31 December, 2011</b>		<b>12,696</b>	<b>25,270</b>	<b>1</b>	<b>26,805</b>	<b>47</b>	<b>-3,308</b>	<b>-8,435</b>	<b>-269</b>	<b>52,807</b>	<b>346</b>	<b>53,153</b>

### Distributable equity of the parent (FAS)

EUR thousand

	2011	2010
Reserve for invested unrestricted equity <sup>†</sup>	26,805	102
Retained earnings	46,604	50,948
Treasury shares	-3,308	-3,308
Net profit / loss for the period	-33,093	-4,371
<b>Total</b>	<b>37,007</b>	<b>43,371</b>

Dividend per share, EUR 0,00 0,00

<sup>†</sup> Reserve for invested unrestricted equity can not be distributed as dividends.

## Consolidated Statement of Cash Flows

EUR thousand	1 January - 31 December	
	2011	2010
<b>Cash flows from operating activities</b>		
Net result attributable to owners of the parent	-14,430	-31,939
Adjustments to net result attributable to owners of the parent <sup>(1)</sup>	7,812	9,190
Depreciation, amortization and impairment	8,105	14,540
Interest received	952	720
Interest paid	-5,970	-5,099
Dividends received	6	7
Other financing items	-1,811	-1,290
Income taxes paid	-2,413	146
<b>Cash flows from operating activities before change in net working capital</b>	<b>-7,749</b>	<b>-13,725</b>
<b>Change in net working capital</b>		
Change in inventories	1,224	3,849
Change in current receivables	3,896	3,921
Change in interest-free current liabilities	7,067	-5,038
<b>Change in net working capital, total</b>	<b>12,187</b>	<b>2,731</b>
<b>Cash flows from operating activities</b>	<b>4,439</b>	<b>-10,994</b>
<b>Cash flows from investing activities</b>		
Business combinations less of acquired cash and cash equivalents	-15	-15
Capital expenditure in property, plant and equipment and intangible assets	-5,709	-4,372
Investments in joint ventures	-	-203
Proceeds from sale of investments in joint ventures	-	400
Proceeds from sale of property, plant and equipment and intangible assets	235	670
<b>Cash flows from investing activities</b>	<b>-5,489</b>	<b>-3,520</b>
<b>Cash flow before financing</b>	<b>-1,051</b>	<b>-14,514</b>
<b>Cash flows from financing activities</b>		
Share issue and conversion of convertible bond, net	5,799	-
Draw-down of non-current loans	47,870	6,248
Repayments of non-current loans	-3,352	-1,201
Change in non-current loan receivables (decrease +, increase -)	35	-67
Change in current loan receivables (decrease +, increase -)	54	-
Draw-down of current loans	34,915	50,081
Repayments of current loans	-81,479	-44,533
Other financing	-25	1,358
<b>Cash flows from financing activities</b>	<b>3,817</b>	<b>11,887</b>
<b>Effect of exchange rate fluctuations</b>	<b>164</b>	<b>2,742</b>
<b>Net increase (- decrease) in cash and cash equivalents</b>	<b>2,930</b>	<b>114</b>
Cash and cash equivalents at end of period	18,601	15,670
Cash and cash equivalents at beginning of period	15,670	15,556
<b>Net increase (- decrease) in cash and cash equivalents</b>	<b>2,930</b>	<b>114</b>

<sup>(1)</sup> 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	
	2011	2010
<b><u>Business combinations</u></b>		
Purchase consideration of acquisitions made in previous years	-15	-15
<b>Cash flow on acquisitions net of cash acquired</b>	<b>-15</b>	<b>-15</b>
<b>Acquired net assets</b>		
Property, plant and equipment, intangible assets and shares	-	-
Goodwill	-	-
<b>Total net assets of business combinations</b>	<b>-</b>	<b>-</b>
Purchase consideration of acquisitions made in previous years	-15	-15
<b>Cash flow on acquisitions net of cash acquired</b>	<b>-15</b>	<b>-15</b>

## Per Share Data

	2011	2010 <sup>†*</sup>	2009 <sup>†*</sup>
Earnings per share, EUR, basic and diluted	-0.14	-0.39	-0.65
Dividend per share, EUR <sup>††</sup>	0.00	0.00	0.00
Equity attributable to owners of the parent per share, EUR	0.50	0.48	0.84
Price per earnings per share (P/E) ratio	-3.1	-2.9	-1.7
Price per equity attributable to owners of the parent per share	0.89	2.37	1.28
Dividends paid, EUR million <sup>††</sup>	0.0	0.0	0.0
Number of shares at the end of the year	105,588,636	79,350,000	79,350,000
Number of shares at the end of the year, treasury shares excluded	104,800,054	78,561,418	78,511,418
Weighted average number of shares, treasury shares excluded	100,825,545	82,144,592	82,139,474
Weighted average number of shares, excluding treasury shares, dilution effect of the convertible bond taken into account	110,537,735	104,646,445	92,831,304

<sup>†\*</sup> Share-issue adjusted

<sup>††</sup> The 2011 dividend is the Board of Directors' proposal to the Annual General Meeting.

### Share price and turnover

Share price, year high, EUR	1.27	1.65	1.44
Share price, year low, EUR	0.40	0.80	0.92
Share price, volume-weighted year average, EUR	0.84	1.17	1.18
Share price, end of year, EUR	0.45	1.13	1.08
Number of shares traded (1,000)	8,447	15,419	7,033
% of average number of registered shares	8.5%	19.6%	9.0%
Market capitalization, end of year, EUR million	47.2	88.8	84.8

## Financial Ratios

EUR thousand	2011	2010	2009
<b>Income statement and profitability</b>			
Net sales	142,652	149,438	151,769
Operating result	-1,072	-24,921	-55,293
% of net sales	-0.8%	-16.7%	-36.4%
Operating result, non-recurring items excluded	-1,418	-11,269	-33,647
% of net sales	-1.0%	-7.5%	-22.2%
Financial income and expenses (net)	-10,760	-6,889	-2,348
% of net sales	7.5%	4.6%	1.5%
Result before income taxes and non-controlling interests	-11,832	-31,810	-57,641
% of net sales	-8.3%	-21.3%	-38.0%
Income taxes	-2,614	-152	4,002
Net profit / loss attributable to owners of the parent	-14,430	-31,939	-53,590
% of net sales	-10.1%	-21.4%	-35.3%
Return on capital employed (ROCE), %	0.3%	-19.0%	-32.1%
Return on equity, %	-31.2%	-58.7%	-55.5%
Research and development expenses	8,077	9,574	13,865
% of net sales	5.7%	6.4%	9.1%
Gross capital expenditure	5,709	4,577	8,452
% of net sales	4.0%	3.1%	5.6%
Order book, EUR million	37.6	41.5	45.5
<b>Statement of financial position and solvency</b>			
Property, plant and equipment and intangible assets	36,818	38,311	44,344
Goodwill	52,601	52,598	58,403
Non-current assets total	101,169	104,634	117,880
Equity attributable to owners of the parent	52,807	39,142	69,027
Equity (includes non-controlling interest)	53,153	39,479	69,351
Liabilities	134,004	155,438	157,313
Total assets	187,157	194,917	226,664
Capital employed	121,449	129,746	148,629
Net interest-bearing debt	49,696	74,596	63,723
Equity ratio, %	31.1%	22.1%	33.1%
Gearing, %	128.5%	228.6%	114.3%
Net gearing, %	93.5%	189.0%	91.9%
<b>Personnel</b>			
Personnel, average	899	1,028	1,344
Personnel, at the end of the period	870	957	1,160
in Finland	145	179	227

# Definitions of Key Ratios

## Per share data

### 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 before depreciation, amortization and impairment, share of joint ventures' and associates' results included

### Operating result (EBIT)

Profit / loss after depreciation, amortization and impairment, share of joint ventures' and associates' results included

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

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

### Cash and cash equivalents

Cash + other financial assets

### Net interest-bearing debt

Interest-bearing liabilities - cash and cash equivalents

### Financial expenses

Interest expenses of financial liabilities + fees of financing arrangements + foreign currency differences of financial liabilities

### 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)

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

# Notes to the Consolidated Financial Statements

## Note 1 Summary Of Significant Accounting Policies

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 a global market leader of glass processing machines. Its product range and service network are the most extensive in the industry. Glaston's well-known brands are Bavelloni in pre-processing machines and tools, Tamglass and Uniglass in safety glass machines as well as Albat+Wirsam in glass industry software. The operations of the Glaston Group are organized in three reportable segments, which are Machines, Services and Software Solutions. Supporting activities include head office operations.

The Board of Directors of Glaston Corporation has in its meeting on 9 February, 2012, 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, 2011:

- IAS 24 (revised) Related Party Disclosures
- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues
- Amendment to IFRIC 14 IAS 19 Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

In addition, Glaston has applied the annual Improvements to IFRSs issued in May 2010. These have affected mainly the disclosure information in Glaston's consolidated financial statements.

Other new or amended standards or interpretations applicable from 1 January, 2011 are not material for Glaston Group.

Glaston will apply the following new or revised or amended standards and interpretations from 1 January, 2012:

- Amendment to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets

The amendment shall be applied for annual periods beginning on or after 1 July, 2011. The amendment increases the disclosure requirements of transfers and derecognition of financial assets. The amendment does not have material effect on Glaston's consolidated financial statements but it increases the disclosure information in the consolidated financial statements.

Other new or amended standards or interpretations applicable from 1 January, 2012 are not material for Glaston Group.

Glaston will apply the following new or revised or amended standards and interpretations from 1 January, 2013, if EU has approved them:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurements
- Amendment to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income
- IAS 19 (revised) Employee Benefits
- IAS 27 (revised) Separate Financial Statements
- IAS 28 (revised) Investments in Associates and Joint Ventures

The revised and amended standard shall be applied for annual periods beginning on or after 1 January, 2013, except that revised IAS 1 shall be applied for annual periods beginning on or after 1 July, 2012.

IFRS 10 Consolidated Financial Statements standard changes the definition of control in other entities. Control is the basis for including an entity in

the consolidated financial statements. The application of IFRS 10 does not affect the consolidated financial statements of Glaston.

IFRS 12 Disclosure of Interests in Other Entities standard increases the disclosure information of group companies in the consolidated financial statements.

IFRS 13 Fair Value Measurements standard increases the disclosure information in the consolidated financial statements but has otherwise no material effect on Glaston's consolidated financial statements.

Amended to IAS 1 Presentation of Items of Other Comprehensive Income standard changes the presentation of other comprehensive income in the consolidated financial statements but has otherwise no effect on Glaston's consolidated financial statements.

Revised IAS 19 Employee Benefits 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 Glaston has no major defined benefit plans, the revised standard does not have material impact on Glaston's profit or loss or statement of financial position.

Other new or amended standards or interpretations applicable from 1 January, 2013 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.

Joint ventures, in which the Group exercises control together with other parties, are accounted for using the equity method in the consolidated financial statements. Also associates, where the Group has a significant influence (holding normally 20 - 50 percent), are accounted for using the equity method. The Group's share of the joint ventures' and associates' net results for the financial year is recognized as a separate item in profit or loss. The Group's interest in a joint venture or an associate is carried in the statement of financial position at an amount that reflects its share of the net assets of the joint venture or associate together with goodwill on acquisition, if such goodwill exists. When the Group's share of losses exceeds the carrying amount of the joint venture or an associate, the carrying amount is reduced to nil and recognition of further losses ceases unless the Group is committed to satisfy obligations of the joint venture or associate by guarantees or otherwise. Glaston had a joint venture during the 2010 reporting period, but at the end of reporting periods 2011 and 2010 Glaston had no joint ventures.

Other shares, i.e. shares in companies in which Glaston owns less than 20 percent 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 and joint

ventures 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, joint ventures 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, a joint venture 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 period 2011, Glaston had electricity forward contracts. At the end of the reporting period 2010, Glaston had, in addition, also forward foreign exchange 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 have mainly hedged with currency derivatives their sales in foreign currency as well as those orders received, for which there are firm commitments. The hedging instruments used were forward contracts mainly made with Group Treasury or directly with banks. These hedges were 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 2011 and 2010.

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 2011 or 2010.

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

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

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

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

### Loans and Receivables

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

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

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

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

received amount is recognized in profit or loss in financial items.

## Available-for-sale Financial Assets

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

Glaston has classified other shares than shares in joint ventures or 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 is capitalized to the acquisition cost of the asset. The capitalization applies mainly to property, plant and equipment and intangible assets.

Glaston's convertible bonds are 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 bonds is presented in Note 25 to the consolidated financial statements. Even though the convertible bonds are listed, there weren't any transactions with the bonds in 2011 or 2010, so the fair value of the bonds in 2010 was measured using the pricing model used when the bonds were issued. In 2011 part of the convertible bonds were converted into shares, and the fair value of the remaining bonds has been measured using the conversion price adjusted with the extra compensation given to those who converted their bonds into shares.

## 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.

Glaston records actuarial gains and losses of defined benefit plans using the so called corridor method, which means that actuarial gains and losses are recognized only to the extent that they exceed 10 percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets. If the actuarial gains and losses are recognized, they are recognized in profit or loss over the expected average remaining working lives of the employees participating in the plan.

### **Share-based Payments**

On 12 December, 2011 the Board of Directors of Glaston decided to establish a long-term share ownership plan as a part of the remuneration and commitment program for the key personnel. The vesting criteria are the Group's operating profit and net result. The reward from the plan shall be paid to the key personnel as a combination of shares and cash payment after the end of the earning period.

Glaston's 2010 share-based incentive plan had one earning period covering the years 2010 and 2011, and the earnings criterion was the development of the Group's operating profit. The share-based incentive plan expired as the vesting criterion was not met.

The CEO's share-based incentive plan is a combination of shares and a cash payment. The CEO is not allowed to transfer the shares within two years from date of the reward payment. This

period is considered to be part of the vesting period of the plan.

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

The expenses arising from the incentive plans are recognized in profit or loss during the vesting period. The unpaid cash-settled part of the incentive plans is recorded as a liability in the statement of financial position and the part to be settled in shares is recognized 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 state-

ments 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 2011 or 2010 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 2011 or 2010 Glaston did not have any qualifying assets.

### Non-current Assets Held for Sale

Non-current assets 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 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.

Also liabilities related to assets 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, Services and Software Solutions. 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 property, plant and equipment and intangible assets acquired in an acquisition and their estimated useful lives; useful lives of other intangible assets and property, plant and equipment; future economic benefits arising from capitalized development cost; measurement of inventories and trade and loan receivables; recognition and measurement of deferred taxes; estimates of the

amount and probability of provisions and actuarial assumptions used in defined benefit plans.

The critical accounting estimates and 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.

## 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 software licenses are recognized in the order book only after receiving a binding agreement and either a down payment or a letter of credit.

## Orders Received

Glaston's orders received include the binding orders received and recognized

in the order book during the reporting period as well as net sales of the service business, including net sales of spare parts and tools. Machine upgrades, which belong to the service business, are included in orders received based on the binding orders received and recognized in the order book during the reporting period. For Software Solutions segment, orders received include binding undelivered software license orders as well as the net sales of software service.

## Audit

Quarterly information as well as interim reports are not audited.

## Note 2 Critical Accounting Estimates and Judgements and Assessment of Going Concern

When preparing financial statements, Glaston's management assesses Glaston's ability to continue as going concern. Glaston's management has no information of such events or circumstances which may cast significant doubt on Glaston's ability to continue as going concern. Glaston's financing has been secured with the new credit facility signed in February 2011. If the covenants of the credit facility are breached, that will lead into negotiations with the lenders. These negotiations may lead into a situation where the liabilities shall become immediately due and payable. The loan covenants are described in more detail in Note 3 to the consolidated financial statements.

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.

In business combinations the net assets of the acquired companies are measured at fair value. In the case of a major acquisition, estimated fair values of property, plant and equipment and intangible assets acquired in an acquisition and their estimated useful lives may have a significant effect on Glaston's result and financial position.

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 2011, Glaston had EUR 13.9 (10.0) million of capitalized development expenditure in the statement of financial position.

Measurement of inventories and trade and loan receivables includes some management estimates. Inven-

tories 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 inventory was at the end of the reporting period EUR 25.2 (27.9) million, the carrying amount of trade receivables was EUR 30.9 (33.7) million and the carrying amount of loan receivables was EUR 4.5 (4.5) 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 was EUR 6.9 (8.9) million and the carrying amount of deferred tax liabilities was EUR 3.6 (4.7) million.

If Glaston's management has assessed that as a result of a past event Glaston has a legal or constructive obligation, and that it is probable, that an outflow of resources will be required to settle the obligation, the management has estimated the amount of provision recognized from the obligation. The amount of the provision is the manage-

ment'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, EUR 4.0 (3.9) 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. Actual results, which differ from the initial estimates and assumptions, are recognized using the corridor method in profit or loss over the expected average remaining working lives of the employees participating in the plan. The annual result effect arising from the actuarial gains and losses is not material. 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 1.0 (1.4) million at the end of the reporting period.

Glaston divested in 2007 its Energy business. Part of the selling price of the Energy business was based on the management's estimate on the number of future emission right allowances to be received by the business and the use of these rights. This part was recognized as a non-current receivable from the

buyer. The buyer amortizes the receivable annually during 5 years starting from 2009. The receivable was remeasured in the 2007 financial statements based on the fair value of the emission right allowances and on management's estimate of the number to be received. During the spring of 2008, the unit price of the emission right allowance was fixed by a contract. In the financial statements of 2011, management has estimated the number of the emission right allowances.

## Note 3 Management of Financial Risks

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 the 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 profit or loss statements 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. US dollar accounted for approximately 14 percent of the total net sales in 2011; the proportional share was the same in 2010. Euro and US dollar together account for approximately 74 (75) percent of the Group's invoicing. Also other currencies such as Brazilian Real and Chinese Renminbi are used in invoicing. Both of these currencies have

increased their share of the invoicing compared with 2010.

The Group did not have major foreign currency denominated loans at 31 December, 2011. 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 positions. Net positions vary greatly between different group companies. These net positions can be hedged mainly with forward contracts up to a maximum of 12 months ahead. At the end of 2011, the Group had no currency forward contracts. The Group has not hedged the net investments in foreign entities.

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

For the sensitivity analysis as defined in IFRS 7, a possible +/- 10 percent 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, 2011. 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.

In the table above 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.

EUR million	Gross position	Change in currency rate	
		-10 percent	+ 10 percent
USD/EUR	1.8	0.2	-0.2
BRL/EUR	4.1	0.5	-0.4
CNY/EUR	-4.2	-0.5	0.4
GBP/EUR	-1.3	-0.2	0.1
	0.3		

### 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. It is maintained within the limits set by the Board of Directors of Glaston Corporation. The average interest fixing term at the end of 31 December, 2011 was 9.7 months in comparison to 17.0 months at the end of the previous year.

On 31 December, 2011, the Group's interest-bearing net debt consisted mainly of loans agreed with the lenders in the financing agreement made in February 2011, the debenture bond issued in February 2011 as well as the unconverted part of the convertible bond issued in 2009.

For the sensitivity analysis as defined by IFRS 7, a possible +/- 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 the 31 December, 2011, is EUR -0.8 / + 0.4 (-0.5 / + 0.3) million.

### Credit and Counterparty Risk

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

The objective for credit risk management is to 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 2011, 27.3 (10.3) percent 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 unfavorable changes in the level of business, particularly in construction sector, could negatively impact the development of the Group's credit risk. The collection on trade receivables and credit risk management have been enhanced by a net working capital improvement program and by re-organizing globally the follow-up of the Group's trade receivables.

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 on 31 December, 2011, was EUR 30.9 (33.7) million. Of this amount the receivables, which would have been past due but which have been renegotiated, was EUR 0.3 (0.4) 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 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 approximately EUR 84 million financial package agreed with the lenders in February 2011. Approximately EUR 74 million of the package consists of syndicated loans with a maturity of 3 years. In addition, new shares totalling to approximately EUR 6 million and a EUR 4 million debenture bond with a 3 year maturity were issued.

## Committed credit facilities

EUR million	In use	Unused	Total
Committed credit facilities 31.12.2011	0.0	10.4	10.4
Committed credit facilities 31.12.2010	51.9	5.0	56.9

## Maturity analysis of financial liabilities 31 December, 2011

EUR thousand Maturity of financial liabilities	Carrying amount	Contractual cash flows	Maturing in		
			< 12 months	1-2 years	> 2 years
Financial of financial liabilities					
Secured credit facilities	-	-	-	-	-
Unsecured credit facilities	3,505	3,540	3,540	-	-
Other interest-bearing loans	52,854	59,262	22,244	9,833	27,185
Convertible bond and debenture bond	11,937	15,741	962	972	13,808
Trade payables	14,360	14,360	14,360	-	-
Other liabilities	17,530	17,530	17,521	9	-
Forward contracts					
- inflow	139	139	139	-	-
- outflow	113	113	113	-	-
Guarantees					
- on behalf of own commitments	-	1,319	806	262	250
- on behalf of others	-	1	1	-	-

## Maturity analysis of financial liabilities 31 December, 2010

EUR thousand Maturity of financial liabilities	Carrying amount	Contractual cash flows	Maturing in		
			< 12 months	1-2 years	> 2 years
Financial of financial liabilities					
Secured credit facilities	51,865	52,461	52,461	-	-
Unsecured credit facilities	9,500	10,097	10,097	-	-
Other interest-bearing loans	91	94	47	47	-
Convertible bond and commercial papers	26,199	40,191	2,100	2,100	35,991
Trade payables	10,375	10,375	10,375	-	-
Other liabilities	16,898	16,898	16,474	424	-
Forward contracts					
- inflow	431	431	431	-	-
- outflow	414	414	414	-	-
Guarantees					
- on behalf of own commitments	-	674	674	-	-
- on behalf of others	-	154	33	52	69

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

## 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 agree-

ments. The covenants in use are interest cover, net debt / EBITDA, cash and gross capital expenditure. The covenants are monitored partly quarterly and partly monthly. In the end of the fourth quarter Glaston renegotiated some of the loan covenants with lenders. The terms of agreement also include restrictions on the distribution of dividends. Payment of dividend is conditional on net financial debt to EBITDA ratio of less than 2.75. These restrictions do not apply to statutory dividends.

EUR thousand	31 December, 2011	31 December, 2010
<b><u>Interest-bearing net debt</u></b>		
Non-current interest-bearing liabilities	45,677	26,246
Current interest-bearing liabilities	22,620	61,409
Liabilities related to non-current assets held for sale	-	2,612
Cash and cash equivalents	-18,601	-15,670
<b>Interest-bearing net debt</b>	<b>49,696</b>	<b>74,596</b>
<b><u>Equity</u></b>		
Attributable to owners of the parent	52,807	39,142
Non-controlling interest	346	337
<b>Total</b>	<b>53,153</b>	<b>39,479</b>
 Total assets	 187,157	 194,917
Advances received	-16,403	-16,107
<b>Total</b>	<b>170,754</b>	<b>178,810</b>
 Equity ratio, %	 31.1%	 22.1%
Net gearing, %	93.5%	189.0%

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 105,588,636 (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 2011 and 2010, 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 0.12 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 percent or 50 percent 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 2011, the highest price of the Glaston share was EUR 1.27 (in 2010 EUR 1.65) and the lowest price EUR 0.40 (0.80). The average volume-weighted share price was EUR 0.84 (1.17). At the end of 2011, the share price stood at EUR 0.40 (1.13). The turnover of the share in NASDAQ OMX Helsinki Ltd. in 2011 was 8,446,549 (15,419,409) shares and in euro-terms EUR 7.2 (18.1) million. Number of shares traded was 8.5 (19.6) percent of the average share stock. Market capitalization at the end of 2011 was approximately EUR 47.2 (88.8) million.

### Notifications as per Section 9 of Chapter 2 of the Securities Market Act

25 February, 2011: The total number of Glaston shares owned by Suomen Teollisuussijoitus Oy and Keskinäinen työeläkevakuutusyhtiö Varma had for both companies risen above 5 percent of the total number of Glaston shares. The holding of Suomen Teollisuussijoitus Oy was 8.32 percent and the holding of Keskinäinen työeläkevakuutusyhtiö Varma 8.31 percent of all shares in Glaston.

29 March, 2011: Oy G.W. Sohlberg Ab's and its controlled entity's (GWS Trade Oy) ownership in Glaston Corporation fell below 30 percent. The ownership changed on 4 April, 2011 and was the following: Oy G.W. Sohlberg Ab 12.51 percent, GWS Trade Oy 13.12 percent, in total 25.63 percent.

29 April, 2011: Oy G.W. Sohlberg Ab's and its controlled entity's (GWS Trade Oy) ownership in Glaston Corporation fell below 25 percent. The ownership changed on 6 May, 2011 and was the following: Oy G.W. Sohlberg Ab 12.14 percent,

GWS Trade Oy 12.73 percent, in total 24.88 percent.

### Restrictions on Dividend Payment

The terms of Glaston's revolving credit facility agreement dated on February 2011 set restrictions on dividend payments. Payment of dividend is conditional on net financial debt to EBITDA ratio of less than 2.75. These restrictions do not apply to statutory dividends. Glaston's largest shareholders Oy G.W. Sohlberg Ab and GWS Trade Oy have also separately agreed not to claim minority dividends as regulated in Chapter 13 Section 7 of the Finnish Companies Act.

### Authorizations of the Board of Directors

The 2011 Annual General Meeting held on 5 April, 2011, authorised the Board of Directors to decide on a share issue, including the right to issue new shares and/or convey treasury shares. The share issue authorisation covers a maximum of 20,000,000 shares and is valid until the end of the 2013 Annual General Meeting. The authorisation includes the right to decide on a share issue without payment. The Board of Directors also has the right to issue and/or convey shares in derogation of the pre-emptive subscription right of shareholders.

The Board of Directors decided on 28 April, 2011 to implement a directed share issue without payment. In the share issue, a total of 3,092,501 new shares in Glaston Corporation were issued without payment. At the end of the review period, the Board of Directors still has an authorisation to issue 16,907,499 shares. The Board of Directors has no other authorisations.

### The Effect of the Convertible Bond on Number of Shares

Glaston issued in 2009 and 2010 convertible bonds, with the principal amount of EUR 30,000,000. In 2011, a total of EUR 21,250,000 of the bonds were converted into shares resulting in issuing 16,346,135 new shares in Glaston. In addition, an additional

# Notes to the Consolidated Financial Statements

consideration was given to those who converted their bonds into shares as 3,092,501 new shares were issued in a directed share issue.

After the conversion into shares, Glaston's convertible bond amounts to

EUR 8,750,000. With the remaining convertible bond it is possible to subscribe Glaston's shares with a conversion price of EUR 1.30 / share. If Glaston's convertible bond would be converted to shares in its entirety, Glaston's number of shares would

increase by 6,730,769 shares. The price to be paid for the shares will be recorded in reserve for invested unrestricted equity.

The conversion period of the bond began on 1 August, 2009 and will end on 19 June, 2014.

<b>Number of shares and treasury shares (registered)</b>	<b>2011</b>	<b>2010</b>
<b>Number of shares</b>		
Number of shares 1 January	79,350,000	79,350,000
Conversion of convertible bond	16,346,135	-
Share issue	6,800,000	-
Share issue without payment	3,092,501	-
Number of shares 31 December	105,588,636	79,350,000
Treasury shares 31 December	-788,582	-788,582
<b>Number of shares 31 December, excluding treasury shares</b>	<b>104,800,054</b>	<b>78,561,418</b>
<b>Average share issue adjusted number of shares 31 December, excluding treasury shares</b>	<b>100,825,545</b>	<b>82,144,592</b>
Average share-issue adjusted number of shares 31 December, excluding treasury shares, dilution effect of the convertible bond taken into account	110,537,735	104,646,445

## Acquisition and disposal of treasury shares

Treasury shares 1 January, shares	788,582	838,582
Surrendered during the year, shares	-	-50,000
<b>Treasury shares 31 December, shares</b>	<b>788,582</b>	<b>788,582</b>
Treasury shares 1 January, EUR thousand	3,308	3,518
Surrendered during the year, EUR thousand	-	-210
<b>Treasury shares 31 December, EUR thousand</b>	<b>3,308</b>	<b>3,308</b>

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. The shares are the property of the service provider until the shares are transferred to key individuals within the framework of the scheme. Irrespective of the legal form of the procedure, the shares have been treated as if Glaston would have acquired the shares itself.

Surrendered shares are shares, which were surrendered in 2010 based on the share-based incentive plan.

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

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

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

Equity attributable to owners of the parent, EUR thousand	52,807	39,142
Share-issue adjusted number of shares	104,800,054	82,178,930
<b>Equity attributable to owners of the parent per share, EUR</b>	<b>0.50</b>	<b>0.48</b>

## Dividend

Dividend per share, EUR	0.00	0.00
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The 2011 dividend is the Board of Directors' proposal to the Annual General Meeting.

### Largest shareholders 31 December, 2011

Shareholder	Number of shares	% of shares and votes
GWS Trade Oy	13,446,700	12.73%
Oy G.W.Sohlberg Ab	12,819,400	12.14%
Varma Mutual Pension Insurance Company	9,447,320	8.95%
Suomen Teollisuussijoitus Oy	9,049,255	8.57%
Fondita Nordic Micro Cap Investment Fund	2,350,000	2.23%
Sumelius Bjarne Henning	2,062,936	1.95%
Sumelius-Fogelholm Birgitta Christina	1,840,000	1.74%
Oy Investsum Ab	1,820,000	1.72%
Sumelius Bertil Christer	1,803,800	1.71%
Von Christierson Charlie	1,600,000	1.52%
Sumelius-Koljonen Barbro	1,175,238	1.11%
The Finnish Cultural Foundation	1,084,760	1.03%
Nordea Pro Finland Fund	1,055,000	1.00%
Ehnröoth Johan Magnus	1,000,000	0.95%
Oy Cacava Ab	1,000,000	0.95%
Juola Soile Johanna	904,800	0.86%
Nordea Life Assurance Finland Ltd	850,000	0.81%
Huber Karin	800,800	0.76%
Evli Alexander Management Oy	788,582	0.75%
Suutarinen Tero Markus	779,303	0.74%
Total 20 largest shareholders	65,677,894	62.20%
Other shareholders	39,835,542	37.73%
Not in the book-entry securities system (in joint account)	75,200	0.07%
<b>Total</b>	<b>105,588,636</b>	<b>100.00%</b>
Treasury shares	-788,582	0.75%
<b>Total excluding treasury shares</b>	<b>104,800,054</b>	

### Ownership distribution 31 December, 2011

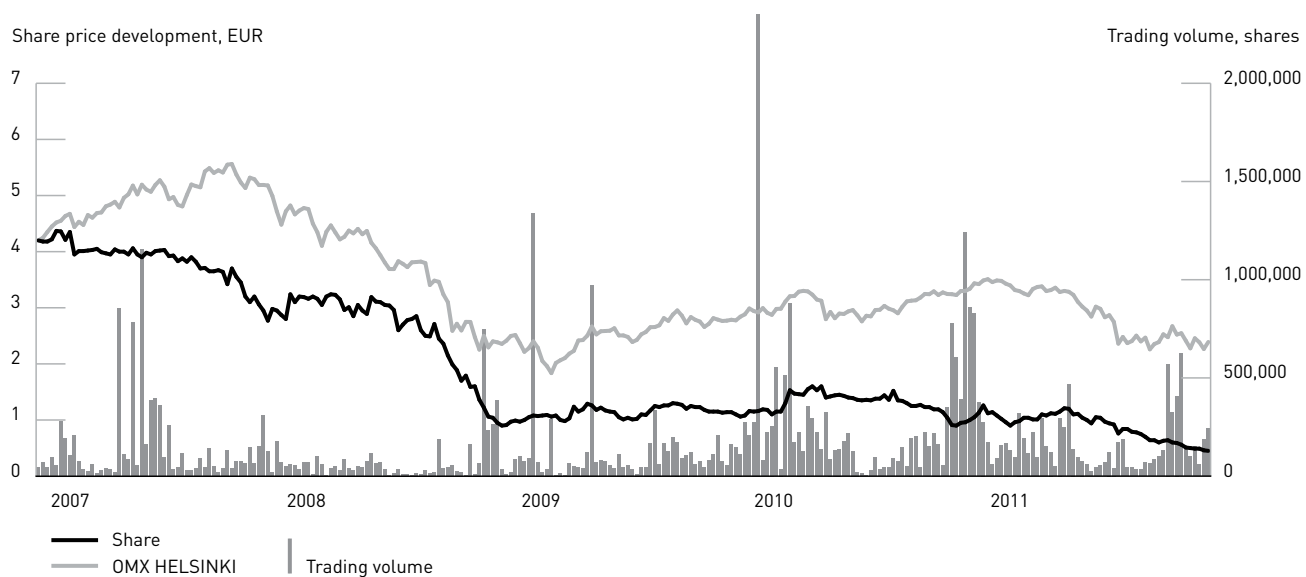
	Number of shares	% of shares and votes
Corporations	44,659,289	42.3%
Financial and insurance corporations	6,985,483	6.6%
Non-profit institutions	2,813,774	2.7%
Households	35,437,626	33.6%
Foreign countries	5,519,598	5.2%
General government	9,552,320	9.0%
Total	104,968,090	99.4%
Nominee registered	545,346	0.5%
Total	105,513,436	99.9%
Not in the book-entry securities system (in joint account)	75,200	0.1%
<b>Total</b>	<b>105,588,636</b>	<b>100.0%</b>

# Notes to the Consolidated Financial Statements

## Shareholders by share ownership 31 December, 2011

Number of shares	Number of shareholders	% of shareholders	Shares total	% of shares and votes
1 - 100	322	7.7%	20,040	0.02%
101 - 1,000	2,084	49.7%	1,150,366	1.09%
1,001 - 10,000	1,445	34.5%	4,680,252	4.43%
10,001 - 100,000	229	5.5%	8,020,391	7.60%
100,001 - 1,000,000	99	2.4%	32,087,978	30.39%
Over 1,000,000	13	0.3%	59,554,409	56.40%
Total	4,192	100.0%	105,513,436	99.93%
Not in the book-entry securities system (in joint account)			75,200	0.07%
<b>Number of shares issued</b>			<b>105,588,636</b>	<b>100.00%</b>

## Share price development and trading volume



## Note 5 Segment Information

EUR thousand

The reportable segments of Glaston are Machines, Services and Software Solutions. 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 custom-

ers. 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 sold under Tamglass and Uniglass brands, glass pre-processing machines sold under the Bavelloni brand 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. Services segment also provided services to a customer by operating glass processing factory in Akaa, Finland, on behalf of the customer, but this operation ceased in March 2010.

Software Solutions segment's product offering, sold under the Albat+Wirsam brand, covers enterprise resource planning systems for the glass industry, software for window and door glass manufacturers, and software for glass processor's integrated line solutions.

The unallocated operating result consists of head office operations of the Group and also unallocated share of joint venture's result.

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 2011	Machines	Services	Software Solutions	Unallocated and eliminations	Total
External net sales	89,785	29,853	23,012	2	142,652
Internal net sales	246	1,230	89	-1,565	-
<b>Total net sales</b>	<b>90,030</b>	<b>31,083</b>	<b>23,102</b>	<b>-1,563</b>	<b>142,652</b>
<b>Operating result of the segments, non-recurring items excluded</b>	<b>-1,917</b>	<b>5,577</b>	<b>1,739</b>	<b>-6,817</b>	<b>-1,418</b>
Operating result includes share of results of joint ventures and associates	-	-	2	-	2
Non-recurring items	170	134	41	-	345
<b>Operating result, non-recurring items included</b>	<b>-1,747</b>	<b>5,711</b>	<b>1,780</b>	<b>-6,817</b>	<b>-1,072</b>
Financial items					-10,760
Income taxes					-2,614
<b>Result for the reporting period</b>					<b>-14,446</b>
Segment assets	94,501	28,872	25,114	5,331	153,818
Other assets					33,338
<b>Total assets</b>					<b>187,157</b>
Segment liabilities	46,640	6,932	4,754	1,790	60,116
Other liabilities					73,888
<b>Total liabilities</b>					<b>134,004</b>
<b>Operative net working capital</b>	<b>47,861</b>	<b>21,940</b>	<b>20,361</b>	<b>3,541</b>	<b>93,703</b>

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 2011 consist of reversals of the provisions made in prior years.

# Notes to the Consolidated Financial Statements

Reportable segments 2010	Machines	Services	Software Solutions	Unallocated and eliminations	Total
External net sales	94,870	30,674	23,889	5	149,438
Internal net sales	129	1,360	5	-1,494	-
<b>Total net sales</b>	<b>94,999</b>	<b>32,034</b>	<b>23,894</b>	<b>-1,489</b>	<b>149,438</b>
<b>Operating result of the segments, non-recurring items excluded</b>	<b>-8,471</b>	<b>3,250</b>	<b>1,074</b>	<b>-7,121</b>	<b>-11,269</b>
Operating result includes share of results of joint ventures and associates	-	-	21	-463	-442
Non-recurring items	-11,960	-2,159	467	-	-13,652
<b>Operating result, non-recurring items included</b>	<b>-20,431</b>	<b>1,091</b>	<b>1,541</b>	<b>-7,121</b>	<b>-24,921</b>
Financial items					-6,889
Income taxes					-152
<b>Result for the reporting period</b>					<b>-31,962</b>
Segment assets	101,699	28,862	25,004	5,897	161,462
Other assets					33,455
<b>Total assets</b>					<b>194,917</b>
Segment liabilities	46,563	6,763	3,722	1,134	58,182
Other liabilities					97,256
<b>Total liabilities</b>					<b>155,438</b>
<b>Operative net working capital</b>	<b>55,136</b>	<b>22,099</b>	<b>21,282</b>	<b>4,763</b>	<b>103,280</b>

The non-recurring items of 2010 consist of impairment losses and reversals of impairment losses recognized of goodwill and intangible and tangible assets (net amount EUR -6.4 million), personnel and other expenses arising from restructuring program (EUR -5.5 million) as well as impairment losses of inventory arising from restructuring related product portfolio changes (EUR -2.2 million). In addition, the non-recurring items include reversals of provisions made in previous years (EUR 0.4 million).

	2011	2010
<b>Non-cash income and expenses included in operating result <sup>†</sup></b>		
Machines	-1,231	-5,971
Services	-93	-3,665
Software Solutions	835	-968
Segments total	-490	-10,604
Unallocated	-	-
<b>Total non-cash expenses and income</b>	<b>-490</b>	<b>-10,604</b>

<sup>†</sup> Excluding impairment.

Non-cash income and expenses in 2011 included the following items: impairment losses of trade receivables EUR 0.8 million, impairment losses of inventory EUR -0.5 million, changes in provisions EUR -0.7 million.

Non-cash income and expenses in 2010 included the following items: impairment losses of trade receivables EUR -2.7 million, impairment losses of inventory EUR -4.8 million, changes in provisions EUR -3.0 million.

<b>Goodwill, depreciation, amortization and impairment losses by segment</b>	2011	2010
<b>Goodwill, EUR million</b>		
Machines	23.0	23.0
Services	16.8	16.8
Software Solutions	12.8	12.8
<b>Segments total</b>	<b>52.6</b>	<b>52.6</b>

<b>Depreciation and amortization by segment, EUR thousand</b>	2011	2010
Machines	4,282	4,017
Services	373	633
Software Solutions	2,438	1,949
Segments total	7,093	6,599
Unallocated	819	909
<b>Total depreciation and amortization</b>	<b>7,912</b>	<b>7,508</b>

	2011	2010
<b>Impairment losses and reversals of impairment losses of property, plant and equipment and intangible assets, net <sup>†*</sup></b>		
Machines	113	6,572
Services <sup>†**</sup>	55	907
Software Solutions	1	-633
Segments total	170	6,846
Unallocated	24	186
<b>Total impairment losses</b>	<b>193</b>	<b>7,032</b>

<sup>†\*</sup> Includes impairment loss of goodwill.

<sup>†\*\*</sup> Includes in 2010 EUR 0.7 million impairment losses arising from non-current assets held for sale.

#### **Orders received and order book by segment, EUR million**

<b>Orders received</b>		
Machines	89.2	96.2
Services	31.3	29.8
Software Solutions	20.9	21.7
<b>Total</b>	<b>141.3</b>	<b>147.7</b>

	31 December, 2011	31 December, 2010
<b>Order book</b>		
Machines	34.6	37.4
Services	1.2	1.2
Software Solutions	1.8	2.9
<b>Total</b>	<b>37.6</b>	<b>41.5</b>

#### **Personnel**

	2011	2010
<b>Number of personnel at the end of the year by segment</b>		
Machines	541	577
Services	117	149
Software Solutions	200	214
Segments total	858	940
Parent	12	17
<b>Total number of personnel</b>	<b>870</b>	<b>957</b>

#### **Number of personnel at the end of the year by geographical location**

Finland	145	179
Other EMEA	347	421
Americas	134	134
Asia	244	223
<b>Total number of personnel</b>	<b>870</b>	<b>957</b>

#### **Entity-wide disclosures**

EUR thousand

#### **Net sales by product groups**

Goods sold	115,492	121,888
Services rendered	27,160	27,550
<b>Total net sales</b>	<b>142,652</b>	<b>149,438</b>

# Notes to the Consolidated Financial Statements

	2011	2010
<b>Net sales by country by destination</b>		
Finland	1,557	3,038
Other EMEA	66,514	72,257
Americas	41,023	38,960
Asia	33,558	35,182
<b>Total</b>	<b>142,652</b>	<b>149,438</b>

EMEA = Europe, the Middle East and Africa

Americas = North, Central and South America

Asia = China and the rest of the Asia-Pacific area

<b>Property, plant and equipment and intangible assets by geographical location (goodwill excluded)</b>		
Finland	22,638	24,298
Other EMEA	8,758	9,320
Americas	987	961
Asia	4,435	3,732
<b>Total property, plant and equipment and intangible assets, goodwill excluded</b>	<b>36,818</b>	<b>38,311</b>

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

## Note 6

### Construction Contracts

EUR thousand

	2011	2010
<b>Construction contracts</b>		
Total revenue from construction contracts included in net sales during the reporting period	52,031	48,324
Construction contracts in progress at the end of reporting period: revenue recognized during the reporting period and previous reporting periods	35,048	21,568

Gross amounts due from / to customers in 2011	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	25,591	21,965	3,626
Projects where advances received exceed recognized revenue	11,459	22,129	10,670
Gross amounts due from / to customers	37,051	44,094	

Gross amounts due from / to customers in 2010	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	23,976	19,958	4,017
Projects where advances received exceed recognized revenue	0	10,614	10,614
Gross amounts due from / to customers	23,976	30,572	

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

	2011	2010
<b>Other operating income</b>		
Capital gains on sale of property, plant and equipment	121	241
Rents	562	429
Government grants	111	134
Other income	122	87
<b>Other operating income total</b>	<b>917</b>	<b>891</b>

Government grants are related to regional headquarter compensation.

## Note 8 Materials and Other Operating Expenses

EUR thousand

	2011	2010
<b>Materials</b>		
Materials and supplies, purchases during the period	-46,462	-46,001
Change in inventories of materials and supplies	559	-433
<b>Total materials</b>	<b>-45,903</b>	<b>-46,433</b>

### Other operating expenses

Leases	-4,605	-5,393
Losses on sale of property, plant and equipment	-113	-17
Subcontracting and maintenance	-8,401	-8,304
Other expenses	-26,024	-33,120
<b>Total other operating expenses</b>	<b>-39,143</b>	<b>-46,835</b>

Losses on sale of property, plant and equipment include EUR 17 thousand losses from sale of non-current assets held for sale (Note 13).

### Fees for professional services rendered by principal auditors

Auditing, Ernst & Young	-492	-212
Auditing, KPMG	-	-125
Auditing, other auditing companies	-86	-53
Official statements, KPMG	-	-10
Other services, KPMG	-	-135
Other services, EY	-57	-116
Other services, other auditing companies	-	2
<b>Total</b>	<b>-635</b>	<b>-649</b>

The principal auditor of Glaston Group during the financial years of 2011 and 2010 has been Ernst & Young. During the 2009 financial year the principal auditor was KPMG.

Principal auditor's audit fees of the audit of the financial year  
Ernst & Young

-350 -385

### Research and development costs

Recognized in profit or loss	-3,910	-6,644
Amortization, impairment losses and reversals of impairment losses of capitalized development costs during the reporting period, net	-4,168	-2,930
<b>Total</b>	<b>-8,077</b>	<b>-9,574</b>
As a percentage of net sales	-5.7%	-6.4%
Capitalized development costs during the reporting period	4,236	2,760

# Notes to the Consolidated Financial Statements

## Note 9

### Employee Benefits and Number of Personnel

EUR thousand

	2011	2010
<b><u>Employee benefits</u></b>		
Wages and salaries	38,660	44,772
Pension expenses	5,177	6,157
Other personnel expenses	5,371	6,302
Other post-employment benefits	52	76
<b>Total personnel expenses</b>	<b>49,260</b>	<b>57,306</b>

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

#### **Pension expenses**

Defined benefit plans	-51	-27
Defined contribution plans	5,228	6,183
<b>Total pension expenses</b>	<b>5,177</b>	<b>6,157</b>

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

#### **Number of personnel**

Number of personnel, average	899	1,028
Personnel in Finland, end of the period	145	179
Personnel outside Finland, end of the period	725	778
<b>Total</b>	<b>870</b>	<b>957</b>

In 2011 Glaston had no joint ventures. Average number of personnel in joint venture in 2010 (INTERPANE Glass Oy) was 94 (for the period 1 January - 31 March; the shares in INTERPANE Oy were sold in early April).

Note 10  
Financial Income and Expenses  
EUR thousand

	2011	2010
<b><u>Recognized in profit or loss</u></b>		
<b>Interest income</b>		
Interest income on loans and receivables	967	984
Other interest income	33	48
Total interest income	1,000	1,032
<b>Dividend income</b>		
Dividend income on available-for-sale financial assets	6	7
<b>Other financial income</b>		
Financial income on emission right receivable	283	151
<b>Interest expenses</b>		
Interest expenses on financial liabilities measured at amortized cost	-5,777	-5,981
Other interest expenses	-17	-113
Total interest expenses	-5,794	-6,094
<b>Other financial expenses</b>		
On financial liabilities measured at amortized cost <sup>(*)</sup>	-5,079	-418
On loans and receivables	-199	-913
Other financial expenses	-14	-23
Total other financial expenses	-5,292	-1,354
<b>Impairment losses on loans and receivables</b>	-	-2,561
<b>Foreign exchange differences, net</b>		
On financial liabilities measured at amortized cost	-1,339	1,050
On loans and receivables	369	901
Other foreign exchange gains and losses	7	-21
Total foreign exchange differences	-964	1,930
<b>Total financial income and expenses in financial items</b>	<b>-10,760</b>	<b>-6,889</b>
<sup>(*)</sup> Other financial expenses include, in accordance with IAS 32, a financial expense totalling to EUR 3.4 million resulting from an additional compensation made in connection of converting the convertible bond. This expense had no effect on cash flow nor on equity.		
<b>Net foreign exchange differences in operating result</b>		
Net sales	90	22
Purchases	265	468
Other operating expenses	-82	-
<b>Total</b>	<b>273</b>	<b>491</b>
<b><u>Derivatives recognized in profit or loss</u></b>		
<b>Currency derivatives, non-hedge accounting</b>		
Realized currency derivatives recognized in net sales	69	-208
Unrealized currency derivatives recognized in net sales	-81	48
<b>Total</b>	<b>-11</b>	<b>-160</b>
<b>Electricity derivatives, non-hedge accounting</b>		
Realized electricity derivatives recognized in operating expenses	125	142
Unrealized electricity derivatives recognized in operating expenses	25	170
<b>Total</b>	<b>150</b>	<b>313</b>

# Notes to the Consolidated Financial Statements

## Recognized in other comprehensive income

Fair value changes of available-for-sale financial assets	-1	2
<b>Total in other comprehensive income</b>	<b>-1</b>	<b>2</b>

Borrowing costs were not capitalized in Glaston Group in 2011 or 2010 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 2010 Glaston waived its rights to EUR 3.3 million of the loan granted to INTERPANE Glass Oy. The result effect of the waiver of the loan is included in the appr. EUR 2.6 million financial expense recognized from the arrangement in which the shares in INTERPANE Glass Oy were sold (Note 16).

## Note 11

### Income Taxes

EUR thousand

	2011	2010
<b><u>Income tax charge in income statement</u></b>		
Current income tax charge	-924	-463
Adjustments in respect of current income tax of previous years	94	-1,421
Deferred tax charge	-860	2,298
Other	-923	-566
<b>Total income tax charge</b>	<b>-2,614</b>	<b>-152</b>

## Income taxes recognized in other comprehensive income and in equity

Deferred taxes		
Disposal of treasury shares recognized in equity	-	-38
Share-based incentive plan recognized in equity	-61	60
Available-for-sale assets, fair value changes recognized in other comprehensive income	1	0
<b>Total deferred taxes recognized in other comprehensive income and equity</b>	<b>-60</b>	<b>23</b>
Current taxes		
Disposal of treasury shares recognized in equity	-	-
Share-based incentive plan, recognized in equity	-	-
Total current taxes recognized in other comprehensive income and in equity	-	-
<b>Total taxes recognized in other comprehensive income and in equity</b>	<b>-60</b>	<b>23</b>

	2011	2010
<b>Reconciliation of income tax expense calculated at statutory tax rates with income tax expense in the income statement</b>		
Profit before taxes	-11,832	-31,810
Tax at the tax rate applicable to the parent	3,076	8,271
Difference due to different tax rates of foreign subsidiaries	49	607
Impairment losses of goodwill	-	-1,502
Tax exempt income and non-deductible expenses	-2,127	-681
Effect of changes in tax rates and tax laws	-240	116
Losses, where no deferred tax benefit is recognized	-4,825	-6,766
Deferred taxes recognized during the reporting period in respect of previous years' temporary differences	-68	1,217
Withholding taxes and adjustments in respect of current income tax of previous periods	-829	-1,987
Effect of joint ventures' and associates' results	1	-115
Use of losses, where no deferred tax asset was recognized	564	375
Deferred tax assets recognized of previous years' confirmed losses	-30	-563
Eliminations	597	484
Effect of taxes not based on taxable income	1,217	392
<b>Income taxes in the income statement</b>	<b>-2,614</b>	<b>-152</b>

The Group companies have tax losses, totalling EUR 75.3 (61.7) 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. Deferred tax assets recognized from tax losses amounted to EUR 5.5 (6.0) million.

Limited right to carry forward the tax losses concerns 89 (86) percent of the tax

losses and unlimited right 11 (14) percent of the tax losses.

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 has been 26

percent. Starting from 1 January, 2012, the corporate tax rate is 24.5 percent.

Deferred tax liability has not been recognized in 2011 or 2010 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**

	2011	2010
Deferred tax assets	6,923	8,866
Assets for current tax	1,336	801
Deferred tax liabilities	3,553	4,705
Liabilities for current tax	710	835

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

2011							
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	15	-	-	-12	-	-	2
Unrealized internal profits, inventory	486	-	-	24	-	-	510
Unrealized internal profits, property, plant and equipment and intangible assets	2	-	-	4	-	-	6
Confirmed tax losses carried forward <sup>1*</sup>	5,999	-	-	-456	-	-	5,543
Share-based payments	76	-	-	-136	68	-	9
Other temporary differences	2,288	8	-	-1,443	-	-	853
<b>Deferred tax assets in statement of financial position</b>	<b>8,866</b>	<b>8</b>	<b>-</b>	<b>-2,018</b>	<b>68</b>	<b>-</b>	<b>6,923</b>

<sup>1\*</sup> 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.

# Notes to the Consolidated Financial Statements

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	457	-	-	-193	-	-	264
Defined benefit employee benefits	170	-	-	7	-	-	177
Intangible assets recognized at fair value	481	-	-	-320	-	-	160
Available-for-sale financial assets at fair value	17	-	-	-	-	-1	17
Share-based payments	13	-	-	-12	7	-	8
Other temporary differences	3,567	-1	-	-640	-	-	2,927
<b>Deferred tax liabilities in statement of financial position</b>	<b>4,705</b>	<b>-1</b>	<b>-</b>	<b>-1,158</b>	<b>7</b>	<b>-1</b>	<b>3,553</b>

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 (- tax expense) -860

2010

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	22	-	-	-8	-	-	15
Unrealized internal profits, inventory	679	-	42	-236	-	-	486
Unrealized internal profits, property, plant and equipment and intangible assets	45	-	-42	-1	-	-	2
Confirmed tax losses carried forward	6,036	-	-	-37	-	-	5,999
Share-based payments	13	-	-	88	-25	-	76
Other temporary differences	1,671	32	-	586	-	-	2,289
<b>Deferred tax assets in statement of financial position</b>	<b>8,467</b>	<b>32</b>	<b>0</b>	<b>392</b>	<b>-25</b>	<b>-</b>	<b>8,866</b>

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	1,586	-	-	-1,129	-	-	457
Defined benefit employee benefits	217	-	-	-47	-	-	170
Intangible assets recognized at fair value	1,333	-	-532	-320	-	-	481
Available-for-sale financial assets at fair value	17	-	-	-	-	0	17
Share-based payments	2	-	-	14	-2	-	14
Other temporary differences	3,459	-	532	-424	-	-	3,567
<b>Deferred tax liabilities in statement of financial position</b>	<b>6,613</b>	<b>-</b>	<b>0</b>	<b>-1,906</b>	<b>-2</b>	<b>0</b>	<b>4,705</b>

Change in deferred taxes in income statement (- tax expense) 2,298

## Note 12

### Depreciation, Amortization and Impairment of Assets

EUR thousand

	2011	2010
<b>Depreciation and amortization</b>		
Intangible assets		
Intangible rights	1,307	1,136
Capitalized development expenditure	4,055	2,998
Other intangible assets	-	16
Property, plant and equipment		
Buildings and constructions	837	1,129
Machinery and equipment	1,582	1,873
Other tangible assets	131	355
<b>Total depreciation and amortization</b>	<b>7,912</b>	<b>7,508</b>
<b>Impairment losses and reversals of impairment losses</b>		
Intangible assets, impairment losses		
Goodwill	-	5,775
Intangible rights	24	140
Capitalized development expenditure	113	575
Intangible assets, reversals of impairment losses		
Capitalized development expenditure	-	-643
Property, plant and equipment, impairment losses		
Buildings and constructions	-	332
Machinery and equipment	57	470
Other tangible assets	-	382
<b>Total impairment losses and reversals of impairment losses</b>	<b>193</b>	<b>7,032</b>
<b>Total depreciation, amortization and impairment</b>	<b>8,105</b>	<b>14,540</b>

#### 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 2011 Glaston has performed impairment testing of goodwill for certain cash generating units (Pre-processing and Heat Treatment) nearly 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 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 Machines segment in particular. The on-going net working capital improvement program has a positive effect on the forecast cash flows. Removing unprofitable products from the product portfolio and restructuring measures to improve cost structure have improved profitability.

The glass industry is expected to recover from 2008/2009 recession back to the pre-recession level during several years. The fundamentals of the industry are, however, expected to remain unchanged, so the development of the subsequent years is expected to be positive compared with 2011. The use of glass for example in building industry has increased, especially in the emerging markets. Also enhanced energy efficiency regulations increase demand for energy-saving glass. Solar energy markets are

expected to develop further from the current level in long term; in short term the uncertainty in global economy might postpone investments in solar energy.

The uncertainty in the global economy at the end of 2011 and its effects on the development of the industry have been taken into account in short-term forecasts. If the recovery of the industry is further postponed or slows down, that will have a negative effect on the future cash flows. As the geographical focus of the business is moving toward areas with higher economical growth it balances the financial effects of a slower recovery in the Western Europe and North America.

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. The effect of the financial

arrangement made in February 2011 has been taken into account when determining Glaston's cost of debt. The financial arrangement affected especially the debt margin, which increased by 2 percentage points from the previous year.

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. The importance of Brazil has increased and its impact on the discount rate has increased significantly the discount rates of the cash generating units in the Machines segment.

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 geographical 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 2011

	Machines: Heat Treatment	Machines: Pre-processing	Machines: Tools
Pre-tax discount rate	13.6%	16.1%	17.8%
Long-term growth rate	2.5%	3.0%	2.0%

	Services	Software Solutions
Pre-tax discount rate	13.1%	10.0%
Long-term growth rate	2.0%	2.0%

## The most significant assumptions used in value in use calculations in 2010

	Machines: Heat Treatment	Machines: Pre-processing	Machines: Tools
Pre-tax discount rate	11.9%	13.2%	14.5%
Long-term growth rate	2.5%	3.0%	2.0%

	Services	Software Solutions
Pre-tax discount rate	13.2%	12.4%
Long-term growth rate	2.0%	2.0%

## Impairment testing of goodwill

### Goodwill

EUR million

Segment	1 January, 2011	Impairment loss	31 December, 2011
Machines			
Heat Treatment	4.1	-	4.1
Pre-processing	13.2	-	13.2
Tools	5.7	-	5.7
Services	16.8	-	16.8
Software Solutions	12.8	-	12.8
<b>Total</b>	<b>52.6</b>	<b>-</b>	<b>52.6</b>

Segment	Allocated in 2010	Impairment loss	31 December, 2010
Machines			
Heat Treatment	4.1	-	4.1
Pre-processing	19.0	-5.8	13.2
Tools	5.7	-	5.7
Services	16.8	-	16.8
Software Solutions	12.8	-	12.8
<b>Total</b>	<b>58.4</b>	<b>-5.8</b>	<b>52.6</b>

## 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 Services segment and the Heat Treatment operating segment within the Machines segment does 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 138 percent in the Services segment, by 16 percent in the Software Solutions segment, by 58 percent in the Heat Treatment operating segment, by 18 percent in the Tools operating segment and by 2 percent in the Pre-processing operating segment. Net sales of the Pre-processing operating segment is expected to grow in 2012 by 14 percent from the previous year. If the net sales would grow only 11 percent, the recoverable amount, other

things being equal, would equal the carrying amount. 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 continuously the performance 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 <sup>1*</sup>	Value assigned to the assumption	Change
Services	10.0%	Increase of 10.5 percentage points
Software Solutions	7.9%	Increase of 1.0 percentage points
Heat Treatment	11.5%	Increase of 4.3 percentage points
Pre-processing	13.8%	Increase of 0.25 percentage points
Tools	14.0%	Increase of 2.5 percentage points

Long-term growth rate <sup>1*</sup>	Value assigned to the assumption	Change
Services	2.0%	Decrease of 20 percentage points
Software Solutions	2.0%	Decrease of 1.25 percentage points
Heat Treatment	2.5%	Decrease of 6.7 percentage points
Pre-processing	3.0%	Decrease of 0.3 percentage points
Tools	2.0%	Decrease of 3.5 percentage points

<sup>1\*</sup> 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.

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

Impairment losses in 2011, in total EUR 0.2 million, consist mainly of development costs of products no longer in production.

The impairment of buildings in 2010 was mainly related to a building financed with a finance lease which had been reclassified to non-current assets held for sale. A major part of the impairment losses of machinery and equipment was also related to that reclassification. The impairment losses of other tangible

assets were mainly related to impaired leasehold improvements.

Impairment losses of intangible assets in 2010 were recognized of such capitalized development costs and intangible rights which no longer were expected to generate future economic benefits.

The reversal of impairment of intangible assets in 2010 was related to capitalized development costs for which an

impairment loss was recognized in 2009.

The asset's performance had improved in 2010 from the previous reporting period and it was decided to develop the product further, so in accordance with IAS 36 the impairment loss had to be reversed.

The impairment loss was reversed no more than up to the value which would have been determined for the asset (net of amortization) had no impairment loss been recognized previously.

## Note 13

### Non-current Assets Held for Sale and Related Liabilities

EUR thousand

	2011	2010
Non-current assets held for sale	-	2,811
Liabilities related to non-current assets held for sale	-	2,811

Non-current assets held for sale and related liabilities were related to a building located in Akaa, Finland. The building was financed with a finance lease contract. The building and the related finance lease liability as well as the asset transfer tax liability were assigned in the beginning of 2011. A loss of EUR 17 thousand was recognized in 2011 from non-current assets held for sale. This loss is included in losses on sale of property, plant and equipment (Note 8).

During the 2010 reporting period, an impairment loss of EUR 0.3 million was recognized of the building in Akaa. In addition, an impairment loss totalling to EUR 0.4 million was recognized of related machinery and equipment and other tangible assets.

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.

2011	Capitalized development expenditure	Intangible rights	Goodwill	Other capitalized expenditure	Advances paid	2011 total
Acquisition cost at beginning of year	24,284	13,761	66,169	1,820	6,730	112,764
Other increases	-	193	-	-	4,357	4,550
Decreases	-	-4,200	-	-859	-	-5,059
Reclassifications and other changes	6,468	1,508	-	-228	-7,084	663
Exchange differences	79	49	3	0	3	135
<b>Acquisition cost at end of year</b>	<b>30,830</b>	<b>11,312</b>	<b>66,172</b>	<b>733</b>	<b>4,007</b>	<b>113,054</b>
Accumulated amortization and impairment at beginning of year	-16,145	-10,052	-13,571	-1,636	-	-41,404
Accumulated amortization relating to decreases and transfers	-	4,200	-	859	-	5,059
Amortization during the reporting period	-4,055	-1,307	-	-	-	-5,362
Impairment losses (Note 12)	-113	-24	-	-	-	-137
Reversals of impairment losses (Note 12)	-	-	-	-	-	-
Reclassifications and other changes	-	-444	-	45	-	-399
Exchange differences	-16	-39	-	0	-	-55
<b>Accumulated amortization and impairment at end of year</b>	<b>-20,328</b>	<b>-7,666</b>	<b>-13,571</b>	<b>-733</b>	<b>-</b>	<b>-42,298</b>
<b>Carrying amount at end of year</b>	<b>10,501</b>	<b>3,647</b>	<b>52,601</b>	<b>0</b>	<b>4,007</b>	<b>70,757</b>

2010	Capitalized development expenditure	Intangible rights	Goodwill	Other capitalized expenditure	Advances paid	2010 total
Acquisition cost at beginning of year	22,866	12,662	66,192	1,845	7,616	111,181
Other increases	66	441	-	8	2,972	3,486
Decreases	-1,410	-148	-39	-6	-	-1,603
Reclassifications and other changes	2,761	745	-	-28	-3,857	-378
Exchange differences	-	61	16	1	-	78
<b>Acquisition cost at end of year</b>	<b>24,284</b>	<b>13,761</b>	<b>66,169</b>	<b>1,820</b>	<b>6,730</b>	<b>112,764</b>
Accumulated amortization and impairment at beginning of year	-14,786	-8,896	-7,789	-1,636	-	-33,107
Accumulated amortization relating to decreases and transfers	1,410	148	-	6	-	1,564
Amortization during the reporting period	-2,998	-1,136	-	-16	-	-4,150
Impairment losses (Note 12)	-575	-140	-5,775	-	-	-6,491
Reversals of impairment losses (Note 12)	643	-	-	-	-	643
Reclassifications and other changes	162	-11	-	11	-	162
Exchange differences	-	-17	-7	-1	-	-24
<b>Accumulated amortization and impairment at end of year</b>	<b>-16,145</b>	<b>-10,052</b>	<b>-13,571</b>	<b>-1,636</b>	<b>-</b>	<b>-41,404</b>
<b>Carrying amount at end of year</b>	<b>8,139</b>	<b>3,710</b>	<b>52,598</b>	<b>183</b>	<b>6,730</b>	<b>71,361</b>

## 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 0.5 million, and the majority consists of property, plant and equipment.

At the end of 2011, Glaston did not have of contractual commitments for the acquisition of property, plant and equipment. At the end of 2010, Glaston's contractual commitments for the acquisition of property, plant and equipment were EUR 0.0 million.

In 2011 or 2010, Glaston did not receive any material third party compensation for items of property, plant and equipment that were impaired, lost or given up.

2011	Land and water areas	Buildings and constructions	Machinery and equipment	Other tangible assets	Advances paid and assets under construction	2011 total
Acquisition cost at beginning of year	1,633	25,285	23,405	2,820	180	53,324
Other increases	-	42	946	68	103	1,159
Decreases	-	-	-13,554	-841	-	-14,395
Reclassifications and other changes	-	-120	489	-135	-168	66
Exchange differences	-	278	13	24	-	315
<b>Acquisition cost at end of year</b>	<b>1,633</b>	<b>25,485</b>	<b>11,299</b>	<b>1,936</b>	<b>115</b>	<b>40,469</b>
Accumulated depreciation and impairment at beginning of year	-	-13,668	-17,837	-2,269	-	-33,774
Accumulated depreciation relating to decreases and transfers	-	130	13,437	749	-	14,315
Depreciation during the reporting period	-	-837	-1,582	-131	-	-2,549
Reclassifications and other changes	-	-	330	51	-	381
Impairment losses (Note 12)	-	-	-57	-	-	-57
Exchange differences	-	-76	-23	-24	-	-123
<b>Accumulated depreciation and impairment at end of year</b>	<b>-</b>	<b>-14,451</b>	<b>-5,733</b>	<b>-1,623</b>	<b>-</b>	<b>-21,806</b>
<b>Carrying amount at end of year</b>	<b>1,633</b>	<b>11,035</b>	<b>5,568</b>	<b>313</b>	<b>115</b>	<b>18,663</b>

2010	Land and water areas	Buildings and constructions	Machinery and equipment	Other tangible assets	Advances paid and assets under construction	2010 total
Acquisition cost at beginning of year	1,702	28,859	24,080	2,863	45	57,549
Other increases	-	-	644	64	180	888
Decreases	-75	-431	-3,119	-150	-	-3,774
Reclassifications and other changes	-	-	1,368	-	-45	1,323
Reclassified to non-current assets held for sale (Note 13)	-	-3,505	-	-	-	-3,505
Exchange differences	5	362	432	44	-	843
<b>Acquisition cost at end of year</b>	<b>1,633</b>	<b>25,285</b>	<b>23,405</b>	<b>2,820</b>	<b>180</b>	<b>53,324</b>
Accumulated depreciation and impairment at beginning of year	-	-13,159	-18,060	-1,657	-	-32,876
Accumulated depreciation relating to decreases and transfers	-	315	2,862	150	-	3,327
Depreciation during the reporting period	-	-1,129	-1,873	-355	-	-3,357
Reclassifications and other changes	-	-	-33	-	-	-33
Impairment losses (Note 12)	-	-332	-470	-382	-	-1,184
Reclassified to non-current assets held for sale (Note 13)	-	694	-	-	-	694
Exchange differences	-	-57	-263	-25	-	-345
<b>Accumulated depreciation and impairment at end of year</b>	<b>-</b>	<b>-13,668</b>	<b>-17,837</b>	<b>-2,269</b>	<b>-</b>	<b>-33,774</b>
<b>Carrying amount at end of year</b>	<b>1,633</b>	<b>11,616</b>	<b>5,568</b>	<b>551</b>	<b>180</b>	<b>19,549</b>

Carrying amount of machinery and equipment used in production 31 December, 2011

3,919

Carrying amount of machinery and equipment used in production 31 December, 2010

3,164

Note 16  
Associates and Joint Ventures  
EUR thousand

**Investment in joint ventures**

	2011	2010
Carrying amount 1 January	-	370
Additions	-	203
Disposals	-	-110
Share of net result	-	-463
<b>Carrying amount 31 December</b>	<b>-</b>	<b>-</b>

**Investment in associates**

	2011	2010
Carrying amount 1 January	47	26
Share of net result	2	21
<b>Carrying amount 31 December</b>	<b>50</b>	<b>47</b>

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

**Associates**

			Group ownership, %		Carrying amount	
			2011	2010	2011	2010
Bitec GmbH Büro für Informationstechnik	Chemnitz	Germany	49	49	50	47
					<b>50</b>	<b>47</b>

On 9 April, 2010, 100 percent of shares in Glaston's joint venture, INTERPANE Glass Oy, were sold to Rakla Finland Oy. After the rearrangement transaction, Glaston still holds a secured loan receivable in INTERPANE Glass Oy. The carrying amount of the loan receivable was EUR 4.4 (4.4) million on 31 December, 2011.

As a part of the ownership arrangement in 2010, Glaston waived its rights to EUR 3.3 million of the loan granted to INTERPANE Glass Oy. The result effect of the waiver of the loan is included in the appr. EUR 2.6 million financial expense recognized from the arrangement.

**Associated company balances**

In 2011 and 2010, Glaston group companies did not have any receivables from or payables to associates.

**Transactions with associates**

In 2011 and 2010, 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 2011 is from the 2010 financial statements of Bitec GmbH Büro für Informationstechnik as the 2011 financial statements of Bitec GmbH Büro für Informationstechnik were not available when preparing Glaston's consolidated financial statements. The result used in the consolidation in 2010 is from the 2009 financial statements of Bitec GmbH Büro für Informationstechnik as the 2010 financial statements of Bitec GmbH Büro für Informationstechnik were not available when preparing Glaston's consolidated financial statements.

	2010	2009
Profit	5	42
Assets	443	484
Liabilities	244	291

# Notes to the Consolidated Financial Statements

## Note 17

### Available-for-sale Financial Assets

EUR thousand

2011	Available-for-sale shares
Carrying amount 1 January	331
Fair value changes recognized in other comprehensive income	-1
<b>Carrying amount 31 December</b>	<b>330</b>

2010	Available-for-sale shares	Other available-for-sale investments
Carrying amount 1 January	329	6
Reclassifications	-	-6
Fair value changes recognized in other comprehensive income	2	-
<b>Carrying amount 31 December</b>	<b>331</b>	<b>-</b>

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 comprehensive 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

	2011	2010
<b>Inventories</b>		
Materials and supplies	8,586	6,800
Work in process	9,323	10,755
Finished goods	6,912	9,633
Advances paid	419	723
<b>Total inventories</b>	<b>25,240</b>	<b>27,910</b>
Impairment losses of inventory during the period	-905	-4,808
Reversals of impairment losses of inventory during the period	341	88
<b>Total write-downs and reversals of write-downs during the period</b>	<b>-564</b>	<b>-4,721</b>

## Note 19 Receivables

EUR thousand

	2011	2010
<b>Receivables</b>		
Trade receivables	29,593	30,685
Trade receivables, falling due after 12 months	1,306	2,991
<b>Total trade receivables</b>	<b>30,899</b>	<b>33,676</b>
Prepaid expenses and accrued income	3,635	2,966
Prepaid expenses and accrued income, falling due after 12 months	303	-
Other receivables	4,257	3,305
Other receivables, falling due after 12 months	1,626	3,080
Current loan receivables	91	64
Non-current loan receivables <sup>1*</sup>	4,447	4,480
<b>Total receivables</b>	<b>45,258</b>	<b>47,572</b>

<sup>1\*</sup> 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 2011, no impairment losses on loan receivables were recognized. Impairment losses of loan receivables in 2010 are described in more detail in Note 10.

Trade receivables related to construction contracts in progress, EUR 3.6 (4.0) 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
2011	30,899	21,577	3,746	4,833	743	0
2010	33,676	22,619	5,259	4,631	1,167	0

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 clients.

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

Also the trade receivables past due are individually analyzed. If the days past due exceed the time limits set in the Group's credit policy, an impairment loss is recognized of the trade receivable. The gross amount of impaired trade receivables at the end of the reporting period was EUR 6.6 (8.9) million, and an impairment loss of these receivables was EUR 5.9 (7.8) million.

Carrying amount of trade receivables, which would be past due, but whose terms have been renegotiated, was EUR 0.3 (0.4) million.

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

Allowance account 1 January, 2010	6,941
Exchange difference	118
Charge for the year	4,231
Utilized	-2,005
Unused amounts reversed	-1,514
<b>Allowance account 31 December, 2010</b>	<b>7,771</b>
Exchange difference	50
Charge for the year	1,854
Utilized	-1,000
Unused amounts reversed	-2,806
<b>Allowance account 31 December, 2011</b>	<b>5,870</b>

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

2011	-789
2010	2,731

Note 20  
Total Comprehensive Income Included in Equity  
EUR thousand

	Other reserves	Fair value reserve	Retained earnings	Cumulative exchange difference	Non- controlling interest	Total
<b>Total other comprehensive income for 2011</b>						
Total exchange differences on translating foreign operations	0	-	-	449	26	474
Other changes and reclassifications	-	-	430	-430	-	-
Available-for-sale financial assets, fair value changes	-	-1	-	-	-	-1
Income taxes on fair value changes of available-for-sale financial assets	-	1	-	-	-	1
<b>Other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>430</b>	<b>19</b>	<b>26</b>	<b>474</b>
<b>Loss for 2011</b>	<b>-</b>	<b>-</b>	<b>-14,430</b>	<b>-</b>	<b>-16</b>	<b>-14,446</b>
<b>Total comprehensive income for 2011</b>	<b>0</b>	<b>0</b>	<b>-14,000</b>	<b>19</b>	<b>9</b>	<b>-13,972</b>

	Other reserves	Fair value reserve	Retained earnings	Cumulative exchange difference	Non- controlling interest	Total
<b>Total other comprehensive income for 2010</b>						
Total exchange differences on translating foreign operations	0	-	-	993	37	1,029
Available-for-sale financial assets, fair value changes	-	2	-	-	-	2
Income taxes on fair value changes of available-for-sale financial assets	-	0	-	-	-	0
<b>Other comprehensive income</b>	<b>0</b>	<b>1</b>	<b>-</b>	<b>993</b>	<b>37</b>	<b>1,031</b>
<b>Loss for 2010</b>	<b>-</b>	<b>-</b>	<b>-31,939</b>	<b>-</b>	<b>-23</b>	<b>-31,962</b>
<b>Total comprehensive income for 2010</b>	<b>0</b>	<b>1</b>	<b>-31,939</b>	<b>993</b>	<b>13</b>	<b>-30,932</b>

Note 21  
Pensions and Other Defined Long-term Employee Benefits  
EUR thousand

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

The Group has a defined benefit pension plan in Finland. The Group has also defined contribution pension plans, of which the charge to the income statement was EUR 5.2 (6.2) 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.

	2011	2010
<b>Amounts in the statement of financial position relating to Finnish defined benefit pension plans</b>		
Fair value of plan assets	-	-
Present value of unfunded obligations	28	39
Unrecognized actuarial gain (loss -)	11	55
<b>Net liability (asset -)</b>	<b>39</b>	<b>94</b>
Amounts in the statement of financial position		
Liabilities	39	94
Assets	-	-
<b>Net liability (asset -)</b>	<b>39</b>	<b>94</b>

# Notes to the Consolidated Financial Statements

	2011	2010
<b><u>Amounts in the statement of financial position relating to other long-term employee benefits</u></b>		
Fair value of plan assets	-	-
Present value of unfunded obligations	1,314	1,700
Unrecognized actuarial gain (loss -)	-294	-254
<b>Net liability (asset -)</b>	<b>1,020</b>	<b>1,446</b>
Amounts in the statement of financial position		
Liabilities	1,020	1,446
Assets	-	-
<b>Net liability (asset -)</b>	<b>1,020</b>	<b>1,446</b>

## **Changes in the fair value of plan assets, Finnish defined benefit pensions**

<b>Fair value of plan assets 1 January</b>	<b>-</b>	<b>-</b>
Expected return on plan assets	-	-
Actuarial gains (losses -)	-	-
Benefits paid	-5	-6
Contributions by employer	5	6
Other changes	-	-
<b>Fair value of plan assets 31 December</b>	<b>-</b>	<b>-</b>

## **Changes in the present value of defined benefit pension obligation, Finnish defined benefit pensions**

<b>Present value of defined benefit obligation 1 January</b>	<b>39</b>	<b>39</b>
Interest cost	1	1
Actuarial losses (gains -)	-7	5
Benefits paid	-5	-6
<b>Present value of defined benefit obligation 31 December</b>	<b>28</b>	<b>39</b>

## **Changes in the present value of other long-term employee benefit plans**

<b>Present value of defined benefit obligation 1 January</b>	<b>1,700</b>	<b>3,181</b>
Exchange differences on foreign plans	-7	4
Current service cost	4	4
Interest cost	41	82
Actuarial losses (gains -)	51	136
Effect of curtailment	-	-29
Benefits paid	-476	-1,679
<b>Present value of defined benefit obligation 31 December</b>	<b>1,314</b>	<b>1,700</b>

## **Amounts recognized in profit or loss, Finnish defined benefit pensions**

Interest on obligation	1	1
Actuarial losses and gains (-)	-51	-28
<b>Total included in pension expenses (gain -)</b>	<b>-50</b>	<b>-27</b>

The Group expects to contribute EUR 5 thousand to its defined benefit pension plans in 2012.

## **Amounts recognized in profit or loss, other defined long-term employee benefit plans**

Current service cost	4	4
Interest on obligation	41	82
Actuarial losses and gains (-)	7	0
Effect of curtailment	-	-11
<b>Total included in other personnel expenses (gain -)</b>	<b>52</b>	<b>7</b>

The Group expects to contribute EUR 109 thousand to its other long-term employee benefit plans in 2012.

### Actuarial assumptions

	2011		2010	
	Finnish defined pension plans	Other plans	Finnish defined pension plans	Other plans
Discount rate, %	3.00%	5.27% - 6.70%	3.00%	4.75% - 8.00%
Future salary increase, %	-	5.50%	-	5.04%
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	-	8 - 11	-	9 - 11

There are no plan assets.

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

	2011	2010	2009	2008	2007
Defined benefit pension obligation	28	39	39	48	494
Plan assets	-	-	-	0	254
Surplus / deficit (-)	-28	-39	-39	-48	-240
Experience adjustments on plan assets	-	-	-	-	84
Experience adjustments on plan liabilities (gain -)	-7	3	-8	-97	-114

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

	2011	2010	2009	2008	2007
Defined benefit obligation	1,314	1,700	3,181	4,400	4,499
Plan assets	-	-	-	-	-
Surplus / deficit (-)	-1,314	-1,700	-3,181	-4,400	-4,499
Experience adjustments on plan liabilities (gain -)	-126	-34	-158	90	163

## Note 22

## Interest-bearing Liabilities

EUR thousand

	2011	2010
<b><u>Non-current interest-bearing liabilities</u></b>		
Convertible bond	7,937	26,199
Debenture bond	4,000	-
Loans from financial institutions	33,671	-
Other non-current liabilities	69	47
<b>Total non-current interest-bearing liabilities</b>	<b>45,677</b>	<b>26,246</b>
<b><u>Maturity of non-current interest-bearing liabilities</u></b>		
2013 (2012)	7,645	47
2014 (2013)	38,019	-
2015 (2014)	7	26,199
2016 (2015)	5	-
2017 (2016) or later	-	-
<b>Total</b>	<b>45,677</b>	<b>26,246</b>
<b><u>Non-current liabilities by currency</u></b>		
EUR	45,535	26,199
Other currencies	142	47
<b>Total</b>	<b>45,677</b>	<b>26,246</b>
<b><u>Current interest-bearing liabilities</u></b>		
Loans from financial institutions	22,546	61,365
Other current interest-bearing liabilities	74	44
<b>Total current interest-bearing liabilities</b>	<b>22,620</b>	<b>61,409</b>
<b><u>Interest-bearing net liabilities</u></b>		
Non-current interest-bearing liabilities	45,677	26,246
Current interest-bearing liabilities	22,620	61,409
Liabilities related to non-current assets held for sale	-	2,612
Cash	-18,601	-15,670
<b>Total</b>	<b>49,696</b>	<b>74,596</b>

Glaston's main liquidity reserve is based on loans agreed with the lenders in the financing agreement made in February 2011, the debenture bond issued in February 2011 as well as the convertible bond issued in 2009.

Glaston issued in 2009 and 2010 convertible bonds, with the principal amount of EUR 30,000,000. In 2011, a total of EUR 21,250,000 of the bonds were converted into shares resulting in issuing 16,346,135 new shares in Glaston. In addition, an additional consideration was given to those who converted their bonds

into shares as 3,092,501 new shares were issued in a directed share issue. The remaining principal amount of the 2009 convertible bond is EUR 8,750,000. The principal amount of the bonds carries a fixed interest rate of 7 percent per annum. The conversion price of the shares that the bonds may be converted into is EUR 1.30. The right to convert the bonds into shares related to the 2009 bonds commenced on 1 August, 2009. The maturity date of the bonds is 19 June, 2014. The bonds are publicly traded on the Nasdaq OMX Helsinki.

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 most significant individual agreement was an agreement made in 2008 with Akaa town, Finland, concerning a building. At the end

of 2010, Glaston had signed an agreement of the transfer of the finance lease agreement concerning the building in Akaa to a third party in February 2011. For this reason Glaston reclassified the building and related finance lease liability to non-current assets held for sale and related liabilities in its 2010 financial statements.

The carrying amount of machinery and equipment financed with finance leasing was EUR 0.1 (0.2) million, and depreciation thereon was EUR 0.0 (0.1) million. At the end of the reporting period, there were no buildings financed with finance leasing. The depreciation thereon was in 2010 EUR 0.3 million.

## Note 23

### Provisions

EUR thousand

### Non-current provisions

2011	Warranty provision	Restructuring provision	Other provisions	Total
Carrying amount 1 January	2,396	57	248	2,701
Exchange difference	-	-	-	-
Reclassification	-2,454	-	-	-2,454
Increase in provisions	783	-	29	813
Provisions used during the period	-54	-57	-14	-124
Provisions released during the period	-	-	-16	-16
<b>Carrying amount 31 December</b>	<b>671</b>	<b>-</b>	<b>248</b>	<b>918</b>

2010	Warranty provision	Restructuring provision	Other provisions	Total
Carrying amount 1 January	3,498	226	175	3,899
Exchange difference	-1	-	-	-1
Reclassification	-	-	-	-
Increase in provisions	1,421	-	91	1,513
Provisions used during the period	-1,422	-90	-	-1,512
Provisions released during the period	-1,100	-79	-18	-1,198
<b>Carrying amount 31 December</b>	<b>2,396</b>	<b>57</b>	<b>248</b>	<b>2,701</b>

## Current provisions

2011	Warranty provision	Restructuring provision	Other provisions	Total
Carrying amount 1 January	1,516	4,198	1,237	6,951
Exchange difference	-11	10	-2	-4
Reclassification	2,454	-	-	2,454
Increase in provisions	1,698	-	83	1,780
Provisions used during the period	-1,312	-3,810	-135	-5,256
Provisions released during the period	-970	-298	-518	-1,786
<b>Carrying amount 31 December</b>	<b>3,375</b>	<b>100</b>	<b>665</b>	<b>4,140</b>

2010	Warranty provision	Restructuring provision	Other provisions	Total
Carrying amount 1 January	1,437	7,834	527	9,798
Exchange difference	54	6	11	71
Increase in provisions	622	3,150	983	4,755
Provisions used during the period	-341	-6,385	-284	-7,009
Provisions released during the period	-257	-407	-	-664
<b>Carrying amount 31 December</b>	<b>1,516</b>	<b>4,198</b>	<b>1,237</b>	<b>6,951</b>

### 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

	2011	2010
<b>Non-current interest-free liabilities</b>		
Other non-current interest-free liabilities	0	54
<b>Current interest-free liabilities</b>		
Trade payables	14,360	10,375
Advances received <sup>†</sup>	16,403	16,107
Accrued expenses and deferred income	23,439	20,968
Other current interest-free liabilities	1,127	737
<b>Total current interest-free liabilities</b>	<b>55,328</b>	<b>48,187</b>

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.

<sup>†</sup> Advances received include EUR 10.7 (10.6) 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, 2011			Assets available- for-sale <sup>1*</sup>	Financial assets and liabilities at fair value through profit and loss <sup>1*</sup>	Loans and receivables	Financial liabilities at amortized cost	Total carrying amounts	Total fair value
	Note							
Cash					18,601		18,601	18,601
Trade receivables	19				30,899		30,899	30,899
Other interest-free receivables	19				5,883		5,883	5,883
Interest receivables and receivables related to financial liabilities	19				401	1,210	1,611	1,611
Current loan receivables	19				91		91	91
Non-current loan receivables	19				4,447		4,447	4,447
Available-for-sale shares	17	330					330	330
Non-current interest-bearing liabilities	22					-37,740	-37,740	-37,740
Convertible bond	22					-7,937	-7,937	-7,471
Current interest-bearing liabilities	22					-22,620	-22,620	-22,620
Trade payables	24					-14,360	-14,360	-14,360
Advances received	24					-16,403	-16,403	-16,403
Other current interest-free liabilities	24					-1,127	-1,127	-1,127
Interest liabilities	24					-1,325	-1,325	-1,325
Derivatives (in receivables)	26			26			26	26
			330	26	60,322	-100,302	-39,625	-39,159

31 December, 2010			Assets available- for-sale <sup>1*</sup>	Financial assets and liabilities at fair value through profit and loss <sup>1*</sup>	Loans and receivables	Financial liabilities at amortized cost	Total carrying amounts	Total fair value
	Note							
Cash					15,670		15,670	15,670
Trade receivables	19				33,676		33,676	33,676
Other interest-free receivables	19				6,385		6,385	6,385
Interest receivables and receivables related to financial liabilities	19				54	347	402	402
Current loan receivables	19				64		64	64
Non-current loan receivables	19				4,480		4,480	4,480
Available-for-sale shares	17	331					331	331
Non-current interest-bearing liabilities	22					-47	-47	-47
Convertible bond	22					-26,199	-26,199	-29,700
Current interest-bearing liabilities	22					-61,409	-61,409	-61,409
Trade payables	24					-10,375	-10,375	-10,375
Advances received	24					-16,107	-16,107	-16,107
Other current interest-free liabilities	24					-791	-791	-791
Interest liabilities	24					-1,250	-1,250	-1,250
Derivatives (in receivables)	26			268			268	268
			331	268	60,329	-115,831	-54,902	-58,403

<sup>1\*</sup> Fair value hierarchy is presented in the following page.

# Notes to the Consolidated Financial Statements

<b>* Fair value measurement hierarchy</b>	<b>2011</b>	<b>2010</b>
Available-for-sale shares		
Level 1	78	79
Level 3	<u>252</u>	<u>252</u>
	330	331
Derivatives		
Level 2	26	268

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**

	<b>2011</b>	<b>2010</b>
1 January	252	258
Impairment losses	-	-
Reclassification	-	-6
31 December	252	252

## Note 26 Derivative Instruments EUR thousand

Valuation methods of derivative instruments are presented in the Summary of Significant Accounting Policies.

### **Nominal and fair values of derivative instruments**

	<b>2011</b>		<b>2010</b>	
	<b>Nominal value</b>	<b>Fair value</b>	<b>Nominal value</b>	<b>Fair value</b>
<b>Currency derivatives</b>				
Forward contracts	-	-	431	81
<b>Electricity derivatives</b>				
Forward contracts	139	25	269	170

### **Derivative instruments in the income statement**

	<b>2011</b>	<b>2010</b>
Items included in net sales	-11	-160
Items included in operating expenses	150	313

### **Derivative instruments in the statement of financial position, receivables and liabilities**

Prepaid expenses and accrued income		
Currency derivatives	-	81
Electricity derivatives <sup>*</sup>	26	188

<sup>\*</sup> Carrying amount of electricity derivatives includes realized but unpaid electricity derivatives.

Note 27  
Contingencies  
EUR thousand

	2011	2010
<b><u>Loans secured with mortgages or pledges</u></b>		
Loans from financial institutions	52,712	51,865
Mortgages given	181,000	49,000
Liens on chattel	143,000	48,000
Carrying amount of pledged securities	111,940	88,905
Carrying amount of pledged receivables and other assets	54,147	88,714
<b>Total loans secured with mortgages, liens on chattel and pledged assets</b>	<b>52,712</b>	<b>51,865</b>
<b>Total mortgages, liens on chattel and pledged assets</b>	<b>490,087</b>	<b>274,619</b>

**Contingent liabilities**

Mortgages		
On behalf of own commitments	181,000	49,000
Liens on chattel		
On behalf of own commitments	143,000	48,000
Securities pledged <sup>†</sup>		
On behalf of own commitments	111,940	88,905
Receivables and other assets pledged <sup>††</sup>		
On behalf of own commitments	54,147	88,714
On behalf of others	146	120
<b>Total</b>	<b>490,233</b>	<b>274,738</b>

<sup>†</sup> 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.

<sup>††</sup> The pledged receivables include EUR 41.4 million intra-group receivables.

Repurchase obligations	-	155
Other commitments		
On behalf of own commitments	777	31
Guarantees		
On behalf of own commitments	541	674
On behalf of others	1	154
<b>Total</b>	<b>542</b>	<b>828</b>

<b>Total contingent liabilities</b>	<b>491,553</b>	<b>275,752</b>
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# Notes to the Consolidated Financial Statements

## Operating leases

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

### **Minimum future payments of operating lease commitments**

Maturity within one year	3,621	3,179
Maturity later than one year and not later than five years	6,005	6,896
Maturity later than five years	-	663
<b>Total minimum future payments of operating lease commitments</b>	<b>9,626</b>	<b>10,739</b>

## Operating leases as a lessor

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

### **Minimum future payments of operating leases**

Maturity within one year	560	489
Maturity later than one year and not later than five years	1,004	1,350
<b>Total minimum future payments of operating leases</b>	<b>1,564</b>	<b>1,839</b>

## Other contingent liabilities and litigations

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

## Note 28

### Shares and Holdings

Group companies			Group holding %	Parent holding %
Glaston Corporation	Helsinki	Finland		
Uniglass Engineering Oy	Tampere	Finland	100.0%	100.0%
Glaston Services Ltd. Oy	Tampere	Finland	100.0%	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 America, Inc.	Mount Laurel, NJ	United States	100.0%	
Glaston USA, Inc.	Pittsburgh, PA	United States	100.0%	
Glaston UK Ltd.	Nottinghamshire	United Kingdom	100.0%	
Bavelloni UK Ltd. (**)	Rugby	United Kingdom	100.0%	
Glaston France SARL	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 Australia Pty. Ltd. (*)	Queensland	Australia	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	100.0%	
Bavelloni Tools (Tianjin) Co., Ltd.	Tianjin	China	70.0%	
Glaston Tools (Sanhe) Co., Ltd.	Sanhe	China	70.0%	
Glaston Italy S.p.A.	Bregnano	Italy	100.0%	
Albat+Wirsam Software GmbH	Linden	Germany	100.0%	100.0%
Albat+Wirsam Polska Sp.z.o.o.	Krakow	Poland	100.0%	
Albat+Wirsam North America Inc.	Ontario	Canada	100.0%	
Glaston Germany GmbH (****)	Nürnberg	Germany	100.0%	
<b>Associated companies</b>				
Bitec GmbH Büro für Informationstechnik	Chemnitz	Germany	48.8%	

(\*) Liquidation process is ongoing.

(\*\*) 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.

(\*\*\*\*) Merge with Albat+Wirsam Software GmbH in early 2012.

#### Changes in subsidiaries in 2011

- The following group companies were liquidated in 2011:
  - Glaston Estonia Oü (Estonia)
  - Glasto Holding B.V. (Netherlands)
  - Glaston Netherlands B.V. (Netherlands)
  - Glaston Spain S.L. (Spain)
  - Glaston Belgium GmbH (Belgium)
- Albat+Wirsam Software GmbH established a branch in Belgium in the beginning of 2011.
- The shares in Glaston Germany GmbH were sold in July to Albat+Wirsam Software GmbH. Glaston Germany GmbH will merge with Albat+Wirsam Software GmbH in early 2012.
- Tamglass Lasinjalostus Oy merged in December 2011 to Glaston Finland Oy.

#### Changes in subsidiaries in 2010

- Glaston North America, Inc. was merged with Glaston America Inc. in January.
- Glaston Brazil Ltda was merged with Z. Bavelloni South America Ltda in January.
- Glaston Japan, Inc. was liquidated in March.
- Glaston Shanghai Co. Ltd. was merged with Glaston Management (Shanghai) Co. Ltd. in June.
- The name of Albat+Wirsam Software AG was changed to Albat+Wirsam Software GmbH.
- The name of Tamglass EMA Sales Ltd. Oy was changed to Glaston International Oy.
- Albat+Wirsam Software GmbH established a branch office in Spain in December.

#### Changes in joint ventures in 2010

- INTERPANE Glass Oy was sold in April.

## 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.

The expenses, personnel costs included, were in 2011 EUR -0.4 (0.5) million. The unpaid portion, recognized as a liability, was EUR 0.0 (0.2) million. In 2010, 50,000 shares based on the 2009 performance period were surrendered to the CEO. At the date when the shares were surrendered, the fair value of the shares was EUR 0.1 million.

### **Share-based incentive plan 2009**

The CEO has a separate share-based payment incentive plan. According to the plan, the CEO received in September 2010, ie. one year after the date when his employment in Glaston began, 50,000 shares in Glaston Corporation. The shares cannot be transferred further within two years from the reward payment date (restriction period). If the CEO's employment or service ends during the restriction period, he must return the shares.

### **Share-based incentive plan 2010 - 2011**

The Board of Directors of Glaston Corporation decided on 9 June, 2010 on a share-based incentive plan. As there was a failure to satisfy the vesting conditions, the share-based plan did not vest. As the share-based plan did not vest, expenses were adjusted by EUR 0.5 million.

### **Share-based incentive plan 2012**

On 12 December, 2011 The Board of Directors of Glaston decided to establish a long-term share ownership plan as a part of the remuneration and commitment program for the key personnel. Glaston's share-based plan 2012 offers a possibility to earn the Company's shares as a reward for attaining the EBIT target set for the financial year 2012. The reward from the plan shall be paid to the key personnel as a combination of shares and cash payment after the end of the earning period. No reward shall be paid to a key person if his/her employment or service ends before the end of the earning period.

Basic information of the share-based plans	Share-based incentive plan 2012	Share-based incentive plan 2011	The CEO's plan
			Performance period 2009
Grant date	12 December, 2012	8 June, 2010	11 August, 2009
Nature of the plan	Shares and cash	Shares and cash	11 August, 2009
Target group	Key personnel	Key personnel	CEO
Maximum number of shares, settled in shares	1,020,000	1,354,500	50,000
Maximum number of shares, settled in cash (calculated as a number of shares)*	1,060,000	1,354,500	55,000
Performance period begins	1 January, 2012	1 January, 2011	1 September, 2009
Performance period ends	31 December, 2012	31 December, 2011	1 September, 2010
End of restriction period	1 January, 2015	1 January, 2012	3 September, 2012
Vesting conditions	EBIT and net result	EBIT	-
	Service period	Service period	Service period
Maximum contractual life, years	3.1	1.6	3.1
Remaining contractual life, years	3.0	0.0	0.7
Number of persons involved 31 December, 2011	25	11	1

\* 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 2011 in number of shares	Performance period 2012	Performance period 2011	Performance period 2009	Total
<b>Gross number of shares</b> * 1 January, 2011				
Outstanding at the beginning of the period	-	2,303,000	50,000	2,353,000
<b>Changes during the reporting period</b>				
Granted	1,900,000	338,000	-	2,238,000
Forfeited	-	169,000	-	169,000
Settled in cash	-	-	-	-
Expired	-	2,472,000	-	2,472,000
<b>Gross number of shares</b> * 31 December, 2011				
Outstanding at the end of the period	1,900,000	-	50,000	1,950,000
Exercisable at the end of the period	1,900,000	-	50,000	1,950,000

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

Transactions in 2010 in number of shares	Performance period 2011	Performance period 2007	Performance periods 2009 <sup>l**</sup>	Total
<b>Gross number of shares</b> * 1 January, 2010				
Outstanding at the beginning of the period	-	51,065	618,889	669,954
<b>Changes during the reporting period</b>				
Granted	2,540,000	-	-	2,540,000
Forfeited	-237,000	-	-409,405	-646,405
Settled in cash	-	-	-104,742	-104,742
Expired	-	-51,065	-54,742	-105,807
<b>Gross number of shares</b> * 31 December, 2010				
Outstanding at the end of the period	2,303,000	-	50,000	2,353,000
Exercisable at the end of the period	2,303,000	-	50,000	2,353,000

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

<sup>l\*\*</sup> Includes the CEO's plan and the 2007 - 2009 plan, which expired in 2010.

## Basic parameters used in calculation of fair value of the share-based incentive plans in 2011

Fair value calculation of the share-based reward	Performance period 2012
Share price at the grant date, EUR	0.45
Annually expected dividends, EUR	0.00
Fair value of share-settled part / share, EUR	0.45
Share price at 31 December, 2011 or at the date of the surrender (cash-settled part), EUR	0.45
Fair value of the reward at 31 December, 2011, EUR thousand	855

Effect on the profit or loss for the period and on financial position in 2011	Performance period 2012	Performance period 2011	Performance period 2009
Effect on the result of the 2011 reporting period, EUR thousand	8	-479	44
Recognized in equity during the reporting period, EUR thousand	4	-265	27
Carrying amount of liability 31 December, 2011	4	-	-

Effect on the profit or loss for the period and on financial position in 2010	Performance period 2011	Performance periods 2009, total	Performance period 2007
Effect on the result of the 2010 reporting period, EUR thousand	479	2	25
Recognized in equity during the reporting period, EUR thousand	265	-53	19
Carrying amount of liability 31 December, 2010	212	-	-

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, associates and joint ventures. Also the shareholders, which have significant influence in Glaston

through shareholding, are considered to be related parties, as well as the companies controlled by these shareholders.

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

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

statements. The shares in INTERPANE Glass Oy were sold to Rakla Finland Oy on 9 April, 2010. As a part of the ownership arrangement, Glaston waived its rights to EUR 3.3 million of the loan granted to INTERPANE Glass Oy. The result effect of the waiver of the loan is included in the appr. EUR 2.6 million financial expense booked from the arrangement

Glaston has rented premises from companies owned by individuals belonging to the management. The rents paid correspond with the local level of rents.

	2011	2010
<b>Transactions with related parties</b>		
EUR thousand		
Rents paid	616	629
<b>Remuneration of the Executive Management Group</b>		
EUR		
<b>CEO Arto Metsänen</b>		
Salaries	325,955	316,920
Share-based incentive plans, settled in cash	-	70,312
Share-based incentive plans, settled in shares, value of shares	-	65,500
Bonuses	105,168	-
<b>Total</b>	<b>431,123</b>	<b>452,732</b>
Fringe benefits	16,117	19,080
<b>Total</b>	<b>447,240</b>	<b>471,812</b>
Compulsory pension payments (Finnish TyEL or similar plan)	79,161	54,768
Voluntary pension payments	40,320	61,844
<b>Other members of the Executive Management Group</b>		
Salaries	1,163,756	1,140,288
Compensations for termination of employment	94,482	327,161
Bonuses	198,455	44,819
<b>Total</b>	<b>1,456,693</b>	<b>1,512,268</b>
Fringe benefits	42,441	81,058
<b>Total</b>	<b>1,499,134</b>	<b>1,593,326</b>
Compulsory pension payments (Finnish TyEL or similar plan)	181,346	163,143
Voluntary pension payments	51,242	20,515

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 percent 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 termination of employment. The CEO has also a separate share-based pay-

ment incentive plan. According to the plan, the CEO received 50,000 shares in Glaston Corporation in September 2010, ie. one year after the date when his employment in Glaston began.

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 personal targets. The maximum annual bonus of the CEO is 50 percent of the annual salary. The maximum annual bonus of the other members of the Executive Management Group is 40 percent 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

EUR	2011 annual fee	meeting fee	2010 annual fee	meeting fee
Andreas Tallberg, Chairman of the Board of Directors	40,000	8,000	40,000	5,600
Christer Sumelius, Deputy Chairman of the Board of Directors	30,000	5,000	30,000	3,000
Claus von Bonsdorff	20,000	5,000	20,000	3,500
Carl-Johan Rosenbröijer	20,000	5,000	20,000	3,500
Teuvo Salminen <sup>I*</sup>	20,000	6,000	15,000	500
Pekka Vauramo <sup>I**</sup>	15,000	3,000	-	-
Klaus Cawén <sup>I***</sup>	5,000	2,000	20,000	3,000
Jan Lång <sup>I***</sup>	5,000	2,000	20,000	3,500
<b>Total</b>	<b>155,000</b>	<b>36,000</b>	<b>165,000</b>	<b>22,600</b>

<sup>I\*</sup> Member of the Board of Directors from 14 April, 2010

<sup>I\*\*</sup> Member of the Board of Directors from 5 April, 2011

<sup>I\*\*\*</sup> Member of the Board of Directors until 5 April, 2011

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	
	31.12.2011	31.12.2010
Andreas Tallberg, Chairman of the Board of Directors	0	0
Christer Sumelius, deputy Chairman of the Board of Directors	3,624,200	2,624,200
Claus von Bonsdorff	122,600	122,600
Carl-Johan Rosenbröjjer	12,600	12,600
Teuvo Salminen <sup>I*</sup>	50,000	0
Pekka Vauramo <sup>I**</sup>	10,000	-
Klaus Cawén <sup>I***</sup>	-	6,000
Jan Lång <sup>I***</sup>	-	0

<sup>I\*</sup> Member of the Board of Directors from 14 April, 2010

<sup>I\*\*</sup> Member of the Board of Directors from 5 April, 2011

<sup>I\*\*\*</sup> Member of the Board of Directors until 5 April, 2011

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		of which received based of the share-based incentive plan
	total 31.12.2011	total 31.12.2010	
Arto Metsänen, CEO	86,394	50,000	50,000 <sup>I*</sup>
Günter Befort	0	0	-
Juha Liettyä	0	0	-
Tapio Engström	7,000	0	-
Tapani Lankinen	0	0	-
Pekka Huuhka	0	0	-
Frank Chengdong Zhang	0	0	-
Uwe Schmid	0	-	-
Topi Saarenhovi	-	8,225	8,225

<sup>I\*</sup> In accordance with the terms of the share-based incentive plan, the shares cannot be transferred for two years after receiving them.

CEO Arto Metsänen received 50,000 shares in Glaston in September 2010. When he received the shares, he also received cash to cover the income taxes and related payments arising from the shares. The shares cannot be transferred further within two years from the reward payment date (restriction period).

## Note 31

### Events after End of the Reporting Period

Glaston announced on January 5, 2012 that it has signed an undertaking on the sale and leaseback of its factory complex located in Tampere, Finland.

The property complex consists of four plots and buildings. The area to be sold cov-

ers approximately 11 hectares and has five buildings and four unheated storage structures.

Glaston believes that the sale will be completed during the first half of 2012. The property complex is presented as held for

sale asset in Glaston's statement of financial position when all IFRS 5 requirements are fulfilled.

# Parent Company Financial Statements

## Income Statement of the Parent Company (FAS)

EUR thousand

	Note	1 January - 31 December	
		2011	2010
<b>Net sales</b>	2	<b>3,737</b>	<b>3,561</b>
Other operating income	3	756	769
Personnel expenses	4	-1,878	-3,323
Depreciation, amortization and impairment losses	5	-1,285	-1,519
Other operating expenses	6	-4,897	-3,897
<b>Operating profit / loss</b>		<b>-3,567</b>	<b>-4,409</b>
Net financial items	7	-29,397	-338
<b>Profit /loss before appropriations and taxes</b>		<b>-32,964</b>	<b>-4,747</b>
Appropriations	8	31	158
Income taxes	9	-161	218
<b>Profit / loss for the financial year</b>		<b>-33,093</b>	<b>-4,371</b>

## Balance Sheet of the Parent Company (FAS)

EUR thousand

		at 31 December	
	Note	2011	2010
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	10	3,343	4,182
Tangible assets	10	2,177	2,367
Investments	11, 12	66,838	78,838
<b>Non-current assets, total</b>		<b>72,358</b>	<b>85,387</b>
<b>Current assets</b>			
Non-current receivables	13	2,431	2,592
Current receivables	13	43,183	89,022
Cash and bank		2,910	511
<b>Current assets, total</b>		<b>48,523</b>	<b>92,125</b>
<b>Total assets</b>		<b>120,881</b>	<b>177,512</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital		12,696	12,696
Share premium account		25,270	25,270
Reserve for invested unrestricted equity		26,805	102
Treasury shares		-3,308	-3,308
Retained earnings		46,604	50,948
Profit / loss for the financial year		-33,093	-4,371
<b>Total equity</b>	14	<b>74,973</b>	<b>81,336</b>
<b>Accumulated appropriations</b>	15	<b>0</b>	<b>31</b>
<b>Liabilities</b>			
Non-current liabilities	16	20,256	30,000
Current liabilities	17	25,652	66,144
<b>Total liabilities</b>		<b>45,908</b>	<b>96,144</b>
<b>Total equity and liabilities</b>		<b>120,881</b>	<b>177,512</b>

# Parent Company Cash Flow Statement (FAS)

EUR thousand

	1 January - 31 December	
	2011	2010
<b>Cash flow from operating activities</b>		
Profit / loss for the financial period	-33,093	-4,371
Adjustments:		
Financial income and expenses	29,397	3,138
Depreciation, amortization and impairment	1,285	1,519
Other adjustments	275	1,081
Cash flow before change in net working capital	-2,136	1,368
Change in net working capital		
Change in current interest-free receivables	-4,320	492
Change in current interest-free liabilities	-240	-174
Cash flow from operating activities before financial items and taxes	-6,696	1,686
Interests paid and payments made for other financial items and income taxes		
Interests and other financial expenses paid	-5,467	-15,936
Dividends received	2	8,495
Interest received	5,762	5,037
Income taxes paid	-	-314
Cash flow from operating activities before extraordinary items	-6,399	-1,033
<b>Cash flow from operating activities</b>	<b>-6,399</b>	<b>-1,033</b>
<b>Cash flow from investing activities</b>		
Investments in tangible and intangible assets	-256	-605
Proceeds from disposal of tangible and intangible assets	0	-
Received purchase price refund	-	166
<b>Cash flow from investing activities</b>	<b>-256</b>	<b>-439</b>
<b>Cash flow from financing activities</b>		
Share issue and conversion of convertible bond, net of costs	5,799	-
Drawn-down of non-current loans	14,000	6,188
Repayments of non-current loans	-1,299	-5,778
Change in current intra-group receivables	32,472	-6,884
Change in current intra-group loans	-54	-3,489
Drawn-down of current loans	20,000	10,000
Repayments of current loans	-61,865	-
<b>Cash flow from financing activities</b>	<b>9,053</b>	<b>37</b>
<b>Change in cash and cash equivalents</b>	<b>2,399</b>	<b>-1,435</b>
Cash and cash equivalents at the beginning of the period	511	1,946
Cash and cash equivalents at the end of the period	2,910	511
<b>Change in cash and cash equivalents</b>	<b>2,399</b>	<b>-1,435</b>

# 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 Yliopistokatu 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 Corporation'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. The expenses arising from the incentive plan of 2009 were recorded in full in profit or loss in the separate financial statements of Glaston Corporation in 2010, when the shares were surrendered.

### Convertible Bonds

In Glaston Corporation's separate financial statements the convertible bonds are accounted for entirely as liabilities.

## Note 2 Net Sales EUR thousand

	2011	2010
<b>Net sales by country by destination</b>		
Finland	1,450	1,829
Other EMEA	1,451	1,732
Asia	837	-
<b>Total</b>	<b>3,737</b>	<b>3,561</b>

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	756	767
Proceeds from sale of fixed assets	0	0
Other income	-	1
<b>Other operating income, total</b>	<b>757</b>	<b>769</b>

# Notes to the Parent Company's Financial Statements (FAS)

## Note 4

### Personnel expenses

EUR thousand

	2011	2010
Salaries and fees	-1,596	-2,691
Pension expenses	-239	-553
Other personnel expenses	-43	-78
<b>Total</b>	<b>-1,878</b>	<b>-3,323</b>

Salaries and remuneration paid to members of the Board of Directors and Managing Director	-638	-640
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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	13	22
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## Note 5

### Depreciation, Amortization and Impairment Losses

EUR thousand

#### Depreciation and amortization according to plan

Intangible assets		
Intangible rights	-788	-692
Other capitalized expenditure	-140	-176
Tangible assets		
Buildings and structures	-117	-118
Machinery and equipment	-216	-348
<b>Total depreciation and amortization according to plan</b>	<b>-1,262</b>	<b>-1,334</b>

#### Impairment losses

Impairment loss of intangible rights	-24	-
Impairment loss of other capitalized expenditure	-	-186
<b>Total depreciation and amortization according to plan and impairment losses</b>	<b>-1,285</b>	<b>-1,519</b>

## Note 6

### Other Operating Expenses

EUR thousand

Rents	-358	-393
Information and communications technology expenses	-1,087	-898
Travel expenses	-279	-377
Other expenses	-3,173	-2,228
<b>Other operating expenses, total</b>	<b>-4,897</b>	<b>-3,897</b>

#### Fees paid to auditors

Fees paid to principal auditors for audit	-83	-41
Fees paid to principal auditors for other services	-52	-183
<b>Total</b>	<b>-135</b>	<b>-224</b>

Note 7  
Net Financial Items  
EUR thousand

	2011	2010
<b>Dividend income</b>		
From group companies	-	8,492
From external parties	2	2
<b>Dividend income, total</b>	<b>2</b>	<b>8,495</b>
<b>Interest and other financial income</b>		
From group companies	6,132	9,027
From external parties	30	73
<b>Interest and other financial income</b>	<b>6,162</b>	<b>9,101</b>
<b>Interest and other financial income, total</b>	<b>6,164</b>	<b>17,595</b>
<b>Interest and other financial expenses</b>		
To group companies	-1,532	-2,216
Impairment losses of investments in non-current assets	-29,000	-8,800
Impairment losses of receivables	-125	-
To external parties	-4,904	-6,917
<b>Interest and other financial expenses, total</b>	<b>-35,561</b>	<b>-17,933</b>
<b>Net financial items, total</b>	<b>-29,397</b>	<b>-338</b>

Other financial income and expenses include foreign exchange gains and losses (net) 365 752

Note 8  
Appropriations  
EUR thousand

Difference between depreciation and amortization according to plan and depreciation and amortization in taxation	31	158
<b>Total</b>	<b>31</b>	<b>158</b>

Note 9  
Income Taxes  
EUR thousand

Income taxes for operations	-	376
Change in deferred tax assets	-161	-157
<b>Total</b>	<b>-161</b>	<b>218</b>

# Notes to the Parent Company's Financial Statements (FAS)

## Note 10 Fixed Assets EUR thousand

<b>Intangible assets</b>	<b>Intangible rights</b>	<b>Other capitalized expenditure</b>	<b>Advance payments and investments in progress</b>	<b>Total</b>
Acquisition cost 1 January, 2011	4,832	1,123	1,935	7,890
Additions	7	-	106	113
Disposals	-147	-	-	-147
Reclassifications	589	64	-654	0
<b>Acquisition cost 31 December, 2011</b>	<b>5,282</b>	<b>1,187</b>	<b>1,387</b>	<b>7,857</b>
Accumulated amortizations and impairment losses 1 January, 2011	-2,057	-811	-840	-3,708
Accumulated amortizations of disposals and transfers	147	-	-	147
Amortization for the period	-788	-140	-	-928
Impairment losses	-24	-	-	-24
<b>Accumulated amortizations and impairment losses 31 December, 2011</b>	<b>-2,722</b>	<b>-951</b>	<b>-840</b>	<b>-4,513</b>
<b>Carrying amount at 31 December, 2011</b>	<b>2,560</b>	<b>236</b>	<b>547</b>	<b>3,343</b>
Carrying amount at 31 December, 2010	2,775	312	1,095	4,182

<b>Tangible assets</b>	<b>Land and water areas</b>	<b>Buildings</b>	<b>Machinery and equipment</b>	<b>Other tangible assets</b>	<b>Total</b>
Acquisition cost 1 January, 2011	1,033	1,806	1,667	26	4,532
Additions	-	-	143	-	143
Disposals	-	-	-2	-	-2
Acquisition cost 31 December, 2011	1,033	1,806	1,808	26	4,672
Accumulated depreciations and impairment losses 1 January, 2011	-	-840	-1,298	-26	-2,165
Accumulated depreciations of disposals and transfers	-	-	2	-	2
Depreciation for the period	-	-117	-216	-	-334
<b>Accumulated depreciations and impairment losses 31 December, 2011</b>	<b>-</b>	<b>-958</b>	<b>-1,512</b>	<b>-26</b>	<b>-2,496</b>
<b>Carrying amount 31 December, 2011</b>	<b>1,033</b>	<b>849</b>	<b>296</b>	<b>-</b>	<b>2,177</b>
Carrying amount at 31 December, 2010	1,033	966	369	-	2,367

## Note 11 Investments EUR thousand

	<b>Shares Group companies</b>	<b>Shares Others</b>	<b>Total</b>
Acquisition cost 1 January, 2011	78,583	254	78,838
Increase	17,000	-	17,000
Acquisition cost 31 December, 2011	95,583	254	95,838
Impairment loss	-29,000	-	-29,000
<b>Carrying amount at 31 December, 2011</b>	<b>66,583</b>	<b>254</b>	<b>66,838</b>
Carrying amount at 31 December, 2010	78,583	254	78,838

Note 12  
Shares and Holdings Owned by the Parent  
EUR thousand

Subsidiary shares	Ownership %	Number of shares	Nominal value	Carrying amount
Uniglass Engineering Oy, Tampere, Finland	100.0%	20,000	400	2,351
Glaston Services Ltd. Oy, Tampere, Finland	100.0%	1,800,000	3,600	43,953
Albat+Wirsam Software GmbH, Linden, Germany	100.0%	1,500,000		20,280
<b>Total</b>				<b>66,583</b>
<b>Other</b>				
Kiinteistö Oy Torikyrö, Finland	63.4%	804	68	240
Other shares and holdings				14
<b>Total</b>				<b>254</b>

Note 13  
Receivables  
EUR thousand

	2011	2010
<b>Non-current receivables</b>		
<b>Receivables from external parties</b>		
Deferred tax assets	2,431	2,592
<b>Non-current receivables, total</b>	<b>2,431</b>	<b>2,592</b>
<b>Current receivables</b>		
<b>Receivables from external parties</b>		
Trade receivables	0	32
Prepaid expenses and accrued income	1,604	958
<b>Total</b>	<b>1,605</b>	<b>990</b>
<b>Receivables from group companies</b>		
Trade receivables	3,619	2,421
Loan receivables	36,913	83,897
Other receivables	8	-
Prepaid expenses and accrued income	1,038	1,715
<b>Total</b>	<b>41,578</b>	<b>88,032</b>
<b>Current receivables, total</b>	<b>43,183</b>	<b>89,022</b>
<b>Prepaid expenses and accrued income</b>		
Personnel expenses	-	7
Interest income	1,010	1,715
Financial items	1,301	850
Prepaid insurances	132	-
Other	199	101
<b>Prepaid expenses and accrued income, total</b>	<b>2,642</b>	<b>2,673</b>

# Notes to the Parent Company's Financial Statements (FAS)

## Note 14

### Equity

EUR thousand

	2011	2010
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	102	209
Loss on disposal of treasury shares / gain on disposal of treasury shares and return of treasury shares	-	-107
Share issue	5,867	-
Conversion of convertible bond, net of costs	20,836	-
Reserve for invested unrestricted equity 31 December	26,805	102
Treasury shares 1 January	-3,308	-3,518
Return / disposal of treasury shares <sup>I**</sup>	-	210
Treasury shares 31 December	-3,308	-3,308
Retained earnings 1 January	46,577	50,942
Reversal of unpaid dividends	27	5
Retained earnings 31 December	46,604	50,948
Profit / loss for the financial year	-33,093	-4,371
<b>Equity at 31 December</b>	<b>74,973</b>	<b>81,336</b>
<b>Distributable funds at 31 December</b>		
Reserve for invested unrestricted equity <sup>I*</sup>	26,805	102
Treasury shares	-3,308	-3,308
Retained earnings	46,604	50,948
Profit / loss for the financial year	-33,093	-4,371
<b>Distributable funds</b>	<b>37,007</b>	<b>43,371</b>

<sup>I\*</sup> Reserve for invested unrestricted equity can not be distributed as dividends.

<sup>I\*\*</sup> Shares acquired for the share bonus scheme: Share acquisition and scheme management have been outsourced to an external service provider. The shares are the property of the external party until the shares are transferred to key individual within the framework of the bonus scheme. Irrespective of the legal form of the procedure, it has been treated in the financial statement as if Glaston would have acquired its own shares.

## Note 15

### Accumulated Appropriations

EUR thousand

Accumulated depreciation difference 1 January	31	189
Increase (+) / decrease (-)	-31	-158
<b>Accumulated depreciation difference 31 December</b>	<b>-</b>	<b>31</b>

Note 16  
Non-current Liabilities  
EUR thousand

	2011	2010
Convertible bond	8,750	30,000
Debenture bond	4,000	-
Loans from financial institutions	7,506	-
<b>Non-current liabilities, total</b>	<b>20,256</b>	<b>30,000</b>

The terms of the convertible bond are presented in Notes 4 and 22 of the consolidated financial statements.

Note 17  
Current Liabilities  
EUR thousand

**Liabilities to external parties**

Loans from financial institutions	11,441	51,865
Trade payables	912	267
Other liabilities	4	66
Accrued expenses and deferred income	2,129	1,762
<b>Liabilities to external parties, total</b>	<b>14,486</b>	<b>53,961</b>

**Liabilities to group companies**

Trade payables	30	10
Other liabilities	10,587	12,164
Accrued expenses and deferred income	549	9
<b>Liabilities to group companies, total</b>	<b>11,166</b>	<b>12,183</b>

<b>Current liabilities, total</b>	<b>25,652</b>	<b>66,144</b>
-----------------------------------	---------------	---------------

**Accrued expenses and deferred income**

Salary and other personnel expense accruals	425	537
Interests	1,268	1,163
Other	985	71
<b>Accrued expenses and deferred income, total</b>	<b>2,678</b>	<b>1,771</b>

# Notes to the Parent Company's Financial Statements (FAS)

## Note 18 Contingent Liabilities EUR thousand

	2011	2010
<b>Leasing liabilities</b>		
Maturity within one year	47	51
Maturity later than one year	87	3
<b>Total</b>	<b>134</b>	<b>54</b>

The leasing agreements have normal terms.

<b>Other rental liabilities</b>		
Maturity within one year	152	228
Maturity later than one year	-	152
<b>Total</b>	<b>152</b>	<b>380</b>

### Guarantees

On behalf of group companies	53,665	10,966
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### Loans secured with pledged assets and mortgages

Loans from financial institutions	18,947	51,865
Real estate mortgages	90,000	4,000
Liens on chattel	50,000	-
Carrying amount of pledged securities	66,823	78,583
Carrying amount of pledged receivables	37,923	84,648
Other pledged assets	40	-
Pledged deposit	-	30

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

# Board of Director's Proposal for the Distribution of Profits

The distributable funds of Glaston Corporation, the parent of Glaston Group, are EUR 37,007,425 of which EUR -33,093,461 represents the net loss for the financial year. Funds that can be distributed as dividends are EUR 10,202,178.

The Board of Directors proposes to the Annual General meeting that no dividend will be distributed from the net loss for the year and from retained earnings. EUR 37,007,425 will be left in distributable funds.

Helsinki, 9 February, 2012

Andreas Tallberg  
Chairman of the Board

Claus von Bonsdorff

Teuvo Salminen

Arto Metsänen  
CEO

Christer Sumelius  
Deputy Chairman of the Board

Carl-Johan Rosenbröjter

Pekka Vauramo

# 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, 2011. 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 con-

solidated 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, 9 February 2011

Ernst & Young Oy  
Authorized Public Accountant Firm

Harri Pärssinen  
Authorized Public Accountant

# Board of Directors



**Andreas Tallberg**, b. 1963  
M.Sc.(Econ.)

Chairman of the Board since 2007

Independent of the company.  
Chairman of the Board of Directors of GWS Trade Oy, a significant shareholder, and Managing Director of Oy G.W. Sohlberg Ab.

Share ownership on 31.12.2011:  
no shares

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

Primary work experience:  
Senior Partner, EQT, 1997-2006  
President, MacAndrews & Forbes International, 1992-1995  
Director, Business Development, Amer Group, 1987-1991

Key positions of trust:  
Detection Technology Oy, Chairman of the Board, 2007-  
StaffPoint Oy, Chairman of the Board, 2008-  
Perlos Plc/Lite-On Mobile Plc;  
Deputy Chairman of the Board, 2007-  
Svenska Handelsbanken AB (publ), Finnish branch; Member of the Board, 2007-  
Wulff Group Plc; Member of the Board, 2010-  
Nissala Oy; Chairman of the Board, 1999-  
Oy Frank Media Ab, Member of the Board, 2009-

**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 31.12.2011:  
3,624,200 shares, including shares owned by related parties and controlling interest companies

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

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

Key positions of trust:  
Oy Investsum Ab, Chairman of the Board, 1984-  
Tecnote Corporation, Member of the Board, 2001-  
The 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-  
Nikolai Sourcing Ltd., Member of the Board, 2008-  
I-Hygiene Solutions (Malaysia), Member of the Board, 2009-

**Carl-Johan Rosenbröijer**, b. 1964  
Dr.Sc.(Econ.)

Member of the Board since 1996

Dependent of the company, independent of significant shareholders

Share ownership on 31.12.2011:  
12,600 shares

Main occupation: Senior Teacher, Arcada University of Applied Sciences, 2003-

Primary work experience:  
Senior Consultant, Head Consulting Oy, 2001-2003;  
Teacher and Researcher, Svenska Handelshögskolan, 1990-2001;  
Teacher, University of Oulu, 2001-2003

Key positions of trust:  
Ekonomiska Samfundet i Finland, Chairman of the Board, 2007-2009,  
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 significant shareholders

Share ownership on 31.12.2011:  
122,600 shares

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

Primary work experience:  
Management positions, Nokia Siemens Networks since 2007;  
expert and management positions, Nokia Plc, 1994-2007

Key positions of trust: -

**Teuvo Salminen**, b. 1954  
M.Sc.(Econ.), APA

Member of the Board since 2010

Independent of the company and significant shareholders

Share ownership on 31.12.2011:  
50,000 shares

Main occupation: Professional Board Member

Primary work experience:  
Pöyry Plc 1985-2010:  
Senior Advisor, 2010,  
Group Executive Vice President, Deputy to the President & CEO, 1999-2009,  
Head of Infrastructure & Environment business group, 1998-2000,  
Head of Construction 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-  
3 Stepit Oy, Member of the Board, 2011-

**Pekka Vauramo**, b. 1957  
M.Sc.(Mining)

Independent of the company and significant shareholders

Member of the Board since 2011

Share ownership at 31.12.2011:  
10,000 shares

Main occupation: Chief Operating Officer (COO), Deputy to CEO and Member of the Executive Board since 2007, Cargotec Corporation

Primary work experience:  
Employed by Sandvik 1985-2007  
President of the Underground Hard Rock Mining division of Sandvik Mining and Construction (SMC) and Member of 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-

# Executive Management Group



**Arto Metsänen**, b. 1956  
President and CEO  
M.Sc.(Eng.)

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

Share ownership at 31.12.2011:  
86,394 shares

Primary work experience:  
President & CEO, CPS Colour  
Group Oy, 2005-2009  
President & CEO, Consolis Oy 2005  
President, Sandvik Tamrock Oy,  
2003-2005  
SVP USA and Mexico, Sandvik  
Tamrock, 2002-2003  
SVP South Europe and Middle East,  
Sandvik Tamrock Oy, 1998-2002

**Tapio Engström**, b. 1963  
Chief Financial Officer  
M.Sc.(Econ.)

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

Share ownership at 31.12.2011:  
7,000 shares

Primary work experience:  
Chief Financial Officer, CPS Color  
Holding Oy 2009-2010  
SVP Business Development, Vaisala  
Plc 2007-2008  
Chief Financial Officer, Aspocomp  
Group Plc 2006-2007  
Chief Financial Officer, Vaisala Plc  
2002-2006  
Regional Finance Manager, USA,  
Vaisala Inc 2000-2002

**Günter Befort**, b. 1954  
Senior Advisor  
B.Sc.(Eng.)

Employed by the company and mem-  
ber of the Executive Management  
Group since 2007

Share ownership on 31.12.2011:  
no shares

Primary work experience:  
Over 35 years in the glass industry,  
of which the last 20 years at  
Albat+Wirsam

**Juha Liettyä**, b. 1958  
Senior Vice President, Services  
segment  
B.Sc.(Eng.)

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

Share ownership on 31.12.2011:  
no shares

Primary work experience:  
SVP, Quality and Business Develop-  
ment, Glaston Corporation, 2008-2009  
SVP Technology, Kyro Corporation,  
2003-2007  
Managing Director, Tamglass  
Engineering Ltd. Oy, 1999-2003  
Several management positions,  
Tamglass Ltd. Oy, 1991-2003  
Maintenance Manager, Tamglass  
Engineering Ltd. Oy, 1989-1991  
Project Engineer, Tamglass  
Engineering Ltd. Oy, 1986-1989

**Frank Chengdong Zhang**, b. 1968  
General Manager, Asia  
EMBA

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

Share ownership on 31.12.2011:  
no shares

Primary work experience:  
Product Group Manager, GE Motors &  
Fixtures, GE Lighting Asia, 2002-2008  
Marketing Development Manager, GE  
Motors & Fixtures, Asia, 1999-2002  
Sales Manager, GE Motors & Fixtures,  
Asia, 1997-1999  
Market Developer, GE Motors &  
Fixtures, Asia, 1994-1997

**Tapani Lankinen**, b. 1968  
Senior Vice President, Human  
Resources  
M.A.

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

Share ownership on 31.12.2011:  
no shares

Primary work experience:  
VP, Human Resources, EMEA,  
Cargotec Plc, 2008-2010  
VP, Human Resources Development,  
MEA, Nokia Siemens Networks,  
2007-2008  
Human Resources management  
positions, Nokia Plc 2004-2007  
Consultant, Mercuri Urval, 1998-2004

**Pekka Huuhka**, b. 1956  
Senior Vice President, Supply Chain  
M.Sc.(Eng.)

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

Share ownership on 31.12.2011:  
no shares

Primary work experience:  
President & CEO, partner, Swot  
Consulting Finland Oy 1998-2010  
Area Sales Director, Tamrock Region  
Europe 1993-1998  
Product Management, Tamrock Oy  
1991-1993  
Production Management positions,  
Tamrock Oy 1982-1991

**Uwe Schmid**, b. 1963  
Senior Vice President, Software  
Solutions  
P.h. D.(Physics)

Employed by and member of Glaston's  
Executive Management Group since  
18 July, 2011

Share ownership at 31.12.2011:  
no shares

Primary working experience:  
Senior Expert, McKinsey & Company,  
Frankfurt Germany, 2004-2011  
Vice President, Business Development &  
Marketing, Suse Linux AG,  
Nürnberg, Germany, 2003-2004  
Managing Director, Mentor Graphics,  
Data Management Systems BU,  
Nürnberg, Germany, 2001-2003  
Vice President, i2 Technologies Inc.,  
Dallas, USA, 1998-2001  
Marketing Manager, SAP AS, Walldorf,  
Germany, 1997-1998

# glaston

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