



**MARCEGAGLIA STEEL****HIGHLIGHTS**

<b>Sales (Euro/000)</b>	<b>2016</b>	<b>2015</b>	<b>Change</b>
steel Italy	3,396,652	3,426,188	-0.9%
steel Abroad	442,461	450,921	-1.9%
(Elimination of intercompany items)	-65,984	-33,406	97.5%
consolidated sales	<b>3,773,129</b>	<b>3,843,703</b>	<b>-1.8%</b>

<b>RESULTS (Euro/000)</b>			
M.O.L.	332,375	272,990	21.8%
amortisation, depreciation and allowances	220,805	181,467	21.7%
net profit (loss)	-35,037	-82,669	57.6%
cash flow	215,793	115,192	87.3%

<b>NET SHIPPING finished product (tons)</b>	5,154,640	4,985,283	3.4%
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<b>EMPLOYEES</b>			
Italy	3,593	3,571	0.6%
Abroad	1,652	1,694	-2.5%
tot. consolidated companies in Marcegaglia Steel	<b>5,245</b>	<b>5,265</b>	<b>-0.4%</b>



# financial statements 2016

# Management board

## BOARD OF DIRECTORS



**Chairman and  
Managing Director**  
Antonio Marcegaglia



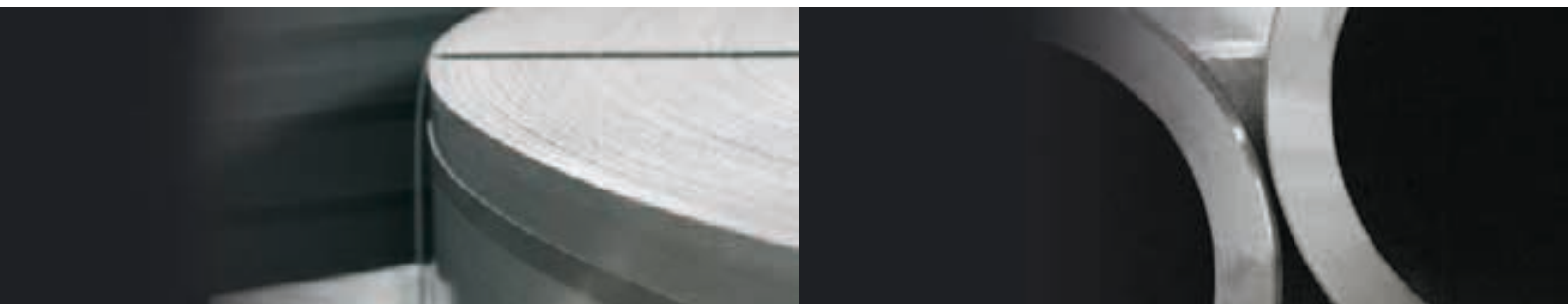
**Vice Chairman and  
Managing Director**  
Emma Marcegaglia

## BOARD OF STATUTORY AUDITORS

<b>Chairman</b>	Andrea Manzitti
<b>Auditors</b>	Enrico Colantoni Alessandro Righi
<b>Deputy auditors</b>	Matteo Apicella Francesca Bigi

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# Marcegaglia Steel 95%



## MARCEGAGLIA CARBON STEEL

### CARBON STEEL FLAT PRODUCTS

#### COIL AND PPGI PRODUCTS

PICKLED COILS

COLD ROLLED COILS

HOT DIP GALVANIZED COILS

PRE-PAINTED STEEL PRODUCTS

#### PROCESSED FLAT ROLLED PRODUCTS

BLACK STRIPS AND SHEETS

PICKLED STRIPS AND SHEETS

COLD ROLLED STRIPS AND SHEETS

HOT DIP GALVANIZED  
STRIPS AND SHEETS

OSCILLATED WOUND COILS

DIAMOND AND TEARDROP  
PATTERNED SHEETS

### CARBON STEEL WELDED TUBES

#### WELDED TUBES

WELDED TUBES

#### COLD-DRAWN WELDED TUBES

COLD-DRAWN WELDED TUBES

#### PLANTS ITALY:

Headquarters  
Gazoldo degli Ippoliti  
Albignasego  
Boltiere  
Casalmaggiore  
Corsico  
Dusino San Michele  
Lomagna  
Ravenna

#### WAREHOUSES ITALY:

Lainate  
Osteria Grande  
Tezze sul Brenta

#### PLANTS AND SALES OFFICES WORLDWIDE:

Marcegaglia China  
Marcegaglia do Brasil  
Marcegaglia Poland  
*Kluczbork*  
Marcegaglia Poland  
*Praszka*  
Marcegaglia UK

#### SALES OFFICES WORLDWIDE:

Marcegaglia Deutschland  
Marcegaglia France  
Marcegaglia Iberica  
Marcegaglia India  
Marcegaglia North Europe  
Marcegaglia Romania



MARCEGAGLIA SPECIALTIES

MARCEGAGLIA PLATES

STAINLESS STEEL PRODUCTS		COLD-DRAWN BARS		HEAVY PLATES
FLAT PRODUCTS	WELDED TUBES AND LONG PRODUCTS	STAINLESS STEEL COLD-DRAWN BARS	CARBON STEEL COLD-DRAWN BARS	
HOT ROLLED COILS AND STRIPS	WELDED TUBES	COLD-DRAWN BARS	COLD-DRAWN BARS	HEAVY PLATES
COLD ROLLED COILS AND STRIPS	LONG PRODUCTS		FREE CUTTING STEEL COLD-DRAWN BARS	
HOT ROLLED SHEETS				
COLD ROLLED SHEETS				

<b>PLANTS ITALY:</b>  Headquarters Gazoldo degli Ippoliti Contino Forlì Montechiarugolo	<b>PLANTS AND SALES OFFICES WORLDWIDE:</b>  Marcegaglia RU Marcegaglia Turkey Marcegaglia USA	<b>PLANT ITALY:</b>  San Giorgio di Nogaro
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# Marcegaglia Steel worldwide presence

Sales offices  
**North Europe Soleuvre,  
LUXEMBOURG**

 <b>MARCEGAGLIA</b> CARBON STEEL	 Hot dip galvanized strips	 <b>MARCEGAGLIA</b> SPECIALTIES
 Carbon steel coils	 Hot dip galvanized sheets	 Stainless steel coils
 Carbon steel strips	 Pre-painted coils	 Stainless steel strips
 Carbon steel sheets	 Pre-painted strips	 Stainless steel sheets
 Carbon steel welded tubes	 Pre-painted sheets	 Stainless steel welded tubes
 Cold-drawn welded tubes	 <b>MARCEGAGLIA</b> PLATES	 Carbon and Stainless steel cold-drawn bars
 Refrigeration tubes	 Heavy plates	 Stainless steel flat bars
 Hot dip galvanized coils		 Stainless steel cold formed sections

Plant  
**Dudley, UK**



UK

Sales office  
**Lyon, FRANCE**

E

US

Plant  
**Munhall, USA**



Sales office  
**Santa Perpetua de Mogoda  
Barcelona, SPAIN**

Plant  
**Garuva, BRAZIL**



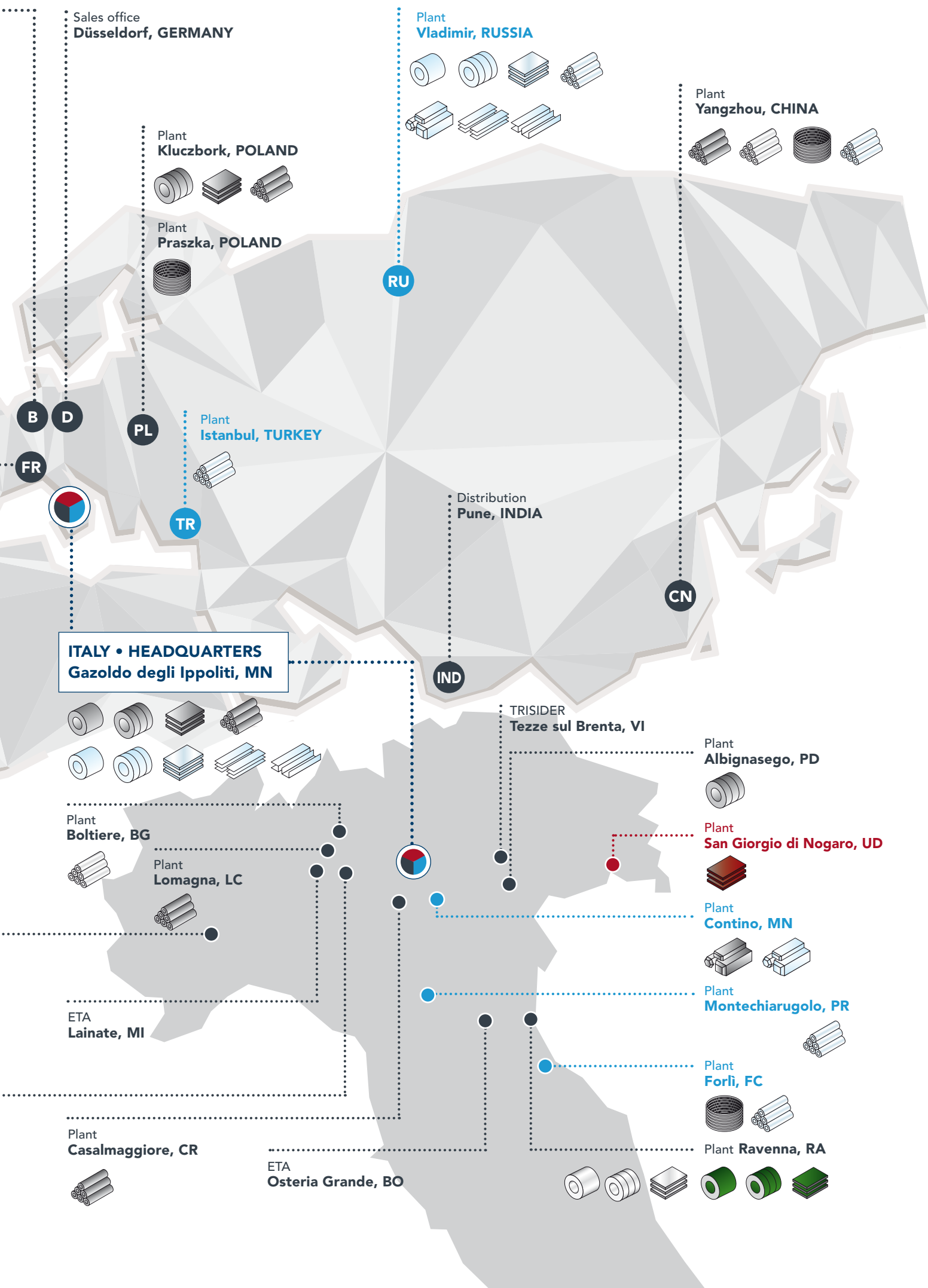
BR

Plant  
**Dusino San Michele, AT**



Plant  
**Corsico, MI**





# Marcegaglia Investments 5%



## Marcegaglia Buildtech

**INSULATED PANELS**

**GUARDRAIL**

**CONSTRUCTION  
EQUIPMENT**

## Oskar - Imat

**METAL HANDLES**

**CONDENSERS**

**EVAPORATORS**

## EuroEnergy - CO.GE.AM

**POWER  
PRODUCTION  
FROM RENEWABLE  
SOURCES**

## Elet.Ca - Made HSE

**COMPOSITE MATERIALS**

**ENVIRONMENTAL SAFETY,  
QUALITY**

### PLANTS AND SALES OFFICES:

Headquarters  
Milano

Graffignana  
Pozzolo Formigaro  
Doha, Qatar  
Timișoara, Romania  
Lima, Perù

*partnership*  
Dalmine LS

### PLANTS AND SALES OFFICES:

Fontanafredda  
Mezzolara di Budrio

### SALES OFFICE AND POWER PRODUCTION:

EUROENERGY GROUP Lainate  
ETA Manfredonia  
APPIA ENERGY Massafra  
ECOENERGIA Massafra  
CO.GE.AM. Massafra  
SOCIETÀ PROGETTO AMBIENTE  
P.A. Bacino Lecce Due  
P.A. Bacino Lecce Tre  
P.A. Provincia di Lecce  
P.A. Provincia di Foggia  
P.A. Bacino Bari Cinque (L)  
P.G. Bacino Bari Cinque (L)

### PLANT AND SALES OFFICE:

Signa  
Gazoldo degli Ippoliti



## Albarella - Gabetti Prop. Sol.

HOSPITALITY ACTIVITIES

REAL ESTATE



Albarella  
Castel Monastero  
Le Tonnare  
Pugnochiuso

GABETTI PROPERTY SOLUTIONS  
Milano

# Group structure

FIN. MAR.



FLAT PRODUCTS

WELDED TUBES

HEADQUARTERS AND PLANTS  
GAZOLDO DEGLI IPPOLITI

4 PLANTS ITALY

5 PLANTS ITALY

3 WAREHOUSES ITALY

PLANTS & SALES OFFICES

MARCEGAGLIA CHINA

MARCEGAGLIA DO BRASIL

MARCEGAGLIA POLAND

MARCEGAGLIA UK

SALES OFFICES

MARCEGAGLIA DEUTSCHLAND

MARCEGAGLIA FRANCE

MARCEGAGLIA IBERICA

MARCEGAGLIA INDIA

MARCEGAGLIA NORTH EUROPE

OTHER PARTICIPATIONS

AM INVESTCO

Metal Interconnector

Fontana

SIM

Employees	Turnover (M/€)		Production (KT/y)	
4,300	3,250 TOTAL		4,500 TOTAL	
	2,100 FLAT PRODUCTS	1,150 WELDED TUBES	3,000 FLAT PRODUCTS	1,500 WELDED TUBES

## MARFIN

Staff Corporate


**MARCEGAGLIA**  
SPECIALTIES

STAINLESS STEEL

COLD-DRAWN  
BARSHEADQUARTERS AND PLANTS  
GAZOLDO DEGLI IPPOLITI

2 PLANTS ITALY

1 PLANTS ITALY

## PLANTS &amp; SALES OFFICES

Mariven

MARCEGAGLIA RU

MARCEGAGLIA TURKEY

MARCEGAGLIA USA

OUTSOURCING INOX


**MARCEGAGLIA**  
PLATES

HEAVY PLATES

HEADQUARTERS  
GAZOLDO DEGLI IPPOLITI

PLANT San Giorgio di Nogaro


**MARCEGAGLIA**  
INVESTMENTS

## BUILDING

Marcegaglia Buildtech

M. Gulf Qatar

M. Romania

M. Perù

Dalmine LS

San Michele

## HOME PRODUCTS

Oskar

Imat

## ENERGY

CO.GE.AM

Other particip.

EuroEnergy

Other particip.

## ENGINEERING

Elet.Ca

Made HSE

## HOSPITALITY ACT. &amp; REAL ESTATE

Albarella

Other particip.

Pugnochiuso

Gaia Turismo

Other particip.

Palazzo Agricoltura

Gabetti Property S.

## OTHER PARTICIPATIONS

E	T (M/€)		P (KT/y)	
1,000	1,300 TOTAL		650 TOTAL	
	1,150 STAINLESS STEEL	150 COLD-DRAWN BARS	450 STAINLESS STEEL	200 COLD-DRAWN BARS

E	T (M/€)	P (KT/y)
100	200	400

E	T (M/€)	P (KT/y)
1,100	250	50

# The global economic context

## The world economy

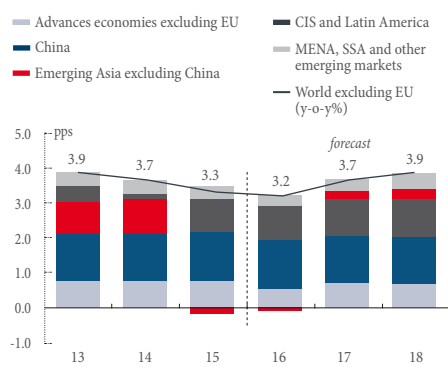
In 2016, global growth (excluding the EU) stood at +3.2%, the weakest since 2009, with significant differences between the performances of the various economic regions. As in the past, manufacturing was a driver of faster economic growth, also as a result of the completion of the inventory reduction process.

Global growth is expected to improve in 2017 and 2018, at rates of 3.7% and 3.9% respectively.

These estimates are based on the expected moderate rebound of advanced economies in 2017 and a certain degree of recovery in emerging markets in both years.

The recent improvement in the growth prospects of advanced economies largely reflects the expectations generated by a fiscal stimulus expected in the United States. In emerging markets, growth remains fragile after five years of downturns, but an improvement is expected even though the picture varies greatly between countries and regions. Overall, the recovery should be supported by a progressive increase in commodity prices in the markets most

GDP GROWTH IN EMERGING MARKETS (EX EU)



Source: European Commission

affected by the crisis (Brazil and Russia), and by stronger demand in advanced economies.

World trade remained weak in 2016, with global volumes growing by only 1.1 percent in the first 11 months of the year (year-on-year): the lowest level after the crisis year of 2009.

## The European economy

In 2016, the European economy had to face many challenges but has proved resilient, staying on a course of economic growth and creating new jobs.

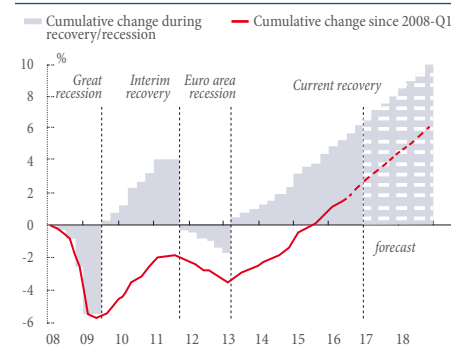
Despite the current conditions, the economy continued to expand, albeit at a modest rate, with a slight recovery towards the end of the year.

The GDP exceeded the pre-crisis level in 2015, while no sharp recovery is yet in sight in the investment growth rate.

2016 saw a 1.9% increase in the European Union's GDP, which slightly exceeded the forecasts of autumn 2015 also as a result of the robust economic growth of the United Kingdom. After the vote in favour of the country's exit from the EU, the future growth of the UK's economy has become an element of great uncertainty.

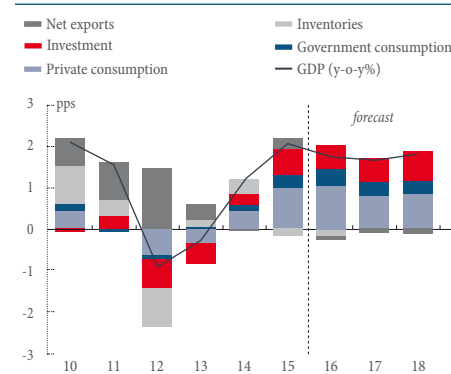
In recent years, the economic recovery has benefited from several favourable factors, such as relatively low oil prices and the effects of the prolonged depreciation of the Euro (particularly in the first part of 2015), as well as from an easing of monetary policy since 2014 and neutral fiscal policies in support of the recovery. These were compounded by industrial policies, such as the Investment Plan for Europe announced in 2014, and

EURO AREA - REAL GDP DURING THE CRISIS AND IN THE RECOVERY PHASE (2008-2018)



Source: European Commission

EURO AREA - GROWTH AND GDP COMPONENTS



Source: European Commission

additional public spending implemented by some member States.

However, the effects of these factors were weakened by a series of obstacles to growth, not all of which originated in Europe. Some of these obstacles are still related to the crisis, such as a large amount of non-performing loans in several member States.

Despite 15 consecutive quarters of GDP growth, investments in the Euro area remain weak and, compared to past recoveries, investment growth in the Euro area is not in line with the typical rate of a recovering economy.

The Euro area's GDP is still 1.8 points below the average of the early 2000s (before the pre-crisis investment boom). The job market is still in an adjustment phase, despite the fact that the economy has helped to create new jobs for three consecutive years. Employment growth over the past two years has been surprisingly positive, if compared against the modest GDP growth rates.

In December 2016, the unemployment rate in the Euro area reached 9.6 percent of the workforce, the lowest level since May 2009. Recent job market data confirm that recovery is slow, with a latent risk of high structural unemployment in the long term.

## The Italian economy

In 2016 the real GDP grew by 0.9% (up from 0.8% in 2015), mainly as a result of a supporting monetary policy, lower oil

prices, and expansionary fiscal policy measures.

Private consumption growth remained buoyant thanks to employment growth and lower prices for those products related to energy prices.

Tax incentives and low interest rates have encouraged investments in plants and equipment, while the construction sector remained stagnant.

Exports and imports have slowed significantly, in line with global trade. Interest rates continued to decline in 2016, reaching the lowest levels in the history of the Euro.

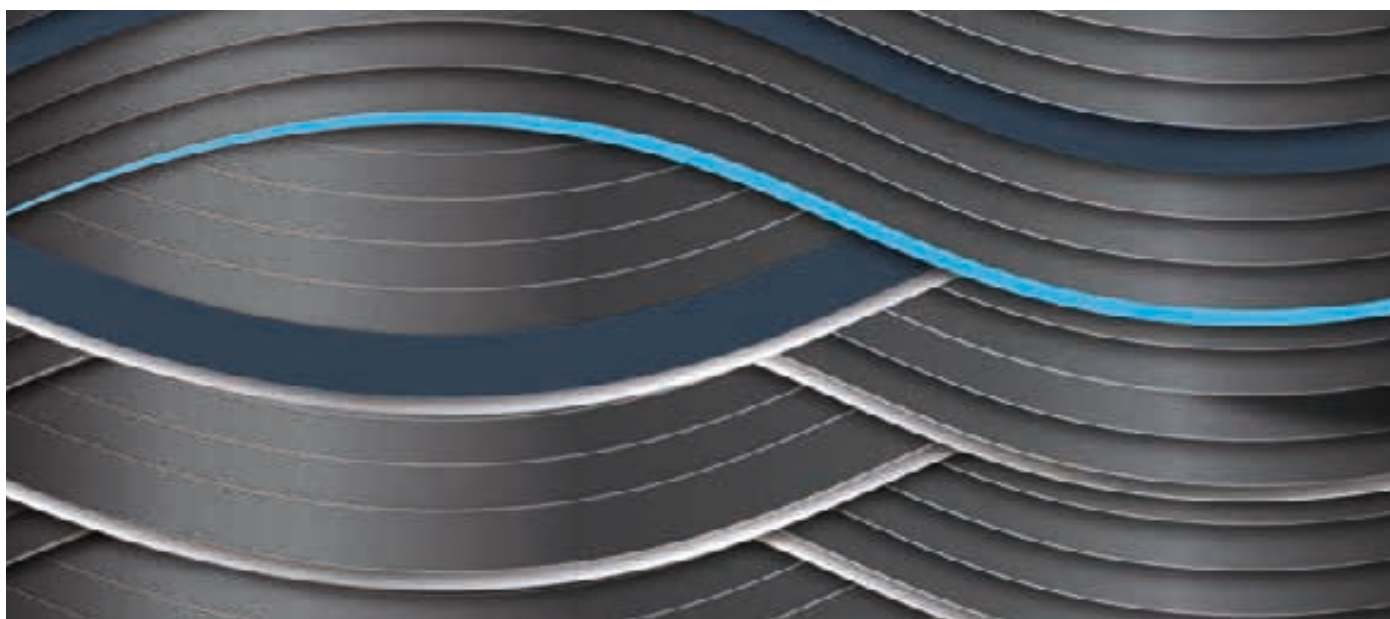
For 2017 GDP is expected to grow at a rate of 0.8 percent by the International Monetary Fund and of 1.1 percent by the Italian Government, also as a result of political uncertainty after the outcome of last year's referendum.

In 2016 the government deficit decreased to 2.4% of GDP, down from 2.7% in 2015.

This was mainly due to lower interest expense.

In 2017, the deficit should stabilise at about 2.2% of GDP due to the current balance in the growth rates of current public spending and tax revenues.

The public debt to GDP ratio rose to 132.6% of GDP in 2016, due in part to a higher liquidity buffer.

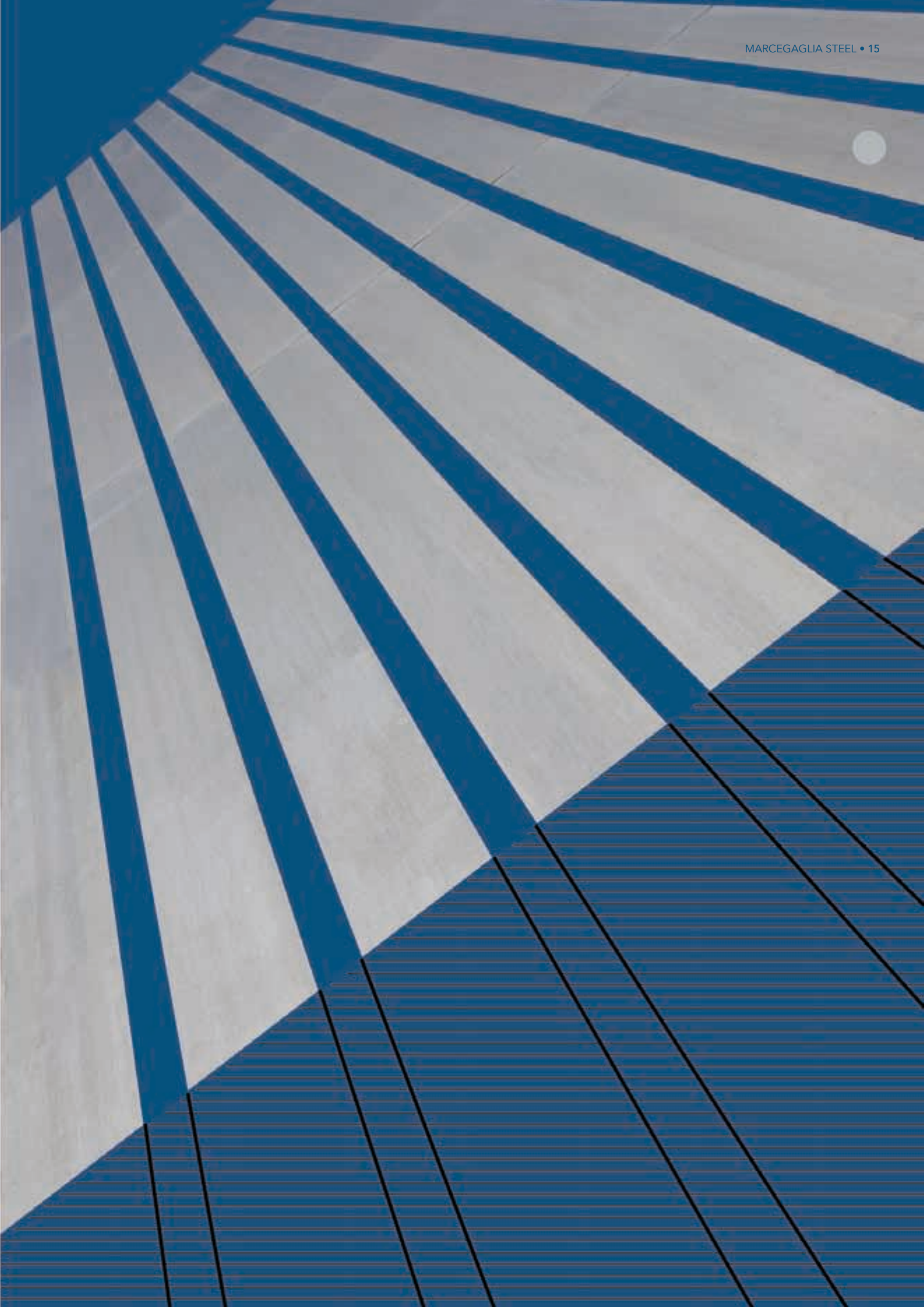


## ITALY – KEY FORECAST FACTORS

	2015			Annual percentage change						
	bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
<b>GDP</b>	1.642,4	100,0		0,6	-1,7	0,1	0,7	0,9	0,9	1,1
<b>Private Consumption</b>	1001.8	61,0		0,8	-2,5	0,4	1,5	1,4	0,9	1,2
<b>Public Consumption</b>	311.0	18,9		0,8	-0,3	-0,9	-0,6	0,6	0,2	0,4
<b>Gross fixed capital formation</b>	273.4	16,6		0,3	-6,6	-3,0	1,3	1,9	2,4	3,1
<b>of which: equipment</b>	95.1	5,8		0,7	-8,2	0,9	4,3	4,8	4,6	3,7
<b>Exports (goods and service)</b>	493.7	30,1		2,2	0,7	2,9	4,3	1,5	3,0	3,2
<b>Imports (goods and service)</b>	443.1	27,0		2,7	-2,4	3,3	6,0	2,1	3,9	4,3
<b>GNI (GDP deflator)</b>	1.633.3	99,4		0,6	-1,8	0,3	0,2	1,3	0,9	1,1
<b>Contribution to GDP growth:</b>	Domestic demand			0,7	-2,8	-0,4	1,0	1,3	1,0	1,3
	Inventories			0,0	0,2	0,6	0,1	-0,3	0,1	0,0
	Net exports			0,0	0,9	0,0	-0,4	-0,1	-0,1	-0,2
<b>Employment</b>				0,3	-2,4	0,3	0,8	1,2	0,7	0,8
<b>Unemployment rate (a)</b>				8,7	12,1	12,7	11,9	11,7	11,6	11,4
<b>Compensation of employees / f.t.e.</b>				2,5	1,3	-0,2	0,4	0,0	0,8	1,5
<b>Unit labour costs whole economy</b>				2,2	0,6	0,0	0,5	0,3	0,5	1,2
<b>Real unit labour cost</b>				0,0	-0,6	-0,8	-0,2	-0,6	-0,4	0,1
<b>Saving rate of households (b)</b>				13,8	11,0	11,1	10,4	11,0	11,1	11,5
<b>GDP deflator</b>				2,2	1,2	0,9	0,6	0,9	0,9	1,1
<b>Harmonised index of consumer prices</b>				2,3	1,2	0,2	0,1	-0,1	1,4	1,3
<b>Terms of trade goods</b>				-0,6	1,8	3,3	4,0	2,8	-2,1	-0,4
<b>Trade balance (goods) (c)</b>				0,6	2,2	2,9	3,2	3,5	3,0	2,7
<b>Current-account balance (c)</b>				-0,8	1,0	1,9	1,6	2,7	2,1	1,8
<b>Net lending (+) or borrowing (-) vis-a-vis ROW (c)</b>				-0,6	1,0	2,1	1,8	2,9	2,4	1,9
<b>General government balance (c)</b>				-3,2	-2,7	-3,0	-2,6	-2,3	-2,4	-2,6
<b>Cyclically-adjusted budget balance (d)</b>				-3,2	-0,4	-1,0	-1,1	-1,4	-1,9	-2,6
<b>Structural budget balance (d)</b>				-	-0,9	-1,2	-1,0	-1,6	-2,0	-2,5
<b>General government gross debt (c)</b>				107,6	129,0	131,9	132,3	132,8	133,3	133,2

(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP:

Source: European Commission

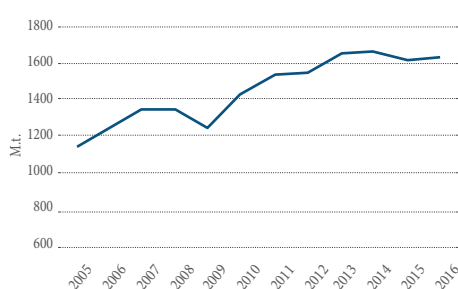


# The steel scenario

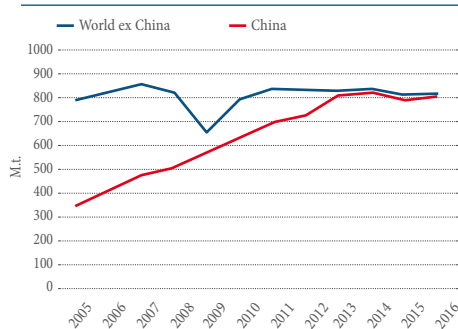
## The iron and steel industry in the world and in Europe

In 2016 the global steel production amounted to 1.6 billion tonnes, remained basically at the same levels as the previous year (+14.5 million tonnes, +0.9 percent), when the world output dropped by 3.3% compared to 2014 (-55 million tonnes), marking the first setback since 2009.

GLOBAL STEEL PRODUCTION



GLOBAL PRODUCTION IN DETAIL



Based on processed Worldsteel data

The relative stability of the global output reflects, on the one hand, the slight recovery of China, whose output of 808.4 million tonnes was up by 1.2 percent (+9.6 million tonnes) over the previous year, and on the other hand, the more modest performance of the rest of the world's production (821.2 million tonnes), substantially unchanged from the previous year (+5.0 million tonnes or +0.6 percent).

Data by macro-areas show diverse trends. Among the downward trending regions, the 28-country EU saw its production decrease again, with output at 162.0 million tonnes (-2.5%), the highest reduction in volume (-4.1 million tonnes) among the different macro areas, and a share of the total global market that has dropped below the 10 percent threshold.

STEEL PRODUCTION BY MACRO-AREAS AND SHARE OF THE TOTAL MARKET IN 2016

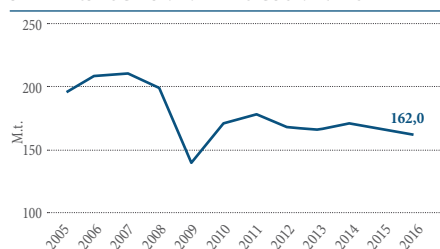
	Millions of tons					% change 2016/2015	% share 2016
	2012	2013	2014	2015	2016		
EU (28)	168.6	166.4	169.3	166.1	162.0	-2.5	9.9
Other Europ. countries	39.9	38.6	38.4	35.8	37.7	5.4	2.3
CIS	110.7	108.4	106.1	101.6	102.4	0.8	6.3
North America	121.6	119.0	121.1	110.9	110.6	-0.3	6.8
South America	46.4	45.8	45.0	43.9	40.2	-8.4	2.5
Africa	15.3	16.0	14.9	13.7	13.1	-4.4	0.8
Middle East	25.0	27.0	30.0	29.4	31.5	7.0	1.9
Asia	1,026.8	1,123.6	1,139.7	1,107.8	1,126.2	1.7	69.1
Oceania	5.8	5.6	5.5	5.7	5.8	2.1	0.4
<b>World</b>	<b>1,560.1</b>	<b>1,650.4</b>	<b>1,669.9</b>	<b>1,615.0</b>	<b>1,629.5</b>	<b>0.9</b>	<b>100.0</b>

Based on processed Federacciai and Worldsteel data

The performance of the 28-country EU was affected by a slowdown in the United Kingdom (-3.3 million tonnes or -30.0%) and by smaller declines recorded by the other main producers: Germany (-596,000 tonnes, -1.4%), France (-572,000 tonnes, -3.8%) and Spain (-1.2 million tonnes, -8.2%). In Italy instead, after the difficulties of the four years, the output improved to 23.4 million tonnes, recording a 6.2% increase (+ 1.4 million tonnes) over the previous year.

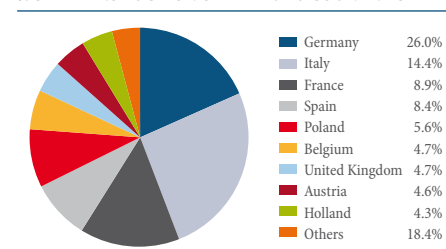
European production remains 50 million tonnes below the peak reached in 2007 (-23.6%).

STEEL PRODUCTION IN THE 28-COUNTRY EU



Based on processed Federacciai and Worldsteel data

% STEEL PRODUCTION OF THE 28 EU COUNTRIES



Based on processed Federacciai and Worldsteel data

STEEL PRODUCTION IN THE 28-COUNTRY EU AND SHARE OF THE TOTAL IN 2016

	Millions of tons					% change 2016/2015	% share 2016
	2012	2013	2014	2015	2016		
Germany	42.7	42.6	42.9	42.7	42.1	-1.4	26.0
Italy	27.3	24.1	23.7	22.0	23.4	6.2	14.4
France	15.6	15.7	16.1	15.0	14.4	-3.8	8.9
Spain	13.6	14.3	14.2	14.8	13.6	-8.2	8.4
United Kingdom	9.6	11.9	12.1	10.9	7.6	-30.0	4.7
Poland	8.4	8.0	8.6	9.2	9.0	-2.1	5.6
Others	51.5	49.9	51.6	51.5	51.9	0.8	32.0
<b>European Union (28)</b>	<b>168.6</b>	<b>166.4</b>	<b>169.3</b>	<b>166.1</b>	<b>162.0</b>	<b>-2.5</b>	<b>100.0</b>

Based on processed Federacciai and Worldsteel data

In Europe, steel consumption stood at 156 million tonnes, up by 3.2% (apparent consumption) or 3.5% (real consumption), due mainly to the good performance of the automotive industry and, to a lesser extent, of tubes and other metal products, while the construction sector remains very weak.

DEVELOPMENT OF THE MAIN STEEL USING SECTORS % Change year on year in the SWIP (Steel Weighted Industrial Production)

	% share in total consumption	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018
Construction	35	-0.3	1.4	2.5	2.2	2.3	2.1	2.9	2.6	2.6	2.6	2.7
Mechanical engineering	14	0.9	1.4	1.6	1.3	1.5	1.5	2.0	2.3	2.2	2.1	2.1
Automotive	18	5.3	3.8	1.8	2.9	2.9	2.8	1.6	1.7	1.5	1.7	1.6
Domestic appliances	3	1.5	-2.0	-0.7	1.4	1.6	0.1	1.7	1.7	1.4	1.7	1.6
Other transport	2	1.4	3.9	1.9	2.4	4.4	3.2	4.4	4.2	3.5	3.1	3.8
Tubes	12	2.0	4.1	1.7	3.0	2.0	2.7	1.4	1.6	1.7	1.6	1.6
Metal goods	14	2.5	2.6	2.2	2.3	2.0	2.2	1.8	1.9	1.7	1.8	1.8
Miscellaneous	2	1.6	1.1	1.1	1.8	0.8	1.2	1.1	0.8	0.8	1.1	0.9
Total	100	1.7	2.4	2.0	2.3	2.3	2.3	2.1	2.1	2.1	2.2	2.1

Source: Eurofer - forecast 2017

FORECAST FOR REAL CONSUMPTION - % change year-on-year

Period	Q1 16	Q2 16	Q3 16	Q4 16	Year 2016
	4.4	4.6	2.8	2.5	3.5

Source: Eurofer

FORECAST FOR APPARENT CONSUMPTION - % change year-on-year

Period	Q1 16	Q2 16	Q3 16	Q4 16	Year 2016
	3.2	2.5	-0.1	7.1	3.2

Source: Eurofer

As shown in the table above, Q4 2016 saw a good performance (+7.1% apparent consumption), with a significant increase in stocks, in part in anticipation of anti-dumping duties.

## The iron and steel industry in Italy

In 2016, business picked up again for Italian manufacturers, after four years of steady decline; the turnaround was supported by a resumption of direct exports to the 28 EU countries and an improved competitive position on the domestic market, as a result of reduced pressure from imports.

On the demand side, the apparent consumption of primary iron and steel products recorded a slight decrease from the previous year, in which it rose by approximately 10 percent due to the sharp increase in low-cost imports, particularly from China.

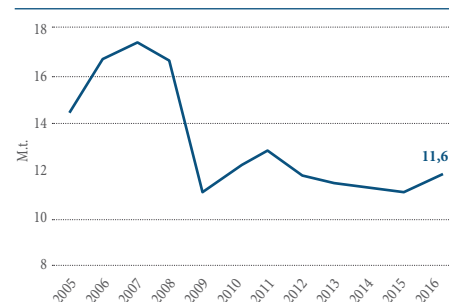
Despite improved production volumes, the industry's turnover declined for the fifth consecutive year due to depressed prices. A turnaround only occurred in the latter part of the year, as a result of rising commodity prices.

## Production

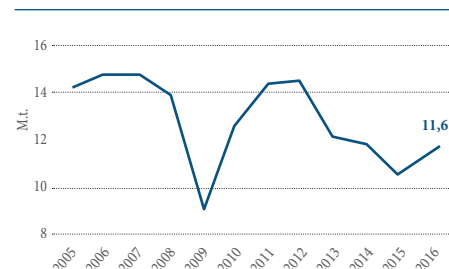
The drop in crude steel production that began in 2012 stopped in 2016. Output amounted to 23.4 million tonnes, up by 6.2% and 1.4 million tonnes over the previous year, with only a partial recovery of both the 2015 production decline (-1.7 million tonnes) and the more general reduction recorded in the 2012-2015 period (-6.7 million tonnes).

The production of hot rolled products also improved, with an output of 23.3 million tonnes, up 6.8% over the previous year, and an increase in volumes

PRODUCTION OF LONG ROLLED PRODUCTS



PRODUCTION OF FLAT ROLLED PRODUCTS



Based on processed Federacciai data

(+1.5 million tonnes) greater than the 2015 decrease (-1.4 million tonnes).

An analysis by product family confirms that the production of hot rolled long products has exceeded that of flats recorded the previous year.

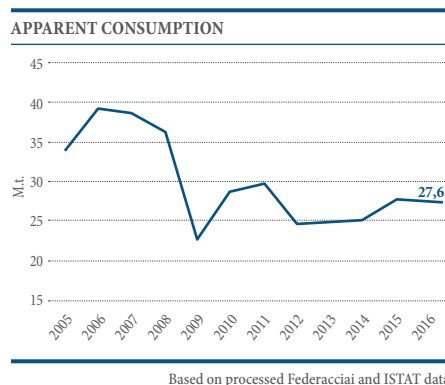
In detail, the production of long rolled products (11.65 million tonnes), increased by 4.1%, with an increase in volume (455.1 thousand tonnes) higher than the 2015 decrease (-117.3 thousand tonnes) from the 2014 level.

In 2016, the production of flat rolled products (11.58 million tonnes) increased by 9.7% (+1.0 million tonnes) over the previous year. Unlike the production of long products, the increase in production was lower than the previous year's decline (-1.3 million tonnes).

Growth involved the production of both coils, which amounted to 9.7 million tonnes and increased by 10.4% (+911.8 thousand tonnes), recovering from last year's decline (-855.3 thousand tonnes), and of hot rolled sheets and wide flats, which stood at 1.9 million tonnes, up by 6.3% (+109.6 thousand tonnes), without however offsetting the previous year's decrease of over 446.4 thousand tonnes.

### Apparent consumption of primary iron and steel products

In 2016, the apparent consumption<sup>1</sup> of primary iron and steel products amounted to 27.6 million tonnes, down by 1.0% (-283.1 thousand tonnes), substantially unchanged from the previous year when it increased by approximately 10 percent as a result of a marked increase in imports from non-EU countries, particularly China.



An analysis of market variables shows, for the first time since 2011, a recovery of domestic manufacturers' activities, with deliveries totalling 26.5 million tons, up by 6.3% (+1.6 million tons) over the previous year.

The improvement in deliveries was driven by the resumption of direct exports, particularly to EU countries (28).

APPARENT CONSUMPTION AND BREAKDOWN BY PRODUCT CATEGORY

	Tot. semi-finish. goods			Tot. rolled products			General Total		
	2015	2016	Var. %	2015	2016	Var. %	2015	2016	Var. %
<b>Deliveries</b>	1,986	2,122	6.8	22,911	24,348	6.3	24,897	26,470	6.3
<b>Import</b>	3,792	3,778	-0.4	14,800	14,509	-2.0	18,592	18,287	-1.6
Import EU (28)	605	453	-25.1	8,028	7,948	-1.0	8,633	8,401	-2.7
Import Countries outside of the EU	3,187	3,325	4.3	6,773	6,562	-3.1	9,960	9,886	-0.7
<b>Export</b>	427	518	21.4	10,890	11,996	10.2	11,317	12,514	10.6
EU exports (28)	302	359	19.0	7,030	8,283	17.8	7,332	8,642	17.9
Export Countries outside of the EU	125	159	27.0	3,860	3,713	-3.8	3,985	3,872	-2.8
<b>Apparent Consumption</b>	<b>3,184</b>	<b>3,083</b>	<b>-3.2%</b>	<b>24,710</b>	<b>24,528</b>	<b>-0.7%</b>	<b>27,895</b>	<b>27,612</b>	<b>-1.0%</b>

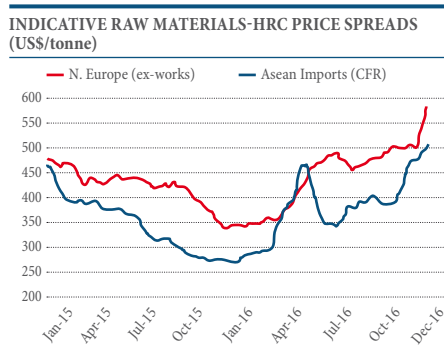
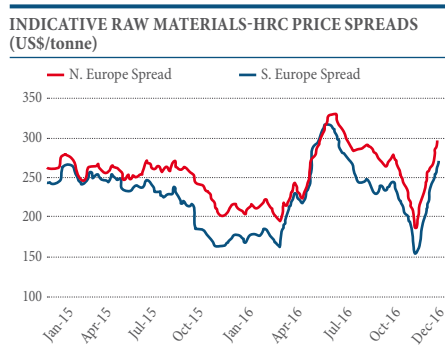
Based on processed Federacciai and ISTAT data

## The challenges of the European iron and steel industry

Against a backdrop of substantially flat steel consumption, in recent years the European iron and steel industry has implemented a process to rationalise production capacity, and at the same time has urged the European Commission – with the support of national Governments – to put in place a series of customs protection measures, especially for hot and cold rolled, coated and stainless steel coils.

Anti-dumping duties were established in 2016 against hot rolled coils from China, and investigations were started for similar measures against five other exporting countries. After hitting trough in Q1 and Q2 2016, the prices of iron and steel products are now showing a significant recovery, driven among other things by an upturn in prices of raw materials and amplified by the effects of protectionist measures.

<sup>1</sup> Apparent consumption measures the amount of iron and steel products purchased in Italy, and is determined by adding together the deliveries of steel products from domestic manufacturers (finished weight) and imports and then subtracting arrivals, i.e. direct imports of steel products, and exports. It includes semi-finished products as well as long and flat rolled products (hot, cold and coated).



Source: TSI

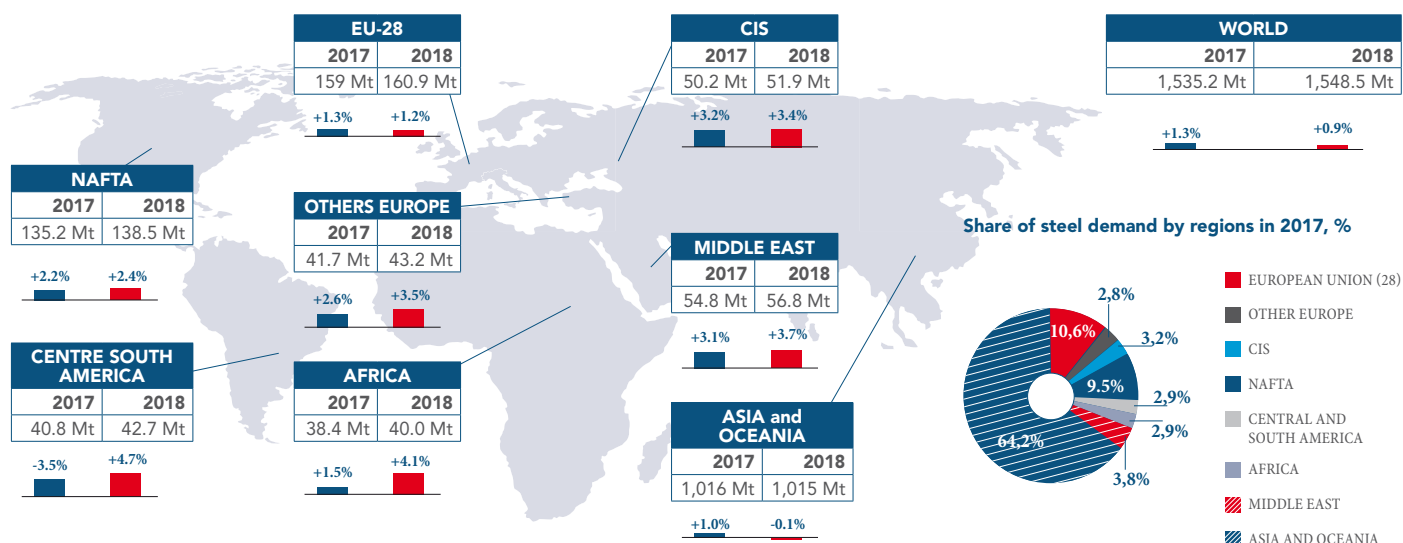
The European iron and steel industry has also resumed a further process of consolidation, in terms of both steel production and of downstream integration and distribution.

This phenomenon has already affected those markets which historically are most fragmented, such as that of long products and service centres in Italy, and an acceleration is expected in 2017 with at least two major mergers that could profoundly reshape the European iron and steel industry both in the north (ThyssenKrupp - Tata UK) and in the south (sale of ILVA assets).

## 2017-2018 Outlook

According to the World Steel Association's (WSA) latest forecast, dated April 2017, the growth of global steel demand will be modest (+1.3% in 2017 and 0.9% in 2018) because of a slowdown in China and Asia (except India).

SRO 2017-2018: REGIONAL OVERVIEW - Steel demand forecasts, finished steel (SRO April 2016)



Source: WorldSteelAssociation

In Europe, apparent steel consumption is expected to continue to grow gradually by 1.3% in 2017 and 1.2% in 2018 (or 2.0% and 1.5% respectively in terms of real consumption), due to a fairly good performance of the construction and transportation vehicles industry, along with further improvements in the automotive industry and the investment sector.

FORECAST FOR REAL CONSUMPTION - % change year-on-year

Periodo	Year 2016	Q1 17	Q2 17	Q3 17	Q4 17	Year 2017	Q1 18	Q2 18	Q3 18	Q4 18	Year 2018
	3.5	2.8	1.9	1.7	1.5	2.0	1.5	1.4	1.4	1.5	1.5

Source: Eurofer

FORECAST FOR APPARENT CONSUMPTION - % change year-on-year

Periodo	Year 2016	Q1 17	Q2 17	Q3 17	Q4 17	Year 2017	Q1 18	Q2 18	Q3 18	Q4 18	Year 2018
	3.2	2.1	1.8	4.2	-2.7	1.3	1.0	1.0	1.6	1.3	1.2

Source: Eurofer

In Q1 2017 iron and steel product prices recorded further increases, which should be confirmed in Q2 2017. This will probably be followed by a downward correction of the speculative component of some raw materials (particularly coking coal and iron-chromium for stainless steels), but on the whole in 2017 prices should stand at levels higher by 20-30% than the averages recorded in 2016.

Against this backdrop, the performance of most iron and steel manufacturers is expected to improve.

However, their performance is subject to the results of the anti-dumping investigation on hot rolled coils from five countries (Russia, Ukraine, Iran, Brazil and Serbia) and on galvanised coils from China, which will be decided in the second half of 2017.



# Operating results

Although the environment has improved compared to 2015, market conditions remained challenging for most European iron and steel industry operators at least for the first four month period of 2016.

Conversely, through a careful commercial policy on both the buy and on the sell side, along with a rigorous cost control, Marcegaglia Steel has succeeded since the early months of 2016 in confirming its industrial leadership.

The company achieved: an improvement (+3.4%) in volumes delivered, which reached 5.2 million tonnes, with an increase in market share; revenues substantially unchanged (-1.3%) at Euro 3.8 billion, despite declining average prices (-7.5% for carbon products and -15% for stainless products) and, above all, a Gross Operating Profit of more than Euro 332 million (+21.8% compared to 2015, or 8.8% of revenues); operating income before depreciation of Euro 176 million (4.6% of revenues); Operating Cash Flow of Euro 216 million, and a Euro 293 million reduction in the net financial position, which stood at Euro 1,160 million.

Though affected by the poor performance of the Chinese and US subsidiary, these results confirm once again that Marcegaglia Steel's business model is sound and based on significant product and market diversification and substantial commercial coverage, backed by appropriate levels of quality and service, and combined with considerable operating flexibility.

## Revenues

The revenues of the Italian steel business stood at Euro 3,383 million (-1.1%), thanks to carbon flat products (Marcegaglia Carbon Steel) and bright bars (Marcegaglia Specialties) holding their ground and to an improvement in stainless products (+1.8%).

These categories saw higher sales in real terms (volumes); this applies in particular to Marcegaglia Specialties (+12.3%).

For welded tubes and heavy plates, the

significant drop in unit prices resulted in slight declines in revenues.

Among the foreign subsidiaries - with the exceptions of Marcegaglia RU and Marcegaglia USA, whose volumes increased significantly - the drop in prices was compounded with lower sales, particularly in Brazil (due to that country's known difficulties and financial instability) and in China, where Marcegaglia China's business was also affected by lower financial resources.

### REVENUES (000/Euro)

Italian Companies	Revenues			Shipments of finished prod (tons)		
	tot. 2016	tot. 2015	Δ %	2016 volumes	2015 volumes	Δ %
<b>MARCEGAGLIA CARBON STEEL</b>	<b>2,224,001</b>	<b>2,288,098</b>	<b>-2.8</b>	<b>3,691,549</b>	<b>3,576,618</b>	<b>3.2</b>
of which flat products	1,460,140	1,462,064	-0.1	2,669,236	2,545,007	4.9
of which welded tubes	631,403	676,193	-6.6	1,012,338	1,020,853	-0.8
<b>MARCEGAGLIA SPECIALTIES</b>	<b>988,844</b>	<b>955,969</b>	<b>3.4</b>	<b>574,592</b>	<b>511,542</b>	<b>12.3</b>
of which stainless steel	842,326	827,471	1.8	393,710	344,500	14.3
of which cold-drawn bars	113,843	114,190	-0.3	176,637	160,038	10.4
<b>MARCEGAGLIA PLATES</b>	<b>170,606</b>	<b>177,460</b>	<b>-3.9</b>	<b>353,682</b>	<b>345,614</b>	<b>2.3</b>
of which heavy plates	163,698	170,144	-3.8	353,682	345,614	2.3
<b>Tot. MARCEGAGLIA STEEL Italy</b>	<b>3,383,452</b>	<b>3,421,526</b>	<b>-1.1%</b>	<b>4,619,823</b>	<b>4,433,775</b>	<b>4.2</b>

Foreign Legal Entities	Revenues			Shipments of finished prod (tons)		
	tot. 2016	tot. 2015	Δ %	2016 volumes	2015 volumes	Δ %
MARCEGAGLIA POLAND Sp z o.o.	185,589	201,852	-8.1	274,467	282,804	-2.9
MARCEGAGLIA UK	47,648	50,647	-5.9	74,607	66,423	12.3
MARCEGAGLIA DO BRASIL Ltda	102,477	109,067	-6.0	109,120	124,649	-12.5
MARCEGAGLIA CHINA	20,483	27,388	-25.2	23,984	44,708	-46.4
MARCEGAGLIA RU	21,500	17,829	20.6	9,671	7,079	36.6
MARCEGAGLIA USA	49,098	44,139	11.2	31,891	25,845	23.4
MARCEGAGLIA Turkey	15,667			11,076		
<b>Tot. MARCEGAGLIA STEEL abroad</b>	<b>442,461</b>	<b>450,921</b>	<b>-1.9%</b>	<b>534,817</b>	<b>551,508</b>	<b>-3.0%</b>
other and intercompany	-52,784	-28,745				
<b>Tot. MARCEGAGLIA STEEL</b>	<b>3,773,129</b>	<b>3,843,703</b>	<b>-1.8%</b>	<b>5,154,640</b>	<b>4,985,283</b>	<b>3.4%</b>

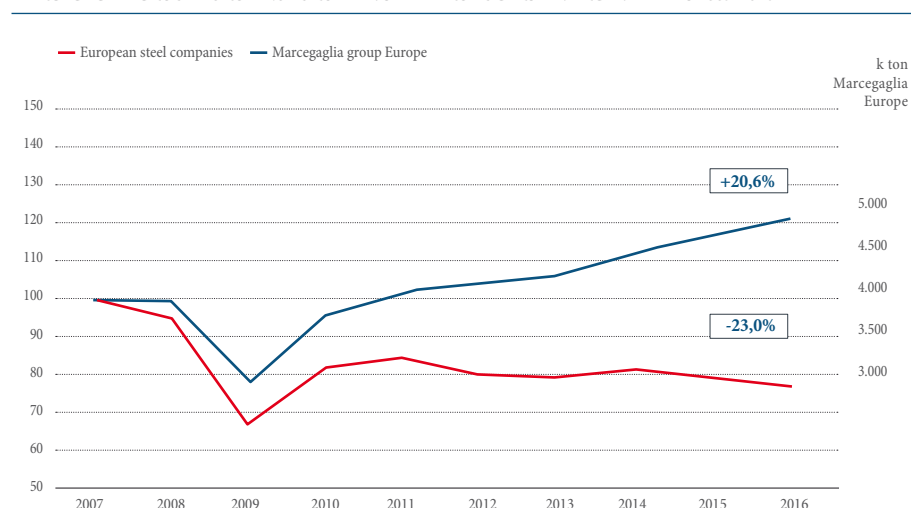
The table below shows the consolidated revenues of Marcegaglia Steel by type of product and market share by target market.

#### CONSOLIDATED REVENUES BY GEOGRAPHICAL AREA (000/Euro)

	2016	2015	Abroad	% Sales	of which EU	of which outside EU
carbon steel tubes	851,603	903,652	589,920	69.27%	438,356	151,564
flat products (from HRC)	1,521,949	1,535,091	853,233	56.06%	720,809	132,424
heavy plates	163,698	170,144	95,718	58.47%	82,097	13,621
stainless steel	913,486	895,439	646,740	70.80%	528,130	118,610
cold drawn steel	126,364	129,374	82,326	65.15%	64,803	17,523
others	262,013	243,409	89,259	34.07%	54,093	35,166
<b>aggregated total 2016</b>	<b>3,839,113</b>	<b>3,877,109</b>	<b>2,357,196</b>		<b>1,888,289</b>	<b>468,907</b>
<b>aAggregated total 2015</b>	3,877,109		2,303,717		<b>1,869,023</b>	<b>434,694</b>
	-1.0%		2.3%		<b>1.0%</b>	<b>7.9%</b>
intercompany	(65,984)	(33,406)	(26,276)	39.82%	(17,872)	(8,404)
<b>total revenues</b>	<b>3,773,129</b>	<b>3,843,703</b>	<b>2,330,919</b>	<b>61.78%</b>	<b>1,870,417</b>	<b>460,502</b>

In a medium-term perspective, an analysis of performance compared with the European iron and steel industry starting from the 2007 peak shows that over the last decade the structured growth of the group's market shares recorded an increase of as much as 21 percentage points, against a 23% decline in European steel production.

#### MARCEGAGLIA GROUP EUROPE vs EUROPEAN STEEL PRODUCERS DIVERGENT PATHS 2007-2016



## Profit performance

For Marcegaglia Steel, 2016 was definitely a positive year - on average, better than that of its competitors - in terms of Gross Operating Profit and operating income before depreciation, amounting respectively to Euro 332.3 million (8.8% of revenues) and Euro 175.8 million (4.6% of revenues).

The industrial Gross Operating Profit (before corporate costs and intra-group royalties) amounted to Euro 327.4 million, of which Euro 195.9 million for Marcegaglia Steel, Euro 112.1 million for Marcegaglia Specialties and Euro 19.4 million for Marcegaglia Plates. The percentage performances of Marcegaglia Specialties and Marcegaglia Plates (11.3 and 11.4% of revenues, respectively) were particularly significant.

Among the foreign subsidiaries, the top performers were Marcegaglia Poland (Euro 21.3 million, 11.5% of revenues), Marcegaglia do Brasil, despite the drop in volumes (Euro 109 million, 10.7% of revenues), Marcegaglia UK and Marcegaglia RU.

Being still in the start-up phase (2016 was its first year of actual operation) Marcegaglia Turkey's performance was more modest.

The performances of Marcegaglia China and Marcegaglia USA remained poor.

For the former, the company is developing a strategic restructuring plan, while the latter realised a loss due to the stainless steel tubes business, which was sold in early 2017. For these two companies, write-downs of approximately Euro 55 million were recognised.

It should be noted that, excluding these two entities, the aggregate performance of overseas subsidiaries would have been in line with those of the Italian companies (gross margin of Euro 38.7 million, equal to 10.4% of revenues).

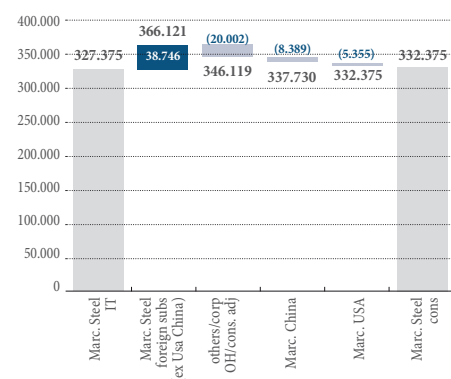
#### PROFITABILITY 2016 (kEuro)

	Revenues	EBITDA	EBITDA %
<b>Marcegaglia Carbon Steel *</b>	2,224,001	195,822	8.8
<b>Marcegaglia Specialties *</b>	988,844	112,127	11.3
<b>Marcegaglia Plates *</b>	170,606	19,426	11.4
<b>tot. Marcegaglia Steel Italy</b>	<b>3,383,452</b>	<b>327,375</b>	<b>9.7</b>
MARCEGAGLIA Poland	185,589	21,267	11.5
MARCEGAGLIA UK	47,648	3,915	8.2
MARCEGAGLIA DO BRASIL Ltda	102,477	10,949	10.7
MARCEGAGLIA CHINA	20,483	(8,389)	-41.0
MARCEGAGLIA USA	49,098	(5,355)	-10.9
MARCEGAGLIA RU	21,500	2,047	9.5
MARCEGAGLIA TURKEY	15,667	568	3.6
<b>tot. foreign subsidiaries</b>	<b>442,461</b>	<b>25,002</b>	<b>5.7</b>
others and intercompany	(52,784)	1,898	
corp OH		(21,900)	
ammort royalties marchio			
<b>tot. Marcegaglia Steel</b>	<b>3,773,129</b>	<b>332,375</b>	<b>8.8</b>

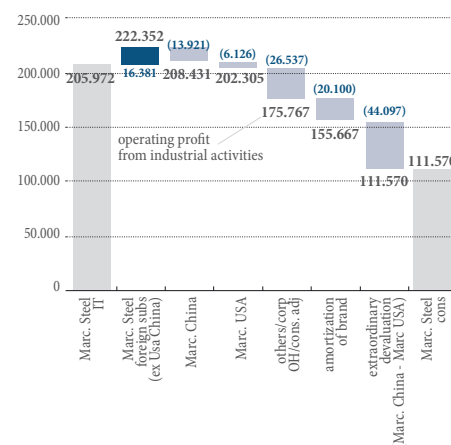
\* Ebitda net of intercompany royalties

Industrial operating results (excluding write-downs of Euro 44 million and considering depreciation and amortisation totalling Euro 173 million) are also strong and positive for all companies, with the exception of the above-mentioned issues of Marcegaglia China, Marcegaglia USA and, to a lesser extent, Marcegaglia Turkey currently in the start-up phase.

#### EBITDA



#### OPERATING PROFIT

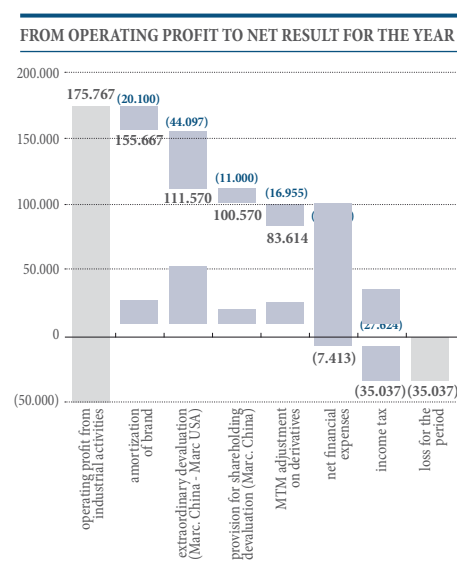


In 2016, in consideration of the uncertain outlook for the Chinese subsidiary and of the proposed sale (finalised in February 2017) of the US subsidiary's stainless steel tubes business, write-downs were made on equity investments, some fixed assets, receivables and other working capital items of these companies, totalling Euro 44 million.

For the Chinese subsidiary, an additional write-down was made through a Euro 11 million provision for risks, bringing the total write-downs for foreign subsidiaries to Euro 55 million.

In addition, in compliance with the different treatment of derivative charges

under the new Italian Accounting Board (OIC) standards, future net charges for an additional Euro 17 million were anticipated in the 2016 income statement. The sum of extraordinary write-downs and adjustments affects the income statement results by a total of Euro 72 million, resulting in a net loss of Euro 35 million as shown in the chart below from Operating Income to Net Income.



## Financial operations

On 4 March 2016, the company finalised with the 12 major banks a 7-year loan for a total of Euro 492.5 million, of which Euro 362.5 million mortgage backed loans and Euro 130 million unsecured loans. The primary objective of this credit line is to better structure the time profile of the group's overall debt in favour of a significant long-term portion.

In 2016, the Marcegaglia Steel business operations generated an operating cash flow of Euro 216 million, allowing the company to finance investments of Euro 53 million, pay financial charges of Euro 91 million, and significantly reduce its net debt.

Due in part to a lower use of working capital and higher levels of securitisation of receivables, the net financial position decreased from Euro 1,453 million at 31

December 2015 (including the remaining bank debt formally held by Marfin at that date) to Euro 1,163.5 million, down by as much as Euro 289 million.

The further reduction of debt remains a priority for the senior management of Marcegaglia Steel, which plans to achieve it through continuous improvement in profitability, strict control of working capital, a careful policy of targeted investments, and continuing divestment of non-core assets owned by Marcegaglia Investments.

### SHAREHOLDER'S EQUITY AND NET FINANCIAL POSITION (000/Euro)

	Actual	Plan				
	2016	2017	2018	2019	2020	
Share capital + reserves	713.8	678.8	707.8	758.9	815.2	
Net income	(35.0)	29.0	51.1	56.3	63.7	
<b>Shareholder's equity</b>	<b>678.8</b>	<b>707.8</b>	<b>758.9</b>	<b>815.2</b>	<b>879.0</b>	
Long-term loans	519.3	516.1	413.1	320.1	232.8	
<b>Medium and long-term NFP</b>	<b>519.3</b>	<b>216.1</b>	<b>413.1</b>	<b>320.1</b>	<b>232.8</b>	
Short-term loans	666.2	551.1	569.6	520.4	436.8	
Cash	(17.3)	(11.7)	(15.5)	(18.8)	(23.8)	
Other marketable securities	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	
<b>Short-term NFP</b>	<b>644.2</b>	<b>534.7</b>	<b>549.4</b>	<b>496.9</b>	<b>408.3</b>	
<b>Net financial position</b>	<b>1,163.5</b>	<b>1,050.8</b>	<b>962.5</b>	<b>816.9</b>	<b>641.1</b>	
<b>Total Shareholders equity and NFP</b>	<b>1,842.2</b>	<b>1,758.6</b>	<b>1,721.4</b>	<b>1,632.2</b>	<b>1,520.1</b>	

# Strategy and investments

Continuing on the course followed in recent years, in 2016 Marcegaglia again focused on its core business both in the domestic and the international market, and particularly in markets where it has the opportunity to fully express its distinctive expertise and competitive advantages.

This explains the decision to dispose of the limited and unprofitable US stainless steel tubes business, which was sold in February 2017 to a local competitor, as well as the ongoing strategic reflection on the future positioning of the Chinese subsidiary.

Conversely, for all other core business companies the management is planning further strengthening through organic growth investments - with a view to saturating capacity, improving efficiency and achieving added value - as well as external growth, if appropriate.

Subject to the precondition of a strong balance sheet and financial debt reduction, the company will carefully evaluate the opportunities that consolidation expected in the European iron and steel industry might hold for the group in the near future.

These include the participation of Marcegaglia Carbon Steel, as a minority participant alongside ArcelorMittal (a global and European leader in flat carbon products) in the tender for the sale of ILVA assets.

If the company created specifically for this operation - AM Invest Co. - should be awarded the assets, Marcegaglia Carbon Steel would benefit from a steady supply source at attractive commercial terms and could participate in the creation of value expected from the revival of the leading Italian iron and steel manufacturer. It should be noted, however, that under the shareholders' agreements in place this operation would not entail a financial weakening of Marcegaglia Carbon Steel, nor would Marcegaglia Carbon Steel be exposed to ILVA's industrial risks.

The sale of ILVA assets to one of the bidding groups is expected to take place by the end of 2017.

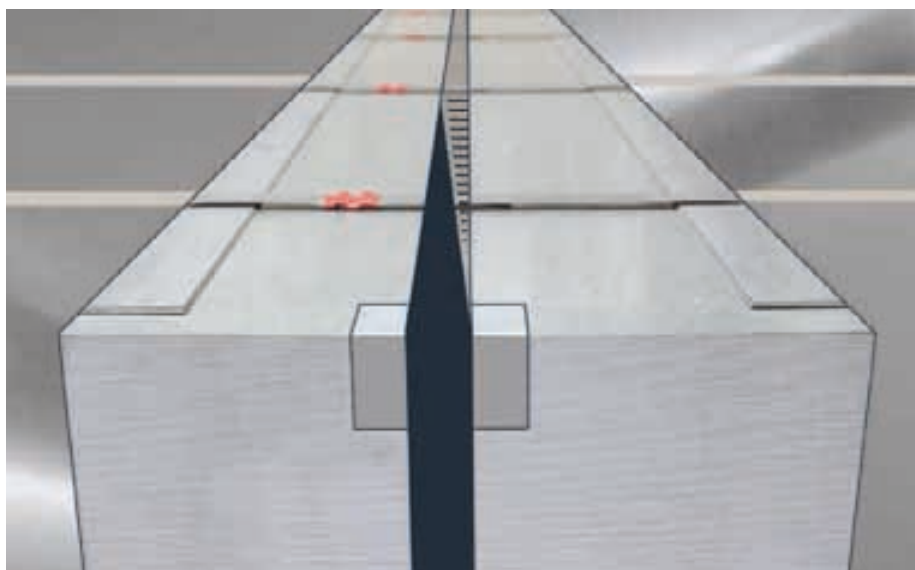
## Investments

In 2016 the reported investments of Marcegaglia Steel consolidated companies totalled Euro 53 million. In 2016, investments were again mainly allocated to the optimisation of the existing production capacity.

The focus was therefore placed on projects aimed at saving energy, reducing operating costs, improving equipment to ensure superior product quality, and implementing measures for achieving and maintaining the highest safety standards. Investments were also made in plant renewal, in order to maintain manufacturing efficiency. The three Italian operating companies generated investments of Euro 42 million, while Euro 11 million were contributed by foreign subsidiaries.

**Marcegaglia Carbon Steel** invested Euro 27 million in capital expenditures, largely concentrated in Ravenna, Euro 17.5 million, for several optimization projects mostly in the galvanizing area (Euro 7.0 million, of which Euro 3.2 million for the zinc coating line and Euro 2.2 million for galvanizing line 1). As to other plants, Euro 4.9 million were invested in the Gazoldo degli Ippoliti site for general efficiency improvement projects.

**Marcegaglia Specialties** made investments of Euro 14 million, of which Euro 9 million at the Forlì production site, mostly for a project to expand the production capacity of laser welded stainless steel tubes (6 lines). This investment, the largest made in 2016 to boost production, was justified by the high profitability of this superior quality product. Significant capital expenditures investments of Euro 4.5 million were also made in the Gazol-



## INVESTMENTS BY COMPANY AND PLANTS (Euro)

Steel Italy	2016
Ravenna	17,478,758
Gazoldo degli Ippoliti	4,857,151
Boltiere	1,555,875
Casalmaggiore	1,400,453
Dusino	1,237,278
Lomagna	484,720
Corsico	201,422
other	80,433
<b>tot. Marcegaglia Carbon Steel</b>	<b>27,296,089</b>

Forlimpopoli	6,224,195
Gazoldo degli Ippoliti	4,481,106
Contino	2,677,967
<b>tot. Marcegaglia Specialties</b>	<b>13,383,269</b>

San Giorgio di Nogaro	1,232,951
<b>tot. Marcegaglia Plates</b>	<b>1,232,951</b>

<b>tot. Marcegaglia Steel Italy</b>	<b>41,912,308</b>
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other Italy	83,876
<b>Total Domestic Companies Steel</b>	<b>41,996,184</b>

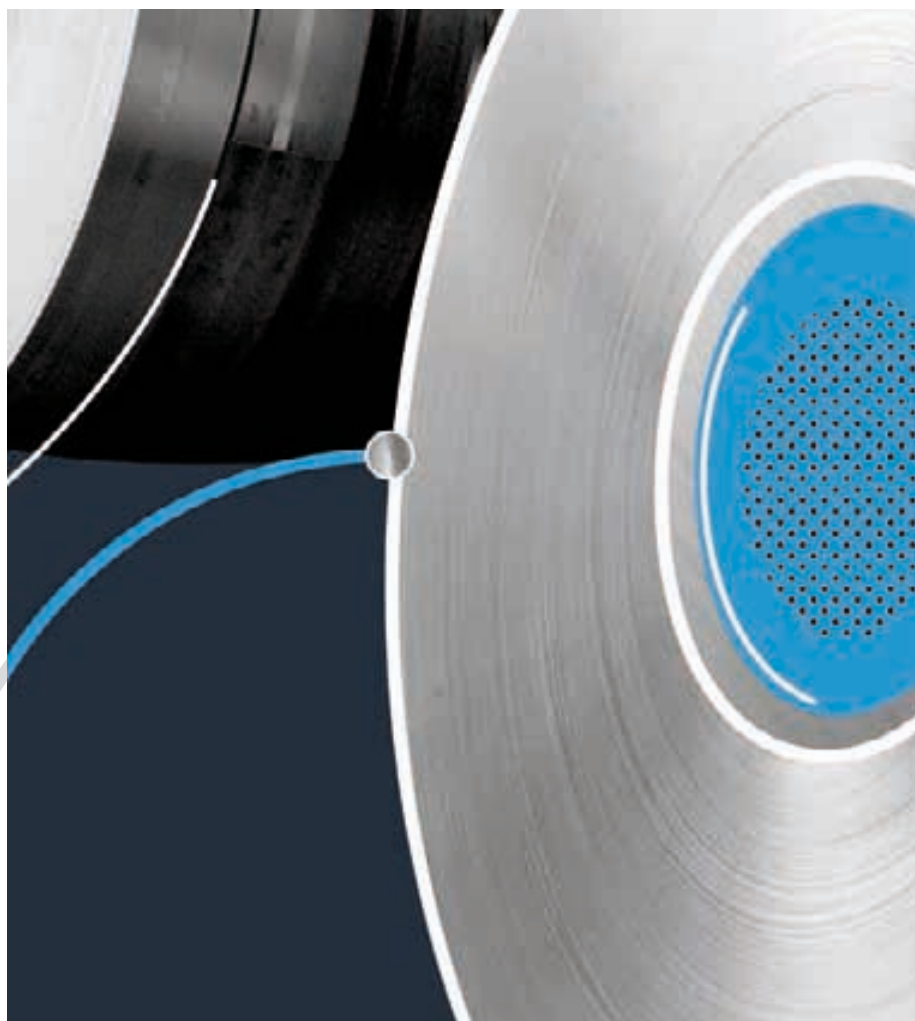
Consolid. Foreign Companies (Steel)	2016
Marcegaglia USA	3,231,744
Marcegaglia do Brasil Ltda	2,253,786
Marcegaglia TR	1,802,596
Marcegaglia UK	1,463,659
Marcegaglia Poland	1,206,732
Marcegaglia China	703,639
Marcegaglia RU	36,590
<b>Total Foreign Companies (Steel)</b>	<b>10,698,746</b>

<b>Total Marcegaglia Steel</b>	<b>52,694,931</b>
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do site, including one of 2.6 million, which stands out for both amount and production cost savings achieved, whose purpose was to make engineering changes to a cutter. The change results in a significant reduction of stainless steel coil scraps during the subsequent rolling process.

To complete the picture of Italian subsidiaries, **Marcegaglia Plates** made investments of Euro 1.2 million in the San Giorgio di Nogaro plant.

For the foreign subsidiaries 2016 was a year for normal investments in line with the overall objective of improving the efficiency and cost-effectiveness of production processes. Among other projects, we point out the completion by Marcegaglia UK of the new operating site in Rotherham, which began production in June 2016, and the final full-capacity operation of Marcegaglia TR's Corlu plant.



# Overview by business line



# Marcegaglia Carbon Steel

## Coils

After a slight decline in volumes in 2015, Marcegaglia Carbon Steel's coil deliveries resumed an upward trend in 2016 (up 9.5% from 2015), reaching just below the 2016 budget. The 2% drop in volumes is due mainly to a change in the product mix strategy in favour of more profitable products.

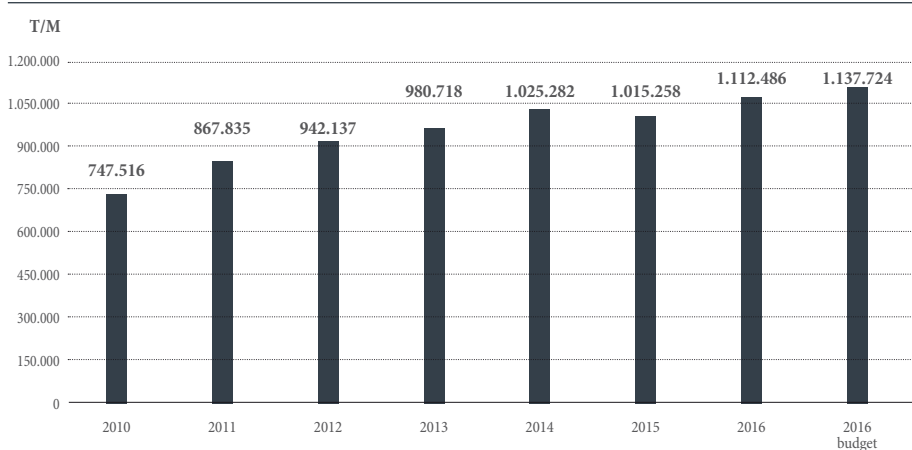
By contrast, in Europe coil supplies increased by 5.2% in 2016 compared to 2015; therefore, considering the total growth of apparent consumption in Europe (+1.8%), Marcegaglia Carbon Steel has increased its presence in the European market for those products.

Italian market shares also increased by 3.9% in 2016, against a 1% reduction in the apparent consumption of flat products.

With regard to Marcegaglia Carbon Steel's shipments, the market share of cold rolled coils improved (+4% in 2016 compared to 2015), despite a 16.16% reduction in total consumption.

The supplies of galvanized coils grew by 0.5% in 2016 against a market growth of +6.6%, with a strategy aimed at maximising profits from this product in favour of exports to more profitable markets, but also as a result of a growing share of imports, which were up by 10%. In the early months of this year, the profitability of the coils division was negatively impacted by November and December 2015 sales, but from March onwards profitability improved significantly through year end.

TOTAL SALES TREND



In 2016, the mark-up was about 10% above budget, with a significant growth compared to 2015 profitability.

From a production point of view, Marcegaglia Carbon Steel took full advantage of its capacity during the year, thus further improving efficiency.

As to quality, Marcegaglia Carbon Steel continues to develop superior quality products through specific research and development projects, specifically intended for uses in the automotive industry.

## Processed flat products

Deliveries from the machined flat products service centre in Europe have slightly increased in volume, driven primarily by the galvanised products used by the automotive industry, whereas consumption of cold rolled products continues to decline.

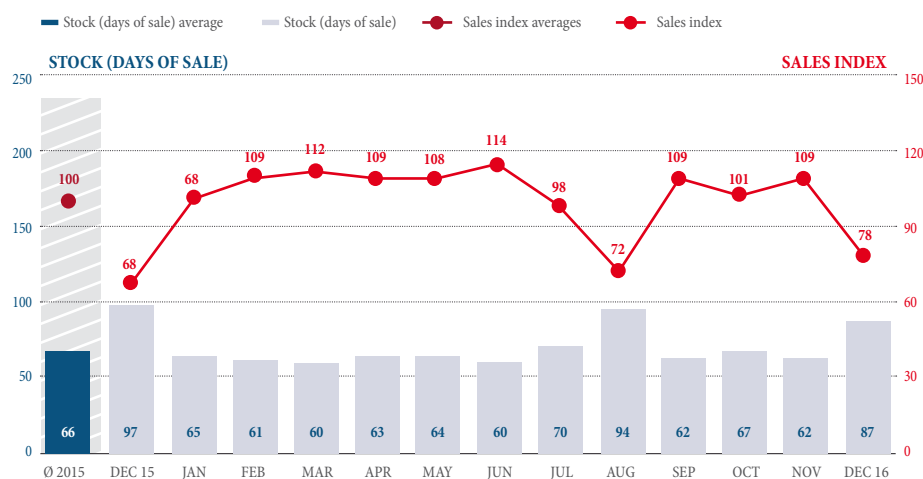
MANAGEMENT SUMMARY: FLAT SSC SHIPMENTS EU-28: DECEMBER 2016

Product line	2016/2015
Hot rolled flats	+16,6%
Cold rolled flats	-0,7%
Galv. and other coated flats	+2,7%
all strip mill products	+1,7%

Source: Eurometal

The year started slowly, but deliveries increased significantly in mid-year due to an upward trend in prices that led user manufacturers to increase the apparent demand, and then adjust their inventories towards the end of the year.

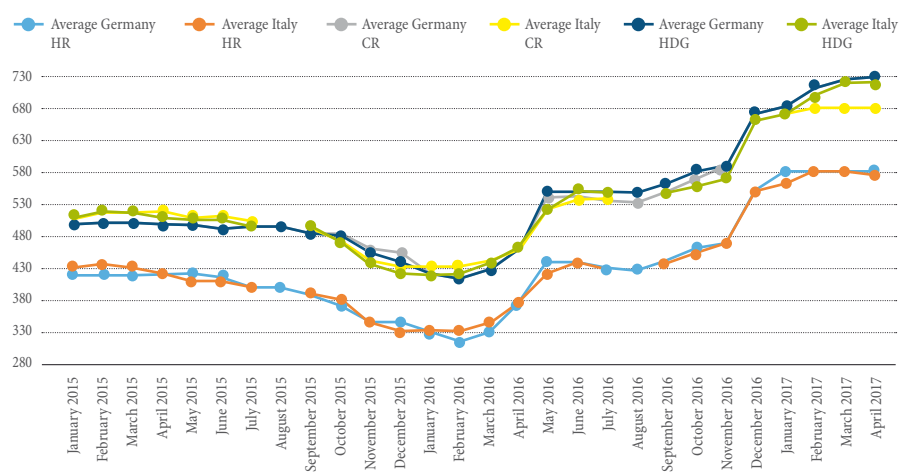
## TOTAL ALL STRIP MILL PRODUCTS



Source: Eurometal

After the sharp drop recorded throughout 2015 and continued into the early weeks of 2016, prices quickly reversed the trend throughout Q2; this was followed by a second bullish phase between the end of the year and the first quarter of 2017. The positive trend first started in southern Europe, traditionally more volatile, and later extended to the entire continent. The chart below shows a comparison between the MEPS indexes for Italy and Germany. MEPS is an independent body specialised in measuring iron and steel commodity prices worldwide.

## ITALY AND GERMANY MONTHLY MEPS



Source: MEPS

Within the environment also highlighted by MEPS, it emerges that diversification and complementarity in the sales strategies of the two machined products allow for the best management of phases of great uncertainty.

Steel strip is always sold to user companies, in some cases, especially in the automotive sector, on the basis of medium to long-term contracts. Strip volumes delivered in 2016 have increased by 4.2%, performing better than the average of the European market, with a peak of 6% on galvanized strips for which the Division is continuing its strategic growth in the automotive industry.

In the first part of the year, strips benefited from declining prices, but were later affected by increases in the second half.

Flattened sheets were sold both to the distribution channel, operated by merchants, and directly to user companies on a spot and very short-term basis.

Consequently, the Machined Flats Division sought to achieve the necessary profitability by choosing to sell in Italy or to export in the different months of the year, and even giving up large volumes, when they were not profitable, in order to protect prices. This strategy has resulted in a slight reduction in volumes, equal to 1.7%, compared to 2015 but it has allowed to meet and exceed profitability targets.

The sum of the two components led to a total increase in volumes of 1.4% over the previous year, in line with the market, and to the exceeding of all profitability targets in terms of units as well as absolute values.

Like the latter part of 2016, the first quarter of 2017 saw an increase in strip volumes, thanks to good end demand, but with margins as budgeted, and a decrease in sheet steel volumes due to low apparent demand, but with record profit margins.

### Pre-painted products

For Marcegaglia Carbon Steel, 2016 brought further growth in pre-painted products (up 2% over the previous year), in line with the growth of the product's annual consumption in the European market.

In the early months of 2016 the market recorded declines both in demand and in prices, but the second half saw a recovery in both volumes and margins, achieving a good result overall in terms of mark-up. The market mix remains unchanged, with approximately 60% to exports and about 40% distributed on the domestic market.

The active customer base also remains unchanged (about 365 accounts served). The company engaged in intense marketing activities and developed niche products for the construction sector and for industries, which have helped increase volumes and profitability.

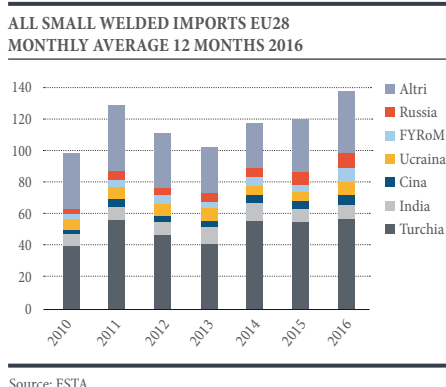
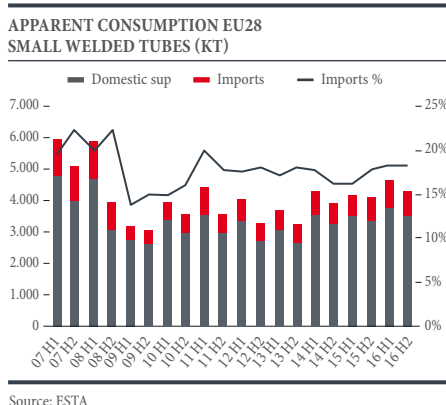
## TUBES

In 2016 Marcegaglia Carbon Steel's European production of welded tubes, in the diameter range up to 406.4 mm, stood at 8.0 million tonnes, up by 4.2% over the previous year.

Apparent consumption climbed again to nearly 9.0 million tonnes, with a 7.7% increase.

However, most of this increase was to the advantage of imports, which grew by 15.3% to 18.2% of the apparent market, with a total volume of 1.6 million tonnes.

In this highly competitive scenario, Marcegaglia Carbon Steel confirmed its presence on the domestic and European markets, but at the same time has gra-



dually oriented its presence in product segments that are less vulnerable to imports.

In particular, it has strengthened its presence in the segment of precision tubes and in some market segments requiring top quality and service.

Sales to users have reached 50% of the total volume and have been decidedly oriented toward industries like automotive, industrial vehicles, energy and environment, where Marcegaglia Carbon Steel has succeeded in transforming customers' technical and application needs into real competitive advantages.

At the same time, the company's direct presence has been reduced in sectors where distributors can provide final cu-

stomers with specific added value that manufacturers are unable to offer. This has led to stronger cooperation with many Italian and foreign distributors who have decided to embrace this partnership policy.

2016 was characterized by a very positive first half of the year, in terms of both volume and profitability, while in the second half, as a result of an unjustified progressive pressure on prices, priority was given to profitability over volumes. Overall, the result shows an improvement compared to the previous year, in particular with regard to profitability.

The profit for the year is the result of a sales policy aimed at profitability, an effective and timely raw material purchasing strategy, and constant, specific actions to contain costs.

For 2017, the company plans to develop business in the more profitable segments of large structural tubes and tubes for the energy sector, with stronger focus on the markets of Northern Europe and North America where we expect some recovery in investments in the oil and gas industry.

### Cold-drawn tubes

2016 ended with a good result in terms of volumes and above all in terms of profit margins (+5%).

The first part of the year was positive for all user industries, while the second half saw a slowdown in some sectors (agriculture and plumbing) due not only to seasonality, but also and above all to sharp increases in the price of hot rolled coils and, in the early months of 2017, to the uncertainty of their sustainability perceived by the market.

This situation of uncertainty on the price

of coils, also linked to a return to competitiveness of seamless drawn tubes (which were not subject to price increases), caused in the last two quarters a slowdown in demand for drawn welded tubes, also impacted by the growth in imports, particularly from Korea (+19%). Overall, however, demand for drawn tubes in the European market remained stable throughout 2016 with a positive forecast for the first part of 2017.

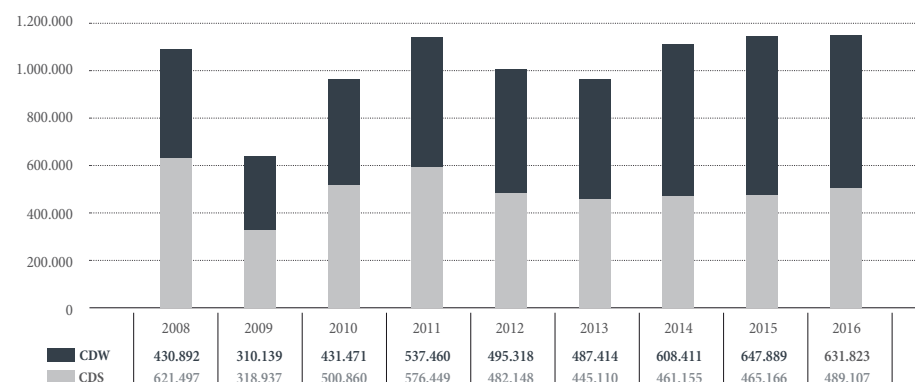
The automotive industry, and the machinery sector in general performed well (+5%). Further growth, compared to 2015, was seen in sales volumes of high value-added products like H8 finished tubes (+10%) and tubes for telescopic cylinders (+5%).

For other products in the plumbing sector, on the other hand, 2016 went at two different rates of speed, with a positive first part of the year and a slowdown beginning in September, particularly because of competition from seamless tubes.

In any case, Marcegaglia Carbon Steel has strengthened its results in the European market by reducing exports outside the EU, in particular to Brazil, Russia and China.

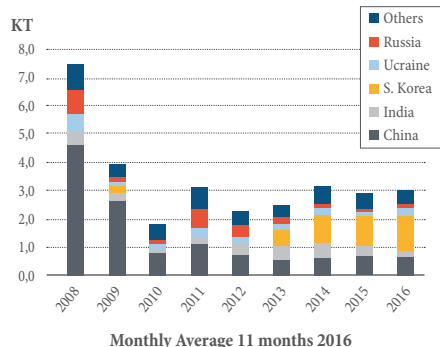
The market mix remained unchanged, with sales in the Italian market stable at 40%, exports at 60%, and an increase in sales to northern European countries and Germany.

UE28 - COLD-DRAWN TUBES PRODUCTION (tonnes)



Source: ESTA

SEAMLESS COLD DRAWN IMPORTS EU28



Source: ESTA

Forecasts for 2017 remain positive for all the market segments in which the drawn tube division operates, in terms of both demand and sales prices, which are expected to increase with positive effects on sales volumes and on profitability recovery.

Recovery of seamless tube prices in the second half of the year should benefit sales volumes of drawn welded tubes.

#### Marcegaglia do Brasil

2016 once again proved to be a difficult year for the Brazilian economy, which posted a 4% decline in GDP in real terms.

Despite the slight recovery in the currency (the Brazilian Real began to appreciate, and in January 2017 posted an exchange rate below 3.2 BRL against the Dollar), improvement in the inflation rate and the financial market in general, the prospects for growth and the economic reform process remain uncertain.

Marcegaglia do Brasil, even though affected by the sharp economic slowdown experienced by that country, posted greatly reassuring results, maintained its profit margin, and improved EBITDA by more than 4 percentage points over 2015. This was due to an improvement in profit margins and sales prices and continuous work to reduce scraps and second choice. Further improvement in revenue, Ebitda, and the net financial position are also forecast for 2017.

#### Marcegaglia China

In the first half of 2016 the Chinese economy continued to slow down but improved its performance in the second part of the year due to a central government stimulus in support of infrastructure projects.

Following Chinese steel mill losses in 2015 and central government pressure to reduce atmospheric pollution, many small steel mills shut down production, thereby sustaining the trend toward a sharp increase in the price of steel.

In this environment, Marcegaglia China increased exports to offset the slowdown in the domestic DOM tubes business with structural tubes and cylinders.

Annual revenues were 150.6 million RMB, a 20% drop from the prior year, which was mainly due to much lower sales in Q3 and Q4 caused by the lack of liquidity.

Marcegaglia China's performance remains critical. Nevertheless, at the beginning of 2017, also benefiting from a recovery in the market, orders slightly increased and, in connection with a cost reduction policy, the company is aiming for break-even cash in the second part of 2017.

#### Marcegaglia Poland

In 2016 Poland's GDP increased 2.8%. This result was less than the strong expansion of 3.9% posted in 2015, but slightly exceeded expectations due to private consumption (+3.6%) and fixed investments (+5.5%).

2016 also reaffirmed Marcegaglia Poland's positive results, specifically due to growth in welded tubes and sandwich panels. 75% of production was intended for the domestic market, while the remaining 25% was exported to neighbouring markets.

Revenues decreased as a result of lower price levels compared to 2015, but profitability significantly improved.

Ebitda (not considering the exchange rate) for the steel and home products sec-

tor greatly increased over 2015 (10.6% versus 5.0% for steel and 18.8% versus 10.7% for home products), and the panel sector also posted better a performance than in 2015.

Product	EBITDA (Poland)			TURNOVER (Poland)					
	2016	Var. y-o-y	2015	2016	Var. y-o-y	2015	2016	Var. y-o-y	2015
Steel	66.290	104,0%	32.501	624.305	-3,6%	647.387	272,7	-3%	281
Panels	6.241	-18,5%	7.659	75.997	0,0%	75.999	1.194,5	1,2%	1.180
Home products	20.492	63,7%	12.518	108.797	-7,1%	117.114	5.525,2	-0,2%	5.538
Broom	244	2611,1%	9	6.974	2,6%	6.799	3.553,4	-28,5%	4.969

The Polish economy is continuing a positive trend at the beginning of 2017 as well, after the increase in GDP at the end of 2016 with a boom in consumption, as well as an evident double-digit increase in retail sales in the month of January and in production, and a further 3% per annum increase in GDP is forecast for the next two years.

In this situation Marcegaglia Poland foresees a further increase in volumes, revenues and profitability, thereby improving on the excellent results in 2016.

#### Marcegaglia UK

Growth in the United Kingdom's economy during the past year, in real terms, was 1.8%, mainly driven by the services sector.

However, manufacturing production remains below its pre-crisis peak and activity in the construction sector is only marginally above the level at the beginning of 2008.

A high level of uncertainty remains following the referendum decision to exit the European Union.

2016 was another positive year for Marcegaglia UK. Organic growth in the first 6 months of the year saw an improvement in volumes, for a total increase of 12% over 2015, nearly reaching 75,000 tons.

Total investments for 2016 were £ 1.2 million, which were mainly allocated to the new tube manufacturing plant in Rotherham which, with an additional capacity of 12,000 tons, went into service in June 2016.

2017 began on a positive note: Q1 saw a 10% increase over first quarter 2016.

# Marcegaglia Specialties

## STAINLESS STEEL

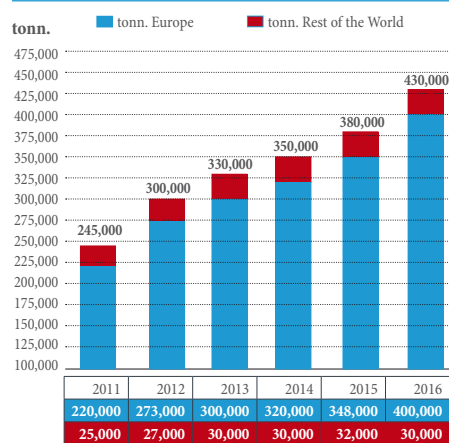
2016, despite having been characterised by a particularly difficult start for flat products, which suffered more sales pressure due to the constant crop in nickel prices, is nevertheless to be considered a positive year for the international stainless steel market, in terms of both volumes and profits.

In Q2, the market experienced a recovery in raw materials prices (including the price of nickel) and a simultaneous below normal inventory level in the distribution system.

All this led to an increase in demand and prices, which enabled the sector to achieve excellent results.

Marcegaglia Specialties was able to best utilize this market situation and achieve excellent results in terms of both volumes and profit. Specifically, Marcegaglia Specialties sales from Italy in 2016 experienced a continuation of the growth that began already in 2012 and reached approximately 400,000 tons sold, an increase of +14% over 2015.

MARCEGAGLIA SPECIALTIES - GROWTH  
(Stainless steel products)



These results were achieved due to the sharp increase in flat products productivity at the Gazoldo degli Ippoliti plant and an increase in tubes production at the Forlì plant, which was made possible by the placement in service of three new laser lines in the month of September.

All of that, together with diversification in several product segments, like decorative, corrosion, and automotive tubes, again confirmed Marcegaglia Specialties as the world leader in the production of welded stainless steel tubes.

A positive 2017 is foreseen for Marcegaglia Specialties, even though it shall be necessary to consider the high inventory level of 2016 and the very limited impact of anti-dumping measures on imports from China and the increase in imports from Taiwan and other Asian countries.

## COLD-DRAWN BARS

The Drawn Bars Division has continued a good trend of recovery over the years in terms of both volumes and value added, and in 2016 achieved the best results for the last 3 years.

The sharp increase in volumes (+11% over 2015) compares with the Italian figure of 4.5%.

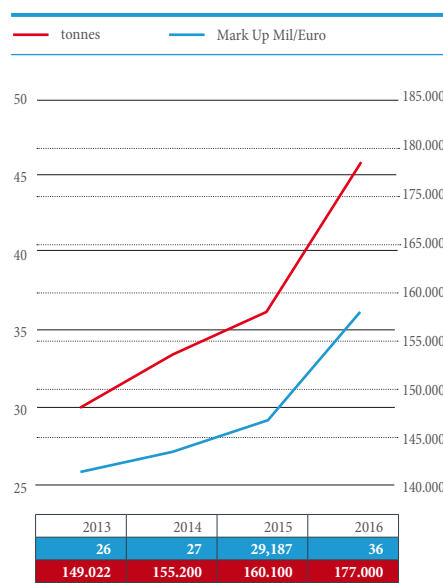
This increase was achieved in all product lines with a greater emphasis on special qualities, while increasingly expanding the product line, and was also due to a high level of service provided to customers with both prompt deliveries and specific one-time programmes.

The most important sectors served are the automobile, machine tool, hydraulics, and earthmoving machinery sectors, for which a positive trend is also forecast for the current year, and which has already been confirmed in the first months of 2017 with the result of an additional 6% increase.

The 177,000 tons sold in 2016 represent 22.3% of Italian drawn bars deliveries (793,000) and confirm Marcegaglia Specialties' leadership in the sector. 39% were sold in Italy and 61% were exported to all over Europe, as well as to non-European markets in the MENA, NAFTA, India and CIS areas.

2016 sales in the domestic market posted an increase of 13.5% over 2015 and posted a 9.5% increase in the foreign market. An increasingly greater share consists of customer users that represent 75% of domestic sales and 21% of export sales.

In production, efficiency improvement programmes continued with unit costs reduced 10% and a hourly productivity of 7%.



In quality and service also, the Contino plant recorded considerable progress, which was recognized by established domestic and international customers.

### Marcegaglia RU

The Russian economy remained in recession in the third quarter of 2016 (-1.2% for the full year) and only in the final part of the year did industrial production increase, including in the automotive sector, and the ruble began to appreciate again.

However, the total volume of stainless steel consumption in Russia in 2016, as compared with 2015, increased by 17.5% at approximately 370,000 tons, 10% of which was attributable to welded tubes. The share of stainless steel imports (mainly from Asia) was 70%.

Marcegaglia Ru's positive performance continued in 2016, with total production and sales of 8,000 tons (+ 37% over the prior year) and + a 31% increase in revenues, generating EBITDA of 10% and a net profit of 2.6 million Euros, due also to the favourable exchange rate.

The growth of the Russian economy, the appreciation of the ruble, and the increase in stainless steel prices make it possible to forecast additional progress in the year 2017.

### Marcegaglia Turkey

In 2016 as well the Turkish economy suffered from the climate of general uncertainty - which was worsened by the turbulence following political elections in 2015 - and the geopolitical situation in the Middle East.

Turkish exports to neighbouring countries and particularly to Russia slowed, due to difficult diplomatic relations. Also significantly worse was performance in the construction, food, and tourism sectors. The Turkish lira depreciated 20%, going from \$ 2.95 to \$ 3.7 / TL in 2016.

2006 was the first real year of production for Marcegaglia TR, with a gradual improvement in finishing systems, sales organisation, quality, and production efficiency.

Particularly significant for Marcegaglia TK was receiving ISO 9001 certification from TUV.

Total revenue was 52,378,254 TL, approximately one-third of which was trading (carbon steel) and 32,667,008 TL was stainless steel tubes. 2016 ended with a positive Ebitda, but with a net loss.

The positive trend shall continue in 2017. The sales budgeted for the full year should be more than 40 million TL, as was confirmed by first quarter performance.

### Marcegaglia USA

In recent years the United States economy as a whole has grown (+1.6% in real terms) with improved performance for the energy sector, commodities, as well as the manufacturing sector.

The presidential elections slowed large-scale decisions, but the new President announced important development plans in support of the manufacturing industry and in particular primary industry, a circumstance that makes it possible to predict a significantly positive dynamic in the coming years.

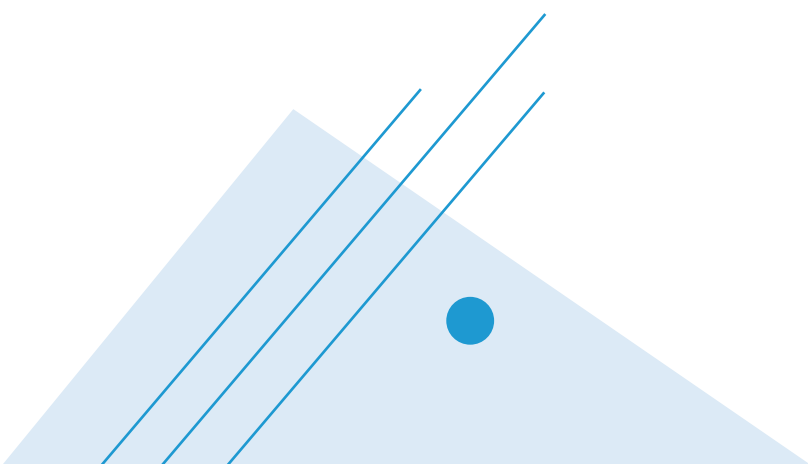
2016 was characterized by a positive increase in tonnage for both galvanized and stainless steel tubes. The former increased most, achieving an increase of approximately 5000 tons over 2015 sales. Overall the volume went past 38%, reaching almost 40,000 tons.

However, from the point of view of profitability, 2016 was a negative year, suffering from low sales prices and still insufficient volumes, which had a negative impact on the costs for stainless steel tubes.

Consequently, also in connection with weak market positioning, it was decided to pursue the option of selling the stainless steel tubes business to Bristol Metals, which was announced in December. That sale was successfully concluded on 28 February 2017.

Marcegaglia USA in the future shall concentrate on the more stable and profitable business of galvanized tubes, for which good growth prospects are predicted.

The month of March was a record production month for that segment, due to an increase in demand and good performance by the company.



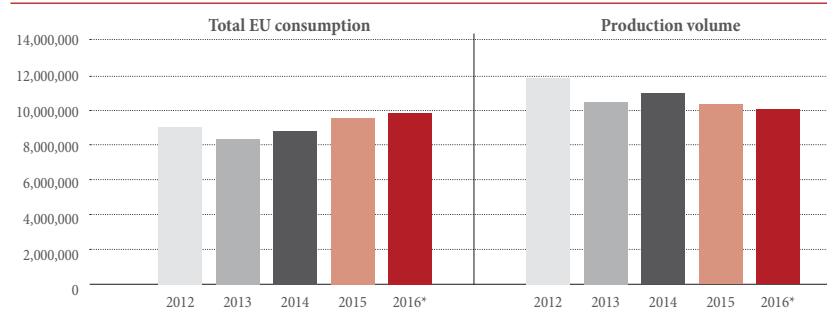
# Marcegaglia Plates

## Heavy plates

The international situation which emerged during 2016 was highly competitive with respect to the heavy (quarto) plates: specifically consumption in the European market increased -2.4% over 2015, of which imports (which are constantly increasing, in 2016 +9.18% over the prior year) constituted approximately 28.4%.

The increasingly greater share of imported plates had an impact on European production (-3.5% from 2015).

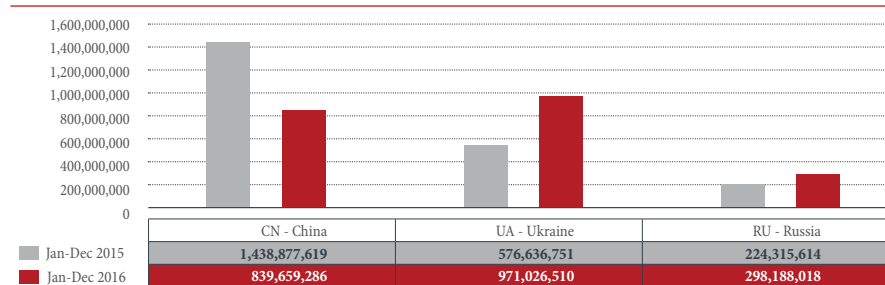
### EUROPEAN MARKET - PLATES



Source: European Commission

The **imports** in the European market caused peaks to be recorded that had never been attained in the past (2,773,000 tons, + 9% over the prior year), which influenced price trends in several areas.

### IMPORTS



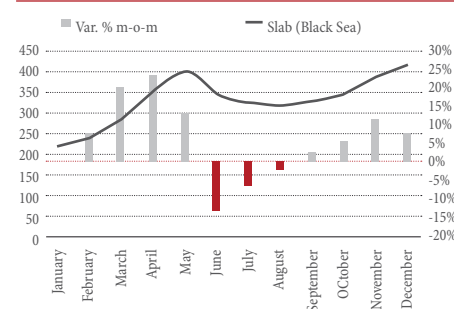
Source: European Commission

The introduction of **protectionist measures** by the European Union in an attempt to protect European Union producers, stemmed imports from China (-42% from 2015), while Ukraine (+68% over 2015) and Russia (+33% over 2015) increased their presence in Europe.

Trends in **prices of raw materials** (slabs, and closer to the source in the production sequence, iron ore, coal and scrap iron) posted a substantial increase over the 12 month period (+90.8% in December over January prices) leaving, however, increasingly more room for unforeseen and difficult to foresee fluctuations.

The production capacity of the Marcegaglia Plates plant in San Giorgio di Nogaro was

### SLAB FOB BLACK SEA - 2016



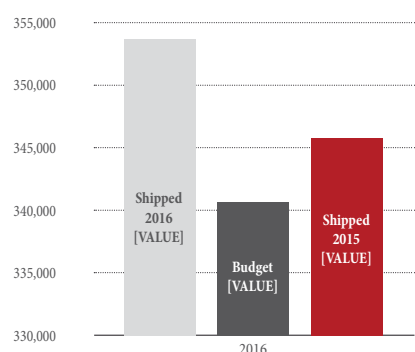
Source: CRU

constantly saturated: in 2016 it posted the best performance in recent years in terms of material shipped (353,823 metric tons, +2.27% over 2015 and +3.79% over budget projections).

In addition to the well-known sectors supplied, such as the construction, boiler plates, mechanical applications, naval and petrochemical sectors, there was a move toward increasingly specialised high value added markets that utilise quenching and tempering and case hardening, with constantly improving results (+39% over 2015 and +25% over the annual budget, respectively).

Constant research and development work of new markets has caused Marcegaglia Plates to successfully maximize its profits by capitalizing on the right opportunities which presented themselves during the year (increase in prices in Europe in the first part of the year and exports to Mexico in the second part of the year), thereby increasing its foreign presence with a 59% share of the total shipped.

## PERFORMANCE 2016 (MT)



In light of the two situations outlined above, the results achieved in 2016 in terms of mark-up reflect both the attention paid to maximizing profits, and the pressure received from the international situation.

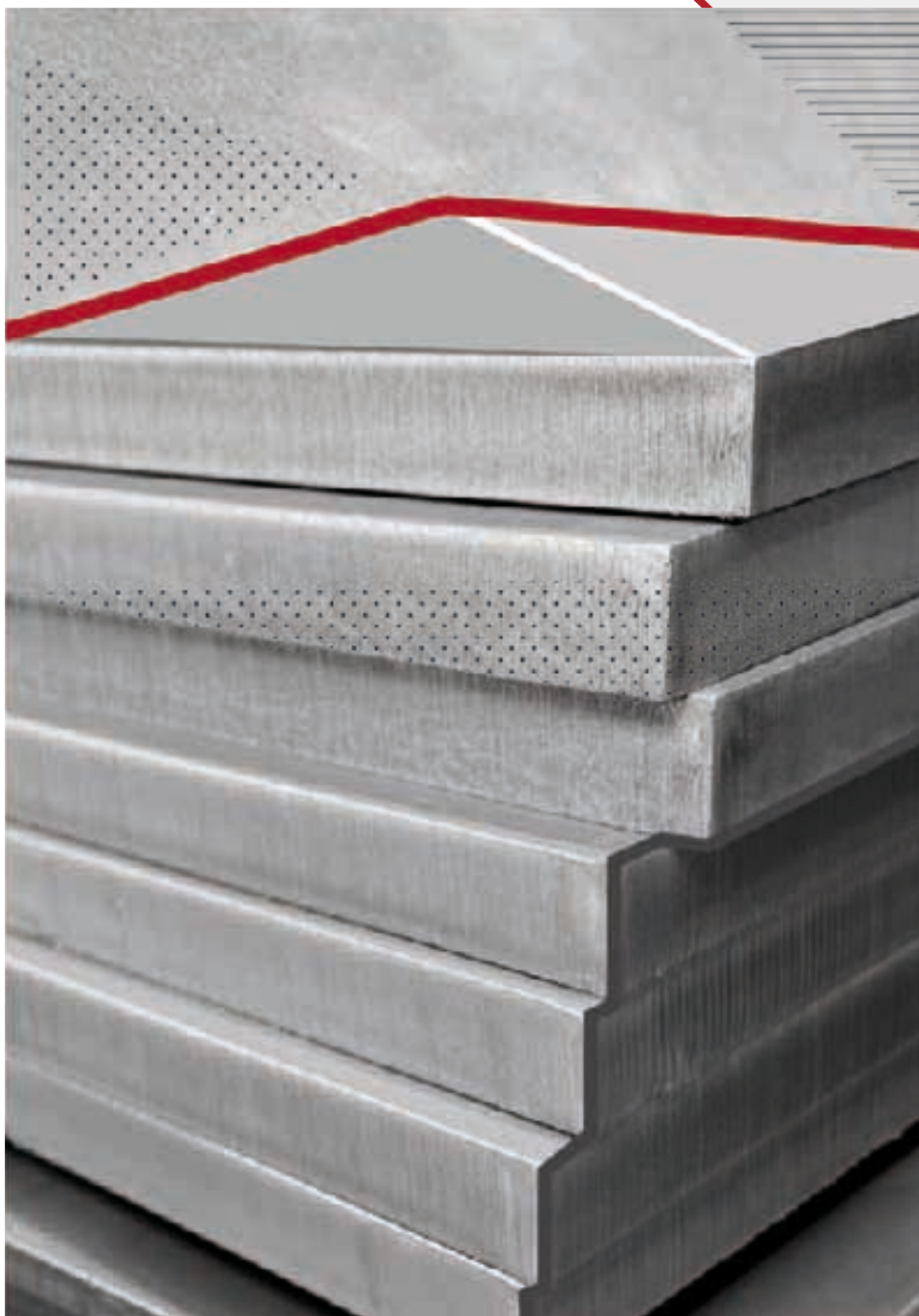
After a start that was influenced by trends in the last months of 2015, the central part of the year saw results that clearly exceed budget forecasts, and then gave in to the strong pressure exerted by the import market and the resumption of production at previously inactive plants.

The final mark-up result was +16.3% over the forecasts in the annual budget. The company's Ebitda was 19.4 million Euros, which represented 11.4% of revenue, marking a particularly positive result in comparison to the direct competition.

As regards the first part of 2017, in the first quarter the work carried out with respect to the development of new qualities and the search for new markets continued, with results that exceeded budget projections.

The market situation presents good prospects, sustained by decreasing imports and by a basically stable supply

of raw materials: from this perspective it is realistic to forecast solid results for the entire first quarter.



# Significant events after the end of the financial year

In first quarter of 2017 the positive trend in world and European demand continued, with additional significant increases in prices, driven by the dynamics of raw materials prices.

In February 2017 that was a confirmation of the final anti-dumping duties on hot rolled coils from China, and there was an upward revision of duties on heavy plates of Chinese origin. At the end of March, on the other hand, the European Commission decided not to apply the provisional duties on hot rolled coils from other exporting countries, and postponed the decision regarding the possible application of final duties to the coming months (and in any case no later than October 2017).

However, we point out the existence of a speculative component in the price levels of raw materials and iron and steel products that could provide room for a partial rebound in the second quarter.

In this positive price dynamics environment, Marcegaglia Steel realized sharply increased revenue in comparison with the first quarter of 2016, for a total of 1,145,000 Euros (+31.1%), as is shown on the following schedule.

Company	Revenue (thousands of Euro)		
	Jan-Mar '17	Jan-Mar '16	Δ %
MARCEGAGLIA CARBON STEEL	666,633	496,111	34.4
MARCEGAGLIA SPECIALTIES	292,798	240,807	21.6
MARCEGAGLIA PLATES	50,910	38,748	31.4
<b>MARCEGAGLIA STEEL ITALY</b>	<b>1,010,341</b>	<b>775,665</b>	<b>30.3</b>
MARCEGAGLIA DO BRASIL Ltda	32,368	20,341	59.1
MARCEGAGLIA CHINA	764	5,623	-86.4
MARCEGAGLIA POLAND Sp z.o.o.	55,169	43,272	27.5
MARCEGAGLIA UK	14,494	11,247	28.9
MARCEGAGLIA RU	7,415	3,870	91.6
MARCEGAGLIA TR	6,722	2,535	165.2
MARCEGAGLIA USA	17,614	10,537	67.2
<b>MARCEGAGLIA STEEL FOREIGN</b>	<b>134,546</b>	<b>97,425</b>	<b>38.1</b>
<b>MARCEGAGLIA STEEL TOTAL</b>	<b>1,144,886</b>	<b>873,091</b>	<b>31.1</b>

Most especially, Marcegaglia Steel managed to significantly improve its profit margins on all its product lines. This improvement in profitability is forecast to be maintained at least until the summer, and in any case shall be able to create positive results for the full year 2017.

Company	Quantity (tons)			MARK UP (thousands of Euro)		
	Jan-Mar '17	Jan-Mar '16	Δ %	Jan-Mar '17	Jan-Mar '16	Δ %
MARCEGAGLIA CARBON STEEL	952,247	933,245	2.0	214,367	190,983	12.2
MARCEGAGLIA SPECIALTIES	151,595	151,305	0.2	84,759	60,300	40.6
MARCEGAGLIA PLATES	92,217	96,231	-4.2	16,136	12,040	34.0
Corporate overhead and royalties						
<b>MARCEGAGLIA STEEL ITALY</b>	<b>1,196,059</b>	<b>1,180,781</b>	<b>1.3</b>	<b>315,262</b>	<b>263,322</b>	<b>19.7</b>
MARCEGAGLIA DO BRASIL Ltda	23,942	26,601	-10.0	9,486	6,589	44.0
MARCEGAGLIA CHINA	6,063	6,930	-12.5	2,033	2,729	-25.5
MARCEGAGLIA POLAND Sp z.o.o.	70,120	75,642	-7.3	9,396	7,777	20.8
MARCEGAGLIA UK	20,161	17,829	13.1	4,478	3,602	24.3
MARCEGAGLIA RU	2,872	1,809	58.8	1,232	791	55.8
MARCEGAGLIA TR	4,370	2,866	52.5	904	349	159.1
MARCEGAGLIA USA	8,012	8,499	-5.7	1,311	2,250	-41.7
<b>MARCEGAGLIA STEEL FOREIGN</b>	<b>135,540</b>	<b>140,176</b>	<b>-3.3</b>	<b>28,840</b>	<b>24,087</b>	<b>19.7</b>
<b>MARCEGAGLIA STEEL TOTAL</b>	<b>1,331,599</b>	<b>1,320,957</b>	<b>0.8</b>	<b>344,102</b>	<b>287,409</b>	<b>19.7</b>

On 16 March 2017, as was planned by the structured process for the sale of ILVA and AM Invest Co assets – in which Marcegaglia Carbon Steel is participating with a 15% share - a binding offer was filed which is valid until 30 June.

A decision in this regard, to initiate the exclusive negotiation phase, is expected by no later than the month of May.

In addition to the previously indicated sale of Marcegaglia USA's stainless steel production assets, in line with the strategy of the investment of non-core businesses, in February 2017 Marcegaglia Carbon Steel signed the partial sale - as the first step in a subsequent full sale - of its 30% stake in Fontana SpA to Sodecia, a group which specializes in sector of sheet stamping for the automotive industry, the sector in which Fontana SpA operates.

# Research and development

In addition to annual investments aimed at maintaining an optimal level of efficiency in production facilities, so as to guarantee product quality standards, considerable resources were employed in research and development projects to promote new technical and technological solutions aimed at improving processes. Specifically, various R&D projects were implemented which led to the development of knowledge which, in some instances, enable changes to existing production cycle phases, which is to say, the design and development of new machinery and/or production cycle phases.

In addition, analyses and diagnoses were carried out at all group facilities for the purpose of identifying energy savings and efficiency improvement programmes and actions. Through focused and targeted audits and analyses it was therefore possible to examine in a more in-depth manner the consumption profile of various production cycles in order to constantly monitor the principal energy indicators associated with processing processes, including through the installation of additional consumption monitoring systems at various facilities.

Project Title	Principal Project Objective	Plant
SDF Implementation	Product Traceability	tutti gli stabilimenti
SDF Implementation	Improved Production Planning	tutti gli stabilimenti
SDF Implementation	Improvement of Efficiency During the Shipping Phase	tutti gli stabilimenti
SDF Implementation - Issuance of Certificates	Software for Geolocalisation of Coils Inside the Plant	tutti gli stabilimenti
Galvanization Lines	Productivity Increase	Marcegaglia Carbon Steel Ravenna
Improvement of the reliability of pyrometer temperature measurements on galvanization lines	Improvement of Thermal Cycles	Marcegaglia Carbon Steel Ravenna
Smart Manufacturing (Industry 4.0) Intelligent Furnace; Model for the measurement of mechanical and microstructural characteristics	Improvement in the consistency of mechanical properties, productivity increase	Marcegaglia Carbon Steel Ravenna
Reduction in products' residual strains in laser cutting	Development of laser-cut products	Marcegaglia Carbon Steel Ravenna
Development of Glazed Steels	DC04EK, DC04ED Production Grades	Marcegaglia Carbon Steel Ravenna
Development of M310-50K NGO magnetic steel	Semi-finished NGO grade for high performance electric. engin.	Marcegaglia Carbon Steel Ravenna
Development of HX220BD grade Bake Hardening steel	Structural steel for HX220BD automotive applications	Marcegaglia Carbon Steel Ravenna
Development of DP780 grade dual-phase steel	Specialized DP780 grade design	Marcegaglia Carbon Steel Ravenna
Cold Shaping Process	Reduction of flatness defects encountered in DUO - Reversible	Marcegaglia Carbon Steel Ravenna
Raw material optimization projects	Optimization of the chemical composition of structural steels	Marcegaglia Carbon Steel Ravenna
Painted Products Projects	Development of painted products for anti-fluting applications	Marcegaglia Carbon Steel Ravenna
High strength steel from static annealing	HC480LA Grade Development	Marcegaglia Carbon Steel Ravenna
Combined Galvanization and Painting System, Galvanization Section 3	Systems, management, and production savings	Marcegaglia Carbon Steel Ravenna
Change in Galvanization 1 burners' combustion ratio and change in the burner profiles of radiant tubes areas in order to reduce methane gas intake	Energy and environmental efficiency improvement opportunities	Marcegaglia Carbon Steel Ravenna
Reduction, in standby or accidental shutdown phases, of the electrical consumption of various production systems through the forced shutdown of various uses	Energy efficiency improvement opportunities	Marcegaglia Carbon Steel Ravenna
Development of customised technological solution for the introduction of a fume recovery boiler in the Galvanization system	Environmental efficiency improvement opportunities	Marcegaglia Carbon Steel Ravenna
Implementation of an activities schedule based on research and development regarding the study and implementation of innovation technological solutions with respect to a double expansion mandrel	Production process efficiency improvement opportunities	Marcegaglia Carbon Steel Gazoldo degli Ippoliti
Implementation of a schedule of activities based on R&D regarding the implementation of experimental activities aimed at an increase in product quality and waste reduction	Product quality efficiency improvement opportunities	Marcegaglia Carbon Steel Casalmaggiore
R&D activities with respect to the improvement of the qualities of the surfaces of stainless steel materials	Product quality efficiency improvement opportunities	Marcegaglia Carbon Steel Contino
R&D activities to find new technical and technological solutions with respect to upgrading the pickling plant (ACE PICK)	Production process efficiency improvement opportunities	Marcegaglia Specialties Gazoldo degli Ippoliti
R&D activities to find new technical and technological solutions with respect to innovative, online non-destructible controls	Product quality efficiency improvement opportunities	Marcegaglia Specialties Forlì
R&D activities to find technical and technological solutions for a laser welding control system	Production process efficiency improvement opportunities	Marcegaglia Specialties Forlì
Implementation of an integrated program of activities to expand the product line of heavy plates made of microalloyed steel	Production process efficiency improvement opportunities	Marcegaglia Plates

# Sustainability and safety

In 2016 as well, the companies in the Marcegaglia group continued their commitment to maintaining previously established sustainability and safety objectives, and conducted their business activities in full compliance with the principles of safeguarding the physical and mental well-being of their workers and the environment, with attention also given to social and ethical responsibility. These objectives were achieved once again thanks to the principles on which Marcegaglia bases its company policy.

- **continuous improvement** applicable to processes, management systems, environmental actions and most especially occupational health and safety which Marcegaglia considers to always be a primary and priority issue, that does not conflict with other corporate objectives;
- the **prevention** of potential non-compliance, risks to occupational health and safety, and pollution;
- full compliance with **environmental and occupational health and safety legislation**, together with the involvement and commitment of all corporate components in pursuing respect for the natural environment and a safe and healthy work environment;
- likewise with the management of possible emergencies that may occur, in reducing to a minimum work accidents and injuries, the adoption of the best available technologies to ensure and improve the reliability of production systems.

## ENVIRONMENT AND SAFETY MANAGEMENT SYSTEMS

In the course of 2016, at all the company's above-indicated production sites there was activated a project for the implementation of an integrated environmental and safety management system conforming to the international standards UNI EN ISO 14001:2015 and OHSAS18001:2007.

Because several of them already possessed those certifications, in conjunction with the certifying organisation (RINA) a programme of multi-site certification was identified, which therefore provided for the designing of a system to be implemented in a homogeneous and consistent manner at all the sites.

From the point of view of energy, group companies initiated a group certification process in accordance with the UNI CEI EN ISO 50001 standard "Energy Management Systems - Requirements and Guidelines for Use", which should be brought to a conclusion no later than the year 2017.

## SAFETY AND HEALTH CULTURE PROMOTION INITIATIVES

### Zero accidents plan

Also in 2016, the initiative called "**Zero Accident Plan**" continued, which was put into practice several years ago at the Marcegaglia Carbon Steel plant in Ravenna, the purpose of creating awareness of the culture of safety for employees at all levels of the company organisation. The plan, through the "From Value to Safety" campaign, provides for showing daily at the main passage points of the production site brief films with great emotional impact, whose message is enhanced by the presence of posters put up in the various sections of the plant.

This initiative was also initiated in 2016 at the Marcegaglia Carbon Steel plant in

Gazoldo and shall continue in the near future at all group sites.

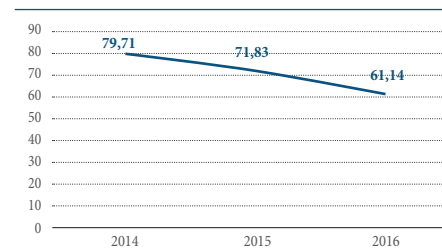
Another similar pilot plan called **BBS (Behaviour Based Safety)** is in the experimentation state at the Marcegaglia Specialties headquarters in Forlì. After it had been in operation for several months, the plan achieved significant results.

### Accident trends

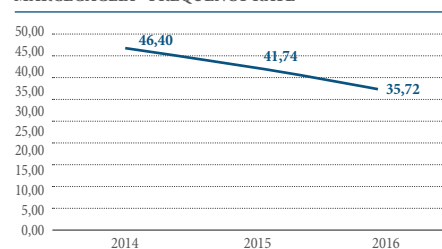
Continuous investments and increasingly greater enhancement of prevention with respect to occupational safety has in recent years resulted in a constant sharp reduction in accidents.

The following are the most important indicators applicable to all production units as a whole so as to have, maintaining continuity with that which was analysed for the previous company name, Marcegaglia S.p.A, a representation of accident trends over time, during the last 3 years.

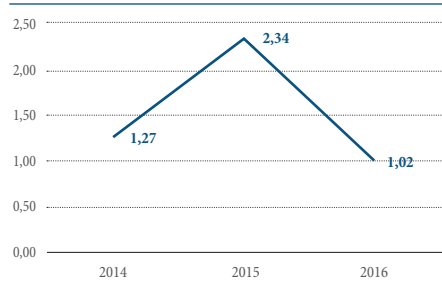
MARCEGAGLIA - INCIDENCE RATE



MARCEGAGLIA - FREQUENCY RATE



MARCEGAGLIA - SEVERITY RATE



### Group promotion of social and cultural activities

Lastly, there are numerous initiatives that support the values of the corporate culture in Italy, such as the partnership with the **Festivaletteratura**, unfailing support of the **Mantua Chamber Orchestra**, and sponsorships of various **sports and social activities**.

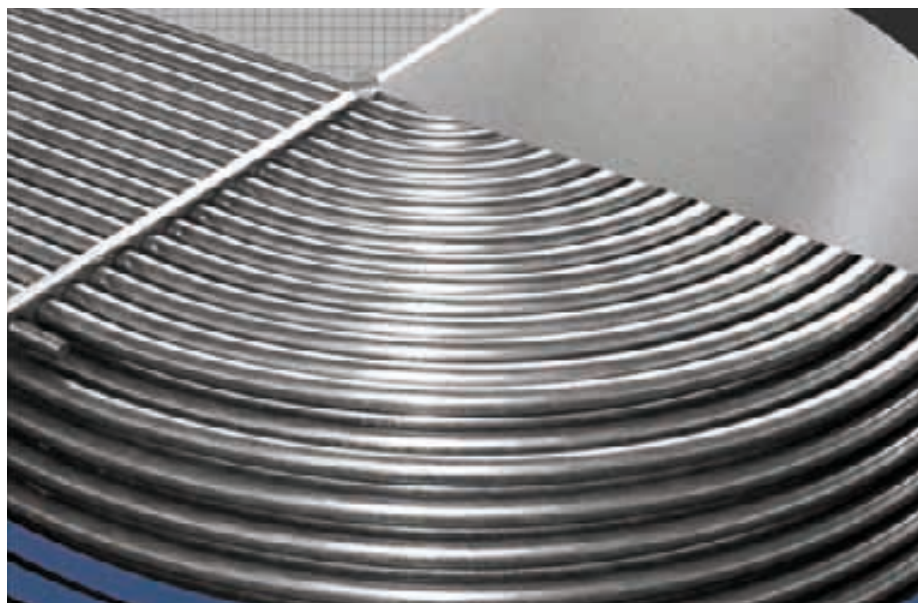
The activities of the **Marcegaglia Onlus Foundation** continue. This is a foundation in which the Marcegaglia family chose to participate in 2010 to promote

and support solidarity projects in Italy and throughout the world.

In 2016 the Marcegaglia Foundation continued two multi-year programmes: abroad the “One Cow Rwanda” project and in Italy support for the Life Assistance Centre in Mantua.

Starting this year the Foundation’s work has also resulted in support for the following programmes: “Youth at Work” for placing disadvantaged youth in occupations, “Faro” for educational support for particularly deserving foreign unaccompanied minors, “Family for a Family”, an innovative programme of family assistance and support, and “Curtea Culorilor” in Romania, to start up a dairy company operated by orphan children.

Also continued in 2016 was the “**Employees Project**”, which involved the employees of the Marcegaglia group’s Italian facilities in the programme “At School for 1 Day”. Thanks to the voluntary work and recommendations of many employees, routine maintenance projects were carried out at 7 schools in northern Italy.



# Human resources

In 2016 the average number of employees was 5245, 69% of which were in Italy, in comparison with the 2015 figure of 5265 employees. Including the employees of the MARFIN company, where Corporate functions have been maintained, the total number in 2016 was 5373 (5383 in 2015). Italian operations experienced in employment increase of 32 employees, whereas internationally there was a slight reduction in Brazil and China and an increase in Poland.

The full functioning and implementation, from a management and operational point of view, of the Italian corporate structure created at the end of 2015 was accompanied by an expansion of internal managerial resources.

To support the Directors, for each of the Divisions into which the business is divided, **Executive Committees** were instituted for the purpose of protecting the profitability of the various product lines, and are made up of the principal sales, operational, organizational and control managers.

The programme for the strategic development and involvement of management was accompanied by a concentrated top level training programme, designed and developed in collaboration with the **LUISS Business School**.

The training course involves approximately 50 group managers, shall last for the entire first half of 2017, and shall pro-

vide high-level management skills and analysis instruments.

There was a continuation at the production units of the **hourly productivity improvement project**, which was connected to granting employees variable bonuses under company contracts.

In 2016 almost all operational units achieved and exceeded objectives, due also to the constant level of orders and the programmes and actions carried out in prior years.

In parallel **occupational safety training** programmes were provided for all employees. The major projects initiated led to a reduction in all accident rates and an improvement in safety culture at all levels of the corporate organisation. All the companies obtained SO 14000 and ISO 18000 environmental and safety certification, which was fresh evidence of the in-depth nature of the operating systems adopted.

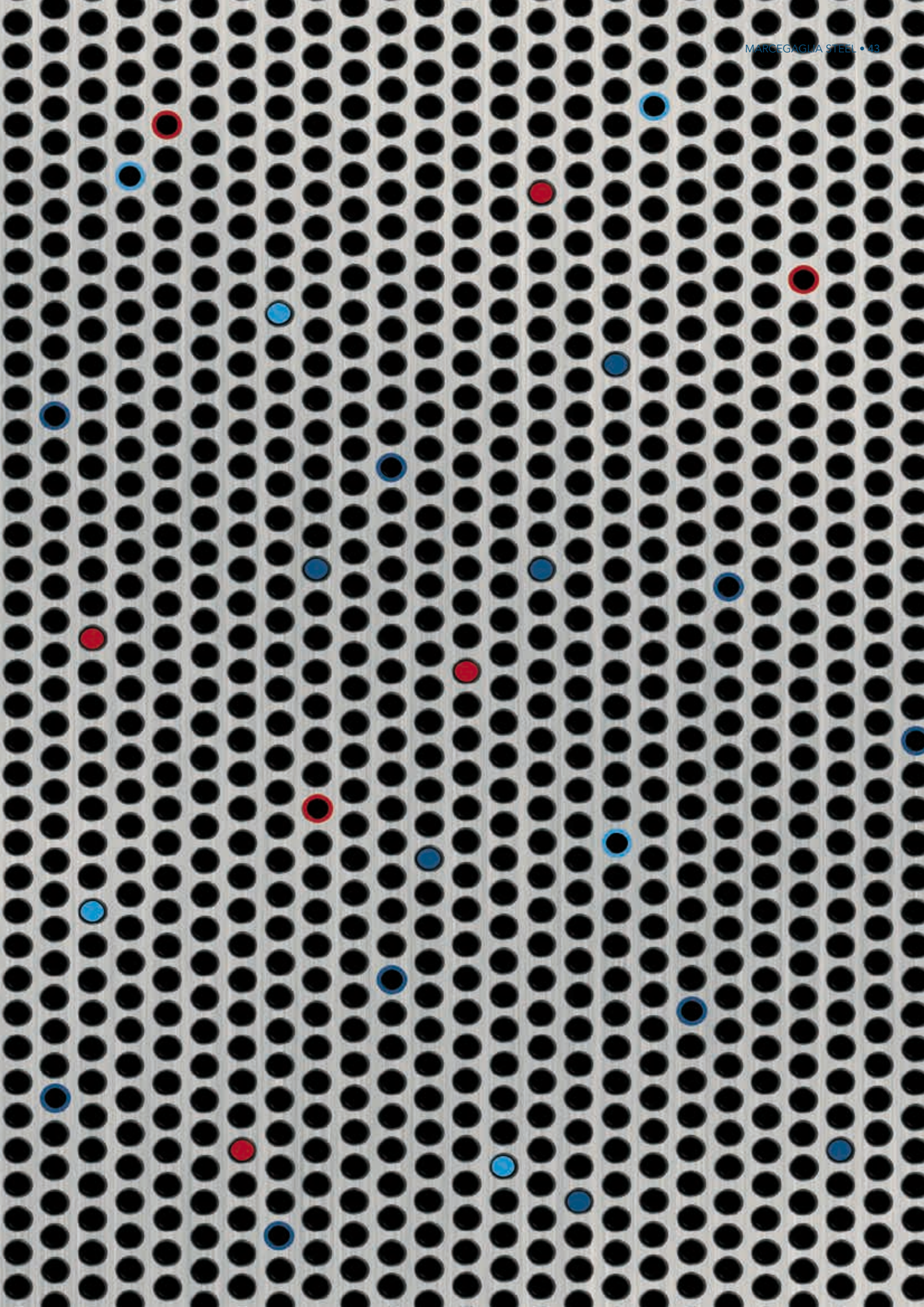
In 2016 average employees were distributed as follows:

EMPLOYEES			
	Italy	Abroad	Total
<b>CARBON STEEL</b>	2,739	1,421	4,160
<b>SPECIALTIES</b>	771	231	1,002
<b>PLATES</b>	83		83
<b>Consolidated tot.</b>	<b>3,593</b>	<b>1,652</b>	<b>5,245</b>
<b>MARFIN</b>	128		128
<b>Total</b>	<b>3,721</b>	<b>1,652</b>	<b>5,373</b>

Even though not formally included in the consolidation area, it was deemed appropriate to present the staff by also including the units in the MARFIN company, where Corporate administration, finance, organisation, purchasing, and IT system functions are maintained (previously maintained at Marcegaglia SpA), for the almost exclusive benefit of Italian operating companies, thereby ensuring operational consistency.

Central corporate functions play an essential service and control role in the various units and actively work on current flow improvement projects.

In a positive year, all employees deserve thanks and consideration for the work activities performed with commitment and professionalism.





# Consolidated Financial Statements Marcegaglia Steel

**MARCEGAGLIA STEEL S.p.A.**

Registered Office: via Bresciani, 16 - Gazoldo degli Ippoliti, Mantova - Italy

Share capital: Euro 695.318.116 fully paid up

Tax code and Mantua Company Register No.: 02467550204,

VAT No.: 02467550204

## Independent auditors' report

To the shareholders of  
Marcegaglia Steel S.p.A.

We have audited the accompanying consolidated financial statements of Marcegaglia Steel Group, which comprises the balance sheet as of 31 December 2016, the income statement and the cash flow statement for the period then ended and the related explanatory notes.

### *Directors' responsibility for the consolidated financial statements*

The directors are responsible for the preparation of the consolidated financial statements that gives a true and fair view in compliance with the Italian laws governing the financial statements.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39/2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Marcegaglia Steel Group as of 31 December 2016 and the result of its operations and cash flows for the year then ended, in accordance with the Italian laws governing the financial statements.

*Emphasis of matter*

Without qualifying our opinion, we draw attention to the paragraph "Comparability with the previous years" in the explanatory notes in which the directors described that the profit & loss figures for the year 2016 are not comparable with the same figures for the year 2015 since the latter relate to only two months of activity as the contributions in kind, by which the Marcegaglia Steel Group has been reorganized, went into effect on 1 November 2015.

Verona, 5 June 2017

Mazars Italia S.p.A.  
(signed on the original)  
Alfonso Iorio  
Partner

*This report has been translated into English from the Italian original solely for the convenience of international readers.*

## MARCEGAGLIA STEEL S.P.A.

## CONSOLIDATED FINANCIAL STATEMENT AS OF 31 DECEMBER 2016

ASSETS currency Euro

12/31/2016

12/31/2015

<b>A SHARE CAPITAL ISSUED AND NOT YET PAID</b>			
1	Share capital issued and not yet paid uncalled	-	-
2	Share capital issued and not yet paid called	-	-
	<b>Total Share capital issued and not yet paid A</b>	-	-
<b>B FIXED ASSETS</b>			
<b>I</b>	<i>Intangible fixed assets</i>		
1	Installation and expansion cost	1,258,139	1,240,944
2	Development costs	-	14,232
3	Industrial and other patent rights	5,912,534	2,065,891
4	Concessions, licenses, trademarks and similar rights	177,555,583	197,657,888
5	Goodwill	52,266,544	68,870,561
6	Assets under construction and advances	128,171	4,348,630
7	Other intangible assets	22,600,129	23,241,022
	<b>Total Intangible fixed assets(B-I)</b>	<b>259,721,100</b>	<b>297,439,168</b>
<b>II</b>	<i>Tangible fixed assets</i>		
1	Land and buildings	737,246,955	751,911,487
2	Plant and machinery	933,090,088	998,952,846
3	Industrial and commercial equipment	48,195,078	52,421,447
4	Other goods	10,156,886	11,297,047
5	Construction in progress and advances	19,201,348	33,551,222
	<b>Total Tangible fixed assets (B-II)</b>	<b>1,747,890,355</b>	<b>1,848,134,049</b>
<b>III</b>	<i>Financial assets</i>		
1	Investments:		
	- in subsidiaries non consolidate	3,341,663	4,599,133
	- in associated companies	1,729,623	1,704,623
	- in other companies	17,357	13,331
		<b>5,088,643</b>	<b>6,317,087</b>
2	Receivables <b>after</b> 12 months:		
	- from subsidiaries non consolidate	-	-
	- from associated companies	-	-
	- from others	76,718	46,115
		<b>76,718</b>	<b>46,115</b>
	Receivables <b>within</b> 12 months:		
	- from others	-	-
3	Other securities	-	15,175
4	Financial derivatives with positive sign	-	-
	<b>Total Financial assets (B-III)</b>	<b>5,165,361</b>	<b>6,378,377</b>
	<b>Total Fixed assets B</b>	<b>2,012,776,816</b>	<b>2,151,951,594</b>
<b>C CURRENT ASSETS</b>			
<b>I</b>	<i>Inventory</i>		
1	Raw materials, auxiliary materials and spare parts	726,789,564	625,395,927
2	Work in progress	321,375,349	300,144,392
3	Contract work in progress	381,354	282,181
4	Finished goods	363,860,033	350,364,324
5	Advances	1,100,521	14,163
	<b>Total Inventory (C-I)</b>	<b>1,413,506,821</b>	<b>1,276,200,987</b>
<b>II</b>	<i>Receivables within 12 months</i>		
1	Trade receivables	105,485,815	213,229,631
2	From subsidiaries	424,979	2,311,999
3	From associated companies	1,103,944	1,697,479
4	From parent companies	13,293,705	115,124
5	From affiliated companies	316,683,534	273,668,369
5-bis	Tax debtors	12,468,009	29,810,337
5-ter	Deferred tax assets	23,156,328	45,054,395
5-quarter	Other receivables	98,305,643	74,353,224
		<b>570,921,957</b>	<b>640,240,558</b>
	Receivables <b>after</b> 12 months		
1	Trade receivables	-	-
5-bis	Tax debtors	1,682,924	2,002,511
5-ter	Deferred tax assets	25,790,145	14,979,069
5-quarter	Other receivables	995,853	1,066,088
		<b>28,468,922</b>	<b>18,047,668</b>
	<b>Total receivables (C-II)</b>	<b>599,390,879</b>	<b>658,288,226</b>
<b>III</b>	<i>Short-term investment</i>		
4	Other investments	259,870	-
5	Financial derivatives with positive sign	3,035,243	734,273
6	Other securities	4,424,945	3,906,645
	<b>Total Short-term investment (C-III)</b>	<b>7,720,058</b>	<b>4,640,918</b>
<b>IV</b>	<i>Cash and banks</i>		
1	Bank and postal deposits	16,699,380	11,300,463
2	Cheques	588,713	-
3	Cash on hand	33,453	20,486
	<b>Total Cash and banks (C-IV)</b>	<b>17,321,546</b>	<b>11,320,949</b>
	<b>Totale Current assets C</b>	<b>2,037,939,304</b>	<b>1,950,451,080</b>
<b>D PREPAYMENTS AND ACCRUED INCOME</b>			
	Prepayments and accrued income	1,206,438	1,823,312
	<b>Total Prepayments and accrued income D</b>	<b>1,206,438</b>	<b>1,823,312</b>
	<b>TOTAL ASSETS</b>	<b>4,051,922,558</b>	<b>4,104,225,986</b>

## LIABILITIES currency Euro

12/31/2016

12/31/2015

<b>A SHAREHOLDERS' EQUITY</b>			
I	Share capital	695,318,116	693,914,175
II	Share premium reserve	-	-
III	Revaluation reserve	-	-
IV	Legal reserve	1,526	-
VI	Other reserves		
	- extraordinary reserve	29,001	-
	- consolidation process reserve of the group	3,642,123	21,982,267
	- currency conversion reserve on consolidation process of the group	2,031,690	1,897,833
	- reserve for profit on exchange rates from conversions at the end of the year	-	-
	- surplus on merger	-	-
	- reserve under the Italian law 10/91	-	-
	- reserve under the Italian law 130/83	-	-
	- reserve under the Italian law 193/84	-	-
	- reserve under the Italian law 19/87	-	-
	- reserve under the Italian law 30/84	-	-
	- others available reserves	-	-
	- Euro rounding difference	2	4
	<b>Total other reserves (VI)</b>	<b>5,702,812</b>	<b>20,084,438</b>
VII	Reserve deposit for non speculative financial derivatives	519,774	29,685,512
VIII	Profits (losses) carried forward	417,055	-
IX	Profit (loss) for the year	31,035,718	22,891,115
	<b>Total shareholders' equity of the group</b>	<b>669,884,017</b>	<b>661,421,986</b>
	Consolidation process reserve of third parties	12,884,593	13,890,092
	Profit (loss) for the year of third parties	4,000,995	2,862,740
	<b>Total shareholders' equity of third parties</b>	<b>8,883,598</b>	<b>11,027,352</b>
	<b>Total Shareholders' Equity Consolidated A</b>	<b>678,767,615</b>	<b>672,449,338</b>
<b>B PROVISIONS FOR CONTINGENCIES AND COMMITMENTS</b>			
1	Provision for severance indemnities and similar commitments	3,328,211	3,291,338
2	Provision for deferred taxes	301,225,890	323,073,969
3	Financial derivatives with negative sign	31,938,968	52,236,118
4	Other provisions	1,994,708	1,500,000
5	Consolidated provision for future risks	11,000,000	-
	<b>Total Provisions for contingencies and commitments B</b>	<b>349,487,777</b>	<b>380,101,425</b>
<b>C STAFF LEAVING INDEMNITY</b>			
	<b>Total Staff leaving indemnity C</b>	<b>15,778,085</b>	<b>16,831,839</b>
<b>D PAYABLES</b>			
	<i>Payables within 12 months</i>		
3	Shareholder's loans	5,403,311	-
4	Banks loans and overdrafts	666,212,045	1,054,295,627
5	Other financial payables	9,919,313	9,283,140
6	Advances	12,676,274	11,785,128
7	Trade payables	1,476,839,012	1,193,109,544
8	Notes payables	-	-
9	Payables to subsidiaries	3,297,253	3,439,397
10	Payables to associated companies	970,995	2,045,162
11	Payables to parent companies	20,349,738	16,656
11bis	Payables to affiliated companies	13,141,395	262,863,078
12	Taxes payable	20,251,828	14,421,471
13	Social security payables	13,857,556	13,079,997
14	Other payables	247,178,272	276,869,818
	<b>2,490,096,992</b>	<b>2,841,209,018</b>	
	<i>Payables after 12 months</i>		
4	Banks loans and overdrafts	499,416,325	156,300,123
5	Other financial payables	9,958,134	18,446,539
12	Taxes payable	1,178,697	527,474
14	Other payables	235	10,220,620
	<b>510,553,391</b>	<b>185,494,756</b>	
	<b>Total Payables D</b>	<b>3,000,650,383</b>	<b>3,026,703,774</b>
<b>E ACCRUED LIABILITIES AND DEFERRED INCOMES</b>			
	Accrued liabilities and deferred incomes	7,238,698	8,139,610
	<b>Total Accrued liabilities and deferred incomes E</b>	<b>7,238,698</b>	<b>8,139,610</b>
	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>4,051,922,558</b>	<b>4,104,225,986</b>

## MARCEGAGLIA STEEL S.P.A.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT COVERING FINANCIAL YEAR 2016

currency Euro		year 2016	year 2015
<b>A</b>	<b>VALUE OF PRODUCTION</b>		
1	Revenues from sales and services	3,773,129,017	508,651,286
2	Changes in work in progress and finished goods	30,072,173	39,089,578
3	Variations in contracted work in progress	23,690	141,449
4	Increase in internal construction capitalized	728,950	160,370
5	Other incomes		
	- Grants and subsidies	1,485,827	55,227
	- others	14,443,884	18,486,890
	<b>Total other incomes (5)</b>	<b>15,929,711</b>	<b>18,542,117</b>
	<b>Total Value of production A</b>	<b>3,819,883,541</b>	<b>566,584,800</b>
<b>B</b>	<b>COST OF PRODUCTION</b>		
6	Cost of raw materials, auxiliary materials, spare parts and goods	(2,818,824,082)	(444,469,318)
7	Cost for services	(514,136,455)	(95,945,422)
8	Cost for utilization of third parties' assets	(6,373,213)	(953,111)
9	Personnel costs		
	a) salaries and wages	(170,835,461)	(24,906,510)
	b) social contributions	(53,840,419)	(10,913,594)
	c) staff leaving indemnity	(10,478,149)	(2,184,810)
	d) other social contributions	(397,619)	(184,041)
	e) other costs	(1,732,298)	(258,009)
	<b>Total personnel costs (9)</b>	<b>(237,283,946)</b>	<b>(38,446,964)</b>
10	Depreciation and write downs		
	a) amortization of intangible assets	(28,216,305)	(4,983,536)
	b) depreciation of tangible fixed assets	(144,262,750)	(24,406,601)
	c) other write downs of assets	(25,315,163)	(172)
	d) write down of receivables recorded among current assets	(23,011,121)	(3,871,336)
	<b>Total depreciation and write downs (10)</b>	<b>(220,805,339)</b>	<b>(33,261,645)</b>
11	Change in inventory of raw materials, auxiliary materials, spare parts and goods	100,885,225	43,424,835
12	Accruals for contingencies	0	0
13	Other accruals	0	0
14	Other operating charges	(11,775,982)	(2,756,162)
	<b>Total Cost of Production B</b>	<b>(3,708,313,792)</b>	<b>(572,407,787)</b>
	<b>Difference between Value of Production and Costs of Production A - B</b>	<b>111,569,749</b>	<b>(5,822,987)</b>
<b>C</b>	<b>FINANCIAL INCOMES AND CHARGES</b>		
15	Income from investments:		
	- dividends from subsidiaries	0	0
	- dividends from associated companies	0	0
	- in other companies	0	0
	<b>Total income from investments (15)</b>	<b>0</b>	<b>1,189,644</b>
16	Other financial incomes:		
	a) from receivables recorded as fixed assets		
	- from affiliated companies	217,814	0
	- from others	33	6
	<b>Total other income from receivables recorded as fixed assets (a)</b>	<b>217,847</b>	<b>6</b>
	c) other income from securities recorded as current assets	306,199	69,954
	d) financial incomes different from previous ones		
	- from subsidiaries	9,770	1,491
	- from associated companies	0	0
	- from parent companies	51,638	0
	- from affiliated companies	7,425,471	900,378
	- from others	4,311,795	741,423
	<b>Total financial incomes different from previous ones (d)</b>	<b>11,798,674</b>	<b>1,643,292</b>
	<b>Total other financial incomes (16)</b>	<b>12,322,720</b>	<b>1,713,252</b>
17	Interests and other financial charges		
	- interests paid to subsidiaries	(86,012)	0
	- interests paid to parent companies	0	0
	- interests paid to affiliated companies	(1,523,367)	(1,717,139)
	- bank interests	(59,837,571)	(7,644,146)
	- other financial charges	(48,347,276)	(8,510,579)
	<b>Total interests and other financial charges (17)</b>	<b>(109,794,226)</b>	<b>(17,871,864)</b>
17-bis	Exchange gains/losses	6,444,259	2,810,725
	<b>Total Financial incomes and Charges C</b>	<b>(91,027,247)</b>	<b>(12,158,243)</b>
<b>D</b>	<b>ADJUSTMENTS TO THE VALUE OF FINANCIAL OPERATIONS</b>		
18	Revaluations		
	investments in share capital	0	0
	other investments	0	0
	securities recorded as current assets	0	0
	of financial derivatives	35,520,024	1,364,442
	<b>Total revaluations(18)</b>	<b>34,520,024</b>	<b>1,364,442</b>
19	Write-downs		
	investments in share capital	(11,000,000)	0
	other investments	0	0
	securities recorded as current assets	0	0
	of financial derivatives	(51,475,414)	(191,501)
	<b>Total write-downs (19)</b>	<b>(62,475,414)</b>	<b>(191,501)</b>
	<b>Total Adjustments to the Value of Financial Operations D</b>	<b>(27,955,390)</b>	<b>1,172,941</b>

currency Euro

year 2016

year 2015

PROFIT (LOSS) BEFORE TAXATION A-B+/-C+/-D+/-E		
Profit (loss) before taxation A-B+/-C+/-D+/-E		
	(7,412,888)	(16,808,289)
20		
Income taxes for the period deferred assets/liabilities		
- income taxes for the current period	(29,203,994)	(364,688)
- income taxes related to previous period	(221,767)	0
- deferred taxes	22,330,174	1,778,894
- prepaid income taxes	(22,793,710)	(10,359,772)
- income (expenses) from fiscal consolidation	2,265,472	0
<b>Total Income taxes for the period deferred assets/liabilities (20)</b>	<b>(27,623,825)</b>	<b>(8,945,566)</b>
PROFIT (LOSS) FOR THE PERIOD	(35,036,713)	(25,753,855)
PROFIT (LOSS) FOR THE YEAR OF THIRD PARTIES	(4,000,995)	(2,862,740)
PROFIT (LOSS) FOR THE YEAR OF THE GROUP	(31,035,718)	(22,891,115)

## MARCEGAGLIA STEEL S.P.A.

### CASH FLOW STATEMENT AS OF 31 DECEMBER 2016

currency Euro

12/31/2016

<b>A CASH FLOWS FROM INCOME-GENERATING OPERATIONS (INDIRECT METHOD)</b>	
Profit (loss) for the year	-35,036,713
Income Tax	27,623,825
Interest expenses /(income)	97,471,506
(Dividends)	
(Gains)/Losses resulting from the disposal of assets	676,399
<b>1 Profit (loss) for the year, before income taxes, interest, dividends and gains and losses</b>	<b>90,735,017</b>
Adjustments for non-cash items with no balancing entry in working capital	
- provisions to funds	11,414,479
- depreciation of property, plant and equipment	172,479,055
- write-downs due to permanent impairment	25,315,163
- value adjustments of financial assets and financial liabilities on derivative financial instruments that do not involve cash transactions	27,955,390
- other adjustments for non-cash items	-2,333,854
<b>Adjustments for non-cash items with no balancing entry in working capital</b>	<b>234,830,233</b>
<b>2 Cash flow before changes in net working capital</b>	<b>325,565,250</b>
Changes in net working capital	
- decrease/(increase) in inventories	-134,321,541
- decrease/(increase) in receivables	111,094,940
- increase/(decrease) in accounts payable to suppliers	273,458,650
- decrease/(increase) in accrued incomes and prepaid expenses	612,827
- increase/(decrease) in accrued expenses and deferred incomes	-644,748
- other changes in net working capital	-348,932,330
<b>Total changes in net working capital</b>	<b>-98,732,202</b>
<b>3 Cash flow after changes in net working capital</b>	<b>226,833,048</b>
Other adjustments	
- interests received/(paid)	-97,471,506
- (income taxes paid)	
- dividends received	
- (utilisation of funds)	-22,408,612
- other collections/(payments)	
<b>Total other adjustments</b>	<b>-119,880,118</b>
<b>Cash flow from income-producing operations A</b>	<b>106,952,930</b>
<b>B CASH FLOWS FROM INVESTMENT ACTIVITIES</b>	
Tangible assets	
- (investments)	-44,322,730
- divestitures	963,027
Intangible fixed assets	
- (investments)	-268,004
- divestitures	15,914
Financial assets	
- (investments)	-102,980
- divestitures	12,351
Non-current financial assets	
- (investments)	-259,870
- divestitures	431,652
(Purchase or sale of subsidiaries or business divisions net of liquid assets)	94,801
Sale of subsidiaries or business divisions net of liquid assets	
<b>Cash flows from investment activities B</b>	<b>-43,435,839</b>
<b>C CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Third party resources	
- increase/(decrease) in current liabilities to banks	-427,841,825
- new loans	499,242,588
- (repayments of loans)	-130,463,938
Capital and reserves	
- paid-in capital increase	1,403,941
- (reimbursement of paid-in capital increase)	
- sale/(purchase) of own shares	
- (dividends and advances on dividends paid)	
<b>Cash flows from financing activities C</b>	<b>-57,659,234</b>
<b>INCREASE (DECREASE) IN CASH A ± B ± C</b>	<b>5,857,857</b>
Exchange rate effect on cash and cash equivalents	142,740
<b>Cash and cash equivalents at beginning of year</b>	<b>11,320,949</b>
Bank and postal deposits	11,300,463
Checks	-
Cash and negotiable instruments on hand	20,486
Which are not freely usable	4,272,297
<b>Cash and cash equivalents at year end</b>	<b>17,321,546</b>
Bank and postal deposits	16,699,380
Checks	588,713
Cash and negotiable instruments on hand	33,453
Of which not freely usable	6,556,695

## NOTES

### Introduction

After the major reorganisation of the Marcegaglia group (which was started and completed in 2015), the financial year ending 31 December 2016 is the first full year operations of the steel division, i.e., the division incorporating the group's *core business*.

These consolidated financial statements were prepared in accordance with the new provisions introduced by Legislative Decree 139/2015, which are applicable to financial statements for financial years starting on or after 1 January 2016. Legislative Decree 139/2015, which incorporated Directive 2013/34/EU (which replaced the previous Directives IV and VII on annual and consolidated financial statements), amended the layouts of financial statements and the content of the notes to financial statements. It also introduced the requirement to prepare the statement of cash flows, introduced new measurement criteria (e.g. amortised cost for receivables and payables and useful life for the amortisation of goodwill) and new criteria for the preparation of financial statements (the relevance principle and principle of substance over form), introduced new criteria for accounting for several entries (e.g. the requirement to record financial derivatives - including those used for hedging - at their fair value), and it eliminated the extraordinary area from the profit and loss account as well as memorandum accounts and the ability to capitalise research and advertising expenses.

Article 12 of Legislative Decree 139/2015 also directed the OIC [Italian Accounting Organisation] to update domestic accounting standards. The link to the legislative decree made it necessary to reference domestic accounting standards with respect to the required practical statement of new legislative provisions introduced, and specifically, those aspects of a technical nature concerning, for example, hedging transactions, amortised cost and discounting. After a long review process, in the end the OIC approved the revised accounting standards on 22 December 2016.

For some of the new provisions described, it is only necessary to apply them going forward (pursuant to Article 2(2) of Legislative Decree 139/2015), and thus, starting in financial year 2016, without modifying accounting entries made in the past (e.g. the new criteria for measuring amortised cost for receivables and payables and the new criterion for amortising goodwill are therefore applicable only to receivables, payables and goodwill arising in 2016), and the Company has acted accordingly. However, for other new provisions, retroactive application is mandatory, and thus, financial statement entries must be stated as if the new accounting standard had always been applied by adjusting beginning accounting balances with balancing entries in a shareholders' equity reserve (e.g. the new criterion for recording financial derivatives and eliminating the ability to capitalize research and advertising expenses). In this case, the column for comparison purposes for 2015 was adapted to reflect the new criteria for classifying items in the new layout for the balance sheet and profit and loss account and the new criteria for recording the entries concerned.

### Structure of consolidated financial statements

The consolidated financial statements for the year ending 31 December 2016 were prepared in accordance with the provisions of Legislative Decree 127 of 9 April 1991.

The structure and content of the consolidated balance sheet, profit and loss account and statement of cash flows are those required for the separate financial statements of companies included in consolidation that have been suitably adjusted to consider the broader concept of "group." Therefore, in order to provide a clear, truthful and accurate representation of the group's equity and financial positions as well as its operating result, the layouts for balance sheets and profit and loss accounts set forth in Articles 2424 and 2425 of the Italian Civil Code provided for industrial and commercial companies were used, and adjusted - as specified by OIC Accounting Standard

no. 17, paragraph 34 - by:

- the inclusion of a separate item called "Consolidation provision for future risks and charges" in balance sheet liabilities under item B "Provisions for risks and charges," resulting from the process of consolidating equity investments;
- the inclusion of the item "Consolidation reserve" in shareholders' equity items;
- the inclusion among shareholders' equity items of the item "Minority interests" broken down into the items "Minority interests in capital and reserves," and "Profit (loss) for the year pertaining to minority interests," which represent the minority interest in shareholders' equity and consolidated profit respectively;
- the indication, in consolidated shareholders' equity, of the sub-total related to all of the components pertaining to the group, followed by the components corresponding to minority shareholdings;
- the inclusion, as a part of item AVI "Other reserves" of shareholders' equity, of the item "Reserve from translation differences," which represents the difference from the translation of financial statements of subsidiaries expressed in a foreign currency;
- the inclusion of the items "Profit/(Loss) pertaining to the group" and "Profit/(Loss) pertaining to minority interests" among profit and loss account items, after item 21) "Net profit (loss)", in order to clearly separate the portion of the consolidated operating result pertaining to minority shareholders.

The statement of cash flows was prepared in accordance with the layout specified in Accounting Standard OIC 17, which was created on the basis of guidelines provided by Art. 2425-III of the Italian Civil Code.

These Notes contain the information required by Art. 38 of Legislative Decree 127/91, as well as other information required by such decree. Furthermore, a reconciliation was prepared between shareholders' equity and the statutory result of the parent company Marcegaglia Steel S.p.A., and consolidated shareholders' equity and the consolidated operating result.

### Comparability with the previous financial year

For each item of the balance sheet and profit and loss account, the amount of the same item for the previous financial year was indicated next to the amount for 2016. However, the profit & loss figures for the year 2016 are not comparable with the same figures for the year 2015 since the latter relate to only two months of activity as the contributions in kind, by which the Marcegaglia Steel group has been reorganized, went into effect on 1 November 2015. For what concern the cash flow statement, the column 2015 has not been inserted because the same scheme was not included in the financial statement of the previous year, being 2015 the first year of activity of the company.

### SCOPE OF CONSOLIDATION

#### Investments in subsidiaries

#### Subsidiaries included in consolidation using the line-by-line method:

Below is a list of investments in subsidiaries as at 31 December 2016 consolidated using the line-by-line method pursuant to Art. 31 of Legislative Decree 127/91:

Name Registered office	Share capital	Direct stake	Indirect stake	Company
<b>Marcegaglia Steel S.p.A.</b> via Bresciani, 16 - Gazoldo degli Ippoliti, Mn	695,318,116 EUR			Parent company
<b>Marcegaglia Carbon Steel S.p.A.</b> via Bresciani, 16 - Gazoldo degli Ippoliti, Mn	496,118,598 EUR	100%		
<b>Marcegaglia Specialties S.p.A.</b> via Bresciani, 16 - Gazoldo degli Ippoliti, Mn	161,000,000 EUR	100%		
<b>Marcegaglia Plates S.p.A.</b> via Bresciani, 16 - Gazoldo degli Ippoliti, Mn	35,000 EUR	100%		
<b>Marcegaglia do Brasil Ltda</b> Rodovia BR 101 km 11 Garuva (SC) (Brasile)	306,000,000 BRL	89.9098%		Marcegaglia Carbon Steel S.p.A.
<b>Marcegaglia Poland Sp.z.o.o.</b> Kaliska 72 int - Praszka (Polonia)	100,000,000 PLN	99.6%		Marcegaglia Carbon Steel S.p.A.
<b>Marcegaglia UK Ltd</b> New Road, Netherton, Dudley (UK)	16,650,200 GBP		100%	Marcegaglia Carbon Steel S.p.A.
<b>Marcegaglia USA Inc.</b> 1001 East Waterfront Drive, Munhall, (Pa) (USA)	86,876,440 USD		100%	Marcegaglia Specialties S.p.A.
<b>Mariven S.r.l.</b> via Bresciani, 16 - Gazoldo degli Ippoliti, Mn	100,000 EUR	65%		Marcegaglia Specialties S.p.A.
<b>Marcegaglia China Co. Ltd</b> Chuang Ye Road 7 Guangling Industrial Park - Yangzhou	128,000,000 EUR	91.4063%		Marcegaglia Carbon Steel S.p.A.
<b>Marcegaglia RU</b> Bolshaja Nizegorodskaja 92B Vladimir (Federazione Russa)	1,099,325,274 RUB		51.03%	Mariven S.r.l.
<b>Outsourcing Inox S.r.l.</b> via Bresciani, 16 - Gazoldo degli Ippoliti, Mn	10,000 EUR		100%	Marcegaglia Specialties S.p.A.
<b>Marcegaglia TR</b> Paslanmaz Çelik Sanayi Ve Ticaret Anonim Şirketi Kazimiye Mahallesi, Yakut Sokak, Nova Center 39/27, Çorlu, Tekirdağ (Turchia)	5,600,000 TRY		65%	Marcegaglia Specialties S.p.A.

#### Direct or indirect subsidiaries measured at cost

Name Registered office	Share capital	Direct stake	Indirect stake	Company
<b>Marcegaglia Benelux n.v.</b> Dendermondestraat, 44-46 - Anversa (BEL)	EUR 100,000		99%	Marcegaglia Carbon Steel S.p.A.
<b>Marcegaglia Deutschland GmbH</b> Vogelsanger Weg 38, Dusseldorf - Germania	EUR 153,388		100%	Marcegaglia Carbon Steel S.p.A.
<b>Marcegaglia France Sarl</b> Le Bois des Cotes II Route Nationale 6 n.300 - Limonest	EUR 50,000		100%	Marcegaglia Carbon Steel S.p.A.
<b>Marcegaglia Iberica s.a.</b> Calle Solsona,3 - S.P.de Magoda-B (ES)	EUR 120,220		51%	Marcegaglia Carbon Steel S.p.A.
<b>Marcegaglia India Private Limited</b> EC 58, Sector I, Sal Lake, Kolkata-700064, West Bengal India	EUR 100,000		90% 10%	Marcegaglia Carbon Steel S.p.A. Marcegaglia China Co. Ltd.
<b>Marcegaglia North Europe s.a.</b> 8, Um Woeller, L-4410 Soleuvre - Lussemburgo	EUR 31,000		100%	Marcegaglia Carbon Steel S.p.A.

The scope of consolidation changed in comparison with the previous year due to the inclusion of Marcegaglia TR, at which the full start-up of production activities in Turkey is still under way. It was measured at cost in the consolidated financial statements at 31 December 2015.

Marcegaglia North Europe s.a. was established in 2016 with registered office in Luxembourg. It is a trading branch used for sales of tubes in Luxembourg, the Netherlands and Denmark, and more generally, in northern Europe.

## Investments in associates

### Direct or indirect associates measured at cost:

Name Registered office	Share capital	Direct stake	Indirect stake	Company
<b>SIM S.r.l.</b> Zona Industriale S. Atto - Teramo	EUR 780,000		50%	Marcegaglia Carbon Steel S.p.A.
<b>Fontana S.p.A.</b> Strada San Giorgio, 23 - Settimo Torinese, To	EUR 50,000		32%	Marcegaglia Carbon Steel S.p.A.
<b>Consorzio Absolute scarl</b> Pozzuolo del Friuli , Ud frazione Cargnacco, via Buttrio, n. 28	EUR 50,000		25%	Marcegaglia Carbon Steel S.p.A.
			25%	Marcegaglia Specialties S.p.A.

Consorzio Absolute Scarl was established in 2016 as a joint venture with the other shareholder (Acciaierie Bertoli Safau S.p.A.) for the coordination and performance, in favour of and on behalf of, consortium members, of the various phases and activities connected with the offer of uninterrupted electrical service to the National Electricity Grid. In accordance with Art. 36(2) of the above Legislative Decree, these equity investments are measured “at cost” since their impact, even if taken as a whole, has little significance for the truthful and accurate representation of the group’s balance sheet, financial position and operating result.

## CONSOLIDATION CRITERIA

### Consolidation using the line-by-line method

All of the companies in which Marcegaglia Steel S.p.A. has a direct or indirect majority stake have been consolidated using the line-by-line method, with the exception of the subsidiaries included in the section “DIRECT OR INDIRECT SUBSIDIARIES MEASURED AT COST” above.

Using the line-by-line consolidation method, the book values of equity investments are eliminated, and the assets, liabilities, income and costs of investee companies are fully absorbed.

With regard to the column for 2015, since that year was the first financial year of Marcegaglia Steel S.p.A., and since this company acquired a controlling interest in the companies included in the scope of consolidation through acquisitions that also occurred in financial year 2015, the assets and liabilities of subsidiaries used to determine the initial consolidation reserve were determined on the basis of specific financial statements for the period of the individual subsidiaries reported as of the month in which Marcegaglia Steel S.p.A. made the acquisition. For the purposes of the above determination of the initial consolidation reserve, the assets and liabilities of subsidiaries in a currency other than the Euro were converted at the exchange rates in effect on the date the aforementioned financial statements were prepared for the relevant period.

Any portions of the shareholders’ equity and the operating result relating to the minority shareholders of consolidated subsidiaries are reported respectively in a specific item of consolidated shareholders’ equity and the consolidated profit and loss account.

With regard to the inclusion of new equity investments in the scope of consolidation, any positive differences resulting from comparing the book values of equity investments and the stakes of shareholders’ equity of the investee companies are recognised in the line item “Goodwill” among intangible fixed assets if the prerequisites for doing so are met, and in the line item “Consolidation Reserve” in shareholders’ equity if such differences are negative.

Payables and receivables and transactions among companies included in the scope of consolidation have been eliminated. Any adjustments for dividends distributed to the parent company were also taken into account.

### Equity investments measured using the equity method

According to this procedure, the consolidated financial statements only reflect the relevant portion of shareholders' equity of the investee company, but not the amounts of individual items of the financial statements.

With regard to the inclusion of new equity investments in the scope of consolidation that are measured using the equity method, any differences resulting from comparing the book values of the equity investments and the stakes of shareholders' equity of the investee companies are recorded in a shareholders' equity item called "Consolidation reserve," to the extent of the portion formed up to the date of the first consolidation. The profit or loss generated after the date of the first consolidation is instead allocated, according to the accrual principle, to the consolidated profit and loss account under "Value adjustments of financial assets" (revaluations/write-downs of equity investments) with a balancing entry in the item "Investments in subsidiaries/associates" in the balance sheet.

### Currency of account

For line-by-line consolidation of financial statements expressed in a foreign currency, the current exchange rate method was used since the foreign investee companies to which those financial statements refer are essentially independent of the parent company. According to this method, all assets and liabilities, with the exception of the entries in shareholders' equity (which are converted at the historical exchange rates), are converted using the exchange rate at the date of the financial statements, whereas items of the profit and loss account are translated at the average exchange rate for the period. The resulting differences are allocated to a specific shareholders' equity reserve called the "*translation reserve*".

The exchange rates applied are indicated in the following table:

Currency	Exchange rate as at 12/31/2016	Average exchange rate for the period between the consolidation date and 12/31/16
Dollaro USA (USD)	1.0541	1.1069
Sterlina UK (GBP)	0.85618	0.819483
Real brasiliano (BRL)	3.4305	3.85614
Zloty polacco (PLN)	4.4103	4.36321
Rublo Russo (RUB)	64.3	74.1446
Renminbi cinese (CNY)	7.3202	7.35222
Lira turca (TRY)	3.7072	3.34325

### Reporting date of the consolidated financial statements

Both the parent company (Marcegaglia Steel S.p.A.) and other companies included in the scope of consolidation ended their financial years on 31 December 2016.

### Financial statements used for consolidation

The financial statements prepared by the administrative bodies of the Italian subsidiaries were used for the consolidation of such companies.

With respect to the consolidation of foreign subsidiaries included in the scope of consolidation, the financial statements used were specifically prepared by the respective administrative bodies according to measurement criteria used by the parent company, in compliance with the "Manual of the group's Accounting Standards" prepared expressly for such purpose, and certified by local independent auditors.

### MEASUREMENT CRITERIA

#### Intangible fixed assets

Intangible fixed assets are recorded in the financial statements at purchase or production cost and amortised in relation to their remaining useful life.

Start-up and expansion costs are amortised over a period of five years. Development costs are amortised in accordance with their useful life. As an exception, if it is not possible to reliably estimate their useful life, they are amortised over a period of up to five years.

Goodwill is recorded only if acquired for consideration up to the limit of the cost incurred. As an exception, if it is not possible to reliably estimate its useful life, it is amortised over a period of ten years.

#### Property, plant and equipment

Property, plant and equipment are recorded in the financial statements at purchase or production cost increased by statutory monetary revaluations, and are reported in the financial statements net of accumulated depreciation. Note that with the exception of companies with a registered office in countries with high inflation, revaluations are only maintained if required by law.

Depreciation was determined on the basis of their remaining useful life.

#### Finance lease assets

Pursuant to the requirements of Accounting Standard OIC 17, paragraph 105, transactions related to finance lease assets are recognised using the finance method (governed by IAS 17), except for transactions of a small size that continue to be recorded using the equity method.

### Financial fixed assets

Equity investments in companies not consolidated using the line-by-line method are measured using the equity method or at historical cost.

Receivables are measured at nominal value.

### Inventories

Inventories are measured at the lower of purchase or production cost and market value. Purchase cost includes ancillary costs of transportation and customs clearance of raw materials; production costs include all of the costs directly allocated to the product (raw materials and ancillary materials, direct labour, depreciation of the capital goods used in production), in addition to the portion of indirect industrial costs relating to the manufacturing period (maintenance costs, consumables, electric power, outsourced processes, etc.).

The cost of final inventories was determined using the weighted average cost method.

Inventories other than interchangeable assets are recognised among the inventories of finished products and are measured at purchase cost or production cost since this cost is deemed not to exceed the estimated sales market value.

The item “Raw materials, ancillary materials and consumables” also includes inventories of ancillary materials and consumables such as paints, lubricants, fuels, zinc and miscellaneous materials in general. These inventories are recorded in the financial statements at the lower of the value determined using the moving average criterion, and their replacement value based on market value.

Inventories of contract work in progress are measured, if applicable, using the percentage of completion method.

### Receivables

In general, receivables are recognised in the financial statements using the amortised cost criterion taking into account the time factor and estimated re-

alizable value.

However, OIC 15, paragraph 33 specifies that this criterion may not be applied if the impact is insignificant, assuming that short-term receivables (i.e. those due within 12 months) are insignificant.

Furthermore, Art. 12(2) of Legislative Decree 139/2015 specifies that the new amortised cost measurement criterion may not be applied to components of items related to transactions that have not fully exhausted their impact in the financial statements.

Thus, in these consolidated financial statements, the amortised cost criterion is only applied to receivables due after the following year that arose after 1 January 2016, and in any case, only if the impact of applying this criterion is considered significant.

Receivables not measured using the amortised cost method (since the impact of applying this criterion is not considered significant) are recorded at nominal value adjusted, as necessary, for the appropriate provision for doubtful receivables to bring it into line with the estimated realisable value.

Receivables expressed in a foreign currency are originally converted into Euros at the reported exchange rate on the date of the related transactions. Exchange differences generated from the collection of receivables in a foreign currency are recorded in the profit and loss account under item 17-bis - Exchange gains and losses.

Receivables expressed in a foreign currency and reported in the financial statements are measured on the basis of the related exchange rates in effect on the reporting date (31 December 2016).

The exchange differences arising from this measurement are allocated to the profit and loss account under item 17-bis Exchange gains and losses.

### Equity investments and securities not held as fixed assets

Equity investments not held as fixed assets are recorded at cost and written down for any impairment.

Securities not held as fixed assets are recorded at cost or market value.

### Cash and cash equivalents

Cash and cash equivalents (bank and postal accounts, cash and cash on hand) are recorded at their actual balances.

### Cash and shareholders' equity entries

These items are measured at nominal value.

### Provisions for risks and charges

Provisions for risk and charges are allocated in the financial statements to cover losses or liabilities of a known type, that will certainly or probably arise but which, as of the end of the year, could not be determined, either in terms of amount or date of accrual.

Allocations reflect the best estimate possible on the basis of available information.

### Employee severance pay

Provisions are made in accordance with laws and labour agreements in effect, and reflect liabilities accrued to all employees on the reporting date.

### Payables

In general, payables are recorded in the financial statements according to the amortised cost criterion taking into account the time factor.

However, OIC 19, paragraph 42 specifies that this criterion may not be applied if the impact is insignificant, assuming that short-term payables (i.e. those due within 12 months) are insignificant.

Furthermore, Art. 12(2) of Legislative Decree 139/2015 specifies that the new amortised cost measurement criterion may not be applied to components of items related to transactions that have not fully exhausted their impact in the financial statements.

Thus, in these consolidated financial statements, the amortised cost criterion is only applied to payables due after the following year that arose after 1 January 2016, and in any case, only if the impact of applying this criterion is considered significant.

Payables not measured using the amortised cost method (since the impact of applying this criterion is not considered significant) are recorded at nominal value.

In any case, this item includes liabilities that are certain and specific in terms of

their amount and date incurred.

Payables expressed in a foreign currency are originally converted into Euros at the reported exchange rate on the date of the related transactions. Exchange differences generated from the payment of payables in a foreign currency are recorded in the profit and loss account under item 17-bis - Exchange gains and losses.

Payables expressed in a foreign currency and reported in the financial statements are measured on the basis of the related exchange rates in effect on the reporting date (31 December 2016). The exchange differences arising from this measurement are allocated to the profit and loss account under item 17-bis Exchange gains and losses.

### Accruals and deferrals

These items include portions of costs and income shared by two or more years in accordance with the accrual principle.

### Revenues and income

Revenues for product sales are recognised at the time ownership is transferred, which generally coincides with the shipment of the merchandise. Service revenues are recognised when the service has been fully provided.

### Costs and expenses

Costs and expenses are recognised on an accrual basis.

### Dividends

Dividends are recorded in the year in which the right to receive them accrues, which typically coincides with the year they are approved by the competent body.

### Financial derivatives

Financial derivatives are recorded at fair value even if embedded in other financial instruments. Changes in fair value are recorded in item D) 18) d) "Revaluations of financial derivatives" or D) 19) d) "Write-downs of financial derivatives" in the profit and loss account, or, if the instrument hedges the risk of expected fluctuating cash flows from another financial instrument or scheduled transaction, they are recorded directly in item A) VII) "Shareholders' equity - Reserve for cash flow hedges" under balance sheet liabilities and shareholders' equity, with either a positive or negative sign. This reserve is allocated to the profit and loss account to the extent, and based on timing, corresponding with the occurrence or modifications of the cash flows of the hedged instrument or the occurrence of the transaction being hedged.

The items being hedged against the risk of fluctuating interest or exchange rates or market prices, or against credit risk are measured in the same way as the hedging derivative. A hedge is deemed to exist if, from the outset, there is a strict and documented correlation between the characteristics of the instrument and transaction being hedged and those of the hedging instrument.

Profits arising from the fair value measurement of financial derivatives that are not used or not needed for hedging, may not be distributed. The shareholders' equity reserve arising from the fair value measurement of derivatives used to hedge expected cash flows from another financial instrument or scheduled transaction is not included in the calculation of shareholders' equity for the purposes indicated in Articles 2412, 2433, 2442, 2446 and 2447, and if positive, is not available and cannot be used to cover losses.

## NOTES TO FINANCIAL STATEMENTS - ASSETS

### Changes in receivables from shareholders for outstanding contributions

There were no receivables from shareholders for outstanding contributions.

## FIXED ASSETS

### Intangible fixed assets

#### Changes in intangible fixed assets

See ANNEX 1B for changes in intangible fixed assets.

The line item "goodwill" reflects the positive initial difference from the cancellation of the equity investments in the indirect subsidiaries Marcegaglia USA Inc., Marcegaglia do Brasil Lda and Marcegaglia RU, which was generated from comparing the cost incurred for the purchase of these equity investments and the portion of the book value of the respective shareholders' equity held. In 2016, with the inclusion of Marcegaglia TR in companies consolidated on a line-by-line basis, the positive difference generated from comparing the book value of the equity investment and the portion of shareholders' equity held was recorded in the item concerned. We believe that this difference can be categorised as goodwill since it meets the requirements of Accounting Standard OIC 24 - Intangible Fixed Assets, Section 54 et seq.

	Initial recording value	Accumulated amortisation	Amount at beginning of the year	New entries	Amortisation	Write- downs	Amount at end of the year
Marcegaglia USA Inc.	21,614,263	360,238	21,254,025		986,549	11,552,957	8,714,519
Marcegaglia do Brasil Lda	38,194,797	636,580	37,558,217		3,819,480		33,738,737
Marcegaglia RU	10,228,799	170,480	10,058,319		1,022,880		9,035,439
Marcegaglia TR	-	-	-	864,277	86,428		777,849
<b>TOTAL</b>	<b>70,037,859</b>	<b>1,167,298</b>	<b>68,870,561</b>	<b>864,277</b>	<b>5,915,337</b>	<b>11,552,957</b>	<b>52,266,544</b>

At 31 December 2016, the goodwill previously recorded following the first consolidation of the investee company Marcegaglia USA was written down since at the beginning of 2017 the subsidiary sold to an outside buyer the stainless steel division, which represented the company's core business, and it instead continued to manage the galvanized division. Some of the unrealised gains that generated the positive difference recorded for goodwill related to assets of the division sold, but were not reflected in the sale price:

thus, it was deemed appropriate to review the difference concerned and to write it down in view of the unrealised gains related to the division that continues to be managed. This write-down was recorded under item B) 10) c) “Other write-downs of fixed assets” in the profit and loss account.

This goodwill is amortised over 10 years. This decision was based on the fact that the assumed utilisation period, in terms of projected profitability, was estimated to be an equal period. A goodwill amortisation period of over five years appears to be in line with national accounting standards (Document OIC 24) provided the reasons for this period are substantiated.

Lastly, no deferred taxes were recorded based on the provisions of OIC 25 for extraordinary transactions that generate “goodwill,” and in view of the analogous nature of the goodwill concerned.

Intangibles reported in the consolidated financial statements also include the “Marcegaglia” trademark using both the family name, and “MM Marcegaglia” in graphic form (with a mirror image of 2 capital Ms). It was recorded in the statutory financial statements of the subsidiary Marcegaglia Specialties S.p.A. after the contribution made as a part of the reorganisation transaction in 2015. The trademark ‘Marcegaglia’ has been protected through the filing, by the contributing company Marcegaglia S.p.A., of a number of applications for name-based trademarks, in order to guarantee, in relation to the goods and services claimed, the exclusive use of the word or expression being filed, regardless of which form or character is used. The graphic trademark ‘MM Marcegaglia’, used by the contributing company Marcegaglia S.p.A. since 1969 in accounting, administrative, advertising and promotional material, in exhibitions and fairs, in the press and on the products, has been in extremely widespread use, in order to generate that level of general awareness required by Italian law (and by some other countries) to give “rise” to a so-called common law/unregistered trademark, which allows the user to claim exclusive rights over the use of the mark used in

relation to the products for which it was used. In 2015, however, as part of the referenced reorganisation, the contributing company Marcegaglia S.p.A. initiated the filing of a number of trademark applications concerning the graphic trademark. The aforementioned trademarks were filed mainly for the following products:

- Class 6: common metals and their alloys, including steel, metal construction materials, transportable metal buildings; metal materials for railways; aluminium tubes; metal building panels; strips and sheets; bright bars drawn and steel sections; metal coverings; metal scaffolding; fences; minerals; common metals and their alloys; metal strips; non-electric cables and wires; metal structures; safes; metal fancy goods; metal security barriers for roads; steel pipes; steel strips; metal sheets; metal fences; metal gates; metal fasteners;
- Class 37: construction of metallurgical plants and facilities for the production of energy; painting work;

- Class 39: distribution of steel products; travel arrangements;
- Class 42: services in the steel industry and its applications, in particular designing, testing and commissioning of plants for the processing of steel; services in relation to environmental protection, ecological research, analysis and consulting;
- Class 43: hotel services.

In the expert’s report annexed to the deed of transfer, the appraiser has attributed to the trademark a value of Euro 201 million (before the deferred taxes resulting), considering a royalty rate of 0.81% and a projection of sales revenue on a time horizon of 20 years.

With reference to the systematic allocation over time of the cost subscribing the trademark, equal to the estimated value, it was considered prudent to ascribe to the income statement a constant rate of depreciation over a period of 10 years.

	Initial recording value	Accumulated amortization	Amount at beginning of the year	Amortization	Amount at end of the year
Marcegaglia trademark	201,000,000	3,350,000	197,650,000	20,100,000	177,550,000
<b>TOTAL</b>	<b>201,000,000</b>	<b>3,350,000</b>	<b>197,650,000</b>	<b>20,100,000</b>	<b>177,550,000</b>

## START-UP AND EXPANSION COSTS AND DEVELOPMENT COSTS

Start-up and expansion costs	Gross amount	Accumulated amortisation	Net amount
Start-up costs capitalised by the subsidiary Marcegaglia do Brasil Ltd	4,022,239	2,949,924	1,072,315
Other	247,830	62,007	185,823
<b>Total</b>	<b>4,270,070</b>	<b>3,011,931</b>	<b>1,258,139</b>

There are no capitalised development costs.

## Property, plant and equipment

### Changes in property, plant and equipment

See ANNEX 1A for changes in property, plant and equipment.

The items concerned include assets of the subsidiaries Marcegaglia Carbon Steel S.p.A., Marcegaglia Specialties S.p.A. and Marcegaglia Plates S.p.A. in amounts reported in the expert appraisal pursuant to Art. 2465 of the Italian Civil Code prepared on the occasion of the contributions made in 2015.

### Value reductions applied to property, plant and equipment

In view of the continuing negative performance of Marcegaglia China, and to be conservative, several assets of the subsidiary were written down to bring their book value into line with their realisable value; the write-down totalled Euro 13,195,813, and was recorded under item B) 10) c) "Other write-downs of fixed assets" in the profit and loss account.

## Finance leasing transactions

### Information on finance leasing transactions

In their financial statements, the subsidiaries Marcegaglia Carbon Steel S.p.A. and Marcegaglia Specialties S.p.A. record finance leasing transactions using the equity method in keeping with domestic accounting standards. In their financial statements, foreign subsidiaries already record the transactions concerned using the finance method.

Thus, in accordance with Accounting Standard OIC 17, at the time of consolidation, the book values of the subsidiaries Marcegaglia Carbon Steel S.p.A. and Marcegaglia Specialties S.p.A. were adjusted in order to record the leasing transactions using the finance method.

This resulted in the following balance sheet changes:

	Gross amount
Increase in the item "Plant and machinery"	65,900,155
Reduction in the item "Fixed assets in progress"	-45,435,479
Increase in payables to other lenders due within the year	-8,773,313
Increase in payables to other lenders due after the year	-7,634,479
Reversal of down payment recorded under prepaid expenses	-3,386,752
Increase in deferred tax assets usable within the year	519,094
Increase in deferred tax assets usable after the year	418,721
Reduction in consolidation reserve	2,830,028
Increase in provision for deferred tax liabilities	-1,326,935
Reversal of payables to suppliers	724,009
<b>Balance sheet impact</b>	<b>3,835,049</b>

The increase in the item "Plant and equipment" should be seen together with the reduction in the item "Fixed assets in progress" for a total of Euro 45,435,479. In fact, this item includes the gain related to assets under finance leases arising from the contribution appraisal prepared by the expert at the time of the extraordinary transaction in 2015. This gain was determined as the difference between the current value of the asset and the amount of the remaining payable to the leasing company discounted at the implicit lease rate as at the appraisal date.

The following changes were made to the profit and loss account:

	Gross amount
Reversal of lease payments recorded in item B8	-10,760,946
Increase in depreciation, item B10 b)	5,081,695
Increase in financial expenses, item C17	307,744
Other adjustments to expenses and/or income	23,711
Recording of deferred taxes	928,360
Reversal of prepaid taxes	584,387
<b>Impact on profit and loss account</b>	<b>-3,835,049</b>

## Financial fixed assets

### Changes in financial fixed assets

See ANNEX 1C for changes in financial fixed assets.

### Breakdown of amount and details of financial fixed assets

Financial fixed assets	Book value	Fair Value
Investments in parent companies	-	-
Investments in companies subject to control of parent companies	-	-
Investments in other companies	17,357	17,357
Receivables from subsidiaries	-	-
Receivables from associates	-	-
Receivables from parent companies	-	-
Receivables from companies subject to control of parent companies	-	-
Receivables from others	76,718	76,718
Other securities	-	-
<b>Total</b>	<b>94,075</b>	<b>94,075</b>

Provisions for obsolescence were re-recorded by the subsidiaries Marcegaglia China (Euro 1,074,092 for semi-finished goods and Euro 2,819,847 for finished goods) and Marcegaglia Poland (Euro 6,112 for raw materials and Euro 15,267 for finished goods).

## CURRENT ASSETS

### Inventories

	Amount at beginning of the year	Exchange rate difference on beginning balance	Impact from change in scope of consolidation	Changes during the year	Amount at end of the year
Raw and ancillary materials and consumables	625,395,927	829,992	836,196	99,727,449	726,789,564
Work in process and semi-finished goods	300,144,392	656,714	99,006	20,475,237	321,375,349
Contract work in progress	282,181	71,856	-	27,317	381,354
Finished goods and merchandise	350,364,324	2,125,278	1,884,391	9,486,040	363,860,033
Advance payments	14,163	2,651	-	1,083,707	1,100,521
<b>Total inventories</b>	<b>1,276,200,987</b>	<b>3,686,490</b>	<b>2,819,594</b>	<b>130,799,750</b>	<b>1,413,506,821</b>

### Change in property, plant and equipment held for sale

There is no property, plant and equipment held for sale.

### Detail of provision for inventory obsolescence

	Gross amount	Provisions for obsolescence	Net amount
Raw and ancillary materials and consumables	726,795,676	6,112	726,789,564
Work in process and semi-finished goods	322,449,441	1,074,092	321,375,349
Contract work in progress	381,354	-	381,354
Finished goods and merchandise	366,695,147	2,835,114	363,860,033
Advance payments	1,100,521	-	1,100,521
<b>Total</b>	<b>1,417,422,140</b>	<b>3,915,318</b>	<b>1,413,506,821</b>

## RECEIVABLES

### Changes in receivables recorded in current assets

The decrease in tax credits was largely due (about Euro 18.8 million) to the write-down of a tax credit recorded in the financial statements of the subsidiary Marcegaglia China. This write-down was recorded in item B10) d) “Write-down of receivables included in current assets” in the profit and loss account.

	Valore di inizio esercizio	Differenza cambio su apertura	Effetto variazione area di consolid.	Variazioni nell'esercizio	Valore di fine esercizio
Crediti verso clienti iscritti nell'attivo circolante	213,229,631	858,206	2,195,593	-110,797,615	105,485,815
Crediti verso imprese controllate iscritti nell'attivo circolante	2,311,999	-	-2,007,822	120,802	424,979
Crediti verso imprese collegate iscritti nell'attivo circolante	1,697,479	-	-	-593,535	1,103,944
Crediti verso imprese controllanti iscritti nell'attivo circolante	115,124	-16,435	-	13,195,016	13,293,705
Crediti verso imprese sottoposte al controllo delle controllanti iscritti nell'attivo circolante	273,668,369	3,904,208	-1,859,733	40,970,690	316,683,534
Crediti tributari iscritti nell'attivo circolante	31,812,848	1,907,214	616,508	-20,185,637	14,150,933
Attività per imposte anticipate iscritte nell'attivo circolante	60,033,464	3,616,718	85,410	-14,789,119	48,946,473
Crediti verso altri iscritti nell'attivo circolante	75,419,312	58,676	69,477	23,754,030	99,301,496
<b>Totale crediti iscritti nell'attivo circolante</b>	<b>658,288,226</b>	<b>10,328,587</b>	<b>-900,566</b>	<b>- 68,325,368</b>	<b>599,390,879</b>

	Amount at end of the year	Portion due within the year	Portion due after the year	Of which, those with remaining term over 5 years
Receivables from customers recorded in current assets	105,485,815	105,485,815	-	-
Receivables from subsidiaries recorded in current assets	424,979	424,979	-	-
Receivables from associates recorded in current assets	1,103,944	1,103,944	-	-
Receivables from parent companies recorded in current assets	13,293,705	13,293,705	-	-
Receivables from companies subject to control of parent companies recorded in current assets	316,683,534	316,683,534	-	-
Tax credits recorded in current assets	14,150,933	12,468,009	1,682,924	-
Deferred tax assets recorded in current assets	48,946,473	23,156,328	25,790,145	-
Receivables from others recorded in current assets	99,301,496	98,305,643	995,853	-
<b>Total receivables recorded in current assets</b>	<b>599,390,879</b>	<b>570,921,957</b>	<b>28,468,922</b>	<b>-</b>

### Detail of allowance for uncollectible receivables

	Amount at beginning of the year	Exchange rate difference on beginning balance	Utilisation	Provisions	Exchange rate differ. on changes during the year	Amount at end of the year
Allowance for uncollectible receivables from customers	6,707,375	486,705	-2,927,662	4,228,533	141,865	8,636,816
Allowance for uncollectible receivables from subsidiaries	-	-	-	-	-	-
Allowance for uncollectible receivables from associates	-	-	-	-	-	-
Allowance for uncollectible receiv. from parent companies	-	-	-	-	-	-
Allowance for uncollectible receiv. from companies subject to control of parent companies	-	-	-	-	-	-
Allowance for uncollectible tax credits	-	-	-	18,782,588	-	8,782,588
Allowance for uncollectible receivables from others	-	-	-	-	-	-
<b>Total allowance for uncollectible receivables</b>	<b>6,707,375</b>	<b>486,705</b>	<b>-2,927,662</b>	<b>23,011,121</b>	<b>141,865</b>	<b>27,419,404</b>

**Detail of receivables from others**

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year	Portion due after the year	Of which, those with remaining term over 5 years
Receivables from factoring companies	63,942,702	23,969,304	87,912,006	87,912,006	-	-
Advances to suppliers	2,276,102	1,368,440	3,644,542	3,644,542	-	-
Other receivables	9,200,508	-1,455,559	7,744,948	6,749,095	995,853	-
<b>Total receivables from others</b>	<b>75,419,312</b>	<b>23,882,184</b>	<b>99,301,496</b>	<b>98,305,643</b>	<b>995,853</b>	<b>-</b>

**Detail of receivables from companies subject to control of parent companies**

	Amount at beginning of the year	Changes during the year	Impact from change in scope of consolidation	Amount at end of the year	of which, trade receivables	of which, financial receivables
Receivables from Marcegaglia TR	1,859,733	-	-1,859,733	-	-	-
Receivables from Oskar S.r.l.	2,386,771	-1,207,485	-	1,179,286	1,179,286	-
Receivables from Sc. Marcegaglia Romania S.r.l.	1,866,237	950,785	-	2,817,022	2,172,023	644,999
Receivables from Albarella S.p.A.	41,535,299	2,471,937	-	44,007,236	850,475	43,156,761
Receivables from Marcegaglia Buildtech S.r.l.	121,140,449	-9,518,683	-	111,621,766	95,235,554	16,386,212
Receivables from Eta En. Terr. Amb. S.p.A.	53,972,618	-1,360,063	-	52,612,555	1,030,252	51,582,303
Receivables from Marfin S.r.l.	50,540,607	51,658,251	-	102,198,858	2,177,971	100,020,887
Receivables from Imat S.p.A.	366,655	1,384,595	-	1,751,250	1,751,250	-
Receivables from Made HSE S.r.l.	-	403	-	403	403	-
Receivables from Euroenergy Group S.r.l.	-	30,592	-	30,592	30,592	-
Receivables from BVB S.r.l.	-	1,220	-	1,220	1,220	-
Receivables from Marcegaglia Investments	-	463,346	-	463,346	463,346	-
<b>Total receivables from companies subject to control of parent companies</b>	<b>273,668,369</b>	<b>44,874,898</b>	<b>-1,859,733</b>	<b>316,683,534</b>	<b>104,892,372</b>	<b>211,791,162</b>

**FINANCIAL ASSETS NOT HELD AS FIXED ASSETS****Changes in financial assets not held as fixed assets**

	Amount at beginning of the year	Exchange rate difference on beginning balance	Impact from change in scope of consolidation	Changes during the year	Amount at end of the year
Equity investments not held as fixed assets in subsidiaries	-	-	-	-	-
Equity investments not held as fixed assets in associates	-	-	-	-	-
Equity investments not held as fixed assets in parent companies	-	-	-	-	-
Equity Investments not held as fixed assets in companies subject to control of parent companies	-	-	-	-	-
Other equity investments not held as fixed assets	-	-	-	259,870	259,870
Financial derivatives reported as assets	734,273	-	-	2,300,970	3,035,243
Other securities not held as fixed assets	3,906,645	998,230	-	-479,930	4,424,945
<b>Total financial assets not held as fixed assets</b>	<b>4,640,918</b>	<b>998,230</b>	<b>-</b>	<b>2,080,910</b>	<b>7,720,058</b>

Securities not held as fixed assets are recorded in the financial statements of the investee company Marcegaglia do Brasil and refer to bank certificates of deposit with immediate liquidity, which are measured at purchase cost plus accrued interest.

### Detail of equity investments in subsidiaries recorded under current assets

There are no equity investments in subsidiaries recorded under current assets.

### Detail of equity investments in associates recorded under current assets

There are no equity investments in associates recorded under current assets.

## CURRENT ASSETS: CASH AND CASH EQUIVALENTS

### Changes in cash and cash equivalents

	Amount at beginning of the year	Exchange rate difference on beginning balance	Impact from change in scope of consolidation	Changes during the year	Amount at end of the year
Bank and postal deposits	11,300,463	706,654	84,002	4,608,261	16,699,380
Checks	-	-0	10,375	578,339	588,713
Cash on hand	20,486	-42	424	12,586	33,453
<b>Total cash and cash equivalents</b>	<b>11,320,949</b>	<b>706,612</b>	<b>94,801</b>	<b>5,199,185</b>	<b>17,321,546</b>

The balance of bank and postal deposits at 31 December 2016 includes the balance of several restricted current accounts pledged to securitisation companies (Euro 4,906,695) in relation to receivable sales without recourse made by the subsidiaries Marcegaglia Carbon Steel S.p.A., Marcegaglia Specialties S.p.A. and Marcegaglia Plates S.p.A., and to Banco do Brasil (Euro 1,650,000) to secure a loan made to the subsidiary Marcegaglia do Brasil Lda.

## ACCRUED INCOME AND PREPAID EXPENSES

	Amount at beginning of the year	Exchange rate difference on beginning balance	Impact from change in scope of consolidation	Changes during the year	Amount at end of the year
Other accrued income and prep. expenses	1,823,312	38,460	22,415	-655,334	1,206,438
<b>Total accrued income and prep. expenses</b>	<b>1,823,312</b>	<b>38,460</b>	<b>22,415</b>	<b>-655,334</b>	<b>1,206,438</b>

### Composition of accrued income

Accrued income	Amount at beginning of the year	Changes during the year	Amount at end of the year
Interest income on securities and deposits	455,803	-355,942	99,861
Rental income	-	9,344	9,344
Other	198,892	-198,892	-
<b>Total accrued income</b>	<b>654,695</b>	<b>-545,490</b>	<b>109,205</b>

### Composition of prepaid expenses

Prepaid expenses	Amount at beginning of the year	Changes during the year	Amount at end of the year
Interest expense	97,786	334,311	432,097
Insurance premiums	292,464	-117,128	175,336
Software/hardware licence and maintenance fees	22,610	16,513	39,123
Other	755,757	-305,080	450,678
<b>Total prepaid expenses</b>	<b>1,168,617</b>	<b>-71,384</b>	<b>1,097,233</b>

## CAPITALISED FINANCIAL EXPENSES

During the year under review, no financial expenses were capitalised.

## NOTES TO FINANCIAL STATEMENTS - LIABILITIES AND SHAREHOLDERS' EQUITY

## SHAREHOLDERS' EQUITY

## Changes in shareholders' equity items

Shareholders' equity items	Balance at beginning of period	Allocation of Parent Company profit, operating impact of 2015 consolidation entries and carry-forward of minority interest in profit (loss)	Share capital increases	Adjustment of reserve for projected cash flow hedges	Changes in the scope of consolidation	Other changes in consolidated shareholders' equity	Net profit for the year	Balance at 31/12/16
Share capital	693,914,175	-	1,403,941	0	0	0	0	695,318,116
Share premium reserve	0	0	0	0	0	0	0	0
Revaluation reserves	0	0	0	0	0	0	0	0
Legal reserve	0	1,526	0	0	0	0	0	1,526
Statutory reserves	0	0	0	0	0	0	0	0
Other Reserves								
- Extraordinary reserve	-	29,001	-	-	-	-	-	29,001
- Consolidation reserve	21,982,267	-23,338,697	-	-	-	4,998,553	-	3,642,123
- Reserve from translation differences	-1,897,833	-	-	-	-	3,929,523	-	2,031,690
- Euro rounding differences	4	-	-	-	-	-6	-	-2
<b>Total other reserves</b>	<b>20,084,438</b>	<b>-23,309,696</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,928,070</b>	<b>0</b>	<b>5,702,812</b>
Reserve for projected cash flow hedges	-29,685,512	0	0	29,165,738	0	0	0	-519,774
Profit (loss) carried forward	0	417,055	0	0	0	0	0	417,055
Group profit (loss) for the year	-22,891,115	22,891,115	0	0	0	0	-31,035,718	-31,035,718
Negative treasury share reserve	0	0	0	0	0	0	0	0
<b>Total shareholders' equity for the group</b>	<b>661,421,986</b>	<b>0</b>	<b>1,403,941</b>	<b>29,165,738</b>	<b>0</b>	<b>8,928,070</b>	<b>-31,035,718</b>	<b>669,884,017</b>
Minority interests in capital and reserves	13,890,092	-2,862,740	0	0	228,335	1,628,906	0	12,884,593
Minority interest in profit (loss) for the year	-2,862,740	2,862,740	0	0	0	0	-4,000,995	-4,000,995
<b>Total minority interests in shareholders' equity</b>	<b>11,027,352</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>228,335</b>	<b>1,628,906</b>	<b>-4,000,995</b>	<b>8,883,598</b>
<b>Total consolidated shareholders' equity</b>	<b>672,449,338</b>	<b>0</b>	<b>1,403,941</b>	<b>29,165,738</b>	<b>228,335</b>	<b>10,556,976</b>	<b>-35,036,713</b>	<b>678,767,615</b>

## Changes in reserve for projected cash flow hedges

	Balance at beginning of period	Increases (-)	Decreases (+)	Balance at end of period
Reserve for projected cash flow hedges	-29,685,512	-489,813	29,655,551	-519,774
	-29,685,512	-489,813	29,655,551	-519,774

## Reconciliation between parent company shareholders' equity and net profit (loss) at 31/12/16 and shareholders' equity and net profit reported in consolidated financial statements at 31/12/16

2016				2015		
	Share capital and reserves	Profit (loss) for the period	Total	Share capital and reserves	Profit (loss) for the period	Total
Shareholders' equity reported in parent company's statutory financial statements				693,914,174	30,527	693,944,701
Adjustment of parent company sh. eq. at 31/12/15 due to application of new OIC standards					417,055	417,055
Parent Company's shareholders' equity	695,275,885	-28,150,540	667,125,345	693,914,174	447,582	694,361,756
Adjustment due to recalculation of consolidated shareholders' equity at 31/12/15 following application of new OIC standards				-29,685,512		-29,685,512
Difference between shareholders' equity of consolidated companies and the book value of the relevant equity investments	-120,645,453		-120,645,453	-41,788,341		-41,788,341
Reserve from conversion differences resulting from the elimination of equity investments in foreign subsidiaries	2,031,690		2,031,690	-1,897,833		-1,897,833
Net profit (loss) for the year of fully consolidated companies net of minority interests		-67,679,765	-67,679,765		-82,961,426	-82,961,426
Derecognition of write-downs and revaluations of equity investments/receivables within the scope of consolidation	59,383,075	74,505,523	133,888,598		59,383,075	59,383,075
Derecognition of intra-group capital gains/losses and derecognition of write-downs/revaluations of other equity items other than equity investments	-236,208	2,880	-233,328		-236,208	-236,208
Goodwill arising from consolidation - group	67,420,395	-17,232,928	50,187,467	67,684,195	-1,128,077	66,556,118
Adjustments to bring financial statements in line with the accounting standards of the consolidated financial statements (*)	-2,830,028	3,835,049	1,005,021	-3,913,586	1,083,558	-2,830,028
Other consolidation entries	520,381	3,684,063	4,204,444		520,381	520,381
Increase/decrease in reserve to round amounts to whole Euros	-2		-2	4		4
Group consolidated shareholders' equity	700,919,735	-31,035,718	669,884,017	684,313,101	-22,891,115	661,421,986

(\*) The adjustments are made in order to measure finance leases according to the financial method as suggested by Accounting Standard OIC no. 17

## Reserves for risks and expenses

### Information on reserves for risks and expenses

See ANNEX 2 for changes in reserves for risks and expenses.

The tax fund, including deferred taxes, mainly includes deferred taxes allocated:

- as a result of the recognition of leased assets according to the financial method;
- as a result of the standardisation of measurement criteria;
- from the subsidiaries Marcegaglia Carbon Steel S.p.A., Marcegaglia Specialties S.p.A. and Marcegaglia Plates S.p.A. to record deferred taxes on the higher amounts assigned to assets at the time of contribution as indicated in the appraisals prepared by the expert for this purpose pursuant to Article 2465 of the Civil Code.

## Employee severance pay

### Information on employee severance pay

See ANNEX 2 for changes in employee severance pay.

## Payables

### Changes and due dates of payables

	Amount at beginning of the year	Exchange rate diff. on beginning balance	Impact from change in scope of consolidation	Reclassifications	Changes during the year	Amount at end of the year
Bonds	-	-	-	-	-	-
Convertible bonds	-	-	-	-	-	-
Payables to shareholders for loans	-	-	206,249	4,084,800	1,112,262	5,403,311
Payables to banks	1,210,595,750	10,386,157	824,614	-	-56,178,151	1,165,628,370
Payables to other lenders	27,729,679	37,763	910,477	-	-8,800,472	19,877,447
Advance payments	11,785,128	1,819	-	-	889,327	12,676,274
Trade payables	1,193,109,544	5,609,397	5,787,547	-	272,332,524	1,476,839,012
Payables consisting of debt securities	-	-	-	-	-	-
Payables to subsidiaries	3,439,397	-	-	89,396	-231,540	3,297,253
Payables to associates	2,045,162	-	-	-	-1,074,167	970,995
Payables to parent companies	16,656	-2,541	-	-	20,335,623	20,349,738
Payables to companies subject to control of parent companies	262,863,078	159,458	-125,000	-89,396	-249,666,745	13,141,395
Tax payables	14,948,945	1,138,459	17,382	-	5,325,739	21,430,525
Payables to welfare and social security organisations	13,079,997	27,124	12,314	-	738,121	13,857,556
Other payables	287,090,438	2,164,700	39,330	-4,084,800	-38,031,161	247,178,507
<b>TOTAL PAYABLES</b>	<b>3,026,703,774</b>	<b>19,522,335</b>	<b>7,672,913</b>	<b>-</b>	<b>-53,248,639</b>	<b>3,000,650,383</b>

	Amount at end of the year	Portion due within the year	Portion due after the year	Of which, those with remaining term over 5 years
Bonds	-	-	-	-
Convertible bonds	-	-	-	-
Payables to shareholders for loans	5,403,311	5,403,311	-	-
Payables to banks	1,165,628,370	666,212,045	499,416,325	68,726,923
Payables to other lenders	19,877,447	9,919,313	9,958,134	-
Advance payments	12,676,274	12,676,274	-	-
Trade payables	1,476,839,012	1,476,839,012	-	-
Payables consisting of debt securities	-	-	-	-
Payables to subsidiaries	3,297,253	3,297,253	-	-
Payables to associates	970,995	970,995	-	-
Payables to parent companies	20,349,738	20,349,738	-	-
Payables to companies subject to control of parent companies	13,141,395	13,141,395	-	-
Tax payables	21,430,525	20,251,828	1,178,697	-
Payables to welfare and social security organisations	13,857,556	13,857,556	-	-
Other payables	247,178,507	247,178,272	235	-
<b>TOTAL PAYABLES</b>	<b>3,000,650,383</b>	<b>2,490,096,992</b>	<b>510,553,391</b>	<b>68,726,923</b>

On 4 March 2016, the parent company Marcegaglia Steel S.p.A. entered into a loan agreement with a bank syndicate totalling Euro 492,500,000. It was partly used to repay the previous syndicated loan provided to Marcegaglia S.p.A. in 2007, and then transferred to Marcegaglia Carbon Steel S.p.A. on 1 November 2015. The remaining balance when it was repaid was Euro 156,250,000.

The new syndicated loan is structured as follows:

- a first tranche (Facility A) totalling Euro 362,500,000 secured by a mortgage on property consisting of the Gazoldo degli Ippoliti plant (the portion owned by the

subsidiary Marcegaglia Specialties S.p.A.) and the Casalmaggiore and Lomagna plants (owned by the subsidiary Marcegaglia Carbon Steel S.p.A.), by a mortgage on properties consisting of the Ravenna plant (Marcegaglia Carbon Steel S.p.A.) and the Forlì and Forlimpopoli plants (Marcegaglia Specialties S.p.A.) and by a special lien on the plant and machinery of the Gazoldo degli Ippoliti and Forlì plants (Marcegaglia Specialties S.p.A.) and the Lomagna, Casalmaggiore and Ravenna plants (Marcegaglia Carbon Steel S.p.A.).

The loan matures on 31 December 2022, and principal payments are to be made based on the following amortisation schedule:

Facility A	Amortisation
30/06/2016	13,992,500.00
31/12/2016	13,992,500.00
30/06/2017	27,876,250.00
31/12/2017	27,876,250.00
30/06/2018	27,876,250.00
31/12/2018	27,876,250.00
30/06/2019	27,876,250.00
31/12/2019	27,876,250.00
30/06/2020	27,876,250.00
31/12/2020	27,876,250.00
30/06/2021	27,876,250.00
31/12/2021	27,876,250.00
30/06/2022	27,876,250.00
31/12/2022	27,876,250.00
	<b>362,500,000.00</b>

Upon the maturity of each instalment, and thus on 30 June and 31 December of each year, interest calculated on the basis of a floating rate (zero floor Euribor + spread) will also be paid.

- a second unsecured tranche (Facility B) totalling Euro 130,000,000 maturing on 30 June 2022 with principal payments to be made based on the following amortisation schedule:

Facility B	Amortisation
30/06/2016	0
31/12/2016	0
30/06/2017	0
31/12/2017	13,000,000.00
30/06/2018	13,000,000.00
31/12/2018	13,000,000.00
30/06/2019	13,000,000.00
31/12/2019	13,000,000.00
30/06/2020	13,000,000.00
31/12/2020	13,000,000.00
30/06/2021	13,000,000.00
31/12/2021	13,000,000.00
30/06/2022	13,000,000.00
	<b>130,000,000.00</b>

Also in the case of Facility B, on 30 June and 31 December of each year, interest calculated on the basis of a floating rate (zero floor Euribor + spread) will also be paid.

At 31 December 2016, the remaining principal owed for the loans concerned was as follows:

	Amount at end of the year	Portion due within the year	Portion due after the year	Of which, portion with remaining term over 5 years
Facility A	334,515,000	55,752,500	278,762,500	55,752,500
Facility B	130,000,000	13,000,000	117,000,000	13,000,000
<b>Total</b>	<b>464,515,000</b>	<b>68,752,500</b>	<b>395,762,500</b>	<b>68,752,500</b>

As indicated in the introduction, since these loans arose in 2016, and thus, after the entry into force of Legislative Decree 139/2015, they were measured using the amortised cost criterion in keeping with the provisions of the December 2016 updated version of Standard OIC 19. From a comparison of (i) the nominal value of the loans net of transaction costs and (ii) projected outflows to repay principal, the effective interest rate was calculated, on the basis of which the amortised cost amortisation plan was determined, and the accrued financial expense to be allocated to the profit and loss account was determined.

Transaction costs include the substitute tax withheld by the bank syndicate when the loans were disbursed, arrangement fees, coordination fees and the legal and notary costs specifically incurred for the negotiation, preparation and execution of the loan agreement.

Below is a reconciliation between the nominal value of the loans and the amount of the loans recorded in the financial statements based on the amortised cost criterion.

Facility A	Initial debt	Changes during the year	Debt at end of year	Financial expenses allocated during the year
Principal owed (nominal value)	362,500,000	-27,985,000	334,515,000	9,518,563
Transaction costs (amortised cost criterion)	-6,135,862	1,206,247	-4,929,615	1,206,247
<b>Total recorded in financial statements</b>	<b>356,364,138</b>	<b>-26,778,753</b>	<b>329,585,385</b>	<b>10,724,810</b>

Facility B	Initial debt	Changes during the year	Debt at end of year	Financial expenses allocated during the year
Principal owed (nominal value)	130,000,000	0	130,000,000	4,573,472
Transaction costs (amortised cost criterion)	-2,200,447	398,657	-1,801,790	398,657
<b>Total recorded in financial statements</b>	<b>127,799,553</b>	<b>398,657</b>	<b>128,198,210</b>	<b>4,972,129</b>

Total Facility A + Facility B	Initial debt	Changes during the year	Debt at end of year	Financial expenses allocated during the year
Principal owed (nominal value)	492,500,000	-27,985,000	464,515,000	14,092,935
Transaction costs (amortised cost criterion)	-8,336,309	1,604,904	-6,731,405	1,604,904
<b>Total recorded in financial statements</b>	<b>484,163,691</b>	<b>-26,380,096</b>	<b>457,783,595</b>	<b>15,696,939</b>

Thus, the application of the amortised cost criterion resulted in recording financial expenses in the profit and loss account that were Euro 1,604,904 higher corresponding to the portion of transaction costs applicable to the year. If the amortised cost criterion had not been applied, in accordance with the provisions of the previous version of Standard OIC 24, transaction costs would have been capitalised under intangible fixed assets and amortised on a straight-line basis over the life of the loan.

Thus, the related amortisation provisions would have been recorded in item 10 a) "Amortisation of intangible fixed assets" in the profit and loss account.

Payables with a term over five years are summarised in the following table:

		Amount maturing over 5 years	Measurement criterion
Bank syndicate (Facility A)	Marcegaglia Steel Spa	55,552,800	Amortised cost
Bank syndicate (Facility B)	Marcegaglia Steel Spa	12,970,485	Amortised cost
Banco do Brasil	Marcegaglia do Brasil Lda	203,638	Nominal value
<b>Total</b>		<b>68,726,923</b>	

#### Detail of the item “Other payables”

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year	Portion due after the year	Of which, portion with remaining term over 5 years
Payables to employees	16,203,148	1,577,088	17,780,236	17,780,236	-	-
Payables to factoring companies	235,449,390	-16,978,092	218,471,298	218,471,298	-	-
Other payables	35,437,900	-24,510,926	10,926,974	10,926,738	235	-
<b>Total other payables</b>	<b>287,090,438</b>	<b>-39,911,931</b>	<b>247,178,507</b>	<b>247,178,272</b>	<b>235</b>	<b>-</b>

#### Detail of the item “Payables to companies subject to control of parent companies”

	Amount at beginning of the year	Impact from change in scope of consolidation	Reclassific.	Changes during the year	Amount at end of the year
Payables to Marfin	259,758,995	-	-	-250,546,950	9,212,045
Payables to Oskar srl	155,996	-	-	40,500	196,496
Payables to Made HSE s.r.l.	971,777	-	-	1,130,139	2,101,916
Payables to Marcegaglia Buildtech srl	811,589	-	-	218,136	1,029,725
Payables to Sc. Marcegaglia Romania srl	309,226	-	-	-69	309,157
Payables to Marcegaglia Deutschland GmbH	100,000	-	-89,396	-10,604	-
Payables to Imat Spa	320,309	-	-	-240,284	80,025
Payables to Marcegaglia TR	125,000	-125,000	-	-	-
Payables to Abaco Servizi srl	310,186	-	-	-109,110	201,076
Payables to Dalmine LS	-	-	-	5,907	5,907
Payables to BVB srl	-	-	-	3,000	3,000
Payables to Albarella Spa	-	-	-	2,048	2,048
<b>Total payables to companies subject to control of parent companies</b>	<b>262,863,078</b>	<b>-125,000</b>	<b>-89,396</b>	<b>-249,507,287</b>	<b>13,141,395</b>

The decrease in payables to the affiliate Marfin S.r.l. was mainly due to completion of the formal transfer of bank facilities from Marfin S.r.l. (the former Marcegaglia S.p.A.) to Marcegaglia Steel S.p.A.

#### Debt secured by company assets

	Debt secured by collateral				Unsecured debti	Total
	Debt secured by mortgages	Debt secured by liens	Debt secured by special liens	Total debt secured by collateral		
Bonds				-	-	-
Convertible bonds				-	-	-
Payables to shareholders for loans				-	5,403,311	5,403,311
Payables to banks	409,090,051	4,424,945	19,360,017	432,875,012	732,753,358	1,165,628,370
Payables to other lenders	19,876,622			19,876,622	825	19,877,447
Advance payments				-	12,676,274	12,676,274
Trade payables		-		-	1,476,839,012	1,476,839,012
Payables in the form of debt instruments				-	-	-
Payables to subsidiaries				-	3,297,253	3,297,253
Payables to associates				-	970,995	970,995
Payables to parent companies				-	20,349,738	20,349,738
Payables to companies subject to control of parent companies				-	13,141,395	13,141,395
Tax payables				-	21,430,525	21,430,525
Payables to welfare and social security organisations				-	13,857,556	13,857,556
Other payables				-	247,178,507	247,178,507
<b>Total payables</b>	<b>428,966,673</b>	<b>4,424,945</b>	<b>19,360,017</b>	<b>452,751,634</b>	<b>2,547,898,749</b>	<b>3,000,650,383</b>

## Detail of debt secured by mortgages:

Secured creditor	Borrower	Remaining secured debt at 12.31.2016	
GE Capital	Marcegaglia Carbon Steel Spa	4,597,811	Mortgage on properties located in Albignasego, Corsico and Lainete and special lien on assets at the same plants.
Intesa Sanpaolo	Marcegaglia Carbon Steel Spa	8,040,000	First and second mortgage on properties located in Boltiere and special lien on assets at the same plant.
Intesa Sanpaolo	Marcegaglia Carbon Steel Spa	8,400,000	First and second mortgage on properties located in Boltiere and special lien on assets at the same plant.
Bank syndicate (Facility A)	Marcegaglia Steel Spa	334,515,000	Mortgage on properties consisting of the Gazoldo degli Ippoliti plant (the portion owned by the subsidiary Marcegaglia Specialties S.p.A.) and the Casalmaggiore and Lomagna plants (owned by the subsidiary Marcegaglia Carbon Steel S.p.A.), properties consisting of the Ravenna plant (Marcegaglia Carbon Steel S.p.A.) and the Forlì and Forlimpopoli plants (Marcegaglia Specialties S.p.A.) and special lien on the assets at the same plants
Brazilian banks	Marcegaglia do Brasil Lda	21,793,367	Mortgage on properties of the subsidiary Marcegaglia do Brasil Lda
Banca Pekao	Marcegaglia Poland	31,743,873	Mortgage on properties of the subsidiary Marcegaglia Poland
Mediocredito Italiano Spa	Marcegaglia Specialties Spa	6,859,845	Plant covered by lease
Alba Leasing Spa / Sardaleasing Spa	Marcegaglia Carbon Steel Spa	9,547,947	Plant covered by lease
Polish leasing company	Marcegaglia Poland	1,713,438	Plant covered by lease
Brazilian leasing company	Marcegaglia do Brasil Lda	753,224	Plant covered by lease
Turkish leasing company	Marcegaglia TR	1,002,168	Plant covered by lease
<b>Total</b>		<b>428,966,673</b>	

## Detail of debt secured by liens:

Secured borrower	Remaining secured debt at 12.31.2016	
Brazilian banks	Marcegaglia do Brasil Lda	4,424,945
<b>Total</b>		<b>4,424,945</b>

## Detail of debt secured by special liens or other collateral

Secured borrower	Remaining secured debt at 12.31.2016	
Banca Pekao	Marcegaglia Poland	3,020,022
BNP Paribas	Marcegaglia Poland	2,258,309
ING	Marcegaglia Poland	3,280,160
Credit Agricole	Marcegaglia Poland	6,187,833
Millennium	Marcegaglia Poland	4,613,693
<b>Total</b>		<b>19,360,017</b>

## ACCRUED EXPENSES AND DEFERRED INCOME

	Amount at beginning of the year	Exchange rate difference on beginning balance	Impact from change in scope of consolidation	Changes during the year	Amount at end of the year
Other accrued expenses and deferred income	8,139,610	-218,340	0	-682,572	7,238,698
<b>Total accrued expenses and deferred income</b>	<b>8,139,610</b>	<b>-218,340</b>	<b>0</b>	<b>-682,572</b>	<b>7,238,698</b>

## Composition of accrued expenses

Accrued expenses	Amount at beginning of the year	Changes during the year	Amount at end of the year
Interest expense	1,682,887	-45,329	1,637,559
Other	1,505,396	-569,061	936,335
<b>Total accrued expenses</b>	<b>3,188,283</b>	<b>-614,390</b>	<b>2,573,894</b>

## Composition of deferred income

Deferred income	Amount at beginning of the year	Changes during the year	Amount at end of the year
Other	4,951,327	-286,523	4,664,804
<b>Total deferred income</b>	<b>4,951,327</b>	<b>-286,523</b>	<b>4,664,804</b>

This item refers exclusively to concessions on the land parcel where the Marcegaglia China plant is located; they were issued to the subsidiary by Chinese authorities.

## PROFIT AND LOSS ACCOUNT

### VALUE OF PRODUCTION

#### Breakdown of revenues from sales and services by geographic area

Geographic area	Amount for current year	%
Italy	1,442,209,777	38%
EU	1,870,416,776	50%
Other European countries	218,361,341	6%
North America	92,826,562	2%
South and Central America	101,455,764	3%
Middle East	3,412,169	0%
Far East - Oceania	22,170,504	1%
Africa	22,276,122	1%
<b>Total</b>	<b>3,773,129,017</b>	<b>100%</b>

## FINANCIAL INCOME AND EXPENSES

#### Breakdown of other financial income

	Other financial income
From receivables recorded as fixed assets - subsidiaries	-
From receivables recorded as fixed assets - associates	-
From receivables recorded as fixed assets - parent companies	-
From receivables recorded as fixed assets - companies subject to control of parent companies	217,814
From receivables recorded as fixed assets - other companies	33
From securities recorded as fixed assets not categorised as equity investments	-
From securities recorded in current assets not categorised as equity investments	306,199
Income from other sources - subsidiaries	9,770
Income from other sources - associates	-
Income from other sources - parent companies	51,638
Income from other sources - companies subject to control of parent companies	7,425,471
Income from other sources - other	4,311,795
<b>Total</b>	<b>12,322,720</b>

#### Detail of the item “Income from other sources - other”

	Income from other sources - other
Interest income from credit institutions	37,516
Other interest income	427,097
Financial income on derivatives	452,991
Financial discounts from suppliers	3,344,263
Other financial income	49,928
<b>Total other financial expenses</b>	<b>4,311,795</b>

## Breakdown of interest and other financial expenses by type of payable

	Interest and other financial expenses
Interest expense relating to subsidiaries	86,012
Interest expense relating to associates	-
Interest expense relating to parent companies	-
Interest expense relating to companies subject to control of parent companies	1,523,367
Interest expense relating to credit institutions	59,837,571
Other financial expenses	48,347,276
<b>Total</b>	<b>109,794,226</b>
of which, financial expenses resulting from the application of the amortised cost criterion	1,604,904
<b>Total financial expenses net of financial expenses resulting from the application of the amortised cost criterion</b>	<b>108,189,322</b>

## Detail of the item “Other”

	Altri oneri finanziari
Interest expense relating to credit and factoring institutions	27,164,766
Financial expenses on derivatives	17,065,223
Other interest and financial expenses	4,117,287
<b>Total other financial expenses</b>	<b>48,347,276</b>

## VALUE ADJUSTMENTS OF FINANCIAL ASSETS

### Detail of revaluations and write-downs

	Revaluations	Write-downs
Marcegaglia China	-	11,000,000
<b>of equity investments recorded as financial fixed assets</b>	<b>-</b>	<b>11,000,000</b>
<b>of financial derivatives</b>	<b>34,520,024</b>	<b>51,475,414</b>
<b>Total</b>	<b>34,520,024</b>	<b>62,475,414</b>

The write-down of the equity investment in the subsidiary Marcegaglia China refers to the obligation signed in 2017 by Marcegaglia Carbon Steel S.p.A. with the subsidiary's outside shareholder, Simest S.p.A., to repurchase the stake held by the latter in the same company for compensation equal to the amount paid at the time of the investment in capital equal to Euro 11,000,000 in view of the continuing negative performance of the Chinese subsidiary and in accordance with the outside shareholder.

Based on the above, it was deemed appropriate to establish a provision for risks in an amount exactly equal to the outlay to acquire the full stake in the subsidiary.

## REVENUES AND/OR COSTS OF AN EXCEPTIONAL NATURE OR SIZE

### Amount and nature of individual revenue and/or cost items of an exceptional size or percentage

There were no costs or expenses and/or revenues or income of an exceptional size or percentage.

## Profit and loss account highlighting revenues, income, costs and expenses of an exceptional nature

	Amounts of an ordinary nature	Amounts of an exceptional nature	Total amounts
Revenues from sales and services	3,773,129,017	-	3,773,129,017
Change in inventories of work-in-process, semi-finished and finished goods	30,072,173	-	30,072,173
Changes in pending contracts	23,690	-	23,690
Increase in fixed assets for internal work	728,950	-	728,950
Other revenues and income	15,929,711	-	15,929,711
<b>Value of production</b>	<b>3,819,883,541</b>	<b>-</b>	<b>3,819,883,541</b>
Raw materials, ancillary materials, consumables and goods for resale	-2,818,824,082	-	-2,818,824,082
Services	-514,136,455	-	-514,136,455
Lease and rental expense	-6,373,213	-	-6,373,213
Personnel costs	-237,283,946	-	-237,283,946
Changes in inventories of raw materials, ancillary materials, consumables and goods for resale	100,885,225	-	100,885,225
Provisions for risks	-	-	-
Other provisions	-	-	-
Other operating expenses	-11,775,982	-	-11,775,982
Production costs net of amortisation, depreciation and write-downs	-3,487,508,453	-	-3,487,508,453
<b>EBITDA</b>	<b>332,375,088</b>	<b>-</b>	<b>332,375,088</b>
Amortisation, depreciation and write-downs	-220,805,339	-	-220,805,339
Production costs	-3,708,313,792	-	-3,708,313,792
Difference between value and cost of production	111,569,749	-	111,569,749
Income from equity investments	-	-	-
Other financial income	12,322,720	-	12,322,720
Interest and other financial expenses	-109,794,226	-	-109,794,226
Exchange-rate gains and losses	6,444,259	-	6,444,259
Financial income and expenses	-91,027,247	-	-91,027,247
Revaluations	34,520,024	-	34,520,024
Write-downs	-62,475,414	-	-62,475,414
Value adjustments of financial assets	-27,955,390	-	-27,955,390
<b>Profit (loss) before taxes</b>	<b>-7,412,888</b>	<b>-</b>	<b>-7,412,888</b>
Current, deferred and prepaid income taxes for the year	-27,623,825	-	-27,623,825
<b>Profit (loss) for the year</b>	<b>-35,036,713</b>	<b>-</b>	<b>-35,036,713</b>

## DEFERRED AND PREPAID TAXES

The amount of deferred and prepaid taxes flowing to the profit and loss account is reported directly in the financial statements in their components (current taxes, taxes related to previous years and deferred and prepaid taxes).

For the parent company and Italian subsidiaries, prepaid and deferred taxes were calculated at the IRES rate of 27.5% (24% on temporary differences, the reversal of which is scheduled starting in 2017) and the IRAP rate of 3.9%. Foreign subsidiaries instead applied tax rates in effect in their respective countries.

## STATEMENT OF CASH FLOW

See the specific annex for the statement of cash flow.

## OTHER INFORMATION

### Analysis of 2016 operating results for the Marcegaglia Steel group

We felt it appropriate to indicate that operating results for 2016 were satisfactory as reflected in EBITDA, which totalled over Euro 332 million representing 8.81% of revenues from sales and services.

As noted in the paragraphs regarding various sections of the financial statements, given the negative performance of the Chinese subsidiary, to be conservative it was decided to take write-downs of Chinese property, plant and equipment and current assets in the context of their forced sale.

The net effect of these write-downs was an impact of about Euro 32 million on the consolidated profit and loss account under item B) 10) "Amortisation, depreciation and write-downs". This breaks down into Euro 13.2 million recorded under item B) 10) c) "Other write-downs of fixed assets" and Euro 18.8 million recorded under item B) 10) d) "Write-downs of receivables included in current assets, and of cash and cash equivalents." Also, in view of the allocation of Euro 11 million to the risk provision, which is equal to the outlay to be made in 2017 in accordance with an instalment schedule to purchase the stake held by Simest in Marcegaglia China Ltd, the impact of the write-downs from the Chinese subsidiary in the profit and loss account totals about Euro 43 million.

After the above write-downs, it should be stressed that in 2016, in an effort to be extremely conservative, measures were taken to eliminate assets net of liabilities that the Chinese subsidiary contributed to the consolidated financial statements for Steel in 2016, and that therefore, based on accounting confirmations as at 31 December 2016, there were no further liabilities to post from Marcegaglia China.

## Employment data

	Actual number at end of year	Average number
Managers	58	58
Office workers	1,118	1,124
Factory workers	4,089	4,063
<b>Total employees</b>	<b>5,265</b>	<b>5,245</b>

## Compensation paid to directors and statutory auditors

	Directors	Statutory Auditors
Compensation	1,557,996	153,608
Advances		
Receivables		
Obligations assumed on their behalf as a result of guarantees given		

## Compensation paid to auditor or independent auditor

	Amount
Compensation for audit of annual financial statements	502,978
Compensation for other audit services performed	53,652
Compensation for tax consulting services	15,845
Compensation for services other than auditing	1,658
<b>Total</b>	<b>574,133</b>

On 27 November 2015, the Extraordinary Shareholders' Meeting awarded the assignment for the audit of separate financial statements pursuant to Article 14 of Legislative Decree No. 39 of 27 January 2010 to the auditing firm MAZARS ITALIA S.p.A. for a period of 3 years.

The compensation indicated above was for the audit of financial statements and accounting controls and for the other services indicated above carried out in 2016 by the independent auditor.

## Commitments, guarantees and contingent liabilities not reported in the balance sheet

	Amount
<b>Commitments</b>	<b>3,365,903</b>
post-retirement benefits and similar obligations	-
to subsidiaries	-
to associates	-
to parent companies	-
to companies subject to control of parent companies	2,976,943
<b>Guarantees</b>	<b>134,425,727</b>
collateral	-
<b>Contingent liabilities</b>	<b>-</b>

## Detail

	12/31/2016	12/3/2015
<b>RISKS TAKEN BY THE COMPANY</b>		
<b>Bank guarantees</b>		
- to parent companies' subsidiaries	41,750,882	
- to other companies	92,674,845	31,019,043
<b>Total bank guarantees</b>	<b>134,425,727</b>	<b>31,019,043</b>
<b>Total guarantees</b>	<b>134,425,727</b>	<b>31,019,043</b>
<b>Commitments entered into by the Company</b>		
- with companies subject to control of parent companies	2,976,943	626,725
- other commitments	388,960	449,721
<b>Total commitments entered into by the Company</b>	<b>3,365,903</b>	<b>1,076,446</b>
<b>Total</b>	<b>137,791,630</b>	<b>32,095,489</b>

Commitments taken with companies subject to parent companies' control refer to expiring lease payments pursuant to the lease agreement for the plant in Osteria Grande (Marcegaglia Carbon Steel spa) entered into with Oskar srl, owner of the site.

## Consolidated financial statements

	Smallest grouping	Largest grouping
Name of company preparing the consolidated financial statements	MARCEGAGLIA HOLDING Spa	FINMAR SRL
City (if in Italy) or foreign country	Gazoldo degli Ippoliti (MN)	Gazoldo degli Ippoliti (MN)
Tax ID No. (for Italian companies)	02466980204	02466170202
Place of filing of the consolidated financial statements	Mantua Company Register	Mantua Company Register

These consolidated financial statements consist of the consolidated financial statements of Marcegaglia Holding S.p.A. and are subject to mandatory filing in the Company Register pursuant to Art. 32 of Legislative Decree 127/91. The consolidated financial statements of Marcegaglia Holding S.p.A. are in turn made up of the consolidated financial statements of Finmar S.r.l., which is the ultimate parent company of the Marcegaglia Group, and they too are subject to mandatory filing in the Company Register pursuant to the same decree.

## Related-party transactions not carried out at normal market conditions

There were no transactions of a significant amount with related parties or an ordinary nature carried out under conditions not consistent with normal market conditions.

### Agreements not reflected in the balance sheet

Neither the parent company Marcegaglia Steel S.p.A. nor any other company included in consolidation carried out any transactions that fall under the specific situation governed by Art. 38(1)(o-VI) of Legislative Decree 127/91.

### Information on the fair value of financial instruments

In view of the new provisions introduced by Legislative Decree 139/2015 concerning the financial statement treatment of financial derivatives, and by the new domestic Accounting Standard No.32 published at the end of 2016 by the OIC, the accounting treatment of derivatives changed substantially.

In particular, with specific reference to derivatives, the new legislative provisions referenced had to be applied retroactively, meaning the new measurement criteria were applied as if the new accounting principle had always been applied, by adjusting the beginning accounting balances with balancing entries in a shareholders' equity reserve.

In this case, the column with comparisons for 2015 was used to reflect the new criteria for classifying items in the new layout of the balance sheet and profit and loss account.

To be specific, the new provisions noted above resulted in the following changes to the reporting of data for consolidated accounting balances for the year ending 31 December 2015.

	Balance sheet as at 31/12/2015	Profit and loss account 2015
Current assets C III 5) Financial derivatives reported as assets	734,273	
Current assets C III 4) Other equity investments	-159,024	
Sh. equity A VII Reserve for projected cash flow hedges	-29,685,512	
Sh. equity: Minority interests in capital and reserves	-32,738	
B) Reserves for risks and expenses - 3) Financial derivatives reported as liabilities	52,236,118	
B) Reserves for risks and expenses - 4) Other reserves	-22,517,868	
B) Reserves for risks and expenses - 2) Deferred tax reserve	158,193	
D) 18) Revaluations of financial derivatives		1,364,442
C) 17 ) Other financial expenses		-789,142
A) 5) Other revenues		-51
D) 19) Write-downs of financial derivatives		-191,501
C) 17 ) Other financial expenses		61,927
C) 17bis) Exchange gains and losses		129,574
E) 20 Deferred taxes		-158,193
<b>Total increase in assets</b>	<b>575,249</b>	
Total decrease in shareholders' equity	-29,718,250	
Total increase in liabilities	29,876,443	
<b>Total increase in liabilities and shareholders' equity</b>	<b>158,193</b>	
<b>Net increase in assets</b>	<b>417,056</b>	
<b>Total increase in profit for the year</b>		<b>417,056</b>

To summarise, the effects indicated in the above table show that following the regulatory amendments, the fair value of derivatives for hedging at 31 December 2015 (Euro 29,718,250) was reported in the financial statements as at 31 December 2015, as was the fair value of the positive exchange rate derivative of Euro 575,249 at 31 December 2015. As at 31 December 2015, the latter derivative was not classifiable as a hedge as specified by the current wording of OIC 32, and thus at 31 December 2015 its fair value was reported, for restating financial year 2015, in the profit and loss account net of the related deferred tax, thereby recalculating the operating result for the period.

In 2016, after two large syndicated loans were obtained on 4 March 2016 from banks for a total nominal value of Euro 492.5 million (Euro 362.5 million mortgage loan and Euro 130 million unsecured loan, both with an amortisation schedule ending in 2022), the parent company Marcegaglia Steel S.p.A., the recipient of the two new loans, repaid the previous syndicated loan in advance with value on 8 March 2016. The latter loan was made to Marcegaglia Carbon Steel S.p.A. with a natural maturity of 31 December 2017.

At the time of the contribution in 2015, the derivatives in place to hedge this liability, which at the time of the repayment of the old loan were in the name of Marcegaglia Carbon Steel S.p.A., were not terminated at the same time, but transferred, between April and May 2016, from Marcegaglia Carbon Steel S.p.A. to the parent company Marcegaglia Steel S.p.A.

In the weeks following this novation, Marcegaglia Steel S.p.A. renegotiated new hedges with the bank counterparties of these derivatives, and signed new agreements, which were established and structured in such a way to be perfectly related to the two new loans obtained pursuant to the current OIC 32.

The counterparties of these new hedges included the banks participating in the old

syndicate as well as many of the banks in the new syndicate to ensure that a greater portion of the nominal amount of the two new loans would be hedged.

When re-establishing the new hedges, costs of about Euro 4.7 million were incurred to reduce a portion of the notional amount of the “old” derivatives. These are recorded in section C) 17 “Other financial expenses” of the profit and loss account. By agreement with several banks in the new syndicate (already included in the previous syndicate for the prepaid loan), the remaining negative fair value of the “old” derivatives was transferred to the new IRS contracts, as noted above, as a perfect hedge in sync with the amortisation schedule for the new loans.

Through appropriate calculations and estimates, the ineffective portion of the hedge of the new IRSs entered into at the time of their execution was determined to be equal to their initial negative fair value consisting of the referenced market-to-market/fair value transferred and implicit fees applied by the banks.

The amount of this ineffective portion of the hedge was recorded in the profit and loss account under item D) 19) “Write-down of financial derivatives” in the amount of about Euro 21.2 million as recommended by the current Accounting Standard OIC 32.

This amount was then adjusted, again with a balancing entry in the profit and loss account, but in this case under item D) 18) “Revaluation of financial derivatives” (about Euro 4.4 million) to reflect the positive change in fair value (calculated again only in relation to the ineffective portion) at 31 December 2016 in view of payments of differentials that occurred between June and December 2016.

At 31 December 2016, the fair value of the effective portion was slightly negative (-Euro 489,813), and was included in the specific negative shareholders’ equity reserve A VII “Reserve for projected cash flow hedges” introduced by recent new regulatory provisions, together with the group portion of the negative fair value at 31 December 2016 of an IRS to hedge a bank loan maturing in 2018

held by the subsidiary Mariven S.r.l. in the amount of -Euro 29,961.

The remaining portion of the negative fair value related to the hedging derivative held by Mariven S.r.l. at 31 December 2016, which was attributable to minority interests, was removed from the minority interests in capital and reserves.

The following tables provide details on the profit and loss account items “Revaluations and write-downs of financial derivatives.”

To make it easier to understand the impact on section D) of the profit and loss account in relation to derivatives held during the year, and in view of their intervening evolution during the period (hedging derivatives at the beginning of the year, then no longer classifiable as hedges due to the elimination of the underlying liabilities, and then their return to hedging status with the implementation of new agreements related to the amortisation schedules for the new syndicated loans), it was deemed to be more efficient to analyse their net effect.

Net provision for the negative fair value of the IRSs held, not classifiable as hedges in accordance with the current OIC 32	-2,389,502
Net provision for the negative fair value of the ineffective portion (at 31 December 2016) of the new IRS derivatives to hedge the syndicated loans	-16,796,538
Positive fair value of derivatives of currencies (mostly forward purchases) that are not classifiable as hedges pursuant to OIC 32	2,230,650
<b>Net effect of the revaluations/write-downs of financial derivatives</b>	<b>16,955,390</b>

The following tables provide details on derivative contracts held at 31 December 2016 by companies included in the scope of consolidation:

Type	Notional amount at 12/31/2016	Type	Maturity	Fair value at 12/31/2016
Interest rate swap	339,937,000	Hedging	12/31/2022	-17,286,351
Interest rate swap	2,450,000	Hedging	11/28/2018	-46,093
Interest rate swap	50,000,000	Not for hedging pursuant to OIC 32	05/11/2020	-10,263,866
Interest rate swap	100,000,000	Not for hedging pursuant to OIC 32	12/18/2017	-4,257,239
Forward sales of USD	USD 5,000,000	Not for hedging pursuant to OIC 32	January 2017	-85,419
				<b>-31,938,968</b>
Forward purchases of USD	USD 48,783,480	Not for hedging pursuant to OIC 32	January and March 2017	2,759,173
Forward sales of USD	USD 7,750,000	Not for hedging pursuant to OIC 32	February, March, April 2017	250,079
Forward purchases of USD	USD 2,325,000	Not for hedging pursuant to OIC 32	January, February 2017	25,990
				<b>3,035,243</b>

## SIGNIFICANT EVENTS OCCURRING AFTER YEAR-END

In the first quarter of 2017, the positive trend in global and European demand continued with further significant price hikes driven by rising prices for raw materials.

In February 2017, final anti-dumping duties were confirmed for imports of HR coils from China with higher duties on heavy plates of Chinese origin. However, at the end of March the European Commission decided not to apply the temporary duties on HR coils from other exporting countries, and intends to make a decision on the possible application of the final duties in the coming months (and in any case, by October 2017). However, it should be noted that there is a speculative component in price levels of raw materials and steel products that could leave room for a partial rebound starting at the end of the second quarter.

In this environment of positive price movements, Marcegaglia Steel generated a sharp increase in revenues over the first quarter of 2016 for a total of Euro 1,145 million (+31.1%) as shown in the following table.

Name	Revenues (thousand Euro)		%
	Jan-Mar '17	Jan-Mar '16	
Marcegaglia Carbon Steel	666,633	496,111	34.4
Marcegaglia Specialties	292,798	240,807	21.6
Marcegaglia Plates	50,910	38,748	31.4
<b>Marcegaglia Steel Italy</b>	<b>1,010,341</b>	<b>775,665</b>	<b>30.3</b>
Marcegaglia do Brasil Ltda	32,368	20,341	59.1
Marcegaglia China	764	5,623	-86.4
Marcegaglia Poland Sp z.o.o.	55,169	43,272	27.5
Marcegaglia UK	14,494	11,247	28.9
Marcegaglia RU	7,415	3,870	91.6
Marcegaglia TR	6,722	2,535	165.2
Marcegaglia USA	17,614	10,537	67.2
<b>Marcegaglia Steel Foreign</b>	<b>134,546</b>	<b>97,425</b>	<b>38.1</b>
<b>Marcegaglia Steel Total</b>	<b>1,144,886</b>	<b>873,091</b>	<b>31.1</b>

Above all, Marcegaglia Steel Italy managed to significantly improve profitability in all product lines.

This improved profitability is expected to continue at least until the summer, and will, in any case, set the stage for good results for all of 2017.

Name	Quantity (ton)			MARK UP	
	Jan-Mar '17	Jan-Mar '16	Δ %	thousand Euro	%
Marcegaglia Carbon Steel	952,247	933,245	2.0	60,867	6.5
Marcegaglia Specialties	151,595	151,305	0.2	29,777	19.7
Marcegaglia Plates	92,217	96,231	-4.2	4,734	4.9
<b>Marcegaglia Steel Italy</b>	<b>1,196,059</b>	<b>1,180,781</b>	<b>1.3</b>	<b>95,387</b>	<b>8.1</b>
Marcegaglia do Brasil Ltda	23,942	26,601	-10.0	9,486	35.7
Marcegaglia China	6,063	6,930	-12.5	2,033	29.3
Marcegaglia Poland Sp z.o.o.	70,120	75,642	-7.3	9,396	12.4
Marcegaglia UK	20,161	17,829	13.1	4,478	25.1
Marcegaglia RU	2,872	1,809	58.8	1,232	68.1
Marcegaglia TR	4,370	2,866	52.5	904	31.6
Marcegaglia USA	8,012	8,499	-5.7	1,311	15.4
<b>Marcegaglia Steel Foreign</b>	<b>135,540</b>	<b>140,176</b>	<b>-3.3</b>	<b>28,840</b>	<b>20.6</b>
<b>Marcegaglia Steel Total</b>	<b>1,331,599</b>	<b>1,320,957</b>	<b>0.8</b>	<b>124,227</b>	<b>9.4</b>

As dictated by the structured process for the sale of ILVA's assets, on 16 March 2017 AM Invest Co, in which Marcegaglia holds an initial stake of 15%, filed a binding offer valid until 30 June. The related decision, allowing access to the exclusive negotiating phase, is expected by May.

In keeping with the strategy to sell off non-core assets, in addition to the previously mentioned sale of assets for the production of stainless steel tubes of Marcegaglia USA, in February 2017, Marcegaglia Carbon Steel executed the partial sale (as the first step for a subsequent total sale) of its 32% stake in Fontana S.p.A. to Sodecia, a group that specialises in the sheet stamping sector for the automotive industry, in which Fontana S.p.A. operates.

## REFERENCE TO DIRECTORS' REPORT ACCOMPANYING THE CONSOLIDATED FINANCIAL STATEMENTS

See the Directors' Report accompanying these consolidated financial statements for information on the nature of business activities and relationships with subsidiaries, associates, parent companies and companies subject to the control of the latter.

## ANNEXES FORMING AN INTEGRAL PART OF THESE NOTES

**Annexes n.1a-1b-1c:** Statements of changes in property, plant and equipment, and intangible and financial fixed assets

**Annexes n.2:** Statement of changes in risk and expense reserves and employee severance pay

### Statement of cash flows

*Gazoldo degli Ippoliti, 29 May 2017*

Chairman of the  
Board of Directors

**Antonio Marcegaglia**

**annex 1a - STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT**

		Balance at beginning of year	Exch. diff. at beginning of year	Increases	Decreases	Reclassificat.	Changes in exchange differences	Change in scope of consolidation	Balance at end of year
<b>Land and buildings</b>	Original cost	801.023.677	11.950.642	3.179.449	574.990	142.321	-26.539	0	815.694.560
	Revaluations	8.518.882	2.188.264	0	0	0	0	0	10.707.146
	Write-downs	4.639.341	0	0	0	0	0	0	4.639.341
	Ordinary acc. amortisation	52.991.731	4.558.332	26.751.550	166.741	0	380.538	0	84.515.410
	<b>Total</b>	<b>751.911.487</b>	<b>9.580.574</b>	<b>-23.572.101</b>	<b>408.249</b>	<b>142.321</b>	<b>-407.077</b>	<b>0</b>	<b>737.246.955</b>
<b>Plant and machinery</b>	Original cost	1.121.288.907	5.136.155	32.146.837	992.440	14.167.639	266.531	2.578.428	1.174.592.057
	Revaluations	9.335.802	2.398.108	0	0	0	0	0	11.733.910
	Write-downs	13.678	-206	12.301.386	0	0	0	0	12.314.858
	Ordinary acc. amortisation	131.658.185	5.585.839	103.318.632	183.718	0	449.716	92.367	240.921.021
	<b>Total</b>	<b>998.952.846</b>	<b>1.948.630</b>	<b>-83.473.181</b>	<b>808.722</b>	<b>14.167.639</b>	<b>-183.185</b>	<b>2.486.061</b>	<b>933.090.088</b>
<b>Industrial and commercial equipment</b>	Original cost	104.529.822	1.713.829	7.011.518	457.479	30.326	105.514	64.769	112.998.299
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	285	0	0	44	0	329
	Ordinary acc. amortisation	52.108.375	1.558.852	11.123.282	13.831	0	19.163	7.051	64.802.892
	<b>Total</b>	<b>52.421.447</b>	<b>154.977</b>	<b>-4.112.049</b>	<b>443.648</b>	<b>30.326</b>	<b>86.307</b>	<b>57.718</b>	<b>48.195.078</b>
<b>Other assets</b>	Original cost	18.281.132	110.124	1.524.997	209.379	657.460	35.807	0	20.400.141
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	156	40	27	0	0	4	0	227
	Ordinary acc. amortisation	6.983.929	106.408	3.207.809	92.048	0	36.930	0	10.243.028
	<b>Total</b>	<b>11.297.047</b>	<b>3.676</b>	<b>-1.682.839</b>	<b>117.331</b>	<b>657.460</b>	<b>-1.127</b>	<b>0</b>	<b>10.156.886</b>
<b>Fixed assets in progress</b>	Original cost	32.483.339	603.438	8.564.124	2.268.372	-15.001.523	-377.610	0	24.003.396
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	5.860.143	12.667	894.427	0	0	3.912	0	6.771.149
	Ordinary acc. amortisation	0	0	0	0	0	0	0	0
	<b>Total</b>	<b>26.623.196</b>	<b>590.771</b>	<b>7.669.697</b>	<b>2.268.372</b>	<b>-15.001.523</b>	<b>-381.522</b>	<b>0</b>	<b>17.232.247</b>
<b>Advance payments</b>	Original cost	6.928.026	20.770	1.385.789	6.354.138	0	-11.346	0	1.969.101
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	0	0	0	0	0	0
	Ordinary acc. amortisation	0	0	0	0	0	0	0	0
	<b>Total</b>	<b>6.928.026</b>	<b>20.770</b>	<b>1.385.789</b>	<b>6.354.138</b>	<b>0</b>	<b>-11.346</b>	<b>0</b>	<b>1.969.101</b>
<b>ii - Property plant and equipment</b>	Original cost	2.084.534.903	19.534.958	53.812.714	10.856.798	-3.776	-7.643	2.643.197	2.149.657.555
	Revaluations	17.854.684	4.586.372	0	0	0	0	0	22.441.056
	Write-downs	10.513.318	12.501	13.196.125	0	0	3.960	0	23.725.904
	Ordinary acc. amortisation	243.742.220	11.809.431	144.401.274	456.338	0	886.347	99.418	400.482.352
	<b>Total</b>	<b>1.848.134.049</b>	<b>12.299.398</b>	<b>-103.784.685</b>	<b>10.400.460</b>	<b>-3.776</b>	<b>-897.950</b>	<b>2.543.779</b>	<b>1.747.890.355</b>

The increases in plant and machinery refer mainly to Marcegaglia Carbon Steel (Euro 17,602,576) and Marcegaglia Specialties (Euro 8,469,030).

The increase in depreciation for plant and equipment by Euro 12,301,386 refers to subsidiary Marcegaglia China.

The devaluation comes from the valuation of some assets to salvage values, instead of continuing value, in view of the persistent difficulties of the Chinese subsidiary in reaching a positive EBITDA. Similar considerations again in reference to Marcegaglia China led to depreciate tangible fixed assets in progress to Euro 894,427.

The increases in plant and machinery refer mainly to Marcegaglia Carbon Steel (Euro 3,702,189) and Marcegaglia Specialties (Euro 2,757,073).

The company Marcegaglia Poland carried out a reclassification between tangible and intangible assets of Euro 3,776.

It should be noted that the increase in the accumulated depreciation and amortisation income statement differs from the value of the depreciation of the profit and loss account for Euro 138,524; this is a correction of the depreciation of years prior to the year 2016 operated by the subsidiary Marcegaglia do Brasil and reported as a reduction of net equity reserves, as recommended by the new OIC.

**aannex 1b - STATEMENT OF CHANGES IN INTANGIBLE FIXED ASSETS**

		Balance at beginning of year	Exch. diff. at beginning of year	Increases	Decreases	Reclassificat.	Changes in exchange differences	Change in scope of consolidation	Balance at end of year
<b>Start-up and expansion costs</b>	Original cost	3.443.699	822.042	6.179	1.850	0	0	0	4.270.070
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	0	0	0	0	0	0
	Ordinary accumul. amortisation	2.202.755	562.155	226.871	1.850	0	22.000	0	3.011.931
	<b>Total</b>	<b>1.240.944</b>	<b>259.887</b>	<b>-220.692</b>	<b>0</b>	<b>0</b>	<b>-22.000</b>	<b>0</b>	<b>1.258.139</b>
<b>Development costs</b>	Original cost	14.232	3.656	0	15.913	0	-1.975	0	0
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	0	0	0	0	0	0
	Ordinary accumul. amortisation	0	0	0	0	0	0	0	0
	<b>Total</b>	<b>14.232</b>	<b>3.656</b>	<b>0</b>	<b>15.913</b>	<b>0</b>	<b>-1.975</b>	<b>0</b>	<b>0</b>
<b>Industrial patent rights and intellectual property rights</b>	Original cost	2.797.777	175.683	123.731	0	4.176.843	19.556	0	7.293.590
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	0	0	0	0	0	0
	Ordinary accumul. amortisation	731.886	127.980	501.440	0	0	19.750	0	1.381.056
	<b>Total</b>	<b>2.065.891</b>	<b>47.703</b>	<b>-377.709</b>	<b>0</b>	<b>4.176.843</b>	<b>-194</b>	<b>0</b>	<b>5.912.534</b>
<b>Cconcessions, licences, trademarks and similar rights</b>	Original cost	201.252.806	-8.808	0	0	3.776	-40	0	201.247.734
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	0	0	0	0	0	0
	Ordinary accumul. amortisation	3.594.918	-8.590	20.105.884	0	0	-61	0	23.692.151
	<b>Total</b>	<b>197.657.888</b>	<b>-218</b>	<b>-20.105.884</b>	<b>0</b>	<b>3.776</b>	<b>21</b>	<b>0</b>	<b>177.555.583</b>
<b>Goodwill</b>	Original cost	70.080.049	0	0	0	0	0	864.277	70.944.326
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	11.552.957	0	0	0	0	11.552.957
	Ordinary accumul. amortisation	1.209.488	0	5.915.337	0	0	0	0	7.124.825
	<b>Total</b>	<b>68.870.561</b>	<b>0</b>	<b>-17.468.294</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>864.277</b>	<b>52.266.544</b>
<b>Fixed assets in progress</b>	Original cost	4.348.630	-153.580	128.171	0	-4.176.843	-18.207	0	128.171
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	0	0	0	0	0	0
	<b>Total</b>	<b>4.348.630</b>	<b>-153.580</b>	<b>128.171</b>	<b>0</b>	<b>-4.176.843</b>	<b>-18.207</b>	<b>0</b>	<b>128.171</b>
<b>Advance payments on intangible fixed assets</b>	Original cost	0	0	0	0	0	0	0	0
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	0	0	0	0	0	0
	<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Others</b>	Original cost	31.906.699	5.362.769	9.924	5.758.147	0	-715.416	3.061	30.808.890
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	566.081	0	0	70.237	0	636.318
	Ordinary accumul. amortisation	8.665.677	1.820.161	1.466.773	3.975.715	0	-404.793	340	7.572.443
	<b>Total</b>	<b>23.241.022</b>	<b>3.542.608</b>	<b>-2.022.930</b>	<b>1.782.432</b>	<b>0</b>	<b>-380.860</b>	<b>2.721</b>	<b>22.600.129</b>
<b>i - Intangible fixed assets</b>	Original cost	313.843.892	6.201.762	268.005	5.775.910	3.776	-716.081	867.338	314.692.782
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	12.119.038	0	0	70.237	0	12.189.275
	Ordinary accumul. amortisation	16.404.724	2.501.706	28.216.305	3.977.565	0	-363.104	340	42.782.407
	<b>Total</b>	<b>297.439.168</b>	<b>3.700.056</b>	<b>-40.067.338</b>	<b>1.798.345</b>	<b>3.776</b>	<b>-423.214</b>	<b>866.998</b>	<b>259.721.100</b>

The increase in depreciation of the goodwill for Euro 11,552,997 refers to the subsidiary Marcegaglia USA.

This impairment is caused by the non-realization of the potential capital appreciations of various assets and profitability considered within the first consolidation of the company in the year 2015.

In fact in the early months of the 2017 fiscal year, its subsidiary Marcegaglia Usa proceeded with a major sale of assets relating to the "Inox" business division, no longer considered strategic in the USA for a value basically equivalent to book value, to concentrate its activities in the field of galvanized steel.

The increase in the historical cost of the goodwill of Euro 864,227 is determined by changes in the scope of consolidation on 01/01/2016 for the initial consolidation of the subsidiary Marcegaglia Turkey.

It is believed that the loss for the year 2015, when the company was out of the scope of consolidation in the start-up phase, can be more than recovered through results in the future as confirmed by the business plans prepared by the administrative bodies of the subsidiary.

The decrease in other intangible assets for Euro 5,758,147, refers to the subsidiary Marcegaglia Do Brasil and is related to the removal of foreign exchange losses capitalized in former times.

It was chosen to prudently drop these costs distributed over several years given there is no longer any reasonable expectation of future recoverability.

**annex 1c - STATEMENT OF CHANGES IN FINANCIAL FIXED ASSETS**

		Balance at beginning of year	Exch. diff. at beginning of year	Acquisitions/ subscriptions	Capital increases/ deposits in capital account	Increases	Decreases	Change in scope of consolidation	Reclassifica- tions	Changes in exchange differences	Balance at end of year
<b>1) Equity investments</b>											
equity investments	Original cost	4.599.133	0	0	31.000	0	0	-1.288.328	-142	0	3.341.663
in subsidiaries	Provision for w-downs	0	0	0	0	0	0	0	0	0	0
measured at cost	Prov. for doubtful rece.	0	0	0	0	0	0	0	0	0	0
<b>equity investments</b>	<b>Total</b>	<b>4.599.133</b>	<b>0</b>	<b>0</b>	<b>31.000</b>	<b>0</b>	<b>0</b>	<b>-1.288.328</b>	<b>-142</b>	<b>0</b>	<b>3.341.663</b>
<b>in subsidiaries</b>											
equity investments	Original cost	1.704.623	-142	0	25.000	0	0	0	142	0	1.729.623
in associates	Provision for w-downs	0	0	0	0	0	0	0	0	0	0
measured at cost	Prov. for doubtful rece.	0	0	0	0	0	0	0	0	0	0
<b>equity investments</b>	<b>Total</b>	<b>1.704.623</b>	<b>-142</b>	<b>0</b>	<b>25.000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>142</b>	<b>0</b>	<b>1.729.623</b>
<b>in associates</b>											
equity investments	Original cost	13.331	0	4.015	10	0	0	0	0	0	17.357
in other companies	Provision for w-downs	0	0	0	0	0	0	0	0	0	0
<b>other companies</b>	<b>Total</b>	<b>13.331</b>	<b>0</b>	<b>4.015</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17.357</b>
total	Original cost	6.317.087	-142	4.015	56.010	0	0	-1.288.328	0	0	5.088.643
	Provision for w-downs	0	0	0	0	0	0	0	0	0	0
	Prov. for doubtful rece.	0	0	0	0	0	0	0	0	0	0
<b>total equity inv.</b>	<b>Total</b>	<b>6.317.087</b>	<b>-142</b>	<b>4.015</b>	<b>56.010</b>	<b>0</b>	<b>0</b>	<b>-1.288.328</b>	<b>0</b>	<b>0</b>	<b>5.088.643</b>
<b>2) Receivables included in financial fixed assets</b>											
<i>receivables due after the following year</i>											
receivables from others		46.115	0	0	0	42.954	12.351	0	0	0	76.718
<b>total receivables due after the following year</b>		<b>45.115</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>42.954</b>	<b>12.351</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>76.718</b>
<b>3) Other securities</b>											
		<b>15.175</b>	<b>-504</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-14.830</b>	<b>158</b>	<b>0</b>
<b>total financial fixed assets</b>		<b>6.378.377</b>	<b>-646</b>	<b>4.015</b>	<b>56.010</b>	<b>42.954</b>	<b>12.351</b>	<b>-1.288.328</b>	<b>-14.830</b>	<b>158</b>	<b>5.165.361</b>

The change in the consolidation scope in investments in subsidiaries accounted for at cost is related to the full consolidation of the subsidiary, which took place in fiscal year 2016, of subsidiary Marcegaglia Turkey.

The reclassification of fixed assets for Euro 14,830 as Other marketable securities and other receivables in current assets due beyond one year was made by the subsidiary Marcegaglia Poland and refers to the correction of an earlier accounting error.

**annex 2 - STATEMENT OF CHANGES IN RISK AND EXPENSE FUNDS AND EMPLOYEE SEVERANCE PAY**

	Balance at beginning of year	Exch. diff. at beginning of year	Provisions	Utilisation	Changes in exchange differences	Balance at end of year
for post-retirement benefits and similar obligations	3.291.338	37.581	441.622	442.999	669	3.328.211
<b>1) for post-retirement benefits and similar obligations</b>	<b>3.291.338</b>	<b>37.581</b>	<b>441.622</b>	<b>442.999</b>	<b>669</b>	<b>3.328.211</b>
for taxes, including deferred taxes	323.073.969	960.854	6.272.222	29.022.703	-58.452	301.225.890
<b>2) for taxes, including deferred taxes</b>	<b>323.073.969</b>	<b>960.854</b>	<b>6.272.222</b>	<b>29.022.703</b>	<b>-58.452</b>	<b>301.225.890</b>
financial derivatives reported as assets	52.236.118	0	21.275.453	41.572.605	0	31.938.968
<b>3) financial derivatives reported as assets</b>	<b>52.236.118</b>	<b>0</b>	<b>21.275.453</b>	<b>41.572.605</b>	<b>0</b>	<b>31.938.968</b>
others	1.500.000	0	494.708	0	0	1.994.708
<b>4) others</b>	<b>1.500.000</b>	<b>0</b>	<b>494.708</b>	<b>0</b>	<b>0</b>	<b>1.994.708</b>
from consolidation for future risks and charges	0	0	11.000.000	0	0	11.000.000
<b>5) from consolidation for future risks and charges</b>	<b>0</b>	<b>0</b>	<b>11.000.000</b>	<b>0</b>	<b>0</b>	<b>11.000.000</b>

For a detailed commentary of the movements of passive derivative financial instruments please refer to the text of the Notes to the financial statements

The consolidation provision for risks and charges of Euro 11,000,000.00 was performed by Marcegaglia Carbon Steel and refers to the cost that the company itself shall bear in 2017 for the repurchase of minority shareholder Simest at face value, as per contractual agreements. In view of the continuing negative performances of the Chinese subsidiary it was decided to create a risk fund exactly equal to the outlay to be incurred.

	Balance at beginning of year	Exch. diff. at beginning of year	Provisions	Utilisation	Changes in exchange differences	Balance at end of year
<b>B) PROVISIONS FOR RISKS AND CHARGES</b>	<b>380.101.426</b>	<b>998.435</b>	<b>39.484.005</b>	<b>71.038.307</b>	<b>-57.783</b>	<b>349.487.777</b>
<b>C) EMPLOYEE SEVERANCE PAY</b>	<b>16.831.839</b>	<b>0</b>	<b>10.478.149</b>	<b>11.531.903</b>	<b>0</b>	<b>15.778.085</b>



# Financial Statements 2016

## Marcegaglia Carbon Steel

**MARCEGAGLIA CARBON STEEL S.p.A.**

Registered office: via Bresciani, 16 - Gazoldo degli Ippoliti, Mantova - Italy

Share capital : Euro 496,118,598 fully paid up

Fiscal Code and VAT No.: 02466220205

Registered with the Mantua Chamber of Commerce

and Administrative Economic Index [REA] under No. 255216

## **Independent auditors' report in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 165-bis of Legislative Decree No. 58 of 24 February 1998**

To the shareholders of  
Marcegaglia Carbon Steel S.p.A.

### **Report on the financial statements**

We have audited the accompanying financial statements of Marcegaglia Carbon Steel S.p.A., which comprises the balance sheet as of 31 December 2016, the income statement and the cash flow statement for the period then ended and the related explanatory notes.

#### *Directors' responsibility for the financial statements*

The directors are responsible for the preparation of the financial statements that gives a true and fair view in compliance with the Italian laws governing the financial statements.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39/2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Marcegaglia Carbon Steel S.p.A. as of 31 December 2016 and the result of its operations and cash flows for the year then ended, in accordance with the Italian laws governing the financial statements.

### ***Emphasis of matter***

Without qualifying our opinion, we draw attention to the paragraph "Comparability with the previous years" in the explanatory notes in which the directors described that the profit & loss figures for the year 2016 are not comparable with the same figures for the year 2015 since the latter relate to only two months of activity as the contributions in kind, by which the Marcegaglia Steel Group has been reorganized, went into effect on 1 November 2015.

### **Report on compliance with other laws and regulations**

#### ***Opinion concerning the consistency with the financial statements of the report on operations***

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations, which is the responsibility of the directors of Marcegaglia Carbon Steel S.p.A., with the financial statements of Marcegaglia Carbon Steel S.p.A. as of 31 December 2016. In our opinion, the report on operations is consistent with the financial statements of Marcegaglia Carbon Steel S.p.A. as of 31 December 2016.

Verona, 5 June 2017

Mazars Italia S.p.A.  
*(signed on the original)*  
 Alfonso Iorio  
 Partner

*This report has been translated into English from the Italian original solely for the convenience of international readers.*

# MARCEGAGLIA CARBON STEEL S.P.A.

## BALANCE SHEET AS OF 31 DECEMBER 2016

ASSETS values in EUR

31 Dec 2016

31 Dec 2015

<b>A SHARE CAPITAL ISSUED AND NOT YET PAID</b>			
1	Share capital issued and not yet paid uncalled	0	0
2	Share capital issued and not yet paid called	0	0
	<b>Totale Share capital issued and not yet paid A</b>	<b>0</b>	<b>0</b>
<b>B FIXED ASSETS</b>			
I	<i>Intangible fixed assets</i>		
1	Start-up and expansion costs	86,896	109,565
2	Development cost	0	0
3	Industrial patent rights and intellectual property rights	84,594	79,556
4	Concessions, licences, trademarks and similar rights	1,140	1,330
5	Goodwill	0	0
6	Fixed assets in progress and advance payments	128,171	14,630
7	Other	306,428	870,589
	<b>Total intangible fixed assets (B-I)</b>	<b>607,229</b>	<b>1,075,670</b>
II	<i>Tangible fixed assets</i>		
1	Land and buildings	470,570,961	483,343,837
2	Plant and machinery	546,062,927	587,964,151
3	Industrial and commercial equipment	25,356,616	30,557,929
4	Other assets	3,541,383	4,215,139
5	Fixed assets in progress and advance payments	22,552,517	24,782,024
	<b>Total tangible fixed assets (B-II)</b>	<b>1,068,084,404</b>	<b>1,130,863,080</b>
III	<i>Financial fixed assets</i>		
1	Equity investments in:		
	- Subsidiaries	130,941,844	176,244,466
	- Associates	1,717,122	1,704,622
	- Other companies	17,346	13,331
		<b>132,676,312</b>	<b>177,962,419</b>
2	Receivables		
	d-bis) From others		
	- Due within the following year	0	0
	- Due after the following year	52,906	25,386
		<b>52,906</b>	<b>25,386</b>
	<b>Total financial fixed assets (B-III)</b>	<b>132,729,218</b>	<b>177,987,805</b>
	<b>Total fixed assets B</b>	<b>1,201,420,851</b>	<b>1,309,926,555</b>
<b>C CURRENT ASSETS</b>			
I	<i>Inventories</i>		
1	Raw and ancillary materials and consumables	416,579,948	404,960,704
2	Work in process and semi-finished goods	211,810,265	189,965,025
3	Contract work in progress	0	0
4	Finished goods and merchandise	174,882,582	163,628,237
6	Advances	0	0
	<b>Total inventories (C-I)</b>	<b>803,272,795</b>	<b>758,553,966</b>
II	<i>Receivables</i>		
1	From customers		
	- Due within the following year	39,613,500	99,216,200
	- Due after the following year	0	0
		<b>39,613,500</b>	<b>99,216,200</b>
2	From subsidiaries		
	- Due within the following year	40,190,843	19,777,378
	- Due after the following year	12,000,000	24,000,000
		<b>52,190,843</b>	<b>43,777,378</b>
3	From associates		
	- Due within the following year	1,103,944	1,697,479
		<b>1,103,944</b>	<b>1,697,479</b>
4	From parent companies		
	- Due within the following year	4,326,392	0
		<b>4,326,392</b>	<b>0</b>
5	From companies subject to control of parent companies		
	- Due within the following year	72,756,897	52,593,228
		<b>72,756,897</b>	<b>52,593,228</b>
5-bis	Tax credits		
	- Due within the following year	508,359	424,368
		<b>508,359</b>	<b>424,368</b>
5-ter	Deferred tax assets		
	- Due within the following year	12,187,121	24,207,603
	- Due after the following year	1,736,456	1,770,586
		<b>13,923,577</b>	<b>25,978,189</b>
5-quater	From others		
	- Due within the following year	50,522,897	40,846,332
		<b>50,522,897</b>	<b>40,846,332</b>
	<b>Total receivables (C-II)</b>	<b>234,946,409</b>	<b>264,533,174</b>
IV	<i>Cash and cash equivalents</i>		
1	Bank and postal deposits	4,201,281	3,073,307
2	Cheques	0	0
3	Cash on hand	15,021	10,933
	<b>Total cash and cash equivalents (C-IV)</b>	<b>4,216,302</b>	<b>3,084,240</b>
	<b>Total current assets C</b>	<b>1,042,435,506</b>	<b>1,026,171,380</b>
<b>D ACCRUED INCOME AND PREPAID EXPENSES</b>			
	Accrued income and prepaid expenses	990,364	2,142,653
	<b>Total Accrued income and prepaid expenses D</b>	<b>990,364</b>	<b>2,142,653</b>
	<b>TOTAL ASSETS</b>	<b>2,244,846,721</b>	<b>2,338,240,588</b>

## LIABILITIES values in EUR

31 Dec 2016

31 Dec 2015

<b>A SHAREHOLDERS' EQUITY</b>			
I	Share capital	496,118,598	496,118,598
II	Share premium reserve	6,859,343	6,859,343
III	Revaluation reserve	0	0
IV	Lagal reserve	0	0
VI	Other reserves, represented by:		
	- Future capital increase contributions	20,000	20,000
	- Euro rounding difference	(1)	(2)
	<b>Total other reserves (VI)</b>	<b>19,999</b>	<b>19,998</b>
VII	Reserve for projected cash flow hedges	0	(29,624,712)
VIII	Profit (loss) carried forward	(43,672,865)	0
IX	Profit (loss) for the year	(68,792,504)	(43,672,865)
	<b>Total shareholders' equity A</b>	<b>390,532,571</b>	<b>429,700,362</b>
<b>B RESERVES FOR RISKS AND EXPENSES</b>			
1	For post-retirement benefits and similar obligations	1,851,344	2,141,962
2	For taxes, including deferred taxes	176,686,677	188,737,690
3	Financial derivatives reported as liabilities	14,521,105	52,142,580
4	Other	12,994,708	1,500,000
	<b>Total reserves for risks and expenses B</b>	<b>206,053,834</b>	<b>244,522,232</b>
<b>C EMPLOYEE SEVERANCE PAY</b>			
	Employee severance pay C	11,944,266	12,693,155
<b>D PAYABLES</b>			
4	Payables to banks		
	- Due <b>within</b> the following year	51,970,642	121,263,721
	- Due <b>after</b> the following year	12,492,604	99,162,811
		<b>64,463,246</b>	<b>220,426,532</b>
6	Advance payments		
	- Due <b>within</b> the following year	10,894,599	11,019,183
	- Due <b>after</b> the following year	0	0
		<b>10,894,59</b>	<b>11,019,183</b>
7	Trade payables		
	- Due <b>within</b> the following year	983,626,533	813,568,744
	- Due <b>after</b> the following year	0	0
		<b>983,626,533</b>	<b>813,568,744</b>
9	Payables to subsidiaries		
	- Due <b>within</b> the following year	13,321,448	16,312,937
	- Due <b>after</b> the following year	0	0
		<b>13,321,448</b>	<b>16,312,937</b>
10	Payables to associates		
	- Due <b>within</b> the following year	962,105	2,045,162
	- Due <b>after</b> the following year	0	0
		<b>962,105</b>	<b>2,045,162</b>
11	Payables to parent companies		
	- Due <b>within</b> the following year	384,730,469	375,483,148
	- Due <b>after</b> the following year	0	0
		<b>384,730,469</b>	<b>375,483,148</b>
11-bis	Payables to companies subject to control of parent companies		
	- Due <b>within</b> the following year	10,238,036	21,637,049
	- Due <b>after</b> the following year	0	0
		<b>10,238,036</b>	<b>21,637,049</b>
12	Tax payables		
	- Due <b>within</b> the following year	10,646,572	8,276,726
	- Due <b>after</b> the following year	0	0
		<b>10,646,572</b>	<b>8,276,726</b>
13	Payables to pension and social security organisations		
	- Due <b>within</b> the following year	9,708,321	9,679,227
	- Due <b>after</b> the following year	0	0
		<b>9,708,321</b>	<b>9,679,227</b>
14	Other payables		
	- Due <b>within</b> the following year	147,373,016	171,979,670
	- Due <b>after</b> the following year	0	0
		<b>147,373,016</b>	<b>171,979,670</b>
	<b>Total payables D</b>	<b>1,635,964,345</b>	<b>1,650,428,378</b>
<b>E PREPAYMENTS AND ACCRUED INCOME</b>			
	Accrued expenses and deferred income	351,705	896,461
	Deferred discount on loans	0	0
	<b>Total prepayments and accrued income E</b>	<b>351,705</b>	<b>896,461</b>
	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,244,846,721</b>	<b>2,338,240,588</b>

# MARCEGAGLIA CARBON STEEL S.P.A.

## PROFIT AND LOSS ACCOUNT AS OF 31 DECEMBER 2016

values in EUR		31 Dec 2016	31 Dec 2015
<b>A</b>	<b>VALUE OF PRODUCTION</b>		
1	Revenues from sales and services	2,224,000,923	312,196,320
2	Change in inventories of work-in-process, semi-finished and finished goods	33,099,585	22,547,299
3	Variations in contracted work in progress	0	0
4	Increase in internal construction capitalized	0	0
5	Other revenues and income		
	- Operating grants	1,436,822	55,227
	- Other	13,726,115	10,743,558
	<b>Total other revenues and income (5)</b>	<b>15,162,937</b>	<b>10,798,785</b>
	<b>Total value of production A</b>	<b>2,272,263,445</b>	<b>345,542,404</b>
<b>B</b>	<b>PRODUCTION COSTS</b>		
6	Raw and ancillary materials, consumables and merchandise	(1,586,754,800)	(261,126,301)
7	Services	(349,210,586)	(67,600,788)
8	Lease and rental expense	(26,560,602)	(3,895,428)
9	Personnel costs		
	a) Wages and salaries	(111,100,658)	(15,249,434)
	b) Social security contributions	(36,172,858)	(7,570,493)
	c) Employee severance pay	(7,992,455)	(1,668,902)
	d) Other social contributions	0	0
	e) Other costs	(458,716)	(89,204)
	<b>Total personnel costs (9)</b>	<b>(155,724,687)</b>	<b>(24,578,033)</b>
10	Amortisation, depreciation and write-downs		
	a) Amortisation of intangible fixed assets	(654,248)	(153,439)
	b) Depreciation of property, plant and equipment	(84,909,808)	(13,969,206)
	c) Other write downs of assets	0	0
	d) Write-downs of receivables included in current assets and of cash and cash equiv.	(10,241,680)	(3,391,610)
	<b>Total amortisation, depreciation and write-downs (10)</b>	<b>(95,805,736)</b>	<b>(17,514,255)</b>
11	Changes in inventories of raw and ancillary materials, consumables and merchandise	11,619,244	34,235,491
12	Accruals for contingencies	0	0
13	Other accruals	0	0
14	Sundry operating costs	(6,663,937)	(2,084,092)
	<b>Total production costs B</b>	<b>(2,209,101,104)</b>	<b>(342,563,406)</b>
	<b>Difference between value and cost of production A - B</b>	<b>63,162,341</b>	<b>2,978,998</b>
<b>C</b>	<b>FINANCIAL INCOME AND EXPENSES</b>		
15	Income from equity investments:		
	- other		1,189,644
	<b>Total income from equity investments (15)</b>	<b>0</b>	<b>1,189,644</b>
16	Other financial income:		
	a) From receivables recorded as fixed assets		
	- other	31	6
	<b>Total financial income from receivables recorded as fixed assets (a)</b>	<b>31</b>	<b>6</b>
	d) Income from other sources:		
	- from subsidiaries	2,162,370	313,706
	- from companies subject to control of parent companies	1,776,207	75,027
	- other	494,153	55,435
	<b>Total income from other sources (d)</b>	<b>4,432,730</b>	<b>44,168</b>
	<b>Total other financial income (16)</b>	<b>4,432,761</b>	<b>444,174</b>
17	Interest and other financial charges:		
	- Paid to subsidiaries	(385,297)	(110,122)
	- Paid to parent companies	(22,439,547)	(2,387,247)
	- Paid to companies subject to control of parent companies	0	(21,858)
	- Other	(28,652,258)	(6,972,067)
	<b>Total interest and other financial charges (17)</b>	<b>(51,477,102)</b>	<b>(9,491,294)</b>
17-bis	Exchange-rate gains and losses	(1,544,864)	(1,146,564)
	<b>Total financial income and charges C</b>	<b>(48,589,205)</b>	<b>(9,004,040)</b>
<b>D</b>	<b>VALUE ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES</b>		
18	Revaluations		
	Of equity investments	4,967,375	0
	Other investments	0	0
	Of financial derivatives	5,433,797	789,193
	<b>Total revaluations (18)</b>	<b>10,401,172</b>	<b>789,193</b>
19	Write-downs		
	Of equity investments	(61,300,996)	(36,436,767)
	Other investments	0	0
	Of financial derivatives	(29,624,712)	(61,927)
	<b>Total write-downs (19)</b>	<b>(90,925,708)</b>	<b>(36,498,694)</b>
	<b>Total value adjustments of financial assets and liabilities D</b>	<b>(80,524,536)</b>	<b>(35,709,501)</b>
	<b>PROFIT (LOSS) BEFORE TAXES A-B+/-C+/-D+/-E</b>		
	<b>Profit (loss) before taxes A-B+/-C+/-D+/-E</b>	<b>(65,951,400)</b>	<b>(41,734,543)</b>
20	Current, deferred and prepaid income taxes for the year		
	- Current taxes	(3,596,397)	0
	- Deferred and prepaid taxes	(3,599)	(1,938,322)
	Income/(costs) from participation in tax consolidation/transparency scheme	758,892	0
	<b>Total current, deferred and prepaid income taxes for the year (20)</b>	<b>(2,841,104)</b>	<b>(1,938,322)</b>
	<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>(68,792,504)</b>	<b>(43,672,865)</b>

## STATEMENT OF CASH FLOWS AS OF 31 DECEMBER 2016

values in EUR

31 Dec 2016

<b>A CASH FLOWS FROM OPERATING ACTIVITIES (INDIRECT METHOD)</b>	
Profit (loss) for the year	-68,792,504
Income tax	2,841,104
Interest expenses /(income)	47,044,341
(Gains)/Losses resulting from the sale of assets	469,995
<b>1 Profit (loss) for the year, before income taxes, interest, dividends and gains and losses from asset sales</b>	<b>-18,437,064</b>
Adjustments for non-cash items with no balancing entry in net working capital	
- Provisions to reserves	8,636,140
- Amortisation and depreciation of fixed assets	85,564,056
- Value adjustments of financial assets and financial liabilities on financial derivatives not affecting cash flows	80,524,536
<b>Total adjustments for non-cash items with no balancing entry in net working capital</b>	<b>174,724,732</b>
<b>2 Cash flow before changes in net working capital</b>	<b>156,287,668</b>
Changes in net working capital	
- Decrease/(Increase) in inventories	-44,718,829
- Decrease/(Increase) in receivables from customers	59,602,700
- Increase/(Decrease) in trade payables	170,057,789
- Decrease/(Increase) in accrued income and prepaid expenses	1,152,289
- Increase/(Decrease) in accrued expenses and deferred income	-544,756
- Other decreases/(Other increases) in net working capital	-95,267,999
<b>Total changes in net working capital</b>	<b>90,281,194</b>
<b>3 Cash flow after changes in net working capital</b>	<b>246,568,862</b>
Other adjustments	
- Interest received/(paid)	-47,044,341
- (Utilisation of reserves)	-19,567,206
<b>Total other adjustments</b>	<b>-66,611,547</b>
<b>Cash flow from operating activity A</b>	<b>179,957,315</b>
<b>B CASH FLOWS FROM INVESTMENT ACTIVITIES</b>	
Property, plant and equipment	
- (Investments)	-23,275,417
- Divestitures	674,292
Intangible fixed assets	
- (Investments)	-185,807
- Divestitures	-
Financial fixed assets	
- (Investments)	-84,190
- Divestitures	9,155
<b>Cash flows from investment activities B</b>	<b>-22,861,967</b>
<b>C CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Borrowed funds	
- Increase/(Decrease) in current liabilities to banks	-69,293,079
- (Repayment of loans)	-86,670,207
<b>Cash flows from financing activities C</b>	<b>-155,963,286</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS A ± B ± C</b>	<b>1,132,062</b>
Cash and cash equivalents at the beginning of the year	-
<b>Total cash and cash equivalents at the beginning of the year</b>	<b>3,084,240</b>
Bank and postal deposits	3,073,307
Cash on hand	10,933
of which not freely usable	3,062,969
<b>Total cash and cash equivalents at the end of the year</b>	<b>4,216,302</b>
Bank and postal deposits	4,201,281
Cash on hand	15,021
of which not freely usable	4,168,701

## NOTES

### INTRODUCTION

After the major reorganisation of the Marcegaglia group (which was started and completed in 2015), the financial year ending 31 December 2016 is the first full year of operations of the Marcegaglia group's flat and welded tubes division, which incorporates carbon steel processing activities for the production of flat products and welded tubes.

These financial statements were prepared in accordance with the new provisions introduced by Legislative Decree 139/2015, which are applicable to financial statements for financial years starting on or after 1 January 2016.

Legislative Decree 139/2015, which incorporated Directive 2013/34/EU (which replaced the previous Directives IV and VII on annual and consolidated financial statements), amended the layouts of financial statements and the content of the notes to financial statements. It also introduced the requirement to prepare the statement of cash flows, introduced new measurement criteria (e.g. amortised cost for receivables and payables and useful life for the amortisation of goodwill) and new criteria for the preparation of financial statements (the relevance principle and principle of substance over form), introduced new criteria for accounting for several entries (e.g. the requirement to record financial derivatives - including those used for hedging - at their fair value), and it eliminated the extraordinary area from the profit and loss account as well as memorandum accounts and the ability to capitalise research and advertising expenses.

Article 12 of Legislative Decree 139/2015 also directed the OIC [Italian Accounting Organisation] to update domestic accounting standards. The link to the legislative decree made it necessary to reference domestic accounting standards with respect to the required practical statement of new legislative provisions introduced, and specifically, those aspects of a technical nature con-

cerning, for example, hedging transactions, amortised cost and discounting. After a long review process, in the end the OIC approved the revised accounting standards on 22 December 2016.

For some of the new provisions described, it is only necessary to apply them going forward (pursuant to Article 12(2) of Legislative Decree 139/2015), and thus, starting in financial year 2016, without modifying accounting entries made in the past (e.g. the new criterion for measuring amortised cost for receivables and payables and the new criterion for amortising goodwill are therefore applicable only to receivables, payables and goodwill arising in 2016), and the Company has acted accordingly. However, for other new provisions, retroactive application is mandatory, and thus, financial statement entries must be stated as if the new accounting standard had always been applied by adjusting beginning accounting balances with balancing entries in a shareholders' equity reserve (e.g. the new criterion for recording financial derivatives and the elimination of the ability to capitalise research and advertising expenses). In this case, the column for comparison purposes for 2015 was adapted to reflect the new criteria for classifying items in the new layout for the balance sheet and profit and loss account and the new criteria for recording the entries concerned.

### Financial statement preparation criteria and structure

The financial statements for the year ending 31 December 2016 was prepared in accordance with the provisions of Articles 2423 et seq of the Italian Civil Code supplemented by accounting standards of the Italian Accounting Organisation (OIC).

In particular, the company complied with the general provisions for structuring financial statements (Art. 2423 of the Italian Civil Code), its drafting standards (Art. 2423-bis) and measurement criteria established for single line items (Art. 2426) without applying any of the exceptions specified in Art. 2423(4) of the Italian Civil Code.

The balance sheet and profit and loss account are prepared in accordance with the mandatory layouts required by the Italian Civil Code. The provisions of Art. 2423-ter of the Italian Civil Code were adhered to with respect to the structure of the balance sheet and profit and loss account. No further divisions or groupings were carried out for any of the line items preceded by Arabic numerals. No new line items were inserted, and no modifications were made to those specified in the mandatory layouts since they were deemed to be sufficient for the purposes of providing a clear, truthful and accurate representation of the Company's balance sheet and financial position and operating results for the year.

The financial statements for the year ending 31 December 2016 were prepared in whole Euros. Any differences arising from rounding amounts expressed in whole Euros were allocated to a special shareholders' equity reserve, and, depending on their sign, in line item A5) "Other revenues and income" or B14) "Sundry operating costs" in the profit and loss account.

### Comparability with the previous financial year

For each item of the balance sheet and profit and loss account, the amount of the same item for the previous financial year was indicated next to the amount for 2016. However, operating balances for 2016 are not comparable to those for 2015 since the latter reflect operations for only two months in that the extraordinary transactions, which led to the reorganisation of the Marcegaglia Steel group, went into effect on 1 November 2015.

With regard to the statement of cash flows, the column for 2015 was not prepared since the related statement was not prepared last year since it was the first year of the company's operations.

### Classification conventions

The following classification conventions were used when structuring the financial statements at 31 December 2016:

a. line items in the asset section of the balance sheet were classified on the basis of their related company purpose, while in the liability section, they were classified as a function of their nature;

b. the profit and loss account was prepared taking into account three distinct classification criteria; namely:

- the breakdown of the entire operating area into the three sub-areas identified by the layout required by law;
- the nature of costs prevailing over their purpose;
- the need to properly recognise interim results in the sequence of steps leading to the formation of net profit (loss) for the year.

### Reference to Directors' Report

See the *Directors' Report* for information on the nature of business activities and relationships with subsidiaries, associates, parent companies and companies subject to the control of the latter.

### Asset, liability and shareholders' equity items of the balance sheet that fall under more than one item of the layout required by law

(art. 2424, 2° c., C.C.)

For the purposes of understanding the financial statements, it was not deemed necessary to mention balance sheet items in these notes to financial statements that fall under more than one item of the layout required by law.

### CRITERIA APPLIED IN MEASURING FINANCIAL STATEMENT ITEMS, IN VALUE ADJUSTMENTS AND IN THE CONVERSION OF AMOUNTS NOT EXPRESSED ORIGINALLY IN THE CURRENCY USED AS LEGAL TENDER IN THE COUNTRY (ART. 2427(1)(1))

Financial statement items were stated on the basis of general principles of prudence and the accrual principle under the assumption the Company is a going concern. Line items were recognised and presented taking into account the substance of the transaction and agreement. Only profits generated as at the reporting date were indicated, and income and costs applicable to the year were taken into account regardless of the collection or payment date, as were risks and losses applicable to the year even if they became known after year-end. Dissimilar elements included in individual line items were measured separately.

The measurement criteria used for individual financial statement entries comply with the provisions of Article 2426 of the Italian Civil Code.

### Intangible fixed assets

Intangible fixed assets are recorded in the financial statements at purchase or production cost and amortised in relation to their remaining useful life.

If there is impairment, intangible fixed assets are written down and recorded in the financial statements at such lower value; if in the future the reasons for the adjustment no longer apply, the write-down is also cancelled and the original cost is restored with the exception of value adjustments of goodwill.

Below is a breakdown of intangible fixed assets reported in the financial statements and the related amortisation criteria.

Financial statement item	Purchase or production cost	Amortisation rate	Amortisation for the year
Start-up and expansion costs (B.I.1)	113,343	20%	22,669
Development costs (B.I.2)			
Licensed software (B.I.3)	211,945	33%	67,228
Know-how (B.I.4)	1,900	10%	190
Goodwill (B.I.5)			
Intangible assets in progress (B.I.6)	128,171		
Other multi-year costs (B.I.7)	4,563,662	20%	564,161

### Property, plant and equipment

Property, plant and equipment are recorded in the financial statements at purchase or production cost increased by statutory monetary revaluations, and are reported in the financial statements net of accumulated depreciation. Revaluations are only maintained if required by law. If there is impairment, property, plant and equipment are written down using special adjusting provisions and recorded in the financial statements at such lower value; if in the future the reasons for the adjustment no longer apply, the write-down is also cancelled and the original cost is restored.

Maintenance costs that increase the useful life of assets to which they are related are allocated to such assets and depreciated based on their remaining useful lives. All ordinary maintenance costs are instead entirely charged to the profit and loss account. Depreciation was determined on the basis of their remaining useful life.

Below is a breakdown of property, plant and equipment reported in the financial statements and the related depreciation criteria.

Financial statement item	Depreciation rate
Buildings (B II 1)	2.93%
Light constructions (B II 1)	9.09%
Large plants and specific machin. (B II 2)	10%
Annealing furnaces (B II 2)	16.67%
General plant and machinery (B II 2)	9.09%
Purification plants (B II 2)	12.50%
Miscellaneous equipment (B II 3)	25%
Internal handling equipment (B II 3)	16.67%
Office furniture and equipment (B II 4)	50%
Electronic office equipment (B II 4)	25%
Automobiles (B II 4)	33.3%
Trucks and trailers (B II 4)	50%
Furniture and furnishings (B II 4)	12.50%

With regard to the tangible assets contributed as a result of the extraordinary transaction in 2015, depreciation was determined on the basis of the remaining useful life of each individual asset indicated by the expert asked to perform the special appraisal pursuant to Article 2465 of the Italian Civil Code.

However, with regard to the tangible assets acquired after the contribution transaction, depreciation coefficients were determined in relation to the remaining possibility of use of the assets, in compliance with the provisions contained in Article 2426(1)(2) of the Italian Civil Code. The depreciation rates actually applied to tangible assets acquired pursuant to the contribution transaction are stated in the following schedule:

Financial statement item	Depreciation rate
Land (B.II.1)	=
Buildings (B.II.1)	2.5-3.5%
Light constructions (B.II.1)	10.00%
Large plants and machinery (B.II.2)	8-12%
General and specific plant assets (B.II.2)	8%
Miscellaneous equipment (B.II.3)	15.00%
Internal handling equipment (B.II.3)	15.00%
Furniture and ordinary office equipment (B.II.4)	12.00%
Electronic machinery (B.II.4)	20.00%
Automobiles (B.II.4)	25.00%
Trucks and trailers (B.II.4)	20.00%
Ordinary furniture and furnishings (B.II.4)	10-15%
Fixed assets in progress and advance payments (B.II.5)	=

The purchase or production costs of the various categories of property, plant and equipment recorded at 31 December 2016, and the related depreciation allocation for 2016 are reported in the following table:

Financial statement item	Purchase or production cost	Depreciation for the year
Land (B.II.1)	4,708,433	-
Buildings (B.II.1)	471,585,508	13,765,266
Light constructions (B.II.1)	13,520,788	1,224,274
Large plants and machinery (B.II.2)	487,619,806	49,454,039
General and specific plant assets (B.II.2)	129,463,425	11,547,764
Miscellaneous equipment (B.II.3)	27,681,194	6,488,546
Internal handling equipment (B.II.3)	6,395,168	1,019,437
Furniture and ordinary office equipment (B.II.4)	502,708	227,603
Electronic machinery (B.II.4)	1,753,873	401,818
Automobiles (B.II.4)	1,484,502	393,594
Trucks and trailers (B.II.4)	660,178	294,316
Ordinary furniture and furnishings (B.II.4)	768,210	93,151
Fixed assets in progress and advance payments (B.II.5)	27,441,562	-

### Finance lease assets

Finance lease transactions are recognised using the equity method. Thus, these assets are recorded in balance sheet assets starting in the year the redemption right is exercised.

### Financial fixed assets

Equity investments and securities are measured at acquisition or subscription cost. Receivables are measured at nominal value.

If there is impairment, financial fixed assets are written down using special adjusting provisions and recorded in the financial statements at such lower value; if in the future the reasons for the adjustment no longer apply, the write-down is also cancelled and the original cost is restored.

Equity investments denominated in foreign currencies are recorded at the exchange rate in effect at the time of purchase or subscription or at the reporting date, if lower, provided such reduction is considered permanent.

Non-current receivables in foreign currencies are reported at the year-end exchange rate.

### Inventories

Inventories are measured at the lower of purchase or production cost and market value. Purchase cost includes ancillary costs of transportation and customs clearance of raw materials; production costs include all of the costs directly allocated to the product (raw materials and ancillary materials, direct labour, depreciation of the capital goods used in production), in addition to the portion of indirect industrial costs relating to the manufacturing period (maintenance costs, consumables, electric power, outsourced processes, etc.).

The cost of final inventories was determined using the weighted average cost method. Inventories other than interchangeable assets are recognised among the inventories of finished products and are measured at purchase cost or production cost since this cost is deemed not to exceed the estimated market sales value.

The item "Raw and ancillary materials and consumables" also includes inventories of ancillary materials and consumables such as paints, lubricants, fuels, zinc and miscellaneous materials in general. These inventories are recorded in the financial statements at the lower of the value determined using the moving average criterion, and their replacement value based on market value.

Inventories of contract work in progress are measured, if applicable, using the percen-

tage of completion method.

Inventories other than interchangeable assets are recognised at purchase cost or production cost since this cost is deemed not to exceed the estimated market sales value.

### **Receivables**

In general, receivables are recognised in the financial statements using the amortised cost criterion taking into account the time factor and estimated realizable value.

However, OIC 15, paragraph 33 specifies that this criterion may not be applied if the impact is insignificant, assuming that short-term receivables (i.e. those due within 12 months) are insignificant.

Furthermore, Art. 12(2) of Legislative Decree 139/2015 specifies that the new amortised cost measurement criterion may not be applied to components of items related to transactions that have not fully exhausted their impact on the financial statements.

Thus, in these consolidated financial statements, the amortised cost criterion is only applied to receivables due after the following year that arose after 1 January 2016, and in any case, only if the impact of applying this criterion is considered significant.

Receivables not measured using the amortised cost method (since the impact of applying this criterion is not considered significant) are recorded at nominal value adjusted, as necessary, for the appropriate provision for doubtful receivables to bring it into line with the estimated realisable value.

Receivables expressed in a foreign currency are originally converted into Euros at the reported exchange rate on the date of the related transactions. Exchange differences generated from the collection of receivables in a foreign currency are recorded in the profit and loss account under item 17-bis – Exchange-rate gains and losses.

Receivables expressed in a foreign currency and reported in the financial statements are measured on the basis of the related exchange rates in effect on the reporting date (31 December 2016). The

exchange differences arising from this measurement are allocated to the profit and loss account under item 17-bis Exchange-rate gains and losses.

### **Equity investments and securities not held as fixed assets**

Equity investments not held as fixed assets are recorded at cost and written down for any impairment.

Securities not held as fixed assets are recorded at cost or market value.

### **Cash and cash equivalents**

Cash and cash equivalents (bank and postal accounts, cash and cash on hand) are recorded at their actual balances.

### **Cash and shareholders' equity entries**

These items are measured at nominal value.

### **Reserves for risks**

Provisions for risk and charges are allocated in the financial statements to cover losses or liabilities of a known type, that will certainly or probably arise but which, as of the end of the year, could not be determined, either in terms of amount or date of accrual.

Allocations reflect the best estimate possible on the basis of available information.

### **Employee severance pay**

This item is allocated in accordance with laws and labour contracts currently in effect and reflects the accrued amount owed to all employees on the reporting date net of the amount paid to a supplemental pension or to the "Fund for the Payment of Severance Pay to Employees in the Private Sector as referenced in Article 2120 of the Italian Civil Code", the so-called INPS Treasury Fund.

### **Payables**

In general, payables are recorded in the financial statements according to the amortised cost criterion taking into account the time factor.

However, OIC 19, paragraph 42 specifies that this criterion may not be applied if the impact is insignificant, assuming that short-term payables (i.e. those due within

12 months) are insignificant.

Furthermore, Art. 12(2) of Legislative Decree 139/2015 specifies that the new amortised cost measurement criterion may not be applied to components of items related to transactions that have not fully exhausted their impact on the financial statements.

Thus, in these consolidated financial statements, the amortised cost criterion is only applied to payables due after the following year that arose after 1 January 2016, and in any case, only if the impact of applying this criterion is considered significant.

Payables not measured using the amortised cost method (since the impact of applying this criterion is not considered significant) are recorded at nominal value.

In any case, this item includes liabilities that are certain and specific in terms of their amount and date incurred.

Payables expressed in a foreign currency are originally converted into Euros at the reported exchange rate on the date of the related transactions. Exchange differences generated from the payment of payables in a foreign currency are recorded in the profit and loss account under item 17-bis Exchange-rate gains and losses.

Payables expressed in a foreign currency and reported in the financial statements are measured on the basis of the related exchange rates in effect on the reporting date (31 December 2016). The exchange differences arising from this measurement are allocated to the profit and loss account under item 17-bis Exchange-rate gains and losses.

### **Accruals and deferrals**

These items were determined on the basis of the accrual principle applied to the related costs and revenues.

### **Revenues**

Revenues for product sales are recognised at the time ownership is transferred, which generally coincides with the shipment of the merchandise. Service revenues are recognised when the service has been fully provided.

### Costs and expenses

Costs and expenses are recognised on an accrual basis.

### Dividends

Dividends are recorded in the year in which the right to receive them accrues, which typically coincides with the year they are approved by the competent body.

### Income tax

Income taxes were determined on the basis of the charge applicable to the year.

Deferred taxes are determined on the basis of temporary differences between the amount assigned to assets and liabilities by statute and by tax regulations.

Prepaid taxes were recorded in financial statement assets since there is a reasonable certainty of generating income in the future capable of absorbing these temporary differences.

## NOTES TO FINANCIAL STATEMENTS - ASSETS

### FIXED ASSETS

#### INTANGIBLE FIXED ASSETS

The following table reports changes in intangible fixed assets with the following details for each item:

- cost;
- previous revaluations, amortisation and write-downs;
- increases, transfers from one item to another and decreases occurring during the year;
- revaluations, amortisation and write-downs applied during the year.

#### CHANGES IN INTANGIBLE FIXED ASSETS

	Start-up and expansion costs	Industrial patent rights and intellectual property rights	Concessions, licenses, trademarks and similar rights	Goodwill	Intangible fixed assets in progress and advance payments	Other intangible fixed assets	Total intangible fixed assets
<b>Amount at beginning of the year</b>							
Cost	113,343	139,678	1,900	2,531,399	14,630	4,563,662	7,364,612
Amortisation (Accumulated amortisation)	3,778	60,122	570	2,531,399	-	3,693,073	6,288,942
<b>Carrying amount</b>	<b>109,565</b>	<b>79,556</b>	<b>1,330</b>	<b>-</b>	<b>14,630</b>	<b>870,589</b>	<b>1,075,670</b>
<b>Changes during the year</b>							
Increases for purchases	-	-	-	-	177,527	-	177,527
Reclassifications (of carrying amount)	-	14,630	-	-	(14,630)	-	-
Amortisation for the year	22,669	67,228	190	-	-	564,161	654,248
Other changes	-	57,636	-	-	(49,356)	-	8,280
<b>Total changes</b>	<b>(22,669)</b>	<b>5,038</b>	<b>(190)</b>	<b>-</b>	<b>113,541</b>	<b>(564,161)</b>	<b>(468,441)</b>
<b>Amount at end of the year</b>							
Cost	113,343	211,944	1,900	-	128,171	4,563,662	5,019,020
Amortisation (Accumulated amortisation)	26,447	127,350	760	-	-	4,527,234	4,681,791
<b>Carrying amount</b>	<b>86,896</b>	<b>84,594</b>	<b>1,140</b>	<b>-</b>	<b>128,171</b>	<b>306,428</b>	<b>607,229</b>

### Start-up, expansion, research, development and advertising costs

The start-up and expansion costs recognised pertain to company organisation costs, share capital increase costs, and costs of the contribution executed at the end of October 2015.

There are no research and development costs, nor capitalised advertising costs.

Start-up and expansion costs	Gross amount	Accumulated amortisation	Net amount	Reason for recording	Amortisation criterion
<b>Company organisation costs</b>	113,343	26,447	86,896		20%
<b>Total</b>	<b>113,343</b>	<b>26,447</b>	<b>86,896</b>		

## PROPERTY, PLANT AND EQUIPMENT

The following table reports changes in property, plant and equipment with the following details for each item:

- cost;
- previous revaluations, depreciation and write-downs;
- increases, transfers from one item to another and decreases occurring during the year;
- revaluations, depreciation and write-downs applied during the year.

### CHANGES IN PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other property, plant and equipment	Fixed assets in progress and advance payments	Total property, plant and equipment
<b>Amount at beginning of the year</b>						
Cost	487,598,126	597,992,802	31,783,525	4,439,864	29,671,071	1,151,485,388
Depreciation (Accumulated depreciation)	2,490,234	10,028,651	1,225,596	224,725	-	13,969,206
Write-downs	1,764,054	-	-	-	4,889,047	6,653,101
<b>Carrying amount</b>	<b>483,343,837</b>	<b>587,964,151</b>	<b>30,557,929</b>	<b>4,215,139</b>	<b>24,782,024</b>	<b>1,130,863,080</b>
<b>Changes during the year</b>						
Increases for purchases	-	-	-	-	28,197,832	28,197,832
Reclassifications (of carrying amount)	2,226,542	19,699,409	2,750,316	828,658	(25,513,205)	(8,280)
Decreases (in carrying amount) due to disposals and sales	9,877	598,830	443,647	91,932	377,000	1,521,286
Depreciation for the year	14,989,541	61,001,803	7,507,982	1,410,482	-	84,909,808
Other changes	-	-	-	-	(4,537,134)	(4,537,134)
<b>Total changes</b>	<b>(12,772,876)</b>	<b>(41,901,224)</b>	<b>(5,201,313)</b>	<b>(673,756)</b>	<b>(2,229,507)</b>	<b>(62,778,676)</b>
<b>Amount at end of the year</b>						
Cost	489,814,730	617,083,231	34,076,363	5,169,472	27,441,564	1,173,585,360
Depreciation (Accumulated depreciation)	17,479,715	71,020,304	8,719,747	1,628,089	-	98,847,855
Write-downs	1,764,054	-	-	-	4,889,047	6,653,101
<b>Carrying amount</b>	<b>470,570,961</b>	<b>546,062,927</b>	<b>25,356,616</b>	<b>3,541,383</b>	<b>22,552,517</b>	<b>1,068,084,404</b>

### Value reductions applied to property, plant and equipment

No fixed assets were written down during the year.

lease agreements were used are summarised in the following table:

## FINANCE LEASING TRANSACTIONS

The company has a pending finance lease agreement in connection with a coil galvanising line at the Ravenna plant.

This lease agreement was included in the business contributed.

Key data for this agreement and the impact that would occur on the balance sheet and profit (loss) for the year (before taxes) if the financial method for recording

- Commencement of utilisation by the company Marcegaglia Carbon Steel: 01/11/2015
- Remaining term of the agreement in years: 3
- Market value of the contributed asset: Euro 28,578,100

	Amount
Total amount of assets under finance leases at year-end	28,578,100
Depreciation that would have been applicable during the year	2,198,315
Present value of unexpired lease payments at year-end	6,859,845
Financial charges applicable to the year based on the actual interest rate	119,831

ASSETS	Amount
<b>a) Current agreements</b>	
a.1) Assets under finance lease at the end of the previous financial year	9,666,396
related accumulated depreciation	366,386
a.2) Assets acquired under finance leases during the financial year	-
a.3) Assets under finance leases redeemed during the financial year	0
a.4) Accrued depreciation for the financial year	2,198,315
a.5) Write-downs/write-backs of assets under finance leases	587,954,91
a.6) Assets under finance leases at the end of the financial year	8,056,036
related accumulated depreciation	2,564,701
<b>b) Assets redeemed</b>	
b.1) Higher/lower total value of redeemed assets, determined according to the financial methodology, as compared to their net book value at the end of the financial year	-
<b>Total (a.6+b.1)</b>	<b>8,056,036</b>

LIABILITIES	Amount
<b>c) Implicit payables</b>	
c.1) Implicit payables for finance leasing transactions at the end of the previous financial year	10,884,163
portion maturing during the next financial year	4,020,723
portion maturing after the next financial year and within 5 years	6,863,439
portion maturing in more than 5 years	0
c.2) Implicit payables arising during the financial year	0,00
c.3) Principal repayments and redemptions during the financial year	4,024,318
c.4) Implicit payables for finance leasing transactions at the end of the financial year	6,859,845
portion maturing during the next financial year	4,089,235
portion maturing after the next financial year and within 5 years	2,770,610
portion maturing in more than 5 years	0
<b>d) Total gross impact at the end of the financial year (a.6+b.1-c.4)</b>	<b>1,196,190</b>
<b>e) Tax impact</b>	<b>-428,288</b>
<b>f) Impact on shareholders' equity at the end of the financial year (d - e)</b>	<b>767,903</b>

	Amount
a.1) Reversal of finance lease payments	4,738,428
a.2) Recognition of financial charges of finance lease transactions	119,831
a.3) Recognition of depreciation on current agreements	2,198,315
a.4) Write-downs/write-backs of assets under finance leases	0.00
a) Impact on result before taxes (lower/higher costs)	2,420,282
b) Recognition of the tax impact	-673,803
c) Net impact of leasing transactions on the financial year result (a - b)	1,746,479

## FINANCIAL FIXED ASSETS

### CHANGES IN EQUITY INVESTMENTS, OTHER SECURITIES AND LONG-TERM FINANCIAL DERIVATIVES REPORTED AS FIXED ASSETS

	Equity investments in subsidiaries	Equity investments in associates	Equity investments in other companies	Total equity investments
<b>Amount at beginning of the year</b>				
Cost	212,681,233	1,704,622	13,331	214,399,186
Write-downs	36,436,767	-	-	36,436,767
<b>Carrying amount</b>	<b>176,244,466</b>	<b>1,704,622</b>	<b>13,331</b>	<b>177,962,419</b>
<b>Changes during the year</b>				
Increases for purchases	31,000	12,500	4,015	47,515
Revaluations carried out during the year	4,967,374	-	-	4,967,374
Write-downs carried out during the year	50,300,996	-	-	50,300,996
<b>Total changes</b>	<b>(45,302,622)</b>	<b>12,500</b>	<b>4,015</b>	<b>(45,286,107)</b>
<b>Amount at end of the year</b>				
Cost	212,712,233	1,717,122	17,346	214,446,701
Revaluations	4,967,374	-	-	4,967,374
Write-downs	86,737,763	-	-	86,737,763
<b>Carrying amount</b>	<b>130,941,844</b>	<b>1,717,122</b>	<b>17,346</b>	<b>132,676,312</b>

### CHANGES AND MATURITY OF RECEIVABLES HELD AS FIXED ASSETS

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due after the year
Receivables from others held as fixed assets	25,386	27,520	52,906	52,906
<b>Total receivables held as fixed assets</b>	<b>25,386</b>	<b>27,520</b>	<b>52,906</b>	<b>52,906</b>

### DETAILS OF NON-CURRENT EQUITY INVESTMENTS IN SUBSIDIARIES

Name	City, if in Italy, or foreign country	Share capital in Euro	Profit (loss) latest year in Euro	Shareholders' equity in Euro	Interest held in Euro	Interest held as a %	Carrying amount or corresponding receivable
Marcegaglia Benelux	Belgium	100,000	(6,541)	86,963	86,093	100.00%	107,109
Marcegaglia France Sarl	France	50,000	(193,719)	159,185	159,185	100.00%	512,474
Marcegaglia Poland Sp.z.o.o.	Poland	22,674,194	2,438,953	51,687,710	51,480,959	99.60%	43,772,846
Marcegaglia do Brasil Ltda	Brazil	89,199,825	(1,894,676)	67,454,160	60,648,035	89.91%	60,647,901
Marcegaglia UK	United Kingdom	19,447,079	2,549,043	25,404,653	25,404,653	100.00%	23,183,302
Marcegaglia Deutschland GmbH	Germany	153,388	103,931	2,334,800	2,334,800	100.00%	2,360,570
Marcegaglia China Co. Ltd	China	155,342,323	(22,006,701)	31,083,974	28,413,861	91.41%	1
Marcegaglia Iberica	Spain	120,220	(40,182)	656,988	335,064	51.00%	325,307
Marcegaglia India Ltd	India	-	-	-	-	-	-
Marcegaglia North EU	Luxembourg	31,000	-	-	-	100.00%	31,000
<b>Total</b>							<b>130,940,510</b>

The exchange rate at the end of the year and average exchange rate for the year were used respectively to convert into Euros shareholders' equity and profit (loss) for the year expressed in a currency other than the Euro. The financial year of Marcegaglia India Ltd is from 1 April to 31 March of the following year. Figures reported for Marcegaglia India Ltd are for the latest financial statements approved for the year ending 31 March 2016. With regard to Marcegaglia Benelux, the latest financial statements available are as at 31 December 2015. The 2016 financial statements for the newly established Marcegaglia North Europe are not currently available.

## DETAILS OF NON-CURRENT EQUITY INVESTMENTS IN ASSOCIATES

Name	City, if in Italy, or foreign country	Tax ID No. (for Italian companies)	Share capital in Euro	Profit (loss) latest year in Euro	Shareholders' equity in Euro	Interest held in Euro	Interest held as a %	Carrying amount or corresponding receivable
SIM S.r.l.	Italy	00696290675	780,000	31,132	1,872,646	936,323	50.00%	929,622
Fontana S.p.a.	Italy	02694250016	50,000	1,418,884	5,955,470	1,905,750	32.00%	775,000
Consorzio Absolute	Italy	02844650305	50,000	-	50,000	12,500	25.00%	12,500
<b>Total</b>								<b>1,717,122</b>

\* The financial year of SIM S.p.A. is from 1 October to 30 September of the following year. Figures reported are for the latest financial statements approved for the year ending 30 September 2016. Figures for the equity investment in the company Fontana are for the year ending 31 December 2015.

## BREAKDOWN OF RECEIVABLES HELD AS FIXED ASSETS BY GEOGRAPHIC AREA

Geographic area	Receivables from others held as fixed assets	Total receivables held as fixed assets
Italy	52,906	52,906
<b>Total</b>	<b>52,906</b>	<b>52,906</b>

## VALUE OF FINANCIAL FIXED ASSETS

	Carrying amount
Equity investments in other companies	17,346
<b>Receivables from others</b>	<b>52,906</b>

## BREAKDOWN OF AMOUNT OF NON-CURRENT EQUITY INVESTMENTS IN OTHER COMPANIES

	Carrying amount
Am Investco Italy Srl	4,015
Gas Intensive Soc. Consortile	1,000
Metal Interconnector	12,331
<b>Total</b>	<b>17,346</b>

## BREAKDOWN OF AMOUNT OF NON-CURRENT RECEIVABLES FROM OTHERS

	Carrying amount
Enel security deposit	21
Lease security deposit	6,520
Advances for expenses of employed personnel	14,298
Miscellaneous security deposits	32,067
<b>Total</b>	<b>52,906</b>

## CURRENT ASSETS

Below are changes that occurred during the year ending 31 December 2016 in balance sheet assets other than fixed assets.

## INVENTORIES

	Amount at beginning of the year	Changes during the year	Amount at end of the year
<b>I - Inventories</b>			
Raw and ancillary materials and consumables	404,960,704	11,619,244	416,579,948
Work in process and semi-finished goods	189,965,025	21,845,240	211,810,265
Finished goods and merchandise	163,628,237	11,254,345	174,882,582
<b>Total inventories</b>	<b>758,553,966</b>	<b>44,718,829</b>	<b>803,272,795</b>

## RECEIVABLES RECORDED IN CURRENT ASSETS

## CHANGES AND MATURITY OF RECEIVABLES RECORDED IN CURRENT ASSETS

Current assets	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year	Portion due after the year
<b>II - Receivables</b>					
From customers	99,216,200	(59,602,700)	39,613,500	39,613,500	-
From subsidiaries	43,777,378	8,413,465	52,190,843	40,190,843	12,000,000
From associates	1,697,479	(593,535)	1,103,944	1,103,944	-
From parent companies	0	4,326,392	4,326,392	4,326,392	-
From companies subject to control of parent companies	52,593,228	20,163,669	72,756,897	72,756,897	-
Tax credits	424,368	83,991	508,359	508,359	-
Deferred tax assets	25,978,189	(12,054,612)	13,923,577		
From others	40,846,332	9,676,565	50,522,897	50,522,897	-
<b>Total receivables recorded in current assets</b>	<b>264,533,174</b>	<b>(29,586,765)</b>	<b>234,946,409</b>	<b>209,022,832</b>	<b>12,000,000</b>

Receivables are recorded at their estimated realisable value through the allocation of special adjusting provisions, the changes in which are indicated below.

	Amount at beginning of the year	Utilisation	Provisions	Amount at end of the year
Allowance for uncollectible receivables from customers	3,714,127	2,487,184	1,286,481	2,513,424
Allowance for uncollectible receivables from subsidiaries	0	0	8,955,199	8,955,199
Allowance for uncollectible receivables from associates	0	0	0	0
Allowance for uncollectible receivables from parent companies	0	0	0	0
Allowance for uncollectible receivables from companies subject to control of parent companies	0	0	0	0
Allowance for uncollectible tax credits	0	0	0	0
Allowance for uncollectible receivables from others	0	0	0	0
<b>Total allowance for uncollectible receivables</b>	<b>3,714,127</b>	<b>2,487,184</b>	<b>10,241,680</b>	<b>11,468,623</b>

In addition to what was reported in the balance sheet, note that receivables from subsidiaries, associates, parent companies and from companies subject to the control of parent companies are related to the balance resulting from trade transactions between Marcegaglia Carbon Steel S.p.A. and various counterparties, the cash settlement of which has not yet occurred, and to the balance of intra-group current accounts that were specially created and/or resulted from the aforementioned contribution, to which settlements for trade and/or financial transactions are routed.

In certain instances, these receivables are also related to the contribution of balance

sheet aggregates at the time of the extraordinary transaction at the end of October 2015.

The following table provides details on receivables from companies subject to the control of parent companies.

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year	Portion due after the year	Of which, those with remaining term over 5 years
Oskar Srl	2,386,771	-1,207,881	1,178,890	1,178,890	0	0
Marcegaglia Romania	1,866,237	949,672	2,815,909	2,815,909	0	0
Marfin Srl	33,287,699	-32,316,388	971,311	971,311	0	0
Marcegaglia Buildtech Srl	8,450,118	39,477,342	47,927,460	47,927,460	0	0
Marcegaglia USA	4,135,681	5,129,671	9,265,352	9,265,352	0	0
Marcegaglia Specialties Spa	1,817,017	1,386,643	3,203,660	3,203,660	0	0
Marcegaglia Plates Spa	11,002	-6,124	4,878	4,878	0	0
I.M.A.T. Spa	126,970	501,799	628,769	628,769	0	0
Marcegaglia Turchia	511,733	6,198,547	6,710,280	6,710,280	0	0
B.V.B. Srl in liquidazione	0	1,220	1,220	1,220	0	0
Euroenergy Group Srl	0	30,592	30,592	30,592	0	0
MADE HSE Srl	0	403	403	403	0	0
Marcegaglia RU	0	8,695	8,695	8,695	0	0
Outsourcing Inox Srl	0	15,385	15,385	15,385	0	0
Dalmine Logistic Solutions Srl	0	-5,907	-5,907	-5,907	0	0
<b>Total receivables from companies subject to control of parent companies</b>	<b>52,593,228</b>	<b>20,163,669</b>	<b>72,756,897</b>	<b>72,756,897</b>	<b>0</b>	<b>0</b>

Receivables for prepaid taxes were nearly entirely related to the lower value of inventories for tax purposes than the book values arising when they were contributed (in accordance with the guidelines contained in the appraisal prepared pursuant to Article 2465(1) of the Italian Civil Code), exchange rate differences and prepaid taxes on the 2015 tax loss that have not been used due to the minor tax loss in 2016.

We believe that these taxes will be fully recovered in 2017 in view of the fast turnover of inventories, receivables and payables in foreign currency and the positive outlook for performance in 2017.

Details and changes in receivables from others are broken down in the following table:

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year	Portion due after the year	Of which, those with remaining term over 5 years
Receivables from factoring companies	35,503,820	11,148,489	46,652,309	46,652,309	0	0
Advances to suppliers	89,181	320,428	409,609	409,609	0	0
Social security receivables	292,242	360,545	652,787	652,787	0	0
Advances to employees	593,036	-562,126	30,910	30,910	0	0
Receivables from credit institutions for customer collections	2,358,681	-2,358,590	91	91	0	0
Other receivables	2,009,372	767,819	2,777,191	2,777,191	0	0
<b>Total receivables from others</b>	<b>40,846,332</b>	<b>9,676,565</b>	<b>50,522,897</b>	<b>50,522,897</b>	<b>0</b>	<b>0</b>

#### BREAKDOWN OF RECEIVABLES RECORDED IN CURRENT ASSETS BY GEO-GRAPHIC AREA

	Italy	EU	Other European Countries	America	Africa - Middle East	Total
Receivables from customers	35,062,884	3,425,794	-	1,094,361	30,461	<b>39,613,500</b>
Receivables from subsidiaries recorded	-	241,622	24,968,848	26,889,511	90,862	<b>52,190,843</b>
Receivables from associates	1,103,944	-	-	-	-	<b>1,103,944</b>
Receivables from parent companies	4,326,392	-	-	-	-	<b>4,326,392</b>
Receivables from companies subject to control of parent companies	53,956,661	-	2,824,604	9,265,352	6,710,280	<b>72,756,897</b>
Tax credits recorded	381,785	6,637	119,937	-	-	<b>508,359</b>
Deferred tax assets	13,923,577	-	-	-	-	<b>13,923,577</b>
Receivables from others	50,505,118	6,040	11,739	-	-	<b>50,522,897</b>
<b>Total receivables recorded in current assets</b>	<b>159,260,361</b>	<b>3,680,093</b>	<b>27,925,128</b>	<b>37,249,224</b>	<b>6,831,603</b>	<b>234,946,409</b>

#### FINANCIAL ASSETS NOT HELD AS FIXED ASSETS

##### CHANGES IN FINANCIAL ASSETS NOT HELD AS FIXED ASSETS

Financial assets not held as fixed assets and which were not outstanding at the end of the financial year were not contributed.

#### DISPONIBILITÀ LIQUIDE

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Bank and postal deposits	3,073,307	1,127,974	4,201,281
Cash and other cash assets	10,933	4,088	15,021
<b>Total cash and cash equivalents</b>	<b>3,084,240</b>	<b>1,132,062</b>	<b>4,216,302</b>

#### ACCRUED INCOME AND PREPAID EXPENSES

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Accrued income	455,803	(432,227)	23,576
Prepaid expenses	1,686,850	(720,062)	966,788
<b>Total accrued income and prepaid expenses</b>	<b>2,142,653</b>	<b>(1,152,289)</b>	<b>990,364</b>

Accrued income and prepaid expenses are broken down in the tables below:

Accrued income	Amount at beginning of the year	Changes during the year	Amount at end of the year
Simest interest subsidies	455,803	-432,227	23,576
<b>Total accrued income</b>	<b>455,803</b>	<b>-432,227</b>	<b>23,576</b>

Prepaid expenses	Amount at beginning of the year	Changes during the year	Amount at end of the year
Lease payments and portions of balloon payments on leases for future years	1,514,867	-587,954	926,913
Other	171,983	-132,108	39,875
<b>Total prepaid expenses</b>	<b>1,686,850</b>	<b>-720,062</b>	<b>966,788</b>

## CAPITALISED FINANCIAL CHARGES

In 2016, no applicable financial charges were capitalised.

## NOTES TO FINANCIAL STATEMENTS - LIABILITIES AND SHAREHOLDERS' EQUITY

### SHAREHOLDER'S EQUITY

The following tables summarise the composition of shareholders' equity, the availability of reserves for capital-related transactions, the ability to distribute reserves and utilisation over the last three years:

#### CHANGES IN SHAREHOLDERS' EQUITY ITEMS

	Amount at beginning of the year	Allocation of net profit (loss) from the previous year  Other allocations	Other changes  Increases	Profit (loss) for the year	Amount at end of the year
Share capital	496,118,598	-	-		
Share premium reserve	6,859,343	-	-		6,859,343
<b>Other Reserves</b>					
Future capital increase contributions	20,000	-	-		20,000
Sundry other reserves	(2)	-	1		(1)
Total other reserves	19,998	-	1		19,999
Reserve for projected cash flow hedges	(29,624,712)	-	29,624,712		0
Profit (loss) carried forward	0	(43,672,865)	-		(43,672,865)
Profit (loss) for the year	(43,672,865)	43,672,865	-	(68,792,504)	(68,792,504)
<b>Total shareholders' equity</b>	<b>429,700,362</b>	<b>-</b>	<b>29,624,713</b>	<b>(68,792,504)</b>	<b>390,532,571</b>

#### BREAKDOWN OF SUNDRY OTHER RESERVES

Description	Amount
Rounding difference	(1)
<b>Total</b>	<b>(1)</b>

## AVAILABILITY AND USE OF SHAREHOLDERS' EQUITY

	Amount	Origin/nature	Potential uses	Available amount
Share capital	496,118,598	Shareholder contribution		-
Share premium reserve	6,859,343		A-B-C	6,859,343
Other Reserves				
Future capital increase contributions	20,000,000	Waiver of shareholder receivables	A-B-C	20,000
Sundry other reserves	-1	Rounding to whole Euros		-
Total other reserves	19,999			20,000
Reserve for projected cash flow hedges	0			-
Profit (loss) carried forward	(43,672,865)			-
<b>Total</b>	<b>459,325,075</b>			<b>6,879,343</b>
<b>Non-distributable amount</b>				<b>6,879,343</b>

Legenda: A for capital increase - B to cover losses - C for distribution to shareholders - D for other statutory restrictions - E other

## ORIGIN, POSSIBLE USE, AND AMOUNTS AVAILABLE FOR DISTRIBUTION OF SUNDRY OTHER RESERVES

Description	Amount
Rounding to whole Euros	(1)
<b>Total</b>	<b>(1)</b>

## CHANGES IN RESERVE FOR PROJECTED CASH FLOW HEDGES

	Riserva per operazioni di copertura di flussi finanziari attesi
Amount at beginning of the year	(29,624,712)
Changes during the year	
Amount recycled to profit or loss	29,624,712
Amount at end of the year	0

The reserve for projected cash flow hedges was created pursuant to OIC 32 concerning financial derivatives, effective retroactively to the financial statements for the year ending 31 December 2015 as specified by the same accounting standard (see the specific section on derivatives for a more detailed review).

The zeroing out of this reserve in 2016 was justified by the fact that, after two large syndicated loans were obtained on 4 March 2016 from banks for a total nominal value of Euro 492.5 million (Euro 362.5 million mortgage loan and Euro 130 million unsecured loan, both with an amortisation schedule ending in 2022), the parent company Marcegaglia Steel S.p.A., the recipient of the two new loans, repaid the previous syndicated loan in advance with value on 8 March 2016. The latter loan was made to Marcegaglia Carbon Steel S.p.A. with a natural maturity of 31 December 2017.

Thus, the early repayment in 2016 of the syndicated loan obtained in 2007 by Mar-

cegaglia S.p.A. and contributed on 1 November 2015 to Marcegaglia Carbon Steel S.p.A. together with the related derivatives, as well as the early repayment of other liabilities related to these derivatives, resulted in the elimination of the existing hedge; thus, the derivatives lost their hedging nature in 2016.

The natural consequence of the above was to zero out the reserve with the recognition of a cost of the same amount in the profit and loss account under item D 19 d) Write-down of financial derivatives.

## RESERVES FOR RISKS AND EXPENSES

## INFORMATION ON RESERVES FOR RISKS AND EXPENSES

	Provision for retirement pay and similar obligations	Provision for taxes, including deferred taxes	Financial derivatives reported as liabilities	Other reserves	Total reserves for risks and expenses
Amount at beginning of the year	2,141,962	188,737,690	52,142,580	1,500,000	244,522,232
Changes during the year					
Accrual for the year	149,748	1,471,897	-	11,494,708	13,116,353
Usage for the year	440,366	13,522,910	37,621,475	-	51,584,751
Total changes	(290,618)	(12,051,013)	(37,621,475)	11,494,708	(38,468,398)
Amount at end of the year	1,851,344	176,686,677	14,521,105	12,994,708	206,053,834

For a fuller understanding of reserves for risks and expenses, details of these items are provided below.

Liability item B.1 “Provision for retirement pay and similar obligations” includes allocations and related uses of funds for the termination of agency relations.

Provisions are quantified pursuant to the provisions of Art. 1751 of the Italian Civil Code and collective agreements in the sector.

Breakdown of provision for retirement pay and similar obligations	Amount at beginning of the year	Usage for the year	Provisions for the year	Other changes	Amount at end of the year
Customer indemnity reserve	1,928,381	410,590	109,982	0	1,627,773
Relationship termination indemnity reserve	213,581	29,776	39,766	0	223,571
Total	2,141,962	440,366	149,748	0	1,851,344

Breakdown of provision for taxes, including deferred taxes	Amount at beginning of the year	Usage for the year	Provisions for the year	Other changes	Amount at end of the year
Provision for deferred taxes	188,737,690	13,522,910	1,471,897	0	176,686,677
	0	0	0	0	0
Total	188,737,690	13,522,910	1,471,897	0	176,686,677

The provision for deferred taxes mainly arose from the contribution in 2015 and pertains to deferred taxes connected to the greater values of property, plant and equipment contributed in comparison with the values applicable to the contributor for tax purposes. In fact, as is well known, from a tax point of view the contribution is not a sale transaction. Consequently any market values that are possibly higher than the contributor's book values, which are attributed to the various assets, have no relevance for taxation.

The determination of these market values along with the related deferred taxes was supported by the valuation prepared by the expert as referenced in Article 2465(1) of the Italian Civil Code. These deferred taxes shall be reabsorbed through the process of depreciation of the aforementioned higher values on the basis of the useful lives of the various as-

sets indicated by the expert in the valuation. In 2016, the utilisation of the deferred tax provision in connection with the higher depreciation amount in the financial statement than depreciation for tax purposes, was Euro13,491,413.

The remainder of utilisations and all provisions is in relation to deferred taxes related to the impact of foreign exchange translation gains reported in the profit and loss account.

Changes in financial derivatives reported as liabilities in 2016 are indicated in the table below.

	Financial derivatives reported as liabilities
Balance at 31-12-15 before retroactive application of OIC 32	22,517,868
Impact of retroactive application of the new OIC 32 at 31 December 2015	29,624,712
Balance at 31 December 2015	52,142,580
Use of provision for derivatives reported as liabilities following the early termination of derivatives	-10,386,266
Novation of several derivatives held in portfolio in favour of Marcegaglia Steel S.p.A. in April/May 2016 - transfer of fair value	-21,801,412
Adjustment of fair value of derivatives remaining in the company's portfolio as at 31 December 2016	-5,433,797
Total utilisation 2016	-37,621,475
Balance as at 31 December 2016	14,521,105

Following the early termination of liabilities hedged by the derivatives, which was discussed in comments on changes in the shareholders' equity reserve for projected cash flow hedges, the existing derivatives were not all terminated at the same time: between April and May 2016, a portion of them was assigned by novation to the parent company Marcegaglia Steel S.p.A. by Marcegaglia Carbon Steel S.p.A.

The corresponding fair value calculated at the time of the novation was therefore reduced by the provision for risks with the recognition of a payable to the parent company since Marcegaglia Steel S.p.A., by virtue of the novation, took over various debt positions with the lending banks.

Then, in the weeks following this novation, Marcegaglia Steel S.p.A. renegotiated new hedges with the bank counterparties of these derivatives, and signed new agreements, which were established and structured in such a way to be perfectly related to the two new syndicated loans obtained by it pursuant to the current OIC 32.

Details of changes in other provisions for risks are provided in the following table:

Details of other provisions	Amount at beginning of the year	Usage for the year	Provisions for the year	Other changes	Amount at end of the year
Provision for risks on lawsuits	1,500,000	0	494,708	0	1,994,708
Provision for risks associated with Marcegaglia China	0	0	11,000,000	0	11,000,000
<b>Total</b>	<b>1,500,000</b>	<b>0</b>	<b>11,494,708</b>	<b>0</b>	<b>12,994,708</b>

The provision for risks associated with Marcegaglia China was created in 2016 in the amount of €11 million to reflect commitments made to repurchase the minority interest held by Simest in Marcegaglia China.

In view of the rather critical and delicate balance sheet situation of the Chinese subsidiary, to be extremely cautious, a risk provision was established equal to 100% of the outlay agreed to with Simest. The allocation to this risk provision was recorded under item D 19 a) Write-downs of equity investments. This minority interest was purchased in April 2017.

## EMPLOYEE SEVERANCE PAY

The following table shows changes in employee severance pay for 2016 and also includes amounts allocated for supplemental pensions. Based on the guidelines of the Italian Accounting Organisation in its annex dated 26 September 2007 to Operating Guide No. 1 related to the transition to IAS, the employee severance pay reserve reported in the financial statements is shown net of the amount paid for supplemental pensions or contributed to the "Fund for the Payment of Severance Pay to Employees in the Private Sector as referenced in Article 2120 of the Italian Civil Code", the so-called INPS Treasury Fund, pursuant to Legislative Decree 252/2005; Article 1, paragraph 755 et seq. and paragraph 765 of Law 296/2006; and Articles 1 and 3 of the Ministerial Decree of 30 January 2007. The amounts of employee severance pay for 2016 that have not been contributed to supplemental pension funds or the INPS Treasury Fund are reported in item "D) 13) Payables to pension and social security organisations."

	Employee severance pay
Amount at beginning of the year	12,693,155
Changes during the year	
<i>Accrual for the year</i>	7,992,455
<i>Usage for the year</i>	8,741,344
<b>Total changes</b>	<b>(748,889)</b>
Amount at end of the year	<b>11,944,266</b>

Usage during the year for payments and advances made and for payment of substitute income tax on the revaluation accrued during the year	Contributions made to supplemental pension funds	Contributions made to INPS Treasury Fund net of recoveries made during the year	Recovery of INPS contribution pursuant to Law 297/82	Total usage
1,008,584	4,207,808	2,992,411	532,541	8,741,344

## PAYABLES

### CHANGES AND DUE DATES OF PAYABLES

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year	Portion due after the year
Payables to banks	220,426,532	(155,963,286)	64,463,246	51,970,642	12,492,604
Advance payments	11,019,183	(124,584)	10,894,599	10,894,599	-
Trade payables	813,568,744	170,057,789	983,626,533	983,626,533	-
Payables to subsidiaries	16,312,937	(2,991,489)	13,321,448	13,321,448	-
Payables to associates	2,045,162	(1,083,057)	962,105	962,105	-
Payables to parent companies	375,483,148	9,247,321	384,730,469	384,730,469	-
Payables to companies subject to control of parent companies	21,637,049	(11,399,013)	10,238,036	10,238,036	-
Tax payables	8,276,726	2,369,846	10,646,572	10,646,572	-
Payables to pension and social security organisations	9,679,227	29,094	9,708,321	9,708,321	-
Other payables	171,979,670	(24,606,654)	147,373,016	147,373,016	-
<b>Total payables</b>	<b>1,650,428,378</b>	<b>(14,464,033)</b>	<b>1,635,964,345</b>	<b>1,623,471,741</b>	<b>12,492,604</b>

### BREAKDOWN OF PAYABLES BY GEOGRAPHIC AREA

	Italy	EU	Other European Countries	America	Africa - Middle East	Asia China And Oceania	Total
Payables to banks	64,463,246	-	-	-	-	-	64,463,246
Advance payments	18,439	409,500	10,466,660	-	-	-	10,894,599
Trade payables	470,137,508	62,382,792	324,001,683	85,660	48,207,533	78,811,357	983,626,533
Payables to subsidiaries	-	10,618,245	1,505,963	1,184,258	-	12,982	13,321,448
Payables to associates	953,215	-	-	-	-	8,890	962,105
Payables to parent companies	384,730,469	-	-	-	-	-	384,730,469
Payables to companies subject to control of parent companies	10,200,145	-	37,891	-	-	-	10,238,036
Tax payables	9,664,986	799,325	168,120	14,141	-	-	10,646,572
Payables to pension and social security organisations	9,708,321	-	-	-	-	-	9,708,321
Other payables	147,373,016	-	-	-	-	-	147,373,016
<b>Payables</b>	<b>1,097,249,345</b>	<b>74,209,862</b>	<b>336,180,317</b>	<b>1,284,059</b>	<b>48,207,533</b>	<b>78,833,229</b>	<b>1,635,964,345</b>

## PAYABLES SECURED BY COMPANY ASSETS

	Debt secured by collateral				Unsecured debt	Total
	Debt secured by mortgages	Debt secured by liens	Debt secured by special liens	Total debt secured by collateral		
Bonds	0	0	0	0	0	0
Convertible bonds	0	0	0	0	0	0
Payables to shareholders for loans	0	0	0	0	0	0
Payables to banks	21,037,811	24,037,486	0	45,075,297	19,387,949	64,463,246
Payables to other lenders	0	0	0	0	0	0
Advance payments	0	0	0	0	10,894,599	10,894,599
Trade payables	0	0	0	0	983,626,533	983,626,533
Payables consisting of debt securities	0	0	0	0	0	0
Payables to subsidiaries	0	0	0	0	13,321,448	13,321,448
Payables to associates	0	0	0	0	962,105	962,105
Payables to parent companies	0	0	0	0	384,730,469	384,730,469
Payables to companies subject to control of parent companies	0	0	0	0	10,238,036	10,238,036
Tax payables	0	0	0	0	10,646,572	10,646,572
Payables to pension and social security organisations	0	0	0	0	9,708,321	9,708,321
Other payables	0	0	0	0	147,373,016	147,373,016
<b>Total payables</b>	<b>21,037,811</b>	<b>24,037,486</b>	<b>0</b>	<b>45,075,297</b>	<b>1,590,889,048</b>	<b>1,635,964,345</b>

Lending institution	Total debt at 31 Dec 2016	Portion of debt due within the following year (2017) and reclassified under short-term payables to banks	Total portion of debt due after the following year (2017)	of which, portion of debt due after the following year (2017) but by 31 Dec 2021	of which, portion of debt due after 5 years from the reporting date, i.e., starting in 2022	Debt maturity
GE Capital	4,597,811	3,065,207	1,532,604	1,532,604	0	25 Mar 2018
Intesa Sanpaolo	8,400,000	2,800,000	5,600,000	5,600,000	0	17 Dec 2019
Intesa Sanpaolo	8,040,000	2,680,000	5,360,000	5,360,000	0	17 Dec 2019
<b>total</b>	<b>21,037,811</b>	<b>8,545,207</b>	<b>12,492,604</b>	<b>12,492,604</b>	<b>0</b>	

Credit institution/entity secured by collateral	1st and 2nd grade mortgages on properties located in Boltiere (Bergamo)	Lien on assets in the plant in Boltiere (Bergamo)	Mortgage on properties located in Albignasego (Padua), Corsico (Milan) and Lainate (Milan)	Lien on assets in the plant in Albignasego (Padua), Corsico (Milan) and Lainate (Milan)	Totals
Ge Capital			30,652,071	30,652,071	<b>61,304,142</b>
Intesa Sanpaolo	30,000,000	45,000,000			<b>75,000,000</b>
<b>totale</b>	<b>30,000,000</b>	<b>45,000,000</b>	<b>30,652,071</b>	<b>30,652,071</b>	<b>136,304,142</b>

Note the following with regard to collateral in place on the real properties and personal properties of Marcegaglia Carbon Steel S.p.A. in favour of third parties.

On 4 March 2016, the parent company Marcegaglia Steel S.p.A. took out two significant loans with a bank syndicate consisting of major banks that have a relationship with the group in amounts totalling Euro 362.5 million and Euro 130 million maturing in seven years.

The €362.5 million loan is a mortgage loan, the collateral for which was issued by the subsidiaries Marcegaglia Carbon Steel S.p.A. and Marcegaglia Specialties S.p.A. as third-party providers of the mortgages and liens due to the fact that Marcegaglia Steel S.p.A. itself acts as a lender for them and funds operations through a cash pooling mechanism.

At the very time these loans were provided in March 2016, Marcegaglia Steel S.p.A. used the funds received to repay the debt under the syndicated loan originally obtained in 2007, in which Marcegaglia Carbon Steel S.p.A. became the borrower by virtue of the contribution of October 2015. This inter-company transaction was settled

concurrently in the intra-group current account.

At the same time, all mortgages and liens on assets securing the aforementioned 2007 loan, which was repaid in advance, were cancelled.

The plants owned by Marcegaglia Carbon Steel S.p.A. on which mortgages and liens have been placed in favour of the new bank syndicate are as follows:

- Casalmaggiore (CR)
- Ravenna
- Lomagna (LC)

The total value of collateral provided is

Euro 471,250,000.00. The collateral consists of a first grade mortgage on the property indicated above and a lien on personal property included in these plants together with the same collateral recorded on a portion of the properties owned by the affiliate Marcegaglia Specialties S.p.A. (in this specific case, in Gazoldo degli Ippoliti (MN) and in Forlì/Forlimpopoli, which are mortgaged for the same purpose).

#### Payables related to transactions with a forward reconveyance obligation

None.

#### Loans made by the company's shareholders

None.

For the sake of complete disclosure, full details are provided on payables to companies subject to control of parent companies.

Detail of the item "Payables to companies subject to control of parent companies"	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year	Portion due after the year	Of which, portion with remaining term over 5 years
Oskar Srl	95,577	47,786	143,363	143,363	0	0
Made Hse Srl	700,673	626,653	1,327,326	1,327,326	0	0
Marfin Srl	15,584,141	-10,559,040	5,025,101	5,025,101	0	0
Marcegaglia Specialties Spa	4,970,193	-1,480,870	3,489,323	3,489,323	0	0
Marcegaglia Plates Spa	33,188	19,342	52,530	52,530	0	0
Marcegaglia Romania	227,282	-189,391	37,891	37,891	0	0
Marcegaglia Buildtech Srl	25,995	39,549	65,544	65,544	0	0
Albarella Srl	0	2,048	2,048	2,048	0	0
BVB Srl in liquidation	0	3,000	3,000	3,000	0	0
Abaco Servizi Srl	0	91,910	91,910	91,910	0	0
<b>Total payables to companies subject to control of parent companies</b>	<b>21,637,049</b>	<b>-11,399,013</b>	<b>10,238,036</b>	<b>10,238,036</b>	<b>0</b>	<b>0</b>

Detail of the item "Other payables"	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year
Payables to factoring companies	157,429,546	-23,364,445	134,065,101	134,065,101
Payables to staff	11,546,558	1,212,840	12,759,398	12,759,398
Security deposits	0	0	0	0
Miscellaneous payables	3,003,566	-2,455,049	548,517	548,517
<b>Total other payables</b>	<b>171,979,670</b>	<b>-24,606,654</b>	<b>147,373,016</b>	<b>147,373,016</b>

#### ACCRUED EXPENSES AND DEFERRED INCOME

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Accrued expenses	896,461	(544,756)	351,705
<b>Total accrued expenses and deferred income</b>	<b>896,461</b>	<b>(544,756)</b>	<b>351,705</b>

Accrued expenses and deferred income are broken down in the tables below:

Accrued expenses	Amount at beginning of the year	Changes during the year	Amount at end of the year
Portion of interest expense	330,404	21,301	351,705
Accrued interest differential expenses backed by Interest Rate Swap contracts	566,057	-566,057	0
<b>Total accrued expenses</b>	<b>896,461</b>	<b>-544,756</b>	<b>351,705</b>

## NOTES TO FINANCIAL STATEMENTS - PROFIT AND LOSS ACCOUNT

### VALUE OF PRODUCTION

#### BREAKDOWN OF REVENUES FROM SALES AND SERVICES BY BUSINESS CATEGORY

Business category	Amount for current year
tubes	631,403,269
flat products	1,460,140,107
other iron and steel industry products	132,457,547
<b>Total</b>	<b>2,224,000,923</b>

#### BREAKDOWN OF REVENUES FROM SALES AND SERVICES BY GEOGRAPHIC AREA

Geographic area	Amount for current year
Italy	1,059,862,859
EU	1,022,788,776
Other European Countries	83,925,050
North America	38,126,564
Central And South America	1,865,546
Middle East	434,314
Far East - Oceania	2,034,306
Africa	14,963,508
<b>Total</b>	<b>2,224,000,923</b>

### FINANCIAL INCOME AND CHARGES

#### Breakdown of interest and other financial charges by type of payable

	Interest and other financial charges
Payables to banks	13,821,357
Other	37,655,745
<b>Total</b>	<b>51,477,102</b>

Item C 17) "Other ordinary financial charges" in the profit and loss account can be broken down as follows:

Detail of the item "Other"	Other
Interest expense on receivable sales in securitisation transactions	5,626,414
Financial charges on derivatives	7,154,179
Interest paid to suppliers	762,438
Interest paid to subsidiaries	385,297
Interest paid to parent companies	22,439,547
Other interest and financial charges	564,447
Fees on financial sureties	723,423
<b>Total other financial charges</b>	<b>37,655,745</b>

### VALUE ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES

Item D18) a) "Revaluations of equity investments" totalled Euro 4,967,375, and was totally related to the partial replenishment of the value of the equity investment in the subsidiary Marcegaglia Do Brasil.

In fact, in 2015, this equity investment was written down by over Euro 36 million, while in 2016 it was possible to cancel a portion of the 2015 write-down due to the significant recovery of the Real against the Euro, bearing in mind that in 2015 the Real depreciated sharply.

As already noted in comments on balance sheet changes in the item "Financial derivatives reported as liabilities," item D18) b) "Revaluation of financial derivatives," which totalled Euro 5,433,797, was in relation to the fair value adjustment of derivatives (IRS) that remained in the company's portfolio at 31 December 2016. Pursuant to the current OIC 32, these derivatives cannot be considered hedging instruments.

Item D19) a) "Write-downs of equity investments" (Euro 61,300,996) was for the total write-down of the equity investment in the subsidiary Marcegaglia China in the amount of Euro 50,300,996, and the creation of a provision for risk totalling Euro 11,000,000 which was equal to the outlay agreed to with the minority shareholder (Simest) in Marcegaglia China to acquire full control of the Chinese company in view of the critical and delicate balance sheet situation of this subsidiary. In fact, to be extremely cautious, the Board of Directors of Marcegaglia Carbon Steel S.p.A. decided to fully write down all assets in 2016 related to the Chinese company (i.e., the equity investment and trade and financial receivables).

Item D19) b) "Write-downs of financial derivatives" (Euro 29,624,712) was for the amount recycled to profit or loss for the reserve for projected cash flow hedges, which was discussed in comments on shareholders' equity reserves, which should be referenced for further information.

### AMOUNT AND NATURE OF INDIVIDUAL REVENUE/COST ITEMS OF AN EXCEPTIONAL SIZE OR PERCENTAGE

Cost item	Amount	Nature
Write-down of receivables in current assets	8,955,199	Extraordinary
Write-downs of equity investments	61,300,996	Extraordinary
Write-downs of financial derivatives	29,624,712	Extraordinary
<b>Total</b>	<b>99,880,907</b>	

Below is a table summarising the company's entire profit and loss account highlighting entries of an exceptional nature.

	Amounts of an ordinary nature	Amounts of an exceptional nature	Total amounts
Revenues from sales and services	2,224,000,923	0	2,224,000,923
Change in inventories of work-in-process, semi-finished and finished goods	33,099,585	0	33,099,585
Changes in contract work in progress	0	0	0
Increase in fixed assets for internal work	0	0	0
Other revenues and income	15,162,937	0	15,162,937
<b>Value of production</b>	<b>2,272,263,445</b>	<b>0</b>	<b>2,272,263,445</b>
Raw and ancillary materials, consumables and merchandise	-1,586,754,800	0	-1,586,754,800
Services	-349,210,586	0	-349,210,586
Lease and rental expense	-26,560,602	0	-26,560,602
Personnel costs	-155,724,687	0	-155,724,687
Amortisation, depreciation and write-downs	-86,850,537	-8,955,199	-95,805,736
Changes in inventories of raw and ancillary materials, consumables and merchandise	11,619,244	0	11,619,244
Provisions for risks	0	0	0
Other provisions	0	0	0
Sundry operating costs	-6,663,937	0	-6,663,937
<b>Production costs</b>	<b>-2,200,145,905</b>	<b>-8,955,199</b>	<b>-2,209,101,104</b>
<b>Difference between value and cost of production</b>	<b>72,117,540</b>	<b>-8,955,199</b>	<b>63,162,341</b>
Income from equity investments	0	0	0
Other financial income	4,432,761	0	4,432,761
Interest and other financial charges	-51,477,102	0	-51,477,102
Exchange-rate gains and losses	-1,544,864	0	-1,544,864
<b>Financial income and charges</b>	<b>-48,589,205</b>	<b>0</b>	<b>-48,589,205</b>
Revaluations	10,401,172	0	10,401,172
Write-downs	0	-90,925,708	-90,925,708
<b>Value adjustments of financial assets</b>	<b>10,401,172</b>	<b>-90,925,708</b>	<b>-80,524,536</b>
<b>Profit (loss) before taxes</b>	<b>33,929,507</b>	<b>-99,880,907</b>	<b>-65,951,400</b>
Current, deferred and prepaid income taxes for the year	-2,841,104	0	-2,841,104
<b>Profit (loss) for the year</b>	<b>31,088,403</b>	<b>-99,880,907</b>	<b>-68,792,504</b>

The amounts of an exceptional nature indicated were related to:

the total write-down of receivables from the subsidiary Marcegaglia China	8,955,199
the total write-down of the carrying amount of the equity investment in Marcegaglia China	50,300,996
the allocation to a provision for risks related to the entire agreed cost to repurchase, in 2017, the minority interest held by Simest in the Chinese company	11,000,000
the recycling to profit or loss of the negative balance of the reserve for projected cash flow hedging transactions	29,624,712
<b>Total</b>	<b>99,880,907</b>

## CURRENT, DEFERRED AND PREPAID INCOME TAXES FOR THE YEAR

Deferred taxes recorded in the financial statements at 31 December 2016 are summarised in the following tables.

Prepaid taxes were recorded for all temporary differences found between taxable profit and profit before taxes under the assumption that there would be sufficient taxable profit to "absorb" the temporary differences indicated below over the time frame indicated.

For each of the below-indicated components, prepaid and deferred taxes were provisioned with a corporate income tax (IRES) rate of 24%, and an unchanged regional business tax (IRAP) rate of 3.9%.

## RECOGNITION OF DEFERRED AND PREPAID TAXES AND RESULTING IMPACT

	IRES	IRAP
<b>A) Temporary differences</b>		
Total deductible temporary differences	55,135,999	17,716,318
Total taxable temporary differences	636,331,449	614,541,772
Net temporary decreases	581,195,450	596,825,454
<b>B) Tax impact</b>		
Provision for deferred (prepaid) taxes at the beginning of the year	138,851,315	23,908,187
Deferred (prepaid) taxes for the year	635,594	(631,994)
Provision for deferred (prepaid) taxes at the end of the year	139,486,909	23,276,193

## BREAKDOWN OF DEDUCTIBLE TEMPORARY DIFFERENCES

Description	Amount at end of previous year	Change during the year	Amount at end of year	IRES rate	IRES tax impact	IRAP rate	IRAP tax impact
Current period exchange losses	7,440,325	4,544,531	11,984,856	24.00%	2,876,365	-	-
Default interest paid	50,819	(47,965)	2,854	24.00%	685	-	-
Write-down of inventory	50,304,607	(39,097,856)	11,206,751	24.00%	2,689,620	3.90%	437,063
Write-down of assets from contribution (IRES)	4,636,430	(58,005)	4,578,425	24.00%	1,098,822	-	-
Write-down of set cogeneration plant	1,500,000	-	1,500,000	24.00%	360,000	3.90%	58,500
Customer indemnities	261,146	(65,925)	195,221	24.00%	46,853	-	-
2015 Tax loss	38,283,472	(13,253,409)	25,030,063	24.00%	6,007,215	-	-
Association dues	-	143,121	143,121	24.00%	34,349	-	-
Provision for risks for benteler transaction	-	494,708	494,708	24.00%	118,730	3.90%	19,294
Write-down of assets (IRAP)	4,627,349	(112,490)	4,514,859	-	-	3.90%	176,080

## BREAKDOWN OF TAXABLE TEMPORARY DIFFERENCES

Description	Amount at end of previous year	Change during the year	Amount at end of year	IRES rate	IRES tax impact	IRAP rate	IRAP tax impact
Revaluation of leased galvanising plant	17,030,451	-	17,030,451	24.00%	4,087,308	3.90%	664,188
Foreign exchange translation gains for current period	114,537	6,018,367	6,132,904	24.00%	1,471,897	-	-
Revaluation of property, plant and equipment for the purposes of IRES	654,531,324	(41,363,230)	613,168,094	24.00%	147,160,343	-	-
Revaluation of property, plant and equipment for the purposes of IRAP	652,431,974	(54,920,653)	597,511,321	-	-	3.90%	23,302,942

## INFORMATION ON TAX LOSSES

	Current year			Previous year	
	Amount	Tax rate	Pre-paid taxes recorded	Amount	Tax rate
<b>Tax losses</b>					
for the year	-			25,030,063	
for previous years	25,030,063			-	
<b>Total tax losses</b>	<b>25,030,063</b>			<b>25,030,063</b>	
Tax losses carried forward recoverable with reasonable certainty	25,030,063	24.00%	6,007,215	-	27.50%

The figure for the tax loss for financial year 2015 came from a supplemental return submitted in 2017. The original tax loss for 2015 was Euro 38,283,472 with related prepaid taxes of Euro 10,527,955, which were adjusted for accounting purposes in 2016.

## TIMING BREAKDOWN OF DEFERRED AND PREPAID TAXES

Description	2017	2018	2019	2020	Beyond 2020 or unforeseeable	Total
<b>A) Taxable temporary differences</b>						
<i>Ires</i>						
foreign exchange translation gains	6,132,904					<b>6,132,904</b>
asset revaluation	42,181,190	43,861,229	44,466,229	41,324,668	441,334,778	<b>613,168,095</b>
revaluation of leased RA galvanising plant		17,030,451				<b>17,030,451</b>
<i>total</i>	<b>48,314,094</b>	<b>60,891,679</b>	<b>44,466,229</b>	<b>41,324,668</b>	<b>441,334,778</b>	<b>636,331,449</b>
<i>Irap</i>						
asset revaluation	54,034,124	53,724,318	52,756,890	48,625,971	388,370,018	<b>597,511,321</b>
revaluation of leased RA galvanising plant		17,030,451				<b>17,030,451</b>
<i>total</i>	<b>54,034,124</b>	<b>70,754,768</b>	<b>52,756,890</b>	<b>48,625,971</b>	<b>388,370,018</b>	<b>614,541,772</b>
<b>Total deferred taxes</b>	<b>13,702,714</b>	<b>17,373,439</b>	<b>12,729,414</b>	<b>11,814,333</b>	<b>121,066,778</b>	<b>176,686,678</b>
<b>B) Deductible temporary differences</b>						
<i>Ires</i>						
Tecoma default interest not paid in 2014	2,854					<b>2,854</b>
foreign exchange translation losses	11,984,856					<b>11,984,856</b>
write-down of former SET cogeneration plant					1,500,000	<b>1,500,000</b>
provision for customers indemnities					195,221	<b>195,221</b>
write-down of raw materials	4,582,493					<b>4,582,493</b>
write-down of finished goods	3,918,883					<b>3,918,883</b>
write-down of semi-finished goods	2,705,375					<b>2,705,375</b>
asset write-down	6,001	6,001	6,001	6,001	4,554,421	<b>4,578,425</b>
provision for risks for Benteler transaction	494,708					<b>494,708</b>
Tax losses	25,030,063					<b>25,030,063</b>
<i>total</i>	<b>48,725,232</b>	<b>6,001</b>	<b>6,001</b>	<b>6,001</b>	<b>6,249,644</b>	<b>54,992,878</b>
<i>Irap</i>						
write-down of former SET cogeneration plant					1,500,000	<b>1,500,000</b>
write-down of raw materials	4,582,493					<b>4,582,493</b>
write-down of finished goods	3,918,883					<b>3,918,883</b>
write-down of semi-finished goods	2,705,375					<b>2,705,375</b>
asset write-down	60,486	60,486	60,486	60,486	4,272,916	<b>4,514,859</b>
provision for risks for Benteler transaction	494,708					<b>494,708</b>
<i>total</i>	<b>11,761,945</b>	<b>60,486</b>	<b>60,486</b>	<b>60,486</b>	<b>5,772,916</b>	<b>17,716,318</b>
<b>Total prepaid taxes</b>	<b>12,187,120</b>	<b>3,799</b>	<b>3,799</b>	<b>3,799</b>	<b>1,725,059</b>	<b>13,923,576</b>

**Information on “national tax consolidation scheme”**

The option to adopt the tax consolidation scheme on a national basis was announced in September 2016 in the Comprehensive Form for 2016 by the holding company Marcegaglia Holding S.p.A. and is valid for the three years 2016, 2017 and 2018.

For Marcegaglia Carbon Steel S.p.A. participation in the tax consolidation scheme entailed the contribution of a tax loss of Euro 2,759,607 to the overall group income, and the recording of income of Euro 758,892 in line item 20 of the profit and loss account resulting from compensation at 27.5% for the tax loss transferred based on the provisions of the current tax consolidation agreement.

In conclusion, and in accordance with the provisions of OIC Document No. 25, two tables are provided that indicate the reconciliation of the projected and actual tax burden for the purposes of IRES and IRAP.

## RECONCILIATION BETWEEN ACTUAL AND THEORETICAL TAX BURDEN (IRES)

2016		
<b>Statutory Profit (+) / Loss (-) before taxes</b>	<b>-65,951,400</b>	
Theoretical tax rate of 27.5% on statutory profit before tax		0
<b>Effect of increases (+) / decreases (-) compared to ordinary tax rate</b>		<b>IRES impact</b>
Temporary increases	11,984,856	3,295,835
Temporary decreases	-6,132,904	-1,686,549
Absorption of temporary decreases	-47,156,512	-12,968,041
Absorption of temporary increases	41,648,277	11,453,276
Permanent increases	74,478,238	20,481,515
Permanent decreases	-11,630,162	-3,198,295
<b>Total increases/decreases</b>	<b>63,191,793</b>	<b>17,377,743</b>
<b>Tax loss for the year</b>	<b>-2,759,607</b>	

## RECONCILIATION BETWEEN ACTUAL AND THEORETICAL TAX BURDEN (IRAP)

2016		
<b>Difference between value and cost of production</b>	<b>63,162,342</b>	
<b>Costs not relevant for IRAP purposes</b>	<b>165,966,367</b>	
<b>Theoretical taxable income for IRAP</b>	<b>229,128,709</b>	
Theoretical tax rate of 3.9% on theoretical taxable income for IRAP		8,936,020
<b>Effect of increases (+) / decreases (-) compared to ordinary tax rate</b>		<b>IRAP impact</b>
Temporary increases	-	-
Absorption of temporary increases	54,893,556	2,140,849
Absorption of temporary decreases	-39,097,856	-1,524,816
Permanent increases	4,755,445	185,462
Permanent decreases	-2,463,396	-96,072
<b>Gross value of production (IRAP)</b>	<b>18,087,749</b>	<b>705,423</b>
<b>IRAP deductions</b>	<b>-155,001,140</b>	<b>-6,045,046</b>
<b>Taxable income (IRAP)</b>	<b>92,215,318</b>	<b>3,596,397</b>

## NOTES TO FINANCIAL STATEMENTS: OTHER INFORMATION

### EMPLOYMENT DATA

	Average number
Executive managers	19
Middle managers	35
Office staff	544
Factory workers	2,140
<b>Total employees</b>	<b>2,738</b>

Below are the actual numbers of active employees at 31 December 2016:

	Actual number at end of year
Executive managers	19
Middle managers	34
Office staff	542
Factory workers	2,149
<b>Total employees</b>	<b>2,744</b>

### COMPENSATION, ADVANCES AND LOANS MADE TO DIRECTORS AND STATUTORY AUDITORS AND OBLI- GATIONS ASSUMED ON THEIR BE- HALF

	Directors	Statutory Auditors
<b>Compensation</b>	<b>800,000</b>	<b>36,400</b>

### COMPENSATION PAID TO AUDITOR OR INDEPENDENT AUDITOR

The statutory audits of the separate financial statements, in compliance with and for the purposes and effects of Article 14 of Legislative Decree No. 39 of 27 January 2010, was assigned by the Special Shareholders Meeting on 27 November 2015 for a period of 3 financial years, and consequently until approval of the financial statements for financial year 2017, to the audit firm MAZARS ITALIA S.p.A. Compensation for the statutory audit for financial year 2015 (performed in 2016) was Euro 52,020.

For financial years 2016 and 2017 compensation was set at Euro 58,905 annually, of which Euro 49,725 for the audit of the financial statements and Euro 9,180 for accounting controls.

In addition, MAZARS ITALIA SPA was also granted the assignment for the limited audit of the half-year financial statements at 30 June 2016 for compensation totalling Euro 16,500.

The difference between the contractually agreed-to compensation for work done in 2016 (Euro 52,020 for the annual financial statements for 2015 and Euro 16,500 for the half-year financial statements for 2016) and the amount allocated to the financial statements (Euro 87,367) was for the reimbursement of out-of-pocket expenses (Euro 14,108) and the CONSOB contribution (Euro 4,739).

	Amount
<b>Statutory audit of annual financial statements</b>	<b>87,367</b>
<b>Total compensation payable to auditor or independent auditor</b>	<b>87,367</b>

### CATEGORIES OF SHARES ISSUED BY THE COMPANY

The company was organised in the form of a limited liability company on 29 May 2015 with share capital of Euro 10,000 divided into ownership interests in compliance with Article 2468 of the Italian Civil Code.

A Euro 438,990,000 increase in share capital was decided on 28 October 2015, which brought the share capital to the figure of Euro 439,000,000, also divided into ownership shares in compliance with Article 2468 of the Italian Civil Code.

The Special Shareholders Meeting on 27 November 2015 decided to convert the company from a limited liability company to a corporation, through the issuance of 439,000,000 ordinary shares of Euro 1.00 each.

Subsequently the Special Shareholder Meeting on 18 December 2015 decided to increase the share capital to be paid in, from the amount of Euro 439,000,000 to Euro 496,118,598, and therefore by a total amount of Euro 57,118,598, by issuing additional ordinary shares to be offered as an option to the Sole Shareholder, with a value of Euro 1.00 each.

	Initial balance, number	Initial balance, nominal value
<b>ORDINARY SHARES</b>	496,118,598	496,118,598
<b>Total</b>	496,118,598	496,118,598

## SECURITIES ISSUED BY THE COMPANY

None.

## DETAILS ON OTHER FINANCIAL INSTRUMENTS ISSUED BY THE COMPANY

The company has not issued any financial instruments.

## OBLIGATIONS, GUARANTEES AND CONTINGENT LIABILITIES NOT REFLECTED IN THE BALANCE SHEET

	Amount
<b>Obligations</b>	3,340,583
<b>Guarantees</b>	1,051,250,305

The table below provides details on existing obligations and guarantees at 31 December 2016.

	31 December 2016	31 December 2015
<b>RISKS ASSUMED BY THE COMPANY</b>		
<i>Sureties</i>		
- to subsidiaries	5,830,054	0
- to associates	0	0
- to parent companies	1,043,353,051	696,523,765
- to companies controlled by parent companies	0	0
- to other companies	2,067,200	17,545,842
<b>Total sureties</b>	<b>1,051,250,305</b>	<b>714,069,607</b>
<b>Total guarantees</b>	<b>1,051,250,305</b>	<b>714,069,607</b>
<b>OBLIGATIONS ASSUMED BY THE COMPANY</b>		
<i>Ires</i>		
- obligations concerning post-retirement and similar benefits	0	0
- obligations assumed in relation to subsidiaries	0	0
- obligations assumed in relation to associates	0	0
- obligations assumed in relation to parent companies	0	0
- obligations assumed in relation to companies controlled by parent companies	0	0
- other obligations	3,340,583	325,999,137
<b>Total obligations assumed by the company</b>	<b>3,340,583</b>	<b>325,999,137</b>
<b>Total</b>	<b>1,054,590,888</b>	<b>1,040,068,744</b>

Below is information on collateral provided in the form of company assets:

Credit institution/entity secured by collateral	1st and 2nd grade mortgages on properties located in Boltiere (Bergamo)	Lien on assets in the plant in Boltiere (Bergamo)	Mortgage on properties located in Albignasego (Padua), Corsico (Milan) and Lainate (Milan)	Lien on assets in the plant in Albignasego (Padua), Corsico (Milan) and Lainate (Milan)	Totals
Ge Capital			30,652,071	30,652,071	61,304,142
Intesa Sanpaolo	30,000,000	45,000,000			75,000,000
	<b>30,000,000</b>	<b>45,000,000</b>	<b>30,652,071</b>	<b>30,652,071</b>	<b>136,304,142</b>

Note the following with regard to collateral in place on the properties and personal properties of Marcegaglia Carbon Steel S.p.A. in favour of third parties.

On 4 March 2016, the parent company Marcegaglia Steel S.p.A. took out two significant loans with a bank syndicate consisting of major banks that have a relationship with the group in amounts totalling Euro 362.5 million and Euro 130 million maturing in seven years.

The Euro 362.5 million loan is a mortgage loan, the collateral for which was issued by the subsidiaries Marcegaglia Carbon Steel S.p.A. and Marcegaglia Specialties S.p.A. as third-party providers of the mortgages and liens due to the fact that Marcegaglia Steel S.p.A. itself acts as a lender for them and funds operations through a cash pooling mechanism.

At the very time these loans were provided in March 2016, Marcegaglia Steel S.p.A. used the funds received to repay the debt under the syndicated loan originally obtained in 2007, in which Marcegaglia Carbon Steel S.p.A. became the borrower by virtue of the contribution of October 2015. This inter-company transaction was settled concurrently in the intra-group current account. At the same time, all mortgages and liens on assets securing the aforementioned 2007 loan, which was repaid in advance, were cancelled.

The plants owned by Marcegaglia Carbon Steel S.p.A. on which mortgages and liens have been placed in favour of the new bank syndicate are as follows:

- Casalmaggiore (CR)
- Ravenna
- Lomagna (LC)

The total value of collateral provided is Euro 471,250,000.00. The collateral consists of a first grade mortgage on the property indicated above and a lien on personal property included in these plants together with the same collateral recorded on a portion of the properties owned by the affiliate Marcegaglia Specialties S.p.A. (in this specific case, in Gazoldo degli Ippoliti (MN) and in Forlì/Forlimpopoli, which are mortgaged for the same purpose).

#### INFORMATION ON SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

In the first quarter of 2017, the positive trend in global and European demand continued with further significant price hikes driven by rising prices for raw materials. In February 2017 the final anti-dumping duties on hot rolled coils from China were confirmed. However, at the end of March the European Commission decided not to apply the temporary duties on HR coils from other exporting countries, and intends to make a decision on the possible application of the final duties in the coming months (and in any case, by October 2017).

However, we should point out the existence of a speculative component in the price levels of raw materials and iron and steel products that could provide room for a partial rebound after the end of the second quarter.

In this environment of rising prices, Marcegaglia Carbon Steel generated sharply higher revenue in comparison with the first quarter of 2016, for a total of Euro 667 million (+34.4% over the first quarter of 2016).

Most importantly, Marcegaglia Carbon Steel managed to significantly improve its profit margins on all its product lines. This improvement in profitability is forecast to be maintained at least until the summer, and in any case will be able to create positive results for the full year 2017.

On 16 March 2017, as specified by the structured process for the sale of ILVA assets, AM Invest Co – in which Marcegaglia Carbon Steel has an investment with an initial 15% share - filed a binding offer which is valid until 30 June.

The related decision, allowing access to the exclusive negotiating phase, is expected by May.

In line with the group strategy to sell off non-core businesses, in February 2017 Marcegaglia Carbon Steel executed the partial sale - as the first step in a subsequent full sale - of its 32% stake in Fontana S.p.A. to Sodecia, a group that specializes in the sheet stamping sector for the automotive industry, the sector in which Fontana S.p.A. operates.

Most recently, on 12 May 2017, the Shareholders' Meeting increased the number of members of the Board of Directors from two to six confirming Antonio Marcegaglia and Emma Marcegaglia, and appointing Aldo Fiorini, Roberto Ferrari, Roberto Vancini and Carolina Toso. At the meeting of the new Board of Directors held on the same day, Antonio Marcegaglia was confirmed as Chairman and Chief Executive Officer, and Emma Marcegaglia was confirmed as Deputy Chairwoman and Chief Executive Officer. The Board of Directors also appointed (i) Aldo Fiorini as Chief Executive Officer with exclusive responsibility for managing the plants in Ravenna, Corsico, Albignasego and part of the plant in Gazoldo degli Ippoliti (MN) and assigned him the role of employer for the same plant and (ii) Roberto Ferrari as Chief Executive Officer with exclusive responsibility for the management of the plants in Casalmaggiore (CR), Lomagna, Dusino San Michele, Boltiere, Lainate, Osteria Grande, Tezze

sul Brenta and part of the plant in Gazoldo degli Ippoliti (MN) and assigned him the role of employer for the same plants.

#### COMPANIES THAT PREPARE FINANCIAL STATEMENTS FOR THE LARGE AND THE SMALL GROUPINGS OF COMPANIES IN WHICH THEY PARTICIPATE AS SUBSIDIARIES

	Large grouping	Small grouping
Company name	Finmar srl	Marcegaglia Steel spa
City (if in Italy) or foreign country	Gazoldo degli Ippoliti (Mn)	Gazoldo degli Ippoliti (Mn)
Tax ID No. (for Italian companies)	02466170202	02467550204
Place of filing of the consolidated financial statements	Mantua	Mantua

#### INFORMATION ON FINANCIAL DERIVATIVES PURSUANT TO ARTICLE 2427-BIS OF THE ITALIAN CIVIL CODE

In view of the new provisions introduced by Legislative Decree 139/2015 concerning the financial statement treatment of financial derivatives, and by the new domestic Accounting Standard No. 32 published at the end of 2016 by the OIC, the accounting treatment of derivatives changed substantially.

In particular, with specific reference to derivatives, the new legislative provisions referenced had to be applied retroactively, meaning the new measurement criteria were applied as if the new accounting standard had always been applied, by adjusting the beginning accounting balances with balancing entries in a shareholders' equity reserve. In this case, the column with comparisons for 2015 was adapted to reflect the new criteria for classifying items in the new layout of the balance sheet and profit and loss account.

To be specific, the new provisions noted above resulted in the following changes to the reporting of data for consolidated accounting balances for the year ending 31 December 2015.

	Balance sheet as at 31 December 2015	Profit and loss account 2015
Sh. equity A VII Reserve for projected cash flow hedges	-29,624,712	
<b>Total decrease in shareholders' equity</b>	<b>-29,624,712</b>	
B) Reserves for risks and expenses - 3) Financial derivatives reported as liabilities	52,142,580	
B) Reserves for risks and expenses - 4) Other reserves	-22,517,868	
<b>Total increase in liabilities</b>	<b>29,624,712</b>	
<b>Total increase in liabilities and decrease in shareholders' equity</b>	<b>0</b>	
A) 5) Other revenues		-51,00
C) 17) Other financial charges		-727,215
D) 18) Revaluations of financial derivatives		789,193
D) 19) Write-downs of financial derivatives		-61,927
<b>Total impact on profit (loss) for the year</b>		<b>0</b>

To summarise, the effects indicated in the above table show that following the regulatory amendments, the fair value of derivatives for hedging purposes at 31 December 2015 (Euro 29,624,712) was reported in the financial statements as at 31 December 2015, with changes in fair value reallocated to new profit and loss account items.

For an analysis of balance sheet changes in 2016 for the reserve for projected cash flow hedging transactions and the provision for financial derivatives reported as liabilities, see the sections with comments on those items.

The table below reports details for derivatives in the portfolio at 31 December 2016.

Financial derivative	Nature	Fair value at end of year	Value changes recorded directly in profit and loss account for the period (+ Revaluations/ - Write-downs)	Value changes allocated to shareholders' equity reserves
Cariparma interest rate swap	Not for hedging pursuant to OIC 32	-10,263,866	+1,867,736	0
Deutsche Bank interest rate swap	Not for hedging pursuant to OIC 32	-4,257,239	+3,566,061	0
<b>Total</b>		<b>-14,521,105</b>	<b>+5,433,797</b>	

## SUMMARY FINANCIAL STATEMENTS OF THE COMPANY WITH MANAGEMENT AND COORDINATION RESPONSIBILITIES

The company is subject to management and coordination by the parent company FINMAR SRL, which holds 13% of the share capital but 51.31% of the voting rights of the company Marcegaglia Holding S.p.A., which holds 100% of the share capital of the company Marcegaglia Steel S.p.A., which in turn holds 100% of the company's share capital.

Below is the information required by Article 2497-bis(4) of the Italian Civil Code.

## SUMMARY BALANCE SHEET OF THE COMPANY WITH MANAGEMENT AND COORDINATION RESPONSIBILITIES

	Latest financial year	Previous financial year
Date of latest approved financial statements	31 Dec 2015	31 Dec 2014
B) Fixed assets	119,967,439	-
C) Current assets	56,960	-
<b>Total assets</b>	<b>120,024,399</b>	<b>-</b>
A) Shareholders' equity		
<i>Share capital</i>	<i>40,000</i>	-
<i>Reserves</i>	<i>15,136,058</i>	-
<i>Profit (loss) for the year</i>	<i>12,158,179</i>	-
Total shareholders' equity	27,334,237	-
B) Reserves for risks and expenses	1,366	-
D) Payables	92,688,791	-
E) Accrued expenses and deferred income	15	-
<b>Total liabilities and shareholders' equity</b>	<b>120,024,409</b>	<b>-</b>

## SUMMARY PROFIT AND LOSS ACCOUNT OF THE COMPANY WITH MANAGEMENT AND COORDINATION RESPONSIBILITIES

	Latest financial year	Previous financial year
Date of latest approved financial statements	31 Dec 2015	31 Dec 2014
B) Production costs	120,805	-
C) Financial income and charges	15,762,261	-
D) Value adjustments of financial assets	(3,298,468)	-
Income tax expense for the year	184,809	-
Profit (loss) for the year	12,158,179	-

## PROPOSALS FOR ALLOCATION OF PROFITS OR COVERAGE OF LOSSES

We recommend carrying forward the loss of Euro 68,792,504.25.

## NOTES conclusion

### Significant changes in exchange rates

There were no significant changes in exchange rates after the end of the year. In fact, using the exchange rates in effect at 13 April 2017, the net effect on the items “Foreign exchange translation gains” and “Foreign exchange translation losses” (item 17 bis in the profit and loss account) would improve by about Euro 1,165 thousands.

### Related-party transactions

Most of the business of Marcegaglia Carbon Steel S.p.A. is carried out to develop relations with entities that have no direct or indirect ownership-related ties, without, however, disregarding appropriate synergies resulting from trade and financial relations among companies of a

group known for its effective and efficient horizontal and vertical integration.

The Directors’ Report shows the amounts in the financial statements regarding operations with group entities, noting that these are transactions carried out under market conditions, similar to those that would be arranged between independent parties.

**Fixed assets acquired before 17 April 1991** (Art. 45(2) of Legislative Decree No. 127 of 9 April 1991)

We hereby certify that for fixed assets acquired or produced before 17 April 1991, the original cost has already been determined and reported for accounting purposes.

### STATEMENT OF FINANCIAL STATEMENT COMPLIANCE

Note that the measurement criteria reported herein comply with the provisions of civil law.

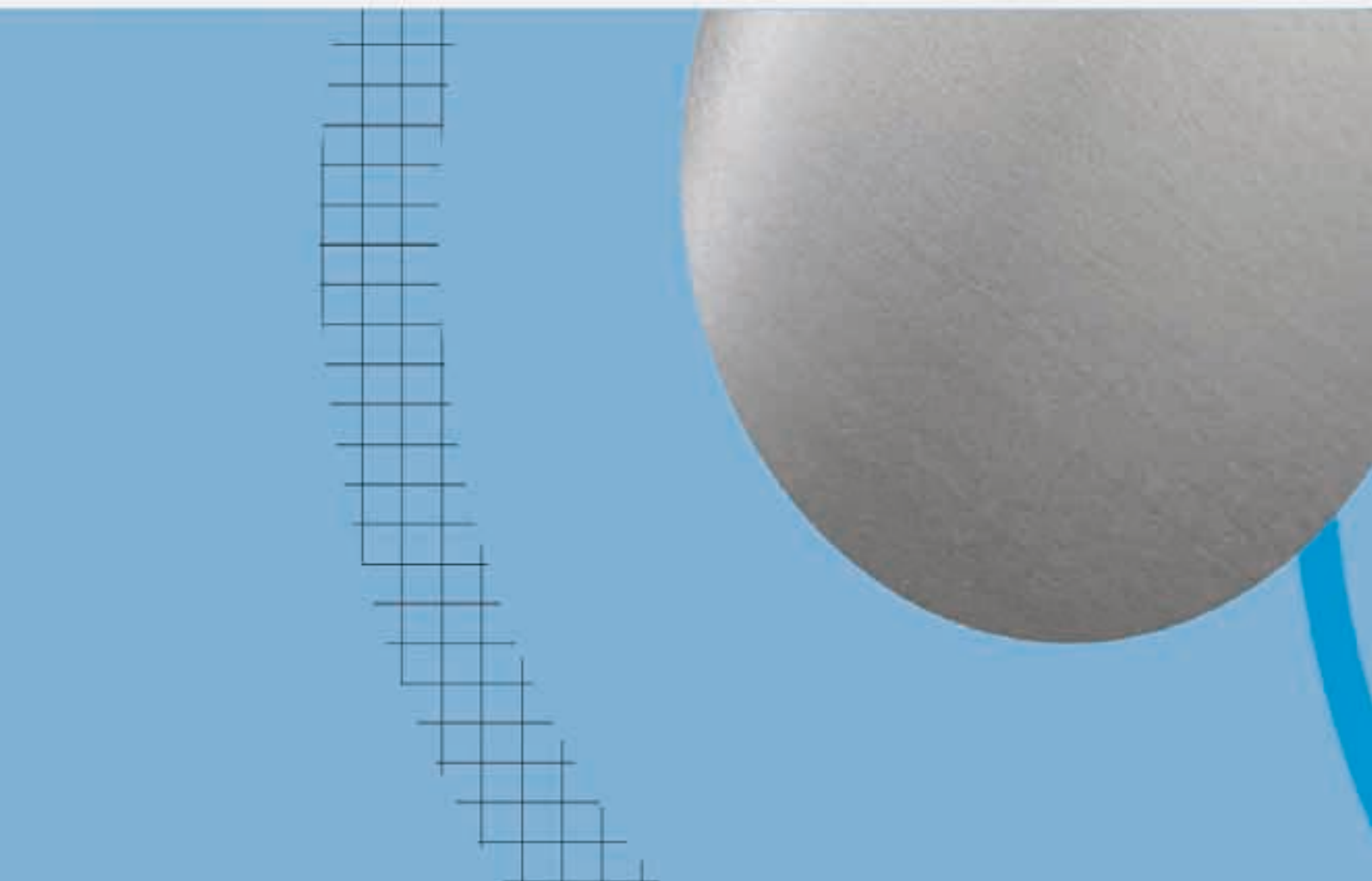
These notes to the financial statements, as well as the entire financial statements of which they are an integral part, provide a true and accurate picture of the company’s financial and equity position and operating results for the year.

The reporting of the amounts required by Article 2427 of the Italian Civil Code was prepared in accordance with the clarity principle.

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*Gazoldo degli Ippoliti, 29 May 2017*

Chairman  
of the Board of Directors  
**Antonio Marcegaglia**



# Financial Statements 2016

## Marcegaglia Specialties

### **MARCEGAGLIA SPECIALTIES S.p.A.**

Registered office: via Bresciani, 16 - Gazoldo degli Ippoliti, Mantova - Italy

Share capital: Euro 161,000,000 fully paid up

Fiscal Code and VAT No.: 02466230204

Registered with the Mantua Chamber of Commerce and Administrative Economic Index [REA]  
under No. 255217



## **Independent auditors' report in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 165-bis of Legislative Decree No. 58 of 24 February 1998**

To the shareholders of  
Marcegaglia Specialties S.p.A.

### **Report on the financial statements**

We have audited the accompanying financial statements of Marcegaglia Specialties S.p.A., which comprises the balance sheet as of 31 December 2016, the income statement and the cash flow statement for the period then ended and the related explanatory notes.

#### *Directors' responsibility for the financial statements*

The directors are responsible for the preparation of the financial statements that gives a true and fair view in compliance with the Italian laws governing the financial statements.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39/2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Marcegaglia Specialties S.p.A. as of 31 December 2016 and the result of its operations and cash flows for the year then ended, in accordance with the Italian laws governing the financial statements.

*Emphasis of matter*

Without qualifying our opinion, we draw attention to the paragraph "Comparability with the previous years" in the explanatory notes in which the directors described that the profit & loss figures for the year 2016 are not comparable with the same figures for the year 2015 since the latter relate to only two months of activity as the contributions in kind, by which the Marcegaglia Steel Group has been reorganized, went into effect on 1 November 2015.

Verona, 5 June 2017

Mazars Italia S.p.A.  
(signed on the original)  
Alfonso Iorio  
Partner

*This report has been translated into English from the Italian original solely for the convenience of international readers.*

## MARCEGAGLIA SPECIALTIES S.P.A.

## BALANCE SHEET AS OF 31 DECEMBER 2016

Assets values in EUR

31 Dec 2016

31 Dec 2015

A SHARE CAPITAL ISSUED AND NOT YET PAID			
1	Share capital issued and not yet paid uncalled	0	0
2	Share capital issued and not yet paid called	0	0
	Total Share capital issued and not yet paid A	0	0
B FIXED ASSETS			
I	Intangible fixed assets		
1	Start-up and expansion costs	45,910	57,886
2	Development cost	0	0
3	Industrial patent rights and intellectual property rights	37,112	3,885
4	Concessions, licences, trademarks and similar rights	177,550,000	197,650,000
5	Goodwill	0	0
6	Assets under construction and advances	0	0
7	Other	0	4,012
	Total intangible fixed assets (B-I)	177,633,022	197,715,783
II	Property, plant and equipment		
1	Land and buildings	119,211,895	122,847,037
2	Plant and machinery	137,186,299	138,818,222
3	Industrial and commercial equipment	8,186,473	9,136,749
4	Other assets	643,386	827,982
5	Fixed assets in progress and advance payments	34,579,178	39,129,073
	Total property, plant and equipment (B-II)	299,807,231	310,759,063
III	Financial fixed assets		
1	Equity investments in:		
	- subsidiaries	2,828,802	2,828,802
	- associates	12,500	0
	- other companies	5	0
		2,841,307	2,828,802
2	Receivables		
	d-bis) from others		
	- due after the following year	19,215	20,665
		19,215	20,665
	Total financial fixed assets (B-III)	2,860,522	2,849,467
	Total fixed assets B	480,300,775	511,324,313
C CURRENT ASSETS			
I	Inventories		
1	Raw and ancillary materials and consumables	158,277,579	104,741,093
2	Work in process and semi-finished goods	96,711,361	94,093,751
3	Contract work in progress	0	0
4	Finished goods and merchandise	127,550,318	132,111,477
	Total inventories (C-I)	382,539,258	330,946,321
II	Receivables		
1	From customers		
	- due within the following year	11,043,415	37,167,847
	- due after the following year	0	0
		11,043,415	37,167,847
2	From subsidiaries		
	- due within the following year	33,395,753	52,057,295
	- due after the following year	0	0
		33,395,753	52,057,295
4	From parent companies		
	- due within the following year	1,652,536	367
	- due after the following year	0	0
		1,652,536	367
5	From companies subject to control of parent companies		
	- due within the following year	113,581,183	160,487,215
	- due after the following year	0	0
		113,581,183	160,487,215
5-bis	Tax credits		
	- due within the following year	26,985	2,970,357
	- due after the following year	0	0
		26,985	2,970,357
5-ter	Deferred tax assets		
	- due within the following year	2,440,924	10,260,414
	- due after the following year	424	1,129
		2,441,348	10,261,543
5-quater	From others		
	- due within the following year	39,875,660	27,735,824
	- due after the following year	0	0
		39,875,660	27,735,824
	Total receivables (C-II)	202,016,880	290,680,448
IV	Cash and cash equivalents		
1	Bank and postal deposits	693,245	1,014,998
2	Cheques	0	0
3	Cash on hand	3,043	1,160
	Total cash and cash equivalents (C-IV)	696,288	1,016,158
	Total current assets C	585,252,426	622,642,927
D ACCRUED INCOME AND PREPAID EXPENSES			
	Others prepayments and accrued income	2,471,582	3,708,352
	Total prepayments and accrued income D	2,471,582	3,708,352
	TOTAL ASSETS	1,068,024,783	1,137,675,592

## LIABILITIES values in EUR

31 Dec 2016

31 Dec 2015

<b>A SHAREHOLDERS' EQUITY</b>			
I	Share capital	161.000.000	161.000.000
II	Share premium reserve	2.518.961	2.518.961
III	Revaluation reserve	0	0
IV	Legal reserve	0	0
VI	Other reserves, represented by:		
	- Sundry other reserves	(2)	3
	<i>Total other reserves (VI)</i>	<i>(2)</i>	<i>3</i>
VIII	Profit (loss) carried forward	(17.056.079)	0
IX	Profit (loss) for the year	19.586.849	(17.056.079)
	Total shareholders' equity A	<b>166.049.729</b>	<b>146.462.885</b>
<b>B RESERVES FOR RISKS AND EXPENSES</b>			
1	For post-retirement benefits and similar obligations	8.557	802
2	For taxes, including deferred taxes	107.286.447	117.526.016
3	Other	18.154.662	22.777.215
	Total reserves for risks and expenses B	<b>125.449.666</b>	<b>140.304.033</b>
<b>C EMPLOYEE SEVERANCE PAY</b>			
	Employee severance pay C	<b>3.283.773</b>	<b>3.618.952</b>
<b>D Payables</b>			
4	Payables to banks		
	- due <i>within</i> the following year	10.400.381	13.241.860
	- due <i>after</i> the following year	0	0
		<b>10.400.381</b>	<b>13.241.860</b>
6	Advance payments		
	- due <i>within</i> the following year	400.000	400.000
	- due <i>after</i> the following year	0	0
		<b>400.000</b>	<b>400.000</b>
7	Trade payables		
	- due <i>within</i> the following year	339.945.038	264.471.430
	- due <i>after</i> the following year	0	0
		<b>339.945.038</b>	<b>264.471.430</b>
9	Payables to subsidiaries		
	- due <i>within</i> the following year	1.810.620	2.165.882
	- due <i>after</i> the following year	0	0
		<b>1.810.620</b>	<b>2.165.882</b>
10	Payables to associates		
	- due <i>within</i> the following year	8.890	0
	- due <i>after</i> the following year	0	0
		<b>8.890</b>	<b>0</b>
11	Payables to parent companies		
	- due <i>within</i> the following year	331.297.342	494.204.447
	- due <i>after</i> the following year	0	0
		<b>331.297.342</b>	<b>494.204.447</b>
11-bis	Payables to companies subject to control of parent companies		
	- due <i>within</i> the following year	6.014.010	7.164.276
	- due <i>after</i> the following year	0	0
		<b>6.014.010</b>	<b>7.164.276</b>
12	Tax payables		
	- due <i>within</i> the following year	6.444.442	2.849.955
	- due <i>after</i> the following year	0	0
		<b>6.444.442</b>	<b>2.849.955</b>
13	Payables to pension and social security organisations		
	- due <i>within</i> the following year	2.845.147	2.336.220
	- due <i>after</i> the following year	0	0
		<b>2.845.147</b>	<b>2.336.220</b>
14	Other payables		
	- due <i>within</i> the following year	74.075.745	60.397.606
	- due <i>after</i> the following year	0	0
		<b>74.075.745</b>	<b>60.397.606</b>
	Total payables D	<b>773.241.615</b>	<b>847.231.676</b>
<b>E ACCRUED EXPENSES AND DEFERRED INCOME</b>			
	Others prepayments and accrued income	0	58.046
	Total prepayments and accrued income E	<b>0</b>	<b>58.046</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1.068.024.783</b>	<b>1.137.675.592</b>

## MARCEGAGLIA SPECIALTIES S.P.A.

## PROFIT AND LOSS ACCOUNT AS OF 31 DECEMBER 2016

values in EUR		31 Dec 2016	31 Dec 2015
<b>A</b>	<b>VALUE OF PRODUCTION</b>		
1	Revenues from sales and services	988,844,456	117,510,583
2	Change in inventories of work-in-process, semi-finished and finished goods	(1,943,549)	13,124,063
3	Variations in contracted work in progress	0	0
4	Increase in internal construction capitalized	0	0
5	Other revenues and income		
	- Operating grants	11,002	0
	- Other	28,212,617	10,383,721
	<b>Total other revenues and income (5)</b>	<b>28,223,619</b>	<b>10,383,721</b>
	<b>Total value of production A</b>	<b>1,015,124,526</b>	<b>141,018,367</b>
<b>B</b>	<b>PRODUCTION COSTS</b>		
6	Raw and ancillary materials, consumables and merchandise	(797,345,202)	(99,898,632)
7	Services	(101,514,539)	(16,330,408)
8	Lease and rental expense	(6,577,647)	(1,078,383)
9	Personnel costs		
	a) Wages and salaries	(30,261,149)	(4,129,543)
	b) Social security contributions	(9,971,157)	(2,031,312)
	c) Employee severance pay	(2,148,262)	(440,143)
	d) Other social contributions	0	0
	e) Other costs	(126,737)	(15,021)
	<b>Total personnel costs (9)</b>	<b>(42,507,305)</b>	<b>(6,616,019)</b>
10	Amortisation, depreciation and write-downs		
	a) Amortisation of intangible fixed assets	(20,136,817)	(3,353,233)
	b) Depreciation of property, plant and equipment	(22,785,312)	(3,675,761)
	c) Other write-downs of assets	0	0
	d) Write-downs of receivables included in current assets and of cash and cash equiv.	(20,690,353)	0
	<b>Total amortisation, depreciation and write-downs (10)</b>	<b>(63,612,482)</b>	<b>(7,028,994)</b>
11	Changes in inventories of raw and ancillary materials, consumables and merchandise	53,536,486	2,969,840
12	Accruals for contingencies	0	0
13	Other accruals	0	0
14	Sundry operating costs	(1,490,801)	(106,432)
	<b>Total production costs B</b>	<b>(959,511,490)</b>	<b>(128,089,028)</b>
	<b>Difference between value and cost of production A - B</b>	<b>55,613,036</b>	<b>12,929,339</b>
<b>C</b>	<b>FINANCIAL INCOME AND CHARGES</b>		
16	Other financial income		
	a) from receivables recorded as fixed assets:		
	- other	2	0
	<b>Total financial income from receivables recorded as fixed assets (a)</b>	<b>2</b>	<b>0</b>
	d) income from other sources:		
	- from subsidiaries	915,083	151,015
	- from companies subject to control of parent companies	2,612,580	364,660
	- other	32,867	4,845
	<b>Total income from other sources (d)</b>	<b>3,560,530</b>	<b>520,520</b>
	<b>Total other financial income (16)</b>	<b>3,560,532</b>	<b>520,520</b>
17	Interest and other financial charges:		
	- Paid to subsidiaries	0	0
	- Paid to parent companies	(17,687,836)	(3,206,499)
	- Paid to companies subject to control of parent companies	(160)	(30,068)
	- Other	(8,058,312)	(1,465,550)
	<b>Total interest and other financial charges (17)</b>	<b>(25,746,308)</b>	<b>(4,702,117)</b>
17-bis	Exchange-rate gains and losses	(2,012,946)	516,669
	<b>Total financial income and charges C</b>	<b>(24,198,722)</b>	<b>(3,664,928)</b>
<b>D</b>	<b>VALUE ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES</b>		
18	Revaluations		
	Of equity investments	4,622,553	0
	<b>Total revaluations (18)</b>	<b>4,622,553</b>	<b>0</b>
19	Write-downs		
	of equity investments	0	(22,946,308)
	<b>Total write-downs (19)</b>	<b>0</b>	<b>(22,946,308)</b>
	<b>Total value adjustments of financial assets and liabilities D</b>	<b>4,622,553</b>	<b>(22,946,308)</b>
	<b>PROFIT (LOSS) BEFORE TAXES A-B+/-C+/-D+/-E</b>		
	<b>Profit (loss) before taxes A-B+/-C+/-D+/-E</b>	<b>36,036,867</b>	<b>(13,681,897)</b>
20	Current, deferred and prepaid income taxes for the year		
	- current taxes	(19,528,877)	0
	- taxes relating to previous years	(28,015)	0
	- deferred and prepaid taxes	2,419,374	(3,374,182)
	- income/(costs) from participation in tax consolidation/transparency scheme	687,500	0
	<b>Total current, deferred and prepaid income taxes for the year (20)</b>	<b>(16,450,018)</b>	<b>(3,374,182)</b>
21)	<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>19,586,849</b>	<b>(17,056,079)</b>

## STATEMENT OF CASH FLOWS AS OF 31 DECEMBER 2016

values in EUR

31 Dec 2016

<b>A</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES (INDIRECT METHOD)</b>	
	Profit (loss) for the year	19,586,849
	Income tax	16,450,018
	Interest expenses/(income)	22,185,776
	(Gains)/Losses resulting from the sale of assets	153,795
<b>1</b>	<b>Profit (loss) for the year, before income taxes, interest, dividends and gains and losses from asset sales</b>	<b>58,376,438</b>
	Adjustments for non-cash items with no balancing entry in net working capital	
	- Provisions to reserves	2,156,031
	- Amortisation and depreciation of fixed assets	42,922,129
	- Value adjustments of financial assets and financial liabilities on financial derivatives not affecting cash flows	-4,622,553
	<b>Total adjustments for non-cash items with no balancing entry in net working capital</b>	<b>40,455,607</b>
<b>2</b>	<b>Cash flow before changes in net working capital</b>	<b>98,832,045</b>
	Changes in net working capital	
	- Decrease/(Increase) in inventories	-51,592,936
	- Decrease/(Increase) in receivables from customers	26,124,432
	- Increase/(Decrease) in trade payables	75,473,608
	- Decrease/(Increase) in accrued income and prepaid expenses	1,236,770
	- Increase/(Decrease) in accrued expenses and deferred income	-58,046
	- Other decreases/(Other increases) in net working capital	-110,772,643
	<b>Total changes in net working capital</b>	<b>-59,588,815</b>
<b>3</b>	<b>Cash flow after changes in net working capital</b>	<b>39,243,230</b>
	Other adjustments	
	- Interest received/(paid)	-22,185,776
	- (Utilisation of reserves)	-2,483,456
	<b>Total other adjustments</b>	<b>-24,669,232</b>
	<b>Cash flow from operating activity A</b>	<b>14,573,998</b>
<b>B</b>	<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>	
	Property, plant and equipment	
	- (Investments)	-11,998,228
	- Divestitures	10,952
	Intangible fixed assets	
	- (Investments)	-54,056
	- Divestitures	-
	Financial fixed assets	
	- (Investments)	-14,252
	- Divestitures	3,196
	<b>Cash flows from investment activities B</b>	<b>-12,052,388</b>
<b>C</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
	Borrowed funds	
	- Increase/(Decrease) in current liabilities to banks	-2,841,480
	<b>Cash flows from financing activities C</b>	<b>-2,841,480</b>
	<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS A ± B ± C</b>	<b>-319,870</b>
	Cash and cash equivalents at the beginning of the year	-
	<b>Cash and cash equivalents at the beginning of the year</b>	<b>1,016,158</b>
	Bank and postal deposits	1,014,998
	Cash on hand	1,160
	of which not freely usable	1,013,987
	<b>Total cash and cash equivalents at the end of the year</b>	<b>696,288</b>
	Bank and postal deposits	693,245
	Cash on hand	3,043
	of which not freely usable	651,051

## NOTES

### INTRODUCTION

After the major reorganisation of the Marcegaglia group (which was started and completed in 2015), the financial year ending 31 December 2016 is the first full year of operations of the Marcegaglia group's Stainless Steel and Specialties division, which incorporates stainless steel and cold drawn bar processing activities.

These financial statements were prepared in accordance with the new provisions introduced by Legislative Decree 139/2015, which are applicable to financial statements for financial years starting on or after 1 January 2016. Legislative Decree 139/2015, which incorporated Directive 2013/34/EU (which replaced the previous Directives IV and VII on annual and consolidated financial statements), amended the layouts of financial statements and the content of the notes to financial statements. It also introduced the requirement to prepare the statement of cash flows, introduced new measurement criteria (e.g. amortised cost for receivables and payables and useful life for the amortisation of goodwill) and new criteria for the preparation of financial statements (the relevance principle and principle of substance over form), introduced new criteria for accounting for several entries (e.g. the requirement to record financial derivatives - including those used for hedging - at their fair value), and it eliminated the extraordinary area from the profit and loss account as well as memorandum accounts and the ability to capitalise research and advertising expenses.

Article 12 of Legislative Decree 139/2015 also directed the OIC [Italian Accounting Organisation] to update domestic accounting standards. The link to the legislative decree made it necessary to reference domestic accounting standards with respect to the required practical statement of new legislative provisions introduced, and specifically, those aspects of a technical nature concerning,

for example, hedging transactions, amortised cost and discounting. After a long review process, in the end the OIC approved the revised accounting standards on 22 December 2016.

For some of the new provisions described, it is only necessary to apply them going forward (pursuant to Article 12(2) of Legislative Decree 139/2015), and thus, starting in financial year 2016, without modifying accounting entries made in the past (e.g. the new criteria for measuring amortised cost for receivables and payables and the new criterion for amortising goodwill are therefore applicable only to receivables, payables and goodwill arising in 2016), and the Company has acted accordingly. However, for other new provisions, retroactive application is mandatory, and thus, financial statement entries must be stated as if the new accounting standard had always been applied by adjusting beginning accounting balances with balancing entries in a shareholders' equity reserve (e.g. the new criterion for recording financial derivatives and eliminating the ability to capitalize research and advertising expenses). In this case, the column for comparison purposes for 2015 was adapted to reflect the new criteria for classifying items in the new layout for the balance sheet and profit and loss account and the new criteria for recording the entries concerned.

### Financial statement preparation criteria and structure

The financial statements for the year ending 31 December 2016 was prepared in accordance with the provisions of Articles 2423 et seq. of the Italian Civil Code supplemented by accounting standards of the Italian Accounting Organisation (OIC).

In particular, the company complied with the general provisions for structuring financial statements (Art. 2423 of the Italian Civil Code), its drafting standards (Art. 2423-bis) and measurement criteria established for single line items (Art. 2426) without applying any of the exceptions specified in Art. 2423(4) of the Italian Civil Code.

The balance sheet and profit and loss account are prepared in accordance with the mandatory layouts required by the Italian Civil Code.

The provisions of Art. 2423-ter of the Italian Civil Code were adhered to with respect to the structure of the balance sheet and profit and loss account. No further divisions or groupings were carried out for any of the line items preceded by Arabic numerals. No new line items were inserted, and no modifications were made to those specified in the mandatory layouts since they were deemed to be sufficient for the purposes of providing a clear, truthful and accurate representation of the Company's balance sheet and financial position and operating results for the year.

The financial statements for the year ending 31 December 2016 were prepared in whole Euros. Any differences arising from rounding amounts expressed in whole Euros were allocated to a special shareholders' equity reserve, and, depending on their sign, in line item A5) "Other revenues and income" or B14) "Sundry operating costs" in the profit and loss account.

### Comparability with the previous financial year

For each item of the balance sheet and profit and loss account, the amount of the same item for the previous financial year was indicated next to the amount for 2016. However, operating balances for 2016 are not comparable to those for 2015 since the latter reflect operations for only two months in that the extraordinary transactions, which led to the reorganisation of the Marcegaglia Steel group, went into effect on 1 November 2015.

With regard to the statement of cash flows, the column for 2015 was not prepared since the related statement was not prepared last year since it was the first year of the company's operations.

### Classification conventions

The following classification conventions were used when structuring the financial statements at the financial state-

ments at 31 December 2016:

**a.** Line items in the asset section of the balance sheet were classified on the basis of their related company purpose, while in the liability section, they were classified as a function of their nature;

**b.** The profit and loss account was prepared taking into account three distinct classification criteria; namely:

- the breakdown of the entire operating area into the three sub-areas identified by the layout required by law;
- the nature of costs prevailing over their purpose;
- the need to properly recognise interim results in the sequence of steps leading to the formation of net profit (loss) for the year.

### Reference to Directors' Report

See the Directors' Report for information on the nature of business activities and relationships with subsidiaries, associates, parent companies and companies subject to the control of the latter.

### Asset, liability and shareholders' equity items of the balance sheet that fall under more than one item of the layout required by law

For the purposes of understanding the financial statements, it was not deemed necessary to mention balance sheet items in these notes to financial statements that fall under more than one item of the layout required by law.

### APPLIED IN MEASURING FINANCIAL STATEMENT ITEMS, IN VALUE ADJUSTMENTS AND IN THE CONVERSION OF AMOUNTS NOT EXPRESSED ORIGINALLY IN THE CURRENCY USED AS LEGAL TENDER IN THE COUNTRY (ART. 2427(1)(1))

Financial statement items were stated on the basis of general principles of prudence and the accrual principle under the assumption the Company is a going concern. Line items were recognised and presented taking into account the substance of the transaction and agreement. Only profits generated as at the reporting date were indicated, and income and costs applicable to the year were taken into account regardless of the collection or payment date, as were risks and losses applicable to the year even if they became known after year-end. Dissimilar elements included in individual line items were measured separately.

The measurement criteria used for individual financial statement entries comply with the provisions of Article 2426 of the Italian Civil Code.

### Intangible fixed assets

Intangible fixed assets are recorded in the financial statements at purchase or production cost and amortised in relation to their remaining useful life. If there is impairment, intangible fixed assets are written down and recorded in the financial statements at such lower value; if in the future the reasons for the adjustment no longer apply, the write-down is also cancelled and the original cost is restored with the exception of value adjustments of goodwill.

Below is a breakdown of intangible fixed assets reported in the financial statements and the related amortisation criteria.

Financial statement item	Purchase or production cost	Amortisation rate	Amortisation for the year
Start-up and expansion costs (B.I.1)	59,882	20.00%	11,976
Licensed software (B.I.3)	64,286	33.00%	20,829
Trademark (B.I.4)	201,000,000	10.00%	20,100,000
Other multi-year costs (B.I.7)	12,035	33.00%	4,012

### Property, plant and equipment

Property, plant and equipment are recorded in the financial statements at purchase or production cost increased by statutory monetary revaluations, and are reported in the financial statements net of accumulated depreciation. Revaluations are only maintained if required by law. If there is impairment, property, plant and equipment are written down using special adjusting provisions and recorded in the financial statements at such lower value; if in the future the reasons for the adjustment no longer apply, the write-down is also cancelled and the original cost is restored.

Maintenance costs that increase the useful life of assets to which they are related are allocated to such assets and depreciated based on their remaining useful lives. All ordinary maintenance costs are instead entirely charged to the profit and loss account. Depreciation was determined on the basis of their remaining useful life.

Below is a breakdown of property, plant and equipment reported in the financial statements and the related depreciation criteria.

Financial statement item	Purchase or production cost	Depreciation rate	Depreciation for the year
Land (B.II.1)	5,785,880		0
Buildings (B.II.1)	116,647,747	2.5% - 3.5% - 4.17%	4,032,679
Light constructions (B.II.1)	1,641,838	9.09% - 10%	138,800
Large plants and machinery (B.II.2)	121,299,872	8% - 11.11%	12,533,781
Annealing furnaces (B.II.2)	2,103,913	12% - 33.33%	701,304
General and specific plant assets (B.II.2)	30,605,968	8% - 5%	2,494,715
Purification plants (B.II.2)	1,626,022	10.00%	162,602
Miscellaneous equipment (B.II.3)	10,011,228	15% - 25%	2,222,942
Internal handling equipment (B.II.3)	1,045,822	15% - 25%	255,855
Furniture and ordinary office equipment (B.II.4)	103,431	12% - 14.29%	14,396
Electronic machinery (B.II.4)	303,836	20% - 33%	93,606
Automobiles (B.II.4)	242,159	25.00%	56,561
Trucks and trailers (B.II.4)	118,647	20% - 50%	59,323
Ordinary furniture and furnishings (B.II.4)	156,866	10% - 12.5% - 15%	18,748
Fixed assets in progress and advance payments (B.II.5)	34,579,178		0

With regard to the tangible assets contributed as a result of the extraordinary transaction in 2015, depreciation was determined on the basis of the remaining useful life of each individual asset indicated by the expert asked to perform the special appraisal pursuant to Article 2465 of the Italian Civil Code.

However, with regard to the tangible assets acquired after the contribution transaction, depreciation coefficients were determined in relation to the remaining possibility of use of the assets, in compliance with the provisions contained in Article 2426(1) (2) of the Italian Civil Code.

### Leased assets

Lease transactions are recognised using the equity method. Thus, these assets are recorded in balance sheet assets starting in the year the redemption right is exercised.

### Financial fixed assets

Equity investments and securities are measured at acquisition or subscription cost. Receivables are measured at nominal value.

If there is impairment, financial fixed assets are written down using special adjusting provisions and recorded in the financial statements at such lower value; if in the future the reasons for the adjustment no longer apply, the write-down is also cancelled and the original cost is restored.

Equity investments denominated in foreign currencies are recorded at the exchange rate in effect at the time of purchase or subscription or at the reporting date, if lower, provided such reduction is considered permanent.

Non-current receivables in foreign currencies are reported at the year-end exchange rate.

### Inventories

Inventories are measured at the lower of purchase or production cost and market value. Purchase cost includes ancillary costs of transportation and customs clearance of raw materials; production costs include all of the costs directly allocated to the product (raw materials and ancillary materials, direct labour, depreciation of the capital goods used in production), in addition to the portion of indirect industrial costs relating to the manufacturing period (maintenance costs, consumables, electric power, outsourced processes, etc.).

The cost of final inventories was determined using the weighted average cost method. Inventories other than interchangeable assets are recognised among the inventories

of finished products and are measured at purchase cost or production cost since this cost is deemed not to exceed the estimated sales market value.

The item "Raw and ancillary materials and consumables" also includes inventories of ancillary materials and consumables such as paints, lubricants, fuels, zinc and miscellaneous materials in general. These inventories are recorded in the financial statements at the lower of the value determined using the moving average criterion, and their replacement value based on market value.

Inventories of contract work in progress are measured, if applicable, using the percentage of completion method.

Inventories other than interchangeable assets are recognised at purchase cost or production cost since this cost is deemed not to exceed the estimated market sales value.

### Receivables

In general, receivables are recognised in the financial statements using the amortised cost criterion taking into account the time factor and estimated realizable value.

However, OIC 15, paragraph 33 specifies that this criterion may not be applied if the impact is insignificant, assuming that short-term receivables (i.e. those due within 12 months) are insignificant. Furthermore, Art. 12(2) of Legislative Decree 139/2015 specifies that the new amortised cost measurement criterion may not be applied to components of items related to transactions that have not fully exhausted their impact on the financial statements.

Thus, in these consolidated financial statements, the amortised cost criterion is only applied to receivables due after the following year that arose after 1 January 2016, and in any case, only if the impact of applying this criterion is considered significant.

Receivables not measured using the amortised cost method (since the impact of applying this criterion is not considered significant) are recorded at nominal value adjusted, as necessary, for the appropriate provision for doubtful

receivables to bring it into line with the estimated realisable value.

Receivables expressed in a foreign currency are originally converted into Euros at the reported exchange rate on the date of the related transactions. Exchange differences generated from the collection of receivables in a foreign currency are recorded in the profit and loss account under item 17-bis Exchange-rate gains and losses.

Receivables expressed in a foreign currency and reported in the financial statements are measured on the basis of the related exchange rates in effect on the reporting date (31 December 2016). The exchange differences arising from this measurement are allocated to the profit and loss account under item 17-bis Exchange-rate gains and losses.

#### **Equity investments and securities not held as fixed assets**

Equity investments not held as fixed assets are recorded at cost and written down for any impairment.

Securities not held as fixed assets are recorded at cost or market value.

#### **Cash and cash equivalents**

Cash and cash equivalents (bank and postal accounts, cash and cash on hand) are recorded at their actual balances.

#### **Cash and shareholders' equity entries**

These items are measured at nominal value.

#### **Reserves for risks**

Provisions for risks and charges are allocated in the financial statements to cover losses or liabilities of a known type, that will certainly or probably arise but which, as of the end of the year, could not be determined, either in terms of amount or date of accrual.

Allocations reflect the best estimate possible on the basis of available information.

#### **Employee severance pay**

This item is allocated in accordance with laws and labour contracts currently in effect and reflects the accrued amount owed to all employees on the reporting date net

of the amount paid to a supplemental pension or to the "Fund for the Payment of Severance Pay to Employees in the Private Sector as referenced in Article 2120 of the Italian Civil Code", the so-called INPS Treasury Fund.

#### **Payables**

In general, payables are recorded in the financial statements according to the amortised cost criterion taking into account the time factor.

However, OIC 19, paragraph 42 specifies that this criterion may not be applied if the impact is insignificant, assuming that short-term payables (i.e. those due within 12 months) are insignificant.

Furthermore, Art. 12(2) of Legislative Decree 139/2015 specifies that the new amortised cost measurement criterion may not be applied to components of items related to transactions that have not fully exhausted their impact on the financial statements.

Thus, in these consolidated financial statements, the amortised cost criterion is only applied to payables due after the following year that arose after 1 January 2016, and in any case, only if the impact of applying this criterion is considered significant.

Payables not measured using the amortised cost method (since the impact of applying this criterion is not considered significant) are recorded at nominal value. In any case, this item includes liabilities that are certain and specific in terms of their amount and date incurred.

Payables expressed in a foreign currency are originally converted into Euros at the reported exchange rate on the date of the related transactions. Exchange differences generated from the payment of payables in a foreign currency are recorded in the profit and loss account under item 17-bis Exchange-rate gains and losses.

Payables expressed in a foreign currency and reported in the financial statements are measured on the basis of the related exchange rates in effect on the reporting date (31 December 2016).

The exchange differences arising from this measurement are allocated to the

profit and loss account under item 17-bis Exchange-rate gains and losses.

#### **Accruals and deferrals**

These items were determined on the basis of the accrual principle applied to the related costs and revenues.

#### **Revenues**

Revenues for product sales are recognised at the time ownership is transferred, which generally coincides with the shipment of the merchandise. Service revenues are recognised when the service has been fully provided.

#### **Costs and expenses**

Costs and expenses are recognised on an accrual basis.

#### **Dividends**

Dividends are recorded in the year in which the right to receive them accrues, which typically coincides with the year they are approved by the competent body.

#### **Income tax**

Income taxes were determined on the basis of the charge applicable to the year. Deferred taxes are determined on the basis of temporary differences between the amount assigned to assets and liabilities by statute and by tax regulations.

Prepaid taxes were recorded in financial statement assets since there is a reasonable certainty of generating income in the future capable of absorbing these temporary differences.

## NOTES TO FINANCIAL STATEMENTS - ASSETS

### INTANGIBLE FIXED ASSETS

#### CHANGES IN INTANGIBLE FIXED ASSETS

	Start-up and expansion costs	Industrial patent rights and intellectual property rights	Concessions, licenses, trademarks and similar rights	Other intangible fixed assets	Total intangible fixed assets
<b>Amount at beginning of the year</b>					
Cost	59,882	43,801	201,000,000	12,035	201,115,718
Amortisation (Accumulated amortisation)	1,996	39,916	3,350,000	8,023	3,399,935
<b>Carrying amount</b>	<b>57,886</b>	<b>3,885</b>	<b>197,650,000</b>	<b>4,012</b>	<b>197,715,783</b>
<b>Changes during the year</b>					
Reclassifications (of carrying amount)	-	54,056	-	-	54,056
Amortisation for the year	11,976	20,829	20,100,000	4,012	20,136,817
<b>Total changes</b>	<b>(11,976)</b>	<b>33,227</b>	<b>(20,100,000)</b>	<b>(4,012)</b>	<b>(20,082,761)</b>
<b>Amount at end of the year</b>					
Cost	59,882	97,857	201,000,000	12,035	201,169,774
Amortisation (Accumulated amortisation)	13,972	60,745	23,450,000	12,035	23,536,752
<b>Carrying amount</b>	<b>45,910</b>	<b>37,112</b>	<b>177,550,000</b>	<b>0</b>	<b>177,633,022</b>

Intangibles reported in the item "Concessions, licenses, trademarks and similar rights" include the "Marcegaglia" trademark using both the family name and "MM Marcegaglia" in graphic form (with a mirror image of 2 capital Ms), as a result of the contribution made as a part of the reorganisation transaction in 2015. The trademark 'Marcegaglia' has been protected through the filing, by the contributing company Marcegaglia S.p.A., of a number of applications for name-based trademarks, in order to guarantee, in relation to the goods and services claimed, the exclusive use of the word or expression being filed, regardless of which form or character is used.

The graphic trademark 'MM Marcegaglia', used by the contributing company Marcegaglia S.p.A. since 1969 in accounting, administrative, advertising and promotional material, in exhibitions and fairs, in the press and on the products, has been in extremely widespread use, so as to generate such level of general awareness required by Italian law (and by some other countries) to give "rise" to a so-called common law/unregistered trademark, which allows the user to claim exclusive rights over the use of the mark used in relation to the products for which it was used. In 2015, however, as part of the referenced reorganisation, the contributing company Marcegaglia S.p.A. initiated the filing of a number of trademark applications concerning the graphic trademark.

The aforementioned trademarks were filed mainly for the following products:

- *Class 6*: common metals and their alloys, including steel, metal construction materials, transportable metal buildings; metal materials for railways; aluminium tubes; metal building panels; strips and sheets; bright bars drawn and steel sections; metal coverings; metal scaffolding; fences; minerals; common metals and their alloys; metal strips; non-electric cables and wires; metal structures; safes; metal fancy goods; metal security barriers for roads; steel pipes; steel strips; metal sheets; metal fences; metal gates; metal fasteners;

- *Class 37*: construction of metallurgical plants and facilities for the production of energy; painting work;
- *Class 39*: distribution of steel products; travel arrangements;
- *Class 42*: services in the steel industry and its applications, in particular designing, testing and commissioning of plants for the processing of steel; services in relation to environmental protection, ecological research, analysis and consulting;
- *Class 43*: hotel services.

In the expert's report annexed to the deed of transfer, the appraiser has attributed to the trademark a value of Euro 201 million (before the deferred taxes resulting), considering a royalty rate of 0.81% and a projection of sales revenue on a time horizon of 20 years.

With reference to the systematic allocation over time of the cost subscribing the trademark, equal to the estimated value, it was considered prudent to ascribe to the income statement a constant rate of depreciation over a period of 10 years.

The company charges royalties to the companies that use the trademark.

Based on the Consolidated Business Plan prepared by the Board of Directors of the parent company Marcegaglia Steel S.p.A., thus on projected consolidated group revenues, the trademark was tested for impairment. The DCF (Discounted Cash Flow) method was utilized, by discounting to present value the cash flows generated by royalties that will be charged to the user companies. Considering a royalty rate of 0.81% (the same as that used by the expert when the trademark was transferred) as well as other parameters, to take into account the variability of factors and costs to protect the trademark, as well as the tax effect, the present value of future cash flows discounted at the WACC (weighted average cost of capital) amounted to Euro 201.6 million, reflecting an amount greater than the carrying amount of the trademark (Euro 177.5 million), thus confirming its soundness.

	Initial recording value	Accumulated amortisation	Amount at beginning of the year	Amortisation	Amount at end of the year
<b>Marcegaglia trademark</b>	201,000,000	3,350,000	197,650,000	20,100,000	177,550,000
<b>Total</b>	<b>201,000,000</b>	<b>3,350,000</b>	<b>197,650,000</b>	<b>20,100,000</b>	<b>177,550,000</b>

## Start-up and expansion costs and development costs

Start-up and expansion costs	Gross amount	Accumulated amortisation	Net amount	Reason for recording	Amortisation criterion
Company organisation costs	59,882	13,972	45,910	Capitalised expenses	Straight-line basis in 5 years
<b>Total</b>	<b>201,000,000</b>	<b>3,350,000</b>	<b>197,650,000</b>	<b>20,100,000</b>	<b>177,550,000</b>

There are no development costs.

## PROPERTY, PLANT AND EQUIPMENT

### CHANGES IN PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other property, plant and equipment	Fixed assets in progress and advance payments	Total property, plant and equipment
<b>Amount at beginning of the year</b>						
Cost	123,539,128	141,378,205	9,528,529	867,359	39,129,073	314,442,294
Depreciation (Accumulated depreciation)	692,091	2,552,513	391,780	39,377	-	3,675,761
Write-downs	-	7,470	-	-	-	7,470
<b>Carrying amount</b>	<b>122,847,037</b>	<b>138,818,222</b>	<b>9,136,749</b>	<b>827,982</b>	<b>39,129,073</b>	<b>310,759,063</b>
<b>Changes during the year</b>						
Increases for purchases	-	-	-	-	13,464,305	13,464,305
Reclassifications (of carrying amount)	536,337	14,414,686	1,528,521	68,579	(16,602,178)	(54,055)
Decreases (in carrying amount) due to disposals and sales	-	154,206	-	10,542	-	164,748
Depreciation for the year	4,171,479	15,892,403	2,478,797	242,633	-	22,785,312
Other changes	-	-	-	-	(1,412,022)	(1,412,022)
<b>Total changes</b>	<b>(3,635,142)</b>	<b>(1,631,923)</b>	<b>(950,276)</b>	<b>(184,596)</b>	<b>(4,549,895)</b>	<b>(10,951,832)</b>
<b>Amount at end of the year</b>						
Cost	124,075,466	155,635,775	11,057,050	924,938	34,579,178	326,272,407
Depreciation (Accumulated depreciation)	4,863,571	18,442,006	2,870,577	281,552	-	26,457,706
Write-downs	-	7,470	-	-	-	7,470
<b>Carrying amount</b>	<b>119,211,895</b>	<b>137,186,299</b>	<b>8,186,473</b>	<b>643,386</b>	<b>34,579,178</b>	<b>299,807,231</b>

Fixed assets in progress reflect also the value of the leased asset transferred, as determined by the expert, less the debt outstanding with the leasing company at 31 October 2015, as discounted to present value at the interest rate implicit in the lease. The carrying amount, inclusive of deferred taxes, is Euro 28,405,028.

This amount will be capitalised to the leased asset when it is purchased in 2018, the year in which the depreciation process starts. The accounting treatment adopted is consistent with the content of the valuation report prepared for the transfer, pursuant to article 2465 paragraph 1 of the Italian Civil Code, and with recent approaches on the transfer of lease agreements at their fair value.

### Value reductions applied to property, plant and equipment

No fixed assets were written down during the year.

## LEASES

The Company currently has a lease agreement in place for a pickling and stainless steel heat treatment line at the Gazoldo degli Ippoliti plant.

	Amount
Total amount of leased assets at year-end	43,250,000
Depreciation that would have been applicable during the year	2,883,380
Present value of unexpired lease payments at year-end	9,547,947
Financial charges applicable to the year based on the actual interest rate	187,914

The leased asset has been transferred in connection with the 2015 reorganisation.

The expert valued it at Euro 43,250,700, an amount consisting of Euro 14,845,672 in debt outstanding with the leasing company at 31 October 2015 and Euro 28,405,028 in unrealised gain.

The latter amount has been entered under fixed assets in progress and will be capitalised to the asset in the year in which the purchase option is exercised and depreciation starts.

The table below shows the effect on shareholders' equity and the profit for the year, in the event that leases had been treated as a finance lease.

ASSETS	Amount
<b>a) Current agreements</b>	
a.1) Leased assets at the end of the previous financial year	10,656,974
<i>related accumulated depreciation</i>	<i>480,563</i>
a.2) Assets acquired under lease during the financial year	0
a.3) Leased assets redeemed during the financial year	0
a.4) Accrued depreciation for the financial year	2,883,380
a.5) Write-downs/write-backs of leased assets	1,248,296
a.6) Leased assets at the end of the financial year	9,021,890
<i>related accumulated depreciation</i>	<i>3,363,943</i>
<b>b) Assets redeemed</b>	
b.1) Higher/lower total value of redeemed assets, determined according to the financial methodology, as compared to their net book value at the end of the financial year	0
<b>Total (a.6 + b.1)</b>	<b>9,021,890</b>

LIABILITIES	Amount
<b>c) Implicit payables</b>	
c.1) Implicit payables for lease transactions at the end of the previous financial year	14,099,658
<i>portion maturing during the next financial year</i>	<i>4,551,711</i>
<i>portion maturing after the next financial year and within 5 years</i>	<i>9,547,947</i>
<i>portion maturing in more than 5 years</i>	<i>0</i>
c.2) Implicit payables arising during the financial year	0
c.3) Principal repayments and redemptions during the financial year	4,551,711
c.4) Implicit payables for lease transactions at the end of the financial year	9,547,947
<i>portion maturing during the next financial year</i>	<i>4,684,078</i>
<i>portion maturing after the next financial year and within 5 years</i>	<i>4,863,869</i>
<i>portion maturing in more than 5 years</i>	<i>0</i>
d) Total gross impact at the end of the financial year (a.6+b.1-c.4)	-526,057
e) Tax impact	-39,169
f) Impact on shareholders' equity at the end of the financial year (d - e)	-486,888

	Amount
a.1) Reversal of lease payments	5,998,807
a.2) Recognition of financial charges of lease transactions	-187,914
a.3) Recognition of depreciation on current agreements	-2,883,380
a.4) Write-downs/write-backs of leased assets	0
a) Impact on result before taxes (lower/higher costs)	2,927,513
b) Recognition of the tax impact	-838,944
c) Net impact of lease transactions on the financial year result (a - b)	2,088,570

## FINANCIAL FIXED ASSETS

### CHANGES IN EQUITY INVESTMENTS, OTHER SECURITIES AND FINANCIAL DERIVATIVES REPORTED AS LONG-TERM ASSETS

	Equity investments in subsidiaries	Equity investments in associates	Equity investments in other companies	Total equity investments
<b>Amount at beginning of the year</b>				
Cost	2,999,304	-	-	2,999,304
Write-downs	170,502	-	-	170,502
<b>Carrying amount</b>	<b>2,828,802</b>	<b>0</b>	<b>0</b>	<b>2,828,802</b>
<b>Changes during the year</b>				
Increases for purchases	-	12,500	5	12,505
<b>Total changes</b>	<b>-</b>	<b>12,500</b>	<b>5</b>	<b>12,505</b>
<b>Amount at end of the year</b>				
Cost	2,999,304	12,500	5	3,011,809
Write-downs	170,502	-	-	170,502
<b>Carrying amount</b>	<b>2,828,802</b>	<b>12,500</b>	<b>5</b>	<b>2,841,307</b>

The increase in equity investments in associates relates to the purchase of 12.5% of Absolute, a consortium established to develop common synergies with the other shareholders in relation to interruptible rate services.

### CHANGES AND MATURITY OF RECEIVABLES HELD AS FIXED ASSETS

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due after the year
Receivables from others held as fixed assets	20,665	(1,450)	19,215	19,215
<b>Total receivables held as fixed assets</b>	<b>20,665</b>	<b>(1,450)</b>	<b>19,215</b>	<b>19,215</b>

### DETAILS OF NON-CURRENT EQUITY INVESTMENTS IN SUBSIDIARIES

Name	City, if in Italy, or foreign country	Tax ID No. (for Italian companies)	Share capital in Euro	Profit (loss) latest year in Euro	Shareholders' equity in Euro	Interest held in Euro	Interest held as a %	Carrying amount or corresponding receivable
Outosourcing Inox srl	Gazoldo degli Ippoliti (MN)	02315020202	10,000	641,938	2,830,466	2,830,466	100.00%	1,540,471
Marcegaglia Tr	Turkey		1,510,574	(1,361,167)	(827,810)	(538,076)	65.00%	1,288,328
Mariven srl	Gazoldo degli Ippoliti (MN)	02238870204	100,000	(758,185)	5,317,011	3,456,057	65.00%	1
Marcegaglia USA Inc.	United States		82,417,645	(8,693,689)	(52,864,124)	(52,864,124)	100.00%	2
<b>Total</b>								<b>2,828,802</b>

The equity investment in Marcegaglia TR is recognised for an amount in excess of that of the corresponding shareholders' equity fraction as the company is still in the start-up phase. The value of the equity fraction is expected to be aligned with the value of the investment when the company is fully operational.

The equity investments in Mariven, which controls Russia-based Marcegaglia RU, and in Marcegaglia USA Inc. have been written off due to their losses. Furthermore, specific provisions for risks were made in section B) of the balance sheet, on the liability side, for Euro 3,965,136 and Euro 14,189,526, respectively, to align the carrying amount of these equity investments to the corresponding shareholders' equity fractions.

With reference to Marcegaglia USA Inc. the shareholders' equity fraction held was calculated considering also the unrealised gain on the subsidiary's assets, as deter-

mined on the basis of a valuation performed in 2015 (not including those sold in 2017 in connection with the disposal of the Stainless Steel business unit – for which reference is made to “Information on significant events after the end of the year”) and the write-down of the receivables due to the Company by the subsidiary for Euro 28,973,532 in the year just ended.

## DETAILS OF NON-CURRENT EQUITY INVESTMENTS IN ASSOCIATES

Name	City, if in Italy, or foreign country	Tax ID No. (for Italian companies)	Share capital in Euro	Shareholders' equity in Euro	Interest held in Euro	Interest held as a %	Carrying amount or corresponding receivable
Absolute, limited liability consortium	Pozzuolo del Friuli (UD)	02844650305	50,000	50,000	12,500	12.50%	12,500
<b>Total</b>							<b>12,500</b>

## BREAKDOWN OF RECEIVABLES HELD AS FIXED ASSETS BY GEOGRAPHIC AREA

Geographic area	Receivables from others held as fixed assets	Total receivables held as fixed assets
Italy	19,215	19,215
<b>Total</b>	<b>19,215</b>	<b>19,215</b>

## BREAKDOWN OF AMOUNT OF NON-CURRENT EQUITY INVESTMENTS IN OTHER COMPANIES

	Book value	Fair value
Conai Consortium	5	5
<b>Total</b>	<b>5</b>	<b>5</b>

## VALUE OF FINANCIAL FIXED ASSETS

	Book value	Fair value
Equity investments in other companies	5	5
Receivables from others	19,215	19,215

## BREAKDOWN OF AMOUNT OF RECEIVABLES FROM OTHERS HELD AS FIXED ASSETS

	Book value	Fair value
Security deposits	18,337	18,337
Other	878	878
<b>Total</b>	<b>19,215</b>	<b>19,215</b>

## CURRENT ASSETS

## INVENTORIES

Current Assets	Amount at beginning of the year	Changes during the year	Amount at end of the year
<b>I - Inventories</b>			
Raw and ancillary materials and consumables	104,741,093	53,536,486	158,277,579
Work in process and semi-finished goods	94,093,751	2,617,610	96,711,361
Finished goods and merchandise	132,111,477	(4,561,159)	127,550,318
<b>Total inventories</b>	<b>330,946,321</b>	<b>51,592,937</b>	<b>382,539,258</b>

## RECEIVABLES RECORDED IN CURRENT ASSETS

### CHANGES AND MATURITY OF RECEIVABLES RECORDED IN CURRENT ASSETS

Current Assets	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year
Receivables from customers recorded in current assets	37,167,847	(26,124,432)	11,043,415	11,043,415
Receivables from subsidiaries recorded in current assets	52,057,295	(18,661,542)	33,395,753	33,395,753
Receivables from parent companies recorded in current assets	367	1,652,169	1,652,536	1,652,536
Receivables from companies subject to control of parent companies recorded in current assets	160,487,215	(46,906,032)	113,581,183	113,581,183
Tax credits recorded in current assets	2,970,357	(2,943,372)	26,985	26,985
Deferred tax assets recorded in current assets	10,261,543	(7,820,195)	2,441,348	
Receivables from others recorded in current assets	27,735,824	12,139,836	39,875,660	39,875,660
<b>Total receivables recorded in current assets</b>	<b>290,680,448</b>	<b>(88,663,568)</b>	<b>202,016,880</b>	<b>199,575,532</b>

Receivables are recorded at their estimated realisable value through the allocation of special adjusting provisions, the changes in which are indicated below.

	Amount at beginning of the year	Utilisation	Provisions	Amount at end of the year
Allowance for uncollectible receivables from customers	0	5,771	598,220	592,449
Allowance for uncollectible receivables from subsidiaries	10,000,000	0	20,089,394	30,089,394
Allowance for uncollectible receivables from associates	0	0	0	0
Allowance for uncollectible receivables from parent companies	0	0	0	0
Allowance for uncollectible receivables from companies subject to control of parent companies	0	0	2,739	2,739
Allowance for uncollectible tax credits	0	0	0	0
Allowance for uncollectible receivables from others	0	0	0	0
<b>Total allowance for uncollectible receivables</b>	<b>10,000,000</b>	<b>5,771</b>	<b>20,690,353</b>	<b>30,684,582</b>

Deferred tax assets were nearly entirely related to the lower value of inventories for tax purposes than the book values arising when they were contributed (in accordance with the guidelines contained in the appraisal prepared pursuant to Article 2465(1) of the Italian Civil Code) and exchange rate differences.

We believe that these taxes will be fully recovered in 2017 in view of the fast turnover of inventories, receivables and payables in foreign currency.

Details and changes in receivables from others are broken down in the following table:

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year	Portion due after the year	of which, portion with remaining term over 5 years
Crediti verso società di factoring	26,787,175	12,425,248	39,212,423	39,212,423	0	0
Anticipi a fornitori	0	619,487	619,487	619,487	0	0
Crediti verso istituti previdenziali	81,917	-55,591	26,326	26,326	0	0
Anticipi a dipendenti	95,363	-86,362	9,001	9,001	0	0
Crediti verso istituti di credito per incassi clienti	771,307	-771,307	0	0	0	0
Altri crediti	62	8,361	8,423	8,423	0	0
<b>Totale crediti verso altri</b>	<b>27,735,824</b>	<b>12,139,836</b>	<b>39,875,660</b>	<b>39,875,660</b>	<b>0</b>	<b>0</b>

Detail of receivables from companies subject to control of parent companies:

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year	Portion due after the year	of which, portion with remaining term over 5 years
Marfin	879,362	-391,280	488,082	488,082	0	0
Albarella srl	41,535,298	2,471,937	44,007,235	44,007,235	0	0
Marcegaglia Poland z.o.o.	82,126	81,751	163,877	163,877	0	0
Marcegaglia Buildtech srl	112,614,941	-48,981,261	63,633,680	63,633,680	0	0
Imat spa	231,649	888,545	1,120,194	1,120,194	0	0
Marcegaglia Carbon Steel spa	4,973,008	-1,467,350	3,505,658	3,505,658	0	0
Marcegaglia Plates spa	170,831	491,626	662,457	662,457	0	0
<b>Total receivables from companies subject to control of parent companies</b>	<b>160,487,215</b>	<b>-46,906,032</b>	<b>113,581,183</b>	<b>113,581,183</b>	<b>0</b>	<b>0</b>

#### BREAKDOWN OF RECEIVABLES RECORDED IN CURRENT ASSETS BY GEOGRAPHIC AREA

	Italy	EU	Other European Countries	America	Africa Middle East	Asia Oceania	Total
Receivables from customers recorded in current assets	6,730,011	2,486,944	-	-	1,809,331	17,129	11,043,415
Receivables from subsidiaries recorded in current assets	5,333,522	-	1,118,590	22,187,560	4,756,081	-	33,395,753
Receivables from parent companies recorded in current assets	1,652,536	-	-	-	-	-	1,652,536
Receivables from companies subject to control of parent companies recorded in current assets	113,417,306	163,877	-	-	-	-	113,581,183
Tax credits recorded in current assets	26,769	-	216	-	-	-	26,985
Deferred tax assets recorded in current assets	2,441,348	-	-	-	-	-	2,441,348
Receivables from others recorded in current assets	39,375,660	-	500,000	-	-	-	39,875,660
<b>Total receivables recorded in current assets</b>	<b>168,977,152</b>	<b>2,650,821</b>	<b>1,618,806</b>	<b>22,187,560</b>	<b>6,565,412</b>	<b>17,129</b>	<b>202,016,880</b>

#### CASH AND CASH EQUIVALENTS

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Bank and postal deposits	1,014,998	(321,753)	693,245
Cash on hand	1,160	1,883	3,043
<b>Total cash and cash equivalents</b>	<b>1,016,158</b>	<b>(319,870)</b>	<b>696,288</b>

#### ACCRUED INCOME AND PREPAID EXPENSES

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Prepaid expenses	3,708,352	(1,236,770)	2,471,582
<b>Total accrued income and prepaid expenses</b>	<b>3,708,351</b>	<b>(1,236,770)</b>	<b>2,471,582</b>

The table below provides details of this item:

Prepaid expenses	Amount at beginning of the year	Changes during the year	Amount at end of the year
Lump-sum lease payment	3,708,135	-1,271,135	2,437,000
Recurring lease payments	0	26,327	26,327
Machinery maintenance	0	4,792	4,792
Stamp duties, levies and taxes	0	2,145	2,145
Advertising expenses	0	899	899
Others	217	202	419
<b>Total prepaid expenses</b>	<b>3,708,352</b>	<b>-1,236,770</b>	<b>2,471,582</b>

## NOTES TO FINANCIAL STATEMENTS - LIABILITIES AND SHAREHOLDERS' EQUITY

### SHAREHOLDERS' EQUITY

#### CHANGES IN SHAREHOLDERS' EQUITY ITEMS

	Amount at beginning of the year	Allocation of net profit (loss) from the previous year  Other allocations	Other changes  Reclassifications	Profit (loss) for the year	Amount at end of the year
Share capital	161,000,000	-	-		
Share premium reserve	2,518,961	-	-		2,518,961
<b>Other reserves</b>					
<i>Sundry other reserves</i>	<i>1</i>	-	(3)		(2)
<b>Total other reserves</b>	<b>1</b>	-	(3)		(2)
Profit (loss) carried forward	0	(17,056,079)	-		(17,056,079)
Profit (loss) for the year	(17,056,079)	17,056,079	-	19,586,849	19,586,849
<b>Total shareholders' equity</b>	<b>146,462,883</b>	-	(3)	19,586,849	166,049,729

#### BREAKDOWN OF SUNDRY OTHER RESERVES

	Amount
Rounding to whole Euros	(2)
<b>Total</b>	<b>(2)</b>

#### AVAILABILITY AND USE OF SHAREHOLDERS' EQUITY

	Amount	Origin / nature	Potential uses	Available amount
Share capital	161,000,000	In-kind and monetary capital contributions		-
Share premium reserve	2,518,961	Transfer of business unit	A-B-C	2,518,961
<b>Other reserves</b>				
<i>Sundry other reserves</i>	(2)	<i>Rounding</i>		-
Total other reserves	(2)			-
Profit (loss) carried forward	(17,056,079)	Profit (loss) for the year		-
<b>total</b>	<b>146,462,882</b>			<b>2,518,961</b>
<b>Non-distributable amount</b>				2,518,961

Legenda: A for capital increase - B to cover losses - C for distribution to shareholders

#### ORIGIN, POSSIBLE USE, AND AMOUNTS AVAILABLE FOR DISTRIBUTION OF SUNDRY OTHER RESERVES

	Amount	Origin / nature
Rounding to whole Euros	(2)	Rounding
<b>Total</b>	<b>(2)</b>	

## RESERVES FOR RISKS AND EXPENSES

	Provision for retirement pay and similar obligations	Provision for taxes, including deferred taxes	Other reserves	Total reserves for risks and expenses
Amount at beginning of the year	802	117,526,016	22,777,215	140,304,033
Changes during the year				
Provisions for the year	7,770	2,077,261	-	2,085,031
Usage for the year	15	12,316,830	4,622,553	16,939,398
Total changes	7,755	(10,239,569)	(4,622,553)	(14,854,367)
Amount at end of the year	8,557	107,286,447	18,154,662	125,449,666

## BREAKDOWN OF PROVISION FOR TAXES, INCLUDING DEFERRED TAXES

Description	Amount at beginning of the year	Usage for the year	Provisions for the year	Other changes	Amount at end of the year
Provision for deferred taxes	117,526,016	12,316,830	2,077,261	0	107,286,447
Total	117,526,016	12,316,830	2,077,261	0	107,286,447

The provision for deferred taxes mainly arose from the contribution in 2015 and pertains to deferred taxes connected to the greater values of property, plant and equipment contributed in comparison with the values applicable to the contributor for tax purposes. In fact, as is well known, from a tax point of view the contribution is not a sale transaction. Consequently, any market values that are possibly higher than the contributor's book values, which are attributed to the various assets, have no relevance for taxation. The determination of these market values along with the related deferred taxes was supported by the valuation prepared by the expert as referenced in Article 2465(1) of the Italian Civil Code.

These deferred taxes shall be reabsorbed through the process of depreciation of the aforementioned higher values on the basis of the useful lives of the various assets

indicated by the expert in the valuation. In 2016, the utilisation of the deferred tax provision in connection with the higher depreciation amount in the financial statement than depreciation for tax purposes, was Euro 10,422,826.

The remainder of utilisations and all provisions is in relation to deferred taxes related to the impact of foreign exchange translation gains.

## DETAILS OF OTHER PROVISIONS

Description	Amount at beginning of the year	Usage for the year	Provisions for the year	Other changes	Amount at end of the year
Provisions for risks, Mariven	4,793,852	828,716	0	0	3,965,136
Provisions for risks, Marcegaglia USA	17,983,363	3,793,837	0	0	14,189,526
Total	22,777,215	4,622,553	0	0	18,154,662

These provisions were made in 2015 in light of the losses incurred by the subsidiaries Marcegaglia USA Inc. and Marcegaglia RU (indirect subsidiary, held through Mariven Srl) for the sum in excess of the carrying amount of the relevant equity investment, which at 31 December 2016 was written off (as was at 31 December 2015). In 2016, part of these provisions was released in view of the lower losses of the subsidiaries and a general appreciation of the Euro against the reporting currencies of such subsidiaries.

## EMPLOYEE SEVERANCE PAY

	Employee severance pay
Amount at beginning of the year	3,618,952
Changes during the year	
Provisions for the year	2,148,262
Usage for the year	2,483,441
Total changes	(335,179)
Amount at end of the year	3,283,773

The table below shows details of “Usage for the year”:

Usage during the year for payments and advances made and for payment of substitute income tax on the revaluation accrued during the year	Contributions made to supplemental pension funds	Contributions made to INPS Treasury Fund net of recoveries made during the year	Recovery of INPS contribution pursuant to Law 297/82	Total usage
410,332	795,972	1,133,542	143,595	2,483,441

## PAYABLES

### CHANGES AND DUE DATES OF PAYABLES

Payables	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year
Payables to banks	13,241,860	(2,841,479)	10,400,381	10,400,381
Advance payments	400,000	-	400,000	400,000
Trade payables	264,471,430	75,473,608	339,945,038	339,945,038
Payables to subsidiaries	2,165,882	(355,262)	1,810,620	1,810,620
Payables to associates	0	8,890	8,890	8,890
Payables to parent companies	494,204,447	(162,907,105)	331,297,342	331,297,342
Payables to companies subject to control of parent companies	7,164,276	(1,150,266)	6,014,010	6,014,010
Tax payables	2,849,955	3,594,487	6,444,442	6,444,442
Payables to pension and social security organisations	2,336,220	508,927	2,845,147	2,845,147
Other payables	60,397,607	13,678,139	74,075,745	74,075,745
<b>Total payables</b>	<b>847,231,677</b>	<b>(73,990,061)</b>	<b>773,241,615</b>	<b>773,241,615</b>

### BREAKDOWN OF PAYABLES BY GEOGRAPHIC AREA

	Italy	EU	Other European Countries	America	Africa Middle East	Asia Oceania	Total
Payables to banks	10,400,381	-	-	-	-	-	10,400,381
Advance payments	-	400,000	-	-	-	-	400,000
Trade payables	279,967,607	39,850,857	1,246,035	10,539,756	134,993	8,205,790	339,945,038
Payables to subsidiaries	1,810,620	-	-	-	-	-	1,810,620
Payables to associates	8,890	-	-	-	-	-	8,890
Payables to parent companies	331,297,342	-	-	-	-	-	331,297,342
Payables to companies subject to control of parent companies	5,961,793	52,217	-	-	-	-	6,014,010
Tax payables	5,169,432	1,153,924	121,086	-	-	-	6,444,442
Payables to pension and social security organisations	2,845,147	-	-	-	-	-	2,845,147
Other payables	73,311,745	764,000	-	-	-	-	74,075,745
<b>Payables</b>	<b>710,772,957</b>	<b>42,220,998</b>	<b>1,367,121</b>	<b>10,539,756</b>	<b>134,993</b>	<b>8,205,790</b>	<b>773,241,615</b>

## DEBT SECURED BY COMPANY ASSETS

	Unsecured debt	Total
Payables to banks	10,400,381	10,400,381
Advance payments	400,000	400,000
Trade payables	339,945,038	339,945,038
Payables to subsidiaries	1,810,620	1,810,620
Payables to associates	8,890	8,890
Payables to parent companies	331,297,342	331,297,342
Payables to companies subject to control of parent companies	6,014,010	6,014,010
Tax payables	6,444,442	6,444,442
Payables to pension and social security organisations	2,845,147	2,845,147
Other payables	74,075,745	74,075,745
<b>Total payables</b>	<b>773,241,615</b>	<b>773,241,615</b>

In relation to the securitisation of trade receivables without notification, the company established two pledges in favour of Monte dei Paschi di Siena, Cariparma, Intesa Sanpaolo and Unicredit Banca on the balances of the current accounts held with these banks which, at 31 December 2016, amounted to Euro 651,060.

The table below breaks down “Other payables”:

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year	Portion due after the year	of which, portion with remaining term over 5 years
Payables to factoring companies	56,995,130	12,845,766	69,840,896	69,840,896	0	0
Payables to staff	2,961,869	404,323	3,366,192	3,366,192	0	0
Security deposits	0	0	0	0	0	0
Sundry payables	58,607	11,855	70,462	70,462	0	0
Pre-finance ACE-PICK project	382,000	382,000	764,000	764,000	0	0
Taxes	0	34,195	34,195	34,195	0	0
<b>Total other payables</b>	<b>60,397,606</b>	<b>13,678,139</b>	<b>74,075,745</b>	<b>74,075,745</b>	<b>0</b>	<b>0</b>

Below is a breakdown of payables to companies subject to control of parent companies:

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year	Portion due after the year	of which, portion with remaining term over 5 years
Marfin srl	5,322,619	-2,515,428	2,807,191	2,807,191	0	0
Made HSE srl	210,033	351,134	561,167	561,167	0	0
Marcegaglia Poland z.o.o.	0	33,819	33,819	33,819	0	0
Marcegaglia Buildtech srl	0	7,108	7,108	7,108	0	0
Marcegaglia Romania srl	0	14,466	14,466	14,466	0	0
Marcegaglia Deutschland gmbh	0	3,932	3,932	3,932	0	0
Imat spa	0	9,226	9,226	9,226	0	0
Marcegaglia Carbon Steel spa	1,572,596	894,395	2,466,991	2,466,991	0	0
Marcegaglia Plates spa	59,028	51,082	110,110	110,110	0	0
<b>Total payables to companies subject to control of parent companies</b>	<b>7,164,276</b>	<b>-1,150,266</b>	<b>6,014,010</b>	<b>6,014,010</b>	<b>0</b>	<b>0</b>

## ACCRUED EXPENSES AND DEFERRED INCOME

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Accrued expenses	58,046	(58,046)	-
<b>Total accrued expenses and deferred income</b>	<b>58,046</b>	<b>(58,046)</b>	<b>0</b>

## NOTES - PROFIT AND LOSS ACCOUNT

### VALUE OF PRODUCTION

BREAKDOWN OF REVENUES FROM SALES AND SERVICES BY BUSINESS CATEGORY

	Amount for current year
cold drawn bars	113,842,958
stainless steel products	842,326,053
other iron and steel industry products	32,675,445
<b>total</b>	<b>988,844,456</b>

BREAKDOWN OF REVENUES FROM SALES AND SERVICES BY GEOGRAPHIC AREA

	Amount for current year
Italy	338,845,212
EU	596,578,150
Other European Countries	44,151,825
North America	681,752
South And Central America	40,499
Middle East	1,770,038
Far East - Oceania	468,606
Africa	6,308,374
<b>Total</b>	<b>988,844,456</b>

### FINANCIAL INCOME AND CHARGES

Breakdown of interest and other financial charges by type of payable

	Interest and other financial charges
Payables to banks	152,134
Other	7,906,178
<b>Total</b>	<b>8,058,312</b>

In 2016, no applicable financial charges were capitalised.

Detail of the item "Other"

	Other
Interest expense relating to securitisation and factoring institutions	7,746,946
Other interest and financial charges	159,232
<b>Total other financial charges</b>	<b>7,906,178</b>

### VALUE ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES

Detail of revaluations and write-downs

	Revaluations	Write-downs
Mariven srl	828,716	0
Marcegaglia USA Inc.	3,793,837	0
of equity investments recorded as financial fixed assets	4,622,553	0
<b>Total</b>	<b>4,622,553</b>	<b>0</b>

The revaluations of Mariven and Marcegaglia USA Inc. relate to the partial release of the provisions made in 2015 to align the carrying amount of the relevant equity investments to the lower value of the corresponding shareholders' equity held in the subsidiaries in questions. The release of such provisions was due the lower loss amount reported by the subsidiaries and the appreciation of the Euro against these subsidiaries' reporting currencies.

## CURRENT, DEFERRED AND PREPAID INCOME TAXES FOR THE YEAR

The deferred taxes reported in the balance sheet at 31 December 2016 reflect the temporary difference between the book basis and the tax basis of assets and liabilities.

Prepaid taxes were recorded for all temporary differences found between taxable profit and profit before taxes under the assumption that there would be sufficient taxable profit to “absorb” the temporary differences indicated below over the time frame indicated.

Prepaid and deferred taxes were provisioned with a corporate income tax (IRES) rate of 24%, and a regional business tax (IRAP) rate of 3.9%.

### RECOGNITION OF DEFERRED AND PREPAID TAXES AND RESULTING IMPACT

	IRES	IRAP
<b>A) Temporary differences</b>		
Total deductible temporary differences	9,394,815	4,784,423
Total taxable temporary differences	386,286,268	373,788,241
Net temporary decreases	376,891,453	369,003,818
<b>B) Tax impact</b>		
Provision for deferred (prepaid) taxes at the beginning of the year	92,086,912	15,177,561
Deferred (prepaid) taxes for the year	(1,632,964)	(786,410)
Provision for deferred (prepaid) taxes at the end of the year	90,453,948	14,391,151

### BREAKDOWN OF DEDUCTIBLE TEMPORARY DIFFERENCES

Description	Amount at end of previous year	Change during the year	Amount at end of year	IRES rate	IRES tax impact	IRAP rate	IRAP tax impact
Foreign exchange translation loss from contribution	1,482,533	3,112,880	4,595,413	24.00%	1,102,900	-	-
Write-down of inventory	28,771,457	(23,993,536)	4,777,921	24.00%	1,146,701	3.90%	186,337
Write-down of assets from contribution (IRES)	6,917	(3,267)	3,650	24.00%	876	-	-
Write-down of assets from contribution (IRAP)	7,332	(830)	6,502	-	-	3.90%	254
2015 Tax loss	12,115,291	(12,115,291)	-	24.00%	-	-	-
Association dues	-	17,831	17,831	24.00%	4,279	-	-

### DETTAGLIO DIFFERENZE TEMPORANEE IMPONIBILI

Description	Amount at end of previous year	Change during the year	Amount at end of year	IRES rate	IRES tax impact	IRAP rate	IRAP tax impact
Revaluation of assets from contribution (IRES)	382,018,572	(32,792,588)	349,225,984	24.00%	83,814,234	-	-
Foreign exchange translation gains	6,887,286	1,767,970	8,655,256	24.00%	2,077,261	-	-
Revaluation of leased stainless steel plant	28,405,028	-	28,405,028	24.00%	6,817,207	3.90%	1,107,797
Revaluation of assets from contribution (IRAP)	381,535,078	(36,151,865)	345,383,213	-	-	3.90%	13,469,945

## STATEMENT OF EXPECTED RECOVERY OF DEFERRED TAX ASSETS AND LIABILITIES

Description	2017	2018	2019	2020	Beyond 2020 or unforeseeable	Total
<b>A) Taxable temporary differences</b>						
<i>Ires</i>						
Revaluation of assets from contribution	33,035,639	33,507,965	33,158,214	32,038,635	217,485,530	<b>349,225,984</b>
Foreign exchange translation gains	8,655,256					<b>8,655,256</b>
Revaluation of leased stainless steel plant		28,405,028				<b>28,405,028</b>
<i>total</i>	<b>41,690,895</b>	<b>61,912,993</b>	<b>33,158,214</b>	<b>32,038,635</b>	<b>217,485,530</b>	<b>386,286,268</b>
<i>Irapp</i>						
Revaluation of assets from contribution	35,978,462	35,808,655	34,896,875	33,501,025	205,198,196	<b>345,383,213</b>
Revaluation of leased stainless steel plant		28,405,028				<b>28,405,028</b>
<i>total</i>	<b>35,978,462</b>	<b>64,213,683</b>	<b>34,896,875</b>	<b>33,501,025</b>	<b>205,198,196</b>	<b>373,788,241</b>
<b>Total deferred taxes</b>	<b>11,408,974</b>	<b>17,363,452</b>	<b>9,318,949</b>	<b>8,995,812</b>	<b>60,199,260</b>	<b>107,286,447</b>
<b>B) Deductible temporary differences</b>						
<i>Ires</i>						
Foreign exchange translation loss	4,595,413					<b>4,595,413</b>
Write-down of assets from contribution	2,804	298	298	249		<b>3,650</b>
Write-down of inventories from contribution	4,777,921	-	-	-	-	<b>4,777,921</b>
Association dues	17,831					<b>17,831</b>
<i>total</i>	<b>9,393,969</b>	<b>298</b>	<b>298</b>	<b>249</b>	<b>-</b>	<b>9,394,814</b>
<i>Irapp</i>						
Write-down of assets from contribution	830	830	830	830	3,182	<b>6,502</b>
Write-down of inventories from contribution	4,777,921	-	-	-	-	<b>4,777,921</b>
<i>total</i>	<b>4,778,751</b>	<b>830</b>	<b>830</b>	<b>830</b>	<b>3,182</b>	<b>4,784,423</b>
<b>Total prepaid taxes</b>	<b>2,440,923</b>	<b>104</b>	<b>104</b>	<b>92</b>	<b>125</b>	<b>2,441,348</b>

## RECONCILIATION BETWEEN ACTUAL AND THEORETICAL TAX BURDEN (IRES)

2016		
Statutory Profit (+) /Loss (-) before taxes	36,036,867	
Theoretical tax rate of 27.5% on statutory profit before tax		9,910,138
Effect of increases (+) / decreases (-) compared to ordinary tax rate		<b>IRES impact</b>
Temporary increases	4,613,244	1,268,642
Temporary decreases	-8,655,256	-2,380,195
Absorption of temporary decreases	-25,479,337	-7,006,818
Absorption of temporary increases	39,515,127	10,866,660
Permanent increases	21,595,671	5,938,809
Permanent decreases	-5,242,030	-1,441,558
<b>Total increases/decreases</b>	<b>26,347,419</b>	<b>7,245,540</b>
<b>Tax loss carryforwards</b>	<b>-4,122,947</b>	<b>-1,133,810</b>
<b>Tax profit for the year</b>	<b>58,261,339</b>	<b>16,021,868</b>

## RECONCILIATION BETWEEN ACTUAL AND THEORETICAL TAX BURDEN (IRAP)

2016		
Difference between value and cost of production	55,613,036	
Costs not relevant for IRAP purposes	63,197,658	
<b>Theoretical taxable income for IRAP</b>	<b>118,810,694</b>	
Theoretical tax rate of 3.9% on theoretical taxable income for IRAP		4,633,617
Effect of increases (+) / decreases (-) compared to ordinary tax rate		<b>IRAP impact</b>
Temporary increases	-	-
Temporary decreases	-	-
Absorption of temporary decreases	-23,994,366	- 935,780,00
Absorption of temporary increases	35,987,118	1,403,498,00
Permanent increases	1,288,684	50,258,00
Permanent decreases	- 11,045,00	- 431,00
<b>Gross value of production (IRAP)</b>	<b>132,081,085</b>	<b>517,545</b>
<b>IRAP deductions</b>	<b>-42,157,771</b>	<b>-1,644,153</b>
<b>Taxable income (IRAP)</b>	<b>89,923,314</b>	<b>3,507,009</b>

### Information on “national tax consolidation scheme”

In 2016 the company and Marcegaglia Holding spa elected to adopt the tax consolidation scheme for 2016-2017-2018. The election entailed, for fiscal year 2016, the transfer to the consolidating company of a profit, taxable for IRES purposes, in

the amount of Euro 58,261,339. The tax amount for IRES purposes, based on the statutory tax rate, is Euro 16,021,868, which is reported in item 20) of the profit and loss account, with an offsetting entry in item D11) “Payables to parent companies” of the balance sheet, on the liability side. Item 20) of the profit and loss account reflects income from participation in the tax consolidation scheme of Euro 687,500, due to the transfer to the consolidating company of the excess operating income of Euro 5 million for 2016. The consolidating company will be able to use such amount to deduct interest expenses that other companies participating in the tax consolidation scheme could not deduct.

## NOTES TO FINANCIAL STATEMENTS - OTHER INFORMATION

### EMPLOYMENT DATA

	Average number
Managers	3
Office workers	138
Factory workers	605
<b>Total employees</b>	<b>746</b>

Below are the actual numbers of active employees at 31 December 2016:

	Actual number at end of year
Managers	3
Middle managers	
Office workers	139
Factory workers	624
Other employees	
<b>Total employees</b>	<b>766</b>

### COMPENSATION, ADVANCES AND LOANS MADE TO DIRECTORS AND STATUTORY AUDITORS AND OBLIGATIONS ASSUMED ON THEIR BEHALF

	Directors	Statutory Auditors
Compensation	458,000	36,400

### COMPENSATION PAID TO AUDITOR OR INDEPENDENT AUDITOR

	Amount
Statutory audit of annual financial statements	70,232
<b>Total compensation payable to auditor or independent auditor</b>	<b>70,232</b>

The statutory audits of the separate financial statements, in compliance with and for the purposes and effects of Article 14 of Legislative Decree No. 39 of 27 January 2010, was assigned by the Special Shareholders Meeting on 27 November 2015 for a period of 3 financial years, and

consequently until approval of the financial statements for financial year 2017, to the audit firm MAZARS ITALIA S.p.A. Compensation for the statutory audit for financial year 2015 (performed in 2016) was Euro 40,851. For financial years 2016 and 2017 compensation was set at Euro 45,900 annually, of which Euro 38,250 for the audit of the financial statements and Euro 7,650 for accounting controls.

In addition, MAZARS ITALIA SPA was also granted the assignment for the limited audit of the half-year financial statements at 30 June 2016 for compensation totalling Euro 13,000.

The difference between the contractually agreed-to compensation for work done in 2016 (Euro 40,851 for the annual financial statements for 2015 and Euro 13,000 for the half-year financial statements for 2016) and the amount allocated to the financial statements (Euro 70,232) was for the reimbursement of out-of-pocket expenses (Euro 12,660) and the CONSOB contribution (Euro 3,721).

### CATEGORIES OF SHARES ISSUED BY THE COMPANY

Description	Initial balance, number	Initial balance, nominal value	Final balance, number	Final balance, nominal value
Ordinary shares	161,000,000	161,000,000	161,000,000	161,000,000
<b>Total</b>	<b>161,000,000</b>	<b>161,000,000</b>	<b>161,000,000</b>	<b>161,000,000</b>

### COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES NOT REPORTED IN THE BALANCE SHEET

	Amount
Commitments	25,320
Guarantees	1,768,892,230
<b>collateral</b>	<b>471,250,000</b>

The table below provides details on existing obligations and guarantees at 31 December 2016.

	31 Dec 2016	31 Dec 2015
<b>RISKS TAKEN BY THE COMPANY</b>		
<b>SURETIES</b>		
- to subsidiaries	1,297,175,698	839,024,599
- to other companies	466,532	466,532
<b>Total sureties</b>	<b>1,297,642,230</b>	<b>839,491,131</b>
<b>COLLATERAL</b>		
- to parent companies	471,250,000	0
- to companies subject to control of parent companies	0	258,175,174
<b>Total collateral</b>	<b>471,250,000</b>	<b>258,175,174</b>
<b>Total guarantees</b>	<b>1,768,892,230</b>	<b>1,097,666,305</b>
<b>COMMITMENTS ENTERED INTO BY THE COMPANY</b>		
- other commitments	25,320	77,309
<b>Total commitments entered into by the Company</b>	<b>25,320</b>	<b>77,309</b>
<b>Total</b>	<b>1,768,917,550</b>	<b>1,097,743,614</b>

The collateral provided refers to the mortgage on the plants of Forlì and Forlimpopoli to secure the loan received from the parent company, Marcegaglia Steel S.p.A., with a syndicate of banks.

#### Information on significant events after the end of the year

In the first half of 2017 Marcegaglia USA Inc. sold the Stainless Steel (SS) business unit, continuing to operate the Galvanised business unit.

The price received, amounting USD 14.4 million, refers to the plants and equipment and the inventories. On the closing, the sum collected – including the cited amount and an additional USD 0.5 million as a non-compete indemnity – has been used in part (USD 6.9 million) to repay the loans outstanding with a local bank and in part to repay a sum owed by the foreign subsidiary to its sister company Marcegaglia Carbon Steel S.p.A.

The buyer of the SS business unit will continue to use the plant owned by Marcegaglia USA Inc. for 15 months after the closing, paying a total rent of USD 0.5 million. The agreement calls for an earn-out related to any positive result of the business unit sold, with a minimum amount of USD 3 million, to be collected within 4 years.

Most recently, on 12 May 2017, the Shareholders' Meeting increased the number of members of the Board of Directors from two to six confirming Antonio Marcegaglia and Emma Marcegaglia, and appointing Lorenzo Bonacina, Stefano Dall'Acqua, Roberto Vancini and Carolina Toso.

At the meeting of the new Board of Directors held on the same day, Antonio Marcegaglia was confirmed as Chairman and Chief Executive Officer, and Emma Marcegaglia was confirmed as Deputy Chairwoman and Chief Executive Officer.

The Board of Directors also appointed (i) Lorenzo Bonacina as Chief Executive Officer with exclusive responsibility for managing the plant in Forlì and assigned him the role of employer for the same plant and (ii) Stefano Dall'Acqua as Chief Executive Officer with exclusive responsibility for the management of the plants in Contino di Volta Mantovana (MN) and in Gazoldo degli Ippoliti (MN) and assigned him the role of employer for the same plants.

#### COMPANIES THAT PREPARE FINANCIAL STATEMENTS FOR THE LARGE/ SMALL GROUPING OF COMPANIES IN WHICH THEY PARTICIPATE AS SUBSIDIARIES

	Large grouping	Small grouping
Company name	Finmar srl	Marcegaglia Holding spa
City (if in Italy) or foreign country	Gazoldo degli Ippoliti (Mn)	Gazoldo degli Ippoliti (Mn)
Tax ID No. (for Italian companies)	02466170202	02466980204
Place of filing of the consolidated financial statements	Mantua	Mantova

#### Summary financial statements of the company with management and coordination responsibilities

The company is subject to management and coordination by the parent company FINMAR SRL, which holds 13% of the share capital but 51.31% of the voting rights of the company Marcegaglia Holding S.p.A., which holds 100% of the share capital of the company Marcegaglia Steel S.p.A., which in turn holds 100% of the company's share capital.

The information required by article 2497-bis, paragraph 4, of the Italian Civil Code refers to the accounts for the year ended 31 December 2015, the first fiscal year of said company.

## SUMMARY BALANCE SHEET OF THE COMPANY WITH MANAGEMENT AND COORDINATION RESPONSIBILITIES

	Latest financial year	Previous financial year
Date of latest approved financial statements	31 Dec 2015	31 Dec 2014
B) Fixed assets	119,967,439	-
C) Current assets	56,960	-
<b>Total assets</b>	<b>120,024,399</b>	<b>-</b>
A) Shareholders' equity		
Share capital	40,000	-
Reserves	15,136,058	-
Profit (loss) for the year	12,158,179	-
<b>Total shareholders' equity</b>	<b>27,334,237</b>	<b>-</b>
B) Reserves for risks and expenses	1,366	-
D) Payables	92,688,781	-
E) Accrued expenses and deferred income	15	-
<b>Total liabilities and shareholders' equity</b>	<b>120,024,399</b>	<b>-</b>

## SUMMARY PROFIT AND LOSS ACCOUNT OF THE COMPANY WITH MANAGEMENT AND COORDINATION RESPONSIBILITIES

	Latest financial year	Previous year
Date of latest approved financial statements	31 Dec 2015	31 Dec 2014
B) Production costs	120,805	-
C) Financial income and charges	15,762,261	-
D) Value adjustments of financial assets	(3,298,468)	-
Income tax expense for the year	184,809	-
<b>Profit (loss) for the year</b>	<b>12,158,179</b>	<b>-</b>

### Proposals for allocation of profits or coverage of losses

The proposed allocation of the net profit of Euro 19,586,894.04 for the year is as follows:

- Euro 17,056,079.17 to cover the loss reported in the previous year;
- Euro 126,538.49 (representing 5% of the sum remaining after covering the loss for the previous year) to the legal reserve;
- Euro 2,404,231.38 to the extraordinary reserve.

## NOTES TO FINANCIAL STATEMENTS

### Conclusion

#### Significant changes in exchange rates

There were no significant changes in exchange rates after the end of the year. In fact, using the exchange rates in effect at 13 April 2017, the net balance of the items “Foreign exchange translation gains” and “Foreign exchange translation losses” (item 17 bis in the profit and loss account) would decrease by about Euro 22,000.

#### Related-party transactions

Most of the business of Marcegaglia Specialties S.p.A. is carried out to develop relations with entities that have no direct or indirect ownership-related ties, without, however, disregarding appropriate synergies resulting from trade and financial relations among companies of a group known for its effective and efficient horizontal and vertical integration.

The Directors’ Report shows the amounts in the financial statements regarding operations with group entities, noting that these are transactions carried out under market conditions, similar to those that would be arranged between independent parties.

#### Fixed assets acquired before 17 April 1991 (Art. 45(2) of Legislative Decree No. 127 of 9 April 1991)

We hereby certify that for fixed assets acquired or produced before 17 April 1991, the original cost has already been determined and reported for accounting purposes.

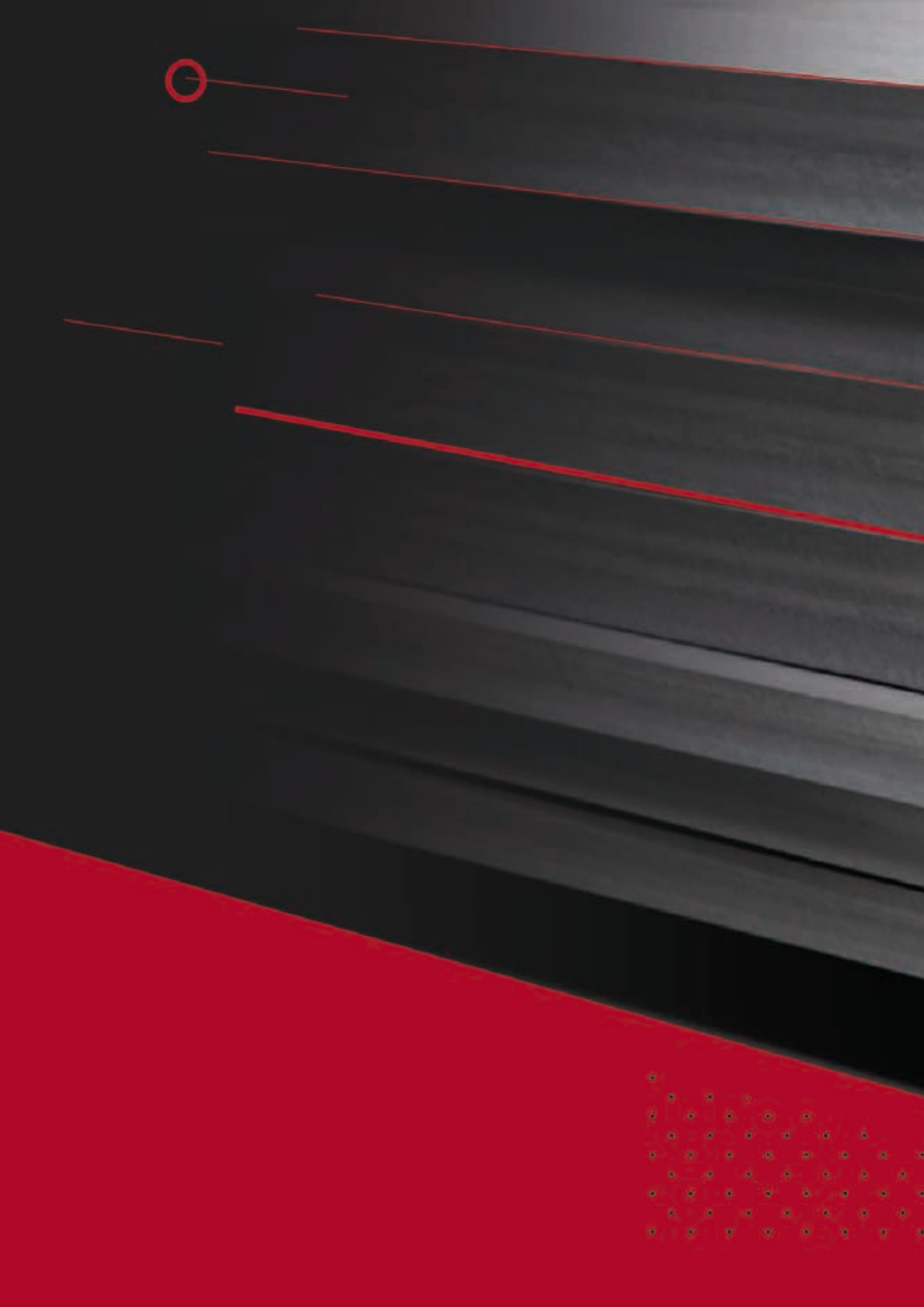
#### STATEMENT OF FINANCIAL STATEMENT COMPLIANCE

The measurement criteria reported herein comply with the provisions of civil law. These notes to the financial statements, as well as the entire financial statements of which they are an integral part, provide a true and accurate picture of the company's financial and equity position and operating results for the year.

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*Gazoldo degli Ippoliti, 29 May 2017*

Chairman of the  
Board of Directors  
**Antonio Marcegaglia**



# Financial Statements 2016

## Marcegaglia Plates

**MARCEGAGLIA PLATES S.p.A.**

Registered Office: via Bresciani, 16 - Gazoldo degli Ippoliti, Mantova - Italy

Share capital: Euro 35,000,000 fully paid up

Fiscal Code and VAT No.: 02466240203

Registered with the Mantua Chamber of Commerce and Administrative Economic Index [REA]  
255218



## **Independent auditors' report in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 165-bis of Legislative Decree No. 58 of 24 February 1998**

To the shareholders of  
Marcegaglia Plates S.p.A.

### **Report on the financial statements**

We have audited the accompanying financial statements of Marcegaglia Plates S.p.A., which comprises the balance sheet as of 31 December 2016, the income statement and the cash flow statement for the period then ended and the related explanatory notes.

#### *Directors' responsibility for the financial statements*

The directors are responsible for the preparation of the financial statements that gives a true and fair view in compliance with the Italian laws governing the financial statements.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39/2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Marcegaglia Plates S.p.A. as of 31 December 2016 and the result of its operations and cash flows for the year then ended, in accordance with the Italian laws governing the financial statements.

### *Emphasis of matter*

Without qualifying our opinion, we draw attention to the paragraph "Comparability with the previous years" in the explanatory notes in which the directors described that the profit & loss figures for the year 2016 are not comparable with the same figures for the year 2015 since the latter relate to only two months of activity as the contributions in kind, by which the Marcegaglia Steel Group has been reorganized, went into effect on 1 November 2015.

### **Report on compliance with other laws and regulations**

#### *Opinion concerning the consistency with the financial statements of the report on operations*

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations, which is the responsibility of the directors of Marcegaglia Plates S.p.A., with the financial statements of Marcegaglia Plates S.p.A. as of 31 December 2016. In our opinion, the report on operations is consistent with the financial statements of Marcegaglia Plates S.p.A. as of 31 December 2016.

Verona, 5 June 2017

Mazars Italia S.p.A.  
*(signed on the original)*  
 Alfonso Iorio  
 Partner

*This report has been translated into English from the Italian original solely for the convenience of international readers.*

**MARCEGAGLIA PLATES S.P.A.****BALANCE SHEET AS OF 31 DECEMBER 2016**

Assets values in EUR

31 Dec 2016

31 Dec 2015

<b>A SHARE CAPITAL ISSUED AND NOT YET PAID</b>			
1	Share capital issued and not yet paid uncalled	0	0
2	Share capital issued and not yet paid called	0	0
	<b>Total Share capital issued and not yet paid A</b>	<b>0</b>	<b>0</b>
<b>B FIXED ASSETS</b>			
I	<i>Intangible fixed assets</i>		
1	Start-up and expansion costs	32,287	40,709
2	Development cost	0	0
3	Industrial patent rights and intellectual property rights	774	14,401
4	Concessions, licences, trademarks and similar rights	0	0
5	Goodwill	0	0
6	Assets under construction and advances	0	0
7	Other	0	2,642
	<b>Total intangible fixed assets (B-I)</b>	<b>33,061</b>	<b>57,752</b>
II	<i>Property, plant and equipment</i>		
1	Land and buildings	17,464,792	17,912,133
2	Plant and machinery	39,092,560	41,138,598
3	Industrial and commercial equipment	1,277,289	1,392,047
4	Other assets	142,587	159,405
5	Fixed assets in progress and advance payments	955,354	2,039,889
	<b>Total property, plant and equipment (B-II)</b>	<b>58,932,582</b>	<b>62,642,072</b>
III	<i>Financial fixed assets</i>		
1	Equity investments in:		
	- other companies	5	0
		<b>5</b>	<b>0</b>
2	Receivables		
	d-bis) from others		
	- due <b>after</b> the following year	4,532	0
		<b>4,532</b>	<b>0</b>
	<b>Total financial fixed assets (B-III)</b>	<b>4,537</b>	<b>0</b>
	<b>Total fixed assets B</b>	<b>58,970,180</b>	<b>62,699,824</b>
<b>C CURRENT ASSETS</b>			
I	<i>Inventories</i>		
1	Raw and ancillary materials and consumables	27,532,975	29,261,324
2	Work in process and semi-finished goods	2,459,950	5,892,781
3	Contract work in progress	0	0
4	Finished goods and merchandise	10,479,369	9,013,135
	<b>Total inventories (C-I)</b>	<b>40,472,294</b>	<b>44,167,240</b>
II	<i>Receivables</i>		
1	From customers		
	- due <b>within</b> the following year	4,239,319	18,597,862
	- due <b>after</b> the following year	0	0
		<b>4,239,319</b>	<b>18,597,862</b>
4	From parent companies		
	- due <b>within</b> the following year	517,107	105
	- due <b>after</b> the following year	0	0
		<b>517,107</b>	<b>105</b>
5	From companies subject to control of parent companies		
	- due <b>within</b> the following year	53,011,418	55,168,110
	- due <b>after</b> the following year	0	0
		<b>53,011,418</b>	<b>55,168,110</b>
5-bis	Tax credits		
	- due <b>within</b> the following year	72,957	944,305
	- due <b>after</b> the following year	0	0
		<b>72,957</b>	<b>944,305</b>
5-ter	Deferred tax assets		
	- due <b>within</b> the following year	472,171	2,124,641
	- due <b>after</b> the following year	1,076	1,851
		<b>473,247</b>	<b>2,126,492</b>
5-quater	From others		
	- due <b>within</b> the following year	2,109,806	1,560,533
	- due <b>after</b> the following year	0	0
		<b>2,109,806</b>	<b>1,560,533</b>
	<b>Total receivables (C-II)</b>	<b>60,423,854</b>	<b>78,397,407</b>
IV	<i>Cash and cash equivalents</i>		
1	Bank and postal deposits	310,505	196,307
2	Cheques	0	0
3	Cash on hand	1,414	149
	<b>Total cash and cash equivalents (C-IV)</b>	<b>311,919</b>	<b>196,456</b>
	<b>Total current assets C</b>	<b>101,208,067</b>	<b>122,761,103</b>
<b>D ACCRUED INCOME AND PREPAID EXPENSES</b>			
	Others prepayments and accrued income	547	0
	<b>Total prepayments and accrued income D</b>	<b>547</b>	<b>0</b>
	<b>TOTAL ASSETS</b>	<b>160,178,794</b>	<b>185,460,927</b>

## LIABILITIES values in EUR

31 Dec 2016

31 Dec 2015

A SHAREHOLDERS' EQUITY			
I	Share capital	35,000,000	35,000,000
II	Share premium reserve	1,027,637	1,027,637
III	Revaluation reserve	0	0
IV	Legal reserve	0	0
VI	Other reserves, represented by:		
	- Sundry other reserves	(1)	(1)
VIII	Profit (loss) carried forward	(2,506)	0
IX	Profit (loss) for the year	6,196,776	(2,506)
	Total shareholders' equity A	42,221,906	36,025,130
B RESERVES FOR RISKS AND EXPENSES			
1	Ffor post-retirement benefits and similar obligations	271,772	3,647
2	For taxes, including deferred taxes	11,846,841	12,924,972
3	Other	0	0
	Total reserves for risks and expenses B	12,118,613	12,928,619
C EMPLOYEE SEVERANCE PAY			
	Employee severance pay C	348,859	350,738
D PAYABLES			
4	Payables to banks		
	- due within the following year	3,197,066	1,271,994
	- due after the following year	0	0
		3,197,066	1,271,994
6	Advance payments		
	- due within the following year	14,542	0
	- due after the following year	0	0
		14,542	0
7	Trade payables		
	- due within the following year	54,387,140	42,377,505
	- due after the following year	0	0
		54,387,140	42,377,505
11	Payables to parent companies		
	- due within the following year	34,001,944	77,389,734
	- due after the following year	0	0
		34,001,944	77,389,734
11-bis	Payables to companies subject to control of parent companies		
	- due within the following year	1,289,695	551,195
	- due after the following year	0	0
		1,289,695	551,195
12	Tax payables		
	- due within the following year	772,275	247,030
	- due after the following year	0	0
		772,275	247,030
13	Payables to pension and social security organisations		
	- due within the following year	437,991	369,073
	- due after the following year	0	0
		437,991	369,073
14	Other payables		
	- due within the following year	11,359,577	13,938,356
	- due after the following year	0	0
		11,359,577	13,938,356
	Total payables D	105,460,230	136,144,887
E ACCRUED EXPENSES AND DEFERRED INCOME			
	Others prepayments and accrued income	29,186	11,553
	Total prepayments and accrued income E	29,186	11,553
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		160,178,794	185,460,927

**MARCEGAGLIA PLATES S.P.A.****PROFIT AND LOSS ACCOUNT AS OF 31 DECEMBER 2016**

values in EUR		31 Dec 2016	31 Dec 2015
<b>A</b>	<b>VALUE OF PRODUCTION</b>		
1	Revenues from sales and services	170,606,377	21,012,495
2	Change in inventories of work-in-process, semi-finished and finished goods	(1,966,597)	2,816,393
3	Variations in contracted work in progress	0	0
4	Increase in internal construction capitalized	0	0
5	Other revenues and income		
	- operating grants	25,547	0
	- other	41,813	677,044
	<b>Total other revenues and income (5)</b>	<b>67,360</b>	<b>677,044</b>
	<b>Total value of production A</b>	<b>168,707,140</b>	<b>24,505,932</b>
<b>B</b>	<b>PRODUCTION COSTS</b>		
6	Raw and ancillary materials, consumables and merchandise	(110,865,846)	(19,900,783)
7	Services	(30,884,027)	(5,747,298)
8	Lease and rental expense	(1,883,958)	(255,886)
9	Personnel costs		
	a) wages and salaries	(4,235,342)	(579,189)
	b) social security contributions	(1,396,329)	(279,409)
	c) employee severance pay	(283,503)	(61,181)
	d) other social contributions	0	0
	e) other costs	(39,355)	(1,194)
	<b>Total personnel costs (9)</b>	<b>(5,954,529)</b>	<b>(920,973)</b>
10	amortisation, depreciation and write-downs		
	a) amortisation of intangible fixed assets	(25,852)	(4,383)
	b) depreciation of property, plant and equipment	(4,852,947)	(791,088)
	c) other write-downs of assets	0	0
	d) write-downs of receivables includ. in current assets and of cash and cash equiv.	(1,172,101)	(73,254)
	<b>Total amortisation, depreciation and write-downs (10)</b>	<b>(6,050,900)</b>	<b>(868,725)</b>
11	Changes in inventories of raw and ancillary materials, consumables and merchandise	(1,728,349)	4,074,270
12	Accruals for contingencies	0	0
13	Other accruals	0	0
14	Sundry operating costs	(446,137)	(23,470)
	<b>Total production costs B</b>	<b>(157,813,746)</b>	<b>(23,642,865)</b>
	<b>Difference between value and cost of production A - B</b>	<b>10,893,394</b>	<b>863,067</b>
<b>C</b>	<b>FINANCIAL INCOME AND CHARGES</b>		
16	other financial income:		
	d) income from other sources:		
	- from parent companies	0	105
	- from companies subject to control of parent companies	2,252,180	342,017
	- other	2,411	6
	<b>Total other financial income (16)</b>	<b>2,254,591</b>	<b>342,128</b>
17	Interest and other financial charges:		
	- paid to parent companies	(2,106,902)	(472,185)
	- paid to companies subject to control of parent companies	0	(3,627)
	- other	(1,404,448)	(243,885)
	<b>Total interest and other financial charges (17)</b>	<b>(3,511,350)</b>	<b>(719,697)</b>
17-bis	exchange-rate gains and losses	(870,709)	(304,946)
	<b>Total financial income and charges C</b>	<b>(2,127,468)</b>	<b>(682,515)</b>
<b>D</b>	<b>VALUE ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES</b>		
	Total value adjustments of financial assets and liabilities D	0	0
	<b>PROFIT (LOSS) BEFORE TAXES A-B+/-C+/-D+/-E</b>		
	Profit (loss) before taxes A-B+/-C+/-D+/-E	<b>8,765,926</b>	<b>180,552</b>
20	Current, deferred and prepaid income taxes for the year		
	- current taxes	(2,403,576)	0
	- deferred and prepaid taxes	(575,114)	(183,058)
	- income (costs) from participation in tax consolidation/transparency scheme	409,540	0
	<b>Total current, deferred and prepaid income taxes for the year (20)</b>	<b>(2,569,150)</b>	<b>(183,058)</b>
21	<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>6,196,776</b>	<b>(2,506)</b>

## STATEMENT OF CASH FLOWS AS OF 31 DECEMBER 2016

values in EUR

31 Dec 2016

<b>A</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES (INDIRECT METHOD)</b>	
	Profit (loss) for the year	6,196,776
	Income tax	2,569,150
	Interest expenses/(income)	1,256,759
	(Gains)/Losses resulting from the sale of assets	-
<b>1</b>	<b>Profit (loss) for the year, before income taxes, interest, dividends and gains and losses from asset sales</b>	<b>10,022,685</b>
	Adjustments for non-cash items with no balancing entry in net working capital	
	- Provisions to reserves	555,016
	- Amortisation and depreciation of fixed assets	4,878,799
	<b>Total adjustments for non-cash items with no balancing entry in net working capital</b>	<b>5,433,815</b>
<b>2</b>	<b>Cash flow before changes in net working capital</b>	<b>15,456,500</b>
	Changes in net working capital	
	- Decrease/(Increase) in inventories	3,694,946
	- Decrease/(Increase) in receivables from customers	14,358,543
	- Increase/(Decrease) in trade payables	12,009,635
	Decrease/(Increase) in accrued income and prepaid expenses	-547
	- Increase/(Decrease) in accrued expenses and deferred income	17,632
	- Other decreases/(Other increases) in net working capital	-44,651,636
	<b>Total changes in net working capital</b>	<b>-14,571,427</b>
<b>3</b>	<b>Cash flow after changes in net working capital</b>	<b>885,073</b>
	Other adjustments	
	- Interest received/(paid)	-1,256,759
	- (Utilisation of reserves)	-288,771
	<b>Total other adjustments</b>	<b>-1,545,530</b>
	<b>Cash flow from operating activity A</b>	<b>-660,457</b>
<b>B</b>	<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>	
	Property, plant and equipment	
	- (Investments)	-1,143,455
	- Divestitures	-
	Intangible fixed assets	
	- (Investments)	-1,161
	- Divestitures	-
	Financial fixed assets	
	- (Investments)	-4,537
	- Divestitures	-
	<b>Cash flows from investment activities B</b>	<b>-1,149,153</b>
<b>C</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
	Borrowed funds	
	- Increase/(Decrease) in current liabilities to banks	1,925,072
	<b>Cash flows from financing activities C</b>	<b>1,925,072</b>
	<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS A ± B ± C</b>	<b>115,462</b>
	Cash and cash equivalents at the beginning of the year	-
	<b>Total cash and cash equivalents at the beginning of the year</b>	<b>196,457</b>
	Bank and postal deposits	196,308
	Cash on hand	149
	of which not freely usable	195,341
	<b>Total cash and cash equivalents at the end of the year</b>	<b>311,919</b>
	Bank and postal deposits	310,505
	Cash on hand	1,414
	of which not freely usable	86,943

## NOTES

### INTRODUCTION

After the major reorganisation of the Marcegaglia group (which was started and completed in 2015), the financial year ending 31 December 2016 is the first full year of operations of the Marcegaglia group's Heavy Plates division, which incorporates the production of heavy plates.

These financial statements were prepared in accordance with the new provisions introduced by Legislative Decree 139/2015, which are applicable to financial statements for financial years starting on or after 1 January 2016. Legislative Decree 139/2015, which incorporated Directive 2013/34/EU (which replaced the previous Directives IV and VII on annual and consolidated financial statements), amended the layouts of financial statements and the content of the notes to financial statements. It also introduced the requirement to prepare the statement of cash flows, introduced new measurement criteria (e.g. amortised cost for receivables and payables and useful life for the amortisation of goodwill) and new criteria for the preparation of financial statements (the relevance principle and principle of substance over form), introduced new criteria for accounting for several entries (e.g. the requirement to record financial derivatives - including those used for hedging - at their fair value), and it eliminated the extraordinary area from the profit and loss account as well as memorandum accounts and the ability to capitalise research and advertising expenses.

Article 12 of Legislative Decree 139/2015 also directed the OIC [Italian Accounting Organisation] to update domestic accounting standards. The link to the legislative decree made it necessary to reference domestic accounting standards with respect to the required practical statement of new legislative provisions introduced, and specifically, those aspects of a technical nature concerning, for example, hedging transactions,

amortised cost and discounting. After a long review process, in the end the OIC approved the revised accounting standards on 22 December 2016.

For some of the new provisions described, it is only necessary to apply them going forward (pursuant to Article 12(2) of Legislative Decree 139/2015), and thus, starting in financial year 2016, without modifying accounting entries made in the past (e.g. the new criteria for measuring amortised cost for receivables and payables and the new criterion for amortising goodwill are therefore applicable only to receivables, payables and goodwill arising in 2016), and the Company has acted accordingly. However, for other new provisions, retroactive application is mandatory, and thus, financial statement entries must be stated as if the new accounting standard had always been applied by adjusting beginning accounting balances with balancing entries in a shareholders' equity reserve (e.g. the new criterion for recording financial derivatives and eliminating the ability to capitalize research and advertising expenses).

In this case, the column for comparison purposes for 2015 was adapted to reflect the new criteria for classifying items in the new layout for the balance sheet and profit and loss account and the new criteria for recording the entries concerned.

### Financial statement preparation criteria and structure

The financial statements for the year ending 31 December 2016 was prepared in accordance with the provisions of Articles 2423 et seq of the Italian Civil Code supplemented by accounting standards of the Italian Accounting Organisation (OIC).

In particular, the company complied with the general provisions for structuring financial statements (Art. 2423 of the Italian Civil Code), its drafting standards (Art. 2423-bis) and measurement criteria established for single line items (Art. 2426) without applying any of the exceptions specified in Art. 2423(4) of the Italian Civil Code.

The balance sheet and profit and loss account are prepared in accordance with the mandatory layouts required by the Italian Civil Code.

The provisions of Art. 2423-ter of the Italian Civil Code were adhered to with respect to the structure of the balance sheet and profit and loss account. No further divisions or groupings were carried out for any of the line items preceded by Arabic numerals. No new line items were inserted, and no modifications were made to those specified in the mandatory layouts since they were deemed to be sufficient for the purposes of providing a clear, truthful and accurate representation of the Company's balance sheet and financial position and operating results for the year.

The financial statements for the year ending 31 December 2016 were prepared in whole Euros. Any differences arising from rounding amounts expressed in whole Euros were allocated to a special shareholders' equity reserve, and, depending on their sign, in line item A5) "Other revenues and income" or B14) "Sundry operating costs" in the profit and loss account.

### Comparability with the previous financial year

For each item of the balance sheet and profit and loss account, the amount of the same item for the previous financial year was indicated next to the amount for 2016. However, operating balances for 2016 are not comparable to those for 2015 since the latter reflect operations for only two months in that the extraordinary transactions, which led to the reorganisation of the Marcegaglia Steel group, went into effect on 1 November 2015.

With regard to the statement of cash flows, the column for 2015 was not prepared since the related statement was not prepared last year since it was the first year of the company's operations.

Compared to the previous year, a credit balance of Euro 21,039 with a bank was reclassified from cash and cash equivalents to "Receivables from others", in current assets.

### Classification conventions

The following classification conventions were used when structuring the financial statements at the financial statements at 31 December 2016:

**a.** Line items in the asset section of the balance sheet were classified on the basis of their related company purpose, while in the liability section, they were classified as a function of their nature;

**b.** The profit and loss account was prepared taking into account three distinct classification criteria; namely:

- the breakdown of the entire operating area into the three sub-areas identified by the layout required by law;
- the nature of costs prevailing over their purpose;
- the need to properly recognise interim results in the sequence of steps leading to the formation of net profit (loss) for the year.

### Reference to Directors' Report

See the Directors' Report for information on the nature of business activities and relationships with subsidiaries, associates, parent companies and companies subject to the control of the latter.

### Asset, liability and shareholders' equity items of the balance sheet that fall under more than one item of the layout required by law

For the purposes of understanding the financial statements, it was not deemed necessary to mention balance sheet items in these notes to financial statements that fall under more than one item of the layout required by law.

### CRITERIA APPLIED IN MEASURING FINANCIAL STATEMENT ITEMS, IN VALUE ADJUSTMENTS AND IN THE CONVERSION OF AMOUNTS NOT EXPRESSED ORIGINALLY IN THE CURRENCY USED AS LEGAL TENDER IN THE COUNTRY (ART. 2427(1)(1))

Financial statement items were stated on the basis of general principles of prudence and the accrual principle under the assumption the Company is a going concern. Line items were recognised and presented taking into account the substance of the transaction and agreement. Only profits generated as at the reporting date were indicated, and income and costs applicable to the year were taken into account regardless of the collection or payment date, as were risks and losses applicable to the year even if they became known after year-end. Dissimilar elements included in individual line items were measured separately.

The measurement criteria used for individual financial statement entries comply with the provisions of Article 2426 of the Italian Civil Code.

### Intangible fixed assets

Intangible fixed assets are recorded in the financial statements at purchase or production cost and amortised in relation to their remaining useful life.

If there is impairment, intangible fixed assets are written down and recorded in the financial statements at such lower value; if in the future the reasons for the adjustment no longer apply, the write-down is also cancelled and the original cost is restored with the exception of value adjustments of goodwill.

Below is a breakdown of intangible fixed assets reported in the financial statements and the related amortisation criteria.

Financial statement item	Amortisation rate	Book value at 31 Dec 2016
<b>Start-up and expansion costs</b>		
Company establishment costs	20%	32,287
<b>Industrial patent rights and intellectual property rights</b>		
Licensed software	33%	774
<b>Other</b>		
Other multi-year costs	33%	0
<b>Intangible fixed assets</b>		<b>33,061</b>

### Property, plant and equipment

Property, plant and equipment are recorded in the financial statements at purchase or production cost increased by statutory monetary revaluations, and are reported in the financial statements net of accumulated depreciation.

Revaluations are only maintained if required by law. If there is impairment, property, plant and equipment are written down using special adjusting provisions and recorded in the financial statements at such lower value; if in the future the reasons for the adjustment no longer apply, the write-down is also cancelled and the original cost is restored.

Maintenance costs that increase the useful life of assets to which they are related are allocated to such assets and depreciated based on their remaining useful lives.

All ordinary maintenance costs are instead entirely charged to the profit and loss account.

Depreciation was determined on the basis of their remaining useful life.

The depreciation rates actually applied are stated in the following schedule:

Financial statement item	Purchase or production cost	Depreciation rate	Depreciation for the year
Land (B.II.1)	3,562,087		
Buildings (B.II.1)	17,108,150	2.5%-3.5%-4.17%	495,056
Light constructions (B.II.1)	282,077	10.00%-11.11%	30,053
Large plants and machinery (B.II.2)	27,564,275	8.00%-10%	2,688,564
Annealing furnaces (B.II.2)	8,622,584	10%-12.00%	846,707
General and specific plant assets (B.II.2)	7,680,912	5%-7.69%-8%	570,954
Miscellaneous equipment (B.II.3)	258,780	15.00%-16.67%	37,609
Internal handling equipment (B.II.3)	1,220,262	15.00%	136,191
Furniture and ordinary office equipment (B.II.4)	18,709	12.00%-20%	3,169
Electronic machinery (B.II.4)	53,463	20.00%-25%	13,366
Automobiles (B.II.4)	75,650	25.00%-50%	24,591
Trucks and trailers (B.II.4)		11.11%-20.00%	
Ordinary furniture and furnishings (B.II.4)	49,601	10%-14.29%-15%	6,687
Fixed assets in progress and advance payments (B.II.5)	1,876,707		

### Leased assets

Lease transactions are recognised using the equity method. Thus, these assets are recorded in balance sheet assets starting in the year the redemption right is exercised.

### Financial fixed assets

Equity investments and securities are measured at acquisition or subscription cost. Receivables are measured at nominal value.

If there is impairment, financial fixed assets are written down using special adjusting provisions and recorded in the financial statements at such lower value; if in the future the reasons for the adjustment no longer apply, the write-down is also cancelled and the original cost is restored.

Equity investments denominated in foreign currencies are recorded at the exchange rate in effect at the time of purchase or subscription or at the reporting date, if lower, provided such reduction is considered permanent.

Non-current receivables in foreign currencies are reported at the year-end exchange rate.

### Inventories

Inventories are measured at the lower of purchase or production cost and market value. Purchase cost includes ancillary costs of transportation and customs clearance of raw materials; production costs include all of the costs directly allocated to the product (raw materials and ancillary materials, direct labour, depreciation of the capital goods used in production), in addition to the portion of indirect industrial costs relating to the manufacturing period (maintenance costs, consumables, electric power, outsourced processes, etc.).

The cost of final inventories was determined using the weighted average cost method.

Inventories other than interchangeable assets are recognised among the inventories of finished products and are measured at purchase cost or production cost since this cost is deemed not to exceed the estimated sales market value.

The item "Raw and ancillary materials and consumables" also includes inventories of ancillary materials and consumables such as paints, lubricants, fuels, zinc and miscellaneous materials in general. These inventories are recorded in the financial statements at the lower of the value determined using the moving average criterion,

and their replacement value based on market value.

Inventories of contract work in progress are measured, if applicable, using the percentage of completion method.

Inventories other than interchangeable assets are recognised at purchase cost or production cost since this cost is deemed not to exceed the estimated market sales value.

### Receivables

In general, receivables are recognised in the financial statements using the amortised cost criterion taking into account the time factor and estimated realizable value.

However, OIC 15, paragraph 33 specifies that this criterion may not be applied if the impact is insignificant, assuming that short-term receivables (i.e. those due within 12 months) are insignificant.

Furthermore, Art. 12(2) of Legislative Decree 139/2015 specifies that the new amortised cost measurement criterion may not be applied to components of items related to transactions that have not fully exhausted their impact on the financial statements.

Thus, in these consolidated financial statements, the amortised cost criterion is only applied to receivables due after the following year that arose after 1 January 2016, and in any case, only if the impact of applying this criterion is considered significant.

Receivables not measured using the amortised cost method (since the impact of applying this criterion is not considered significant) are recorded at nominal value adjusted, as necessary, for the appropriate provision for doubtful receivables to bring it into line with the estimated realisable value.

Receivables expressed in a foreign currency are originally converted into Euros at the reported exchange rate on the date of the related transactions. Exchange differences generated from the collection of receivables in a foreign currency are recorded in the profit and loss account under item 17-bis Exchange-rate gains and losses.

Receivables expressed in a foreign cur-

rency and reported in the financial statements are measured on the basis of the related exchange rates in effect on the reporting date (31 December 2016). The exchange differences arising from this measurement are allocated to the profit and loss account under item 17-bis Exchange-rate gains and losses.

### **Equity investments and securities not held as fixed assets**

Equity investments not held as fixed assets are recorded at cost and written down for any impairment.

Securities not held as fixed assets are recorded at cost or market value.

### **Cash and cash equivalents**

Cash and cash equivalents (bank and postal accounts, cash and cash on hand) are recorded at their actual balances.

### **Cash and shareholders' equity entries**

These items are measured at nominal value.

### **Reserves for risks**

Provisions for risks and charges are allocated in the financial statements to cover losses or liabilities of a known type, that will certainly or probably arise but which, as of the end of the year, could not be determined, either in terms of amount or date of accrual.

Allocations reflect the best estimate possible on the basis of available information.

### **Employee severance pay**

This item is allocated in accordance with laws and labour contracts currently in effect and reflects the accrued amount owed to all employees on the reporting date net of the amount paid to a supplemental pension or to the "Fund for the Payment of Severance Pay to Employees in the Private Sector as referenced in Article 2120 of the Italian Civil Code", the so-called INPS Treasury Fund.

### **Payables**

In general, payables are recorded in the financial statements according to the amortised cost criterion taking into account the time factor.

However, OIC 19, paragraph 42 specifies that this criterion may not be applied if the impact is insignificant, assuming that short-term payables (i.e. those due within 12 months) are insignificant.

Furthermore, Art. 12(2) of Legislative Decree 139/2015 specifies that the new amortised cost measurement criterion may not be applied to components of items related to transactions that have not fully exhausted their impact on the financial statements.

Thus, in these consolidated financial statements, the amortised cost criterion is only applied to payables due after the following year that arose after 1 January 2016, and in any case, only if the impact of applying this criterion is considered significant.

Payables not measured using the amortised cost method (since the impact of applying this criterion is not considered significant) are recorded at nominal value.

In any case, this item includes liabilities that are certain and specific in terms of their amount and date incurred.

Payables expressed in a foreign currency are originally converted into Euros at the reported exchange rate on the date of the related transactions. Exchange differences generated from the payment of payables in a foreign currency are recorded in the profit and loss account under item 17-bis Exchange-rate gains and losses.

Payables expressed in a foreign currency and reported in the financial statements are measured on the basis of the related exchange rates in effect on the reporting date (31 December 2016). The exchange differences arising from this measurement are allocated to the profit and loss account under item 17-bis Exchange-rate gains and losses.

### **Accruals and deferrals**

These items were determined on the basis of the accrual principle applied to the related costs and revenues.

### **Revenues**

Revenues for product sales are recognised at the time ownership is transferred, which generally coincides with the shipment of the merchandise. Service

revenues are recognised when the service has been fully provided.

### **Costs and expenses**

Costs and expenses are recognised on an accrual basis.

### **Dividends**

Dividends are recorded in the year in which the right to receive them accrues, which typically coincides with the year they are approved by the competent body.

### **Income tax**

Income taxes were determined on the basis of the charge applicable to the year. Deferred taxes are determined on the basis of temporary differences between the amount assigned to assets and liabilities by statute and by tax regulations.

Prepaid taxes were recorded in financial statement assets since there is a reasonable certainty of generating income in the future capable of absorbing these temporary differences.

## NOTES TO FINANCIAL STATEMENTS - ASSETS

### INTANGIBLE FIXED ASSETS

The following table reports changes in intangible fixed assets with the following details for each item:

- cost;
- previous revaluations, amortisation and write-downs;
- increases, transfers from one item to another and decreases occurring during the year;
- revaluations, amortisation and write-downs applied during the year.

#### CHANGES IN INTANGIBLE FIXED ASSETS

	Start-up and expansion costs	Industrial patent rights and intellectual property rights	Other intangible fixed assets	Total intangible fixed assets
<b>Amount at beginning of the year</b>				
Cost	42,113	45,703	7,925	95,741
Amortisation (Accumulated amortisation)	1,404	31,302	5,283	37,989
<b>Carrying amount</b>	<b>40,709</b>	<b>14,401</b>	<b>2,642</b>	<b>57,752</b>
<b>Changes during the year</b>				
Increases for purchases	-	1,161	-	1,161
Amortisation for the year	8,422	14,788	2,642	25,852
<b>Total changes</b>	<b>(8,422)</b>	<b>(13,627)</b>	<b>(2,642)</b>	<b>(24,691)</b>
<b>Amount at end of the year</b>				
Cost	42,113	46,864	7,925	96,902
Amortisation (Accumulated amortisation)	9,826	46,090	7,925	63,841
<b>Carrying amount</b>	<b>32,287</b>	<b>774</b>	<b>0</b>	<b>33,061</b>

### Start-up, expansion, research, development and advertising costs

The start-up and expansion costs recognised pertain to company organisation costs, share capital increase costs, and costs of the contribution executed at the end of October 2015.

There are no research and development costs, nor capitalized advertising costs.

Start-up and expansion costs	Gross amount	Accumulated amortisation	Net amount	Reason for recording	Amortisation criterion
Company organisation costs	42,113	9,826	32,287		
<b>Total</b>	<b>42,113</b>	<b>9,826</b>	<b>32,287</b>		

## PROPERTY, PLANT AND EQUIPMENT

The following table reports changes in property, plant and equipment with the following details for each item:

- cost;
- previous revaluations, depreciation and write-downs;
- increases, transfers from one item to another and decreases occurring during the year;
- revaluations, depreciation and write-downs applied during the year.

### CHANGES IN PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other property, plant and equipment	Fixed assets in progress and advance payments	Total property, plant and equipment
<b>Amount at beginning of the year</b>						
Cost	20,874,545	41,807,584	1,419,999	166,430	2,961,243	67,229,801
Depreciation (Accumulated depreciation)	87,126	668,985	27,952	7,025	-	791,088
Write-downs	2,875,287	-	-	-	921,354	3,796,641
<b>Carrying amount</b>	<b>17,912,133</b>	<b>41,138,598</b>	<b>1,392,047</b>	<b>159,405</b>	<b>2,039,889</b>	<b>62,642,072</b>
<b>Changes during the year</b>						
Increases for purchases	68,424	1,072,140	59,042	30,993	1,190	1,231,789
Reclassifications (of carrying amount)	9,344	988,047	-	-	(997,391)	-
Depreciation for the year	525,109	4,106,225	173,800	47,811	-	4,852,945
Other changes	-	-	-	-	(88,334)	(88,334)
<b>Total changes</b>	<b>(447,341)</b>	<b>(2,046,038)</b>	<b>(114,758)</b>	<b>(16,818)</b>	<b>(1,084,535)</b>	<b>(3,709,490)</b>
<b>Amount at end of the year</b>						
Cost	20,952,313	43,867,771	1,479,041	197,423	1,876,708	68,373,256
Depreciation (Accumulated depreciation)	612,234	4,775,210	201,752	54,837	-	5,644,033
Write-downs	2,875,287	-	-	-	921,354	3,796,641
<b>Carrying amount</b>	<b>17,464,792</b>	<b>39,092,560</b>	<b>1,277,289</b>	<b>142,587</b>	<b>955,354</b>	<b>58,932,582</b>

### Value reductions applied to property, plant and equipment

No fixed assets were written down during the year.

## LEASES

The company has no pending lease agreement.

## FINANCIAL FIXED ASSETS

CHANGES IN EQUITY INVESTMENTS, OTHER SECURITIES AND FINANCIAL DERIVATIVES REPORTED AS LONG-TERM ASSETS

	Equity investments in other companies	Total equity investments
<b>Amount at beginning of the year</b>		
<b>Carrying amount</b>	<b>0</b>	<b>0</b>
<b>Changes during the year</b>		
Increases for purchases	5	5
<b>Total changes</b>	<b>5</b>	<b>5</b>
<b>Amount at end of the year</b>		
Cost	5	5
<b>Carrying amount</b>	<b>5</b>	<b>5</b>

## CHANGES AND MATURITY OF RECEIVABLES HELD AS FIXED ASSETS

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due after the year
Receivables from others held as fixed assets	0	4,532	4,532	4,532
<b>Total receivables held as fixed assets</b>	<b>0</b>	<b>4,532</b>	<b>4,532</b>	<b>4,532</b>

## BREAKDOWN OF RECEIVABLES HELD AS FIXED ASSETS BY GEOGRAPHIC AREA

Geographic area	Receivables from others held as fixed assets	Total receivables held as fixed assets
ITALY	4,532	4,532
<b>Total</b>	<b>4,532</b>	<b>4,532</b>

## VALUE OF FINANCIAL FIXED ASSETS

	Book value	Fair Value
Equity investments in other companies	5	5
<b>Receivables from others</b>	<b>4,532</b>	<b>4,532</b>

## BREAKDOWN OF AMOUNT OF NON-CURRENT EQUITY INVESTMENTS IN OTHER COMPANIES

Description	Book value	Fair Value
CONSORZIO CONAI	5	5
<b>Total</b>	<b>5</b>	<b>5</b>

## BREAKDOWN OF AMOUNT OF RECEIVABLES FROM OTHERS HELD AS FIXED ASSETS

Description	Book value	Fair Value
MISCELLANEOUS SECURITY DEPOSITS	4,532	4,532
<b>Total</b>	<b>4,532</b>	<b>4,532</b>

## CURRENT ASSETS

Below are changes that occurred during the year ending 31 December 2016 in balance sheet assets other than fixed assets.

### INVENTORIES

Current Assets	Amount at beginning of the year	Changes during the year	Amount at end of the year
<b>I - Inventories</b>			
Raw and ancillary materials and consumables	29,261,324	(1,728,349)	27,532,975
Work in process and semi-finished goods	5,892,781	(3,432,831)	2,459,950
Finished goods and merchandise	9,013,135	1,466,234	10,479,369
<b>Total inventories</b>	<b>44,167,240</b>	<b>(3,694,946)</b>	<b>40,472,294</b>

## RECEIVABLES RECORDED IN CURRENT ASSETS

### CHANGES AND MATURITY OF RECEIVABLES RECORDED IN CURRENT ASSETS

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year
<b>II - Receivables</b>				
Receivables from customers recorded in current assets	18,597,862	(14,358,543)	4,239,319	4,239,319
Receivables from parent companies recorded in current assets	105	517,003	517,107	517,107
Receivables from companies subject to control of parent companies recorded in current assets	55,168,110	(2,156,692)	53,011,418	53,011,418
Tax credits recorded in current assets	944,305	(871,348)	72,957	72,957
Deferred tax assets recorded in current assets	2,126,492	(1,653,245)	473,247	
Receivables from others recorded in current assets	1,560,533	549,273	2,109,806	2,109,806
<b>Total receivables recorded in current assets</b>	<b>78,397,407</b>	<b>(17,973,552)</b>	<b>60,423,854</b>	<b>59,950,607</b>

Changes in allowances for uncollectible receivables included in the item Receivables from customers are summarised in the following table:

	Amount at beginning of the year	Utilisation	Provisions	Amount at end of the year
Allowance for uncollectible receivables from customers	73,254	9,340	1,172,101	1,236,015
Allowance for uncollectible receivables from subsidiaries	0	0	0	0
Allowance for uncollectible receivables from associates	0	0	0	0
Allowance for uncollectible receivables from parent companies	0	0	0	0
Allowance for uncollectible receivables from companies subject to control of parent companies	0	0	0	0
Allowance for uncollectible receivables insolvency proceedings	0	0	0	0
Allowance for uncollectible receivables subject to taxation				
Allowance for uncollectible tax credits	0	0	0	0
Allowance for uncollectible receivables from others	0	0	0	0
<b>Total allowance for uncollectible receivables</b>	<b>73,254</b>	<b>9,340</b>	<b>1,172,101</b>	<b>1,236,015</b>

In addition to what has been reported in the balance sheet, it is noted that the amounts receivable from the parent company and from associates relate to the commercial transactions between Marcegaglia Plates S.p.A. and various counterparties, which have not been settled yet, and the balance in the intercompany cash management system, which handles the cash inflows from, and outflows for commercial and financial transactions.

Deferred tax assets refer to taxes related to costs that will be tax deductible in future years.

Details and changes in receivables from others are broken down in the following table:

Detail of receivables from others	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year
Receivables from factoring companies	1,486,296	560,978	2,047,274	2,047,274
Advances to suppliers	0	46,605	46,605	46,605
Social security receivables	47,686	-43,986	3,700	3,700
Advances to employees	5,508	-3,705	1,803	1,803
Receivables from credit institutions for customer collections	21,039	-10,980	10,059	10,059
Other receivables	4	361	365	365
<b>Total receivables from others</b>	<b>1,560,533</b>	<b>549,273</b>	<b>2,109,806</b>	<b>2,109,806</b>

Receivables from affiliates	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year	Portion due after the year	of which, portion with remaining term over 5 years
E.T.A. Srl	53,972,619	-1,360,065	52,612,554	52,612,554	0	0
Marcegaglia Buildtech Srl	0	58,673	58,673	58,673	0	0
Marcegaglia Carbon Steel Spa	33,188	19,342	52,530	52,530	0	0
Marcegaglia Specialties Spa	59,028	143,656	202,684	202,684	0	0
Marfin Srl	1,103,275	-1,018,298	84,977	84,977	0	0
<b>Total receivables from companies subject to control of parent companies</b>	<b>55,168,110</b>	<b>-2,156,692</b>	<b>53,011,418</b>	<b>53,011,418</b>	<b>0</b>	<b>0</b>

#### BREAKDOWN OF RECEIVABLES RECORDED IN CURRENT ASSETS BY GEOGRAPHIC AREA

	Italy	EU	Total
Receivables from customers recorded in current assets	3,768,782	470,537	4,239,319
Receivables from parent companies recorded in current assets	517,107	-	517,107
Receivables from companies subject to control of parent companies recorded in current assets	53,011,418	-	53,011,418
Tax credits recorded in current assets	72,957	-	72,957
Deferred tax assets recorded in current assets	473,247	-	473,247
Receivables from others recorded in current assets	2,109,806	-	2,109,806
<b>Total receivables recorded in current assets</b>	<b>59,953,317</b>	<b>470,537</b>	<b>60,423,854</b>

#### CASH AND CASH EQUIVALENTS

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Bank and postal deposits	196,308	114,198	310,505
Cash on hand	149	1,265	1,414
<b>Total cash and cash equivalents</b>	<b>196,457</b>	<b>115,463</b>	<b>311,919</b>

## ACCRUED INCOME AND PREPAID EXPENSES

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Prepaid expenses	-	547	547
<b>Total accrued income and prepaid expenses</b>	<b>0</b>	<b>547</b>	<b>547</b>

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Vehicle registration fee	0	485	485
Plant/equipment leases	0	62	62
<b>Total prepaid expenses</b>	<b>0</b>	<b>547</b>	<b>547</b>

## NOTES - LIABILITIES AND SHAREHOLDERS' EQUITY

## SHAREHOLDER'S EQUITY

The following tables summarise the composition of shareholders' equity, the availability of reserves for capital-related transactions, the ability to distribute reserves and utilisation over the last three years.

## CHANGES IN SHAREHOLDERS' EQUITY ITEMS

	Amount at beginning of the year	Allocation of net profit (loss) from the previous year	Other changes	Profit (loss) for the year	Amount at end of the year
		Other allocations	Decreases		
Share capital	35,000,000	-	-		35,000,000
Share premium reserve	1,027,637	-	-		1,027,637
Other reserves					
<i>Sundry other reserves</i>	0	-	1		(1)
Total other reserves	0	-	1		(1)
Profit (loss) carried forward	0	(2,506)	-		(2,506)
Profit (loss) for the year	(2,506)	2,506	-	6,196,776	6,196,776
<b>Total shareholders' equity</b>	<b>36,025,131</b>	<b>-</b>	<b>1</b>	<b>6,196,776</b>	<b>42,221,906</b>

## AVAILABILITY AND USE OF SHAREHOLDERS' EQUITY

	Amount	Origin / nature	Potential uses	Available amount
Share capital	35,000,000	Shareholder contribution		-
Share premium reserve	1,027,637		A-B-C	1,027,637
Other reserves				
<i>Sundry other reserves</i>	(1)	ROUNDING		-
Total other reserves	(1)			-
Profit (loss) carried forward	(2,506)	loss for the year		-
<b>Total</b>	<b>36,025,130</b>			<b>1,027,637</b>
<b>Non-distributable amount</b>				<b>1,027,637</b>

Legend: A for capital increase - B to cover losses - C for distribution to shareholders - D for other statutory restrictions - E other

## ORIGIN, POSSIBLE USE, AND AMOUNTS AVAILABLE FOR DISTRIBUTION OF SUNDRY OTHER RESERVES

Description	Amount
Rounding to whole Euros	(1)
<b>Total</b>	<b>(1)</b>

## RESERVES FOR RISKS AND EXPENSES

For a fuller understanding of reserves for risks and expenses, details of these items are provided below.

Liability item B.1 “Provision for retirement pay and similar obligations” includes allocations and related uses of funds for the termination of agency relations.

Provisions are quantified pursuant to the provisions of Art. 1751 of the Italian Civil Code and collective agreements in the sector.

	Provision for retirement pay and similar obligations	Provision for taxes, including deferred taxes	Total reserves for risks and expenses
Amount at beginning of the year	3,647	12,924,972	12,928,619
Changes during the year			
Provisions for the year	32,945	32,590	65,535
Usage for the year	4,002	1,110,721	1,114,723
Other changes	239,182	-	239,182
Total changes	268,125	(1,078,131)	(810,006)
Amount at end of the year	271,772	11,846,841	12,118,613

### BREAKDOWN OF PROVISION FOR RETIREMENT PAY AND SIMILAR OBLIGATIONS

Description	Amount at beginning of the year	Usage for the year	Provisions for the year	Other changes	Amount at end of the year
Customer indemnity reserve	2,547	3,178	23,803	239,182	262,354
Relationship termination indemnity reserve	1,100	824	9,142		9,418
Total	3,647	4,002	32,945	239,182	271,772

### BREAKDOWN OF PROVISION FOR DEFERRED TAXES

Description	Amount at beginning of the year	Usage for the year	Provisions for the year	Other changes	Amount at end of the year
Provision for deferred taxes	12,924,972	1,110,721	32,590	0	11,846,841
Total	12,924,972	1,110,721	32,590	0	11,846,841

Uses of Provision for deferred taxes, amounting to Euro 1,110,721, were due to the reversal in 2016 of provisions made in previous years in relation to the payment in instalments of gains on disposals of property, plant and equipment.

Provisions for the year refer to taxes payable on translation exchange gains reported in the profit and loss account for the year.

## EMPLOYEE SEVERANCE PAY

The following table shows changes in employee severance pay for 2016 and also includes amounts allocated for supplemental pensions. Based on the guidelines of the Italian Accounting Organisation in its annex dated 26 September 2007 to Operating Guide No. 1 related to the transition to IAS, the employee severance pay reserve reported in the financial statements is shown net of the amount paid for supplemental pensions or contributed to the “Fund for the Payment of Severance Pay to Employees in the Private Sector as referenced in Article 2120 of the Italian Civil Code,” the so-called INPS Treasury Fund, pursuant to Legislative Decree 252/2005; Article 1, paragraph 755 et seq. and paragraph 765 of Law 296/2006; and Articles 1 and 3 of the Ministerial Decree of 30 January 2007.

The amounts of employee severance pay for 2016 that have not been contributed to supplemental pension funds or the INPS Treasury Fund are reported in item “D) 13) Payables to pension and social security organisations.”

	Employee severance pay
Amount at beginning of the year	350,738
Changes during the year	
Provisions for the year	283,503
Usage for the year	285,382
Total changes	(1,879)
Amount at end of the year	348,859

The usage of the employee severance pay reserve is broken down as follows:

Usage during the year for payments and advances made and for payment of substitute income tax on the revaluation accrued during the year	Contributions made to supplemental pension funds	Contributions made to INPS Treasury Fund net of recoveries made during the year	Recovery of INPS contribution pursuant to Law 297/82
-3,928	-143,448	-117,324	-20,682

## PAYABLES

Changes in payables are broken down in the following tables.

Detail of the item "Other payables"	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year
Payables to factoring companies	13,072,970	-2,311,261	10,761,709	10,761,709
Payables to staff	549,699	36,272	585,971	585,971
Security deposits	0	0	0	0
Sundry payables	315,687	-303,790	11,897	11,897
<b>Total other payables</b>	<b>13,938,356</b>	<b>-2,578,779</b>	<b>11,359,577</b>	<b>11,359,577</b>

Detail of the item "Payables to companies subject to control of parent companies"	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year
Marfin Srl	352,608	124,973	477,581	477,581
Made Hse Srl	18,078	116,476	134,554	134,554
Marcegaglia Carbon Steel Spa	9,678	-4,800	4,878	4,878
Marcegaglia Specialties Spa	170,831	491,626	662,457	662,457
Marcegaglia Romania Srl	0	374	374	374
Abaco Team Spa	0	9,850	9,850	9,850
<b>Total payables to companies subject to control of parent companies</b>	<b>551,195</b>	<b>738,500</b>	<b>1,289,695</b>	<b>1,289,695</b>

## CHANGES AND DUE DATES OF PAYABLES

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year
Payables to banks	1,271,994	1,925,072	3,197,066	3,197,066
Advance payments	0	14,542	14,542	14,542
Trade payables	42,377,505	12,009,635	54,387,140	54,387,140
Payables to parent companies	77,389,734	(43,387,790)	34,001,944	34,001,944
Payables to companies subject to control of parent companies	551,195	738,500	1,289,695	1,289,695
Tax payables	247,030	525,245	772,275	772,275
Payables to pension and social security organisations	369,073	68,918	437,991	437,991
Other payables	13,938,356	(2,578,779)	11,359,577	11,359,577
<b>Total payables</b>	<b>136,144,887</b>	<b>(30,684,657)</b>	<b>105,460,230</b>	<b>105,460,230</b>

## BREAKDOWN OF PAYABLES BY GEOGRAPHIC AREA

	Italy	EU	Other European Countries	America	Africa Middle East	Asia Oceania	Total
Payables to banks	3,197,066	-	-	-	-	-	3,197,066
Advance payments	14,542	-	-	-	-	-	14,542
Trade payables	10,074,247	13,236,242	29,862,231	-	913,971	300,449	54,387,140
Payables to parent companies	34,001,944	-	-	-	-	-	34,001,944
Payables to companies subject to control of parent companies	1,289,321	374	-	-	-	-	1,289,695
Tax payables	772,275	-	-	-	-	-	772,275
Payables to pension and social security organisations	437,991	-	-	-	-	-	437,991
Other payables	11,359,577	-	-	-	-	-	11,359,577
<b>Payables</b>	<b>61,146,963</b>	<b>13,236,616</b>	<b>29,862,231</b>	<b>20,202,020,202</b>	<b>913,971</b>	<b>300,449</b>	<b>105,460,230</b>

## DEBT SECURED BY COMPANY ASSETS

	Debt secured by collateral		Unsecured debt	Total
	Debt secured by liens	Total debt secured by collateral		
Payables to banks	86,944	86,944	3,110,122	3,197,066
Advance payments	-	-	14,542	14,542
Trade payables	-	-	54,387,140	54,387,140
Payables to parent companies	-	-	34,001,944	34,001,944
Payables to companies subject to control of parent companies	-	-	1,289,695	1,289,695
Tax payables	-	-	772,275	772,275
Payables to pension and social security organisations	-	-	437,991	437,991
Other payables	-	-	11,359,577	11,359,577
<b>Total payables</b>	<b>86,944</b>	<b>86,944</b>	<b>105,373,286</b>	<b>105,460,230</b>

Lastly, in relation to the securitisation of trade receivables without notification, Margcegaglia Plates S.p.A. pledged with Unicredit Banca the current account held with this bank which, at 31 December 2016, had a balance of Euro 78,990.00.

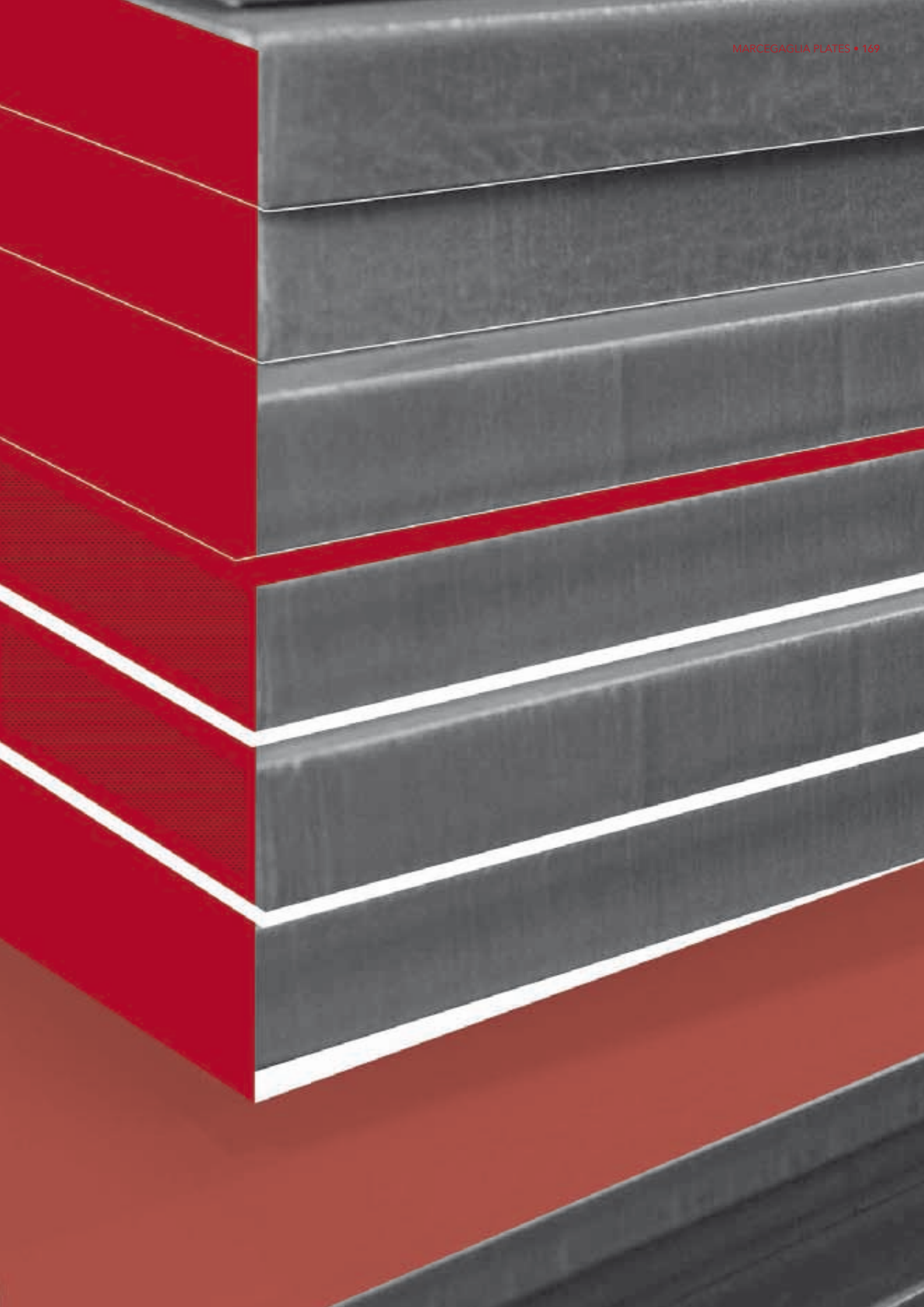
It also pledged with Intesa San Paolo the current account held with this bank which, at 31 December 2016, had a balance of Euro 7,953.00.

## ACCRUED EXPENSES AND DEFERRED INCOME

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Accrued expenses	11,553	17,633	29,186
<b>Total accrued expenses and deferred income</b>	<b>11,553</b>	<b>17,633</b>	<b>29,186</b>

Accrued expenses and deferred income are broken down in the table below:

Accrued expenses	Amount at beginning of the year	Changes during the year	Amount at end of the year
Letter of credit to suppliers	11,553	17,633	29,186
<b>Total accrued expenses</b>	<b>11,553</b>	<b>17,633</b>	<b>29,186</b>



## NOTES - PROFIT AND LOSS ACCOUNT

### VALUE OF PRODUCTION

#### BREAKDOWN OF REVENUES FROM SALES AND SERVICES BY BUSINESS CATEGORY

	Amount for current year
Heavy plates	163,697,724
Other iron and steel industry products	6,908,653
<b>Total</b>	<b>170,606,377</b>

#### BREAKDOWN OF REVENUES FROM SALES AND SERVICES BY GEOGRAPHIC AREA

	Amount for current year
Italy	71,292,404
EU	88,960,720
Other European Countries	3,243,220
North America	6,899,076
Africa	210,957
<b>Total</b>	<b>170,606,377</b>

### FINANCIAL INCOME AND CHARGES

#### Breakdown of interest and other financial charges by type of payable

	Interest and other financial charges
Payables to banks	23,426
Other	1,381,022
<b>Total</b>	<b>1,404,448</b>

More details on 2016 financial charges:

Detail of the item "Other"	Other
Interest expense relating to credit and factoring institutions	872,441
Financial charges on derivatives	
Other interest and financial charges	508,581
<b>Total other financial charges</b>	<b>1,381,022</b>

In 2016, no applicable financial charges were capitalised.

### CURRENT, DEFERRED AND PREPAID INCOME TAXES FOR THE YEAR

Deferred taxes recorded in the financial statements at 31 December 2016 are summarised in the following tables.

Prepaid taxes were recorded for all temporary differences found between taxable profit and profit before taxes under the assumption that there would be sufficient taxable profit to "absorb" the temporary differences indicated below over the time frame indicated.

For each of the below-indicated components, prepaid and deferred taxes were provisioned with a corporate income tax (IRES) rate of 24%, and a regional business tax (IRAP) rate of 3.9%.

## RECOGNITION OF DEFERRED AND PREPAID TAXES AND RESULTING IMPACT

	IRES	IRAP
<b>A) Temporary differences</b>		
Total deductible temporary differences	1,862,011	676,011
Total taxable temporary differences	42,584,308	41,707,853
Net temporary decreases	40,722,297	41,031,842
<b>B) Tax impact</b>		
Provision for deferred (prepaid) taxes at the beginning of the year	9,163,445	1,592,310
Deferred (prepaid) taxes for the year	609,908	7,932
Provision for deferred (prepaid) taxes at the end of the year	9,773,353	1,600,242

## BREAKDOWN OF DEDUCTIBLE TEMPORARY DIFFERENCES

Description	Amount at end of previous year	Change during the year	Amount at end of year
2015 foreign exchange translation losses	585,426	587,677	1,173,103
Goodwill San Giorgio di Nogaro business unit	9,420	(2,780)	6,640
Write-down of raw material inventory	4,961,037	(4,291,667)	669,370
ASSOCIATION DUES PAID IN 2017	-	12,897	12,897
Unpaid remuneration to directors (for 2015)	50,000	(50,000)	-
2015 tax loss	1,578,129	(1,578,129)	-

## BREAKDOWN OF TAXABLE TEMPORARY DIFFERENCES

Description	Amount at end of previous year	Change during the year	Amount at end of year
2015 foreign exchange translation gains	274	135,517	135,791
Revaluation of assets Delta depreciation (for IRES purposes)	45,907,042	(3,458,525)	42,448,517
Revaluation of assets from contribution (for IRAP purposes)	45,798,903	(4,091,050)	41,707,853

## STATEMENT OF EXPECTED RECOVERY OF DEFERRED TAX ASSETS AND LIABILITIES

Description	2017	2018	2019	2020	Beyond 2020 or unforeseeable	Total
<b>A) Taxable temporary differences</b>						
<i>Ires</i>						
foreign exchange translation gains	135,791					<b>135,791</b>
revaluation of assets Delta depreciation	3,753,036	3,776,994	3,846,367	4,020,596	27,051,525	<b>42,448,517</b>
	<b>3,888,827</b>	<b>3,776,994</b>	<b>3,846,367</b>	<b>4,020,596</b>	<b>27,051,525</b>	<b>42,584,308</b>
<i>Irap</i>						
revaluation of assets Delta depreciation	4,088,837	4,077,773	4,076,779	4,071,557	25,392,907	<b>41,707,853</b>
	<b>4,088,837</b>	<b>4,077,773</b>	<b>4,076,779</b>	<b>4,071,557</b>	<b>25,392,907</b>	<b>41,707,853</b>
<b>Total deferred taxes</b>	<b>1,092,784</b>	<b>1,065,512</b>	<b>1,082,122</b>	<b>1,123,734</b>	<b>7,482,689</b>	<b>11,846,841</b>
<b>B) Deductible temporary differences</b>						
<i>Ires</i>						
foreign exchange translation losses	1,173,103					<b>1,173,103</b>
goodwill San Giorgio Nogaro business unit	2,780	2780	1080			<b>6,640</b>
write-down of inventory	669,371					<b>669,371</b>
compensation paid in 2015 Mauro Brogi, 2015 resolution						-
association dues	12,897					<b>12,897</b>
Tax losses						-
	<b>1,858,151</b>	<b>2,780</b>	<b>1,080</b>	-	-	<b>1,862,011</b>
<i>Irap</i>						
goodwill San Giorgio Nogaro business unit	2,780	2,780	1,080			<b>6,640</b>
write-down of inventory	669,371					<b>669,371</b>
	<b>672,151</b>	<b>2,780</b>	<b>1,080</b>	-	-	<b>676,011</b>
<b>Total prepaid taxes</b>	<b>472,170</b>	<b>775</b>	<b>301</b>	-	-	<b>473,246</b>

In conclusion, and in accordance with the provisions of OIC Document No. 25, two tables are provided that indicate the reconciliation of the projected and actual tax burden for the purposes of IRES and IRAP.

## RECONCILIATION BETWEEN ACTUAL AND THEORETICAL TAX BURDEN (IRES)

2016		
<b>Statutory Profit (+) /Loss (-) before taxes</b>	<b>8,765,926</b>	
Imposta teorica 27,5% su risultato civilistico ante imposte		2,410,630
<b>Effect of increases (+) / decreases (-) compared to ordinary tax rate</b>		<b>IRES impact</b>
Temporary increases	1,173,103	322,603
Temporary decreases	-135,791	-37,343
Absorption of temporary decreases	-4,955,420	-1,362,741
Absorption of temporary increases	3,471,696	954,716
Permanent increases	349,362	96,075
Permanent decreases	-105,334	-28,967
<b>Total increases/decreases</b>	<b>-202,384</b>	<b>-55,657</b>
Tax loss carryforwards	-1,578,129	-433,985
<b>Tax profit for the year</b>	<b>6,985,413</b>	<b>1,920,988</b>

## INFORMATION ON “NATIONAL TAX CONSOLIDATION SCHEME”

The option to adopt the tax consolidation scheme on a national basis was announced in September 2016 in the Comprehensive Form for 2016 by the company Marcegaglia Holding S.p.A. and is valid for the three years 2016, 2017 and 2018.

The inclusion of Marcegaglia Plates S.p.A. in the tax consolidation scheme involved the company's contribution to the group of a taxable profit of Euro 6,985,413 and the recognition, in item 20 of the profit and loss account, of income of Euro 409,540.00, reflecting interest accrued at the rate of 13.75%, based on the existing tax consolidation agreement, on the unused excess operating income transferred to Marcegaglia Holding S.p.A., in accordance with article 96(7) of Presidential Decree 917/86.

## RECONCILIATION BETWEEN ACTUAL AND THEORETICAL TAX BURDEN (IRAP)

2016		
Difference between value and cost of production	10,893,393	
Costs not relevant for IRAP purposes	7,126,631	
<b>Theoretical taxable income for IRAP</b>	<b>18,020,024</b>	
Theoretical tax rate of 3.9% on theoretical taxable income for IRAP		702,781
<b>Effect of increases (+) / decreases (-) compared to ordinary tax rate</b>		<b>IRAP impact</b>
Temporary increases	-	-
Absorption of temporary increases	4,091,050	159,551
Absorption of temporary decreases	-4,294,447	-167,483
Permanent increases	432,517	16,868
Permanent decreases	-25,547	-996
Gross value of production (IRAP)	<b>18,223,597</b>	<b>710,721</b>
IRAP deductions	<b>-5,849,568</b>	<b>-228,133,00</b>
Taxable income (IRAP)	<b>12,374,029</b>	<b>1,185,369</b>

## NOTES - OTHER INFORMATION

### EMPLOYMENT DATA

	Average number
Managers	1
Middle managers	1
Office workers	26
Factory workers	55
<b>Total employees</b>	<b>83</b>

Below are the actual numbers of active employees at 31 December 2016:

	Numero puntuale alla fine dell'esercizio
Managers	1
Middle managers	1
Office workers	27
Factory workers	55
Other employees	
<b>Total employees</b>	<b>84</b>

### COMPENSATION, ADVANCES AND LOANS MADE TO DIRECTORS AND STATUTORY AUDITORS AND OBLIGATIONS ASSUMED ON THEIR BEHALF

In 2016 the members of the Board of Statutory Auditors received a total compensation of Euro 36,400.00 while the member of the Board of Directors collected a total of Euro 299,996, as per the resolution passed by the board of directors on 8 March 2016.

	Directors	Statutory Auditors
Compensation	299,996	36,400

### COMPENSATION PAID TO AUDITOR OR INDEPENDENT AUDITOR

The statutory audits of the separate financial statements, in compliance with and for the purposes and effects of Article 14 of Legislative Decree No. 39 of 27 January 2010, was assigned by the Special Shareholders Meeting on 27 November 2015 for a period of 3 financial years, and consequently until approval of the financial statements for financial year 2017, to the audit firm MAZARS ITALIA S.p.A.

	Amount
Statutory audit of annual financial statements	40.167
<b>Total compensation payable to auditor or independent auditor</b>	<b>40.167</b>

## CATEGORIES OF SHARES ISSUED BY THE COMPANY

The company was organised in the form of a limited liability company on 29 May 2015 with share capital of Euro 10,000 divided into ownership interests in compliance with Article 2468 of the Italian Civil Code.

A Euro 34,990,000 increase in share capital was decided on 28 October 2015, which brought the share capital to the figure of Euro 35,000,000, also divided into ownership shares in compliance with Article 2468 of the Italian Civil Code.

The Special Shareholders Meeting on 27 November 2015 decided to convert the company from a limited liability company to a corporation, through the issuance of 35,000,000 ordinary shares of Euro 1.00 each.

Description	Initial balance, number	Initial balance, nominal value
	35,000,000	35,000,000
<b>Total</b>	<b>35,000,000</b>	<b>35,000,000</b>

## COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES NOT REPORTED IN THE BALANCE SHEET

	Amount
<b>Guarantees</b>	425,724,803
<b>of which collateral</b>	<b>425,724,803</b>

Detail:

	12/31/2016	12/31/2015
<b>RISKS TAKEN BY THE COMPANY</b>		
<b>Sureties</b>		
- to parent companies	425,724,803	361,248,643
<b>Total sureties</b>	<b>425,724,803</b>	<b>361,248,643</b>
<b>Total guarantees</b>	<b>425,724,803</b>	<b>361,248,643</b>
<b>Total</b>	<b>425,724,803</b>	<b>361,248,643</b>

## COMPANIES THAT PREPARE FINANCIAL STATEMENTS FOR THE LARGE/ SMALL GROUPING OF COMPANIES IN WHICH THEY PARTICIPATE AS SUBSIDIARIES

	Large grouping	Small grouping
<b>Company name</b>	FINMAR SRL	MARCEGAGLIA STEEL SPA
<b>City (if in Italy) or foreign country</b>	GAZOLDO DEGLI IPPOLITI	GAZOLDO DEGLI IPPOLITI
<b>Tax ID No. (for Italian companies)</b>	02466170202	02467550204
<b>Place of filing of the consolidated financial statements</b>	MANTUA	MANTUA

## SUMMARY FINANCIAL STATEMENTS OF THE COMPANY WITH MANAGEMENT AND COORDINATION RESPONSIBILITIES

The company is subject to management and coordination by the parent company FINMAR SRL, which holds 13% of the share capital but 51.31% of the voting rights of the company Marcegaglia Holding S.p.A., which holds 100% of the share capital of the company Marcegaglia Steel S.p.A., which in turn holds 100% of the company's share capital.

Pursuant to article 2497-bis(4), of the Italian Civil Code, the table below shows key data of FINMAR SRL, as derived from the latest approved financial statements, those as of and for the year ended 31 December 2015.

## SUMMARY BALANCE SHEET OF THE COMPANY WITH MANAGEMENT AND COORDINATION RESPONSIBILITIES

	Latest financial year	Previous financial year
<b>Date of latest approved financial statements</b>	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>
B) Fixed assets	119,967,439	-
C) Current assets	56,960	-
<b>Total assets</b>	<b>120,024,399</b>	<b>-</b>
A) Shareholders' equity		
Share capital	40,000	-
Reserves	15,136,058	-
Profit (loss) for the year	12,158,179	-
<b>Total shareholders' equity</b>	<b>27,334,237</b>	<b>-</b>
B) Reserves for risks and expenses	1,366	-
D) Payables	92,688,781	-
E) Accrued expenses and deferred income	15	-
<b>Total liabilities and shareholders' equity</b>	<b>120,024,399</b>	<b>-</b>

## SUMMARY PROFIT AND LOSS ACCOUNT OF THE COMPANY WITH MANAGEMENT AND COORDINATION RESPONSIBILITIES

	Latest financial year	Previous financial year
<b>Date of latest approved financial statements</b>	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>
B) Production costs	120,805	-
C) Financial income and charges	15,762,261	-
D) Value adjustments of financial assets	(3,298,468)	-
Income tax expense for the year	184,809	-
<b>Profit (loss) for the year</b>	<b>12,158,179</b>	<b>-</b>

## PROPOSALS FOR ALLOCATION OF PROFITS OR COVERAGE OF LOSSES

The proposed allocation of the net profit of Euro 6,196,776.19 for the year is as follows:

- Euro 2,506.48 to cover the losses reported in previous years;
- Euro 309,713.49 to the legal reserve;
- Euro 5,884,556.22 to the extraordinary reserve.

## NOTES TO FINANCIAL STATEMENTS conclusion

### Significant changes in exchange rates

The changes in exchange rates occurred after the closing of the fiscal year have a positive impact on foreign-denominated payables and receivables at 31 December 2016. In fact, using the exchange rates in effect at 13 April 2017, the net effect of the items “Foreign exchange translation gains” and “Foreign exchange translation losses” (item 17 bis in the profit and loss account) improves by about Euro 351,000, with a similar improvement on the income for the year.

### Related-party transactions

Most of the business of Marcegaglia Plates S.p.A. is carried out to develop relations with entities that have no direct or indirect ownership-related ties, without, however, disregarding appropriate synergies resulting from trade and financial relations among companies of a group known for its effective and efficient horizontal and vertical integration.

The Directors’ Report shows the amounts in the financial statements regarding operations with group entities, noting that these are transactions carried out under market conditions, similar to those that would be arranged between independent parties.

**Fixed assets acquired before 17 April 1991** (Art. 45(2) of Legislative Decree No. 127 of 9 April 1991)

We hereby certify that for fixed assets acquired or produced before 17 April 1991, the original cost has already been determined and reported for accounting purposes.

### STATEMENT OF FINANCIAL STATEMENT COMPLIANCE

Note that the measurement criteria reported herein comply with the provisions of civil law.

These notes to the financial statements, as well as the entire financial statements of which they are an integral part, provide a true and accurate picture of the company's financial and equity position and operating results for the year.

The reporting of the amounts required by Article 2427 of the Italian Civil Code was prepared in accordance with the clarity principle.

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*Gazoldo degli Ippoliti, 29 May 2017*

Chairman of the  
Board of Directors  
**Antonio Marcegaglia**





50<sup>th</sup>  
1959-2009  
MARCEGAGLIA

 **MARCEGAGLIA**

via Bresciani, 16 • 46040 Gazoldo degli Ippoliti, Mantova - Italy  
phone +39 . 0376 685 1 • fax +39 . 0376 685 600  
[www.marcegaglia.com](http://www.marcegaglia.com)