

MARCEGAGLIA STEEL**HIGHLIGHTS**

Sales (euro/000)	2017	2016	Change
steel Italy	4,325,021	3,396,652	27.3%
steel Abroad	522,875	442,461	18.2%
(Elimination of intercompany items)	-86,870	-65,984	31.7%
consolidated sales	4,761,026	3,773,129	26.2%
consolidated sales of finished products	4,369,858	3,610,992	21.0%

RESULTS (euro/000)			
EBITDA	382,118	309,481	23.5%
amortisation, depreciation and allowances	193,405	220,805	-12.4%
net profit (loss)	65,684	-51,442	57.6%
cash flow from operations (after changes in NWC)	289,985	226,833	27.8%

NET SHIPPING of finished products (tons)	5,155,385	5,134,697	0.4%
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EMPLOYEES			
Italy	3,628	3,593	1.0%
Abroad	1,321	1,652	-20.0%
Total consolidated companies in Marcegaglia Steel	4,949	5,245	-5.6%



financial statements 2017

Management board

BOARD OF DIRECTORS



**Chairman and
Managing Director**
Antonio Marcegaglia



**Vice Chairman and
Managing Director**
Emma Marcegaglia

BOARD OF STATUTORY AUDITORS

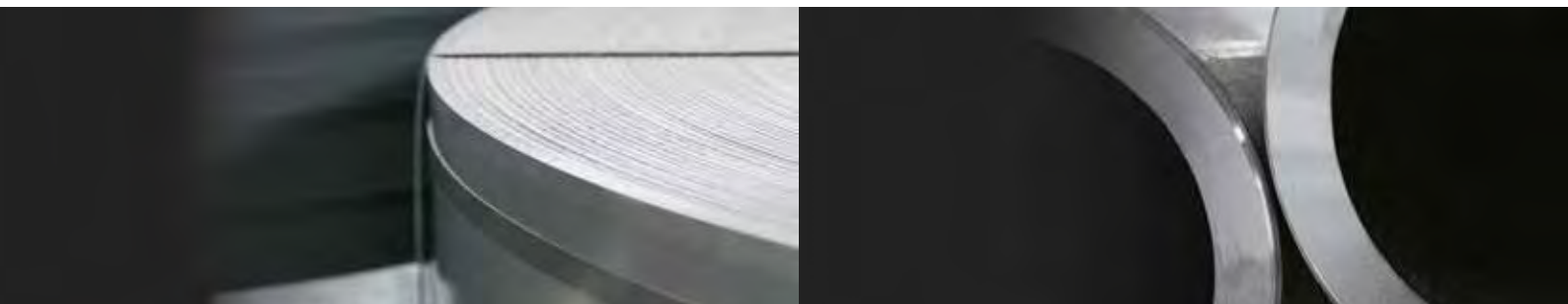
Chairman Andrea Manzitti

Auditors Enrico Colantoni
Alessandro Righi

Deputy auditors Matteo Apicella
Francesca Bigi

Key figures	II
Management board	2
Group structure	10
The global economic context	12
The steel scenario	14
Operating results	18
Strategy and investments	22
Overview by business line	24
Research and development	36
Sustainability and safety	38
Human resources	40
 Consolidated Financial Statements Marcegaglia Steel	 43
<i>Independent Auditor's report</i>	44
<i>Consolidated Balance Sheet and Profit and Loss Account</i>	48
<i>Cash Flow Statement</i>	52
<i>Notes</i>	53
 Financial Statements Marcegaglia Carbon Steel SpA	 87
<i>Independent Auditor's report</i>	88
<i>Consolidated Balance Sheet and Profit and Loss Account</i>	92
<i>Cash Flow Statement</i>	95
<i>Notes</i>	96
 Financial Statements Marcegaglia Specialties SpA	 125
<i>Independent Auditor's report</i>	126
<i>Consolidated Balance Sheet and Profit and Loss Account</i>	130
<i>Cash Flow Statement</i>	133
<i>Notes</i>	134
 Financial Statements Marcegaglia Plates SpA	 159
<i>Independent Auditor's report</i>	160
<i>Consolidated Balance Sheet and Profit and Loss Account</i>	164
<i>Cash Flow Statement</i>	167
<i>Notes</i>	168

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
Boltiere
Casalmaggiore
Corsico
Dusino San Michele
Lomagna
Ravenna

WAREHOUSES ITALY:

Lainate
Osteria Grande
Tezze sul Brenta

PLANTS AND SALES OFFICES WORLDWIDE:

Marcegaglia do Brasil
Marcegaglia Poland
Kluczbork
Marcegaglia Poland
Praszka
Marcegaglia UK
Dudley
Marcegaglia UK
Rotherham

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

COLD ROLLED COILS
AND STRIPS

HOT ROLLED SHEETS

COLD ROLLED SHEETS

WELDED TUBES

LONG PRODUCTS

COLD-DRAWN
BARS

COLD-DRAWN BARS

FREE CUTTING STEEL
COLD-DRAWN BARS

HEAVY PLATES

PLANTS ITALY:

Headquarters
Gazoldo degli Ippoliti
Contino
Forlì

PLANTS AND SALES OFFICES
WORLDWIDE:






Marcegaglia RU
Marcegaglia Turkey
Marcegaglia USA




PLANT ITALY:

San Giorgio di Nogaro

Marcegaglia Steel worldwide presence

MARCEGAGLIA CARBON STEEL

-  Carbon steel coils
-  Carbon steel strips
-  Carbon steel sheets
-  Carbon steel welded tubes
-  Cold-drawn welded tubes
-  Refrigeration tubes
-  Hot dip galvanized coils

-  Hot dip galvanized strips
-  Hot dip galvanized sheets
-  Pre-painted coils
-  Pre-painted strips
-  Pre-painted sheets

MARCEGAGLIA PLATES

-  Heavy plates

MARCEGAGLIA SPECIALTIES

-  Stainless steel coils
-  Stainless steel strips
-  Stainless steel sheets
-  Stainless steel welded tubes
-  Carbon and Stainless steel cold-drawn bars
-  Stainless steel flat bars
-  Stainless steel cold formed sections

Sales offices
**North Europe Soleuvre,
LUXEMBOURG**

Plant
Dudley, UK

Plant
Rotherham, UK

UK

Sales office
Lyon, FRANCE

E

Plant
Munhall, USA

US

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

Plant
Garuva, BRAZIL



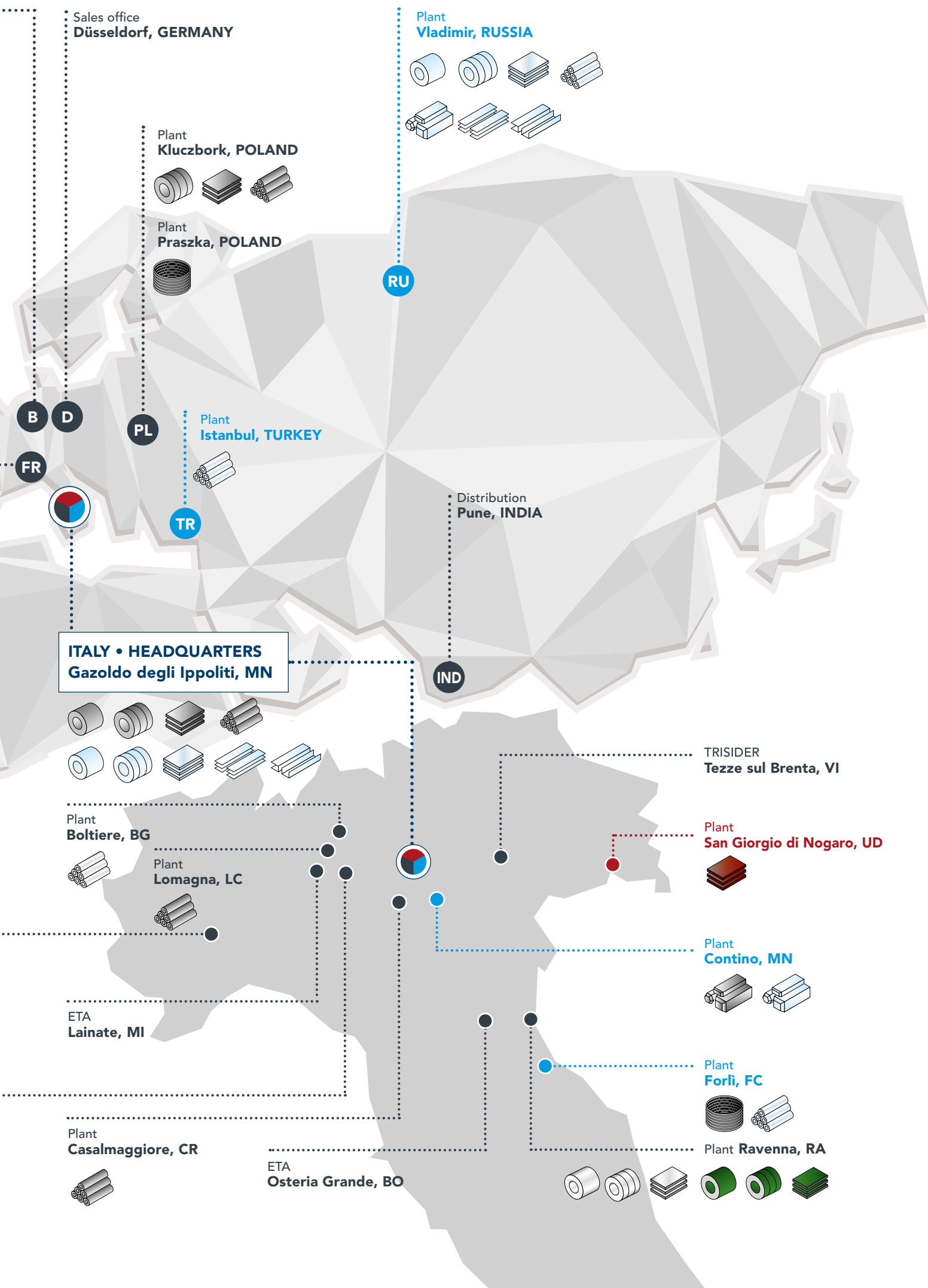
BR

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

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

3 PLANTS ITALY

5 PLANTS ITALY

3 WAREHOUSES ITALY

PLANTS & SALES OFFICES

MARCEGAGLIA DO BRASIL 1 PLANT

MARCEGAGLIA POLAND 2 PLANTS

MARCEGAGLIA UK 2 PLANTS

SALES OFFICES

MARCEGAGLIA DEUTSCHLAND

MARCEGAGLIA FRANCE

MARCEGAGLIA IBERICA

MARCEGAGLIA INDIA

MARCEGAGLIA NORTH EUROPE

MARCEGAGLIA ROMANIA

OTHER PARTICIPATIONS

AM INVESTCO

Metal Interconnector

Fontana

SIM

Employees	Turnover (M/€)		Production (KT/y)	
4,300	3,200 TOTAL		4,500 TOTAL	
	2,100 FLAT PRODUCTS	1,100 WELDED TUBES	3,000 FLAT PRODUCTS	1,500 WELDED TUBES

MARFIN

Staff Corporate

HOLDING**MARCEGAGLIA**
SPECIALTIES

STAINLESS STEEL

COLD-DRAWN
BARSHEADQUARTERS AND PLANTS
GAZOLDO DEGLI IPPOLITI

3 PLANTS ITALY

1 PLANT ITALY

PLANTS & SALES OFFICES

Mariven

MARCEGAGLIA RU 1 PLANT

MARCEGAGLIA TURKEY 1 PLANT

MARCEGAGLIA USA 1 PLANT

MARCEGAGLIA
PLATES

HEAVY PLATES

HEADQUARTERS
GAZOLDO DEGLI IPPOLITI

1 PLANT San Giorgio di Nogaro

MARCEGAGLIA
INVESTMENTS

BUILDING

Marcegaglia Buildtech

M. Gulf Qatar

HOME PRODUCTS

Oskar

Imat

ENERGY

CO.GE.AM

Other particip.

EuroEnergy

Other particip.

ENGINEERING

Elet.Ca

Made HSE

HOSPITALITY ACT. & 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	300	50

The global economic context

The global economy

Global economic activity remained solid in the main advanced and emerging countries, with a modest upturn in inflation at the present time. In the short term, the outlook remains favourable although there is still a risk that a downturn in the prices of financial assets could slow down economic activity. According to forecasts recently published by the International Monetary Fund, the global GDP, which was 3.7% in 2017, will rise to 3.9% in the current year. Growth forecasts, which have been revised upwards compared to last year, show a higher-than-expected increase in the developed countries, where growth is set to exceed 2% thanks to favourable global financial conditions and a positive market climate.

This climate is expected to continue to support the recent rise in demand particularly for investments, with a positive impact on growth in high-exporting countries. Trade, which rose by 4.7% in 2017, is expected to reach 4.6% in the current year – still higher than the rate of growth of economic activity.

The risks for the global economy still come from a potential increase in volatility on the financial markets due to a sudden worsening of geopolitical tension, and uncertain economic policies, which could negatively impact consumer and business confidence. With regard to raw materials, the prices of futures indicate that the cost of oil will rise by more than 10% during the year, while their prices with the exception of fossil fuels, are largely expected to remain the same as the average for 2017.

OUTLOOK FOR THE GLOBAL ECONOMY (% change)

	2017	2018
World GDP	3.7	3.9
Developed countries	2.3	2.3
USA	2.3	2.7
EU	2.4	2.2
Italy	1.6	1.5
Japan	1.6	1.4
Developing and emerging countries	4.7	4.9
Asia	6.5	6.5
China	6.8	6.6
Latin America	1.3	1.9
Africa and Middle East	2.5	3.6
World trade	4.7	4.6
Oil price	23.1	11.7
"Non oil" raw materials prices	6.5	-0.5

Source: Eurofer

The European economy

In 2017, the economy of the Eurozone countries grew at a sustained pace, with high sentiment in all sectors thanks to the acceleration of global expansion, the consolidation of the labour market, persistently low interest rates, and improved, more widespread access to finance. In this context, GDP rose by 2.4% driven by the solidity of investments, private consumption and exports.

The country GDP attribution shows that in recent quarters there was increasin-

gly synchronous growth among the EU Member States.

In 2017 there was a consolidation of the economic trend in the Eurozone economy, and in the 28 EU countries. Confidence across industrial sectors has continued to rise since late 2016. In January 2018 most indicators were approaching December highs.

Early in 2017 the figures on actual industrial production were less convincing than the more positive trends highlighted in surveys, but during the year this gap gradually narrowed, to disappear completely in recent months. In the first 11 months of 2017, the growth in manufacturing output in the European Union was 3.1% on an annual basis, with a monthly average of almost 4% in the second half of the year.

Last year, investments in the European Union rose by almost 4%, despite widespread concerns about the adverse impact of political uncertainty.

The Italian economy

Italian GDP was in line with the positive European trend, and saw an improvement of 1.6%.

ECONOMIC INDICATORS (year-on-year change in %)

EUROFER Forecast	2016	2017	2018 (f)	2019 (f)
GDP	1.9	2.4	2.2	1.9
Private consumption	2.3	2.1	1.8	1.6
Government consumption	1.7	1.0	1.2	1.1
Investment	1.7	3.9	3.8	3.0
Investment in mach. equip.	2.9	3.6	4.0	2.9
Investment in construction	0.7	3.7	3.0	2.7
Exports	3.3	5.2	5.0	4.5
Imports	4.3	5.2	5.2	4.5
Unemployment rate	9.3	8.4	7.9	7.4
Inflation	0.3	1.7	1.7	1.8
Industrial production	2.2	3.1	2.8	2.0

(f) forecast

This level, while above initial forecasts, is still well below the European average.

Based on the latest general economic trends, and assuming that the current credit conditions are maintained, it is estimated that GDP could rise by 1.5% this year, replicating the growth rate seen in 2017. Economic activity will be driven by domestic demand. However, the contribution made by foreign net demand will be somewhat negative due to the slight slowdown in global trade. Overall, the trend in national GDP will continue

to benefit from an expansionist economic policy, although to a lesser extent than in recent years. This reflects the gradual removal of the monetary impulse expected by the markets, while investments will be favoured by a growing level of independent support for domestic demand, thanks to improved forecasts for household spending power and the reduction in companies' unused production capacity. Capital accumulation will mainly be helped by the consolidation in demand forecasts, the increase in profitability and

the continuation of accommodating financial conditions.

The rise of investments in machinery, equipment and advanced technologies, which was valued at more than 6% in the current year, will also benefit from the extension of the tax breaks included in the Budget Act. The construction market will continue to recover, although at a slower pace, thanks to the improvement of the property market and the effect of public investment.

ITALY - KEY FORECAST FACTORS

	2016			98-13	Annual percentage change					
	bn EUR	Curr. prices	% GDP		2014	2015	2016	2017	2018	2018
GDP	1.680,5	100,0		0,4	0,1	1,0	0,9	1,6	1,5	1,0
Private Consumption	1022,5	60,8		0,4	0,3	2,0	1,5	1,4	1,1	0,9
Public Consumption	315,2	18,8		0,8	-0,7	-0,6	0,5	0,7	0,3	0,3
Gross fixed capital formation	287,1	17,1		-0,2	-2,3	1,9	2,8	2,5	3,8	2,7
of which: equipment	103,8	6,2		-0,1	1,9	3,8	7,1	4,5	5,3	2,8
Exports (goods and service)	501,1	29,8		1,9	2,7	4,4	2,4	4,8	3,8	3,3
Imports (goods and service)	444,2	26,4		2,0	3,2	6,7	3,1	5,9	4,7	3,8
GNI (GDP deflator)	1.684,3	100,2		0,4	0,3	0,4	1,7	1,7	1,3	1,0
Contribution to GDP growth:	Domestic demand			0,4	-0,4	1,4	1,5	1,4	1,4	1,0
	Inventories			0,0	0,6	0,0	-0,4	0,1	0,1	0,0
	Net exports			0,1	-0,1	-0,5	-0,1	-0,1	-0,2	0,0
Employment				0,1	0,2	0,7	1,4	1,0	0,9	0,6
Unemployment rate (a)				8,8	12,7	11,9	11,7	11,3	10,9	10,5
Compensation of employees / f.t.e.				2,3	0,0	1,0	0,5	0,5	1,5	1,3
Unit labour costs whole economy				2,1	0,1	0,7	0,9	0,1	1,1	0,9
Real unit labour cost				0,0	-0,9	-0,2	0,1	-0,5	-0,1	-0,5
Saving rate of households (b)				13,4	11,2	10,5	10,5	10,1	9,8	9,8
GDP deflator				2,1	1,0	0,9	0,8	0,6	1,3	1,4
Harmonised index of consumer prices				2,3	0,2	0,1	-0,1	1,4	1,2	1,5
Terms of trade goods				-0,6	3,5	4,1	3,3	-1,5	0,8	0,1
Trade balance (goods) (c)				0,5	2,9	3,1	3,6	3,1	3,1	3,1
Current-account balance (c)				-0,9	1,9	1,5	2,6	2,5	2,5	2,3
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-0,8	2,0	1,7	2,5	2,3	2,4	2,2
General government balance (c)				-3,2	-3,0	-2,6	-2,5	-2,1	-1,8	-2,0
Cyclically-adjusted budget balance (d)				-3,1	-0,8	-0,9	-1,5	-1,8	-2,0	-2,4
Structural budget balance (d)				-3,7	-1,0	-0,8	-1,7	-2,1	-2,0	-2,4
General government gross debt (c)				108,5	131,8	131,5	132,0	132,1	130,8	130,0

(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: Eurostat

The steel scenario

Iron and steel globally

In 2017, the global production of crude steel was 1,691.2 million tonnes, with an increase of 5.3% compared to 2016.

Reflecting the balanced growth in all the main regions, the increase in crude steel production was similar everywhere: South America recovered after a disappointing 2016, while the figure for the CIS area remained stable. Globally, in 2017 apparent consumption rose by 3.2%, at a lower rate than production due to the reduction in stocks.

The increase in capacity was weak in all areas of the world, while China, pushed by more stringent government directives on pollution control, embarked on a rigorous programme of closing down the smaller, less efficient production

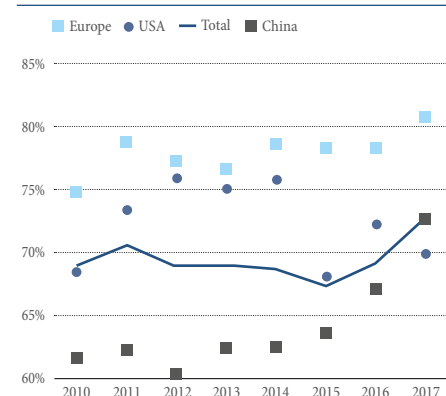
sites in order to reduce capacity by 150 million tonnes over the next few years.

With the rise in demand, the utilisation of global capacity improved, reaching 73% in nominal terms (this percentage rises if we consider the real, economically viable capacity).

During 2017, raw materials began to show signs of a more sustained recovery, in line with other commodities.

In response to the buoyant demand, the reduction in overcapacity and the rise in the price of raw materials, steel prices trended higher throughout the year, reaching double the lowest figures of Q1 2016, by the end of the year.

GLOBAL UTILISATION RATES HAVE RISEN
Crude steel utilisation rate

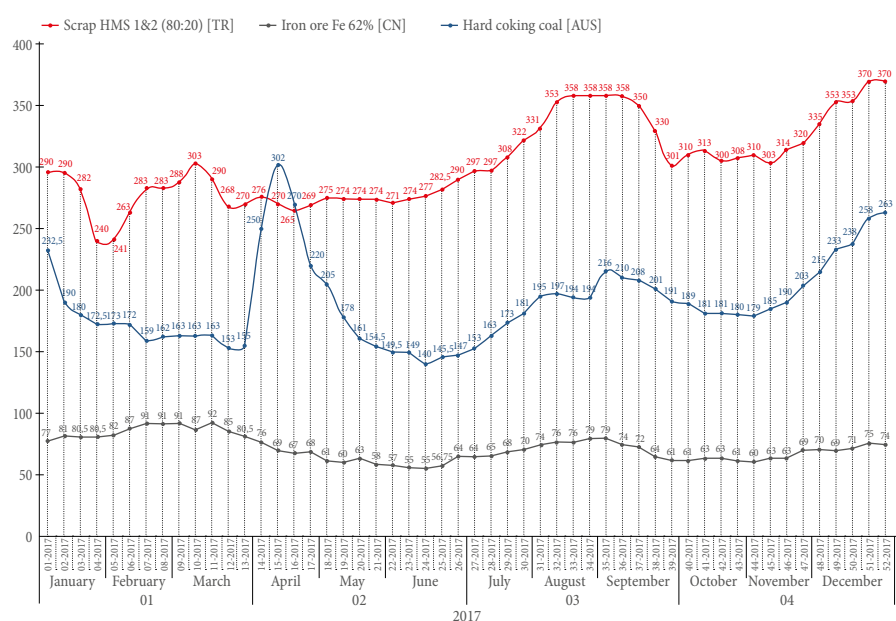


Source: OECD Wood Mackenzie

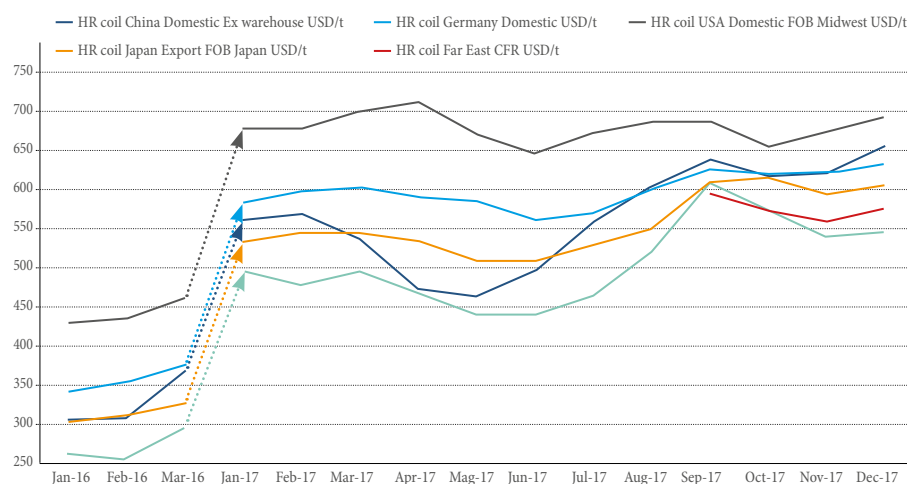
CRUDE STEEL PRODUCTION IN 2017

World	Million ton	Δ% vs 2016
World	1,691.2	+5.3
Asia	1,162.5	+5.4
of which China	831.7	+5.7
Japan	104.7	-0.1
India	101.4	+6.2
South Korea	71.1	+3.7
EU28	168.7	+4.1
of which Italy	24.0	+2.9
Spain	14.5	+6.2
Germany	43.6	+3.5
Poland	10.3	+14.8
North America	116.0	+4.8
of which USA	81.6	+4.0
CIS	102.1	+0.0
of which Russia	71.3	+1.3
Ukraine	22.7	-6.4
South America	43.7	+8.7
of which Brazil	34.4	+9.9
Middle East	34.9	+10.9
Africa	15.0	+14.4
Australia/New Zealand	6.0	+2.5

RAW MATERIALS PRICES: IRON AND STEEL 2017 (dollars per tonne)



INTERNATIONAL HRC PRICES



Source: CRU

Iron and steel in Europe and Italy

In 2017 there was strong growth in production activity in steel processing sectors in the European Union. Total production rose by 4.7% annually.

The mood in the first quarter was more positive, and this was also confirmed in the second half of the year.

TREND IN MAIN CUSTOMER SECTORS - Annual change in SWIP (Steel Weighted Industrial Production)

	% share in total consumption	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018	2019
Construction	35	5.0	4.1	4.6	3.4	4.3	2.3	2.3	2.8	3.0	2.6	2.2
Mechanical engineering	14	5.4	3.5	5.0	5.8	4.9	3.4	3.6	2.9	2.5	3.1	1.9
Automotive	18	6.4	-0.4	2.8	6.2	3.7	1.9	2.1	2.1	0.7	1.7	1.1
Domestic appliances	3	4.6	1.4	5.0	3.9	3.7	2.9	3.4	1.4	2.9	2.7	2.6
Other transport	2	6.4	0.0	-0.8	3.3	2.3	1.6	3.5	3.3	3.1	2.8	2.9
Tubes	12	12.3	7.1	8.4	5.2	8.3	-1.9	-3.1	0.9	2.6	-0.5	0.7
Metal goods	14	6.1	3.0	5.0	6.2	5.0	3.0	3.5	2.9	2.2	2.9	2.3
Miscellaneous	2	4.4	0.8	3.8	2.6	2.9	1.2	2.8	2.5	1.4	2.0	3.0
Total	100	6.4	3.0	4.6	4.9	4.7	1.9	2.1	2.5	2.3	2.2	1.8

Source: Eurofer - forecast 2017

The performance of the various countries and steel-using sectors, which had begun to synchronise in the first six months, showed greater consistency in the second half of the year.

Growth dynamics improved, particularly in central Europe, which picked up after a disappointing 2016.

As to the performance of individual sectors, the year-on-year production of steel tubes stood out once again, followed by mechanical engineering, domestic appliances and construction. As expected, the growth in production in the automotive sector fell slightly.

The forecasts for 2018 and 2019 are positive, although the pace of activity in steel-using sectors will be slower, due to the slowdown in the pipes sector, and in the automotive industry. The underlying economic framework is still pointing to steady growth in the other sectors.

In the European Union, output in steelworking sectors is expected to grow by 2.2% in 2018 and by 1.8% in 2019.

The surveys and forecasts for Q4 2017 again suggest that the European economy's growth will be above-trend, with no sign of weakening industrial dynamics; in the final three months of 2017 it is estimated that there will be a fresh increase in actual steel consumption, of around 4.4% year on year. This would take the annual figure to 4.2%, the best since 2012. This result is partly thanks to the temporary upturn in the production of steel tubes in the European Union.

Although the economic context will continue to support an acceleration in the EU's real consumption of steel, growth will return to a more sustainable pace in 2018 and in 2019.

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

Period	Q1 17	Q2 17	Q3 17	Q4 17	Year 2017	Q1 18	Q2 18	Q3 18	Q4 18	Year 2018	Year 2019
	6.6	2.5	3.5	4.4	4.2	1.6	1.8	2.2	1.5	1.8	1.6

Source: Eurofer

FORECAST FOR APPARENT CONSUMPTION (EU) - % change year-on-year

Period	Q1 17	Q2 17	Q3 17	Q4 17	Year 2017	Q1 18	Q2 18	Q3 18	Q4 18	Year 2018	Year 2019
	3.8	-0.4	1.1	3.0	1.9	1.0	4.3	1.9	0.5	1.9	1.4

Source: Eurofer

Real consumption of steel in the EU is expected to rise by 1.8% in 2018 and by 1.6% in 2019, to gradually return to higher levels of consumption among end users.

Steel intensity will continue to exercise a slightly negative influence on the growth in real consumption.

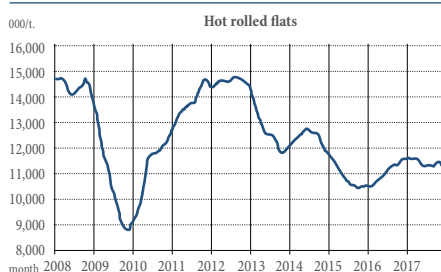
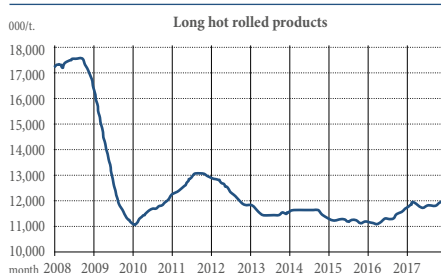
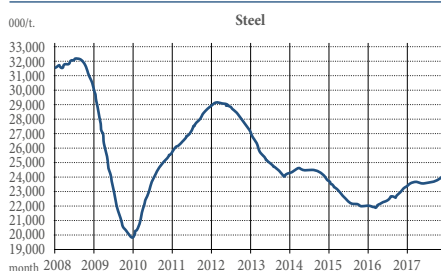
In 2017, Italian steel production rose by 3.0%, to an excess of 24 million tonnes, of which 11.9 million were long products (+2.3%) and 11.3 million were flat rolled products (-2.1%), still affected by the difficulties of Italy's main producer.

PRODUCTION OF HOT ROLLED PRODUCTS

Production	January-December	
	000 t.	% change '17/'16
Steel	24,067.6	3.0
Long rolled products	11,917.0	2.3
- beams and shipbuilding	808.4	-14.9
- reinforcement bars	2,833.7	-10.9
- wire rods	4,468.2	8.5
- merchant bars	3,806.7	11.9
Flat rolled products	11,332.0	-2.1
- coils	9,521.9	-2.0
- hot rolled sheets and mill plates	1,810.1	-2.7

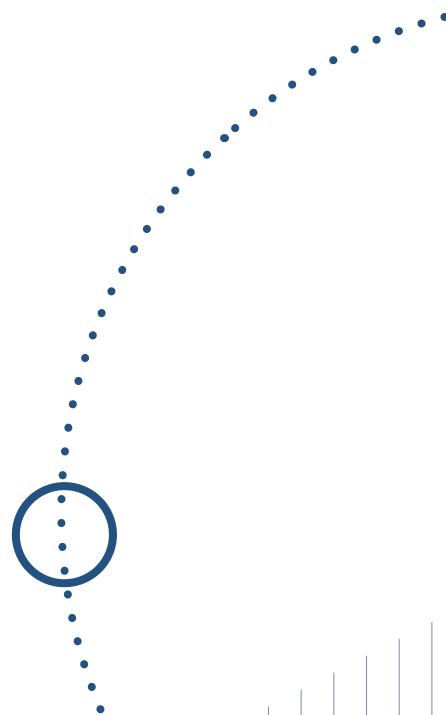
Elaborated from Federacciai data

ITALY: PRODUCTION
(rolling year = sum of the previous 12 months)



Elaborated from Worldsteel data

Apparent consumption of steel in Italy was 28.2 million tonnes (+3.0%), of which 3.4 million were semifinished products (9.4%), 9.1 million tonnes of long rolled products (+3.7%) and 15.7 million flat rolled products (+1.3%).



APPARENT CONSUMPTION (January-December)

	Consumption		
	2016	2017	% change '17/'16
General total	27,369,257	28,178,564	3.0
Total semifinished products	3,084,324	3,372,712	9.4
Total rolled products	24,284,933	24,805,853	2.1
of which: long products	8,766,323	9,086,373	3.7
of which: flat products	15,518,610	15,719,479	1.3
Beams and permanent way material	813,632	740,232	-9.0
Piling sheets	11,080	9,840	-11.2
Total merchant bars	2,918,289	3,162,691	8.4
of which: bars	2,206,597	2,438,901	10.5
of which: profiles	263,210	260,273	-1.1
of which: flats	448,481	463,515	3.4
Reinforcement bar	1,392,881	1,344,607	-3.5
Wire rods	3,630,442	3,829,004	5.5
Total hot rolled sheets and mill plates	1,397,639	1,151,700	-17.6
Hot rolled strips <600	179,331	224,512	25.2
Coils	7,030,142	6,880,112	-2.1
Galvanized and metal coated plates	3,152,010	3,492,425	10.8
Electrogalvanized plates	48,990	56,246	14.8
Synthetic coated plates	554,950	570,998	2.9
Other products (*)	872,047	848,091	-2.7
Magnetic sheets	568,022	650,620	14.5
Cold rolled sheets or rolls	1,715,481	1,844,775	7.5

(*) Tinplate / chromed sheeting / black strip

Elaborated from Federacciai data

The challenges of the iron and steel industry

Against a background of renewed positivity for iron and steel both globally and in Europe, there have been several major structural changes which could transform the industry dynamics.

On the one hand, there was a renewed process of consolidation across the industry, with the recent surge in mergers and acquisitions.

In 2018, Europe expects to see ArcelorMittal completing its acquisition of Ilva, followed by the merging between Tata and Thyssenkrupp in a 50/50 joint venture.

Another challenge comes from the “Fourth Industrial Revolution”, in other words the digitisation of production, logistics and commercial processes, with a careful eye on environmental sustainability issues.

Finally, there was a spike in cases of protectionism and the limitation of international trade, which is increasingly leading to market regionalisation.

The role and geography of international trade is set to be reshaped by the American government's decision to impose a levy of 25% on all steel imports, subject to bilateral agreements that are currently being renegotiated, and the probable reaction from the EU to avoid distorting the flow of the same imports from other countries (safeguarding clause).

Combined, these events pose potential threats to the status quo, but also present great opportunities for a courageous, far-sighted company such as Marcegaglia Steel.

Operating results

2017 saw the return of a positive performance for the whole of the world's iron and steel industry, including Europe.

This was supported by improved demand in terms of volumes and, in particular, by a significant increase in the prices of raw materials and of iron and steel products, which was further boosted by import restrictions.

Marcegaglia Steel managed to consolidate its profits by favouring margins ahead of higher volumes, and by selecting the best opportunities from its product and market portfolio, even turning down sales opportunities on occasion, if they were not considered satisfactory.

Total shipped volumes of finished products stood at approximately 5.2 million tonnes (+0.4 compared to 2016), with a substantial increase (+1 billion Euro) in consolidated sales, at Euro 4,761 million (+26% compared to 2016), or Euro 4,421 million net of trading activity (sales of slabs) (+21%).

The gross operating margin (EBITDA) stood at Euro 382 million, up 23% compared to 2016, while EBIT stood at Euro 233 million.

However, management decided to change the criteria used to value stocks of basic raw materials, prudentially adopting the LIFO method instead of weighted average cost. This had the effect of limiting revenues by approximately Euro 93 million.

In fact, applying the same valuation criteria, EBITDA and EBIT would stand, respectively, at Euro 475 million (+53% corresponding to 10.9% of core sales) and Euro 326 million (+85%, and 7.5% of revenues).

Operational cash flow, net of the growth

in working capital linked to the rise in unit prices, stood at Euro 290 million, while the net financial position fell by a further Euro 246.5 million, to Euro 917 million.

Among the foreign subsidiaries, Poland, the UK, Brazil, Russia and also Turkey again performed well. In the USA, the stainless steel tubes division was sold in February 2017, while extraordinary costs of this disposal compromised profits, which returned to positivity in 2018.

The Chinese subsidiary, now at an advanced stage of disinvestment, was already deconsolidated in June 2017.

Revenues

As mentioned, in 2017 Marcegaglia Steel Europe (excluding Brazil and the USA) chose to grow its volumes slightly below the European average (+0.9% compared to +1.4%).

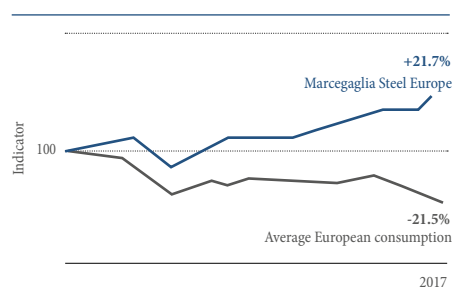
SHIPMENTS OF FINISHED PRODUCTS (tonnes)

Italian companies	2017 volumes	2016 volumes	Δ %
MARCEGAGLIA CARBON STEEL	3,685,895	3,691,549	-0.2
of which flats	2,652,853	2,669,236	-0.6
of which welded tubes	1,023,228	1,012,338	1.1
MARCEGAGLIA SPECIALTIES	584,442	574,592	1.7
of which stainless steel	392,135	393,710	-0.4
of which cold drawn bars	188,344	176,637	6.6
MARCEGAGLIA PLATES	344,756	353,682	-2.5
of which heavy plates	344,756	353,682	-2.5
Tot. MARCEGAGLIA STEEL Italy	4,615,093	4,619,823	-0.1
Foreign companies	2017 volumes	2016 volumes	Δ %
MARCEGAGLIA POLAND Sp z.o.o.	317,195	274,467	15.6
MARCEGAGLIA UK	80,906	74,607	8.4
MARCEGAGLIA DO BRASIL Ltda	93,780	109,120	-14.1
MARCEGAGLIA CHINA *	-	23,984	-
MARCEGAGLIA RU	13,737	9,671	42.0
MARCEGAGLIA USA	22,058	31,891	-30.8
MARCEGAGLIA Turkey	12,617	15,117	-16.5
Tot. MARCEGAGLIA STEEL abroad same perimeter	540,293	514,874	4.9
Tot. MARCEGAGLIA STEEL abroad same perimeter	5,155,385	5,134,697	0.4

*company excluded from the 2017 consolidation perimeter

However, for the last 10 years, since the peak in 2007, the group's progression was far superior to the average for the market and its competitors, and thus there have been significant gains in market share.

MARCEGAGLIA STEEL VS EUROPEAN MARKET 2007-2017
(new indicators 2007 = 100) in volumes



Highlights include the more pronounced progressions by the subsidiaries in Poland (+15.6%) and in the UK (+8.4%) supported by the improved mood in the markets in north and eastern Europe. Meanwhile, volumes have declined in Brazil due to the critical structural issues in the country and in the USA due to the mentioned above disinvestment strategy. Overall, consolidated revenues stood at Euro 4,761 million (26.2%), of which Euro 4,370 million (+21% compared to 2016) was net of sales of raw materials (slabs). The total share of shipments to foreign markets fell from 61.8% in 2016 to 58.2% in 2017, partly because of the downturn in Brazil, the UK and China, but also because of the priority given to improving margins on the national

market particularly in the flats division of Marcegaglia Carbon Steel.

Looking at revenues by company and division, the highest growth was seen for Marcegaglia Carbon Steel and its

European branches, and for Marcegaglia Plates in relation to the trend in the unit price of coils and derived products, as well as heavy plates.

At Marcegaglia Specialties, as a result

REVENUES (000/Euro)

Italian companies	tot. 2017	tot. 2016	Δ %
MARCEGAGLIA CARBON STEEL	2,965,904	2,224,001	33.4
of which flats	1,836,951	1,460,140	25.8
of which welded tubes	767,038	631,403	21.5
MARCEGAGLIA SPECIALTIES	1,137,370	988,844	15.0
of which stainless steel	954,450	842,326	13.3
of which cold drawn bars	140,326	113,843	23.3

MARCEGAGLIA PLATES	207,728	170,606	21.8
of which heavy plates	197,314	163,698	20.5

Tot. MARCEGAGLIA STEEL Italy	4,311,001	3,383,452	27.4
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Foreign companies	tot. 2017	tot. 2016	Δ %
MARCEGAGLIA POLAND Sp z.o.o.	254,777	185,589	37.3
MARCEGAGLIA UK	60,714	47,648	27.4
MARCEGAGLIA DO BRASIL Ltda	111,370	102,477	8.7
MARCEGAGLIA CHINA	-	20,483	-100.0
MARCEGAGLIA RU	35,175	21,500	63.6
MARCEGAGLIA USA	37,205	49,098	-24.2
MARCEGAGLIA Turkey	23,634	15,667	50.9
Tot. MARCEGAGLIA STEEL abroad	522,875	442,461	18.2
Tot. M STEEL abroad same perimeter	522,875	421,978	23.9

Others, and intercompany eliminations	-72,850	-52,784	
Total consolidated net revenues	4,761,026	3,773,129	26.2
Total revenues from finished products alone* net intercompany	4,369,858	3,610,992	21.0

excluding sales of scrap, raw materials and other revenues

CONSOLIDATED REVENUES BY GEOGRAPHICAL AREA (000/Euro)

	2017	2016	Abroad	% sales	of which EU	of which outside EU
carbon steel tubes	1,030,630	851,603	733,993	71.22%	610,006	123,987
flat products (from coils)	1,962,802	1,521,949	1,053,368	53.67%	922,791	130,577
heavy plates	163,698	163,698	95,718	58.47%	82,097	13,621
stainless steel	1,046,811	913,486	746,908	71.35%	597,303	149,605
cold drawn steel	140,326	126,364	81,592	58.14%	75,840	5,752
other	503,628	262,013	86,810	17.24%	65,129	21,681
aggregated total for 2017	4,847,895	3,839,113	2,798,390		2,363,167	445,223
aggregated total for 2016	3,839,113		2,357,196		1,888,289	468,907
	26.3%		18.7%		24.6%	-5.1%
intercompany	(86,870)	(65,984)	(27,199)	31.31%	(16,510)	(10,689)
total revenues	4,761,026	3,773,129	2,771,191	58.21%	2,336,657	434,534

of high volatility in stainless steel products, the stainless steel division recorded revenues of Euro 954 million (+13.3%) while cold drawn bars exceeded Euro 140 million (+23.3%), partly thanks to the growth in volumes.

Profit performance

2017 was certainly a positive year for Marcegaglia Steel. Excluding the depressive effect of the new stock valuation criteria (amounting to Euro 93 million), the gross operating margin was nevertheless Euro 382.1 million (up 23% compared to 2016), equating to 8.6% of the sales of finished products (8.0% on total revenues).

The operating result, pre-depreciation and amortisation of the brand, was Euro 232.9 million. This is an increase of 46% on 2016 and equates to 5.3% of revenues from finished products.

The industrial gross operating margin (before corporate costs and intra-group royalties) of the Italian companies amounted to Euro 358.5 million, of which Euro 212.2 million was for Marcegaglia Carbon Steel (8.1% of revenues), Euro 126.5 million for Marcegaglia Specialties (11.5% of revenues), and Euro 19.8 million for Marcegaglia Plates (10.0% of revenues).

PROFITABILITY 2017 (in 000/Euro)

Company	Revenues	EBITDA *	% EBITDA
Marcegaglia Carbon Steel	2,621,074 **	212,248	8.1
Marcegaglia Specialties	1,100,040 **	126,499	11.5
Marcegaglia Plates	197,314 **	19,769	10.0
tot. Marcegaglia Steel Italy	3,918,427 **	358,516	9.1
MARCEGAGLIA Poland	248,192 **	29,098	11.7
MARCEGAGLIA UK	59,002 **	3,870	6.6
MARCEGAGLIA DO BRASIL Ltda	108,393 **	11,001	10.1
MARCEGAGLIA CHINA			
MARCEGAGLIA USA	29,049 **	(4,164)	-14.3
MARCEGAGLIA RU	34,667 **	2,199	6.3
MARCEGAGLIA TURKEY	23,158 **	1,089	4.7
tot. foreign subsidiaries	502,461 **	43,094	8.6
tot. Marcegaglia Steel from operations	4,420,888 **	401,610	9.1
others*** and intercompany	340,137	765	
Corp OH		(20,258)	
tot. Marcegaglia Steel	4,761,026	382,118	8.0
Extraordinary items		(19,607) adjusted	
tot. Marcegaglia Steel	4,761,026	362,511	7.6

* EBITDA net of intercompany royalties ** Sales of finished goods
 *** Sales of scrap, resales of raw materials and other revenues

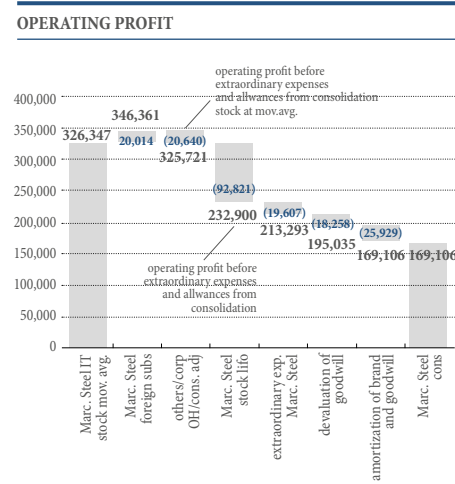
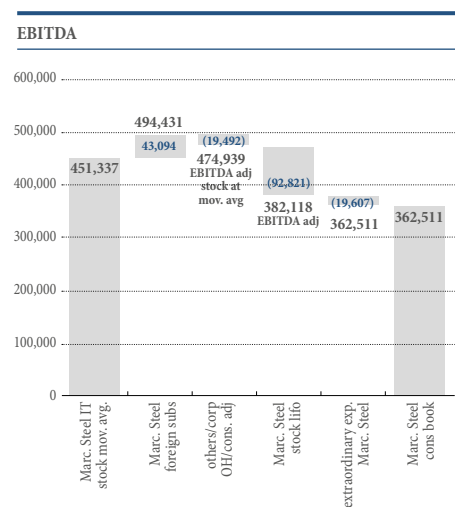
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The foreign subsidiaries' contribution to the industrial gross operating margin was Euro 43.8 million (8.6% of revenues), with the most significant contribution coming from Marcegaglia Poland at Euro 29.1 million, and Marcegaglia do Brasil, at Euro 11.0 million. Leaving out the negative performance of Marcegaglia USA, which was due to the business unit disposal and which will return to profit in 2018, the foreign subsidiaries showed profits on average in line with those of the Italian companies.

In the 2017 profit and loss account, it was agreed with the auditing firm that there would be a prudential write-down of Euro 19 million in the goodwill of the Brazilian, Russian, Turkish and American subsidiaries, due to the strong depreciation in their respective currencies (the real, the rouble and the Turkish lira) against the Euro, despite the income forecasts and the fact that management considers a recovery in value to be likely.

Other operating costs include the registration tax on contributions, of Euro 19.6 million. The company considers that this is not due, and a dispute is ongoing. This does not relate to core operations.

The graph below shows a reconciliation between the gross operating margin and the industrial operating result, and the figures on the profit and loss account.



These positive industrial results confirm that commercial policy is on target both for purchasing and for sales, and also indicates the continued strict control on costs and steady improvements in efficiency and productivity at all the group's sites.

The pre-tax result, net of Euro 74 million

of net financial costs, stood at Euro 95 million (Euro 114 million not considering the extraordinary item of Euro 19 million, mentioned above), while the net result is Euro 65.7 million, of which 67.4 pertain to the group.

Financial operations

The industrial management of Marcegaglia Steel generated an operational cash flow of Euro 290 million in 2017, net of the increase in net working capital.

This cash flow enabled the funding of Euro 36 million of investments, servicing of the debt (financial charges) of 83 million, and the payment of Euro 26 million of costs for which specific provisions had already been made. The remainder was used to reduce the short and long-term financial indebtedness.

With the positive cash flow and the deconsolidation of the Chinese subsidiary, the group's net financial position on 31 December 2017 stood at Euro 917 million, from Euro 1,163 million on 31 December 2016 (-246 million Euro).

The limited increase in net working capital, linked to the significant rise in unit prices (up 20% on average) was partly determined by greater recourse to the securitisation of receivables. Further reducing the debt of Marcegaglia Steel remains a priority of management in the near future.

NET FINANCIAL POSITION

	31.12.2017	31.12.2016
Bank payables		
- due by the end of next year	542,384,793	666,212,045
- due after the end of next year	375,573,849	499,416,325
Total bank payables	917,958,642	1,165,628,370
Payables to other lenders		
- due by the end of next year	8,398,123	9,919,313
- due after the end of next year	1,404,860	9,958,134
Total payables to other lenders	9,802,983	19,877,447
Total financial position	927,761,625	1,185,505,817
Other equity investments not held as fixed assets	259,870	259,870
Other securities not held as fixed assets	3,308,823	4,424,945
Total cash and cash equivalents	7,250,636	17,321,361
Total liquid assets	10,819,329	22,006,176
Total net financial position	916,942,296	1,163,499,641

Strategy and investments

Continuing on the course followed in recent years, in 2017 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. The disengagement from the limited and unprofitable presence in the stainless steel tubes market in the USA should be interpreted in this context. The assets of that division were sold to a local competitor in February 2017. Also related to this was the decision to sell the Chinese subsidiary, for which negotiations are currently ongoing with an industrial investor and are expected, at most, to result in a minority interest of Marcegaglia Carbon Steel, with no further financial commitment.

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

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.

With regard to Marcegaglia Carbon Steel's minority interest in the ArcelorMittal Investco consortium, which won the contract for the sale of the Ilva assets, in response to the stringent conditions on competition in the European market, ArcelorMittal submitted a demanding proposal of remedies to the anti-trust commission in April 2018.

Among these, in addition to a significant disinvestment of assets in various European countries, Marcegaglia Carbon Steel is expected to exit the ArcelorMittal Investco consortium, as it is a related party. If, as expected, the anti-trust commission approves this package of remedies, Marcegaglia Carbon Steel will be entitled to a break fee from ArcelorMittal, without affecting the validity of the attractive long-term commercial contracts for the Brema and Taranto sites.

The operation is expected to close by the end of June 2018, although this is subject to final approval from the anti-trust commission (expected by the end of May) and the positive outcome of trade union negotiations.

The divestment of Ilva assets could also reveal other opportunities for investment for Marcegaglia Carbon Steel. These opportunities will be evaluated selectively, with a view to the careful management of proprietary financial resources.

INVESTMENTS BY SITE AND COMPANY (K/Euro)

Steel Italy	2017
Ravenna	17,459,035
Gazoldo degli Ippoliti	5,838,359
Boltiere	1,855,004
Casalmaggiore	1,437,692
Dusino	935,109
Lomagna	241,213
Corsico	160,150
Lainate	167,484
Others	133,534
tot. Marcegaglia Carbon Steel	28,227,580

Forlimpopoli	2,333,055
Gazoldo degli Ippoliti	3,588,111
Contino	1,807,402
tot. Marcegaglia Specialties	7,728,567

San Giorgio di Nogaro	1,336,987
tot. Marcegaglia Plates	1,336,987

tot. Marcegaglia Steel Italy	37,293,134
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Others: Italy	27
Total Steel - Italian companies	37,293,161

Consolid. foreign companies (Steel)	2016
Marcegaglia USA	333,840
Marcegaglia do Brasil Ltda	3,099,405
Marcegaglia TR	465,078
Marcegaglia UK	501,842
Marcegaglia Poland	974,990
Marcegaglia RU	33,870
Total foreign companies (Steel)	5,409,024

Total Marcegaglia Steel	42,702,185
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Investments

The policy of targeted investments continued in 2017, for all the Marcegaglia Steel companies. These investments amounted to approximately Euro 43 million, of which Euro 37 million are for the Italian companies and Euro 6 million for the foreign subsidiaries.

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 maintaining the highest safety standards.

Investments were also made in plant renewal, in order to maintain manufacturing efficiency.

Marcegaglia Carbon Steel achieved capex of Euro 28.2 million, largely concentrated in Ravenna (Euro 17.5 million), due to several optimisation projects, in particular Euro 4.3 million in the zinc coating area (of which Euro 2.0 million alone were for zinc coating 1), Euro 3.7 million in the services centre including the installation of correction lines to recover declassified materials, and Euro 2.0 million in logistics, to upgrade the dockside cranes.

As to other plants, Euro 5.8 million were invested in the Gazoldo degli Ippoliti site for general efficiency improvement projects.

Investments made by **Marcegaglia Specialties** amounted to Euro 7.7 million, of which Euro 3.6 million were at the Gazoldo degli Ippoliti site, concentrated (Euro 2.0 million) on the pickling and tempering lines.

To complete the picture of Italian subsidiaries, **Marcegaglia Plates** made investments of Euro 1.3 million in the San Giorgio di Nogaro plant.

For the foreign subsidiaries 2017 was a year for normal investments in line with the overall objective of improving the efficiency and cost-effectiveness of production processes for a total of Euro 5.4 million.

An increase in investments compared to recent years is expected from 2018 onwards. These will be aimed in particular at strengthening verticalisation, and improving products and processes with higher added value. The further strengthening of industrial assets will nevertheless be managed with a careful eye on the best use of financial resources, with a view to maintaining financial equilibrium, and with a focus on the most remunerative investments.



Overview by business line



Marcegaglia Carbon Steel

FLAT PRODUCTS

Coils (excluding painted products)

In 2017, Marcegaglia's coils division shipped 1.126 million tonnes, with growth of 1.2%, just above budget (+0.2%) compared to the previous year. Sales leapt to Euro 740 million, up 32.4% compared to 2016, mainly as a result of the increase in prices.

There have been substantial changes in logistics flows since last year. This is mainly due to volatility in the dollar, sudden fluctuations on the markets, and global protectionism which influenced trade policies throughout the year. This had a major impact on the market mix, which saw national deliveries rise by 10% to 437,000 tonnes, at the expense of exports, which fell in continental Europe (-3%), the Americas (-15%), and particularly in the Mediterranean basin (-47%).

In terms of product type, the percentage of pickled coils shipped in 2017 decreased by 12% compared to the previous year; products with higher added value went against the trend, rising respectively by 1% (cold rolled coils) and 3% (galvanized coils).

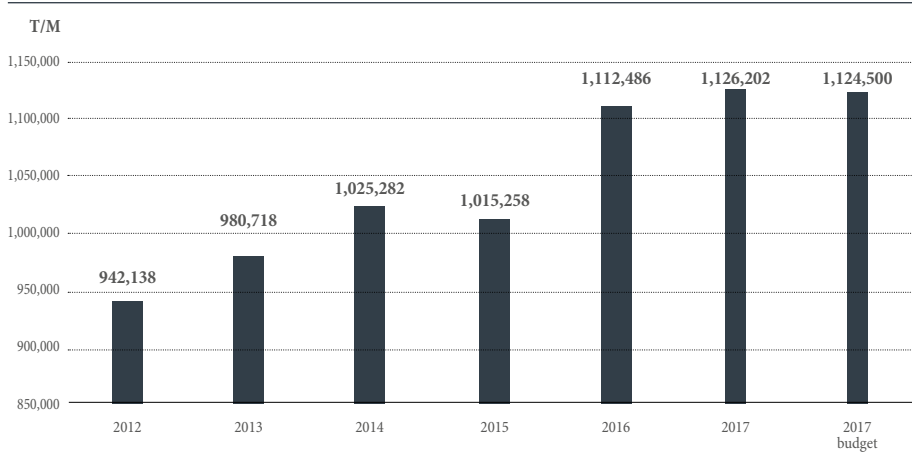
Margins in the coils division maintained a steady, positive trend throughout 2017, with a significant increase compared to 2016: up 15% in terms of the unit markup (Euro/tonnes) and up 16% in terms of absolute value.

The budget result was also positive: the unit markup was up 9% and the absolute increase was up 8.6%.

Processed flat products

The overall trend in processed flat products in 2017 was positive; it was in line with the results for the previous year, as regards the shipped volumes of 1,130

TREND IN TOTAL SALES



million tonnes (-0.3%), and showed an increase in terms of unit margins (+5%).

Shipments of strips rose by 3% overall, the result of a 6% increase in deliveries to third-party customers and a reduction of 26% in infra-group deliveries. These were mainly impacted by the NAFTA protectionist measures mentioned above, which made supplies to the US affiliate impossible. Shipments of plates fell by 5% overall, especially with regard to exports; the price gap between north and south Europe narrowed, and therefore a selling policy was implemented, particularly on the national market; this strategy saw an increase of 5% in unit margins compared to the already positive result of 2016. It also enabled budget to be reached in absolute terms. However, during the central part of the year, the price reversal had an immediate impact, and eroded part of the margins previously gained.

There was a significant increase in sales, which came to Euro 752 million, while the characteristically extensive distribution network was maintained, with 1,657 customers served in Europe during the year.

The product and market mix also reflects the margin-driven commercial policy, with increases in the volumes of structural high resistance pickled products, auto galvanized and cold rolled specialties.

Finally, 2017 saw the launch of LASER SHARP®, a range of structural sheets for laser applications is suitable for special finishes, whose main characteristics are well-maintained surface appearance and flatness.

Pre-painted products

After years of steady growth, 2017 marked a standstill (-5.6%) for Marcegaglia's pre-painted products compared to 2016, in contrast with EU consumption year on year, which at 5.0 million tonnes was in line with previous year's volumes.

During the first half of the year, commercial activity was affected by the significant increase in raw material prices, and the adjustment of sale prices which were delayed

by several months.

In the middle of 2017, demand was good, with margins excellent through to the end of September. In the final quarter, apparent demand saw a slowdown throughout Europe, connected to the decline in prices, with margins partially reduced particularly in November and December.

However, overall, the results of the painted products division were satisfactory in terms of volume, and as to markup, were among the all-time best. The distribution of pre-painted products in the market mix was 68% exports, and 32% national sales.

The number of customers rose compared to the previous year (380 compared to 365) in line with a commercial policy that is increasingly geared towards end users, with the sole purpose of favouring product profitability.

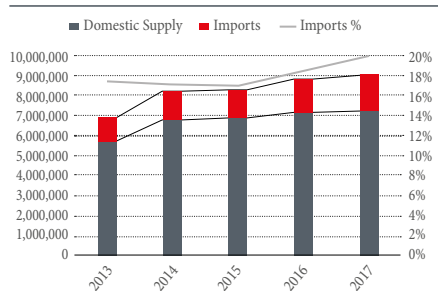
Important initiatives are underway on the pre-painted market, to develop new cycles and new surface finishes with a focus on volumes and product profitability.

WELDED TUBES

The European markets for welded tubes in the sub-406 mm diameter segment were again highly competitive, and saw imports rise in 2017 by 10% compared to an increase of 1% in internal production, which stabilised at 8.0 million tonnes.

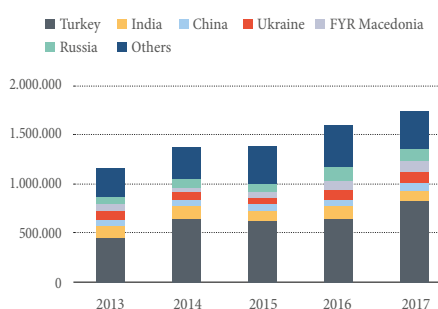
Apparent consumption was 9 million tonnes, with a change of 2.4% that was largely absorbed by the rise in imports.

APPARENT CONSUMPTION EU28
SMALL WELDED TUBES



Source: ESTA

ALL SMALL WELDED IMPORTS EU28
MONTHLY AVERAGE 12 MONTHS 2016



Source: ESTA

Imports were concentrated on low-tech products, with the primary channel being the large distribution networks.

This trend confirms the importance of continuing with the work started some years ago, to differentiate and develop higher added value products.

During 2017, the presence in the construction market was stronger, with the traditional range, being expanded to include structural hot-finished products compliant with the EN 10210 standard by exploiting the thermal processing capacity of the site at Casalmaggiore.

With a view to territorial and product differentiation, Marcegaglia obtained API certification for products destined for oil drilling, which are mainly in the American market.

Sales in 2017 essentially remained at 2016 levels, but with a significant rise of 23% in turnover, to Euro 698 million.

Geographically speaking, the presence in the traditional Italian market, and in Germany – the main import target – declined, while there was growth in North European markets, where quality requirements have allowed the company to achieve its profitability targets.

Sales to users exceeded 50% of total volume, with an increasing focus on automotive, renewable energies and the environment. The company thus accepted the challenges posed by its very loyal customer base, which is interested in developing avant-garde technical solutions and applications.

Close relations with national and European trade allowed the company to maintain a high-profile position, despite import issues. Efforts have been directed towards optimising services, by means of a plan to improve the entire supply chain. The company expects to see significant benefits from this, as early as 2018. Commercial initiatives saw stronger collaboration and coordination with MM Poland and MM UK.

This allowed international customers to benefit from the manufacturing and logistics opportunities provided by the

Marcegaglia group.

Commercial companies also made a synergic contribution to trade growth.

Eta, with 48,000 tonnes, reached an all-time high, expanding its service offer while Trisider has successfully maintained its position by rapidly adapting to the increasingly pronounced shift from the traditional cold rolled product to pickling.

The first quarter of 2018 has proved that the actions taken in terms of production and commercial policy, are yielding positive results. This augurs well for the rest of the year, despite uncertainty in the international iron and steel sector, caused by protectionist measures.

Cold-drawn tubes

The cold-drawn tubes market continued to grow throughout 2017, even during the third and fourth quarters which historically have always seen lower consumption. This indicates a market in significant recovery.

The year was positive for all segments, particularly in the second part of the year when there was a significant upturn in earthmoving, with volumes increasing by 25%.

The significant rise in the price of coils

seen in the first half of the year had a significant impact on product margins in the short term, but this was absorbed by the price increases applied during the year.

In this scenario, Marcegaglia Carbon Steel increased its presence on the European market, with volumes rising by 5% and a significant recovery in non-EU exports.

The automotive sector, and the mechanics industry in general, confirmed the good performance of previous years.

Meanwhile in the hydraulics segment, the first half of 2017 was good, and there was further growth in demand in the second half.

Growth, compared to 2016, was seen in sales volumes of high value-added products like H8 finished tubes (+5%) and tubes for telescopic cylinders (+15%).

The market mix remained unchanged, with sales in the Italian market stable at 40%, exports at 60%.

Sales in North European countries and in France have risen, while the presence in the German market remained stable. Another highlight was the recovery in exports to Brazil and Russia, after years

of stagnation.

OEM sales accounted for more than 60% of total volumes in Automotive and in Hydraulics, while the close collaboration with various distributors in Italy and in Europe made it possible to reach customers who required service levels that a manufacturer cannot guarantee.

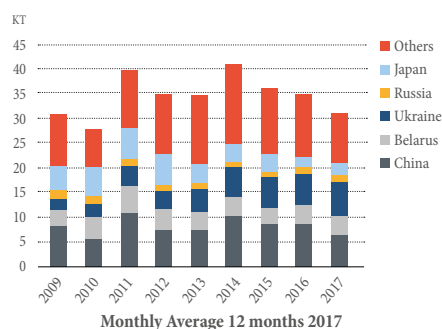
The outlook for 2018 certainly appears positive for all drawn tubes sectors, in terms of demand and rising sale prices, with a positive impact both on sales volumes and on the recovery of margins.

Marcegaglia do Brasil

In 2017 the Brazilian economy exited a recession that began in 2015. The recovery is driven mainly by household consumption, as families benefited from falling inflation and improved conditions on the labour market. There was also an important moment for the banking industry, as the cycle of deteriorating asset quality appears to have stopped, and household lending is rising again.

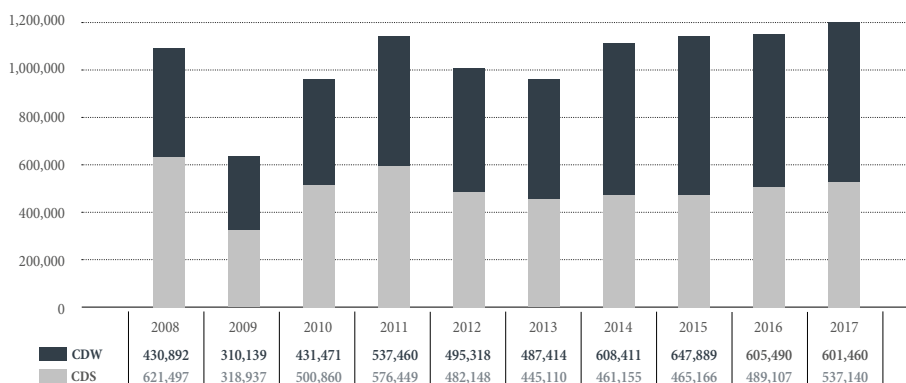
Analysts predict that GDP will rise by 2.1% in 2018 compared to 1% in 2017. Despite this, the local steel market is still heavily influenced (there has been an

SEAMLESS HOT FINISHED IMPORTS EU28



Source: ESTA

EU28 - COLD-DRAWN TUBES PRODUCTION EUROPE (tonnes)



Source: ESTA

overall reduction of 50% in volumes since the crisis began in 2014).

In this context, Marcegaglia do Brasil has still been able to defend its profit margins even with the reduced volumes, and has improved efficiency, ending the year with EBITDA, in absolute values, at the same level as 2016.

Steel volumes fell to 93,000 tonnes (-14.3% compared to 2016) both due to declining demand and the policy of selecting customers based on solvency, while in the refrigeration sector volumes rose by 8%. Turnover recovered, rising to 111 million (+8.8% compared to 2016), with EBITDA at Euro 10.9 million (11.0 in 2016).

Also worth noting is the positive trend in interest rates, which were steadily falling, although the year was marked by sharp currency fluctuations that penalised the end result.

Marcegaglia Poland

Growth in the Polish economy is continuing, estimated at more than 3% in the 2017-18 period (2.8% in 2016), thanks to increased consumption and investments favoured by large European funds. Unemployment is expected to fall further, below 6%.

Marcegaglia Poland managed to fully exploit the favourable economic situation on the local market, confirming the excellent results in 2016 (volumes, efficiency and margins). All budget targets were reached and well exceeded.

Steel volumes grew by 14.8%, exceeding 315,000 tonnes (274,000 in 2016).

The refrigeration sector remained largely stable, while sandwich panels saw volumes rise by 13%.

Turnover rose to Euro 253 million, with a sharp increase of 38.3% compared to 2016.

The continued quest for efficiency and economies of scale yielded important results in terms of lower percentages of direct costs (which fell to 5.3% of turnover from 6.6% in 2016) and also in terms of administrative expenses which settled at 2.1% (2.7% in 2016).

With EBITDA at 11.5%, equal to Euro 29.1 million (+36% on 2016), Marcegaglia Poland was the group's best-performing foreign company.

In 2018 there is expected to be further confirmation of its leadership position, in terms of results.

Marcegaglia UK

Brexit was certainly one of the most discussed topics of the past year. While the world awaits the result of the Article 50 process that will implement the electorate's decision, initial figures on the British economy one year after the vote indicate that GDP has risen at the same rate as it did in 2016 (+1.8%) with the rate of inflation rising to 2.7% (0.64% in 2016).

For Marcegaglia UK, "Brexit year" did not compromise the growth in volumes nor the consolidation of profitability.

The biggest fluctuation of sterling, which fell against the Euro and the dollar, generated minor foreign exchange losses.

The company pursued its budget targets both in terms of volumes and of margins, confirming continued positive results, which are certainly a highlight and also augur well for 2018.

Shipped volumes rose by 8.1% to 80,300 tonnes (74,300 in 2016).

Turnover was almost Euro 60 million (46 million in 2016, up 28.3%).

Direct costs fell by 12.3% to 10.3%, while administrative expenses stood at 5.7% (6.7% in 2016).

EBITDA was Euro 3.9 million.

The new site in Rotherham, where production began in mid-2016, has fully lived up to expectations in manufacturing terms, and has met the budgeted profit targets.



Marcegaglia Specialties

STAINLESS STEEL

In 2017, global production of stainless steel achieved a new record, reaching 48 million tonnes. This was an increase of 2.633 million tonnes, corresponding to +5.8% compared to 2016. The sector was driven by the “Other Countries” (Brazil, Russia, South Africa, South Korea and Indonesia), which saw a sharp rise in activity during 2017, equal to 22.0%, equating to 4.146 million tonnes.

GLOBAL STAINLESS STEEL PRODUCTION (thousand tonnes)

	2017	2016	2017-2016 change
Europe	7,377	7,280	1.3%
USA	2,754	2,481	11.0%
China	25,774	24,608	4.7%
Asia (excl. China and Korea)	8,030	7,681	4.5%
Other *	4,146	3,399	22.0%
Total	48,081	45,449	5.8%

* Brazil, Russia, South Africa, South Korea, Indonesia

Source: ISSF - Elaboration of data from siderweb.com

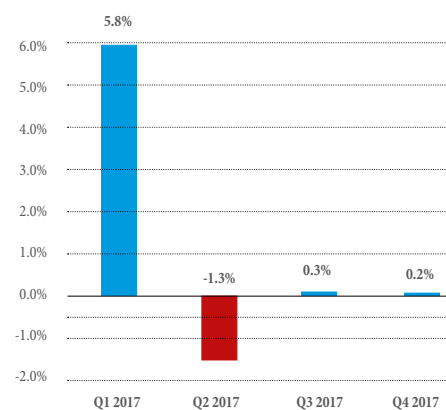
Looking in detail at the stainless steel segment of the European iron and steel industry, there was a slower pace than in the rest of the world. The increase in business was modest, halting at +1.3%, with an increase of just 97,000 tonnes compared to 2016. In particular, looking at the quarterly data, there was localised growth only in the first three months, while the other quarters remained at the levels of the previous year. Between January and March, Europe produced 1.980 million tonnes, with growth of 114,000 tonnes compared to the same period in 2016, while the other nine months saw an overall decline in activity of 17,000 tonnes. In reality this reflects the trend globally, where there was a 14.7% increase in production during the first quarter, with the rate falling to +3.2% in the remaining nine months.

2017 again saw high volatility in raw materials such as nickel and ferrochrome. This generated significant periods of destocking and restocking, causing very different quarterly trends.

Marcegaglia Specialties was able to counter the effects of market volatility thanks to its wide range of products: tubes for the corrosion, decoration and automotive sectors; hot and cold rolled coils and sheets, round and shaped bright bars, flat bars, cold formed sections and cold-drawn bars. On the import side, there was also a significant increase in the import of cold rolled stainless steel coils, which in some cases led to pressure on margins for flat products. Since 2017 there has also been an increase in imports of welded stainless steel tubes from China and Taiwan.

In line with events in Europe, Marcegaglia Specialties achieved a modest growth in flats, while suffering a slight downturn in tubes, mainly in the two leading markets, Germany and Italy.

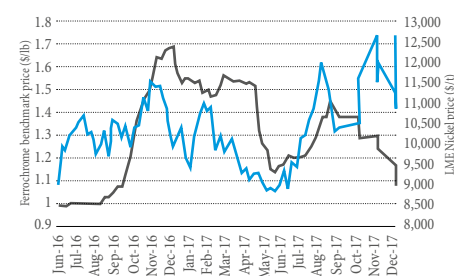
GROWTH RATE OF EUROPEAN STAINLESS STEEL PRODUCTION



Source: ISSF

FERROCHROME AND NICKEL PRICES WERE FAIRLY VOLATILE IN 2017

Ferrochrome prices (\$ per lb) and nickel prices (\$ per tonne)



Fonte: Goldman Sachs Global Investment Research, Datastream, Metal Bulletin

Marcegaglia Specialties maintained the same volumes as the previous year (400,000 tonnes), but with turnover rising by 13.3% and EBITDA in line with the good results achieved in 2016, equal to 11% of turnover.

Thanks to the characteristics of its range, services and constant market presence, Marcegaglia Specialties has been able to achieve further growth, and to strengthen its own strategic position in European distribution.

COLD DRAWN BARS

In 2017, the cold-drawn bar division consolidated the strong recovery seen in prior years, further boosting both in terms of volumes and in terms of adding value. The excellent result for 2017, with a further 7% rise, comes in addition to the already significant increase in the previous year (+11%) contrasting with the overall figure for Italy, which stood at a more modest 3.6%.

The 189,000 tonnes invoiced by Marcegaglia Specialties in 2017 represent 23% of deliveries made by the Italian stainless steel extractors (821,000 tonnes, annual figure for 2017), highlighting Marcegaglia's leadership role in Italy and in Europe.

41% of sales were achieved on the national market (up 16% compared to 2016), with the remaining 59% in Europe and the non-European markets of the MENA, NAFTA and CIS areas and in India (up 2% compared to the previous year).

Quantitative growth, through direct supplies to the market of product users, was particularly significant, at 33%.

The increase of 7% was achieved on all sales lines, with a particular emphasis on special and quality steels. There was continued expansion of the product range, and a focus on customer satisfaction thanks to prompt delivery with supplies of ready-made products, but also specific programmes tailored to customer requirements.

The best performances were achieved in the following sectors: automotive, hydraulics, machine tools, earthmoving machinery and trucks.

The trend in this sector is expected to be positive again this year, with reassurance

coming from the good results of the early part of 2018 which saw a further increase of 3% in volumes, and also satisfactory margins in terms of added value.

Marcegaglia RU

In Russia, 2017 saw 1.75% growth in GDP, which was slightly below expectations. The early signals from the first quarter of 2018 appear to be positive: the available evidence highlights an improvement on the economic situation compared to Q4 2017. This is mainly due to the recovery in industrial production, which was up by 2.9%, and growth in the mining sector (+1.1%) while the manufacturing sector increased by 4.7%. An analysis of the figures highlights a decline in oil production, which was down 1% partly as a result of the OPEC agreement, and an even more accentuated downturn in natural gas (-2.2%); conversely the production of coal and other minerals improved.

Inflation remained at the same levels as at year-end (2.3%). Growth in investments accelerated in Q4 2017, with the annual figure closing at 4.4%.

Investment activity is set to remain solid in 2018, indicating growth similar to that seen in 2017.

The Russian market for stainless steel, although showing clear signs of recovery, suffered from the extremely strong competition from imports from Far Eastern countries, especially China, which represented, overall, more than 30% of the total market for welded tubes. Partly for this reason, the Russian government is considering the possibility of introducing customs duty on welded tubes to protect the national manufacturers.

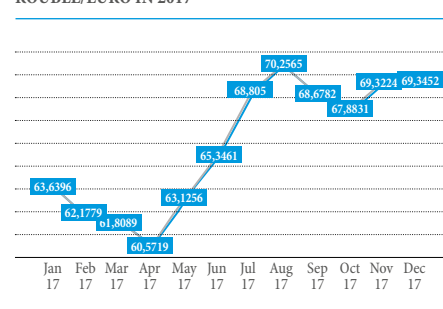
In this context, Marcegaglia RU has developed its flats trading, seeing a large increase in volumes and turnover, and has managed to improve on the EBITDA for 2016 in absolute terms.

Shipped tonnage rose to 13,700 (+41.2% compared to 2016). Turnover rose to 35 million Euros (+66.7% compared to 2016).

Direct costs, in percentage terms, fell to 4.0% of turnover (4.8% in 2016), while administrative expenses fell to 4.6% (6.6% in 2016). EBITDA rose to 2.4 million Euros (+20% compared to 2016).

During 2017 the rouble fluctuated strongly and was heavily devalued, which penalised the final result of Marcegaglia RU with exchange losses on currency loans.

ROUBLE/EURO IN 2017





Marcegaglia Turkey

Since 2017, the Turkish economy has shown strong resilience, returning to growth of more than 5% driven mainly by exports and by the real estate sector. The growth target set by the government in the last Medium Term Economic Plan for 2017-2020 was 5.5%, and this is expected to come from the development of high-tech sectors such as defence, aviation, ICT, pharmaceuticals and chemicals, as well as a policy of incentivising foreign investors to relocate their production operations to Turkey. Recently, the leading international financial institutions have revised their forecasts upwards: in 2017 the World Bank expects growth of 6.7%, the IMF 5.1%.

The high rates of inflation and unemployment remain the central problems of the Turkish economy. In 2017, the inflation rate never fell below 9.58%, while average inflation stood at 11.14%.

2017 was the first year of full operations for Marcegaglia TR. The targets set in the Business Plan were achieved, both in terms of volume and profits despite competition from Far East imports.

Shipped tonnage of directly produced products doubled, rising to 8,200 (4,100 in 2016) while turnover reached 23 million Euros (+53.3%).

Direct costs and administration expenses as a percentage of turnover fell to 6.4% (7.1% in 2016) and 5.4% (8.3% in 2016).

However, these results have encouraged the company to implement a strategy of consolidation and expansion of investments, which in 2018 will see Marcegaglia TR preparing to make the investments in 2019 as planned in the second phase of the Business Plan for 2014-2020.

Turkey also suffered from high levels of currency fluctuation.

Marcegaglia USA

The data recently published by the Bureau of Economic Analysis (BEA) confirmed the solidity of the US economy. The expansion that began in the second half of 2009 also continued in 2017, with GDP up by 2.3% in line with IMF estimates.

This economic expansion continued to support the rise in employment. Unemployment remained at the historically low level of 4.1%.

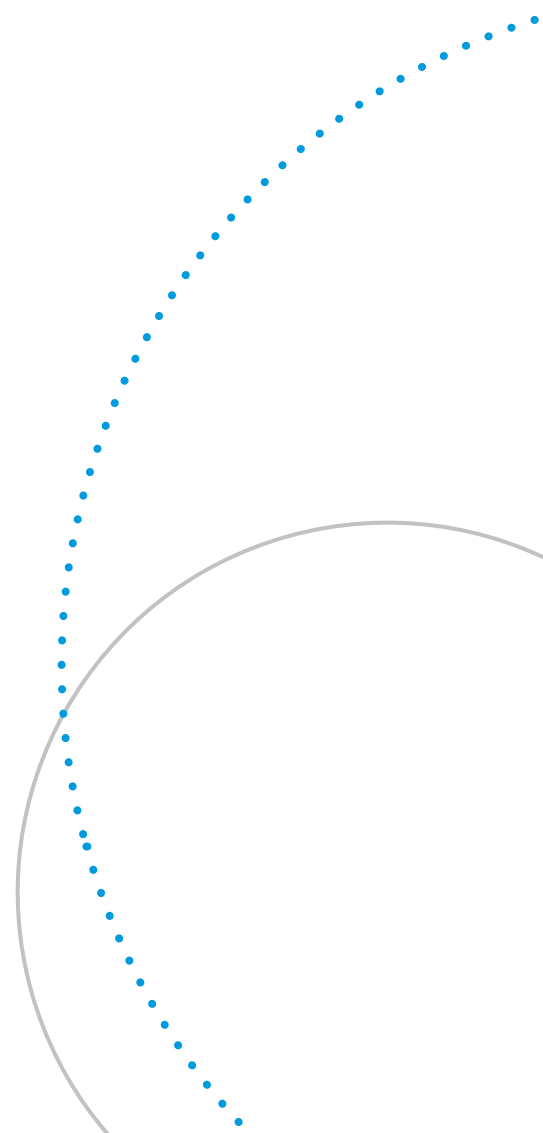
However, in February 2017, in line with the policy of focusing on the group's higher-profit activities, the stainless steel division of Marcegaglia USA was sold to the American competitor Bristol Metals.

In recent years, the market for stainless steel in the United States has seen an over-fragmentation of local manufacturers, and has suffered from the strong impact of imports, especially from the Far East, which have placed great strain on margins across the industry.

The sale of Marcegaglia USA's stainless steel division to Bristol, on the American market, was considered the best strategy to mitigate this, as well as guarantee continuity of business at the Munhall site.

Long-term strategies are also being planned for the zinc tube division, on which Marcegaglia USA is now focusing.

EBITDA was heavily affected by the disposal, which included write-downs of stocks and other assets at the time of the sale in February 2017. Expectations are positive for the 2018 results, excluding the effects of the extraordinary operations.



Marcegaglia Plates

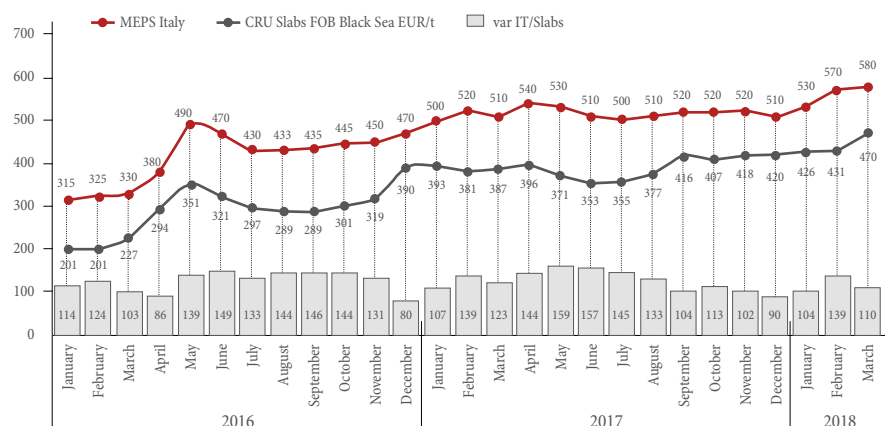
Heavy plates

The European market for heavy plates, which is the sector of Marcegaglia Plates, followed the trend in the international iron and steel market: the growth in production was confirmed by the opening of new sites, which have entered the already-crowded market for European re-rollers.

The trend in sale prices was supported by demand and by the buoyant prices of raw materials, yet was weakened by the high levels of imports, which continued to expand the offer despite the protectionist measures now in force.

The prices of the main raw materials stayed at end-of-2016 levels for the first half of the year, only to rise steadily in the second half (+6.80% of the value in Euro of December compared to the January figure, which in USD corresponds to +19.3%).

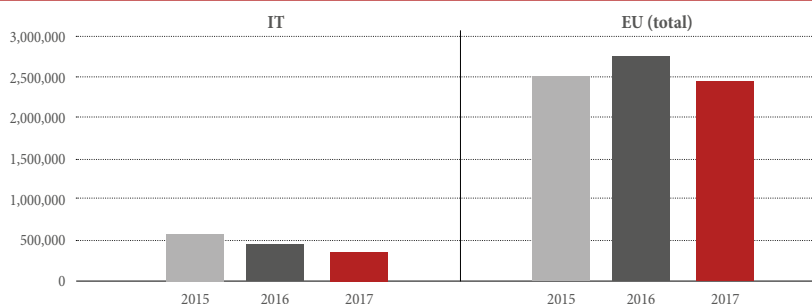
SLABS / PLATES SPREAD



European imports of heavy plates, which have fallen since 2016 (-11% with 2,462,800 tonnes) were nevertheless at high levels.

Italy was the second-largest market for imports (14.4% of the total imports into the EU, with 354,125 tonnes).

QUARTO PLATES IMPORTS (t)



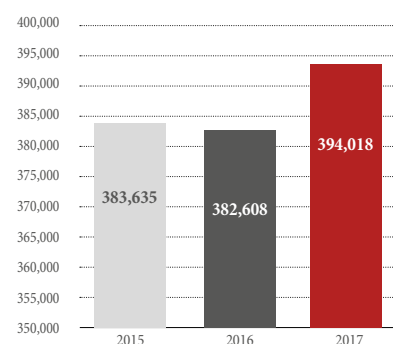
Production at the San Giorgiodi Nogaro site recorded an all-time high in 2017, (394,018 tonnes; up 2.98% on 2016) which is proof of the constant drive towards optimisation that has characterised Marcegaglia Plates over the past two years.

In terms of sales, the first part of the year saw steady sale prices, while in the second half the trend was more uncertain. For the second year running, high competition on the domestic market (overcapacity and imports) meant that sales were mainly concentrated abroad (66% international, 34% Italy).

Research and development focused on the exploration of new markets, improved customer service, and on specific supply requests. End users with specific requirements entered the core sales portfolio, guaranteeing large volumes and margins.

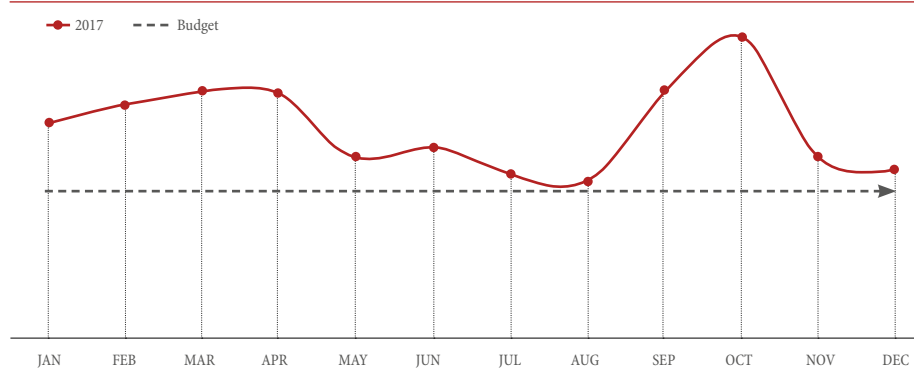
Thanks to the constant research and development of new grades for more demanding customers, Marcegaglia Plates hit all its budget targets for shipped volumes (+0.4%), markup (+6.5%) and income.

USED COMMODITIES (tonnes)



The overall picture for 2017 depicts a positive year, which will be used as a foundation for the year 2018 with a view to further improving results, and continuing to expand the range in order to cover a more sophisticated mix of products and markets, partly thanks to the new international certifications.

MONTHLY MARK UP - 2017



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 aimed at improving products and processes.

The various projects concluded in 2017 include, in particular, the **industrial patent** that was deposited for the design of a **continuous system to measure the mechanical characteristics of metallic strips**.

The new measuring system will continuously determine the mechanical and microstructural properties of steel and metal alloy strips or plates on the line. This innovation will overcome the limitations posed by existing equipment, as it can also be used for non-ferromagnetic materials such as aluminium alloys, austenitic stainless steel, copper, brass and other alloys.

With reference to new product development, in 2017 Marcegaglia **expanded its offer of carbon steel flats to include new grades to an already-broad range**.

- Microalloyed hot rolled steel strips according to the EN 10149-2 standard, with a high yield strength for cold forming, in a broader range of grades, from S280MC to S550MC, which enables supplies to be delivered with far more restricted thickness tolerances than the EN 10051 standard;
- The range of cold rolled products was expanded thanks to the introduction of steel for enamelling by vitrification, according to EN 10209, grades EK1 and EK4;
- Marcegaglia has introduced an even more high-performing grade than the M340-50K, into its range of semifinished magnetic steels: the new M310-50K will further reduce the energy consumption of the electric motors it is used in;
- New grades in the range of galvanized hot-dip strips for structural use, currently available from S220GD to S550GD with zinc coatings of up to Z600;
- For the automotive sector and beyond, the following grades have been developed: galvanized HCT780X (DP800), of which Marcegaglia is the only Italian producer, the HCT490X and the HCT590X, and Bake-Hardening, with the galvanized HX220BD;
- The European Office for Intellectual Property has issued Marcegaglia with a certificate of trademark registration for SHIMOCO®, which is now officially on the EU Register of Trademarks.
SHIMOCO® identifies a high quality pre-painted galvanized steel consisting of a combination of a thick anti-corrosive primer and a superpolyester topcoat with a wrinkled gloss finish and an incredible visual impact;
- In stainless steels, with the collaboration of Centro Inox, Marcegaglia Specialties supported the project of the Official Team of Formula SAE at “Tor Vergata” University in Rome, by supplying the steel EN 1.4306 (AISI 304 L). It will be used for the exhaust on a prototype open-wheel car.

Project title	Principal project objective	Plant
Development of DP980 steel	Completion of range of AHSS products for the automotive industry	Marcegaglia Carbon Steel Ravenna
Optimisation of special high-carbon steel annealing cycles	Reduction in production costs	Marcegaglia Carbon Steel Ravenna
Optimisation of chemical composition of high-strength products (HX420LAD, S350GD)	Reduction in cost of raw materials Increase in productivity	Marcegaglia Carbon Steel Ravenna
Start of RFCS HIGHTECH4STEEL Project financed by the European Commission	Improvement in quality of products using company's BIG DATA	Marcegaglia Carbon Steel Ravenna
Start of project financed by the Ministry of Economic Development	Digitalisation and integration of industrial processes Increase in productivity and reduction in energy consumption	Marcegaglia Carbon Steel Ravenna
R&D and profiling installation of a new solid-state welding machine	Energy saving	Marcegaglia Carbon Steel Gazoldo degli Ippoliti
Research, design and development of new shear scrap management systems	Improvement in efficiency of production processes	Marcegaglia Carbon Steel Gazoldo degli Ippoliti
R&D for insertion and application of hydraulic capsules on stand 2 and 3 on tandem mill	Improvement in quality of products	Marcegaglia Carbon Steel Gazoldo degli Ippoliti
Planning and development of hydraulic and electrical revamping on 1600/1 shears	Improvement in efficiency of production processes	Marcegaglia Carbon Steel Gazoldo degli Ippoliti
Planning of revamping and development of a new packaging line for pre-painted steel	Extension of product range	Marcegaglia Carbon Steel Gazoldo degli Ippoliti
Development of stainless steels for deep drawing	Extension of product range	Marcegaglia Specialties Gazoldo degli Ippoliti
Development of work hardening austenitic steels for precision re-rolling machine	Extension of product range	Marcegaglia Specialties Gazoldo degli Ippoliti
Optimisation of chemical composition of austenitic stainless steels	Reduction in metallurgical defects on finished products	Marcegaglia Specialties Gazoldo degli Ippoliti
Optimisation of hot rolling processes at suppliers	Reduction in specific defects and increase in yield	Marcegaglia Specialties Gazoldo degli Ippoliti
Industrialisation of new pickling tank (ACE PICK)	Improvement in efficiency of production processes	Marcegaglia Specialties Gazoldo degli Ippoliti
Installation and testing of innovative non-destructive testing systems (laser and HF)	Improvement in product stability and reduction in rejects	Marcegaglia Specialties Forlì
R&D and industrial tests for production of welded pipes with new stainless steel grades	Extension of product range	Marcegaglia Specialties Forlì

Sustainability and safety

In 2017 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, in minimising 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

During 2017, the multi-site integrated environment and safety management system was successfully maintained in all production sites of the above-mentioned companies in accordance with the international standards UNI EN ISO 14001:2015 and BS:OHSAS18001:2007. With the help of the certifying body (RINA), the certification programme has continued with the objective of rolling out this system across all sites.

On the energy front, Marcegaglia Carbon Steel group, Marcegaglia Specialties and Marcegaglia Plates also achieved certification in 2017, according to the standard UNI CEI EN ISO 50001 "Energy Management Systems – Requirements and Guidelines on Use".

Also with a view to procedural optimisation, AEO certification was obtained by the subsidiary Marcegaglia Carbon Steel. Issued by the Customs Agency and recognised internationally by all EU Member States, it indicates that the subsidiary has fast-track import/export customs procedures, giving customers a performance guarantee in the field of international trade and logistics efficiency.

SAFETY AND HEALTH CULTURE PROMOTION INITIATIVES

Zero accidents plan

Also in 2017, the initiative called "**Zero Accident Plan**" continued together with the ongoing staff updating and training. The initiative was put into practice several years ago at the Marcegaglia Carbon Steel plants in Gazoldo degli Ippoliti and Ravenna, with the purpose of creating awareness of the culture of safety for employees at all levels of the company organisation. The plan, through the "Value

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.

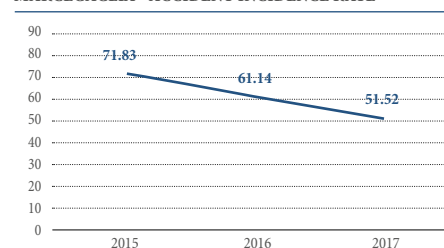
This initiative will continue in the near future in all group's sites. Another similar pilot plan called **BBS (Behaviour Based Safety)** is in place at the Marcegaglia Specialties headquarters in Forlì, where major results have already been achieved.

Accident trends

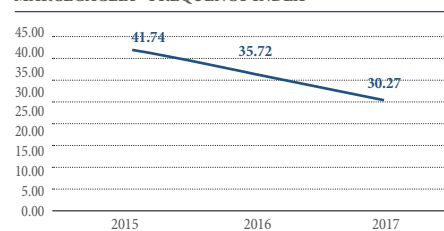
Continuous investments and increasingly greater enhancement of prevention with respect to occupational safety has in recent years resulted in a constant sharp reduction in accidents.

The following are the most important indicators applicable to all production units as a whole so as to have a representation of accident trends during the last 3 years for the Marcegaglia group.

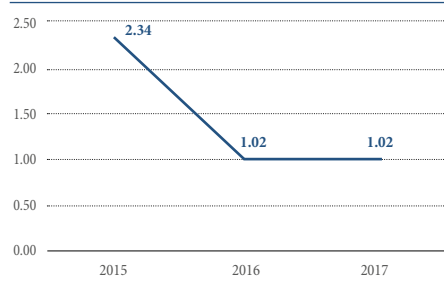
MARCEGAGLIA - ACCIDENT INCIDENCE RATE



MARCEGAGLIA - FREQUENCY INDEX



MARCEGAGLIA - ACCIDENT SEVERITY RATE



Promotion of group's social and cultural activities

A number of initiatives have been organised to support the company's values and assist communities in areas in which Marcegaglia has its production sites.

Projects included the partnership with **Festivaletteratura**, the long-running support for the **Mantua Chamber Orchestra**, and the **Italian Environment Fund (FAI)**.

In addition to various **sporting, social and cultural events** including the *Festa Artusiana* in Forlì, the *contemporary mo-*

saic biennial in Ravenna, which attracted 120,000 visitors to the various events held in 2017, and the *Dialoghi contemporary theatre event* at the Cinema del Carbone in Mantua.

The **Marcegaglia Foundation** successfully continued its activities. In 2017 the Foundation continued two long-running projects: support for the "*Centro Aiuto alla Vita*" (Life support) in Mantua, which supports women who have been victims of violence, and the *One Cow* project in Rwanda, which has been expanded to include healthcare, housing and educational opportunities for disadvantaged families.

The focus on women in business has crystallised with support for a new project to develop the textile cooperative Guri I Zi in Albania.

Meanwhile in the province of Mantua, the Foundation is working on an innovative family welfare project, in collaboration with a network of local public and private partners.

Finally, 2017 saw the launch of **two new competitions aimed at employees** of Marcegaglia's Italian sites. The first contest awarded 10 scholarships to deserving university students, children of the company's staff. The second project, "*Progettiamo il futuro*" (Designing the Future), funded 5 schools chosen by staff members, to launch projects that engage students on social issues.

Human resources

In 2017, the average number of Steel employees (same perimeter) rose to 5,077, compared to 4,999 employees in 2016.

Italian workforce accounts for 74% of the total, and saw an increase of 1% in the number of staff.

In the foreign units, excluding Marcegaglia USA due to the business unit sale, and also Marcegaglia China, employment rose by 3%, with new entries notably in Marcegaglia Poland.

During the year, highly-educated young talents were hired at the Italian production sites, not only to replace the natural turnover but also to increase shifts at the sites. These new hires will gradually facilitate generational turnover.

In parallel, **staff training investment** has also continued, with more than 45,000 hours' training focused on **safety in the workplace and technical/professional topics**.

In 2017, the production sites reached the expected levels of output, with staff being paid the bonuses as planned in the supplementary company agreements. There was also an improvement in the accident indicators, with ISO 18000 and ISO 14000 environment certifications obtained for all companies.

Early in 2017, Operations Divisions were created for the two areas – flats and tubes – of Marcegaglia Carbon Steel, the main operations company. Headed by experienced in-house managers, these divisions are responsible for all the subordinate production units within their respective areas, with the aim of improving the synergic links between activities.

The organisational changes are part of the general “**Supply Chain Management**” project rolled out by the Marcegaglia group to improve customer service and internal efficiency by maximising the use of resources and 4.0 technologies.

Revisions to the operational flows within the various companies and corporate divisions, which were implemented group-wide by Marfin, were completed with the contribution of partners in order to simplify and streamline business processes by exploiting new technologies.

The steady evolution of the organisation and the full recognition of the group's internal expertise are recognition of the fundamental role played by our human resources in strategic development projects, and are also a validation of our professional, cohesive management team, whose contribution is greatly appreciated.

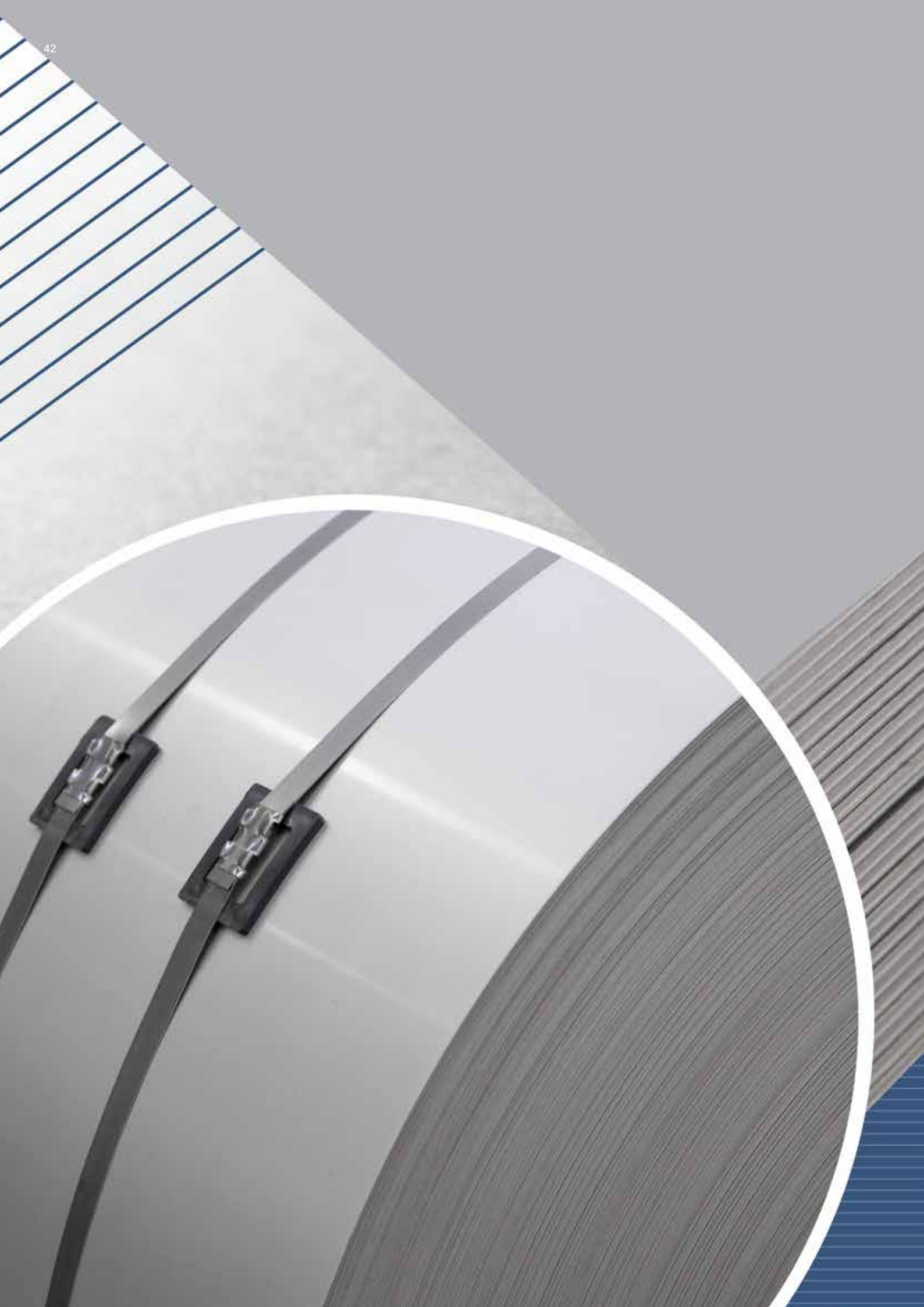
In a positive year, all employees deserve thanks and consideration for the work activities performed with commitment and professionalism.

EMPLOYEES

Company	2017	2016	var
CARBON STEEL	2,741	2,739	0.1%
SPECIALTIES	769	746	3.1%
PLATES	85	83	2.4%
Other Italy	33	25	32.0%
Total Italy	3,628	3,593	1.0%
Marcegaglia Poland	578	545	6.1%
Marcegaglia UK	129	124	4.0%
Marcegaglia do Brasil	480	483	-0.6%
Marcegaglia RU	80	77	3.9%
Marcegaglia USA (sale of business unit)	4	105	-96.2%
Marcegaglia Turkey	50	49	2.0%
Total foreign subsidiaries, same perimeter	1,321	1,383	-4.5%
Total consolidation, same perimeter	4,949	4,976	-0.5%
Marcegaglia China	0	269	2.0%
Total consolidation	4,949	5,245	-5.6%
Marfin	132	128	3.1%
Total excluding China and USA	5,077	4,999	1.6%

 MARCEGAGLIA





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 auditor's report

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

Opinion

We have audited the consolidated financial statements of Marcegaglia Steel Group (the Group), which comprise the consolidated balance sheet as at December 31, 2017, the consolidated income statement and the consolidated cash flows statement for the year then ended and the explanatory notes.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2017, and of the consolidated result of its operations and consolidated cash flows for the year then ended in accordance with the Italian laws governing the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the section of this report titled *Auditor's responsibilities for the audit of the consolidated financial statements*. We are independent of Marcegaglia Steel S.p.A. (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the directors and board of statutory auditors for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the Italian laws governing the financial statements and, according to the terms prescribed by law, for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriateness of the use of the going concern assumption in the preparation of the consolidated financial statements, and for appropriate disclosure thereof. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless directors either intend to liquidate the parent company Marcegaglia Steel S.p.A. or to cease operations or has no realistic alternative but to do so.

The board of statutory auditors ("collegio sindacale") is responsible for overseeing, according to the terms prescribed by law, the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain a reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit performed in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of the audit in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures in response to those risks; we obtained sufficient and appropriate audit evidence on which to base our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- we obtained an understanding of the internal control relevant to the audit in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. Where a material uncertainty exists, we are required to draw attention, in our auditor's report, to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, subsequent events or conditions may cause the Group to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in such a manner as to give a true and fair view.

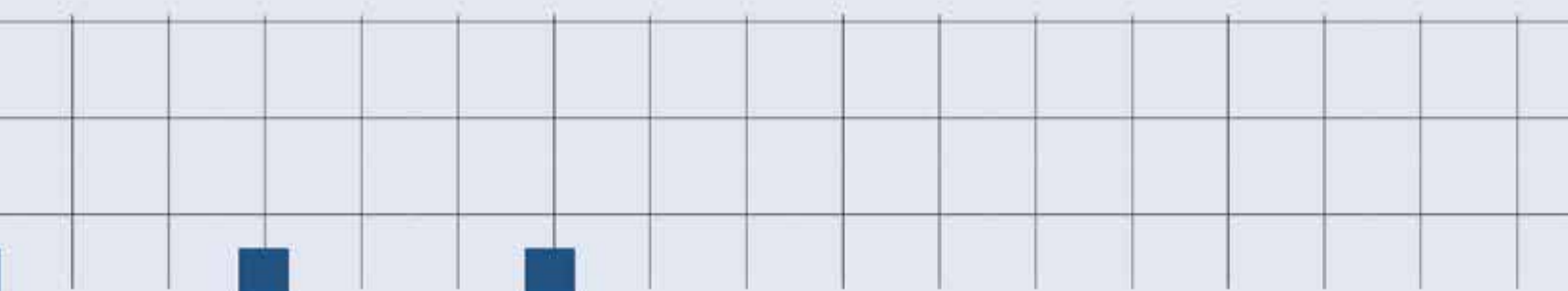
We communicated to those charged with governance, identified at an appropriate level as required by ISA Italia, among other matters, the scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Verona, April 30, 2018

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

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





MARCEGAGLIA STEEL S.P.A.

CONSOLIDATED FINANCIAL STATEMENT AS OF 31 DECEMBER 2017

ASSETS currency Euro

12/31/2017

12/31/2016

A RECEIVABLES FROM SHAREHOLDERS FOR OUTSTANDING CONTRIBUTIONS			
1	Receivables from shareholders for outstanding contributions not previously called	-	-
2	Receivables from shareholders for outstanding contributions previously called	42,895	-
	Total receivables from shareholders for outstanding contributions A	42,895	-
B FIXED ASSETS			
I	<i>Intangible fixed assets</i>		
1	Start-up and expansion costs	909,341	1,258,139
2	Development costs	-	-
3	Industrial patent rights and intellectual property rights	410,334	5,912,534
4	Concessions, licenses, trademarks and similar rights	157,457,441	177,555,583
5	Goodwill	27,574,774	52,266,544
6	Fixed assets in progress and advance payments	128,171	128,171
7	Other intangible assets	108,570	22,600,129
	Total Intangible fixed assets(B-I)	186,588,631	259,721,100
II	<i>Tangible fixed assets</i>		
1	Land and buildings	684,070,675	737,246,955
2	Plant and machinery	790,133,525	933,090,088
3	Industrial and commercial equipment	31,196,508	48,195,078
4	Other assets	10,395,154	10,156,886
5	Fixed assets in progress and advance payments	16,757,810	19,201,348
	Total Tangible fixed assets (B-II)	1,532,553,672	1,747,890,355
III	<i>Financial fixed assets</i>		
1	Equity investments in:		
	- Non consolidated subsidiaries	3,337,928	3,341,663
	- Associates	954,622	1,729,623
	- Other companies	1,776,341	17,357
		6,068,891	5,088,643
2	Receivables after 12 months:		
	d-bis) from others		
	- due within the following year	-	-
	- due after the following year	75,756	76,718
		75,756	76,718
3	Other securities	-	-
4	Financial derivatives with positive sign	-	-
	Total Financial assets (B-III)	6,144,647	5,165,361
	Total Fixed assets B	1,725,286,950	2,012,776,816
C CURRENT ASSETS			
I	<i>Inventory</i>		
1	Raw and ancillary materials and consumables	644,862,754	707,198,667
2	Work in progress and semi-finished products	379,110,255	321,375,349
3	Contract work in progress	289,705	381,354
4	Finished products and goods	402,474,394	363,860,033
5	Advance payments	19,377,235	1,100,521
	Total Inventory (C-I)	1,446,114,343	1,393,915,924
II	<i>Receivables</i>		
1	Trade receivables		
	- due within the following year	146,165,306	105,485,815
2	From subsidiaries		
	- due within the following year	650,293	424,979
3	From associated companies		
	- due within the following year	2,797,390	1,103,944
4	From parent companies		
	- due within the following year	11,204,122	14,189,706
5	From companies subject to control of parent companies		
	- due within the following year	313,252,203	316,683,534
5-bis	Tax credits		
	- due within the following year	30,946,962	12,595,088
	- due after the following year	988,134	1,682,924
		31.935.096	14.278.012
5-ter	Deferred tax assets		
	- due within the following year	6,108,935	28,648,577
	- due after the following year	29,667,602	25,790,145
		35.776.537	54.438.722
5-quarter	From others		
	- due within the following year	45,740,769	98,305,643
	- due after the following year	961,232	995,853
		46.702.001	99.301.496
	Total receivables (C-II)	588,482,948	605,906,208
III	<i>Financial assets not held as fixed assets</i>		
4	Other equity investments	259,870	259,870
5	Financial derivatives reported as assets	-	3,035,243
6	Other securities	3,308,823	4,424,945
	Total Financial assets not held as fixed assets (C-III)	3,568,693	7,720,058
IV	<i>Cash and cash equivalents</i>		
1	Bank and postal deposits	5,571,778	16,699,380
2	Cheques	1,650,370	588,713
3	Cash on hand and cash equivalents	28,488	33,453
	Total cash and cash equivalents (C-IV)	7,250,636	17,321,546
	Totale Current assets C	2,045,416,620	2,024,863,736
D ACCRUED INCOME AND PREPAID EXPENSES			
	Accruals and deferrals	956,950	1,206,438
	Total accrued income and prepaid expenses D	956,950	1,206,438
	TOTAL ASSETS	3,771,703,415	4,038,846,990

LIABILITIES currency Euro

12/31/2017

12/31/2016

A SHAREHOLDERS' EQUITY			
I	Share capital	695,318,116	695,318,116
II	Share premium reserve	-	-
III	Revaluation reserve	-	-
IV	Legal reserve	-	1,526
VI	Other reserves		
	- extraordinary reserve	-	29,001
	- consolidation reserve	(60,661,369)	3,642,123
	- reserve from conversion differences	5,335,426	2,031,690
	- reserve for foreign exchange translation gains	-	-
	- merger surplus	-	-
	- 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	-	-
	- difference from rounding off in euro	(5)	(2)
	Total other reserves (VI)	(55,325,948)	5,702,812
VII	Reserve for projected cash flow hedges	(194,940)	(519,774)
VIII	Profits (losses) carried forward	(27,702,957)	417,055
IX	Profit (loss) for the year	67,437,530	(47,440,725)
	Total group shareholders' equity	679,531,801	653,479,010
	Minority interests in capital and reserves	15,463,027	12,884,593
	Profit/(Loss) pertaining to minority interest	(1,753,701)	(4,000,995)
	Total minority interest shareholders' equity	13,709,326	8,883,598
	Total Consolidated Shareholder's Equity A	693,241,127	662,362,608
B PROVISIONS FOR RISKS AND CHARGES			
1	For post-retirement benefits and similar obligations	2,816,525	3,328,211
2	For taxes, including deferred taxes	278,159,693	301,252,279
3	Financial derivatives reported as liabilities	27,405,023	31,938,968
4	Other	1,649,721	1,994,708
5	Consolidated provision for future risks and charges	1,000,000	11,000,000
	Total Provisions for risks and charges B	311,030,962	349,514,166
C EMPLOYEE SEVERANCE PAY			
	Total employee severance pay C	14,951,659	15,778,085
D PAYABLES			
3	to shareholders for loans		
	- due within the following year	5,081,300	5,403,311
4	to banks		
	- due within the following year	542,384,793	666,212,045
	- due after the following year	375,573,849	499,416,325
		917,958,642	1,165,628,370
5	to other lenders		
	- due within the following year	8,398,123	9,919,313
	- due after the following year	1,404,860	9,958,134
		9,802,983	19,877,447
6	Advances		
	- due within the following year	1,557,757	12,676,274
7	Trade payables		
	- due within the following year	1,522,837,001	1,476,839,012
9	Payables to subsidiaries		
	- due within the following year	4,165,032	3,297,253
10	Payables to associates		
	- due within the following year	1,862,207	970,995
11	Payables to parent companies		
	- due within the following year	41,704,733	20,349,738
11bis	Payables to companies subject to control of parent companies		
	- due within the following year	5,046,675	13,141,395
12	Tax payables		
	- due within the following year	22,121,474	20,251,828
	- due after the following year	12,206	1,178,697
		22,133,680	21,430,525
13	Payables to welfare and social security organizations		
	- due within the following year	14,396,069	14,625,451
14	Other payables		
	- due within the following year	203,624,220	249,713,428
	- due after the following year	547	235
		203,624,767	249,713,663
	Total Payables D	2,750,170,846	3,003,953,433
E ACCRUED EXPENSES AND DEFERRED INCOME			
	Accruals and deferrals	2,308,821	7,238,698
	Total Accrued liabilities and deferred incomes E	2,308,821	7,238,698
	TOTAL LIABILITIES	3,771,703,415	4,038,846,990

MARCEGAGLIA STEEL S.P.A.

CONSOLIDATED PROFIT AND LOSS ACCOUNT COVERING FINANCIAL YEAR 2017

currency Euro		year 2017	year 2016
A	VALUE OF PRODUCTION		
1	Revenues from sales and services	4,761,025,597	3,773,129,017
2	Changes in inventories of work in progress, semi-finished and finished products	104,817,770	30,072,173
3	Changes in contract work in progress	(67,051)	23,690
4	Increase in fixed assets for internal work	84,340	728,950
5	Other revenues and income		
	- contributions during the year	2,967,892	1,485,827
	- other	13,018,825	14,443,884
	Total other revenues and income (5)	15,986,717	15,929,711
	Total Value of production A	4,881,847,373	3,819,883,541
B	COST OF PRODUCTION		
6	Raw and ancillary materials, consumables and goods	(3,654,204,983)	(2,818,824,082)
7	Services	(533,062,005)	(514,136,455)
8	Lease and rental expense	(5,089,312)	(6,373,213)
9	Personnel costs		
	a) salaries and wages	(169,487,157)	(173,364,575)
	b) social security contributions	(53,835,432)	(54,614,356)
	c) employee severance pay	(10,626,362)	(10,478,149)
	d) post-retirement benefits and similar obligations	(390,911)	(397,619)
	e) other personnel costs	(2,879,522)	(1,732,298)
	Total personnel costs (9)	(237,219,384)	(240,586,996)
10	Amortisation, depreciation and write-downs		
	a) amortisation	(26,640,878)	(28,216,305)
	b) depreciation	(143,178,209)	(144,262,750)
	c) other write-downs of fixed assets	(18,950,831)	(25,315,163)
	d) write-downs of receivables included in current assets and cash and cash equivalents	(4,634,590)	(23,011,121)
	Total amortisation, depreciation and write-downs (10)	(193,404,508)	(220,805,339)
11	Changes in the inventory of raw and ancillary materials, consumables and goods	(60,186,579)	81,294,328
12	Provisions for risks	0	0
13	Other provisions	(194)	0
14	Other operating expenses	(29,574,488)	(11,775,982)
	Total Cost of Production B	(4,712,741,453)	(3,731,207,739)
	Difference between Value of Production and Costs of Production A - B	169,105,920	88,675,802
C	FINANCIAL INCOMES AND CHARGES		
15	Income from equity investments:		
	- in subsidiaries	0	0
	- in associates	1,979,750	0
	- in other companies	0	0
	Total income from equity investments (15)	1,979,750	0
16	Other financial incomes:		
	a) from receivables recorded as fixed assets		
	- from companies subject to control of the parent companies	0	217,814
	- from other companies	66	33
	Total income from receivables recorded as fixed assets (a)	66	217,847
	c) from securities reported as current assets other than equity investments	259,391	306,199
	d) income other than the above		
	- from subsidiaries	211,285	9,770
	- from associates	0	0
	- from parent companies	167,418	51,638
	- from companies subject to control of the parent companies	9,039,022	7,425,471
	- from others	2,896,761	4,311,795
	Total income other than the above (d)	12,314,486	11,798,674
	Total other financial incomes (16)	12,573,943	12,322,720
17	Interests and other financial charges		
	- paid to subsidiaries	(105,690)	(86,012)
	- paid to parent companies	(239,760)	0
	- paid to companies subject to control of parent company	0	(1,523,367)
	- paid to banks	(48,999,006)	(59,837,571)
	- other financial expenses	(50,737,009)	(48,347,276)
	Total Interests and other financial charges (17)	(100,081,465)	(109,794,226)
17-bis	Exchange rate gains and losses	11,217,747	6,444,259
	Total Financial incomes and Charges C	(74,310,025)	(91,027,247)
D	VALUE ADJUSTMENTS OF FINANCIAL ASSETS		
18	Revaluations		
	of equity investments	0	0
	of financial fixed assets other than equity investments	0	0
	of securities recognised in current assets	0	0
	of financial derivatives	12,193,690	35,520,024
	Total revaluations (18)	12,193,690	34,520,024
19	Write-downs		
	of equity investments	(1,000,006)	(11,000,000)
	of financial fixed assets other than equity investments	0	0
	of securities recognised in current assets	0	0
	of financial derivatives	(11,024,506)	(51,475,414)
	Total write-downs (19)	(12,024,512)	(62,475,414)
	Total Value Adjustments of Financial Assets D	169,178	(27,955,390)

currency Euro

year 2017

year 2016

PROFIT/(LOSS) BEFORE TAXES A-B+/-C+/-D			
Profit/(loss) before taxation A-B+/-C+/-D		94,965,073	(30,306,835)
20	Current, deferred and pre-paid income taxes for the year		
	- direct taxes for the year	(52,322,429)	(28,180,914)
	- direct taxes for previous years	2,519,128	(221,767)
	- deferred taxes	22,606,200	22,303,785
	- pre-paid taxes	(10,773,715)	(17,301,461)
	- charges and income related to the tax consolidation scheme	8,689,572	2,265,472
Total current, deferred and pre-paid income taxes for the year (20)		(29,281,244)	(21,134,885)
21	NET PROFIT/(LOSS)	65,683,829	(51,441,720)
PROFIT/(LOSS) PERTAINING TO MINORITY INTERESTS		(1,753,701)	(4,000,995)
PROFIT/(LOSS) PERTAINING TO THE GROUP		67,437,530	(47,440,725)

MARCEGAGLIA STEEL S.P.A.

CASH FLOW STATEMENT AS OF 31 DECEMBER 2017

currency Euro

12/31/2017 12/31/2016

A CASH FLOWS FROM INCOME-GENERATING OPERATIONS (INDIRECT METHOD)			
	Profit (loss) for the year	65,683,828	-51,441,720
	Income Tax	29,281,244	21,134,885
	Interest expenses /(income)	85,527,772	97,471,506
	(Dividends)	-	-
	(Gains)/Losses resulting from the disposal of assets	-1,623,422	676,399
1	Profit (loss) for the year, before income taxes, interest, dividends and gains and losses from asset sales	178,869,422	67,841,070
	Adjustments for non-cash items with no balancing entry in working capital		
	- provisions to funds	14,777,387	11,414,479
	- amortisation/Depreciation of fixed assets	169,819,087	172,479,055
	- write-downs due to permanent impairment	18,950,831	25,315,163
	- value adjustments of financial assets and financial liabilities on derivative financial instruments that do not involve cash transactions	-169,180	27,955,390
	- other adjustments for non-cash items	-84,340	-2,333,854
	Total Adjustments for non-cash items with no balancing entry in working capital	203,293,785	234,830,233
2	Cash flow before changes in net working capital	382,163,207	302,671,303
	Changes in net working capital		
	- decrease/(increase) in inventories	-63,700,776	-114,730,644
	- decrease/(increase) in trade receivables	-49,619,077	111,094,940
	- increase/(decrease) in trade payables	52,343,420	273,458,650
	- decrease/(increase) in accrued incomes and prepaid expenses	143,034	612,827
	- increase/(decrease) in accrued expenses and deferred incomes	1,095,807	-644,748
	- other changes in net working capital	-32,441,058	-345,629,280
	Total changes in net working capital	-92,178,650	-75,838,255
3	Cash flow after changes in net working capital	289,984,557	226,833,048
	Other adjustments		
	- interests received/(paid)	-83,586,527	-97,471,506
	- (income taxes paid)	-	-
	- dividends received	-	-
	- (utilisation of funds)	-26,280,291	-22,408,612
	- other collections/(payments)	-	-
	Total other adjustments	-109,866,818	-119,880,118
	Cash flow from income-producing operations A	180,117,739	106,952,930
B CASH FLOWS FROM INVESTMENT ACTIVITIES			
	Property, plant and equipment		
	- (investments)	-43,174,887	-44,322,730
	- divestitures	541,205	963,027
	Intangible fixed assets		
	- (investments)	-367,755	-268,004
	- divestitures	-	15,914
	Financial assets		
	- (investments)	-1,384,352	-102,980
	- divestitures	2,380,945	12,351
	Current financial assets		
	- (investments)	-	-259,870
	- divestitures	564,399	431,652
	(Purchase or sale of subsidiaries or business divisions net of liquid assets)	-1,885,677	94,801
	Sale of subsidiaries or business divisions net of liquid assets	7,084,035	-
	Cash flows from investment activities B	-36,242,087	-43,435,839
C CASH FLOWS FROM FINANCING ACTIVITIES			
	Third party resources		
	- increase/(decrease) in short-term liabilities to banks	-90,635,455	-427,841,825
	- new loans	20,099,738	499,242,588
	- (repayments of loans)	-89,312,484	-130,463,938
	Capital and reserves		
	- paid-in capital increase	6,307,724	1,403,941
	- (reimbursement of paid-in capital increase)	-7,894	-
	- sale/(purchase) of own shares	-	-
	- (dividends and advances on dividends paid)	-	-
	Cash flows from financing activities C	-153,548,371	-57,659,234
	INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS A ± B ± C	-9,672,719	5,857,857
	Exchange rate effect on cash and cash equivalents	-398,191	142,740
	Cash and cash equivalents at beginning of year	17,321,546	11,320,949
	Bank and postal deposits	16,699,380	11,300,463
	Checks	588,713	-
	Cash on hand and cash equivalents	33,453	20,486
	of which are not freely usable	6,556,694	4,272,297
	Cash and cash equivalents at year end	7,250,636	17,321,546
	Bank and postal deposits	5,571,778	16,699,380
	Checks	1,650,370	588,713
	Cash on hand and cash equivalents	28,488	33,453
	of which not freely usable	636,864	6,556,694

NOTES TO FINANCIAL STATEMENTS

Consolidated financial statement preparation criteria and structure

The Consolidated Financial Statements for the financial year ended on 31 December 2017 was prepared according to the provisions of Legislative Decree no. 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 Accounting Standard OIC 17, paragraph 34 (issued by the Italian Accounting Organisation, OIC) - 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 interest shareholders equity” 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 consolidated shareholders’ equity and 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 A.VI “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 cash flow statement 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-ter of the Italian Civil Code. La presente nota integrativa contiene le informazioni richieste dall’art. 38 del decreto legislativo 127/91, nonché le altre previste dal decreto stesso. È stato inoltre predisposto il prospetto di raccordo tra patrimonio netto e risultato civilistico della controllante Marcegaglia Steel spa ed il patrimonio netto consolidato e risultato economico consolidato.

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.

Note that as an exception to the provisions of Article 2423-bis(1)(6) of the Italian Civil Code, in order to provide a better representation of the company’s events and transactions in the financial statements, starting with the 2017 financial statements, the periodic LIFO (last in, first out) method was used for measuring inventories of “base” steel raw materials instead of the weighted average cost method used in previous financial years. The change in the measurement criterion was carried out by the investees Marcegaglia Carbon Steel, Marcegaglia Specialties and Marcegaglia Plates. The impact of this change on other companies included in the scope of consolidation is insignificant, and thus, they continued to apply the weighted ave-

rage cost method used previously.

The “base” steel raw materials affected by the change in the measurement criterion are as follows:

- for Marcegaglia Carbon Steel: black coils, slabs and preformed steel tubes;
- for Marcegaglia Specialties: black stainless steel coils and rolled products;
- for Marcegaglia Plates: slabs.

The reason for this decision, in the context of using conservative values, was due to structural changes in the steel industry worldwide, and specifically in Europe, that entail increased price volatility.

To summarise, most volatility was due to:

1. Reduction in global production capacity

In general, following the 2008-2009 crisis, in all segments of the steel industry (carbon and stainless steel, flat products and long products), there was a significant restructuring of production capacity to bring it into line with the (reduced) levels of steel demand. In China as well, after a period of further expansion (2009-2014), in recent years, major, stringent plans to shut down obsolete, polluting plants were implemented by the Chinese government.

2. Resumption of consolidation trend in the sector

With the recovery of profitability and overall positive trend in the commodities sector, the steel sector resumed its merger and acquisition cycle, especially with regard to primary production: in Europe, after the merger of SSAB and Ruuki, Arcelor Mittal won the bid for Ilva, and Tata and Thyssenkrupp are in advanced negotiations to form a 50/50 JV.

In India, three significant producers will change ownership (Essar, Bushan and Sail), and Tata and Arcelor Mittal are very active as consolidators.

In China, the government is guiding the formation of mega-producers to act as better competitors in the global environment (a recent example is the union of Baosteel and Wuhan).

In North and South America, Ternium and Arcelor Mittal have purchased various assets including those of Thyssenkrupp in Brazil and Alabama, and further consolidation is expected with Trump’s protectionist policy.

3. Protectionism and greater market regionalisation

Over the last three years, protectionist measures of many countries and “macro regions” have grown with the aim of strengthening local industries and limiting international trade; most of these measures have targeted China, but they have been extended to many other countries, in the case of Europe Russia and Ukraine, as well as Iran and Brazil.

Trump’s rise to the presidency in the US has produced a further widespread “squeeze” on international trade with likely repercussions in other macro regions, including Europe, which must protect themselves from the risk of a drastic repositioning of trade flows of countries exporting to the US.

Thus, competition will be more limited among macro regions, and more focused within each “regional” market.

4. Oligopoly nature of steel commodity sector for the primary production of steel (iron ore, coal for carbon steel, and nickel, chromium and molybdenum for stainless steel).

The impact of rising price volatility and of the regionalisation of markets is more pronounced for the “base” steel products that form the raw materials for the Marcegaglia group, such as black coils, slabs, preformed tubes, black stainless steel coils and rolled products.

Indeed, the impact on prices is more pronounced on these materials since by nature they are more like commodities, and they are more closely tied to steel raw materials (iron ore, coal, nickel, chromium and molybdenum), which are in turn the growing focus of financial investors due in part to large amounts of cash available in markets and low interest rates.

Unlike raw materials and base steel products derived from them, products from the first and second transformation are less volatile since they are mainly intended for end users, frequently under contracts with a longer duration, and with a larger service component, and since demand and the needs of reference customers are more fragmented.

5. Greater role of financial investors in the commodities (including steel commodi-

ties) sector due in part to large amounts of cash in the system and the recovery of profitability in the steel industry

An analysis of the Group’s production strategy shows that the company has gradually increased the share of customised products with greater added value in its product offerings owing to a broader range of “specialties” and related services, and it has gradually distanced itself from the approach of the base industry including with regard to the formation of prices for its products.

In view of the different nature of “base” steel raw materials on the one hand, and the semi-finished and finished products that are typical of the three Italian companies Marcegaglia Carbon Steel S.p.A., Marcegaglia Specialties S.p.A. and Marcegaglia Plates S.p.A., on the other hand, it was deemed appropriate to maintain the different measurement criteria for inventories adopted for the statutory financial statements of these companies. For “base” steel raw materials, the measurement criterion applied is the periodic LIFO method, in order to be conservative and avoid reporting exact values, which, during a specific cycle or economic situation, could be misleading in relation to a “normal” reporting of values over the medium and long term. On the other hand, for semi-finished and finished products it was deemed appropriate to maintain weighted average cost, which is more consistent with the reporting of the

market trend, which, by its nature, is more gradual and “moderate” in terms of changes in prices for these products.

In keeping with accounting rules, the same criteria were used to recalculate the value of beginning inventories in order to properly report consumption in the profit and loss account for the period, and values for 2016 were recalculated for the comparison of the 2016 and 2017 reports.

In addition, during the financial year under review, it was decided to change the criterion for recording the productivity bonuses paid to employees and the resulting ancillary charges. The companies affected by this change are the subsidiaries Marcegaglia Carbon Steel, Marcegaglia Specialties, Marcegaglia Plates and Outsourcing. Thus, starting in 2017, these bonuses and ancillary charges are allocated to the financial year when the income and production parameters are measured that were established in supplemental company agreements that determined the amount owed, and not in the financial year when paid. As a result, the bonuses and related contributions owed on the basis of 2017 results and paid in 2018 were allocated in the 2017 financial statements; the bonuses and related contributions due on the basis of 2016 and paid in 2017 were removed from the 2017 profit and loss account, and in accordance with accounting standard OIC 29, they were posted as a reduction to the extraordinary reserve net of related taxes.

Balance sheet changes 2016		
C I 1)	Raw and ancillary materials and consumables	-19,590,897
C II 4)	Receivables from parent companies - due within the year	896,001
C II 5) ter	Receivables for deferred tax assets - due within the year	5,492,249
C II 5) bis	Tax credits - due within the year	127,079
P B 2)	Provision for taxes, including deferred taxes	-26,389
P D 13)	Payables to welfare and social security organis. - due within the year	-767,895
P D 14)	Other payables - due within the year	-2,535,156
	Higher liabilities net of higher assets	-16,405,008
Profit and loss account changes 2016		
B 9) a	Salaries and wages	-2,529,114
B 9) b	Social security charges	-773,937
B 11)	Changes in invent. of raw and ancillary mater., consumables and goods	-19,590,897
F 20	Current taxes	347,821
F 20	Deferred taxes	-26,389
F 20	Prepaid taxes	5,492,249
F 20	Charges and income related to the tax consolidation scheme	675,259
	Total negative impact on profit (loss) for 2016	-16,405,008

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 2017. As previously noted, with regard to the new measurement criterion for ending inventories of raw materials and the change in the accounting criterion for productivity bonuses paid to employees, the amounts for 2016 were recalculated for the purposes of comparing the 2016 and 2017 reports, as shown in the following table.

With regard to the statement of cash flows, the 2016 column was appropriately modified to take the above into consideration.

Classification criteria

The following classification conventions were used when structuring the financial statements at 31 December 2017:

- 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;

- 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.

The statement of cash flows was prepared in accordance with the layout indicated in accounting standard OIC 10, which reports the amount and breakdown of cash and cash equivalents at the beginning and end of the year, and cash flows for the year from operating, investment and financing activities as required by Article 2425-ter of the Italian Civil Code.

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.

SCOPE OF CONSOLIDATION

Equity investments in subsidiaries

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

Below is a list of equity investments in subsidiaries as at 31 December 2017 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
Marcegaglia Steel S.p.A. via Bresciani, 16 - Gazoldo degli Ippoliti, Mn	695,318,116 EUR			holding company
Marcegaglia Carbon Steel S.p.A. via Bresciani, 16 - Gazoldo degli Ippoliti, Mn	496,118,598 EUR	100%		
Marcegaglia Specialties S.p.A. via Bresciani, 16 - Gazoldo degli Ippoliti, Mn	161,000,000 EUR	100%		
Marcegaglia Plates S.p.A. via Bresciani, 16 - Gazoldo degli Ippoliti, Mn	35,000 EUR	100%		
Marcegaglia do Brasil Ltda Rodovia BR 101 km 11 Garuva (SC) (Brazil)	321,000,000 BRL	85.801835%		Marcegaglia Carbon Steel S.p.A.
Marcegaglia Poland Sp.z.o.o. Kaliska 72 int - Praszka (Poland)	100,000,000 PLN	91.8%		Marcegaglia Carbon Steel S.p.A.
Marcegaglia UK Ltd New Road, Netherton, Dudley (UK)	16,650,200 GBP		100%	Marcegaglia Carbon Steel S.p.A.
Marcegaglia USA Inc. 1001 East Waterfront Drive, Munhall, (Pa) (USA)	86,876,440 USD		100%	Marcegaglia Specialties S.p.A.
Mariven S.r.l. via Bresciani, 16 - Gazoldo degli Ippoliti, Mn	100,000 EUR	65%		Marcegaglia Specialties S.p.A.
Marcegaglia RU Bolshaja Nizhegorodskaja 92B Vladimir (Russian Federation)	1,099,325,274 RUB		51.03%	Mariven S.r.l.
Outsourcing Inox S.r.l. via Bresciani, 16 - Gazoldo degli Ippoliti, Mn	10,000 EUR		100%	Marcegaglia Specialties S.p.A.
Marcegaglia TR Paslanmaz Çelik Sanayi Ve Ticaret Anonim Şirketi Kazimiye Mahallesi, Yakut Sokak, Nova Center 39/27, Çorlu, Tekirdağ (Turkey)	9,165,700 TRY		65%	Marcegaglia Specialties S.p.A.

The scope of consolidation changed in comparison with 2016 as follows:

- With regard to the subsidiary Marcegaglia China, the continuing financial and operating difficulties of the company, with no recovery signs in the Chinese market and the lack of viability of the company as a going concern made it necessary for the parent company's board of directors to discontinue support to this subsidiary. Accordingly, in the presence of the exceptional circumstances provided for by Article 2423(4) of the Italian Civil Code, and in keeping with such provision, the subsidiary was not consolidated. Furthermore, negotiations are under way to sell the equity investments in the Chinese subsidiary.

- An increase in share capital of BRL 15,000,000 was carried out in the subsidiary Marcegaglia Do Brasil; it was subscribed by the shareholder Simest S.p.A. (BRL 14,700,000) and shareholder Marcegaglia Carbon Steel (BRL 300,000). As a result the stake in the equity investment held by the latter was diluted from 89.9098% to 85.801835%;

- A capital increase of PLN 8,400,000 was approved for the subsidiary Marcegaglia Poland; the increase was contributed entirely by shareholder Simest S.p.A., and it was for-

malised in January 2018. For the purposes of the consolidated financial statements, in view of the fact that in 2017 Simest had already contributed to the Polish subsidiary's shareholders' equity the amount necessary to fund this capital increase, the new stake of Marcegaglia Carbon Steel in Marcegaglia Poland was taken into account in the 2017 consolidated financial statements, dropping from 99.6% to 91.8%.

Direct or indirect subsidiaries measured at cost:

Name Registered office	Share capital	Direct stake	Indirect stake	Company
Marcegaglia Benelux n.v. Dendermondestraat, 44-46 - Anversa (BEL)	EUR 100,000		99%	Marcegaglia Carbon Steel S.p.A.
Marcegaglia Deutschland GmbH Opitzstr 12, 40470 Dusseldorf - Germany	EUR 153,388		100%	Marcegaglia Carbon Steel S.p.A.
Marcegaglia France Sarl Le Bois des Cotes II Route Nationale 6 n.300 - Limonest	EUR 50,000		100%	Marcegaglia Carbon Steel S.p.A.
Marcegaglia Iberica s.a. Calle Solsona,3 - S.P. de Magoda-B (ES)	EUR 120,220		51%	Marcegaglia Carbon Steel S.p.A.
Marcegaglia India Private Limited EC 58, Sector I, Sal Lake, Kolkata-700064, West Bengal India	EUR 100,000		90%	Marcegaglia Carbon Steel S.p.A.
			10%	Marcegaglia Specialties S.p.A.
Marcegaglia North Europe s.a. 8, Um Woeller, L-4410 Soleuvre - Luxembourg	EUR 31,000		100%	Marcegaglia Carbon Steel S.p.A.
Marcegaglia China Co Ltd. Chuang Ye Road 7 - Guangling Industrial Park -Yangzhou	EUR 128,000,000		100%	Marcegaglia Carbon Steel S.p.A.

Equity investments in associates

Direct or indirect associates measured at cost:

Name Registered office	Share capital	Direct stake	Indirect stake	Company
SIM S.r.l. Zona Industriale S. Atto - Teramo	EUR 780,000		50%	Marcegaglia Carbon Steel S.p.A.
Consorzio Absolute scarl 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.

In the first half of 2017, a 16.32% stake of the equity investment in the associate Fontana S.p.A. was sold generating a gain of about Euro 2 million. The remaining stake of 15.98%, with a historical cost of Euro 379,750, was reclassified under equity investments in financial fixed assets, since the equity investment no longer meets the requirements for being considered an equity investment in an associate.

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 above section "DIRECT OR INDIRECT SUBSIDIARIES MEASURED AT COST", and of Marcegaglia China Co. Ltd.

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.

Any portions of the shareholders' equity and the operating result relating to the minority

shareholders of consolidated subsidiaries are reported respectively in specific items of the 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 holding 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 "Equity 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 holding 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 "reserve from conversion differences".

The exchange rates applied are indicated in the following table:

Currency	Exchange rate as at 31 December 2017	Average exchange rate for the period between the consolidation date and 31 December 2017
US Dollar (USD)	1.1993	1.1293
UK Pound (GBP)	0.88723	0.87615
Brazilian Real (BRL)	3.9729	3.6041
Polish Zloty (PLN)	4.1770	4.2563
Russian Rouble (RUB)	69.3920	65.8877
Turkish lira (TRY)	4.5464	4.1214

Reporting date of the consolidated financial statements

Both the holding company (Marcegaglia Steel S.p.A.) and other companies included in the scope of consolidation ended their financial years on 31 December 2017.

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 maximum 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 the remaining useful life of the assets.

Leased assets

Pursuant to the requirements of Accounting Standard OIC 17, paragraph 105, transactions related to assets under leases 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 value of ending inventories of base steel raw materials (black coils, slabs and preformed tubes for Marcegaglia Carbon Steel; black stainless steel coils and rolled products for Marcegaglia Specialties; slabs for Marcegaglia Plates) was determined using the periodic LIFO method. As already indicated in the paragraph "Consolidated financial statement preparation criteria and structure", this method replaced the weighted average cost method used until financial year 2016 by the above three investee companies.

In this regard, note that if the base steel raw materials (black coils, slabs and preformed tubes for Marcegaglia Carbon Steel; black stainless steel coils and rolled products for Marcegaglia Specialties; slabs for Marcegaglia Plates) had been

measured at weighted average cost instead of the periodic LIFO method, there would have been a positive impact of about Euro 93 million on the profit for 2017 and the shareholder's equity at 31 December 2017 (without considering the related IRES and IRAP tax impact).

On the other hand, the value of ending inventories of steel raw materials of the first and second transformation was determined using the weighted average cost method as in previous years.

The adoption of different methods for determining cost in the same category of ending inventories is in line with what is allowed by Accounting Standard OIC 13.

Ending inventories of semi-finished and finished products are measured at production cost calculated by adding processing costs to the cost of raw materials used in production 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.

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 it is permissible not to apply the new amortised cost measurement criterion 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 2017). 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 need 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 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 2017). 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 projected 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 or 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, cannot 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

Receivables from shareholders for outstanding contributions	Amount at beginning of the year	Changes during the year	Amount at end of the year
Portion previously called	-	42,895	42,895
Portion not previously called	-	-	-
Total	-	42,895	42,895

In 2017, the investee company Marcegaglia TR approved an increase in share capital of TRY 3,565,700. The increase was subscribed by Marcegaglia Specialties and minority shareholders proportionally. In 2017 a portion of the minority interest had not been paid up as indicated in the above table.

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. 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	Accumul. amortisation/write-down	Amount at beginning of the year	New entries	Amortisation	Write-downs	Amount at end of the year
Marcegaglia USA Inc.	21,614,263	12,899,744	8,714,519	-	986,549	1,020,817	6,707,153
Marcegaglia do Brasil Lda	38,194,797	4,456,060	33,738,737	-	3,819,480	14,237,051	15,682,206
Marcegaglia RU	10,228,799	1,193,360	9,035,439	-	1,022,880	3,000,000	5,012,559
Marcegaglia TR	864,277	86,428	777,849	-	86,428	691,421	-
Total	70,902,136	18,635,592	52,266,544	-	5,915,337	18,949,289	27,401,918

At 31 December 2017, 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 a third-party 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 this difference and adjust it by taking into account only the unrealised gains related to the division that continues to be managed that were confirmed by an appraisal dated January 2018 issued by the US company EAC Valuations LLC.

If generated by the US subsidiary, these gains should not result in the payment of local taxes in view of the significant tax loss carry-forwards of the company.

Also in 2017, the goodwill previously recorded following the first consolidation of the investee company Marcegaglia Do Brasil was written down due to the continuing depreciation of the Brazilian currency against the euro and the operating results of the Brazilian company. This write-down was carried out taking into consideration unrealised gains net of local Brazilian taxes related to land parcels held by the company. These gains are based on the appraisal dated 2018 issued by the Brazilian company Imobiliaria Preciso.

Lastly, to be conservative, directors decided to write down the goodwill previously recorded following the first consolidation of the investee company Marcegaglia RU in the amount of Euro 3,000,000 in view of operating results achieved and budgeted by the Russian subsidiary.

With regard to the goodwill of Marcegaglia Turkey reported at the beginning of 2017, in light of the significant 2017 loss reported by the Turkish company, which further increased its capital deficit, the remaining amount of goodwill was fully written down after the amortisation provision for the year.

The above write-downs were recorded under item B) 10) c) "Other write-downs of fixed assets" in the profit and loss account.

The amortisation schedules for the above goodwill were not revised, and thus they continue to be for 10 years with annual amortisation provisions revised as a function of the above write-downs; this decision was based on the fact that the estimated utilisation period, in terms of projected profitability, was estimated to be of an equal length.

A goodwill amortisation period of over five years, provided that there are sufficient grounds, seems in line with Italian GAAP (document OIC 24). 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.

Based on the Consolidated Business Plan prepared by the Board of Directors of the parent company Marcegaglia Steel S.p.A., and thus on projected consolidated group revenues, the trademark was tested for impairment. Hence, it was verified that the group's future profitability is capable of ensuring that the residual value of the trademark as at 31 December 2017 can be recovered.

With reference to the systematic allocation over time of the trademark registration cost, equal to the appraised value at the time of contribution prepared by the expert indicated in Article 2465(1) of the Italian Civil Code on the occasion of the contributions in 2015, it was considered prudent to post straight-line amortisation to the profit and loss account over a period of 10 years.

	Initial recording value	Accumulated amortisation	Amount at beginning of the year	Amortisation	Amount at end of the year
Marcegaglia trademark	201,000,000	23,450,000	177,550,000	20,100,000	157,450,000
Total	201,000,000	23,450,000	177,550,000	20,100,000	157,450,000

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	3,473,105	2,700,019	773,086
Other	247,829	111,574	136,255
Total	3,720,934	2,811,592	909,341

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.

Among other things, 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

There were no value reductions to property, plant and equipment for the period.

Leases

Information on leases

In their financial statements, the subsidiaries Marcegaglia Carbon Steel S.p.A. and Marcegaglia Specialties S.p.A. record lease 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 lease transactions using the finance method.

This resulted in the following balance sheet changes:

	Gross amount
Increase in the item "Plant and machinery"	60,818,460
Reduction in the item "Fixed assets in progress"	-45,435,479
Increase in payables to other lenders due within the year	-7,634,479
Increase in payables to other lenders due after the year	0
Reversal of down payment recorded under prepaid expenses	-1,531,455
Increase in prepaid taxes within the year	419,986
Increase in prepaid taxes after the year	0
Increase in consolidation reserve	-1,005,021
Increase in provision for deferred taxes	-2,361,183
Reversal of payables to suppliers	740,098
Balance sheet impact	4,010,927

The increase in the item "Plant and machinery" 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 leased assets 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	-10,816,203
Increase in depreciation, item B10 b)	5,081,695
Increase in financial expenses, item C17	171,061
Other adjustments to expenses and/or income	442
Recording of deferred taxes	1,034,249
Reversal of prepaid taxes	517,829
Impact on profit and loss account	-4,010,927

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
Equity investments in parent companies	-	-
Equity investments in companies subject to control of parent companies	-	-
Equity investments in other companies	1,776,341	1,776,341
Receivables from subsidiaries	-	-
Receivables from associates	-	-
Receivables from parent companies	-	-
Receivables from companies subject to control of parent companies	-	-
Receivables from others	75,756	75,756
Other securities	-	-
Total	1,852,097	1,852,097

CURRENT ASSETS

Inventories

	Amount at beginning of the year	Exchange rate difference on beginning balance	Provisions	Utilisation	Impact from change in scope of consolidation	Changes during the year	Amount at end of the year
Raw and ancillary materials and consumables, gross of write-down provision	707,204,779	478,308	-	-	- 3,065,275	- 59,748,605	644,869,207
Raw and ancillary materials and consumables, write-down provision	- 6,112	- 341	-	-	-	-	- 6,453
1. Raw and ancillary materials and consumables	707,198,667	477,967	-	-	- 3,065,275	- 59,748,605	644,862,754
Work in progress and semi-finished products, gross of write-down provision	322,449,441	- 361,888	-	-	- 3,000,696	60,023,398	379,110,255
Work in progress and semi-finished products, write-down provision	- 1,074,092	-	-	-	1,074,092	-	-
2. Work in progress and semi-finished goods	321,375,349	- 361,888	-	-	- 1,926,603	60,023,398	379,110,255
Contract work in progress, gross of write-down provision	381,354	- 27,984	-	-	-	- 63,665	289,705
Contract work in progress, write-down provision	-	-	-	-	-	-	-
3. Contract work in progress	381,354	- 27,984	-	-	-	- 63,665	289,705
Finished products and goods, gross of write-down provision	366,695,147	- 2,893,722	-	-	- 6,524,022	45,820,787	403,098,190
Finished products and goods, write-down provision	- 2,835,114	- 853	- 679,037	8,171	2,819,847	63,189	- 623,796
4. Finished goods and merchandise	363,860,033	- 2,894,574	- 679,037	8,171	- 3,704,176	45,883,977	402,474,394
5. Advance payments	1,100,521	- 28,128	-	-	-	18,304,842	19,377,235
Total inventories	1,393,915,924	- 2,834,607	- 679,037	8,171	- 8,696,054	64,399,946	1,446,114,343

As indicated in the comments on the criteria applied in measuring financial statement items at the beginning of these Notes to the Financial Statements, which should be referenced for further details, in 2017 the criterion for measuring “base” steel raw materials (black coils, slabs, preformed tubes, black stainless steel coils and rolled products) was modified moving from weighted average cost to the periodic LIFO method for Marcegaglia Carbon Steel, Marcegaglia Specialties and Marcegaglia Plates.

To this end, as already noted in the paragraph “Comparability with the previous financial year”, which should be referenced for further details, the impact of this change was redetermined, including for financial year 2016, to ensure better comparability between operating results for 2017 and 2016.

Provisions for obsolescence were recorded by the subsidiaries Marcegaglia Poland (Euro 6,453 for raw materials and Euro 7,794 for finished products and goods) and Marcegaglia Do Brasil (Euro 616,002 for finished products and goods).

Change in property, plant and equipment held for sale

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

RECEIVABLES

Changes in receivables recorded in current 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
Trade receivables recorded in current assets, gross of allowance for uncollectibles	114,122,631	-4,055,034	-6,039,176	52,715,757	156,744,178
Allowance for uncollectible trade receivables	8,636,816	-473,918	-80,269	2,496,243	10,578,872
Trade receivables recorded in current assets	105,485,815	-3,581,116	-5,958,907	50,219,514	146,165,306
Receivables from subsidiaries recorded in current assets, gross of allowance for uncollectibles	424,979	-	9,390,033	-9,161,980	653,032
Allowance for uncollectible receivables from subsidiaries recorded in current assets	-	-	9,390,029	-9,387,290	2,739
Receivables from subsidiaries recorded in current assets	424,979	-	4	225,310	650,293
Receivables from associates recorded in current assets	1,103,944	150	-	1,693,296	2,797,390
Receivables from parent companies recorded in current assets	14,189,706	-3,454	-0	-2,982,130	11,204,122
Receiv. from companies subject to control of parent compan. recorded in current assets	316,683,534	-630,202	-	-2,801,129	313,252,203
Tax credits recorded in current assets, gross of allowance for uncollectibles	33,060,600	-1,790,866	-18,782,588	19,447,950	31,935,096
Allowance for uncollectible tax credits recorded in current assets	18,782,588	-	-18,782,588	-	-
Tax credits recorded in current assets	14,278,012	-1,790,866	0	19,447,950	31,935,096
Deferred tax assets recorded in current assets	54,438,722	-1,782,852	-4,998,425	-11,880,908	35,776,537
Receivables from others recorded in current assets	99,301,496	-273,281	-2,051,572	-50,274,642	46,702,001
Total receivables recorded in current assets	605,906,208	-8,061,621	-13,008,900	3,647,261	588,482,948

	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
Trade receivables recorded in current assets, gross of allowance for uncollectibles	156,744,178	-	-	-
Allowance for uncollectible trade receivables	10,578,872	-	-	-
Trade receivables recorded in current assets	146,165,306	146,165,306	-	-
Receivables from subsidiaries recorded in current assets, gross of allowance for uncollectibles	653,032	-	-	-
Allowance for uncollectible receivables from subsidiaries recorded in current assets	2,739	-	-	-
Receivables from subsidiaries recorded in current assets	650,293	650,293	-	-
Receivables from associates recorded in current assets	2,797,390	2,797,390	-	-
Receivables from parent companies recorded in current assets	11,204,122	11,204,122	-	-
Receivables from companies subject to control of parent companies recorded in current assets	313,252,203	313,252,203	-	-
Tax credits recorded in current assets, gross of allowance for uncollectibles	31,935,096	-	-	-
Allowance for uncollectible tax credits recorded in current assets	-	-	-	-
Tax credits recorded in current assets	31,935,096	30,946,962	988,134	-
Deferred tax assets recorded in current assets	35,776,537	6,108,935	29,667,602	10,737,256
Receivables from others recorded in current assets	46,702,001	45,740,769	961,232	-
Total receivables recorded in current assets	588,482,948	556,865,980	31,616,968	10,737,256

Detail of allowance for uncollectible receivables

	Amount at beginning of the year	Exchange rate difference on beginning balance	Utilisation	Provisions	Impact from change in scope of consolidation	Exchange rate difference on changes during the year	Amount at end of the year
Allowance for uncoll. trade receivables	8,636,816	-473,918	-371,831	2,955,919	-80,269	-87,847	10,578,871
Allowance for uncoll. receivables from subsidiaries	-	-	-11,065,962	1,678,672	9,390,029	-	2,739
Allowance for uncoll. receivables from associates	-	-	-	-	-	-	-
Allowance for uncoll. receivables from parent companies	-	-	-	-	-	-	-
Allow. for uncoll. receivables from companies subject to control of parent companies	-	-	-	-	-	-	-
Allowance for uncoll. tax credits	18,782,588	-	-	-	-18,782,588	-	-
Allowance for uncoll. receivables from others	-	-	-	-	-	-	-
Total allowance for uncollectible receivables	27,419,404	-473,918	-11,437,793	4,634,591	-9,472,828	-87,847	10,581,610

Allocations to the allowance for uncollectible receivables from subsidiaries refer to provisions made in 2017 by the investee companies Marcegaglia Carbon Steel (Euro 1,595,715) and Marcegaglia Specialties (Euro 82,956) to cover new trade and financial receivables arising in 2017 from Marcegaglia China.

Uses of the provision for uncollectible receivables from subsidiaries were related to the near total conversion of the written down receivable from the subsidiary Marcegaglia China (a receivable that was fully transferred to Marcegaglia Carbon Steel S.p.A. following intra-group sales of various receivables of Marcegaglia Carbon Steel S.p.A. and Marcegaglia Specialties S.p.A.) as a shareholder contribution to cover current and future losses of the Chinese company.

Breakdown 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, portion with remaining term over 5 years
Receivables from factoring companies	87,912,006	-54,872,279	33,039,727	33,039,727	-	-
Advances to suppliers	3,644,542	- 603,623	3,040,919	3,040,919	-	-
Other receivables	7,744,948	2,876,406	10,621,355	9,660,123	961,232	-
Total receivables from others	99,301,496	-52,599,496	46,702,001	45,740,769	961,232	-

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	of which, trade receivables	of which, financial receivables
Receivables from Oskar S.r.l.	1,179,286	450,128	1,629,414	1,629,414	-
Receivables from Pugnochiuso S.r.l.	-	2,918	2,918	2,918	-
Receivables from Elet.ca srl	-	12,783	12,783	12,783	-
Receivables from Sc. Marcegaglia Romania S.r.l.	2,817,022	417,599	3,234,621	2,730,039	504,582
Receivables from Albarella S.p.A.	44,007,236	1,915,681	45,922,917	970,950	44,951,967
Receivables from Marcegaglia Buildtech S.r.l.	111,621,766	-12,537,535	99,084,231	69,911,838	29,172,393
Receivables from Eta En. Terr. Amb. S.p.A.	52,612,555	-1,678,051	50,934,504	1,056,758	49,877,746
Receivables from Marfin S.r.l.	102,198,858	-23,134,265	79,064,593	2,074,359	76,990,234
Receivables from Imat S.p.A.	1,751,250	-1,513,004	238,246	238,246	-
Receivables from Made HSE S.r.l.	403	23,375	23,778	23,778	-
Receivables from Euroenergy group S.r.l.	30,592	-8,434	22,158	22,158	-
Receivables from Dalmine LS	-	767,215	767,215	767,215	-
Receivables from BVB S.r.l.	1,220	-1,220	-	-	-
Receivables from Marcegaglia Investments	463,346	31,851,479	32,314,825	664,097	31,650,728
Total receivables from companies subject to control of parent companies	316,683,534	-3,431,331	313,252,203	80,104,553	233,147,650

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	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	-	0	259,870
Financial derivatives reported as assets	3,035,243	-7,300	-3,027,943	-
Other securities not held as fixed assets	4,424,945	-604,115	-512,007	3,308,823
Total financial assets not held as fixed assets	7,720,058	-611,416	-3,539,949	3,568,693

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	16,699,380	-197,197	-1,875,267	-9,055,139	5,571,778
Cheques	588,713	-108,668	-	1,170,325	1,650,370
Cash on hand and cash equivalents	33,453	- 332	- 10,410	5,777	28,488
Total cash and cash equivalents	17,321,546	-306,196	-1,885,677	-7,879,037	7,250,636

The balance of bank and postal deposits at 31 December 2017 includes the balance of several current accounts pledged to securitisation companies (Euro 458,404) and factoring companies (Euro 178,459) 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.

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 prepaid expenses	1,206,438	-118,906	-	-130,582	956,950
Total accrued income and prepaid expenses	1,206,438	-118,906	-	-130,582	956,950

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	99,861	-51,250	48,611
Rental income	9,344	1,927	11,271
Total accrued income	109,205	-49,322	59,883

Composition of prepaid expenses

Prepaid expenses	Amount at beginning of the year	Changes during the year	Amount at end of the year
Interest expense	432,097	-47,198	384,899
Insurance premiums	175,336	240	175,576
Software/hardware licence and maintenance fees	39,123	-14,223	24,901
Other	450,677	-138,985	311,692
Total prepaid expenses	1,097,233	-200,165	897,067

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 holding company profit, operating impact of 2016 consolidation entries and carry-forward of minority interest in profit (loss)	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 end of period
Share capital	695,318,116	0	0	0	0	0	695,318,116
Share premium reserve	0	0	0	0	0	0	0
Revaluation reserves	0	0	0	0	0	0	0
Legal reserve	1,526	-1,526	0	0	0	0	0
Statutory reserves	0	0	0	0	0	0	0
Other Reserves							
- Extraordinary reserve	29,001	-29,001	0	0	0	0	0
- Consolidation reserve	3,642,123	-19,290,186	0	-50,924,358	5,911,052	-	-60,661,369
- Reserve from from conversion differences	2,031,690	0	0	2,003,954	1,299,782	0	5,335,426
- Difference from rounding off in Euro	-2	0	0	0	-3	0	-5
Total other reserves	5,702,812	-19,319,187	0	-48,920,404	7,210,831	0	-55,325,948
Reserve for projected cash flow hedges	-519,774	0	324,834	0	0	0	-194,940
Profit (loss) carried forward	417,055	-28,120,012	0	0	0	0	-27,702,957
Group profit (loss) for the year	-47,440,725	47,440,725	0	0	0	67,437,530	67,437,530
Negative treasury share reserves	0	0	0	0	0	0	0
Total shareholders' equity for the Group	653,479,010	0	324,834	-48,920,404	7,210,831	67,437,530	679,531,801
Minority interests in capital and reserves	12,884,593	-4,000,995	11,325	6,802,634	-234,531	0	15,463,027
Minority interest in profit (loss) for the year	-4,000,995	4,000,995	0	0	0	-1,753,701	-1,753,701
Total minority interests in shareholders' equity	8,883,598	0	11,325	6,802,634	-234,531	-1,753,701	13,709,326
Total consolidated shareholders' equity	662,362,608	0	336,160	-42,117,770	6,976,300	65,683,829	693,241,127

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	-519,774		324,834	-194,940

Reconciliation between parent company shareholders' equity and net profit (loss) at 31 December 2017 and shareholders' equity and net profit reported in consolidated financial statements at 31 December 2017

	2017			2016		
	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 2016 statutory financial statements	667,429,146	-25,426,179	642,002,967	695,275,885	-28,150,540	667,125,345
Difference between shareholders' equity of consolidated companies and the book value of the relevant equity investments	-185,161,910		-185,161,910	-120,645,453		-120,645,453
Reserve from conversion differences resulting from the elimination of equity investments in foreign subsidiaries	5,335,426		5,335,426	2,031,690		2,031,690
Net profit (loss) for the year of fully consolidated companies net of minority interests		92,454,076	92,454,076		-84,084,772	-84,084,772
Derecognition of write-downs and revaluations of equity investments/receivables within the consolidation scope	69,882,540	22,207,080	92,089,620	59,383,075	74,505,523	133,888,598
Derecognition of intra-group capital gains/losses and derecognition of write-downs/revaluations of other equity items other than equity investments	-233,328	77,263	-156,065	-236,208	2,880	-233,328
Goodwill arising from consolidation - group	50,187,467	-23,766,099	26,421,368	67,420,395	-17,232,928	50,187,467
Adjustments to bring financial statements in line with the accounting standards of the consolidated financial statements (*)	1,005,021	4,010,927	5,015,948	-2,830,028	3,835,049	1,005,021
Other consolidation entries	3,649,914	-2,119,538	1,530,376	520,381	3,684,063	4,204,444
Increase/decrease in reserve to round amounts to whole Euros	-5		-5	-2		-2
Group consolidated shareholders' equity	612,094,271	67,437,530	679,531,801	700,919,735	-47,440,725	653,479,010

(*) The adjustments are made in order to measure leases according to the financial method as suggested by Accounting Standard OIC 17.

Provisions for risks and expenses

Information on provisions for risks and expenses

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

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

- 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 difference on beginning balance	Impact from change in scope of consolidation	Changes during the year	Amount at end of the year
Bonds	-	-	-	-	-
Convertible bonds	-	-	-	-	-
Payables to shareholders for loans	5,403,311	-35,535	-	-286,476	5,081,300
Payables to banks	1,165,628,370	-7,813,553	-93,965,245	-145,890,930	917,958,642
Payables to other lenders	19,877,447	-192,179	-	-9,882,285	9,802,983
Advance payments	12,676,274	-25,479	-626,353	-10,466,685	1,557,757
Trade payables	1,476,839,012	-2,894,262	-3,974,550	52,866,802	1,522,837,001
Payables consisting of debt securities	-	-	-	-	-
Payables to subsidiaries	3,297,253	-	-	867,779	4,165,032
Payables to associates	970,995	-	-	891,212	1,862,207
Payables to parent companies	20,349,738	-1,117	-	21,356,112	41,704,733
Payables to companies subject to control of parent companies	13,141,395	-74,892	4,174	-8,024,002	5,046,675
Tax payables	21,430,525	-164,959	-	868,114	22,133,680
Payables to welfare and social security organisations	14,625,451	-75,914	-	-153,468	14,396,069
Other payables	249,713,663	44,929	-394,452	-45,739,373	203,624,767
TOTAL PAYABLES	3,003,953,433	-11,232,961	-98,956,426	-143,593,200	2,750,170,846

	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
Bonds	-	-	-	-
Convertible bonds	-	-	-	-
Payables to shareholders for loans	5,081,300	5,081,300	-	-
Payables to banks	917,958,642	542,384,793	375,573,849	14,362
Payables to other lenders	9,802,983	8,398,123	1,404,860	-
Advance payments	1,557,757	1,557,757	-	-
Trade payables	1,522,837,001	1,522,837,001	-	-
Payables consisting of debt securities	-	-	-	-
Payables to subsidiaries	4,165,032	4,165,032	-	-
Payables to associates	1,862,207	1,862,207	-	-
Payables to parent companies	41,704,733	41,704,733	-	-
Payables to companies subject to control of parent companies	5,046,675	5,046,675	-	-
Tax payables	22,133,680	22,121,474	12,206	-
Payables to welfare and social security organisations	14,396,069	14,396,069	-	-
Other payables	203,624,767	203,624,220	547	-
TOTAL PAYABLES	2,750,170,846	2,373,179,384	376,991,462	14,362

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) initially 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 maturity date of the loan is 31 December 2022, with principal repayable in equal six-monthly instalments of Euro 27,876,250 starting from June 2017

(the first two instalments, which were paid on 30 June 2016 and 31 December 2017, amounted to Euro 13,992,500 each);

- a second unsecured tranche (Facility B) initially totalling Euro 130,000,000 maturing on 30 June 2022 with principal payments to be made starting from 31 December 2017 in ten equal six-monthly instalments of Euro 13,000,000 each.

At 31 December 2017, 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	278,762,500	55,752,500	223,010,000	0
Facility B	117,000,000	26,000,000	91,000,000	0
Total	395,762,500	81,752,500	314,010,000	0

As mentioned 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 Accounting 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, and the accrued financial expense to be allocated to the profit and loss account were determined. Transaction costs include the substitute tax withheld by the bank syndicate when the loans were disbursed, arrangement fees, coordination fees, as well as 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 charges allocated during the year
Principal owed (nominal value)	334,515,000	-55,752,500	278,762,500	9,725,079
Transaction costs (amortised cost criterion)	-4,929,615	1,409,034	-3,520,581	1,409,034
Total recorded in financial statements	329,585,385	54,343,466	275,241,919	11,134,113

Facility B	Initial debt	Changes during the year	Debt at end of year	Financial charges allocated during the year
Principal owed (nominal value)	130,000,000	-13,000,000	117,000,000	5,283,778
Transaction costs (amortised cost criterion)	-1,801,790	532,211	-1,269,579	532,211
Total recorded in financial statements	128,198,210	12,467,789	115,730,421	5,794,878

Total Facility A + Facility B	Initial debt	Changes during the year	Debt at end of year	Financial charges allocated during the year
Principal owed (nominal value)	464,515,000	-68,752,500	395,762,500	15,008,857
Transaction costs (amortised cost criterion)	-6,731,405	1,941,245	-4,790,160	1,941,245
Total recorded in financial statements	457,783,595	-66,811,255	390,972,340	16,950,102

Thus, the application of the amortised cost criterion resulted in recording higher financial charges in profit and loss account item C17 totalling Euro 1,941,245 and 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 Accounting 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" in the profit and loss account.

The short-term portion of payables to banks resulting from the reclassification of the loan instalment maturing by the end of the year was Euro 81,752,500 based on the amortisation schedule specified by the old OIC standards. Applying amortised cost based on the new OIC guidelines, the above reclassification is equal to Euro 80,103,783. Thus, the adjustment for the application of the amortised cost method amounts to Euro 1,648,717.

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

		Amount maturing over 5 years	Measurement criterion
Banco do Brasil	Marcegaglia do Brasil Lda	14,362	Nominal value
Total		14,362	

Detail of “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	20,315,391	196,831	20,512,222	20,512,222	-	-
Payables to factoring companies	218,471,298	-41,114,508	177,356,790	177,356,790	-	-
Other payables	10,926,974	-5,171,219	5,755,754	5,755,207	547	-
Total other payables	249,713,663	-46,088,896	203,624,767	203,624,220	547	-

Detail 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	of which, trade payables	of which, financial payables
Payables to Marfin srl (ex Marcegaglia)	9,212,045	-8,365,375	846,670	846,670	-
Payables to Oskar srl	196,496	-148,185	48,311	48,311	-
Payables to Made HSE S.r.l.	2,101,916	662,505	2,764,421	2,764,421	-
Payables to Marcegaglia Buildtech S.r.l.	1,029,725	5,406	1,035,131	1,035,131	-
Payables to BVB S.r.l.	3,000	-3,000	-	-	-
Payables to Marcegaglia Investments	-	3,000	3,000	3,000	-
Payables to Sc. Marcegaglia Romania S.r.l.	309,157	-254,535	54,622	54,622	-
Payables to Imat S.p.A.	80,025	-19,698	60,327	60,327	-
Payables to Dalmine LS	5,907	-1,834	4,073	4,073	-
Payables to Albarella	2,048	-2,048	-	-	-
Payables to Abaco Servizi srl	201,076	29,044	230,120	230,120	-
Total payables to companies subject to control of parent companies	13,141,395	- 8,094,720	5,046,675	5,046,675	-

Debt secured by company assets

	Debt secured by collateral				Debt not secured by collateral	Total
	Mortgages on real estate	Pledged assets	Liens	Total debt secured by collateral		
Bonds	-	-	-	-	-	-
Convertible bonds	-	-	-	-	-	-
Payables to shareholders for loans	-	-	-	-	5,081,300	5,081,300
Payables to banks	339,075,491	41,278,908	-	380,354,399	537,604,243	917,958,642
Payables to other lenders	7,679,538	1,402,411	-	9,081,949	721,034	9,802,983
Advance payments	-	-	-	-	1,557,757	1,557,757
Trade payables	-	-	-	-	1,522,837,001	1,522,837,001
Payables consisting of debt securities	-	-	-	-	-	-
Payables to subsidiaries	-	-	-	-	4,165,032	4,165,032
Payables to associates	-	-	-	-	1,862,207	1,862,207
Payables to parent companies	-	-	-	-	41,704,733	41,704,733
Payables to companies subject to control of parent companies	-	-	-	-	5,046,675	5,046,675
Tax payables	-	-	-	-	22,133,680	22,133,680
Payables to welfare and social security organisations	-	-	-	-	14,396,069	14,396,069
Other payables	-	178,459	-	178,459	203,446,308	203,624,767
Total payables	346,755,029	42,859,778	-	389,614,807	2,360,556,039	2,750,170,846

Detail of debt secured by mortgages:

Secured creditor	Borrower	Remaining secured debt at 31.12.2017	
BRDE	Marcegaglia do Brasil limitada	9,702,289	Mortgage on properties of the subsidiary Marcegaglia do Brasil Lda
BANCO DO BRASIL	Marcegaglia do Brasil limitada	9,737,547	Mortgage on properties of the subsidiary Marcegaglia do Brasil Lda
Bank Pekao	Marcegaglia Poland Sp.z.o.o.	17,175,602	Mortgage on properties of the subsidiary Marcegaglia Poland
BANK ZACHODNI	Marcegaglia Poland Sp.z.o.o.	14,725,530	Mortgage on properties of the subsidiary Marcegaglia Poland
BANCA IMI (POOL) - Facility A	Marcegaglia Steel	275,241,919	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.), 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 special lien on the assets at the same plants.
INTESA	Marcegaglia Carbon Steel	10,960,000	First and second mortgage on properties located in Boltiere and special lien on assets at the same plant.
GE CAPITAL	Marcegaglia Carbon Steel	1,532,604	Mortgage on properties located in Albignasego, Corsico and Lainate and special lien on assets at the same plants.
Total payables to banks secured by mortgages		339,075,491	
ALBALEASING	Marcegaglia Carbon Steel	2,770,610	Plant covered by lease
LEASINT	Marcegaglia Specialties	4,863,869	Plant covered by lease
Unicredit	Marcegaglia do Brasil limitada	45,059	Plant covered by lease
Total payables to other lenders secured by mortgages		7,679,538	
Total		346,755,029	

Detail of debt secured by liens:

Secured creditor	Borrower	Remaining secured debt at 12.31.2017	
BANCA IMI	Marcegaglia Carbon Steel	124,499	Lien on pledged current account
BANCA IMI	Marcegaglia Specialties	1,301	Lien on pledged current account
CREDIT AGRICOLE	Marcegaglia Carbon Steel	4,918	Lien on pledged current account
UNICREDIT	Marcegaglia Carbon Steel	312,618	Lien on pledged current account
UNICREDIT	Marcegaglia Specialties	1,177	Lien on pledged current account
UNICREDIT	Marcegaglia Plates	13,890	Lien on pledged current account
Brazilian banks	Marcegaglia do Brasil limitada	8,028,695	Lien on securities held
Brazilian banks	Marcegaglia do Brasil limitada	1,334,870	Lien on movable property
Brazilian banks	Marcegaglia do Brasil limitada	1,150,188	Lien on warehouse
Brazilian banks	Marcegaglia do Brasil limitada	2,771,312	Lien on receivables
Polish banks	Marcegaglia Poland Sp.z.o.o.	13,598,872	Lien on movable property
Polish banks	Marcegaglia Poland Sp.z.o.o.	13,936,568	Lien on warehouse
Total payables to banks secured by liens		41,278,908	
Polish banks and leasing companies	Marcegaglia Poland Sp.z.o.o.	1,402,411	Lien on movable property
Total payables to other lenders secured by liens		1,402,411	
MPS	Marcegaglia Specialties	178,459	Lien on pledged current account
Total payables to others secured by liens		178,459	
Total		42,859,778	

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	7,238,698	-50,617	-5,970,808	1,091,548	2,308,821
Total accrued expenses and deferred income	7,238,698	-50,617	-5,970,808	1,091,548	2,308,821

Composition of accrued expenses

Accrued expenses	Amount at beginning of the year	Changes during the year	Amount at end of the year
Interest expense	1,637,559	224,230	1,861,789
Other	936,335	-505,346	430,989
Total accrued expenses	2,573,894	-281,116	2,292,778

Composition of deferred income

Deferred income	Amount at beginning of the year	Changes during the year	Amount at end of the year
Other	4,664,804	-4,648,761	16,043
Total deferred income	4,664,804	-4,648,761	16,043

PROFIT AND LOSS ACCOUNT

VALUE OF PRODUCTION

Breakdown of revenue from sales and services by geographic area

Geographic area	Amount for current year	%
Italy	1,989,834,505	41.79%
EU	2,336,657,108	49.08%
Other European Countries	220,443,958	4.63%
North America	76,388,566	1.60%
South and Central America	109,080,201	2.29%
Middle East	2,868,073	0.06%
Far East - Oceania	8,896,064	0.19%
Africa	16,857,122	0.35%
Total	4,761,025,597	100%

FINANCIAL INCOME AND CHARGES

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	-
From receivables recorded as fixed assets - other companies	66
From securities reported as fixed assets other than equity investments	-
From securities reported as current assets other than equity investments	259,391
Income from other sources - subsidiaries	211,285
Income from other sources - associates	-
Income from other sources - parent companies	167,418
Income from other sources - companies subject to control of parent companies	9,039,022
Income from other sources - others	2,896,761
Total	12,573,943

Detail of “Income from other sources - others”

	Income from other sources - others
Interest income from banks	6,178
Other interest income	454,426
Financial income on derivatives	-
Financial discounts from suppliers	2,247,380
Other financial income	188,777
Total	2,896,761

Breakdown of interest and other financial charges by type of payable

	Interest and other financial charges
Interest expense relating to subsidiaries	105,690
Interest expense relating to associates	-
Interest expense relating to parent companies	239,760
Interest expense relating to companies subject to control of parent companies	-
Interest expense relating to banks	48,999,006
Other financial charges	50,737,009
Total	100,081,465
of which, financial charges resulting from the application of the amortised cost criterion	1,941,245
Total financial charges net of financial expenses resulting from the application of the amortised cost criterion	98,140,220

Detail of item “Other”

	Other financial charges
Interest expense relating to factoring companies and for discounting trade receivables without recourse	30,347,140
Financial charges on derivatives	13,145,419
Other interest and financial charges	7,244,450
Total other financial charges	50,737,009

VALUE ADJUSTMENTS OF FINANCIAL ASSETS

Detail of revaluations and write-downs

	Revaluations	Write-downs
Allowance to the provision for risks and charges related to the sale of the subsidiary Marcegaglia China	-	1,000,000
Write-down of Chinese equity investment	-	6
of equity investments recorded as financial fixed assets	-	1,000,006
of equity investments recognised in working capital	-	-
of financial fixed assets other than equity investments	-	-
of securities recorded in current assets other than equity investments	-	-
of financial derivatives	12,356,124	11,186,939
Total	12,356,124	12,186,945

The item “Write-downs of equity investments recorded as financial fixed assets” reflects provisions for risks and charges, as estimated by the subsidiary Marcegaglia Carbon Steel spa, in relation to costs to be incurred for the sale of Marcegaglia China. For details of the item “Revaluation and write-down of derivatives” see the specific section of these Notes to the Financial Statements.

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

Revenue item	Amount	Nature
Income from equity investments in associates	1,979,750	Gain from the sale of the stake in Fontana S.p.A.
Total	1,979,750	

The above income is related to the sale of a portion of the equity investment in the associate Fontana S.p.A., which was partially sold (in the amount of 16.32%) in the first half of 2017 generating a gain of Euro 1,979,750. The remaining stake of 15.98%, with a historical cost of Euro 379,750, was reclassified under equity investments in financial fixed assets, since the equity investment no longer meets the requirements for being considered an investment in an associate.

Cost item	Amount	Nature
Amortisation/depreciation and write-downs	1,595,715	Write-down of receivables from Marcegaglia China
Other operating expenses	18,387,146	Indirect taxes for previous years
Other operating expenses	1,220,101	Interest on indirect taxes for previous years
Total	21,202,962	

The cost item for amortisation/depreciation and write-downs included the write-downs of trade and financial receivables arising during the year from the subsidiary Marcegaglia China, which is no longer in the scope of consolidation as explained above.

In 2017, the parent company Marcegaglia Steel, as co-obligor, was given notice of the payment of the registration tax in relation to the 2015 contribution of company divisions by Marcegaglia S.p.A. to the three newly established companies Marcegaglia Carbon Steel S.p.A., Marcegaglia Specialties S.p.A. and Marcegaglia Plates S.p.A., and in relation to the subsequent sale of equity investments in the above companies by Marcegaglia S.p.A. to Marcegaglia Steel S.p.A. The payment notice was promptly challenged, and the related first-level proceeding is still under way.

However, in view of the fact that the amount of the higher tax charged is particularly large (however, this amount was significantly reduced by internal review by the Revenue Agency as compared to the original amount notified following communications

with the assessors and documentation produced by the company), and that case law on this issue is not favourable (despite a change, in the meantime, that occurred in the tax regulation on which the assessment concerned is based), the company has decided to pay the amounts charged and related interest within 60 days of the notice in order to avoid paying an additional amount of 30% as a penalty in the event of a negative outcome of the pending dispute, but it intends to claim the amount paid in the event it prevails in the dispute.

The amount paid totalling Euro 19,607,247 (indirect taxes for previous years and related interest) is considered extraordinary by its nature and size.

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	4,761,025,597	-	4,761,025,597
Change in inventories of work in progress, semi-finished and finished products	104,817,770	-	104,817,770
Changes in contract work in progress	-67,051	-	-67,051
Increase in fixed assets for internal work	84,340	-	84,340
Other revenues and income	15,986,717	-	15,986,717
Value of production	4,881,847,373	-	4,881,847,373
Raw and ancillary materials, consumables and goods	-3,654,204,983	-	-3,654,204,983
Services	-533,062,005	-	-533,062,005
Lease and rental expense	-5,089,312	-	-5,089,312
Personnel costs	-237,219,384	-	-237,219,384
Changes in inventories of raw and ancillary materials, consumables and goods	-60,186,579	-	-60,186,579
Provisions for risks	-	-	-
Other provisions	-194	-	-194
Other operating expenses	-9,967,242	-19,607,247	-29,574,488
Production costs net of amortisation/depreciation and write-downs	-4,499,729,699	-19,607,247	-4,519,336,945
Amortisation/depreciation and write-downs	-191,808,793	-1,595,715	-193,404,508
Production costs	-4,691,538,492	-21,202,962	-4,712,741,453
Difference between value and cost of production	190,308,882	-21,202,962	169,105,920
EBITDA	382,117,675	-19,607,247	362,510,428
Income from equity investments	-	1,979,750	1,979,750
Other financial income	12,573,943	-	12,573,943
Interest and other financial charges	-100,081,465	-	-100,081,465
Exchange-rate gains and losses	11,217,747	-	11,217,747
Financial income and charges	-76,289,775	1,979,750	-74,310,025
Revaluations	12,193,690	-	12,193,690
Write-downs	-12,024,512	-	-12,024,512
Value adjustments of financial assets	169,178	-	169,178
Profit (loss) before taxes	114,188,285	- 19,223,212	94,965,073
Current, deferred and prepaid income taxes for the year	-29,281,244	-	-29,281,244
Profit (Loss) for the year	84,907,041	-19,223,212	65,683,829

DEFERRED AND PREPAID TAXES

The value of deferred and prepaid taxes included in the profit and loss account is disclosed directly in the financial statements, through the breakdown of line item 22 Income taxes in its components (taxes for the year, taxes related to previous years and deferred and prepaid taxes).

In respect of the parent company and Italian subsidiaries, prepaid and deferred taxes were calculated using a tax rate for IRES [corporate income tax] of 24% and a tax rate for IRAP [regional tax on productive activity] of 3.9% on temporary differences. Foreign subsidiaries instead applied tax rates in effect in their respective countries.

STATEMENT OF CASH FLOWS

See the specific annex for the statement of cash flows.

OTHER INFORMATION

Employment data

	Actual number at end of year	Average number
Executive managers	45	46
Office staff	1,055	1,060
Factory workers	3,815	3,843
Total employees	4,915	4,949

Compensation paid to directors and statutory auditors

	Directors	Statutory Auditors
Compensation	1,756,667	153,608

Compensation paid to auditor or independent auditor

	Amount
Compensation for audit of annual financial statements	397,224
Compensation for other audit services	59,844
Compensation for tax consulting services	12,279
Compensation for services other than auditing	19,091
Total	488,439

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 Extraordinary Shareholders Meeting on 27 November 2015 for a period of 3 financial years to the audit firm MAZARS ITALIA S.p.A. The above compensation was for the audit of financial statements and accounting controls and for the other services indicated above carried out in 2017 by the independent auditor.

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

	Amount
Obligations	122,556,094
post-retirement benefits and similar obligations	-
to subsidiaries	-
to associates	-
to parent companies	-
to companies subject to control of parent companies	2,527,582
Guarantees	483,309,885
of which collateral	-
Contingent liabilities	-

Detail

	12/31/2017	12/31/2016
RISKS TAKEN BY THE COMPANY		
Sureties		
- to subsidiaries		
- to associates	1,000,000	
- to companies controlled by parent companies	1,173,762	41,750,882
- to other companies	30,306,669	92,674,845
Total sureties	32,480,431	134,425,727
Other guarantees		
- to other companies	450,829,454	
Total other guarantees	450,829,454	-
Total guarantees	483,309,885	134,425,727
Total risks taken by the company	-	-
COMMITMENTS ENTERED INTO BY THE COMPANY		
- with companies subject to control of parent companies	2,527,582	2,976,943
- other obligations	120,028,512	388,960
Total obligations taken by the company	122,556,094	3,365,903
Total	605,865,979	137,791,630

Commitments entered into with companies subject to parent companies' control mostly refer to expiring lease payments pursuant to the lease agreement for the plant in Osteria Grande (Marcegaglia Carbon Steel S.p.A.) entered into with Oskar S.r.l., owner of the site.

In October 2017, the subsidiary Marcegaglia Carbon Steel enter into an agreement for the forward purchase of commodities with final maturity in 2019 in an amount of about Euro 119 million, included in the table above, at a price per ton in euros that is currently well below market price, and thus, no provision was made.

This forward purchase cannot be classified as a derivative contract pursuant to Article 2426(3) of the Italian Civil Code, and was put in place to satisfy the Company's procurement requirements.

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 is part 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 part 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 of an ordinary nature carried out under conditions not consistent with normal market conditions.

Agreements not reflected in the balance sheet

Neither the holding company Marcegaglia Steel S.p.A. nor any other company included in consolidation entered into transactions regulated by Article 38(1)(o-sexies) of Legislative Decree 127/91.

Information on the fair value of financial instruments

The structure of the interest rate swap derivative contracts used for hedging pursuant to OIC 32 and applicable provisions of the Italian Civil Code that are held by the group remained unchanged from the previous year. The IRS derivatives held by Marcegaglia Steel S.p.A. are related to the existing Facilities A and B provided in March 2016 by a bank syndicate (see the section of these Notes to the Financial Statements with comments on changes in payables).

In addition to the IRS derivative contracts above, there was a small IRS derivative, also used for hedging pursuant to the provisions of the Italian Civil Code and OIC 32. It is held by the subsidiary Mariven S.r.l. to hedge one of its loans maturing in November 2018.

The only changes in these derivative contracts between 31 December 2016 and 31 December 2017 were obviously the decrease in notional amount, since they are linked to the amortisation schedules of the referenced loans, and the change in their fair value. The change in fair value was largely due to payments of the rela-

ted differentials since the changes in the rate curves between the end of 2016 and end of 2017 were not very significant.

In line with what was done in 2016, when preparing the 2017 financial statements, Marcegaglia Steel S.p.A. made assessments of the IRS derivatives it held as at 31 December 2017 using specific fair value appraisals in order to determine the change in the fair value of the effective and ineffective portions of each specific derivative. The change in fair value of the effective portion was recognised with a balancing entry in shareholders' equity item A VII "Reserve for projected cash flow", while the change in fair value of the ineffective portion was recognised with a balancing entry in profit or loss item D) 18) "Revaluation of financial derivatives" or D) 19) "Write-down of financial derivatives", depending on whether the change was a gain or a loss.

In particular, at 31 December 2017 the total fair value of the effective portions of the various derivatives hedging the two above facilities improved, from a negative fair value totalling Euro 489,813 to a negative fair value of Euro 186,012.

This amount, together with the share of the negative fair value attributable to the group at 31 December 2017 of an effective IRS hedging a bank loan maturing in November 2018 held by the subsidiary Mariven S.r.l. (fair value attributable to the group at 31 December 2016 equal to Euro 29,961, fair value attributable to the group at 31 December 2017 equal to Euro 8,928), has been recognised through equity, in item A VII "Reserve for projected cash flow hedges," which, as such, had a balance of Euro 194,940 at 31 December 2017.

The remaining negative fair value portion related to the hedging derivative held by Mariven S.r.l. at 31 December 2017, attributable to minority interests, totalled Euro 4,807 (the minority interest portion of the negative fair value of this derivative at 31 December 2016 was Euro 16,133) and was posted as a reduction to minority interests in capital and reserves.

The fair value of the ineffective portion of the above IRS hedging derivatives went from a negative fair value of Euro 16,796,538 at 31 December 2016 to Euro 11,793,677 at 31 December 2017; thus, this change resulted in recording a revaluation of financial derivatives in the 2017 profit and loss account under item D) 18) d) in the amount of Euro 5,002,861.

Moving on with the analysis of IRS derivative contracts held by the group, it should also be noted that one of the two IRS derivatives not held for hedging pursuant to the current OIC 32 held by Marcegaglia Carbon Steel S.p.A. at the beginning of 2017 matured in December 2017, and thus, the risk provision for financial derivatives held as liabilities reported in the financial statements at 31 December 2016 was fully released with the recognition of a positive income component of Euro 4,257,239 recorded in item D) 18) d) of the profit and loss account.

In view of the fact that rates and underlying conditions remained largely unchanged, and as a result of the payment of differentials in 2017, the negative fair value of the other IRS derivative held by Marcegaglia Carbon Steel S.p.A., which was also not for hedging pursuant to OIC 32, improved, largely to the same degree, by Euro 3,010,605; this resulted in the recognition of a positive income component recorded in item D) 18) d) of the profit and loss account of the same amount.

Moving along with the analysis of the various derivative contracts held by the group, note that derivative contracts are usually executed on currencies. These are largely for forward purchases of USD, which are technically referred to as "flexible forward" contracts aimed at mitigating exchange risk. However, these derivatives cannot technically be considered hedging derivatives since they do not meet the requirements of Article 2426(11-bis) et seq. of the Italian Civil Code and OIC 32 to be considered as such.

As a result, changes in their fair value are recognised in item D) 18) d) "Revaluation of financial derivatives" or D) 19) d) "Write-down of financial derivatives" depending on their sign.

The table below provides details of the profit and loss items related to revaluations and write-downs of financial derivatives and changes in the reserve for projected cash flow hedges:

	D) 18) d) Revaluations of financial derivatives	D) 19) d) Write-downs of financial derivatives	Net amount recorded in the profit and loss account ("–" if negative, "+" if positive)	Change during the financial year in the "Reserve for projected cash flow hedges"
Elimination of financial derivatives held as assets on currencies existing at the beginning of the year by contract maturity during 2017 - Marcegaglia Steel S.p.A.		2,759,173	-2,759,173	
Elimination of risk provisions for financial derivatives held as liabilities on currencies existing at the beginning of the year by contract maturity during 2017 - Marcegaglia Steel S.p.A.	85,419		85,419	
Negative fair value of derivatives on currencies held at 31 December 2017 - Marcegaglia Steel S.p.A.		7,965,690	-7,965,690	
Elimination of financial derivatives held as assets on currencies existing at the beginning of the year by contract maturity during 2017 - Marcegaglia UK		244,379	-244,379	
Negative fair value of derivatives on currencies held at 31 December 2017 - Marcegaglia UK		55,263	-55,263	
Elimination of financial derivatives held as assets on currencies existing at the beginning of the year by contract maturity during 2017 - Marcegaglia Poland		26,931	-26,931	
Negative fair value of derivatives on currencies held at 31 December 2017 - Marcegaglia Poland		135,503	-135,503	
Total foreign exchange derivatives	85,419	11,186,939	-11,101,520	0
Change in effective fair value portion related to IRS to hedge bank facilities				324,834
Elimination of risk provisions for financial derivatives held as liabilities on IRSs existing at the beginning of the year by contract maturity during 2017	4,257,239		4,257,239	
Change in fair value related to speculative IRS	3,010,605		3,010,605	
Change in ineffective fair value portion related to IRS to hedge bank facilities	5,002,861		5,002,861	
Total IRS	12,270,705	0	12,270,705	324,834
Total at 31 December 2017	12,356,124	11,186,939	1,169,185	324,834

The following table shows changes in balance sheet items for financial derivatives held as assets and risk provisions for financial derivatives held as liabilities.

	Beginning balance	Exchange rate difference on beginning balance	Decreases with group/minority interest reserve as balancing entry	Decreases with balancing entry in profit and loss	Increases with reserve as balancing entry	Increases with balancing entry in profit and loss	Exchg. rate diff. on changes	Ending balance
Financial assets not held as fixed assets – financial derivatives held as assets	3,035,243	-7,300		3,030,483	0	0	2,540	0
Provisions for risks and charges – financial derivatives held as liabilities	31,938,968	0	336,159	12,356,124		8,156,456	1,882	27,405,023

The following tables provides details on derivative contracts held at 31 December 2017 by companies included in the scope of consolidation:

Financial derivative	Group company acting as party to derivative contracts	Fair value at end of year	Notional value	Nature	Maturity	Balance sheet assets - C) III) Financial assets not held as fixed assets	Balance sheet liabilities - B) Provisions for risks and expenses
Interest rate swaps	Marcegaglia Steel spa	-11,979,689	EUR 291,947,500	hedging	30/06/2022 - 31/12/2022		-11,979,689
Interest rate swaps	Mariven srl	-13,735	EUR 1,225,000	not for hedging pursuant to OIC 32	28/11/2018		-13,735
Interest rate swaps	Marcegaglia Carbon Steel spa	-7,253,261	EUR 50,000,000	not for hedging pursuant to OIC 32	11/05/2020		-7,253,261
Flexible forward on USD	Marcegaglia Steel spa	-7,965,690	USD 205,000,000	not for hedging pursuant to OIC 32	between March and June 2018		-7,965,690
Forward purchase	Marcegaglia UK	-54,573	USD 3,000,000	not for hedging pursuant to OIC 32	Jan. - Feb. 2018		-54,573
Various forward purchase contracts	Marcegaglia Poland	-138,075	USD 14,750,750	not for hedging pursuant to OIC 32	Jan. - May 2018		-138,075
Total		-27,405,023				-27,405,023	-27,405,023

The IRS hedging derivatives held by Marcegaglia Steel S.p.A. are plain vanilla, where the bank pays a variable rate equal to 6-month Euribor and the customer pays a fixed rate (obviously different for each contract). The bank has an option component, in that the minimum interest rate is 0% in case the 6-month Euribor falls below 0% (floor option).

The valuation approach used to estimate the value of contracts for the so-called “bond” component (fixed rate and variable rate) is the discounted cash flow analysis, whereby:

- I. The value of each leg of the bond is the algebraic sum of the present value of future cash flows discounted at the market spot rate prevailing on the valuation dates;
- II. In case of future cash flows linked to changes in a variable interest rate, use is also made of forward rates determined on the basis of market rates on the valuation dates.

On the other hand, the valuation model used to estimate the value of the optional floor components falls under the category of option pricing models. Option pricing models are used to assess components with optional content, meaning those components in which the values of future cash flows are subject to elements of uncertainty. In this case it is necessary to:

- I. assign a probability to every possible future value of the indexation factors;
- II. determine the cash flows;
- III. weight such cash flows for their probability of occurrence.

In particular, the model used to estimate components with standard option content for each contract is the Black Model, i.e. the model created by Fischer Black for interest rate derivatives.

Such model requires the following market inputs:

- I. forward rates determined on the basis of market rates on the valuation date;
- II. the volatility of interest rates on the valuation date, meaning the changes in interest rates as measured on the basis of the implied volatility of the market prices of interest rate options.

The data provider utilised to retrieve all the interest rate inputs (spot and forward rates and volatility) is Bloomberg L.P., that is the financial provider/software most commonly used in the financial community.

SIGNIFICANT EVENTS AFTER THE YEAR-END

In the first quarter of 2018, the upward trend in demand continued with further increases in unit prices for both carbon and stainless steel products.

Marcegaglia Steel increased the volume of shipments by 5.8% (about 1.4 million tons) including 1,241,000 tons by Italian companies (+4.7%) and 145,000 tons (+16.2%) by foreign subsidiaries, and especially by Marcegaglia Poland.

Combined revenues amounted to Euro 1,222 million, (up about Euro 100 million or 8.7% compared to the first quarter of 2016).

Mark-up was slightly lower than in 2016, which was a year of particularly impressive performance; this was due to the unexpected significant increase in unit prices.

However, mark-up was in line with budgeted figures, and it is expected to improve in future quarters in both absolute terms and in comparison with 2016, with improved year-end goals both in unit terms (Euro/ton) and in absolute value, and as a result of higher volume.

EBITDA and EBIT results for 2018 are expected to improve compared with the already strong results reported in 2017.

Company	Revenues (in Euro thousands)		Δ %
	Jan-Mar 2018	Jan-Mar 2017	
Marcegaglia Carbon Steel	725,720	661,876	9.6
Marcegaglia Specialties	310,461	292,798	6.0
Marcegaglia Plates	55,636	50,910	9.3
Marcegaglia Steel Italy	1,091,817	1,005,584	8.6
Marcegaglia do Brasil Ltda	26,093	31,148	-16.2
Marcegaglia Poland Sp z.o.o.	68,095	54,061	26.0
Marcegaglia UK	17,338	14,361	20.7
Marcegaglia RU	8,198	7,321	12.0
Marcegaglia TR	5,627	5,326	5.6
Marcegaglia USA	5,051	6,464	-21.9
Marcegaglia Steel Foreign	130,401	118,681	9.9
Marcegaglia Steel Total	1,222,219	1,124,265	8.7

Company	Quantity (tons)			MARK UP (in Euro thousands)		
	Jan-Mar 2018	Jan-Mar 2017	Δ %	Jan-Mar 2018	Jan-Mar 2017	%
Marcegaglia Carbon Steel	988,859	941,374	5.0	209,124	209,632	-0.2
Marcegaglia Specialties	160,097	151,595	5.6	84,131	84,523	-0.5
Marcegaglia Plates	91,905	92,217	-0.3	15,515	15,857	-2.2
Marcegaglia Steel Italy	1,240,861	1,185,186	4.7	308,770	310,013	-0.4
Marcegaglia do Brasil Ltda	24,564	24,123	1.8	8,739	9,446	-7.5
Marcegaglia Poland Sp z.o.o.	88,520	70,049	26.4	13,459	12,504	7.6
Marcegaglia UK	21,326	20,137	5.9	4,692	4,608	1.8
Marcegaglia RU	3,410	2,888	18.1	1,101	1,229	-10.5
Marcegaglia TR	2,369	2,033	16.6	879	948	-7.3
Marcegaglia USA	5,019	5,702	-12.0	1,175	737	59.4
Marcegaglia Steel Foreign	145,208	124,930	-16.2	30,044	29,473	1.9
Marcegaglia Steel Total	1,386,069	1,310,116	5.8	338,814	339,486	-0.2

On 28 February 2018, Marcegaglia Carbon Steel formalised the sale of the cold rerolling division at the Padua plant, but continued to own the property. This sale was one of the projects aimed at improving efficiency and enhancing the group's focus on more productive assets.

In fact, while retaining customers previously served by Padua, it will be possible to concentrate this production on the higher performing Gazoldo and Ravenna units at a considerable cost savings.

In December 2017, a court auction was held at the court of Parma, after which the property in Montechiarugolo, where the subsidiary Outsourcing Inox (production of stainless steel tubes) operated, was sold to third parties.

Outsourcing, which processed exclusively for Marcegaglia Specialties, sold its plant assets to the latter and expects to terminate its business by the end of May 2018.

Outsourced production at Outsourcing Inox will therefore be transferred to the Forlì plant with an increase in shifts and expected benefits in terms of unit and overall costs.

As a result, in March 2018, for space reasons the company acquired ownership in a property with about 12,000 square meters of space near the main plant.

Finishing work will be transferred to this property, including through collaboration with a contractor with benefits in terms of storing finished products and logistics flows.

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 1a-1b-1c: Statement of changes in property, plant and equipment, intangible fixed assets and financial fixed assets

Annex 2: Statement of changes in provisions for risks and expenses and employee severance pay

Gazoldo degli Ippoliti, 30 April 2018

Chairman
of the Board of Directors

Antonio Marcegaglia

annex 1a - STATEMENT OF CHANGES IN INTANGIBLE FIXED ASSETS

		Balance at beginning of year	Exchange difference at beginning of year	Increases	Decreases	Reclassification	Changes in exchange differences	Change in scope of consolidation	Balance at end of year
Start-up and expansion costs	Original cost	4,270,070	-549,136	0	0	0	0	0	3,720,934
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	0	0	0	0	0	0
	Ordinary accumul. amortisation	3,011,931	-402,738	218,039	0	0	-15,639	0	2,811,593
	Total	1,258,139	-146,398	-218,039	0	0	15,639	0	909,341
Development costs	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
	Ordinary accumul. amortisation	0	0	0	0	0	0	0	0
	Total	0	0	0	0	0	0	0	0
Ind. patent rights and intell. prop. rights	Original cost	7,293,590	-160,739	311,006	0	0	-82	-5,880,034	1,563,741
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	0	0	0	0	0	0
	Ordinary accumul. amortisation	1,381,056	-113,213	338,134	0	0	-14,471	-438,099	1,153,407
	Total	5,912,534	-47,526	-27,128	0	0	14,389	-5,441,935	410,334
Conc., licences, tradem. and sim. rights	Original cost	201,247,734	2,674	0	0	4,263	81	-198,487	201,056,265
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	0	0	0	0	0	0
	Ordinary accumul. amortisation	23,692,151	2,426	20,102,687	0	0	47	-198,487	43,598,824
	Total	177,555,583	248	-20,102,687	0	4,263	34	0	157,457,441
Goodwill	Original cost	70,944,326	0	0	0	0	0	0	70,944,326
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	11,552,957	0	18,949,289	0	0	0	0	30,502,246
	Ordinary accumul. amortisation	7,124,825	0	5,742,481	0	0	0	0	12,867,306
	Total	52,266,544	0	-24,691,770	0	0	0	0	27,574,774
Fixed assets in progress	Original cost	128,171	0	0	0	0	0	0	128,171
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	0	0	0	0	0	0	0	0
	Total	128,171	0	0	0	0	0	0	128,171
Advance paym. on intang. fixed assets	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
	Total	0	0	0	0	0	0	0	0
Other intangibles	Original cost	30,808,889	-2,894,580	2,275	0	-20,061,979	1,862,332	-8,395,016	1,321,921
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	636,318	-86,873	0	0	-605,668	56,224	0	1
	Ordinary accumul. amortisation	7,572,442	-731,337	239,537	54,474	-4,932,378	462,762	-1,343,202	1,213,350
	Total	22,600,129	-2,076,370	-237,262	-54,474	-14,523,933	1,343,346	-7,051,814	108,570
i - intangible fixed assets	Original cost	314,692,780	-3,601,781	313,281	0	-20,057,716	1,862,331	-14,473,537	278,735,358
	Revaluations	0	0	0	0	0	0	0	0
	Write-downs	12,189,275	-86,873	18,949,289	0	-605,668	56,224	0	30,502,247
	Ordinary accumul. amortisation	42,782,405	-1,244,862	26,640,878	54,474	-4,932,378	432,699	-1,979,788	61,644,480
	Total	259,721,100	-2,270,046	-45,276,886	-54,474	-14,519,670	1,373,408	-12,493,749	186,588,631

The change in scope of consolidation is related to the deconsolidation of the Marcegaglia China subsidiary (please see the Notes to the financial statements' paragraph "Consolidation criteria").

The subsidiary Marcegaglia do Brasil carried out a reclassification of Euro 14,523,933 between the "other intangibles" item and different items of "property, plant and equipment".

This reclassification is intended to provide a clearer view of the value of fixed assets, by associating the residual value as of 1 January 2017 of the losses on exchange rates capitalised in previous years to the corresponding tangible assets, depreciated in line with the remaining useful life of such assets.

More details on goodwill write-downs are to be found in the paragraph "Intangible fixed assets".

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

		Balance at beginning of year	Exchange difference at beginning of year	Increases	Decreases	Reclassifications	Changes in exchange differences	Change in scope of consolidation	Extraordinary transactions	Balance at end of year
Land and buildings	Original cost	815,694,560	-8,762,620	4,317,060	17,930	7,087,561	-585,798	-43,409,527	0	774,323,306
	Revaluations	10,707,146	-1,461,793	0	0	0	0	0	0	9,245,353
	Write-downs	4,639,341	0	0	0	0	0	0	0	4,639,341
	Ordinary accumul. depreciation	84,515,410	-4,202,616	26,398,959	218	0	-307,753	-11,545,139	0	94,858,643
	Total	737,246,955	-6,021,797	-22,081,899	17,712	7,087,561	-278,045	-31,864,388	0	684,070,675
Plant and machinery	Original cost	1,174,592,057	-6,990,035	23,475,239	793,416	13,216,629	-925,145	-102,461,251	0	1,100,114,078
	Revaluations	11,733,910	-1,601,972	0	0	0	0	0	0	10,131,938
	Write-downs	12,314,858	335	0	6,219	0	-118	-12,301,386	0	7,470
	Ordinary accumul. depreciation	240,921,021	-4,756,698	102,529,235	157,009	0	-268,550	-18,162,978	0	320,105,021
	Total	933,090,888	-3,835,644	-79,053,996	630,188	13,216,629	-656,477	-71,996,887	0	790,133,525
Industrial and commercial equipment	Original cost	112,998,299	-6,969,851	4,751,813	61,759	53,420	2,549,578	-7,735,939	-43,756,517	61,829,044
	Revaluations	0	0	0	0	0	0	0	0	0
	Write-downs	329	-24	0	0	0	0	0	0	305
	Ordinary accumul. depreciation	64,802,892	-5,762,333	11,253,776	11,878	0	2,161,448	-4,371,451	-37,440,223	30,632,231
	Total	48,195,078	-1,207,494	-6,501,963	49,881	53,420	388,130	-3,364,488	-6,316,294	31,196,508
Other assets	Original cost	20,400,141	-168,036	2,879,679	290,530	543,576	-155,485	0	-93,000	23,116,345
	Revaluations	0	0	0	0	0	0	0	0	0
	Write-downs	227	-17	1,542	0	0	-78	0	0	1,674
	Ordinary accumul. depreciation	10,243,028	-246,351	2,996,239	223,655	0	3,801	0	-53,545	12,719,517
	Total	10,156,886	78,332	-118,102	66,875	543,576	-159,208	0	-39,455	10,395,154
Fixed assets in progress	Original cost	24,003,396	-128,520	6,992,063	54,675	-6,381,516	9,351	-4,630,551	-51,140	19,758,408
	Revaluations	0	0	0	0	0	0	0	0	0
	Write-downs	6,771,149	-4,580	0	0	0	0	-898,339	0	5,868,230
	Ordinary accumul. depreciation	0	0	0	0	0	0	0	0	0
	Total	17,232,247	-123,940	6,992,063	54,675	-6,381,516	9,351	-3,732,212	-51,140	13,890,178
Advance payments	Original cost	1,969,101	394	2,579,218	1,681,172	0	91	0	0	2,867,632
	Revaluations	0	0	0	0	0	0	0	0	0
	Write-downs	0	0	0	0	0	0	0	0	0
	Ordinary accumul. depreciation	0	0	0	0	0	0	0	0	0
	Total	1,969,101	394	2,579,218	1,681,172	0	91	0	0	2,867,632
ii - property, plant and equipment	Original cost	2,149,657,554	-23,018,668	44,995,072	2,899,482	14,519,670	892,592	-158,237,268	-43,900,657	1,982,008,813
	Revaluations	22,441,056	-3,063,765	0	0	0	0	0	0	19,377,291
	Write-downs	23,725,904	-4,286	1,542	6,219	0	-196	-13,199,725	0	10,517,020
	Ordinary accumul. depreciation	400,482,351	-14,967,998	143,178,209	392,760	0	1,588,946	-34,079,568	-37,493,768	458,315,412
	Total	1,747,890,355	-11,110,149	-98,184,679	2,500,503	14,519,670	-696,158	-110,957,975	-6,406,889	1,532,553,672

The change in scope of consolidation is related to the deconsolidation of the Marcegaglia China subsidiary (please see the Notes to the financial statements' paragraph "Consolidation criteria"). Extraordinary transactions refer to the asset disposal by the subsidiary Marcegaglia USA, which, end of February 2017 sold a business unit (stainless steel tube production) to Sinalloy Group. Such disposal resulted in a capital loss of approximately USD 150,000.

Increases in plant and machinery refer mainly to Marcegaglia Carbon Steel (Euro 17,191,487) and Marcegaglia Specialties (Euro 4,551,021).

Increases in fixed assets in progress refer mainly to Marcegaglia Carbon Steel (Euro 3,607,445) and Marcegaglia Specialties (Euro 773,468).

The subsidiary Marcegaglia do Brasil carried out a reclassification of Euro 14,523,933 between the "other intangibles" item and different items of property, plant and equipment.

This reclassification is intended to provide a clearer view of the value of fixed assets, by associating the residual value as of 1 January 2017 of the losses on exchange rates capitalised in previous years

annex 1c - STATEMENT OF CHANGES IN FINANCIAL FIXED ASSETS

		Balance at beginning of year	Exchange differences at beginning of year	Acquisitions/ subscriptions	Capital increases/ deposits in capital account	Increases	Decreases	Change in scope of consolidation	Reclassifications	Changes in exchange differences	Balance at end of year
1) Equity investments											
equity investments in subsidiaries	Original cost	3,341,663	0	11,000,000	43,793,051	0	0	50,300,997	-3,736	0	108,431,975
measured at cost	Write-down provision	0	0	11,000,000	43,793,051	0	0	50,300,997	0	0	105,094,047
	Revaluation reserve	0	0	0	0	0	0	0	0	0	0
equity investments in subsidiaries	Original cost	0	0	0	0	0	0	0	0	0	0
measured with the equity method	Write-down provision	0	0	0	0	0	0	0	0	0	0
	Revaluation reserve	0	0	0	0	0	0	0	0	0	0
equity investments in subsidiaries	Total	3,341,663	0	0	-0	0	0	1	-3,736	0	3,337,928
equity investments in associates	Original cost	1,729,623	0	0	0	0	395,251	-3,869	-375,881	0	954,622
measured at cost	Write-down provision	0	0	0	0	0	0	0	0	0	0
	Revaluation reserve	0	0	0	0	0	0	0	0	0	0
equity investments in associates	Original cost	0	0	0	0	0	0	0	0	0	0
measured with the equity method	Write-down provision	0	0	0	0	0	0	0	0	0	0
	Revaluation reserve	0	0	0	0	0	0	0	0	0	0
equity investments in associates	Total	1,729,623	0	0	0	0	395,251	-3,869	-375,881	0	954,622
equity investments in companies subject to control of parent companies	Original cost	0	0	133	0	0	0	0	-133	0	0
	Write-down provision	0	0	0	0	0	0	0	0	0	0
	Revaluation reserve	0	0	0	0	0	0	0	0	0	0
other companies	Total	0	0	133	0	0	0	0	-133	0	0
equity investments in other companies	Original cost	17,357	0	0	1,379,234	0	0	0	379,750	0	1,776,341
	Write-down provision	0	0	0	0	0	0	0	0	0	0
other companies	Total	17,357	0	0	1,379,234	0	0	0	379,750	0	1,776,341
total	Original cost	5,088,643	0	11,000,133	45,172,285	0	395,251	50,297,128	0	0	111,162,938
	Write-down provision	0	0	11,000,000	43,793,051	0	0	50,300,996	0	0	105,094,047
	Revaluation reserve	0	0	0	0	0	0	0	0	0	0
total equity invest.	Total	5,088,643	0	133	1,379,234	0	395,251	-3,868	0	0	6,068,891
2) Receivables included in financial fixed assets											
<i>receivables due after the following year</i>											
receivables from non-consolidated subsidiaries	Gross value	0	0	0	0	0	32,727,743	32,727,743	0	0	0
	Write-down provision	0	0	0	0	0	32,727,742	32,727,742	0	0	0
non-consolidated subsidiaries	Total	0	0	0	0	0	1	1	0	0	0
receivables from others	Gross value	76,718	0	0	0	4,983	5,945	0	0	0	75,756
	Write-down provision	0	0	0	0	0	0	0	0	0	0
others	Total	76,718	0	0	0	4,983	5,945	0	0	0	75,756
total	Gross value	76,718	0	0	0	4,983	32,733,688	32,727,743	0	0	75,756
	Write-down provision	0	0	0	0	0	32,727,742	32,727,742	0	0	0
Tot.receiv. due after the following year	Total	76,718	0	0	0	4,983	5,946	1	0	0	75,756
3) Other securities											
		0	0			0	0		0	0	0
total financial fixed assets		5,165,361	0	133	1,379,234	4,983	401,197	-3,867	0	0	6,144,647

The change in scope of consolidation is related to the deconsolidation of the Marcegaglia China subsidiary (please see the Notes to the financial statements' paragraph "Consolidation criteria").

The increase in equity investments in subsidiaries in terms of acquisitions/subscriptions refer to the acquisition by the subsidiary Marcegaglia Carbon Steel of the stake held by Simest spa in the share capital of Marcegaglia China.

Such increase was then completely written down through the appropriate risk fund established at 31 December 2016.

Furthermore, in 2017, Marcegaglia Specialties and Marcegaglia Steel transferred to Marcegaglia Carbon Steel their entirely written-down receivables from Marcegaglia China. At a later time, the parent company Marcegaglia Carbon Steel converted its own entirely written-down receivables and those acquired from Marcegaglia Steel and Marcegaglia Specialties as a shareholder contribution to cover current and future losses in the shareholders' equity of the Chinese subsidiary.

The item "equity investments in associates" also refers to the sale of a 16.32% stake in the share capital of Fontana spa by Marcegaglia Carbon Steel (which previously held a stake of 32%). As a result, at 31 December 2017 such equity investment (now amounting to 15.68%) was reclassified among "equity investments in other companies".

The increase in "equity investments in other companies" refers to the subscription to and payment of the share capital increase of the consortium company Metal Interconnector, established together with other steel operators to manage funding for the creation of the Italy-France interconnector.

The decrease in the item receivables from non consolidated subsidiaries refers to the above mentioned amount receivable from Marcegaglia China, which was transferred from Marcegaglia Steel to Marcegaglia Carbon Steel.

annex 2 - STATEMENT OF CHANGES IN PROVISIONS FOR RISKS AND EXPENSES AND EMPLOYEE SEVERANCE PAY

	Balance at beginning of year	Exchange difference at beginning of year	Provisions	Utilisation	Reclassifications	Other movements of funds	Changes in exchange differences	Change in scope of consolidation	Balance at end of year
for post-retirement benefits and similar obligations	3,328,211	-144,866	185,812	576,610	0	0	23,978	0	2,816,525
1) for post-retirement ben. and sim. obligations	3,328,211	-144,866	185,812	576,610	0	0	23,978	0	2,816,525
for taxes, including deferred taxes	301,252,279	-556,884	6,183,960	28,816,549	0	0	96,887	0	278,159,693
2) for taxes, including deferred taxes	301,252,279	-556,884	6,183,960	28,816,549	0	0	96,887	0	278,159,693
financial derivatives reported as liabilities	31,938,968	0	8,156,456	12,692,283	0	0	1,882	0	27,405,023
3) financial derivatives reported as liabilities	31,938,968	0	8,156,456	12,692,283	0	0	1,882	0	27,405,023
other	1,994,708	0	1,513,170	1,927,987	94,887	0	-25,057	0	1,649,721
4) other	1,994,708	0	1,513,170	1,927,987	94,887	0	-25,057	0	1,649,721
from consolidation for future risks and charges	11,000,000	0	1,000,000	11,000,000	0	0	0	0	1,000,000
5) from consolidation for future risks and charges	11,000,000	0	1,000,000	11,000,000	0	0	0	0	1,000,000

As already mentioned in paragraph "Provisions for risks and charges", usage of the provision for deferred taxes mainly refer to deferred taxes resulting from the contribution, which are reabsorbed through the amortisation/depreciation of the higher values determined on the basis of the useful lives of the various assets indicated by the expert in the appraisal. In 2017 the use of the provision in connection with the higher amortisation /depreciation amount in the financial statements than amortisation /depreciation for tax purposes was Euro 12.3 million (Marcegaglia Carbon Steel) and Euro 9,3 million (Marcegaglia Specialties).

For a detailed commentary of the movements of derivative financial instruments held as liabilities please refer to the text of the Notes to the financial statements.

The use of the risk fund refers to the purchase by Marcegaglia Carbon Steel of an equity stake in the share capital of the subsidiary Marcegaglia China owned by Simest spa. The increase in the book value of the equity investment, for Euro 11 million, was entirely written down through use of such provision, which had been made at 31 December 2016. The further provision of 1 million refers to the expenses that are estimated to be incurred as a result of the sale of the Chinese subsidiary, according to the negotiations under way.

	Balance at beginning of year	Exchange difference at beginning of year	Provisions	Utilisation	Reclassifications	Other movements of funds	Changes in exchange differences	Change in scope of consolidation	Balance at end of year
B) PROVISIONS FOR RISKS AND CHARGES	349,514,166	-701,750	17,039,398	55,013,429	94,887	0	97,690	0	311,030,962
C) EMPLOYEE SEVERANCE PAY	15,778,085	0	10,626,362	11,452,788	0	0	0	0	14,951,659

[illegible][illegible]



Financial Statements 2017 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 auditor's report in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Marcegaglia Carbon Steel S.p.A. (the Company), which comprise the balance sheet as at December 31, 2017, the income statement and the cash flows statement for the year then ended and the explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of the result of its operations and cash flows for the year then ended in accordance with the Italian laws governing the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the section of this report titled *Auditor's responsibilities for the audit of the financial statements*. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the directors and board of statutory auditors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the Italian laws governing the financial statements and, according to the terms prescribed by law, for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriateness of the use of the going concern assumption in the preparation of the financial statements, and for appropriate disclosure thereof. In preparing the financial statements, the directors use the going concern basis of accounting unless directors either intend to liquidate the Company or to cease operations or has no realistic alternative but to do so.

The board of statutory auditors ("collegio sindacale") is responsible for overseeing, according to the terms prescribed by law, the Company's financial reporting process.

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REA MI-2076227 - COD. FISC. E P. IVA 11176891001 - ISCRIZIONE AL REGISTRO DEI REVISORI LEGALI N. 163788 CON D.M. DEL 14/07/2011 G.U. N. 57 DEL 19/07/2011

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit performed in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures in response to those risks; we obtained sufficient and appropriate audit evidence on which to base our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- we obtained an understanding of the internal control relevant to the audit in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Where a material uncertainty exists, we are required to draw attention, in our auditor's report, to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, subsequent events or conditions may cause the Company to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in such a manner as to give a true and fair view.

We communicated to those charged with governance, identified at an appropriate level as required by ISA Italia, among other matters, the scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Report on compliance with other laws and regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39/10

The directors of Marcegaglia Carbon Steel S.p.A. are responsible for preparing a directors' report of Marcegaglia Carbon Steel S.p.A. as at December 31, 2017, including its consistency with the relevant financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the directors' report with the financial statements of Marcegaglia Carbon Steel S.p.A. as at December 31, 2017 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

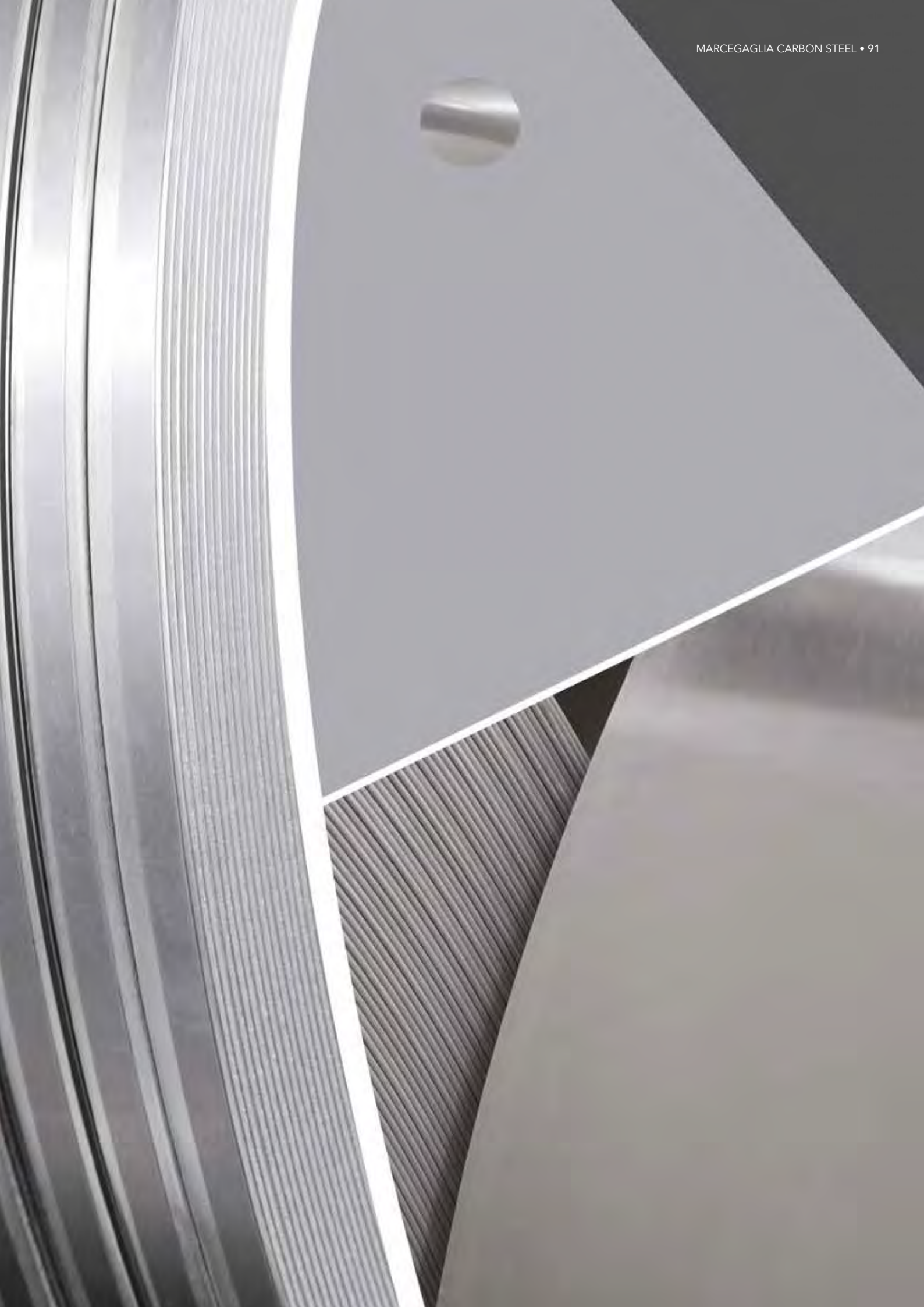
In our opinion, the directors' report is consistent with the financial statements of Marcegaglia Carbon Steel S.p.A. as at December 31, 2017 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Verona, April 30, 2018

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

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



MARCEGAGLIA CARBON STEEL S.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2017

ASSETS values in EUR

31 Dec 2017

31 Dec 2016

A RECEIVABLES FROM SHAREHOLDERS FOR OUTSTANDING CONTRIBUTIONS			
1	not previously called	0	0
2	previously called	0	0
	Total Receivables from shareholders for outstanding contributionS A	0	0
B FIXED ASSETS			
I	<i>Intangible fixed asset</i>		
1	Start-up and expansion costs	64,228	86,896
2	Development costs	0	0
3	Industrial patent rights and intellectual property rights	179,896	84,594
4	Concessions, licences, trademarks and similar rights	950	1,140
5	Goodwill	0	0
6	Fixed assets in progress and advance payments	128,171	128,171
7	Other	89,157	306,428
	Total intangible fixed assets (B-I)	462,402	607,229
II	<i>Property, plant and equipment</i>		
1	Land and buildings	459,569,396	470,570,961
2	Plant and machinery	503,175,788	546,062,927
3	Industrial and commercial equipment	20,349,520	25,356,616
4	Other assets	2,636,292	3,541,383
5	Fixed assets in progress and advance payments	23,284,903	22,552,517
	Total property, plant and equipment (B-II)	1,009,015,899	1,068,084,404
III	<i>Financial fixed assets</i>		
1	Equity investments in:		
	- Subsidiaries	128,471,230	130,941,844
	- Associates	942,122	1,717,122
	- Other companies	1,776,331	17,346
		131,189,683	132,676,312
2	Receivables		
	d-bis) from others		
	- due within the following year	0	0
	- due after the following year	51,494	52,906
		51,494	52,906
	Total financial assets (B-III)	131,241,177	132,729,218
	Total Fixed Assets B	1,140,719,478	1,201,420,851
C CURRENT ASSETS			
I	<i>Inventories</i>		
1	Raw and ancillary materials and consumables	337,027,316	397,975,103
2	Work in progress and semi-finished products	256,625,617	211,810,265
3	Contract work in progress	0	0
4	Finished products and goods	202,514,605	174,882,582
6	Advance payments	17,206,988	0
	Total inventories (C-I)	813,374,526	784,667,950
II	<i>Receivables</i>		
1	from customer		
	- due within the following year	105,846,940	39,613,500
	- due after the following year	0	0
		105,846,940	39,613,500
2	from subsidiaries		
	- due within the following year	28,748,653	40,190,843
	- due after the following year	0	12,000,000
		28,748,653	52,190,843
3	from associates		
	- due within the following year	2,589,443	1,103,944
		2,589,443	1,103,944
4	from parent companies		
	- due within the following year	675,259	5,001,651
		675,259	5,001,651
5	from companies subject to control of parent companies		
	- due within the following year	106,004,685	72,756,897
		106,004,685	72,756,897
5-bis	Tax credit		
	- due within the following year	12,360,092	604,122
		12,360,092	604,122
5-ter	Deferred tax assets		
		8,672,813	19,114,329
		8,672,813	19,114,329
5-quater	from others		
	- due within the following year	25,180,020	50,522,897
		25,180,020	50,522,897
	Total receivables (C-II)	290,077,905	240,908,183
IV	<i>Cash and cash equivalents</i>		
1	Bank and postal deposits	636,100	4,201,281
2	Cheques	0	0
3	Cash on hand and cash equivalents	18,713	15,021
	Total cash and cash equivalents (C-IV)	654,813	4,216,302
	Totale Current Assets C	1,104,107,244	1,029,792,435
D ACCRUED INCOME AND PREPAID EXPENSES			
	Accrued income and prepaid expenses	436,342	990,364
	Total Accrued income and prepaid expenses D	436,342	990,364
	TOTAL ASSETS	2,245,263,064	2,232,203,650

LIABILITIES values in EUR

31 Dec 2017

31 Dec 2016

A SHAREHOLDERS' EQUITY			
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	Legal reserve	0	0
VI	Other reserves, represented by:		
	- Contributions on future capital increase	20,000	20,000
	- Difference from rounding to the unit of Euro	3	(1)
	Total other reserves (VI)	20,003	19,999
VII	Reserve for projected cash flow hedges	0	0
VIII	Profit/(loss) carried forward	(127,563,929)	(43,672,865)
IX	Profit/(loss) for the year	37,923,583	(83,891,065)
	Total equity A	413,357,598	375,434,010
B RESERVES FOR RISKS AND EXPENSES			
1	for post-retirement benefits and similar obligations	1,837,503	1,851,344
2	for taxes, including deferred taxes	165,474,478	176,686,677
3	financial derivatives reported as liabilities	7,253,261	14,521,105
4	other	1,650,881	12,994,708
	Total Reserves for Risks and Expenses B	176,216,123	206,053,834
C EMPLOYEE SEVERANCE PAY			
	Employee severance pay C	11,272,892	11,944,266
D PAYABLES			
4	Payables to banks		
	- due within the following year	36,310,246	51,970,642
	- due after the following year	12,680,000	12,492,604
		48,990,246	64,463,246
6	Advance payments		
	- due within the following year	707,001	10,894,599
	- due after the following year	0	0
		707,001	10,894,59
7	Trade payables		
	- due within the following year	1,061,246,649	983,626,533
	- due after the following year	0	0
		1,061,246,649	983,626,533
9	Payables to subsidiaries		
	- due within the following year	13,152,486	13,321,448
	- due after the following year	0	0
		13,152,486	13,321,448
10	Payables to associates		
	- due within the following year	1,848,884	962,105
	- due after the following year	0	0
		1,848,884	962,105
11	Payables to parent companies		
	- due within the following year	333,282,956	384,730,469
	- due after the following year	0	0
		333,282,956	384,730,469
11-bis	Payables to companies subject to control of parent companies		
	- due within the following year	22,071,045	10,238,036
	- due after the following year	0	0
		22,071,045	10,238,036
12	Tax payables		
	- due within the following year	11,216,178	10,646,572
	- due after the following year	0	0
		11,216,178	10,646,572
13	payables to welfare and social security organizations		
	- due within the following year	10,638,780	10,284,118
	- due after the following year	0	0
		10,638,780	10,284,118
14	Other payables		
	- due within the following year	140,729,607	149,252,709
	- due after the following year	0	0
		140,729,607	149,252,709
	Total Payables D	1,643,883,832	1,638,419,835
E ACCRUED EXPENSES AND DEFERRED INCOME			
	Accrued expenses and deferred income	532,619	351,705
	Total Accrued expenses and deferred income E	532,619	351,705
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,245,263,064	2,232,203,650

MARCEGAGLIA CARBON STEEL S.P.A.

PROFIT AND LOSS ACCOUNT AS OF 31 DECEMBER 2017

values in EUR		31 Dec 2017	31 Dec 2016
A	VALUE OF PRODUCTION		
1	Revenues from sales and services	2,965,903,693	2,224,000,923
2	Changes in inventories of work in progress, semi-finished and finished products	72,447,374	33,099,585
3	Changes in contract work in progress	0	0
4	Increase in fixed assets for internal work	0	0
5	Other revenues and income		
	- Operating grants	2,729,116	1,436,822
	- Other	13,525,890	13,726,115
	Total other revenues and income (5)	16,255,006	15,162,937
	Total Value of production A	3,054,606,073	2,272,263,445
B	PRODUCTION COSTS		
6	Raw and ancillary materials, consumables and goods	(2,252,871,255)	(1,586,754,800)
7	Services	(373,998,520)	(349,210,586)
8	Lease and rental expense	(33,712,069)	(26,560,602)
9	Personnel costs		
	a) wages and salaries	(113,168,684)	(112,980,350)
	b) social security contributions	(36,770,220)	(36,748,655)
	c) employee severance pay	(8,063,081)	(7,992,455)
	d) post-retirement benefits and similar obligations	0	0
	e) other personnel costs	(986,716)	(458,716)
	Total personnel costs (9)	(158,988,701)	(158,180,176)
10	Amortisation, depreciation and write-downs		
	a) amortisation of intangible assets	(379,147)	(654,248)
	b) depreciation of property, plant and equipment	(87,124,763)	(84,909,808)
	c) other write-downs of fixed assets	0	0
	d) write-downs of receivables included in current assets and cash and cash equival.	(2,835,752)	(10,241,680)
	Total amortisation, depreciation and write-downs (10)	(90,339,662)	(95,805,736)
11	Changes in the inventory of raw and ancillary mater., consumables and goods	(60,947,787)	(6,985,601)
12	Provisions for risks	0	0
13	Other provisions	0	0
14	Sundry operating costs	(5,505,384)	(6,663,938)
	Total Production Costs B	(2,976,363,378)	(2,230,161,439)
	Difference between Value and Cost of Production A - B	78,242,695	42,102,006
C	FINANCIAL INCOME AND EXPENSES		
15	Income from equity investments		
	- from associates	1,979,750	0
	Total income from equity investments (15)	1,979,750	0
16	Other financial income:		
	a) from receivables recorded as fixed assets		
	- from other companies	0	31
	Total financial income from receivables recorded as fixed assets (a)	0	31
	d) income other than the above:		
	- from subsidiaries	2,046,246	2,162,370
	- from companies subject to the control of parent companies	23,237	1,776,207
	- from others	102,817	494,153
	Total income other than the above (d)	2,172,300	4,432,730
	Total other financial income (16)	2,172,300	4,432,761
17	Interests and other financial charges:		
	- paid to subsidiaries	(379,306)	(385,297)
	- paid to parent companies	(18,146,110)	(22,439,547)
	- paid to companies subject to the control of parent companies	0	0
	- other financial expenses	(32,263,011)	(28,652,258)
	Total interests and other financial charges (17)	(50,788,427)	(51,477,102)
17-bis	Exchange-rate gains and losses	14,918,689	(1,544,864)
	Total Financial Income and Expenses C	(31,717,688)	(48,589,205)
D	VALUE ADJUSTMENTS OF FINANCIAL ASSETS		
18	Revaluations		
	of equity investments	0	4,967,375
	of financial fixed assets other than equity investments	0	0
	of financial derivatives	7,267,844	5,433,797
	Total revaluations (18)	7,267,844	10,401,172
19	Write-downs		
	of equity investments	(1,000,006)	(61,300,996)
	of financial fixed assets other than equity investments	0	0
	of financial derivatives	0	(29,624,712)
	Total write-downs (19)	(1,000,006)	(90,925,708)
	Total Value Adjustments of Financial Assets D	6,267,838	(80,524,536)
	PROFIT (LOSS) BEFORE TAXES (A-B+/-C+/-D)		
	Profit (Loss) Before Taxes A-B+/-C+/-D	52,792,845	(87,011,735)
20	Current, deferred and pre-paid income taxes for the year		
	- direct taxes for the year	(16,709,401)	(3,500,634)
	- direct taxes for previous years	(10,544)	0
	- deferred taxes	770,683	5,187,153
	- Income (costs) from participation in tax consolidation scheme	1,080,000	1,434,151
	Total current, deferred and pre-paid income taxes for the year (20)	(14,869,262)	3,120,670
	PROFIT (LOSS) FOR THE YEAR	37,923,583	(83,891,065)

STATEMENT OF CASH FLOWS AS OF 31 DECEMBER 2017

values in EUR

31 Dec 2017

31 Dec 2016

A CASH FLOWS FROM INCOME-GENERATING OPERATIONS (INDIRECT METHOD)		
Profit (loss) for the year	37,923,583	(83,891,065)
Income Tax	14,869,262	(3,120,670)
Interest expenses/(income)	46,636,376	47,044,341
Dividends)	-	-
Gains/Losses resulting from the disposal of assets	(1,854,921)	469,995
1 Profit (loss) for the year, before income taxes, interest, dividends and gains/losses from asset sales	97,574,300	(39,497,399)
Adjustments for non-cash items with no balancing entry in net working capital		
- Provisions to funds	8,733,413	8,636,140
- Amortisation/Depreciation of fixed assets	87,503,911	85,564,056
- Write-downs due to permanent impairment	-	-
- Value adjustments of financial assets and liabilities on derivative financial instruments that do not involve cash transactions	(6,267,839)	80,524,536
- Other adjustments for non-cash items	-	-
Total adjustments for non-cash items with no balancing entry in working capital	89,969,485	174,724,732
2 Cash flow before changes in net working capital	187,543,785	135,227,333
Changes in net working capital		
- Decrease/(Increase) in inventories	(28,706,575)	(26,113,984)
- Decrease/(Increase) in trade receivables	(66,233,440)	59,602,700
- Increase/(Decrease) in trade payables	77,620,116	170,057,789
- Decrease/(Increase) in accrued income and prepaid expenses	554,022	1,152,289
- Increase/(Decrease) in accrued expenses and deferred income	180,915	(544,756)
- Other changes in net working capital	(65,700,869)	(92,812,509)
Total changes in net working capital	(82,285,831)	111,341,529
3 Cash flow after changes in net working capital	105,257,954	246,568,862
Other adjustments		
- Interest received/(paid)	(46,636,376)	(47,044,341)
- (Income taxes paid)	-	-
- Dividends received	-	-
- (Utilisation of funds)	(21,762,455)	(19,567,206)
- Other collections/(payments)	-	-
Total other adjustments	(68,398,831)	(66,611,547)
Cash flow from income-generating operations A	36,859,123	179,957,315
B CASH FLOWS FROM INVESTMENT ACTIVITIES		
Property, plant and equipment		
- (Investments)	(28,515,861)	(23,275,417)
- Divestitures	334,775	674,292
Intangible fixed assets		
- (Investments)	(234,319)	(185,807)
- Divestitures	-	-
Financial fixed assets		
- (Investments)	(1,463,247)	(84,190)
- Divestitures	4,931,038	9,155
Current financial assets		
- (Investments)	-	-
- Divestitures	-	-
(Purchase of subsidiaries or business divisions net of liquid assets)	-	-
Sale of subsidiaries or business divisions net of liquid assets	-	-
Cash flows from investment activities B	(24,947,614)	(22,861,967)
C CASH FLOWS FROM FINANCING ACTIVITIES		
Third party resources		
- Increase/(Decrease) in short-term liabilities to banks	(15,927,792)	(69,293,079)
- New loans	9,000,000	-
- (Repayments of loans)	(8,545,206)	(86,670,207)
Capital and reserves		
- Paid-in capital increase	-	-
- (Reimbursement of paid-in capital increase)	-	-
- Sale/ (Purchase) of own shares	-	-
- (Dividends and advances on dividends paid)	-	-
Cash flows from financing activities C	(15,472,998)	(155,963,286)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS A ± B ± C	(3,561,489)	1,132,062
Exchange rate effect on cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	4,216,302	3,084,240
Bank and postal deposits	4,201,281	3,073,307
Checks	-	-
Cash on hand and cash equivalents	15,021	10,933
of which not freely usable	4,168,701	3,062,969
Cash and cash equivalents at year end	654,813	4,216,302
Bank and postal deposits	636,100	4,201,281
Checks	-	-
Cash on hand and cash equivalents	18,713	15,021
of which not freely usable	442,035	4,168,701

NOTES

PRELIMINARY REMARKS

After the major reorganisation of the Marcegaglia group (which was started and completed in 2015), the Company belongs to the Marcegaglia group's flat and welded tubes division, which incorporates carbon steel processing activities for the production of flat products and welded tubes.

Financial statement preparation criteria and structure

The financial statements for the year ending 31 December 2017 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), their 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.

Note that as an exception to the provisions of Article 2423-bis(1)(6) of the Italian Civil Code, in order to provide a better representation of the company's events and transactions in the financial statements, starting with the 2017 financial statements, the periodic LIFO (last in, first out) method was used for measuring inventories of "base" steel raw materials (black coils, slabs and preformed tubes) instead of the weighted average cost method used in previous financial years. The reason for this decision, in the context of using conservative values, was due to structural changes in the steel industry worldwide, and specifically in Europe, that entail increased price volatility.

To summarise, most volatility was due to:

1. Reduction in global production capacity

In general, following the 2008-2009 crisis, in all segments of the steel industry

(carbon and stainless steel, flat products and long products), there was a significant restructuring of production capacity to bring it into line with the (reduced) levels of steel demand. In China as well, after a period of further expansion (2009-2014), in recent years, major, stringent plans to shut down obsolete, polluting plants were implemented by the Chinese government.

2. Resumption of consolidation trend in the sector

With the recovery of profitability and overall positive trend in the commodities sector, the steel sector resumed its merger and acquisition cycle, especially with regard to primary production: in Europe, after the merger of SSAB and Ruukki, ArcelorMittal won the bid for Ilva, and Tata and Thyssenkrupp are in advanced negotiations to form a 50/50 JV.

In India, three significant producers will change ownership (Essar, Bushan and Sail), and Tata and ArcelorMittal are very active as consolidators.

In China, the government is guiding the formation of mega-producers to act as better competitors in the global environment (a recent example is the union of Baosteel and Wuhan).

In North and South America, Ternium and ArcelorMittal have purchased various assets including those of Thyssenkrupp in Brazil and Alabama, and further consolidation is expected with Trump's protectionist policy.

3. Protectionism and greater market regionalisation

Over the last three years, protectionist measures of many countries and "macro regions" have grown with the aim of strengthening local industries and limiting international trade; most of these measures have targeted China, but they have been extended to many other countries, in the case of Europe Russia and Ukraine, as well as Iran and Brazil. Trump's rise to the presidency in the US has produced a further widespread "squeeze" on international trade with likely repercussions in other macro regions, including Europe, which must protect themselves from the risk of a drastic repositioning of trade flows of

countries exporting to the US.

Thus, competition will be more limited among macro regions, and more focused within each "regional" market.

4. Oligopoly nature of steel commodity sector for the primary production of steel (iron ore, coal for carbon steel, and nickel, chromium and molybdenum for stainless steel).

The impact of rising price volatility and of the regionalisation of markets is more pronounced for the "base" steel products that form the raw materials for Marcegaglia Carbon Steel, such as black coils, slabs and preformed tubes.

Indeed, the impact on prices is more pronounced on these materials since by nature they are more like commodities, and they are more closely tied to steel raw materials (iron ore, coal, nickel, chromium and molybdenum), which are in turn the growing focus of financial investors due in part to large amounts of cash available in markets and low interest rates.

Unlike raw materials and base steel products derived from them, products from the first and second transformation are less volatile since they are mainly intended for end users, frequently under contracts with a longer duration, and with a larger service component, and since demand and the needs of reference customers are more fragmented.

5. Greater role of financial investors in the commodities (including steel commodities) sector due in part to large amounts of cash in the system and the recovery of profitability in the steel industry.

The company has gradually increased the share of customised products with greater added value in its product offerings owing to a broader range of "specialties" and related services, and it has gradually distanced itself from the approach of the base industry including with regard to the formation of prices for its products. In view of the different nature of "base" steel raw materials on the one hand, and the semi-finished and finished products of Marcegaglia Carbon Steel, on the other hand, it was deemed appropriate to apply different measurement criteria

for inventories adopted. Base steel raw materials were measured criterion with the periodic LIFO method, in order to be conservative and avoid reporting exact values, which, during a specific cycle or economic situation, could be misleading in relation to a “normal” reporting of values over the medium and long term.

On the other hand, for semi-finished and finished products it was deemed appropriate to maintain weighted average cost, which is more consistent with the reporting of the market trend, which, by its nature, is more gradual and “moderate” in terms of changes in prices for these products.

In keeping with accounting rules, the same criteria were used to recalculate the value of beginning inventories in order to properly report consumption in the profit and loss account for the period, and values for 2016 were recalculated for the comparison of the 2016 and 2017 reports.

In addition, during the financial year under review, it was decided to change the criterion for recording the productivity bonuses paid to employees and the resulting ancillary charges. Thus, starting in 2017, these bonuses and ancillary charges are allocated to the financial year when the income and production parameters are measured that were established in supplemental company agreements that determined the amount owed, and not in the financial year when paid. As a result, the bonuses and related contributions owed on the basis of 2017 results and paid in 2018 were allocated in the 2017 financial statements; the bonuses and related contributions due on the basis of 2016 and paid in 2017 were removed from the 2017 profit and loss account, and in accordance with accounting standard OIC 29, they were posted as a reduction to the extraordinary reserve.

As a result, taxes from the above adjustment were recorded by recognising:

- for the purposes of IRAP, a receivable from tax authorities as a result of the higher deductions usable for 2016 to lower tax charges;

- for the purposes of IRES, a receivable from the parent company Marcegaglia Holding as a result of the higher tax loss transferred as a part of tax consolidation. The balancing entry for the latter two adjustments is the item “Extraordinary reserve” in shareholders’ equity.

The balance sheet and profit and loss account were 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 2017 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 2017. As previously noted, with regard to the new measurement criterion for ending inventories of raw materials, and the change in the accounting criterion for productivity bonuses paid to employees, as shown in the following table, the amounts for 2016 were recalculated for the purposes of comparing the 2016 and 2017 reports.

Balance sheet changes - 2016		
C I 1)	Raw and ancillary materials and consumables	-18,604,845
C II 5 ter	Receivables for deferred tax assets - due within the following year	5,190,752
C II 4	Receivables from parent companies due within the following year	675,259
C II 5 bis	Tax credits - due within the following year	95,763
P D 13)	Payables to welfare and soc. sec. organisations - due within the following year	-575,797
P D 14)	Other payables - due within the following year	-1,879,693
	Higher liabilities net of higher assets	-15,098,561

Profit and loss account changes - 2016		
B) 11)	Changes in inventories of raw and ancillary materials, consumables and goods	-18,604,845
B 9) a	Salaries and wages	-1,879,693
B 9) b	Social security charges	-575,797
F 20	Current taxes	95,763
F 20	Pre-paid taxes	5,190,752
F 20	Income related to the tax consolidation scheme	675,259
	Total negative impact on profit (loss) for 2016	-15,098,561

With regard to the statement of cash flows, the 2016 column was appropriately modified to take the above into consideration.

Classification criteria

The following classification conventions were used when structuring the financial statements at 31 December 2017:

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.

The statement of cash flows was prepared in accordance with the layout indicated in accounting standard OIC 10, which reports the amount and breakdown of cash and cash equivalents at the beginning and end of the year, and cash flows for the year from operating, investment and financing activities as required by Article 2425-ter of the Italian Civil Code.

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 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.

Start-up and expansion costs are amortised over a period of five years. Any 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 recognised only if:

- 1) it has been purchased, for up to the cost incurred,
- 2) it arises from the consolidation process, to the extent permitted by impairment testing".

In the exceptional cases where its useful life cannot be estimated reliably, goodwill is amortised over a maximum period of ten years.

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	20,00%	22,668
Development costs (B.I.2)			
Licensed software (B.I.3)	410,228	33,33%	136,743
Know-how (B.I.4)	1,900	10,00%	190
Goodwill (B.I.5)			
Intangible assets in progress (B.I.6)	128,171		
Other multi-year costs (B.I.7)	1,213,632	20% / 17% / 13%	219,546

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 the remaining useful lives. All ordinary maintenance costs are instead charged to the profit and loss account. Depreciation was determined on the basis of the remaining useful life of the assets. Below are details on property, plant and equipment recorded in the financial statements, the related depreciation criteria and amount of depreciation recorded in 2017.

Line items of the Financial Statements	Purchase or production cost	Depreciation rate	Depreciation for the year
Land (B.II.1)	4,708,433	=	
Buildings (B.II.1)	473,699,313	2.5-3.5%	13,866,068
Light constructions (B.II.1)	13,804,322	10.00%	1,244,887
Large plants and machinery (B.II.2)	476,742,429	8-12%	46,602,050
General and specific plant assets (B.II.2)	159,969,227	8.00%	16,015,463
Miscellaneous equipment (B.II.3)	30,524,199	15.00%	6,871,027
Internal handling equipment (B.II.3)	6,469,721	15.00%	1,062,870
Furniture and ordinary office equipment (B.II.4)	532,860	12.00%	195,086
Electronic machinery (B.II.4)	1,939,488	20.00%	441,675
Automobiles (B.II.4)	1,607,992	25.00%	470,130
Trucks and trailers (B.II.4)	668,678	20.00%	252,146
Ordinary furniture and furnishings (B.II.4)	936,274	10.00%	103,361
Fixed assets in progress and advance payments (B.II.5)	23,284,903	=	0

On the other hand, 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. The following table indicates the average rates applied by category of similar assets:

Line items of the Financial Statements	Depreciation rate
Buildings (B II 1)	2.93%
Light constructions (B II 1)	9.09%
Large plants and specific machinery (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%

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.

Equity investments and securities held as fixed assets

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

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 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.

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 value of ending inventories of base steel raw materials (black coils, slabs and preformed tubes) was determined using the periodic LIFO method. As already indicated in the paragraph “Financial statement preparation criteria and structure,” this method replaced the weighted average cost method used until financial year 2016.

In this regard, note that if the base steel raw materials (black coils, slabs and preformed tubes) had been measured at weighted average cost instead of the periodic LIFO method, there would have been a positive impact of about Euro 72.3 million in terms of the profit for 2017 and shareholder’s equity at 31 December 2017 (without considering the related IRES and IRAP tax impact).

On the other hand, the value of ending inventories of steel raw materials of the first and second transformation was determined using the weighted average cost method as in previous years.

The adoption of different methods for determining cost in the same category of ending inventories is in line with what is allowed by Accounting Standard OIC 13. Ending inventories of semi-finished and finished products are measured at production cost calculated by adding processing costs to the cost of raw materials used in production 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 re-

placement 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 (held as fixed and current assets) are recognised in the financial statements using the amortised cost criterion taking into account the time factor and estimated realisable value.

However, OIC 15, paragraph 33 specifies that this criterion need 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 need not be applied to components of items related to transactions that have not fully exhausted their impact in the financial statements.

Thus, in these 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 2017). 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 need 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 need not be applied to components of items related to transactions that have not fully exhausted their impact in the financial statements.

Thus, in these 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 2017). 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 from sales are recognised on an accrual basis, that is when both the following conditions are met:

- the goods have been manufactured; and
- title to the goods has been passed, which is when risks and benefits incidental to their ownership has been tran-

sferred. Thus, save as otherwise agreed regarding the transfer of risks and benefits:

- a) in the case of the sale of movable assets, risks and benefits are transferred when the goods are shipped or delivered;
- b) for assets that require notarisation (for instance properties), risks and benefits are transferred when the sale agreement is executed;
- c) in the case of instalment sales with retention of title, revenues are recognised upon delivery, regardless of the transfer of title, as Article 1523 of the Italian Civil Code provides that the buyer becomes the owner with the payment of the last instalment of the price but assumes the risks upon delivery.

Revenues from services are recognised on an accrual basis, that is when the service has been rendered.

Financial income is recognised on an accrual basis, in the amount accrued on a pro-rata basis in the period of reference.

Costs and charges

Costs related to the purchase of goods are recognised on an accrual basis, that is when both the following conditions are met:

- the goods have been manufactured; and
- title to the goods has been passed, which is when risks and benefits incidental to their ownership has been transferred. Thus, save as otherwise agreed regarding the transfer of risks and benefits:
 - a) in the case of the purchase of movable assets, risks and benefits are transferred when the goods are shipped or delivered;
 - b) for assets that require notarisation (for instance properties), risks and benefits are transferred when the sale agreement is executed;
 - c) in the case of instalment sales with retention of title, costs are recognised upon delivery, regardless of the transfer of title, as Article 1523 of the Italian Civil Code provides that the buyer becomes the owner with the payment of the last instalment of the price but assumes the risks upon delivery.

Service costs are recognised on an accrual basis, that is when the service has been rendered.

Financial expenses are recognised on an accrual basis, in the amount accrued on a pro-rata basis in the period of reference.

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	Intangible fixed assets in progress and advance payments	Other intangible fixed assets	Total intangible fixed assets
Amount at beginning of the year						
Cost	113,343	211,944	1,900	128,171	4,563,662	5,019,020
Amortisation (Accumulated amortisation)	26,447	127,350	760	-	4,257,234	4,411,791
Book value	86,896	84,594	1,140	128,171	306,428	607,229
Changes during the year						
Increases for purchases	-	232,045	-	-	2,275	234,320
Amortisation for the year	22,668	136,743	190	-	219,546	379,147
Total changes	(22,668)	95,302	(190)	-	(217,271)	(144,827)
Amount at end of the year						
Cost	113,343	443,969	1,900	128,171	4,565,937	5,253,320
Amortisation (Accumulated amortisation)	49,115	264,093	950	-	4,476,780	4,790,938
Book value	64,228	179,896	950	128,171	89,157	462,402

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	Amortisation criterion
Company organisation costs	113,343	49,115	64,228	20%
Total	113,343	49,115	64,228	

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
Amount at beginning of the year						
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
Book value	470,570,961	546,062,927	25,356,616	3,541,383	22,552,517	1,068,084,404
Changes during the year						
Increases for purchases	3,708,145	17,191,487	2,895,964	590,222	5,719,585	30,105,403
Reclassifications (of the book value)	401,245	2,945,762	50,651	-	(3,397,658)	-
Decreases (in the book value) due to sales and disposals	-	406,875	19,815	32,914	54,675	514,279
Depreciation for the year	15,110,955	62,617,513	7,933,896	1,462,399	-	87,124,763
Other changes	-	-	-	-	(1,534,866)	(1,534,866)
Total changes	(11,001,565)	(42,887,139)	(5,007,096)	(905,091)	732,386	(59,068,505)
Amount at end of the year						
Cost	493,924,120	636,711,656	36,993,920	5,685,294	28,173,950	1,201,488,940
Depreciation (Accumulated depreciation)	32,590,670	133,535,868	16,644,400	3,049,002	-	185,819,940
Write-downs	1,764,054	-	-	-	4,889,047	6,653,101
Book value	459,569,396	503,175,788	20,349,520	2,636,292	23,284,903	1,009,015,899

Value reductions applied to property, plant and equipment

No fixed assets were written down during the year.

LEASE TRANSACTIONS

The Company has a pending 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 lease agreements were used are summarised in the following table:

- Utilisation by Marcegaglia Carbon Steel starting from FY: 01/11/2015
- Remaining term of the agreement in years: 3
- Market value of the contributed asset: Euro 28,578,100

INFORMATION ON LEASE TRANSACTIONS (ARTICLE 2427(1)(22) OF THE ITALIAN CIVIL CODE)

DESCRIPTION	LEASED ASSETS
	Current year
Outstanding debt to the lessor	2,770,610
Financial charges	62,768
Total gross value of the leased assets at end of year	28,578,100
Depreciation applied during the financial year	2,198,315
Amount of accumulated depreciation at end of financial year	4,763,017
Value adjustments / write-backs ±	0
Total net value of the leased assets	23,815,083
Higher net value of bought out assets in relation to the book value	0

IMPACT ON SHAREHOLDERS' EQUITY	Amount
Assets	
a) Current agreements	
a.1) Leased assets at the end of the prior financial year	26,013,399
related accumulated depreciation	2,564,701
a.2) Assets acquired under leases during the financial year	0
a.3) Leased assets redeemed during the financial year	0
a.4) Accrued depreciation for the financial year	2,198,315
a.5) Write-downs/write-backs of leased assets	0
a.6) Leased assets at the end of the financial year	23,815,083
related accumulated depreciation	4,763,017
b) Assets redeemed	
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
Total (a.6+b.1)	23,815,083
Liabilities	
c) Implicit payables	
c.1) Implicit payables for lease transactions at the end of the previous 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
c.2) Implicit payables arising during the financial year	0
c.3) Principal repayments and redemptions during the financial year	4,089,235
c.4) Implicit payables for lease transactions at the end of the financial year	2,770,610
portion maturing during the next financial year	2,770,610
portion maturing after the next financial year and within 5 years	0
portion maturing in more than 5 years	0
d) Total gross impact at the end of the financial year (a.6+b.1-c.4)	21,044,473
e) Tax impact	1,120,809
f) Impact on shareholders' equity at the end of the financial year (d - e)	19,923,664

Note that property, plant and equipment in the line item “property, plant and equipment in progress” already include an amount totalling Euro 17,030,451 from a valuation carried out by the expert asked to prepare the appropriate expert opinion, pursuant to Article 2465 of the Italian Civil Code, representing the contribution value of the pending lease indicated above.

The Euro 19,923,664 impact on assets indicated above is considered before this fixed asset in progress, which is already reported in the financial statements.

IMPACT ON PROFIT (LOSS) FOR THE YEAR	Amount
a.1) Storno di canoni su operazioni di leasing finanziario	4,743,240
a.2) Rilevazione degli oneri finanziari su operazioni di leasing finanziario	62,768
a.3) Rilevazione di quote di ammortamento su contratti in essere	2,198,315
a.4) Rettifiche/riprese di valore su beni in leasing finanziario	0
a) Effetto sul risultato prima delle imposte (minori/maggiori costi)	2,482,157
b) Rilevazione dell'effetto fiscale	-692,522
c) Effetto netto sul risultato d'esercizio delle operazioni di leasing (a - b)	1,789,635

FINANCIAL FIXED ASSETS

CHANGES IN EQUITY INVESTMENTS, OTHER SECURITIES AND FINANCIAL DERIVATIVES HELD AS FIXED ASSETS

	Equity investments in subsidiaries	Equity investments in associates	Equity investments in other companies	Total equity investments
Amount at beginning of the year				
Cost	212,712,233	1,717,122	17,346	214,446,701
Write-downs	81,770,389	-	-	81,770,389
Book value	130,941,844	1,717,122	17,346	132,676,312
Changes during the year				
Increases for purchases	11,000,000	-	1,379,235	12,379,235
Reclassifications (of book value)	-	(379,750)	-	(379,750)
Decreases (in book value) due to disposals	-	395,250	-	395,250
Write-downs during the year	6	-	-	6
Other changes	(13,470,608)	-	379,750	(13,090,858)
Total changes	(2,470,614)	(775,000)	1,758,985	(1,486,629)
Amount at end of the year				
Cost	210,241,625	942,122	1,776,331	212,960,078
Write-downs	81,770,395	-	-	81,770,395
Book value	128,471,230	942,122	1,776,331	131,189,683

Note that changes in the line item “other changes” in equity investments in subsidiaries were due to the following transactions:

	Amount
Conversion of trade receivables into share capital increases in the subsidiary Marcegaglia do Brasil	84,012
Repayment of capital reserves by the subsidiary Marcegaglia Poland	-2,554,626
Conversion of previously written-down trade and financial receivables into contributions to cover losses of the subsidiary Marcegaglia China	6
Use of a provision for risks posted in the 2016 financial statements to write down the Euro 11 million purchase made in 2017 in relation to Simest which sold its stake in the Chinese subsidiary.	-11,000,000
Total other changes	-13,470,608

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	52,906	(1,412)	51,494	51,494
Total receivables held as fixed assets	52,906	(1,412)	51,494	51,494

DETAILS OF EQUITY INVESTMENTS IN SUBSIDIARIES HELD AS FIXED ASSETS

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 %	Book value or corresponding receivable
Marcegaglia Benelux	Belgium	100,000	4,726	91,689	91,689	100.00%	107,109
Marcegaglia France Sarl	France	50,000	389,132	548,317	548,317	100.00%	512,474
Marcegaglia Poland Sp.z.o.o.	Poland	23,940,627	16,269,040	71,152,555	61,050,198	91.80%	41,218,220
Marcegaglia do Brasil Ltda	Brazil	80,797,402	(8,259,226)	54,498,134	50,029,287	85.80%	60,731,913
Marcegaglia UK	UK	18,766,498	1,673,342	26,168,023	26,168,023	100.00%	23,183,302
Marcegaglia China Co. Ltd	China	145,704,586	(17,899,974)	55,147,662	50,410,477	100.00%	1
Marcegaglia Iberica	Spain	120,220	(40,182)	656,988	335,064	51.00%	325,307
Marcegaglia India Ltd	India	1,326	(16,212)	(36,108)	(32,497)	90.00%	1,334
Marcegaglia North EU	Luxembourg	31,000	(18,429)	(62,109)	(62,109)	100.00%	31,000
Marcegaglia Deutschland GmbH	Germany	153,388	315,673	2,650,474	2,650,474	100.00%	2,360,570
Total							128,471,230

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 2017. With regard to Marcegaglia Benelux, the latest financial statements available are as at 31 December 2016.

With regard to Marcegaglia Do Brasil, the fact that the carrying amount of the equity investment is higher than the fraction of shareholders' equity held is justified by unrealised gains in the subsidiary's assets.

DETAILS OF EQUITY INVESTMENTS IN ASSOCIATES HELD AS FIXED ASSETS

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 %	Book value or corresponding receivable
SIM S.r.l.	Italy	780,000	35,581	1,908,227	954,114	50.00%	929,622
Consorzio Absolute Scarl	Italy	50,000	-	50,000	12,500	25.00%	12,500
Total							942,122

* 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 2017.

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	51,494	51,494
Total	51,494	51,494

VALUE OF FINANCIAL FIXED ASSETS

	Book value	Fair Value
Equity investments in other companies	1,776,331	1,776,331
Receivables from others	51,494	51,494

BREAKDOWN OF EQUITY INVESTMENTS IN OTHER COMPANIES HELD AS FIXED ASSETS

	Book value	Fair Value
AM Investco srl	4,015	4,015
Gas Intensive scarl	1,000	1,000
Metal Interconnector scpa	1,391,566	1,391,566
Fontana spa	379,750	379,750
Total	1,776,331	1,776,331

BREAKDOWN OF RECEIVABLES FROM OTHERS HELD AS FIXED ASSETS

	Book value	Fair Value
ENEL security deposits	50	50
Lease security deposits	4,620	4,620
Employee advances on expenses	14,298	14,298
Miscellaneous security deposits	32,526	32,526
Total	51,494	51,494

CURRENT ASSETS

Below are changes that occurred during the year ending 31 December 2017 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
I - Inventories			
Raw and ancillary materials and consumables	397,975,103	(60,947,787)	337,027,316
Work in progress and semi-finished products	211,810,265	44,815,352	256,625,617
Finished products and goods	174,882,582	27,632,023	202,514,605
Advance payments	0	17,206,988	17,206,988
Total inventories	784,667,950	28,706,576	813,374,526

As indicated in the comments on the criteria applied in measuring financial statement items at the beginning of these notes, which should be referenced for further details, in 2017 the Company changed the criterion for measuring “base” steel raw materials (black coils, slabs and preformed tubes) from weighted average cost to the periodic LIFO method.

To this end, as already noted in the paragraph “Comparability with the previous financial year”, which should be referenced for further details, the impact of this change was recalculated, including for financial year 2016, to ensure better comparability between operating results for 2017 and 2016.

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
II - Receivables					
From customers	39,613,500	66,233,440	105,846,940	105,846,940	-
From subsidiaries	52,190,843	(23,442,190)	28,748,653	28,748,653	0
From associates	1,103,944	1,485,499	2,589,443	2,589,443	-
From parent companies	5,001,651	(4,326,392)	675,259	675,259	-
From companies subject to control of parent companies	72,756,897	33,247,788	106,004,685	106,004,685	-
Tax credits	604,122	11,755,970	12,360,092	12,360,092	-
Deferred tax assets	19,114,329	(10,441,516)	8,672,813		
From others	50,522,897	(25,342,877)	25,180,020	25,180,020	-
Total receivables recorded in current assets	240,908,183	49,169,722	290,077,905	281,405,092	-

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	2,513,424	74,676	1,240,037	3,678,785
Allowance for uncollectible receivables from subsidiaries	8,955,199	10,550,914	1,595,715	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 tax credits	0	0	0	0
Allowance for uncollectible receivables from others	0	0	0	0
Total allowance for uncollectible receivables	11,468,623	10,625,590	2,835,752	3,678,785

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 infra-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 in-

stances, 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
Oskar Srl	1,178,890	375,552	1,554,442	1,554,442
Marcegaglia Romania	2,815,909	317,305	3,133,214	3,133,214
Marfin Srl	971,311	-971,311	0	0
Marcegaglia Buildtech Srl	47,927,460	44,451,130	92,378,590	92,378,590
Marcegaglia USA	9,265,352	-7,961,475	1,303,877	1,303,877
Marcegaglia Specialties Spa	3,203,660	297,113	3,500,773	3,500,773
Marcegaglia Plates Spa	4,878	1,570	6,448	6,448
I.M.A.T. Spa	628,769	-611,353	17,416	17,416
Marcegaglia Turchia	6,710,280	-3,368,790	3,341,490	3,341,490
B.V.B. Srl in liquidation	1,220	-1,220	0	0
Marcegaglia Investments Srl	0	1,220	1,220	1,220
Euroenergy Group Srl	30,592	-30,592	0	0
MADE HSE Srl	403	-403	0	0
Marcegaglia RU	8,695	-8,695	0	0
Outsourcing Inox Srl	15,385	-15,385	0	0
Dalmine Logistic Solutions Srl	-5,907	773,122	767,215	767,215
Total receivables from companies subject to control of parent companies	72,756,897	33,247,788	106,004,685	106,004,685

Moving on with comments on changes in receivables recorded in current assets, there was a significant increase in tax credits. This change was largely due to VAT credits arising in December 2017 that will be transferred by Marcegaglia Carbon Steel S.p.A. to the parent company Marcegaglia Holding S.p.A., which manages the Group's VAT procedure, in January 2018 at the time VAT for December 2017 is paid. Receivables for deferred tax assets were nearly entirely related to the lower reported values of inventories than the values for tax purposes arising when they were contri-

buted (in accordance with the guidelines contained in the appraisal prepared pursuant to Article 2465(1) of the Italian Civil Code), exchange rate translation differences and certain write-downs of several assets for reporting purposes. Since these amounts are expected to be

recovered, see the specific tables regarding deferred tax assets and liabilities.
Lastly, 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
Receivables from factoring companies	46,652,308	-25,125,615	21,526,693	21,526,693
Advances to suppliers	409,609	69,285	478,894	478,894
Receivables from social security organisations	652,787	-462,724	190,063	190,063
Advances to employees	30,910	-7,534	23,376	23,376
Receivables from credit institutions for customer collections	91	76	167	167
Other receivables	2,777,192	183,635	2,960,827	2,960,827
Total receivables from others	50,522,897	-25,342,877	25,180,020	25,180,020

BREAKDOWN OF RECEIVABLES RECORDED IN CURRENT ASSETS BY GEOGRAPHIC AREA

	Italy	E.U.	Other European countries	America	Africa Middle East	Asia Oceania	Total
Receivables from customers recorded in current assets	68,320,029	-	48,278	35,082,119	-	2,396,514	105,846,940
Receivables from subsidiaries recorded in current assets	-	260,070	894,634	27,505,101	-	88,848	28,748,653
Receivables from associates recorded in current assets	2,589,443	-	-	-	-	-	2,589,443
Receivables from parent companies recorded in current assets	675,259	-	-	-	-	-	675,259
Receivables from companies subject to control of parent companies recorded in current assets	98,226,105	-	3,133,213	1,303,877	3,341,490	-	106,004,685
Tax credits recorded in current assets	12,359,024	447	621	-	-	-	12,360,092
Deferred tax assets recorded in current assets	8,672,813	-	-	-	-	-	8,672,813
Receivables from others recorded in current assets	24,781,355	46,686	351,979	-	-	-	25,180,020
Total receivables recorded in current assets	215,624,028	307,203	4,428,725	63,891,097	3,341,490	2,485,362	290,077,905

CASH AND CASH EQUIVALENTS

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Bank and postal deposits	4,201,281	(3,565,181)	636,100
Cash on hand and cash equivalents	15,021	3,692	18,713
Total cash and cash equivalents	4,216,302	(3,561,489)	654,813

ACCRUED INCOME AND PREPAID EXPENSES

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Accrued income	23,576	(8,889)	14,687
Prepaid expenses	966,788	(545,133)	421,655
Total accrued income and prepaid expenses	990,364	(554,022)	436,342

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 contribution	23,576	-8,889	14,687
Total accrued income	23,576	-8,889	14,687

Prepaid expenses	Amount at beginning of the year	Changes during the year	Amount at end of the year
Lease payments and portions of down payments on leases for future years	926,913	-586,349	340,564
Other	39,875	41,216	81,091
Total prepaid expenses	966,788	-545,133	421,655

CAPITALISED FINANCIAL CHARGES

In 2017, 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	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
Other reserves				
<i>Future capital increase contributions</i>	20,000	-		20,000
<i>Sundry other reserves</i>	(1)	4		3
Total other reserves	19,999	4		20,003
Profit (loss) carried forward	(43,672,865)	(83,891,064)		(127,563,929)
Profit (loss) for the year	(83,891,065)	83,891,065	37,923,583	37,923,583
Total shareholders' equity	375,434,010	5	37,923,583	413,357,598

BREAKDOWN OF SUNDRY OTHER RESERVES

Description	Amount
Difference from rounding to whole Euros	3
Total	3

AVAILABILITY AND USE OF SHAREHOLDERS' EQUITY

	Amount	Origin / nature	Possible use	Available amount
Share capital	496,118,598	Shareholder contribution	A-B-C	-
Share premium reserve	6,859,343	Shareholder contribution	A-B-C	6,859,343
Other reserves				
<i>Future capital increase contributions</i>	20,000	Shareholder contribution	A-B-C	20,000
<i>Sundry other reserves</i>	3			-
Total other reserves	20,003			20,000
Profit (loss) carried forward	(127,563,929)			-
total	375,434,015			6,879,343
Non-distributable amount				6,879,343

Key: A = for capital increase; B = to cover losses; C = for distribution to shareholders; D = for other statutory obligations; E = other

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

Description	Amount
Difference from rounding to whole Euros	3
Total	3

PROVISIONS FOR RISKS AND CHARGES

INFORMATION ON PROVISIONS FOR RISKS AND CHARGES

	Provision for post-retirement benefits and similar obligations	Provision for taxes, including deferred taxes	Financial derivatives reported as liabilities	Other reserves	Total provision for risks and expenses
Amount at beginning of the year	1,851,344	176,686,677	14,521,105	12,994,708	206,053,834
Changes during the year					
<i>Provisions for the year</i>	144,452	2,604,006	-	1,525,881	4,274,339
<i>Usage for the year</i>	158,281	13,816,205	7,267,844	12,869,708	34,112,038
<i>Other changes</i>	(12)	-	-	-	(12)
Total changes	(13,841)	(11,212,199)	(7,267,844)	(11,343,827)	(29,837,711)
Amount at end of the year	1,837,503	165,474,478	7,253,261	1,650,881	176,216,123

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

Liability item B.1 “Provision for post-retirement benefits 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.

Description	Amount at beginning of the year	Usage for the year	Provisions for the year	Other changes	Amount at end of the year
Fondo indennità suppletiva di clientela	1,627,773	136,661	123,268	-12	1,614,368
Fondo indennità risoluzione del rapporto	223,571	21,620	21,184	0	223,135
Total	1,851,344	158,281	144,452	-12	1,837,503

Description	Amount at beginning of the year	Usage for the year	Provisions for the year	Other changes	Amount at end of the year
Fondo imposte differite	176,686,677	13,816,205	2,604,006	0	165,474,478
Total	176,686,677	13,816,205	2,604,006	0	165,474,478

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 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 2017, the utilisation of the deferred tax provision in connection with the higher depreciation amount in the financial statement than depreciation for tax purposes, was about Euro 12.3 million.

The remainder of utilisations and all provisions refer 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 2017 are indicated in the table below.

Description	Amount at beginning of the year	Usage for the year	Provisions for the year	Other changes	Amount at end of the year
Financial derivatives reported as liabilities	14,521,105	7,267,844	0	0	7,253,261
Total	14,521,105	7,267,844	0	0	7,253,261

The utilisation of the provision related to financial derivatives reported as liabilities was for the adjustment of the fair value of the two IRSs held by the company as at 31 December 2017 as compared with the fair value as at 31 December 2016.

The balancing entry for this adjustment was the recognition of a positive income component posted in line item D) 18) d) of the profit and loss account since, as already indicated in the notes to the financial statements for 2016, these derivatives do not meet all the requirements for being considered hedging derivatives pursuant to OIC 32 on derivatives.

Specifically, one of the two derivatives matured in December 2017, and thus the entire amount of the negative fair value reported in the financial statements as at 31 December 2016 was released, while the fair value of the other derivative held improved, largely to the same degree, in view of the fact that rates and underlying conditions remained largely unchanged, and as a result of the payment of differentials in 2017.

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

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 risks on lawsuits	1,994,708	1,869,708	525,881	0	650,881
Provision for risks associated with the sale of Marcegaglia China	11,000,000	11,000,000	1,000,000	0	1,000,000
Total	12,994,708	12,869,708	1,525,881	0	1,650,881

The provision for risks associated with Marcegaglia China was created in 2016 in the amount of Euro 11 million to reflect commitments made to repurchase the minority interest held by Simest in Marcegaglia China. In 2017, this provision was entirely used following the purchase from Simest (April), to reduce the increase in the equity investment acquired in view of significant uncertainties over the ability to recover this outlay.

In view of the possible liquidation of Marcegaglia China or its sale with no consideration, a prudential provision of Euro 1 million was established to cover future expenses expected to be incurred. This estimate was largely improved during the year as a result of several expressions of interest that are taking shape that will substantially reduce the costs initially projected.

TRATTAMENTO DI FINE RAPPORTO DI LAVORO SUBORDINATO

The following table shows changes in employee severance pay for 2017 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 2017 that have not been contributed to supplemental pension funds or the INPS Treasury Fund are reported in item D) 13) “Payables to welfare and social security organisations”.

	Employee severance pay
Amount at beginning of the year	11,944,266
Changes during the year	
Provisions for the year	8,063,081
Usage for the year	8,734,455
Total changes	(671,374)
Amount at end of the year	11,272,892

DETAIL OF THE LINE ITEM “USAGE FOR THE YEAR”

Usage during the year for payments and advances 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 during the year	Recovery of INPS contribution pursuant to Law 297/82	Total usage
962,295	3,077,768	4,147,869	546,523	8,734,455

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	64,463,246	(15,473,000)	48,990,246	36,310,246	12,680,000
Advance payments	10,894,599	(10,187,598)	707,001	707,001	-
Trade payables	983,626,533	77,620,116	1,061,246,649	1,061,246,649	-
Payables to subsidiaries	13,321,448	(168,962)	13,152,486	13,152,486	-
Payables to associates	962,105	886,779	1,848,884	1,848,884	-
Payables to parent companies	384,730,469	(51,447,513)	333,282,956	333,282,956	-
Payables to companies subject to control of parent companies	10,238,036	11,833,009	22,071,045	22,071,045	-
Tax payables	10,646,572	569,606	11,216,178	11,216,178	-
Payables to welfare and social security organisations	10,284,118	354,662	10,638,780	10,638,780	-
Other payables	149,252,709	(8,523,102)	140,729,607	140,729,607	-
Total payables	1,638,419,835	5,463,997	1,643,883,832	1,631,203,832	12,680,000

BREAKDOWN OF PAYABLES BY GEOGRAPHIC AREA

	Italy	E.U.	Other European countries	America	Africa Middle East	Asia Oceania	Total
Payables to banks	48,990,246	-	-	-	-	-	48,990,246
Advance payments	387,001	320,000	-	-	-	-	707,001
Trade payables	512,032,692	274,938,808	119,871,540	32,218,484	94,028,501	28,156,624	1,061,246,649
Payables to subsidiaries	469,579	3,585,814	9,073,887	-	-	23,206	13,152,486
Payables to associates	1,848,884	-	-	-	-	-	1,848,884
Payables to parent companies	333,282,956	-	-	-	-	-	333,282,956
Payables to companies subject to control of parent companies	22,071,045	-	-	-	-	-	22,071,045
Tax payables	10,850,645	311,290	54,243	-	-	-	11,216,178
Payables to welfare and social security organisations	10,638,780	-	-	-	-	-	10,638,780
Other payables	140,729,607	-	-	-	-	-	140,729,607
Payables	1,081,301,435	279,155,912	128,999,670	32,218,484	94,028,501	28,179,830	1,643,883,832

DEBT SECURED BY COLLATERAL ON COMPANY ASSETS

	Debt secured by collateral			Debt not secured by collateral	Total
	Debt secured by mortgages	Debt secured by liens	Total debt secured by collateral		
Payables to banks	12,492,604	442,035	12,934,639	36,055,607	48,990,246
Advance payments	-	-	-	707,001	707,001
Trade payables	-	-	-	1,061,246,649	1,061,246,649
Payables to subsidiaries	-	-	-	13,152,486	13,152,486
Payables to associates	-	-	-	1,848,884	1,848,884
Payables to parent companies	-	-	-	333,282,956	333,282,956
Payables to companies subject to control of parent companies	-	-	-	22,071,045	22,071,045
Tax payables	-	-	-	11,216,178	11,216,178
Payables to welfare and social security organisations	-	-	-	10,638,780	10,638,780
Other payables	-	-	-	140,729,607	140,729,607
Total payables	12,492,604	442,035	12,934,639	1,630,949,193	1,643,883,832

Note the following with regard to collateral in the form of company assets used to secure bank debt:

Credit institution/entity secured by collateral	1st and 2nd mortgages on properties located in Boltiere (BG)	Special lien on assets in the plant in Boltiere (BG)	Mortgage on properties located in Albignasego (Padua), Corsico (Milan) e Lainate (Milan)	Special lien on assets located in the plants of Albignasego (PD), Corsico (MI) and Lainate (MI)	Totals
Ge Capital			30,652,071	30,652,071	61,304,142
Intesa Sanpaolo	30,000,000	45,000,000			75,000,000
total	30,000,000	45,000,000	30,652,071	30,652,071	136,304,142

For the purposes of an overview, the following table details medium- and long-term bank debt.

Bank	Total debt at 31 December 2017	Portion of debt due within the following year (2018) and reclassified under short-term payables to banks	Total portion of debt due after the following year (2018)	of which, portion of debt due after the following year (2018) but by 31 December 2022	of which, portion of debt due after 5 years from the reporting date, i.e., starting in 2023	Debt maturity
GE Capital	1,532,604	1,532,604	0	0	0	25/03/2018
Intesa Sanpaolo	5,600,000	2,800,000	2,800,000	2,800,000	0	17/12/2019
Intesa Sanpaolo	5,360,000	2,680,000	2,680,000	2,680,000	0	17/12/2019
Banca Ifis	9,000,000	1,800,000	7,200,000	7,200,000	0	31/07/2022
total	21,492,604	8,812,604	12,680,000	12,680,000	0	

Payables relating to repurchase agreements

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.

	Amount at beginning of the year	Changes during the year	Amount at end of the year	Portion due within the year
Oskar Srl	143,363	-143,363	0	0
Made Hse Srl	1,327,326	532,673	1,859,999	1,859,999
Marfin Srl	5,025,101	-3,547,081	1,478,020	1,478,020
Marcegaglia Specialties Spa	3,489,323	14,360,128	17,849,451	17,849,451
Marcegaglia Plates Spa	52,530	-11,056	41,474	41,474
Marcegaglia Romania	37,891	8,929	46,820	46,820
Marcegaglia Buildtech Srl	65,544	571,347	636,891	636,891
Albarella Srl	2,048	-2,048	0	0
BVB Srl in liquidation	3,000	-3,000	0	0
Marcegaglia Investments Srl	0	3,000	3,000	3,000
Abaco Servizi Srl	91,910	63,480	155,390	155,390
Total payables to companies subject to control of parent companies	10,238,036	11,833,009	22,071,045	22,071,045

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	134,065,101	-9,533,800	124,531,301	124,531,301
Payables to staff	14,639,091	658,446	15,297,537	15,297,537
Security deposits	0	0	0	0
Sundry payables	548,517	352,252	900,769	900,769
Total other payables	149,252,709	-8,523,102	140,729,607	140,729,607

ACCRUED EXPENSES AND DEFERRED INCOME

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Accrued expenses	351,705	175,820	527,525
Deferred income	-	5,094	5,094
Total accrued expenses and deferred income	351,705	180,914	532,619

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
Share of interest expenses	351,705	175,820	527,525
Total accrued expenses	351,705	175,820	527,525

Deferred income	Amount at beginning of the year	Changes during the year	Amount at end of the year
Compensation for various services applicable to the following year	0	5,094	5,094
Total deferred income	0	5,094	5,094

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	767,038,391
Flat products	1,836,950,884
Other steel products	361,914,418
Total	2,965,903,693

BREAKDOWN OF REVENUES FROM SALES AND SERVICES BY GEOGRAPHIC AREA

Geographic area	Amount for current year
Italy	1,563,729,805
EU	1,245,799,471
Other European countries	98,596,909
North America	33,523,642
South and Central America	6,764,602
Middle East	1,024,438
Far East - Oceania	8,281,846
Africa	8,182,980
Total	2,965,903,693

FINANCIAL INCOME AND EXPENSES

Breakdown of income from equity investments

	Income other than dividends
From associates	1,979,750
Total	1,979,750

Breakdown of interest and other financial expenses by type of payable

	Interest and other financial expenses
Payables to banks	623,268
Other	31,639,743
Total	32,263,011

Item C 17) “Other ordinary financial expenses” in the profit and loss account can be broken down as follows:

	Other
Interest expense on receivable sales in securitisation and factoring transactions	19,527,270
Financial charges on derivatives	7,278,575
Interest paid to suppliers	1,993,107
Fees on financial sureties	1,209,594
Other interest and financial expenses	1,631,197
Total other financial expenses	31,639,743

VALUE ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES

As already noted in comments on balance sheet changes in the item “Financial derivatives reported as liabilities”, item D 18) d) “Revaluation of financial derivatives”, which totalled Euro 7,267,844, was in relation to the fair value adjustment of the only derivative (IRS) that remained in the company’s portfolio at 31 December 2017 and the release of the provision for risks at 31 December 2016 for another IRS that matured in December 2017. Pursuant to the current OIC 32, these derivatives cannot be considered hedging instruments.

Item D 19) a) “Write-downs of equity investments” totalling Euro 1,000,006 included Euro 1,000,000 for the establishment of a provision to cover future expenses expected to be incurred for the liquidation of the subsidiary Marcegaglia China or its sale with no consideration. This estimate was largely improved in 2017 as a result of several expressions of interest that will substantially reduce the costs initially projected for terminating the subsidiary’s business.

AMOUNT AND NATURE OF INDIVIDUAL REVENUE/COST ITEMS OF AN EXCEPTIONAL SIZE OR PERCENTAGE

Revenue item	Amount	Nature
C) 15) Income from equity investments in associates	1,979,750	Extraordinary
Total	1,979,750	

Cost item	Amount	Nature
B) 10) c) Write-downs of receivables	1,595,715	Extraordinary
Total	1,595,715	

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	2,965,903,693	0	2,965,903,693
Change in inventories of work in progress, semi-finished and finished products	72,447,374	0	72,447,374
Changes in contract work in progress	0	0	0
Increase in fixed assets for internal work	0	0	0
Other revenues and income	16,255,006	0	16,255,006
Value of production	3,054,606,073	0	3,054,606,073
Raw and ancillary materials, consumables and goods	-2,252,871,255	0	-2,252,871,255
Services	-373,998,520	0	-373,998,520
Lease and rental expense	-33,712,069	0	-33,712,069
Personnel costs	-158,988,701	0	-158,988,701
Amortisation, depreciation and write-downs	-88,743,947	-1,595,715	-90,339,662
Changes in inventories of raw and ancillary materials, consumables and goods	-60,947,787	0	-60,947,787
Provisions for risks	0	0	0
Other provisions	0	0	0
Sundry operating costs	-5,505,384	0	-5,505,384
Production costs	-2,974,767,663	-1,595,715	-2,976,363,378
Difference between value and cost of production	79,838,410	-1,595,715	78,242,695
Income from equity investments	0	1,979,750	1,979,750
Other financial income	2,172,300	0	2,172,300
Interest and other financial expenses	-50,788,427	0	-50,788,427
Exchange-rate gains and losses	14,918,689	0	14,918,689
Financial income and expenses	-33,697,438	1,979,750	-31,717,688
Revaluations	7,267,844	0	7,267,844
Write-downs	-1,000,006	0	-1,000,006
Value adjustments of financial assets	6,267,838	0	6,267,838
Profit (loss) before taxes	52,408,810	384,035	52,792,845
Current, deferred and prepaid income taxes for the year	-14,869,262	0	-14,869,262
Profit (loss) for the year	37,539,548	384,035	37,923,583

The amounts indicated, which are of an extraordinary nature and related to a gain on an equity investment in an associate and the write-down of trade receivables and loans made to the subsidiary Marcegaglia China in 2017.

CURRENT, DEFERRED AND PREPAID INCOME TAXES FOR THE YEAR

Deferred taxes recognised in the financial statements at 31 December 2017 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 IRES (corporate income tax) rate of 24%, and an IRAP (regional tax on productive activity) rate of 3.9%.

RECOGNITION OF DEFERRED AND PREPAID TAXES AND RESULTING IMPACT

	IRES	IRAP
A) Temporary differences		
Total deductible temporary differences	32,257,588	23,871,531
Total taxable temporary differences	598,458,405	560,114,335
Net temporary differences	566,200,817	536,242,804
B) Tax impact		
Provision for deferred (prepaid) taxes at the beginning of the year	139,486,908	23,276,193
Deferred (prepaid) taxes for the year	(3,598,712)	(2,362,723)
Provision for deferred (prepaid) taxes at the end of the year	135,888,196	20,913,469

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 losses	11,984,856	-4,013,233	7,971,623	24,00%	1,913,190		
Penalty interest	2,854	-	2,854	24,00%	685		
Mismatch of inventories for tax and reporting purposes	11,206,751	6,241,855	17,448,606	24,00%	4,187,668	3,90%	680,496
Provisions for the write-down of assets (IRES)	6,078,425	-6,001	6,072,425	24,00%	1,457,382		
Provisions for the write-down of assets (IRAP)	6,014,859	-60,486	5,954,373			3,90%	232,221
Allocations to provisions for risks (IRES)	494,708	31,173	525,881	24,00%	126,211		
Allocations to provisions for risks (IRAP)	494,708	-26,156	468,552			3,90%	18,274
Customer indemnity reserve	195,221	-18,367	176,854	24,00%	42,445		
Other	143,121	-83,775	59,346	24,00%	14,243		
Tax loss for the year	25,030,063	-25,030,063	-				
	61,645,566	-22,965,053	38,680,514		7,741,823		930,990

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
Foreign exchange translation gains	6,132,904	4,715,720	10,848,624	24,00%	2,603,670		
Revaluation of assets from contribution (IRES)	630,198,545	- 42,590,164	587,608,381	24,00%	141,026,013		
Revaluation of assets from contribution (IRAP)	614,541,772		560,114,335			3,90%	21,844,459
Other	-	1,400	1,400	24,00%	336		
	1,250,873,221	- 37,873,044	1,158,572,739		143,630,019		21,844,459

BREAKDOWN OF DEFERRED AND PREPAID TAXES BY TIME PERIOD

Description	2018	2019	2020	2021	Beyond 2021 or unforeseeable	Total
A) Deferred taxes						
<i>IRES</i>						
Foreign exchange translation gains	2,603,670					2,603,670
Revaluation of assets from contribution (IRES)	10,674,478	10,985,972	10,232,830	10,562,634	98,570,100	141,026,013
Other	336					336
<i>total</i>	13,278,483	10,985,972	10,232,830	10,562,634	98,570,100	143,630,019
<i>IRAP</i>						
Revaluation of assets from contribution (IRAP)	2,119,421	2,108,640	1,947,618	1,920,817	13,747,964	21,844,459
<i>total</i>	2,119,421	2,108,640	1,947,618	1,920,817	13,747,964	21,844,459
Total deferred taxes	15,397,904	13,094,612	12,180,448	12,483,450	112,318,064	165,474,478
B) Prepaid taxes						
<i>IRES</i>						
Foreign exchange translation losses	1,913,190					1,913,190
Penalty interest	685					685
Mismatch of inventories for tax and reporting purposes					4,187,668	4,187,668
Provisions for the write-down of assets (IRES)	1,440	1,440	1,440		1,453,062	1,457,382
Allocations to provisions for risks (IRES)	126,211					126,211
Customer indemnity reserve					42,445	42,445
Other	14,243					14,243
<i>total</i>	2,055,769	1,440	1,440	0	5,683,174	7,741,823
<i>IRAP</i>						
Mismatch of inventories for tax and reporting purposes					680,495,65	680,496
Provisions for the write-down of assets (IRAP)	2,359	2,359	2,359		225,144	232,221
Allocations to provisions for risks (IRAP)	18,274					18,274
<i>total</i>	20,632	2,359	2,359	0	905,639	930,990
Total prepaid taxes	2,076,401	3,799	3,799	0	6,588,813	8,672,813

Information on “national tax consolidation scheme”

In September 2016 the holding company Marcegaglia Holding S.p.A. announced the adoption of the tax consolidation scheme on a national basis in the Comprehensive Form for 2016 for the years 2016, 2017 and 2018.

For Marcegaglia Carbon Steel S.p.A. participation in the tax consolidation scheme entailed the contribution of taxable income of Euro 11,783,420 to the group's overall income, and the recording of IRES tax charges of Euro 11,783,420 in line item 20 of the profit and loss account based on the current tax rate of 24%.

In addition, the Company transferred to the tax consolidator excess gross operating profit totalling Euro 9 million resulting in the consolidator recognising income of Euro 1,080,000, also reported in line item 20 of the profit and loss account.

In conclusion, and in compliance with the provisions of OIC 25, two tables are provided that indicate the reconciliation of the expected tax burden, for IRES and IRAP respectively, with the effective tax burden.

RECONCILIATION BETWEEN ACTUAL AND THEORETICAL TAX BURDEN (IRES)

2017		
Statutory Profit (+) / Loss (-) before taxes	52,792,845	
Theoretical tax rate of 24% on statutory profit before tax		12,670,283
Effect of increases (+) / decreases (-) compared to ordinary tax rate		IRES impact
Temporary increases	8,556,850	2,053,644
Temporary decreases	-10,850,024	-2,604,006
Absorption of temporary decreases	48,723,068	11,693,536
Absorption of temporary increases	-50,040,105	-12,009,625
Permanent increases	6,972,569	1,673,417
Permanent decreases	-7,057,620	-1,693,829
Total increases/decreases	-3,695,262	
Taxable income for IRES	49,097,583	
Actual tax rate of 24% on taxable income		11,783,420

RECONCILIATION BETWEEN ACTUAL AND THEORETICAL TAX BURDEN (IRAP)

2017		
Difference between value and cost of production	78,242,695	
Costs not relevant for IRAP purposes	161,824,453	
Theoretical taxable income for IRAP	240,067,148	
Theoretical tax rate of 3.9% on theoretical taxable income for IRAP		9,362,619
Effect of increases (+) / decreases (-) compared to ordinary tax rate		IRAP impact
Temporary increases	468,552	18,274
Temporary decreases	-	-
Absorption of temporary decreases	54,427,437	2,122,670
Absorption of temporary increases	-12,918,183	-503,809
Permanent increases	3,650,301	142,362
Permanent decreases	-159,388,038	-6,216,133
Total increases/decreases	-113,759,931	
Taxable income (IRAP)	126,307,217	
Actual tax rate of 3.9% on taxable income		4,925,981

NOTES TO FINANCIAL STATEMENTS - OTHER INFORMATION

EMPLOYMENT DATA

	Average number
Executive managers	20
Middle managers	33
Office staff	559
Factory workers	2,129
Total employees	2,741

Below are the actual numbers of active employees at 31 December 2017

	Actual number at end of year
Executive managers	20
Middle managers	31
Office staff	560
Factory workers	2,121
Other employees	0
Total employees	2,732

COMPENSATION, ADVANCES AND LOANS MADE TO DIRECTORS AND STATUTORY AUDITORS AND OBLIGATIONS ASSUMED ON THEIR BEHALF

	Directors	Statutory Auditors
Compensation	966,667	36,400

COMPENSATION PAID TO AUDITOR OR INDEPENDENT AUDITOR

The statutory audits of the 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 Extraordinary 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, net of reimbursed travel expenses, for the statutory audit for 2016 (performed in 2017) was Euro 58,905 including compensation of Euro 9,180 for accounting control.

In addition, MAZARS ITALIA SPA was also granted the assignment for the limited audit of the half-year financial statements at 30 June 2017 for compensation totalling Euro 16,500.

	Amount
Statutory audit of annual financial statements	75,273
Other auditing services performed	9,180
Other non-auditing services	4,200
Total compensation payable to auditor or independent auditor	88,653

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 Civil Code

A Euro 438,990,000 increase in share capital was decided on 28 October 2015, which brought the share capital to Euro 439,000,000, also divided into ownership shares in compliance with Article 2468 of the Italian Civil Code.

The Extraordinary Shareholders Meeting on 27 November 2015 decided to convert the Company from a limited liability company to a joint stock company, through the issuance of 439,000,000 ordinary shares of Euro 1.00 each.

Subsequently the Extraordinary 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.

Description	Initial balance, number	Initial balance, nominal value	Final balance, number	Final balance, nominal value
Ordinary shares	496,118,598	496,118,598	496,118,598	496,118,598
Total	496,118,598	496,118,598	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.

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES NOT REFLECTED IN THE BALANCE SHEET

	Amount
Commitments	122,503,706
Guarantees	1,509,758,430
of which, collateral	471,250,000

The table below provides details on existing commitments and guarantees at 31 December 2017.

	31 December 2017	31 December 2016
RISKS TAKEN BY THE COMPANY		
<i>Sureties</i>		
- to subsidiaries	5,951,308	5,830,054
- to associates	500,000	0
- to parent companies	1,030,303,051	1,043,353,051
- to companies controlled by parent companies	0	0
- to other companies	1,754,071	2,067,200
Total sureties	1,038,508,430	1,051,250,305
<i>Collateral</i>		
- to subsidiaries	0	0
- to associates	0	0
- to parent companies	471,250,000	471,250,000
- to companies controlled by parent companies	0	0
- to other companies	0	0
Total collateral	471,250,000	471,250,000
Total guarantees	1,509,758,430	1,522,500,305
COMMITMENTS ENTERED INTO BY THE COMPANY		
- other commitments	122,503,706	3,340,583
Total commitments entered into by the company	122,503,706	3,340,583
Total	1,632,262,136	1,525,840,888

Note the following with regard to collateral in the form of company assets used to secure the parent companies:

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 mortgages for which were 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 infra-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 overall value of the collateral, i.e. 1st grade mortgage on the above real property and lien on the movables inside aforementioned plants together with the collateral on some of the real property of the affiliate Marcegaglia Specialties S.p.A. (namely Gazoldo degli Ippoliti (MN) and Forlì/Forlimpopoli used as collateral for the same purpose), amounts to Euro 471,250,000.00.

In October 2017, the Company entered into an agreement for the forward purchase of commodities with final matu-

rity in 2019 in an amount of about Euro 119 million, included in the table above, at a price per ton in euros that is currently well below market values, and thus, no provision was made.

This forward purchase cannot be classified as a derivative contract pursuant to Article 2426(3) of the Italian Civil Code, and was put in place to satisfy the Company's procurement requirements.

INFORMATION ON RELATED-PARTY TRANSACTIONS

The business of Marcegaglia Carbon Steel S.p.A. is primarily aimed at developing relations with parties who are not directly or indirectly related through equity investments, without, however, ignoring the appropriate synergies stemming from the commercial and financial relationships between the companies of a group characterised by 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.

INFORMATION ON SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

Marcegaglia Carbon Steel increased shipments by 6.4%, of which 989,000 tons were from Italian companies (+5%) and 134,000 tons (+17.6%) from foreign subsidiaries, and especially Marcegaglia Poland.

Combined revenues amounted to Euro 837 million, (+10% compared to the first quarter of 2017).

Mark-up was slightly lower than in 2017, which was a year of particularly impressive performance due to the unexpected significant increase in unit prices.

However, mark-up was in line with budgeted figures, and it is expected to improve in future quarters in both absolute terms and in comparison with 2017, with improved year-end goals both in unit terms (Euro/ton) and in absolute

value, and as a result of higher volume.

EBITDA and EBIT results for 2018 are expected to improve compared with the already strong results reported in 2017.

Company	Revenues (in Euro thousands)		
	Jan-Mar 2018	Jan-Mar 2017	Δ %
MARCEGAGLIA CARBON STEEL	725,720	661,876	9.6
MARCEGAGLIA CARBON STEEL ITALY	725,720	661,876	9.6
MARCEGAGLIA DO BRASIL Ltda	26,093	31,148	-16.2
MARCEGAGLIA POLAND Sp z.o.o.	68,095	54,061	26.0
MARCEGAGLIA UK	17,338	14,361	20.7
MARCEGAGLIA CARBON STEEL FOREIGN	111,526	99,571	12.0
MARCEGAGLIA CARBON STEEL TOTAL	837,246	761,447	10.0%

Company	Quantità (ton)			MARK UP (migliaia di Euro)		
	Jan-Mar 2018	Jan-Mar 2017	Δ %	Jan-Mar 2018	Jan-Mar 2017	Δ %
MARCEGAGLIA CARBON STEEL	988,859	941,374	5.0	209,124	209,632	-0.2
MARCEGAGLIA CARBON STEEL ITALY	988,859	941,374	5.0	209,124	209,632	-0.2
MARCEGAGLIA DO BRASIL Ltda	24,564	24,123	1.8	8,739	9,446	-7.5
MARCEGAGLIA POLAND Sp z.o.o.	88,520	70,049	26.4	13,459	12,504	7.6
MARCEGAGLIA UK	21,326	20,137	5.9	4,692	4,608	1.8
MARCEGAGLIA CARBON STEEL FOREIGN	134,411	114,308	17.6	26,889	26,558	1.2
MARCEGAGLIA CARBON STEEL TOTAL	1,123,270	1,055,682	6.4	236,014	236,191	-0.1

On 28 February 2018, Marcegaglia Carbon Steel formalised the sale of the cold re-rolling division at the Padua plant, but continued to own the property. This sale was one of the projects aimed at improving efficiency and enhancing the Group's focus on more productive assets. In fact, while retaining customers previously served by Padua, it will be possible to concentrate this production on the higher performing Gazoldo and Ravenna units at a considerable cost savings.

COMPANIES THAT PREPARE FINANCIAL STATEMENTS FOR THE LARGEST/SMALLEST GROUPING OF COMPANIES IN WHICH THEY PARTICIPATE AS SUBSIDIARIES

	Largest grouping	Smallest grouping
Company name	Finmar srl	Marcegaglia Holding spa
City (if in Italy) or foreign country	Mantua	Mantua
Tax ID No. (for Italian companies)	02466170202	02466980204
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 accordance with the provisions of Article 2427-bis of the Italian Civil Code, information on outstanding derivative contracts as at 31 December 2017 and changes in value from 2016 to 2017 are provided below.

Financial derivative	Nature	Fair value at the end of the previous year	Value changes recorded directly in profit and loss account for the period (+ Revaluations/ - Write-downs)	Fair value at end of year	Value changes allocated to shareholders' equity reserves
Cariprima interest rate swap	Not for hedging pursuant to OIC 32	-10,263,866	+ 3,010,605	-7,253,261	0
Deutsche Bank interest rate swap	Not for hedging pursuant to OIC 32	-4,257,239	+ 4,257,239	0	0
Total		-14,521,105	+ 7,267,844	-7,253,261	0

As reported in comments on changes in provisions for risks, the interest rate swap executed with Deutsche Bank matured in December 2017, and thus, the related negative fair value at 31 December 2016 was eliminated with the recognition of a positive income component recorded in item D) 18) d) of the profit and loss account.

SUMMARY TABLE OF THE 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 Marcegaglia Holding S.p.A., which holds 100% of the share capital of 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 December 2016	31 December 2015
B) Fixed assets	118,222,828	119,967,439
C) Current assets	33,727	56,960
Total assets	118,256,555	120,024,399
A) Shareholders' equity		
Share capital	40,000	40,000
Reserves	28,888,180	15,136,058
Profit (loss) for the year	(1,781,212)	12,158,179
Total shareholders' equity	27,146,968	27,334,237
B) Reserves for risks and expenses	5,136	1,366
D) Payables	91,104,417	92,688,781
E) Accrued expenses and deferred income	34	15
Total liabilities and shareholders' equity	118,256,555	120,024,399

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 December 2016	31 December 2015
B) Production costs	49,694	120,805
C) Financial income and expenses	16,446	15,762,261
D) Value adjustments of financial assets	(1,744,193)	(3,298,468)
Income tax for the year	3,771	184,809
Profit (loss) for the year	(1,781,212)	12,158,179

PROPOSALS FOR ALLOCATION OF PROFITS OR COVERAGE OF LOSSES

We propose allocating the profit of Euro 37,923,583.34 for 2017 as follows: 5% (Euro 1,896,179.17) to the legal reserve; Euro 8,728,952.42 to the foreign exchange translation reserve pursuant to Article 2426(8-bis); and the remainder (Euro 27,298,451.75) to reduce losses carried forward.

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 25 April 2018, the net effect of 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 2.6 million.

Fixed assets purchased before 17 April 1991 (Art. 45(2) of Legislative Decree 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, 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.

Gazoldo degli Ippoliti, 30 April 2018

Chairman of the
Board of Directors
Antonio Marcegaglia



Financial Statements 2017

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 auditor's report in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010

To the Shareholders of Marcegaglia Specialties S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Marcegaglia Specialties S.p.A. (the Company), which comprise the balance sheet as at December 31, 2017, the income statement and the cash flows statement for the year then ended and the explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of the result of its operations and cash flows for the year then ended in accordance with the Italian laws governing the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the section of this report titled *Auditor's responsibilities for the audit of the financial statements*. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the directors and board of statutory auditors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the Italian laws governing the financial statements and, according to the terms prescribed by law, for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriateness of the use of the going concern assumption in the preparation of the financial statements, and for appropriate disclosure thereof. In preparing the financial statements, the directors use the going concern basis of accounting unless directors either intend to liquidate the Company or to cease operations or has no realistic alternative but to do so.

The board of statutory auditors ("collegio sindacale") is responsible for overseeing, according to the terms prescribed by law, the Company's financial reporting process.

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SPA - CAPITALE SOCIALE DELIBERATO, SOTTOSCRITTO E VERSATO € 120.000,00 - SEDE LEGALE: LARGO AUGUSTO, 6 - 20122 MILANO

REA MI-2076227 - COD. FISC. E P. IVA 11176891001 - ISCRIZIONE AL REGISTRO DEI REVISORI LEGALI N. 163788 CON D.M. DEL 14/07/2011 G.U. N. 57 DEL 19/07/2011

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit performed in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures in response to those risks; we obtained sufficient and appropriate audit evidence on which to base our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- we obtained an understanding of the internal control relevant to the audit in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Where a material uncertainty exists, we are required to draw attention, in our auditor's report, to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, subsequent events or conditions may cause the Company to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in such a manner as to give a true and fair view.

We communicated to those charged with governance, identified at an appropriate level as required by ISA Italia, among other matters, the scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Report on compliance with other laws and regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39/10

The directors of Marcegaglia Specialties S.p.A. are responsible for preparing a directors' report of Marcegaglia Specialties S.p.A. as at December 31, 2017, including its consistency with the relevant financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the directors' report with the financial statements of Marcegaglia Specialties S.p.A. as at December 31, 2017 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the directors' report is consistent with the financial statements of Marcegaglia Specialties S.p.A. as at December 31, 2017 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Verona, April 30, 2018

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

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



MARCEGAGLIA SPECIALTIES S.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2017

Assets values in EUR

31 Dec 2017

31 Dec 2016

A RECEIVABLES FROM SHAREHOLDERS FOR OUTSTANDING CONTRIBUTIONS			
1	not previously called	0	0
2	previously called	0	0
	Total receivables from shareholders for outstanding contributions A	0	0
B FIXED ASSETS			
I	<i>Intangible fixed asset</i>		
1	Start-up and expansion costs	33,933	45,910
2	Development costs	0	0
3	Industrial patent rights and intellectual property rights	70,072	37,112
4	Concessions, licences, trademarks and similar rights	157,450,000	177,550,000
5	Goodwill	0	0
6	Fixed assets in progress and advance payments	0	0
7	Other	0	0
	Total intangible fixed assets (B-I)	157,554,005	177,633,022
II	<i>Property, plant and equipment</i>		
1	Land and buildings	115,449,852	119,211,895
2	Plant and machinery	125,347,631	137,186,299
3	Industrial and commercial equipment	7,061,755	8,186,473
4	Other assets	665,255	643,386
5	Fixed assets in progress and advance payments	35,264,276	34,579,178
	Totale property, plant and equipment (B-II)	283,788,769	299,807,231
III	<i>Financial fixed assets</i>		
1	Equity investments in:		
	- Subsidiaries	1,540,475	2,828,802
	- Associates	12,500	12,500
	- Companies subject to control of parent companies	133	0
	- Other companies	5	5
		1,553,113	2,841,307
2	Receivables d-bis) from others		
	- due after the following year	19,215	19,215
		19,215	19,215
	Total financial assets (B-III)	1,572,328	2,860,522
	Total Fixed Assets B	442,915,102	480,300,775
C CURRENT ASSETS			
I	<i>Inventories</i>		
1	Raw and ancillary materials and consumables	156,786,082	158,372,162
2	Work in progress and semi-finished products	107,322,895	96,711,361
3	Contract work in progress	0	0
4	Finished products and goods	146,431,734	127,550,318
5	Advance payments	1,500,000	0
	Totale inventories (C-I)	412,040,711	382,633,841
II	<i>Receivables</i>		
1	from customer		
	- due within the following year	4,368,495	11,043,415
	- due after the following year	0	0
		4,368,495	11,043,415
2	from subsidiaries		
	- due within the following year	30,747,040	33,395,753
	- due after the following year	0	0
		30,747,040	33,395,753
3	from associates		
	- due within the following year	207,947	0
	- due after the following year	0	0
		207,947	0
4	from parent companies		
	- due within the following year	48,298	1,873,278
	- due after the following year	0	0
		48,298	1,873,278
5	from companies subject to control of parent companies		
	- due within the following year	74,235,768	113,581,183
	- due after the following year	0	0
		74,235,768	113,581,183
5-bis	Tax credit		
	- due within the following year	4,210,039	58,301
	- due after the following year	0	0
		4,210,039	58,301
5-ter	Deferred tax assets		
		2,629,425	2,441,348
		2,629,425	2,441,348
5-quater	from others		
	- due within the following year	15,904,196	39,875,660
	- due after the following year	0	0
		15,904,196	39,875,660
	Total receivables (C-II)	132,351,208	202,268,938

	31 Dec 2017	31 Dec 2016
IV Cash and cash equivalents		
1 Bank and postal deposits	238,781	693,245
2 Cheques	0	0
3 Cash on hand and cash equivalents	3,181	3,043
Total cash and cash equivalents (C-IV)	241,962	696,288
Totale Current Assets C	544,633,881	585,599,067
D ACCRUED INCOME AND PREPAID EXPENSES		
Accrued income and prepaid expenses	1,245,061	2,471,582
Total Accrued income and prepaid expenses D	1,245,061	2,471,582
TOTAL ASSETS	988,794,044	1,068,371,424

LIABILITIES values in EUR

	31 Dec 2017	31 Dec 2016
A SHAREHOLDERS' EQUITY		
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	126,538	0
VI Other reserves, represented by:		
- Extraordinary reserve	1,921,514	0
- Difference from rounding to the unit of Euro	0	(2)
Total other reserves (VI)	1,921,514	(2)
VIII Profit/(loss) carried forward	0	(17,056,079)
IX Profit/(loss) for the year	40,614,281	19,104,131
Total equity A	206,181,294	165,567,011
B RESERVES FOR RISKS AND EXPENSES		
1 for post-retirement benefits and similar obligations	15,052	8,557
2 for taxes, including deferred taxes	96,672,068	107,312,836
3 other	19,703,672	18,154,662
Total Reserves for risks and expenses B	116,390,792	125,476,055
C EMPLOYEE SEVERANCE PAY		
Employee severance pay C	3,108,146	3,283,773
D PAYABLES		
4 Payables to banks		
- due within the following year	3,350,454	10,400,381
- due after the following year	0	0
	3,350,454	10,400,381
6 Advance payments		
- due within the following year	400,000	400,000
- due after the following year	0	0
	400,000	400,000
7 Trade payables		
- due within the following year	303,609,452	339,945,038
- due after the following year	0	0
	303,609,452	339,945,038
9 Payables to subsidiaries		
- due within the following year	4,500,968	1,810,620
- due after the following year	0	0
	4,500,968	1,810,620
10 Payables to associates		
- due within the following year	13,323	8,890
- due after the following year	0	0
	13,323	8,890
11 Payables to parent companies		
- due within the following year	290,573,542	331,297,342
- due after the following year	0	0
	290,573,542	331,297,342
11-bis Payables to companies subject to control of parent companies		
- due within the following year	3,845,787	6,014,010
- due after the following year	0	0
	3,845,787	6,014,010
12 Tax payables		
- due within the following year	6,801,848	6,444,442
- due after the following year	0	0
	6,801,848	6,444,442
13 payables to welfare and social security organizations		
- due within the following year	2,732,358	3,032,754
- due after the following year	0	0
	2,732,358	3,032,754
14 Other payables		
- due within the following year	47,274,866	74,691,108
- due after the following year	0	0
	47,274,866	74,691,108
Total Payables D	663,102,598	774,044,585
E ACCRUED EXPENSES AND DEFERRED INCOME		
Accrued expenses and deferred income	11,214	0
Total Accrued expenses and deferred income E	11,214	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	998,794,044	1,068,371,424

MARCEGAGLIA SPECIALTIES S.P.A.

PROFIT AND LOSS ACCOUNT AS OF 31 DECEMBER 2017

values in EUR		31 Dec 2017	31 Dec 2016
A	VALUE OF PRODUCTION		
1	Revenues from sales and services	1,137,369,666	988,844,456
2	Changes in inventories of work in progress, semi-finished and finished products	29,492,950	(1,943,549)
3	Changes in contract work in progress	0	0
4	Increase in fixed assets for internal work	0	0
5	Other revenues and income		
	- Operating grants	153,888	11,002
	- Other	39,688,532	28,212,617
	Total other revenues and income (5)	39,842,420	28,223,619
	Total Value of Production A	1,206,705,036	1,015,124,526
B	PRODUCTION COSTS		
6	Raw and ancillary materials, consumables and goods	(905,102,997)	(797,345,202)
7	Services	(101,646,469)	(101,514,539)
8	Lease and rental expense	(6,781,930)	(6,577,647)
9	Personnel costs		
	a) wages and salaries	(30,880,633)	(30,876,512)
	b) social security contributions	(10,112,991)	(10,158,763)
	c) employee severance pay	(2,206,348)	(2,148,262)
	d) post-retirement benefits and similar obligations	0	0
	e) other personnel costs	(158,668)	(126,737)
	Total personnel costs (9)	(43,358,640)	(43,310,274)
10	Amortisation, depreciation and write-downs		
	a) amortisation of intangible assets	(20,157,097)	(20,136,817)
	b) depreciation of property, plant and equipment	(23,841,468)	(22,785,312)
	c) other write-downs of fixed assets	0	0
	d) write-downs of receiv. included in current assets and cash and cash equivalents	(20,126,144)	(20,690,353)
	Total amortisation, depreciation and write-downs (10)	(64,124,709)	(63,612,482)
11	Changes in the inventory of raw and ancillary mater., consumables and goods	(1,586,079)	53,631,068
12	Provisions for risks	0	0
13	Other provisions	0	0
14	Sundry operating costs	(1,743,930)	(1,490,801)
	Total Production Costs B	(1,124,344,754)	(960,219,877)
	Difference Between Value and Cost of Production A - B	82,360,282	54,904,649
C	FINANCIAL INCOME AND EXPENSES		
16	Other financial income		
	from receivables recorded as fixed assets:		
	- from others	0	2
	Total financial income from receivables recorded as fixed assets (a)	0	2
	d) income other than the above:		
	- from subsidiaries	1,189,252	915,083
	- from parent companies	0	0
	- from companies subject to the control of parent companies	2,329,146	2,612,580
	- from others	110,952	32,867
	Total income other than the above (d)	3,629,350	3,560,530
	Total other financial income (16)	3,629,350	3,560,532
17	Interests and other financial charges:		
	- paid to subsidiaries	(72,961)	0
	- paid to parent companies	(15,003,760)	(17,687,836)
	- paid to companies subject to the control of parent companies	0	(160)
	- other financial expenses	(9,277,482)	(8,058,312)
	Total interests and other financial charges (17)	(24,354,203)	(25,746,308)
17-bis	Exchange-rate gains and losses	(1,931,363)	(2,012,946)
	Total Financial Income and Expenses C	(22,656,216)	(24,198,722)
D	VALUE ADJUSTMENTS OF FINANCIAL ASSETS		
18	Revaluations		
	of equity investments	0	4,622,553
	Total revaluations (18)	0	4,622,553
19	Write-downs		
	of equity investments	(3,400,788)	0
	of financial fixed assets other than equity investments	0	0
	Total write-downs (19)	(3,400,788)	0
	Total Value Adjustments of Financial Assets D	(3,400,788)	4,622,553
	PROFIT (LOSS) BEFORE TAXES (A-B+/-C+/-D)		
	Profit (loss) before taxes (A-B+/-C+/-D)	56,303,278	35,328,480
20	Current, deferred and pre-paid income taxes for the year		
	- direct taxes for the year	(29,203,363)	(19,276,819)
	- direct taxes for previous years	2,685,521	(28,015)
	- deferred taxes	10,828,845	2,392,985
	- Income (costs) from participation in tax consolidation scheme	0	687,500
	Total current, deferred and pre-paid income taxes for the year (20)	(15,688,997)	(16,224,349)
21)	PROFIT (LOSS) FOR THE YEAR	40,614,281	19,104,131

STATEMENT OF CASH FLOWS AS OF 31 DECEMBER 2017

values in EUR

31 Dec 2017

31 Dec 2016

A	CASH FLOWS FROM INCOME-GENERATING OPERATIONS (INDIRECT METHOD)			
	Profit (loss) for the year	40,614,281	19,104,131	
	Income Tax	15,688,997	16,224,349	
	Interest expenses/(income)	20,724,853	22,185,776	
	(Dividends)	-	-	
	(Gains)/Losses resulting from the disposal of assets	85,642	153,795	
	1 Profit (loss) for the year, before income taxes, interest, dividends and gains/losses from asset sales	77,113,773	57,668,051	
	Adjustments for non-cash items with no balancing entry in net working capital			
	- Provisions to funds	2,214,021	2,156,031	
	- Amortisation/Depreciation of fixed assets	43,998,565	42,922,129	
	- Write-downs due to permanent impairment	-	-	
	- Value adjustments of financial assets and liabilities on derivative financial instruments that do not involve cash transactions	3,400,788	-4,622,553	
	- Other adjustments for non-cash items	-	-	
	Total adjustments for non-cash items with no balancing entry in working capital	49,613,374	40,455,607	
	2 Cash flow before changes in net working capital	126,727,147	98,123,658	
	Changes in net working capital			
	- Decrease/(Increase) in inventories	-29,406,871	-51,687,519	
	- Decrease/(Increase) in trade receivables	6,674,921	26,124,432	
	- Increase/(Decrease) in trade payables	-36,335,586	75,473,608	
	- Decrease/(Increase) in accrued income and prepaid expenses	1,226,521	1,236,770	
	- Increase/(Decrease) in accrued expenses and deferred income	11,214	-58,046	
	- Other changes in net working capital	-30,643,426	-109,969,673	
	Total changes in net working capital	-88,473,227	-58,880,428	
	3 Cash flow after changes in net working capital	38,253,920	39,243,230	
	Other adjustments			
	- Interest received/(paid)	-20,724,853	-22,185,776	
	- (Income taxes paid)	-	-	
	- Dividends received	-	-	
	- (Utilisation of funds)	-2,383,153	-2,483,456	
	- Other collections/(payments)	-	-	
Total other adjustments	-23,108,006	-24,669,232		
Cash flow from income-generating operations A	15,145,914	14,573,998		
B	CASH FLOWS FROM INVESTMENT ACTIVITIES			
	Property, plant and equipment			
	- (Investments)	-7,948,289	-11,998,228	
	- Divestitures	39,641	10,952	
	Intangible fixed assets			
	- (Investments)	-78,080	-54,056	
	- Divestitures	-	-	
	Financial fixed assets			
	- (Investments)	-563,586	-14,252	
	- Divestitures	0	3,196	
	Current financial assets			
	- (Investments)	-	-	
	- Divestitures	-	-	
	(Purchase of subsidiaries or business divisions net of liquid assets)	-	-	
	Sale of subsidiaries or business divisions net of liquid assets	-	-	
	Cash flows from investment activities B	-8,550,314	-12,052,388	
	C	CASH FLOWS FROM FINANCING ACTIVITIES		
		Third party resources		
		- Increase/(Decrease) in short-term liabilities to banks	-7,049,926	-2,841,480
		- New loans	-	-
- (Repayments of loans)		-	-	
Capital and reserves				
- Paid-in capital increase		-	-	
- (Reimbursement of paid-in capital increase)		-	-	
- Sale/ (Purchase) of own shares		-	-	
- (Dividends and advances on dividends paid)		-	-	
Cash flows from financing activities C		-7,049,926	-2,841,480	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A ± B ± C)		-454,326	-319,870	
Exchange rate effect on cash and cash equivalents		-	-	
Cash and cash equivalents at beginning of year		696,288	1,016,158	
Bank and postal deposits		693,245	1,014,998	
Checks		-	-	
Cash on hand and cash equivalents		3,043	1,160	
of which not freely usable		651,051	1,013,987	
Cash and cash equivalents at year end		241,962	696,288	
Bank and postal deposits		238,781	693,245	
Checks	-	-		
Cash on hand and cash equivalents	3,181	3,043		
of which not freely usable	180,939	651,051		

NOTES

Introduction

After the major reorganisation of the Marcegaglia group (which was started and completed in 2015), the Company belongs to the Marcegaglia group's Stainless Steel and Specialties division, which incorporates stainless steel and cold drawn bar processing activities.

Financial statement preparation criteria and structure

The financial statements for the year ending 31 December 2017 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), their 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.

Note that as an exception to the provisions of Article 2423-bis(1)(6) of the Italian Civil Code, in order to provide a better representation of the company's events and transactions in the financial statements, starting with the 2017 financial statements, the periodic LIFO (last in, first out) method was used for measuring inventories of "base" steel raw materials (black stainless steel coils and rolled products) instead of the weighted average cost method used in previous financial years.

The reason for this decision, in the context of using conservative values, was due to structural changes in the steel industry worldwide, and specifically in Europe, that entail increased price volatility.

To summarise, most volatility was due to:

1. Reduction in global production capacity

In general, following the 2008-2009 crisis, in all segments of the steel industry (carbon and stainless steel, flat products

and long products), there was a significant restructuring of production capacity to bring it into line with the (reduced) levels of steel demand. In China as well, after a period of further expansion (2009-2014), in recent years, major, stringent plans to shut down obsolete, polluting plants were implemented by the Chinese government.

2. Resumption of consolidation trend in the sector

With the recovery of profitability and overall positive trend in the commodities sector, the steel sector resumed its merger and acquisition cycle, especially with regard to primary production: in Europe, after the merger of SSAB and Ruukki, ArcelorMittal won the bid for Ilva, and Tata and Thyssenkrupp are in advanced negotiations to form a 50/50 JV.

In India, three significant producers will change ownership (Essar, Bushan and Sail), and Tata and ArcelorMittal are very active as consolidators.

In China, the government is guiding the formation of mega-producers to act as better competitors in the global environment (a recent example is the union of Baosteel and Wuhan).

In North and South America, Ternium and ArcelorMittal have purchased various assets including those of Thyssenkrupp in Brazil and Alabama, and further consolidation is expected with Trump's protectionist policy.

3. Protectionism and greater market regionalisation

Over the last three years, protectionist measures of many countries and "macro regions" have grown with the aim of strengthening local industries and limiting international trade; most of these measures have targeted China, but they have been extended to many other countries, in the case of Europe Russia and Ukraine, as well as Iran and Brazil. Trump's rise to the presidency in the US has produced a further widespread "squeeze" on international trade with likely repercussions in other macro regions, including Europe, which must protect themselves from the risk of a drastic repositioning of trade flows of countries exporting to the US.

Thus, competition will be more limited among macro regions, and more focused within each "regional" market.

4. Oligopoly nature of steel commodity sector for the primary production of steel (iron ore, coal for carbon steel, and nickel, chromium and molybdenum for stainless steel).

The impact of rising price volatility and of the regionalisation of markets is more pronounced for the "base" steel products that form the raw materials for Marcegaglia Specialties, such as black stainless steel coils and rolled products. Indeed, the impact on prices is more pronounced on these materials since by nature they are more like commodities, and they are more closely tied to steel raw materials (iron ore, coal, nickel, chromium and molybdenum), which are in turn the growing focus of financial investors due in part to large amounts of cash available in markets and low interest rates.

Unlike raw materials and base steel products derived from them, products from the first and second transformation are less volatile since they are mainly intended for end users, frequently under contracts with a longer duration, and with a larger service component, and since demand and the needs of reference customers are more fragmented.

5. Greater role of financial investors in the commodities (including steel commodities) sector due in part to large amounts of cash in the system and the recovery of profitability in the steel industry.

The company has gradually increased the share of customised products with greater added value in its product offerings owing to a broader range of "specialties" and related services, and it has gradually distanced itself from the approach of the base industry including with regard to the formation of prices for its products.

In view of the different nature of "base" steel raw materials on the one hand, and the semi-finished and finished products of Marcegaglia Specialties S.p.A., on the other hand, it was deemed appropriate

to apply different measurement criteria for inventories adopted. Base steel raw materials were measured criterion with the periodic LIFO method, in order to be conservative and avoid reporting exact values, which, during a specific cycle or economic situation, could be misleading in relation to a “normal” reporting of values over the medium and long term.

On the other hand, for semi-finished and finished products it was deemed appropriate to maintain weighted average cost, which is more consistent with the reporting of the market trend, which, by its nature, is more gradual and “moderate” in terms of changes in prices for these products.

In keeping with accounting rules, the same criteria were used to recalculate the value of beginning inventories in order to properly report consumption in the profit and loss account for the period, and values for 2016 were recalculated for the comparison of the 2016 and 2017 reports.

In addition, during the financial year under review, it was decided to change the criterion for recording the productivity bonuses paid to employees and the resulting ancillary charges. Thus, starting in 2017, these bonuses and ancillary charges are allocated to the financial year when the income and production parameters are measured that were established in supplemental company agreements that determined the amount owed, and not in the financial year when paid. As a result, the bonuses and related contributions owed on the basis of 2017 results and paid in 2018 were allocated in the 2017 financial statements; the bonuses and related contributions due on the basis of 2016 and paid in 2017 were removed from the 2017 profit and loss account, and in accordance with accounting standard OIC 29, they were posted as a reduction to the extraordinary reserve.

As a result, taxes from the above adjustment were recorded by recognizing:

- for the purposes of IRAP, a receivable from tax authorities as a result of the higher deductions usable for 2016 to lower tax charges;

- for the purposes of IRES, a receivable from the parent company Marcegaglia Holding as a result of the lower taxable income transferred as a part of tax consolidation.

The balancing entry for the latter two adjustments is the item “Extraordinary reserve” in shareholders’ equity.

The balance sheet and profit and loss account were 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 2017 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 2017. As previously noted, with regard to the new measurement criterion for ending inventories of raw materials and the change in the accounting criterion for productivity bonuses paid to employees, the amounts for 2016 were recalculated for the purposes of comparing the 2016 and 2017 reports, as shown in the following table.

		Balance sheet changes - 2016
C I 1)	Raw and ancillary materials and consumables	94,583
C II 5 ter	Deferred tax assets, due within the following year	
C II 4	Receivables from parent companies, due within the following year	220,742
C II 5 bis	Tax credit, due within the following year	31,316
P B 2)	Tax fund, including deferred taxes	-26,389
P D 13)	Payables to welfare and social security org., due within the following year	-187,607
P D 14)	Other payables, due within the following year	-615,363
	IMPACT ON SHAREHOLDERS’ EQUITY	-482,718

		Profit and loss account changes - 2016
B) 11)	Changes in the inventory of raw and anc. materials, consum. and goods	94,583
B 9) a	Wages and salaries	-615,363
B 9) b	Social security contributions	-187,607
F 20	Current taxes	252,058
F 20	Deferred and prepaid taxes	-26,389
	IMPACT ON FY 2016 RESULT	-482,718

Classification conventions

The following classification conventions were used when structuring the financial statements at 31 December 2017:

- a. Line items in the asset section of the balance sheet were classified on the basis of their 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.

The statement of cash flows was prepared in accordance with the layout indicated in accounting standard OIC 10, which reports the amount and breakdown of cash and cash equivalents at the beginning and end of the year, and cash flows for the year from operating, investment and financing activities as required by Article 2425-ter of the Italian Civil Code.

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 and 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 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 according their remaining useful life.

Start-up and expansion costs are amortised over a period of five years. Any 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 recognised only if:

- 1) it has been purchased, for up to the cost incurred,
- 2) it arises from the consolidation process, to the extent permitted by impairment testing.

In the exceptional cases where its useful life cannot be estimated reliably, goodwill is amortised over a maximum period of ten years.

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.

Line items of the Financial Statements	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)	136,589	33.00%	45,120
Trademark (B.I.4)	201,000,000	10.00%	20,100,000
Other multi-year costs (B.I.7)	12,035	33.00%	

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

Line items of the Financial Statements	Purchase or production cost	Depreciation rate	Depreciation for the year
Land (B.II.1)	5,785,880		0
Buildings (B.II.1)	117,020,228	2.5% - 3.5% - 4.17%	4,044,081
Light constructions (B.II.1)	1,706,281	9.09% - 10%	154,885
Large plants and machinery (B.II.2)	124,990,447	8% - 11.11%	13,210,071
Annealing furnaces (B.II.2)	2,103,913	12% - 33.33%	701,304
General and specific plant assets (B.II.2)	31,466,413	8% - 5%	2,591,623
Purification plants (B.II.2)	1,626,022	10.00%	162,602
Miscellaneous equipment (B.II.3)	11,550,342	15% - 25%	2,450,353
Internal handling equipment (B.II.3)	1,098,572	15% - 25%	262,115
Furniture and ordinary office equipment (B.II.4)	118,154	12% - 14.29%	15,501
Electronic machinery (B.II.4)	340,336	20% - 33%	99,428
Automobiles (B.II.4)	319,599	25.00%	69,220
Trucks and trailers (B.II.4)	267,647	20% - 50%	60,016
Ordinary furniture and furnishings (B.II.4)	176,414	10% - 12.5% - 15%	20,269
Fixed assets in progress and advance payments (B.II.5)	34,579,178		0

With regard to property, plant and equipment 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 property, plant and equipment 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.

Equity investments and securities reported as fixed assets

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

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 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.

Inventories

Inventories are measured at the lower of purchase or production cost and market value. The 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 value of ending inventories of base steel raw materials (black stainless steel coils and rolled products) was determined using the periodic LIFO method. As already mentioned in the paragraph “Financial statement preparation criteria and structure”, this method replaced the weighted average cost method used until financial year 2016.

In this regard, note that if the base steel raw materials (black stainless steel coils and rolled products) had been measured at weighted average cost instead of the periodic LIFO method, there would have been a positive impact of about Euro 14.1 million on the profit for 2017 and the shareholder's equity at 31 December 2017 (without considering the related IRES and IRAP tax impact).

On the other hand, the value of ending inventories of steel raw materials of the first and second transformation was determined using the weighted average cost method as in previous years.

The adoption of different methods for determining cost in the same category of ending inventories is in line with what is allowed by Accounting Standard OIC 13. Ending inventories of semi-finished and finished products are measured at production cost calculated by adding processing costs to the cost of raw materials used in production 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.

Receivables

In general, receivables (both held as fixed and current assets) are recognised using the amortised cost criterion taking into account the time factor and estimated realisable value.

However, OIC 15, paragraph 33 specifies that this criterion need 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 need not be applied to components of items related to transactions that have not fully exhausted their impact on the financial statements.

Thus, in these 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 foreign currency in the financial statements are measured on the basis of the exchange rates at the end of the year (31.12.2017). Exchange rate differences emerging from such valuation are allocated to the profit and loss account in line 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 deposits, 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 need 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 need 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 foreign currency in the financial statements are measured on the basis of the exchange rates at the end of the year (31.12.2017). Exchange rate differences emerging from such valuation are allocated to the profit and loss account in line 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 from sales are recognised on an accrual basis, that is when both the following conditions are met:

- the goods have been manufactured; and
- title to the goods has been pas-

sed, which is when risks and benefits incidental to their ownership has been transferred. Thus, save as otherwise agreed regarding the transfer of risks and benefits:

- a) in the case of movable assets, risks and benefits are transferred when the goods are shipped or delivered;
- b) for goods that require notarisation (for instance properties), risks and benefits are transferred when the sale agreement is executed;
- c) in the case of instalment sales with retention of title, revenues are recognised upon delivery, regardless of the transfer of title, as article 1523 of the Italian Civil Code provides that the buyer becomes the owner with the payment of the last instalment of the price but assumes the risks upon delivery.

Revenues from services are recognised on an accrual basis, that is when the service has been rendered.

Financial income is recognised on an accrual basis, for the amount accrued on a pro-rata basis in the period of reference.

Costs and charges

Costs related to the purchase of goods are recognised on an accrual basis, that is when both the following conditions are met:

- the goods have been manufactured; and
- title to the goods has been passed, which is when risks and benefits incidental to their ownership has been transferred. Thus, save as otherwise agreed regarding the transfer of risks and benefits:

- a) in the case of movable assets, risks and benefits are transferred when the goods are shipped or delivered;
- b) for goods that require notarisation (for instance properties), risks and benefits are transferred when the sale agreement is executed;
- c) in the case of instalment sales with retention of title, costs are recognised upon delivery, regardless of the transfer of title, as article 1523 of the Italian Civil Code provides that the buyer becomes the owner with the payment of the last instalment of the price but assumes the risks upon delivery.

Service costs are recognised on an accrual basis, that is when the service has been rendered.

Financial expenses are recognised on an accrual basis, for the amount accrued on a pro-rata basis in the period of reference.

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 taxes

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
Amount at beginning of the year					
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
Book value	45,910	37,112	177,550,000	-	177,633,022
Changes during the year					
Increases for purchases	-	78,080	-	-	78,080
Amortisation for the year	11,977	45,120	20,100,000	-	20,157,097
Total changes	(11,977)	32,960	(20,100,000)	-	(20,079,017)
Amount at end of the year					
Cost	59,882	136,589	201,000,000	12,035	201,208,506
Amortisation (Accumulated amortisation)	25,949	66,517	43,550,000	12,035	43,654,501
Book value	33,933	70,072	157,450,000	-	157,554,005

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 trade name “Marcegaglia” was protected through the filing, by the transferor, Marcegaglia S.p.A., of a number of trademark applications to ensure, in relation to the products and services provided under that trademark, the exclusive use of the name or the expression filed in any form or character.

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 resulting deferred taxes), 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 trademark registration cost, equal to the estimated value, it was considered prudent to ascribe to the profit and loss account a constant rate of amortisation 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 202 million, reflecting an amount greater than the carrying amount of the trademark (Euro 157.45 million), thus confirming its soundness.

	Initial recording value	Accumulated amortisation	Amount at beginning of the year	Amortisation	Amount at end of the year
Marcegaglia trademark	201,000,000	23,450,000	177,550,000	20,100,000	157,450,000
Total	201,000,000	23,450,000	177,550,000	20,100,000	157,450,000

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	25,949	33,933	Capitalised expenses	Straight-line basis in 5 years
Total	59,882	25,949	33,933		

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
Amount at beginning of the year						
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
Book value	119,211,895	137,186,299	8,186,473	643,386	34,579,178	299,807,231
Changes during the year						
Increases for purchases	436,923	4,551,020	1,591,864	297,212	1,160,827	8,037,846
Reclassifications (of the book value)	-	386,172	-	-	(386,172)	-
Decreases due to transfers and disposals (in the book value)	-	110,259	4,114	10,910	89,557	214,840
Depreciation for the year	4,198,966	16,665,601	2,712,468	264,433	-	23,841,468
Total changes	(3,762,043)	(11,838,668)	(1,124,718)	21,869	685,098	(16,018,462)
Amount at end of the year						
Cost	124,512,389	160,429,533	12,642,164	1,184,068	35,264,276	334,032,430
Depreciation (Accumulated depreciation)	9,062,537	35,074,432	5,580,409	518,813	-	50,236,191
Write-downs	-	7,470	-	-	-	7,470
Book value	115,449,852	125,347,631	7,061,755	665,255	35,264,276	283,788,769

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(1) of the Italian Civil Code, and with recent approaches on the transfer of lease agreements at their fair value.

Value reductions to property, plant and equipment

No fixed assets were written down during the year.

LEASE TRANSACTIONS

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	43,250,700
Depreciation that would have been applicable during the year	2,883,380
Present value of unexpired lease payments at year-end	4,863,869
Financial charges applicable to the year based on the actual interest rate	108,293

The leased asset has been transferred in connection with the 2015 corporate 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 impact on shareholders' equity and the profit for the year, in the event that leases were treated as a finance lease.

ASSETS	Amount
a) Current agreements	
a.1) Leased assets at the end of the previous financial year	39,886,757
<i>related accumulated depreciation</i>	3,363,943
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	0
a.6) Leased assets at the end of the financial year	37,003,377
<i>related accumulated depreciation</i>	6,247,323
b) Assets redeemed	
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
Total (a.6 + b.1)	37,003,377

LIABILITIES	Amount
c) Implicit payables	
c.1) Implicit payables for lease transactions at the end of the previous financial year	9,547,947
<i>portion maturing during the next financial year</i>	4,684,078
<i>portion maturing after the next financial year and within 5 years</i>	4,863,869
<i>portion maturing in more than 5 years</i>	0
c.2) Implicit payables arising during the financial year	0
c.3) Principal repayments and redemptions during the financial year	4,684,078
c.4) Implicit payables for lease transactions at the end of the financial year	4,863,869
<i>portion maturing during the next financial year</i>	4,863,869
<i>portion maturing after the next financial year and within 5 years</i>	0
<i>portion maturing in more than 5 years</i>	0
d) Total gross impact at the end of the financial year (a.6+b.1-c.4)	32,139,508
e) Tax impact	820,388
f) Impact on shareholders' equity at the end of the financial year (d - e)	31,319,120

	Amount
a.1) Reversal of lease payments	6,072,522
a.2) Recognition of financial charges of lease transactions	-108,293
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)	3,080,849
b) Recognition of the tax impact	-859,557
c) Net impact of lease transactions on the financial year result (a - b)	2,221,292

FINANCIAL FIXED ASSETS

CHANGES IN EQUITY INVESTMENTS, OTHER SECURITIES AND FINANCIAL DERIVATIVES HELD AS FIXED ASSETS

	Equity investm. in subsidiaries	Equity investm. in associates	Equity inv. in companies subject to control of parent companies	Equity investments in other companies	Total equity investments
Amount at beginning of the year					
Cost	2,997,895	12,500	-	5	3,010,400
Write-downs	169,093	-	-	-	169,093
Book value	2,828,802	12,500	0	5	2,841,307
Changes during the year					
Increases for purchases	563,452	-	133	-	563,585
Write-downs carried out during the year	1,851,779	-	-	-	1,851,779
Total changes	(1,288,327)	-	133	-	(1,288,194)
Amount at end of the year					
Cost	3,561,347	12,500	133	5	3,573,985
Write-downs	2,020,872	-	-	-	2,020,872
Book value	1,540,475	12,500	133	5	1,553,113

Investments in associates were unchanged from the previous year, and were solely related to a 12.5% equity investment in the capital of the limited liability consortium Absolute, which was established in 2016 in order to develop synergies with other shareholders tied to the suspension service.

CHANGES AND MATURITY OF RECEIVABLES HELD AS FIXED ASSETS

	Amount at beginning of the year	Amount at end of the year	Portion due after the year
Receivables from others held as fixed assets	19,215	19,215	19,215
Total receivables held as fixed assets	19,215	19,215	19,215

DETAILS OF EQUITY INVESTMENTS IN SUBSIDIARIES HELD AS FIXED ASSETS

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 %	Book value or corresponding receivable
Outosourcing Inox srl	Gazoldo degli Ippoliti (MN)	02315020202	10,000	1,668,760	4,473,710	4,473,710	100.00%	1,540,471
Marcegaglia Tr	Turkey		2,016,035	(1,831,250)	(1,550,781)	(1,008,008)	65.00%	1
Mariven srl	Gazoldo degli Ippoliti (MN)	02238870204	100,000	(235,071)	5,114,298	3,324,294	65.00%	1
Marcegaglia USA Inc.	United States		72,439,290	(7,278,660)	52,890,784	52,890,784	100.00%	2
Total								1,540,475

The equity investment in Marcegaglia TR was fully written down and recorded in a provision for risks corresponding to the applicable portion of the subsidiary's capital deficit totalling Euro 1,008,008. The total write-down, which was recorded in item D 19) a) "Write-downs of equity investments," amounted to Euro 2,859,787.

The equity investments in Mariven, which in turn is the parent company of Marcegaglia RU headquartered in Russia, and in Marcegaglia USA Inc. were completely eliminated in 2016; in 2017, the provision for risks related to the equity investment in Mariven S.r.l. was adjusted by recording an amount of Euro 541,001 in the item D 19) a) "Write-downs of equity investments."

With regard to Marcegaglia USA Inc., the amount allocated to the provision in 2016 was appropriate for the fraction of shareholders' equity held, which was calculated

by also taking account of unrealised gains on the subsidiary's assets resulting from an appraisal prepared in relation to 2017, as well as the write-downs of the company's receivables from the subsidiary that totalled Euro 43,896,898, of which Euro 20 million was recorded in the profit and loss account in these financial statements.

DETAILS OF EQUITY INVESTMENTS IN ASSOCIATES HELD AS FIXED ASSETS

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 %	Book value or corresponding receivable
Absolute, limited liability consortium	Pozzuolo del Friuli (UD)	02844650305	50,000	50,000	12,500	12.50%	12,500
Total							12,500

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
Total	19,215	19,215

BREAKDOWN OF VALUE OF EQUITY INVESTMENTS IN OTHER COMPANIES HELD AS FIXED ASSETS

	Book value	Fair value
Cosorzio Conai	5	5
Total	5	5

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 VALUE OF RECEIVABLES FROM OTHERS HELD AS FIXED ASSETS

	Book value	Fair value
Security deposits	18,337	18,337
Other	878	878
Total	19,215	19,215

CURRENT ASSETS

INVENTORIES

	Amount at beginning of the year	Changes during the year	Amount at end of the year
I - Inventories			
Raw and ancillary materials and consumables	158,372,162	(1,586,080)	156,786,082
Work in progress and semi-finished products	96,711,361	10,611,534	107,322,895
Finished products and goods	127,550,318	18,881,416	146,431,734
Advance payments	0	1,500,000	1,500,000
Total inventories	382,633,841	29,406,870	412,040,711

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
Receivables from customers recorded in current assets	11,043,415	(6,674,920)	4,368,495	4,368,495
Receivables from subsidiaries recorded in current assets	33,395,753	(2,648,713)	30,747,040	30,747,040
Receivables from associates recorded in current assets	0	207,947	207,947	207,947
Receivables from parent companies recorded in current assets	1,873,278	(1,824,980)	48,298	48,298
Receivables from companies subject to control of parent companies recorded in current assets	113,581,183	(39,345,415)	74,235,768	74,235,768
Tax credits recorded in current assets	58,301	4,151,738	4,210,039	4,210,039
Deferred tax assets recorded in current assets	2,441,348	188,077	2,629,425	
Receivables from others recorded in current assets	39,875,660	(23,971,464)	15,904,196	15,904,196
Total receivables recorded in current assets	202,268,938	(69,917,730)	132,351,208	129,721,783

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	Other changes	Amount at end of the year
Allowance for uncollectible trade receivables	592,449	55,146	43,188		580,491
Allowance for uncollectible receivables from subsidiaries	33,973,532	1,192,495	20,000,000	1,334,160	54,115,197
Allowance for uncollectible receivables from companies subject to control of parent companies	2,739	82,956	82,956		2,739
Total allowance for uncollectible receivables	34,568,720	1,330,597	20,126,144	1,334,160	1,334,160

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 to exchange rate differences.

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
Receivables from factoring companies	39,212,423	-28,596,308	10,616,115	10,616,115	0	0
Advances to suppliers	619,487	1,895,536	2,515,023	2,515,023	0	0
Receivables from social security organisations	26,326	102,518	128,844	128,844	0	0
Advances to employees	9,001	-2,141	6,860	6,860	0	0
Receivables from credit institutions for customer collections	0	420	420	420	0	0
Other receivables	8,423	2,628,511	2,636,934	2,636,934	0	0
Total receivables from others	39,875,660	-23,971,464	15,904,196	15,904,196	0	0

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
Eletca S.r.l.	0	12,783	12,783	12,783	0	0
Oskar S.r.l.	0	71,660	71,660	71,660	0	0
Made HSE S.r.l.	0	20,860	20,860	20,860	0	0
Euroenergy group S.r.l.	0	3,469	3,469	3,469	0	0
Eta En. Terr. Amb. spa	0	41,805	41,805	41,805	0	0
Marcegaglia UK	0	299,065	299,065	299,065	0	0
Sc.Mrc Romania S.r.l.	0	99,283	99,283	99,283	0	0
Marcegaglia Do Brasil limitada	0	662,930	662,930	662,930	0	0
Marcegaglia China	0	101,072	101,072	101,072	0	0
Marcegaglia Investments	0	1,759	1,759	1,759	0	0
Marfin S.r.l.	488,082	-488,082	0	0	0	0
Albarella srl	44,007,235	1,877,809	45,885,044	45,885,044	0	0
Marcegaglia Poland z.o.o.	163,877	1,148,397	1,312,274	1,312,274	0	0
Marcegaglia Buildtech srl	63,633,680	-56,967,242	6,666,438	6,666,438	0	0
Imat spa	1,120,194	-913,123	207,071	207,071	0	0
Marcegaglia Carbon Steel spa	3,505,658	14,343,792	17,849,450	17,849,450	0	0
Marcegaglia Plates spa	662,457	338,348	1,000,805	1,000,805	0	0
Total receivables from companies subject to control of parent companies	113,581,183	-39,345,415	74,235,768	74,235,768	0	0

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	3,999,355	273,350	-	17,779	78,011	-	4,368,495
Receivables from subsidiaries recorded in current assets	4,691,259	-	1,681,371	15,212,892	9,161,518	-	30,747,040
Receivables from associates recorded in current assets	207,947	-	-	-	-	-	207,947
Receivables from parent companies recorded in current assets	48,298	-	-	-	-	-	48,298
Receivables from companies subject to control of parent companies recorded in current assets	71,761,141	-	1,710,624	662,930	-	101,073	74,235,768
Tax credits recorded in current assets	4,208,815	925	299	-	-	-	4,210,039
Deferred tax assets recorded in current assets	2,629,425	-	-	-	-	-	2,629,425
Receivables from others recorded in current assets	13,661,982	-	1,000,000	-	-	1,242,214	15,904,196
Total receivables recorded in current assets	101,208,222	274,275	4,392,294	15,893,601	9,239,529	1,343,287	132,351,208

CASH AND CASH EQUIVALENTS

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Bank and postal deposits	693,245	(454,464)	238,781
Cash on hand and cash equivalents	3,043	138	3,181
Total cash and cash equivalents	696,288	(454,326)	241,962

ACCRUED INCOME AND PREPAID EXPENSES

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Prepaid expenses	2,471,582	(1,226,521)	1,245,061
Total accrued income and prepaid expenses	2,471,582	(1,226,521)	1,245,061

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	2,437,000	-1,264,818	1,172,182
Recurring lease payments	26,327	0	26,327
Machinery maintenance	4,792	9,383	14,175
Stamp duties, levies and taxes	2,145	635	2,780
Advertising expenses	899	13,701	14,600
Other	419	1,348	1,767
Total prepaid expenses	2,471,582	-1,226,521	1,245,061

NOTES TO FINANCIAL STATEMENTS - LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDER'S EQUITY

CHANGES IN SHAREHOLDERS' EQUITY ITEMS

	Amount at beginning of the year	Use of previous year result	Other changes	Profit (loss) for the year	Amount at end of the year
		Other uses	Increases		
Share capital	161,000,000	-	-		161,000,000
Share premium reserve	2,518,961	-	-		2,518,961
Legal reserve	0	126,538	-		126,538
Other reserves					
Extraordinary reserve	0	1,921,514	-		1,921,514
Sundry other reserves	(2)	-	2		0
Total other reserves	(2)	1,921,514	2		1,921,514
Profit (loss) carried forward	(17,056,079)	17,056,079	-		0
Profit (loss) for the year	19,104,131	(19,586,849)	-	40,614,281	40,614,281
Total shareholders' equity	165,567,011	(482,718)	2	40,614,281	206,181,294

AVAILABILITY AND USE OF SHAREHOLDERS' EQUITY

	Amount	Origin / nature	Potential uses	Available amount	Summary of the uses made during the previous three financial years
					to cover losses
Share capital	161,000,000	shareholders' contributions	B	-	-
Share premium reserve	2,518,961	business unit transfer	A-B-C	2,518,961	-
Legal reserve	126,538	previous years profit	A-B-C	126,538	-
Other reserves					
Extraordinary reserve	1,921,514	previous years profit		1,921,514	17,056,079
Sundry other reserves	0			-	-
Total other reserves	1,921,514			1,921,514	17,056,079
total	165,567,013			4,567,013	17,056,079
Non-distributable amount				2,518,961	
Remaining distributable amount				2,048,052	

Key: A for capital increase - B to cover losses - C for distribution to shareholders

PROVISIONS FOR RISKS AND EXPENSES

	Provision for post-retirement benefits and similar obligations	Provision for taxes, including deferred taxes	Other provisions	Total provisions for risks and expenses
Amount at beginning of the year	8,557	107,312,836	18,154,662	125,476,055
Changes during the year				
Provisions for the year	7,673	800,698	1,549,010	2,357,381
Usage for the year	1,178	11,441,466	-	11,442,644
Total changes	6,495	(10,640,768)	1,549,010	(9,085,263)
Amount at end of the year	15,052	96,672,068	19,703,672	116,390,792

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	107,312,836	11,441,466	800,698		96,672,068
Total	107,312,836	11,441,466	800,698		96,672,068

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 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 2017, the utilisation of the provision for deferred taxes in connection with the higher depreciation amount in the financial statement than depreciation for tax purposes was Euro 9,295,434.

The remainder of utilisations and all provisions are 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 (subsidiary)	3,965,136	0	541,001	0	4,506,137
Provisions for risks, Marcegaglia USA (subsidiary)	14,189,526	0	0	0	14,189,526
Provisions for risks, Marcegaglia TR (subsidiary)	0	0	1,008,009	0	1,008,009
Total	18,154,662	0	1,549,010	0	19,703,672

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 2017 was written off (as was at 31 December 2015). In 2017, the provision related to the subsidiary Mariven S.r.l. was adjusted, and a provision was established for the subsidiary Marcegaglia Turkey corresponding to the applicable fraction of the company's capital deficit.

EMPLOYEE SEVERANCE PAY

	Employee severance pay
Amount at beginning of the year	3,283,773
Changes during the year	
Provisions for the year	2,206,348
Usage for the year	2,381,975
Total changes	(175,627)
Amount at end of the year	3,108,146

Detail of item “Usage for the year”:

Uses during the year for severance pay and advance payments and for payment of substitute tax on the revaluation accrued during the year	Payments to supplementary 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
261,709	820,091	1,151,758	148,417	2,381,975

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
Payables to banks	10,400,381	(7,049,927)	3,350,454	3,350,454
Advance payments	400,000	-	400,000	400,000
Trade payables	339,945,038	(36,335,586)	303,609,452	303,609,452
Payables to subsidiaries	1,810,620	2,690,348	4,500,968	4,500,968
Payables to associates	8,890	4,433	13,323	13,323
Payables to parent companies	331,297,342	(40,723,800)	290,573,542	290,573,542
Payables to companies subject to control of parent companies	6,014,010	(2,168,223)	3,845,787	3,845,787
Tax payables	6,444,442	357,406	6,801,848	6,801,848
Payables to welfare and social security organisations	3,032,754	(300,396)	2,732,358	2,732,358
Other payables	74,691,108	(27,416,242)	47,274,866	47,274,866
Total payables	774,044,585	(110,941,987)	663,102,598	663,102,598

The line item “Other payables” is broken down as follows:

	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	69,840,897	-27,380,950	42,459,947	42,459,947
Payables to staff	3,981,554	-59,129	3,922,425	3,922,425
Security deposits	0	0	0	0
Sundry payables	868,657	23,837	892,494	892,494
Total other payables	74,691,108	-27,416,242	47,274,866	47,274,866

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
Marfin srl	2,807,191	-3,876,724	-1,069,533	-1,069,533
Made HSE srl	561,167	301,499	862,666	862,666
Marcegaglia Poland z.o.o.	33819	-18,297	15,522	15,522
Marcegaglia Buildtech srl	7108	254,031	261,139	261,139
Marcegaglia Romania srl	14466	-7,358	7,108	7,108
Marcegaglia Deutschland gmbh	3932	24,089	28,021	28,021
Imat spa	9226	13,522	22,748	22,748
Marcegaglia Carbon Steel spa	2,466,991	1,033,782	3,500,773	3,500,773
Marcegaglia Plates spa	110,110	32,744	142,854	142,854
Marcegaglia France sarl	0	1,341	1,341	1,341
Marcegaglia Iberica sa	0	3,921	3,921	3,921
Marcegaglia India PVT. Ltd.	0	2,245	2,245	2,245
Dalmine LS	0	4,073	4,073	4,073
Abaco Servizi srl	0	62,909	62,909	62,909
Total payables to companies subject to control of parent companies	6,014,010	-2,168,223	3,845,787	3,845,787

BREAKDOWN OF PAYABLES BY GEOGRAPHIC AREA

	Italy	EU	Other European Countries	America	Africa Middle East	Asia Oceania	Total
Payables to banks	3,350,454	-	-	-	-	-	3,350,454
Advance payments	-	-	400,000	-	-	-	400,000
Trade payables	234,864,467	21,069,591	14,103,916	23,572,991	2,384	9,996,103	303,609,452
Payables to subsidiaries	4,235,655	-	-	-	265,313	-	4,500,968
Payables to associates	13,323	-	-	-	-	-	13,323
Payables to parent companies	290,573,542	-	-	-	-	-	290,573,542
Payables to companies subject to control of parent companies	3,797,077	31,120	17,590	-	-	-	3,845,787
Tax payables	6,126,462	118,797	556,589	-	-	-	6,801,848
Payables to welfare and social security organisations	2,732,358	-	-	-	-	-	2,732,358
Other payables	47,274,866	-	-	-	-	-	47,274,866
Payables	592,968,204	21,219,508	15,078,095	23,572,991	267,697	9,996,103	663,102,598

DEBT SECURED BY COLLATERAL ON COMPANY ASSETS

	Debt secured by collateral		Debt not secured by collateral	Total
	Debt secured by liens	Total debt secured by collateral		
Payables to banks	180,939	180,939	3,169,515	3,350,454
Advance payments	-	-	400,000	400,000
Trade payables	-	-	303,609,452	303,609,452
Payables to subsidiaries	-	-	4,500,968	4,500,968
Payables to associates	-	-	13,323	13,323
Payables to parent companies	-	-	290,573,542	290,573,542
Payables to companies subject to control of parent companies	-	-	3,845,787	3,845,787
Tax payables	-	-	6,801,848	6,801,848
Payables to welfare and social security organisations	-	-	2,732,358	2,732,358
Other payables	-	-	47,274,866	47,274,866
Total payables	180,939	180,939	662,921,659	663,102,598

In relation to the securitisation of trade receivables without notification and discount transactions through factors, 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 2017, amounted to Euro 2,480.

ACCRUED EXPENSES AND DEFERRED INCOME

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Accrued expenses	-	266	266
Deferred income	-	10,948	10,948
Total accrued expenses and deferred income	0	11,214	11,214

The table below provides details of this item:

Accrued expenses	Amount at beginning of the year	Changes during the year	Amount at end of the year
Interest expense	0	266	266
Total accrued expenses	0	266	266
Deferred income	Amount at beginning of the year	Changes during the year	Amount at end of the year
Interest receivable	0	10,948	10,948
Total deferred income	0	10,948	10,948

NOTES TO FINANCIAL STATEMENTS - PROFIT AND LOSS ACCOUNT

VALUE OF PRODUCTION

BREAKDOWN OF REVENUES FROM SALES AND SERVICES BY BUSINESS CATEGORY

	Amount for current year
Cold drawn bars	140,326,390
Stainless steel products	954,449,769
Other iron and steel industry products	42,593,507
Total	1,137,369,666

BREAKDOWN OF REVENUES FROM SALES AND SERVICES BY GEOGRAPHIC AREA

	Amount for current year
Italy	395,035,877
EU	676,734,146
Other European Countries	56,348,939
North America	289,598
South and Central America	78,860
Middle East	1,665,422
Far East - Oceania	614,218
Africa	6,602,606
Total	1,137,369,666

FINANCIAL INCOME AND EXPENSES

Breakdown of interest and other financial charges by type of payable

	Interest and other financial charges
Payables to banks	79,236
Other	9,198,246
Total	9,277,482

In 2017, no applicable financial charges were capitalised.

Detail of item "Other"

	Other
Interest expense relating to securitisation and factoring institutions	7,639,579
Other interest and financial charges	1,558,667
Total other financial charges	9,198,246

VALUE ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES

Detail of revaluations and write-downs

	Revaluations	Write-downs
Mariven srl		541,001
Marcegaglia Turkey		2,859,787
of equity investments recorded as financial fixed assets		3,400,788
Total		3,400,788

The write-downs of the subsidiaries Mariven and Marcegaglia Turkey were carried out to align the carrying amount of the respective equity investments to the lower value corresponding to the fraction of shareholders' equity held.

No revaluations of equity investments were carried out during the year.

AMOUNT AND NATURE OF INDIVIDUAL REVENUE/COST ITEMS OF AN EXCEPTIONAL SIZE OR PERCENTAGE

Cost item	Amount	Nature
B 10) d) Write-down of receivables	20,000,000	Write-down of receivables, Marcegaglia US
Total	20,000,000	

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	1,137,369,666	0	1,137,369,666
Changes in inventories of work in progress, semi-finished and finished products	29,492,950	0	29,492,950
Changes in contract work in progress	0	0	0
Increase in fixed assets for internal work	0	0	0
Other revenues and income	39,842,420	0	39,842,420
Value of production	1,206,705,036	0	1,206,705,036
Raw and ancillary materials, consumables and goods	-905,102,997	0	-905,102,997
Services	-101,646,469	0	-101,646,469
Lease and rental expense	-6,781,930	0	-6,781,930
Personnel costs	-43,358,640	0	-43,358,640
Amortisation, depreciation and write-downs	-44,124,709	-20,000,000	-64,124,709
Changes in inventories of raw and ancillary materials, consumables and goods	-1,586,079	0	-1,586,079
Provisions for risks	0	0	0
Other provisions	0	0	0
Sundry operating costs	-1,743,930	0	-1,743,930
Cost of production	-1,104,344,754	-20,000,000	-1,124,344,754
Difference between value and cost of production	102,360,282	-20,000,000	82,360,282
Income from equity investments	0	0	0
Other financial income	3,629,350	0	3,629,350
Interest and other financial charges	-24,354,203	0	-24,354,203
Exchange-rate gains and losses	-1,931,363	0	-1,931,363
Financial income and expenses	-22,656,216	0	-22,656,216
Revaluations	0	0	0
Write-downs	-3,400,788	0	-3,400,788
Value adjustments of financial assets	-3,400,788	0	-3,400,788
Profit (loss) before taxes	76,303,278	-20,000,000	56,303,278
Current, deferred and prepaid income taxes for the year	-15,688,997	0	-15,688,997
Profit (loss) for the year	60,614,281	-20,000,000	40,614,281

CURRENT, DEFERRED AND PREPAID INCOME TAXES FOR THE YEAR

Deferred taxes reported in the financial statements at 31 December 2017 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 under examination.

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 EFFECTS

	IRES	IRAP
A) Temporary differences		
Total deductible temporary differences	10,068,133	5,463,423
Total taxable temporary differences	347,925,017	337,693,892
Net temporary differences	337,856,884	332,230,469
B) Tax impact		
Provision for deferred (prepaid) taxes at the beginning of the year	90,476,649	14,394,839
Deferred (prepaid) taxes for the year	(9,390,996)	(1,437,849)
Provision for deferred (prepaid) taxes at the end of the year	81,085,653	12,956,990

BREAKDOWN OF DEDUCTIBLE TEMPORARY DIFFERENCES

Description	Amount at end of previous year	Changes during the year	Amount at end of year	IRES rate	IRES tax impact	IRAP rate	IRAP tax impact
Foreign exchange translation loss	4,595,413	(4,467)	4,590,946	24.00%	1,101,828	-	-
Write-down of inventory	4,683,338	774,413	5,457,751	24.00%	1,309,860	3.90%	212,852
Write-down of assets from contribution (IRES)	3,650	(2,805)	845	24.00%	203	-	-
Write-down of assets from contribution (IRAP)	6,502	(830)	5,672	-	-	3.90%	220
Association fees	17,831	760	18,591	24.00%	4,462	-	-

BREAKDOWN OF TAXABLE TEMPORARY DIFFERENCES

Description	Amount at end of previous year	Changes during the year	Amount at end of year	IRES rate	IRES tax impact	IRAP rate	IRAP tax impact
Revaluation of assets from contribution (IRES)	349,225,984	(33,152,190)	316,073,794	24.00%	75,857,712	-	-
Foreign exchange translation gains	8,655,256	(5,209,061)	3,446,195	24.00%	827,087	-	-
Revaluation of leased stainless steel plant	28,405,028	-	28,405,028	24.00%	6,817,207	3.90%	1,107,796
Revaluation of assets from contribution (IRAP)	345,383,213	(36,094,349)	309,288,864	-	-	3.90%	12,062,266

STATEMENT OF EXPECTED RECOVERY OF DEFERRED TAX ASSETS AND LIABILITIES

Description	2018	2019	2020	2021	Beyond 2021 or unforeseeable	Total
A) Taxable temporary differences						
<i>IRES</i>						
Revaluation of assets from contribution	33,487,853	33,138,806	32,022,698	33,014,934	184,409,504	316,073,794
Foreign exchange translation gains	3,446,195					3,446,195
Revaluation of leased stainless steel plant	1,136,201	2,272,402	2,272,402	2,272,402	20,451,620	28,405,028
total	38,070,249	35,411,208	34,295,100	35,287,336	204,861,124	347,925,017
<i>IRAP</i>						
Revaluation of assets from contribution	35,788,610	34,877,569	33,485,190	33,484,360	171,653,135	309,288,864
Revaluation of leased stainless steel plant	1,136,201	2,272,402	2,272,402	2,272,402	20,451,621	28,405,029
total	36,924,812	37,149,971	35,757,592	35,756,763	192,104,756	337,693,893
Total deferred taxes	10,576,928	9,947,539	9,625,370	9,863,475	56,658,756	96,672,068
B) Deductible temporary differences						
<i>IRES</i>						
Foreign exchange translation loss	4,590,946					
Write-down of assets from contribution	298	298	249			845
Write-down of inventories from contribution					5,457,751	5,457,751
Association fees	18,591					18,591
total	4,609,835	298	249	-	5,457,751	10,068,133
<i>IRAP</i>						
Write-down of assets from contribution	830	830	830		3,182	5,672
Write-down of inventories from contribution					5,457,751	5,457,751
total	830	830	830	-	5,460,932	5,463,423
Total prepaid taxes	1,106,393	104	92	-	1,522,836	2,629,425

RECONCILIATION BETWEEN ACTUAL AND THEORETICAL TAX BURDEN (IRES)

2017		
Statutory Profit (+) / Loss (-) before taxes	56,303,278	
Theoretical tax rate of 24% on statutory profit before tax		13,512,787
Effect of increases (+) / decreases (-) on ordinary tax rate		IRES impact
Temporary increases	5,383,950	1,292,148
Temporary decreases	-3,446,194	-827,087
Absorption of temporary decreases	-4,616,048	-1,107,852
Absorption of temporary increases	41,684,111	10,004,187
Permanent increases	24,525,580	5,886,139
Permanent decreases	-18,329,538	-4,399,089
Total increases/decreases	45,201,861	10,848,446
Tax losses from previous financial years	0	0
Tax profit for the year	101,505,139	24,361,233

RECONCILIATION BETWEEN ACTUAL AND THEORETICAL TAX BURDEN (IRAP)

2017		
Difference between value and cost of production	82,360,282	
Costs not relevant for IRAP purposes	63,484,784	
Theoretical taxable income for IRAP	145,845,066	
Theoretical tax rate of 3.9% on theoretical taxable income for IRAP		5,687,958
Effect of increases (+) / decreases (-) on ordinary tax rate		IRAP impact
Temporary increases	774,413	30,202
Temporary decreases	-	-
Absorption of temporary decreases	-830	-32
Absorption of temporary increases	35,971,652	1,402,894
Permanent increases	1,507,296	58,784
Permanent decreases	-1,615,290	-62,996
Gross value of production (IRAP)	182,482,307	1,428,852
Deduction	-58,325,149	-2,274,681
IRAP taxable income	124,157,158	4,842,129

Information on “national tax consolidation scheme”

In 2017 the company and Marcegaglia Holding spa elected to adopt the tax consolidation scheme for the three-year pe-

riod 2016-2018. The election entailed, for fiscal year 2017, the transfer to the consolidating company of a profit, taxable for IRES purposes, in the amount of Euro 101,505,139. The tax amount for IRES purposes, based on the statutory tax rate, is Euro 24,361,233, 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.

NOTES TO FINANCIAL STATEMENTS - OTHER INFORMATION

EMPLOYMENT DATA

	Average number
Managers	4
Office workers	139
Factory workers	624
Total employees	767

Below are the actual numbers of active employees at 31 December 2017:

	Actual number at end of year
Managers	3
Middle managers	
Office workers	139
Factory workers	624
Other employees	
Total employees	766

COMPENSATION, ADVANCES AND LOANS MADE TO DIRECTORS AND STATUTORY AUDITORS AND OBLIGATIONS ASSUMED ON THEIR BEHALF

	Directors	Auditors
Compensation	490,000	36,400

COMPENSATION PAID TO AUDITOR OR INDEPENDENT AUDITOR

	Amount
Statutory audit of annual financial statements	58,318
Other auditing services performed	7,650
Total compensation payable to auditor or independent auditor	65,968

The Extraordinary Shareholders Meeting held on 27 November 2015 charged the audit firm MAZARS ITALIA Spa with the responsibility for statutory audits of the annual financial statements, in compliance with and for the purposes and effects of Article 14 of Legislative Decree No. 39 of 27 January 2010, for a period of 3 financial years, and conse-

quently until approval of the financial statements for financial year 2017. Compensation for the statutory audit for financial years 2016 and 2017 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 S.p.A. was also granted the assignment for the limited audit of the half-year financial statements at 30 June 2017 for compensation totalling Euro 16,500.

The difference between the contractually agreed-to compensation for work done in 2017 and the amount allocated to the financial statements was for the reimbursement of out-of-pocket expenses and the CONSOB contribution.

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
Total	161,000,000	161,000,000	161,000,000	161,000,000

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES NOT REPORTED IN THE BALANCE SHEET

	Amount
Commitments	52,388
Guarantees	1,757,168,003
of which collateral	471,250,000

The table below provides details on existing commitments and guarantees at 31 December 2017.

	31 December 2017	31 December 2016
RISKS TAKEN BY THE COMPANY		
SURETIES		
- to subsidiaries	27,072,391	58,311,902
- to associates	500,000	
- to parent companies	1,257,763,796	1,238,863,796
- to other companies	581,816	466,532
Total sureties	1,285,918,003	1,297,642,230
COLLATERAL		
- to parent companies	471,250,000	471,250,000
- to companies subject to control of parent companies		0
Total collateral	471,250,000	471,250,000
Total guarantees	1,757,168,003	1,768,892,230
COMMITMENTS ENTERED INTO BY THE COMPANY		
- other commitments	52,388	25,320
Total commitments entered into by the Company	52,388	25,320
Total	1,757,220,391	1,768,917,550

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 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.

Information on significant events after the end of the year

In the first quarter of 2018, the upward trend in demand continued with further increases in unit prices.

Marcegaglia Specialties increased the volume of shipments by 5.3% including 160,000 tons by Italian companies (+5.6%) and 11,000 tons (+1.7%) by foreign subsidiaries, and especially by Marcegaglia Ru.

Combined revenues amounted to Euro 329 million, (+5.6% compared to the first quarter of 2017).

Mark-up was slightly lower than in 2017, which was a year of particularly impressive performance; this was due to the unexpected significant increase in unit prices.

However, mark-up was in line with budgeted figures, and it is expected to improve in future quarters in both absolute terms and in comparison with 2017, with improved year-end goals both in unit terms (Euro/ton) and in absolute value, and as a result of higher volume.

EBITDA and EBIT results for 2018 are expected to improve compared with the already strong results reported in 2017.

Outsourcing, which processed exclusively for Marcegaglia Specialties S.p.A., sold its plant assets to the latter and expects to terminate its business by the end of May 2018.

Outsourced production at Outsourcing Inox will therefore be transferred to the Forlì plant with an increase in shifts and expected benefits in terms of unit and overall costs.

As a result, in March 2018, for space reasons the company acquired ownership in a property with about 12,000 square meters of space near the main plant. Finishing work will be transferred to this property, including through collaboration with a contractor with benefits in terms of storing finished products and logistics flows.

Company	Revenues (in Euro thousands)		
	Jan-Mar 2018	Jan-Mar 2017	Δ %
MARCEGAGLIA SPECIALTIES	310,461	292,798	6.0
MARCEGAGLIA SPECIALTIES ITALY	310,461	292,798	6.0
MARCEGAGLIA RU	8,198	7,321	12.0
MARCEGAGLIA TR	5,627	5,326	5.6
MARCEGAGLIA USA	5,051	6,464	-21.9
MARCEGAGLIA SPECIALTIES FOREIGN	18,875	19,110	-1.2
MARCEGAGLIA SPECIALTIES TOTAL	329,337	311,908	5.6

Company	Quantity (ton)			MARK UP (in Euro thousands)		
	Jan-Mar 2018	Jan-Mar 2017	Δ %	Jan-Mar 2018	Jan-Mar 2017	Δ %
MARCEGAGLIA SPECIALTIES	160,097	151,595	5.6	84,131	84,523	-0.5
MARCEGAGLIA SPECIALTIES ITALY	160,097	151,595	5.6	84,131	84,523	-0.5
MARCEGAGLIA RU	3,410	2,888	18.1	1,101	1,229	-10.5
MARCEGAGLIA TR	2,369	2,033	16.6	879	948	-7.3
MARCEGAGLIA USA	5,019	5,702	-12.0	1,175	737	59.4
MARCEGAGLIA SPECIALTIES FOREIGN	10,798	10,622	1.7	3,154	2,914	8.2
MARCEGAGLIA SPECIALTIES TOTAL	170,894	162,217	5.3	87,285	87,437	-0.2

In December 2017, a court auction was held at the court of Parma, after which the property in Montechiarugolo, where the subsidiary Outsourcing Inox (production of stainless steel tubes) operated, was sold to third parties.

COMPANIES THAT PREPARE FINANCIAL STATEMENTS FOR THE LARGEST/SMALLEST GROUPING OF COMPANIES IN WHICH THEY PARTICIPATE AS SUBSIDIARIES

	Largest grouping	Smallest grouping
Company name	Finmar srl	Marcegaglia Holding spa
City (if in Italy) or foreign country	Mantua	Mantua
Tax ID No. (for Italian companies)	02466170202	02466980204
Place of filing of the consolidated financial statements	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 Marcegaglia Steel S.p.A., which in turn holds 100% of the company's share capital. The information required by article 2497-bis(4) of the Italian Civil Code refers to the accounts for the year ended 31 December 2016, 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 2016	31 Dec 2015
B) Fixed assets	118,222,828	119,967,439
C) Current assets	33,727	56,960
Total assets	118,256,555	120,024,399
A) Shareholders' equity		
Share capital	40,000	40,000
Reserves	28,888,180	15,136,058
Profit (loss) for the year	(1,781,212)	12,158,179
Total shareholders' equity	27,146,968	27,334,237
B) Reserves for risks and expenses	5,136	1,366
D) Payables	91,104,417	92,688,781
E) Accrued expenses and deferred income	34	15
Total liabilities and shareholders' equity	118,256,555	120,024,399

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 2016	31 Dec 2015
B) Production costs	49,694	120,805
C) Financial income and expenses	16,446	15,762,261
D) Value adjustments of financial assets	(1,744,193)	(3,298,468)
Income tax for the year	3,771	184,809
Profit (loss) for the year	(1,781,212)	12,158,179

Proposals for allocation of profits or coverage of losses

The proposed allocation of the net profit of Euro 40,164,281 for the year is as follows:

- Euro 2,008,214 (5% of the net profit) to the legal reserve;
- Euro 38,156,067 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 25 April 2018, 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 140,000.

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, 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.

Gazoldo degli Ippoliti, 30 April 2018

Chairman of the
Board of Directors
Antonio Marcegaglia





Financial Statements 2017

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 auditor's report in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010

To the Shareholders of Marcegaglia Plates S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Marcegaglia Plates S.p.A. (the Company), which comprise the balance sheet as at December 31, 2017, the income statement and the cash flows statement for the year then ended and the explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of the result of its operations and cash flows for the year then ended in accordance with the Italian laws governing the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the section of this report titled *Auditor's responsibilities for the audit of the financial statements*. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the directors and board of statutory auditors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the Italian laws governing the financial statements and, according to the terms prescribed by law, for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriateness of the use of the going concern assumption in the preparation of the financial statements, and for appropriate disclosure thereof. In preparing the financial statements, the directors use the going concern basis of accounting unless directors either intend to liquidate the Company or to cease operations or has no realistic alternative but to do so.

The board of statutory auditors ("collegio sindacale") is responsible for overseeing, according to the terms prescribed by law, the Company's financial reporting process.

MAZARS ITALIA SPA

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SPA - CAPITALE SOCIALE DELIBERATO, SOTTOSCRITTO E VERSATO € 120.000,00 - SEDE LEGALE: LARGO AUGUSTO, 6 - 20122 MILANO

REA MI-2076227 - COD. FISC. E P. IVA 11176891001 - ISCRIZIONE AL REGISTRO DEI REVISORI LEGALI N. 163788 CON D.M. DEL 14/07/2011 G.U. N. 57 DEL 19/07/2011

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit performed in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures in response to those risks; we obtained sufficient and appropriate audit evidence on which to base our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- we obtained an understanding of the internal control relevant to the audit in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Where a material uncertainty exists, we are required to draw attention, in our auditor's report, to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, subsequent events or conditions may cause the Company to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in such a manner as to give a true and fair view.

We communicated to those charged with governance, identified at an appropriate level as required by ISA Italia, among other matters, the scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Report on compliance with other laws and regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39/10

The directors of Marcegaglia Plates S.p.A. are responsible for preparing a directors' report of Marcegaglia Plates S.p.A. as at December 31, 2017, including its consistency with the relevant financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the directors' report with the financial statements of Marcegaglia Plates S.p.A. as at December 31, 2017 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the directors' report is consistent with the financial statements of Marcegaglia Plates S.p.A. as at December 31, 2017 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Verona, April 30, 2018

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

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



MARCEGAGLIA PLATES S.P.A.

BALANCE SHEET AS OF 31 DECEMBER 2017

Assets values in EUR

31 Dec 2017

31 Dec 2016

A RECEIVABLES FROM SHAREHOLDERS FOR OUTSTANDING CONTRIBUTIONS			
1	Not previously called	0	0
2	Previously called	0	0
	Total Receivables from shareholders for outstanding contributions A	0	0
B FIXED ASSETS			
I	<i>Intangible fixed asset</i>		
1	Start-up and expansion costs	23,864	32,287
2	Development costs	0	0
3	Industrial patent rights and intellectual property rights	387	774
4	Concessions, licences, trademarks and similar rights	0	0
5	Goodwill	0	0
6	Fixed assets in progress and advance payments	0	0
7	Other	0	0
	Total intangible fixed assets (B-I)	24,251	33,061
II	<i>Property, plant and equipment</i>		
1	Land and buildings	17,105,932	17,464,792
2	Plant and machinery	35,630,685	39,092,560
3	Industrial and commercial equipment	1,262,878	1,277,289
4	Other assets	110,964	142,587
5	Fixed assets in progress and advance payments	1,157,678	955,354
	Totale property, plant and equipment (B-II)	55,268,137	58,932,582
III	<i>Financial fixed assets</i>		
1	Equity investments in:		
	d-bis) from others	5	5
		5	5
2	Receivables		
	d-bis) from others		
	- due after the following year	4,500	4,532
		4,500	4,532
	Total financial assets (B-III)	4,505	4,537
	Total Fixed Assets B	55,296,893	58,970,180
C CURRENT ASSETS			
I	<i>Inventories</i>		
1	Raw and ancillary materials and consumables	45,518,739	26,452,340
2	Work in progress and semi-finished products	6,458,871	2,459,950
3	Contract work in progress	0	0
4	Finished products and goods	13,658,874	10,479,369
	Totale inventories (C-I)	65,636,484	39,391,659
II	<i>Receivables</i>		
1	From customer		
	- due within the following year	3,362,851	4,239,319
	- due after the following year	0	0
		3,362,851	4,239,319
4	From parent companies		
	- due within the following year	0	517,107
	- due after the following year	0	0
		0	517,107
5	From companies subject to control of parent companies		
	- due within the following year	51,071,576	53,011,418
	- due after the following year	0	0
		51,071,576	53,011,418
5-bis	Deferred tax assets		
	- due within the following year	4,017,812	72,957
	- due after the following year	0	0
		4,017,812	72,957
5-ter	Imposte anticipate	775,715	774,744
		775,715	774,744
5-quater	From others		
	- due within the following year	936,851	2,109,806
	- due after the following year	0	0
		936,851	2,109,806
	Total receivables (C-II)	60,164,805	60,725,351
IV	<i>Cash and cash equivalents</i>		
1	Bank and postal deposits	45,002	310,505
2	Cheques	0	0
3	Cash on hand and cash equivalents	1,354	1,414
	Total cash and cash equivalents (C-IV)	46,356	311,919
	Totale Current Assets C	125,847,645	100,428,929
D ACCRUED INCOME AND PREPAID EXPENSES			
	Accrued income and prepaid expenses	5,374	547
	Total Accrued Income and Prepaid Expenses D	5,374	547
	TOTAL ASSETS	181,149,912	159,399,656

LIABILITIES values in EUR

31 Dec 2017

31 Dec 2016

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	309,713	0
VI	Other reserves, represented by:		
	- Extraordinary reserve	5,086,344	0
	- Difference from rounding to the unit of Euro	(1)	(1)
VIII	Profit/(loss) carried forward	0	(2,506)
IX	Profit/(loss) for the year	11,479,600	5,398,564
	Total Equity A	52,903,293	41,423,694
B RESERVES FOR RISKS AND EXPENSES			
1	For post-retirement benefits and similar obligations	299,126	271,772
2	For taxes, including deferred taxes	11,076,675	11,846,841
3	Other	0	0
	Total Reserves for Risks and Expenses B	11,375,801	12,118,613
C EMPLOYEE SEVERANCE PAY			
	Employee severance pay C	340,676	348,859
D PAYABLES			
4	Payables to banks		
	- due within the following year	924,202	3,197,066
	- due after the following year	0	0
		924,202	3,197,066
6	Advance payments		
	- due within the following year	0	14,542
	- due after the following year	0	0
		0	14,542
7	Trade payables		
	- due within the following year	88,940,285	54,387,140
	- due after the following year	0	0
		88,940,285	54,387,140
11	Payables to parent companies		
	- due within the following year	15,975,828	34,001,944
	- due after the following year	0	0
		15,975,828	34,001,944
11-bis	Payables to companies subject to control of parent companies		
	- due within the following year	1,266,866	1,289,695
	- due after the following year	0	0
		1,266,866	1,289,695
12	Tax payables		
	- due within the following year	912,525	772,275
	- due after the following year	0	0
		912,525	772,275
13	Payables to welfare and social security organizations		
	- due within the following year	440,907	442,482
	- due after the following year	0	0
		440,907	442,482
14	Other payables		
	- due within the following year	8,069,488	11,374,160
	- due after the following year	0	0
		8,069,488	11,374,160
	Total Payables D	116,530,101	105,479,304
E ACCRUED EXPENSES AND DEFERRED INCOME			
	Accrued expenses and deferred income	41	29,186
	Total Accrued expenses and deferred income E	41	29,186
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		181,149,912	159,399,656

MARCEGAGLIA PLATES S.P.A.**PROFIT AND LOSS ACCOUNT AS OF 31 DECEMBER 2017**

values in EUR		31 Dec 2017	31 Dec 2016
A	VALUE OF PRODUCTION		
1	Revenues from sales and services	207,728,067	170,606,377
2	Changes in inventories of work in progress, semi-finished and finished products	7,178,425	(1,966,597)
3	Changes in contract work in progress	0	0
4	Increase in fixed assets for internal work	0	0
5	Other revenues and income		
	- Operating grants	72,431	25,547
	- Other	182,552	41,814
	Total other revenues and income (5)	254,983	67,361
	Total Value of production A	215,161,475	168,707,141
B	PRODUCTION COSTS		
6	Raw and ancillary materials, consumables and goods	(176,228,183)	(110,865,846)
7	Services	(32,173,590)	(30,884,027)
8	Lease and rental expense	(2,172,898)	(1,883,958)
9	Personnel costs		
	a) wages and salaries	(4,586,126)	(4,249,926)
	b) social security contributions	(1,472,221)	(1,400,820)
	c) employee severance pay	(292,678)	(283,503)
	d) post-retirement benefits and similar obligations	0	0
	e) other personnel costs	(5,378)	(39,355)
	Total personnel costs (9)	(6,356,403)	(5,973,604)
10	Amortisation, depreciation and write-downs		
	a) amortisation of intangible assets	(8,810)	(25,852)
	b) depreciation of property, plant and equipment	(5,002,639)	(4,852,947)
	c) other write-downs of fixed assets	0	0
	d) write-downs of receivables included in current assets and cash and cash equivalent.	(531,799)	(1,172,101)
	Total amortisation, depreciation and write-downs (10)	(5,543,248)	(6,050,900)
11	Changes in the inventory of raw and ancillary materials, consumables and goods	19,066,399	(2,808,984)
12	Provisions for risks	0	0
13	Other provisions	0	0
14	Sundry operating costs	(302,358)	(446,137)
	Total Production Costs B	(203,710,281)	(158,913,456)
	Difference between value and cost of production A - B	11,451,194	9,793,685
C	FINANCIAL INCOME AND EXPENSES		
16	Other financial income		
	a) from receivables recorded as fixed assets:		
	- from other companies	65	0
	d) income other than the above:		
	- from subsidiaries	0	0
	- from parent companies	0	0
	- from companies subject to the control of parent companies	2,034,694	2,252,180
	- from others	1,807	2,411
	Total other financial income (16)	2,036,566	2,254,591
17	Interests and other financial charges:		
	- paid to subsidiaries	0	0
	- paid to associates	0	0
	- paid to parent companies	(1,232,955)	(2,106,902)
	- paid to companies subject to the control of parent companies	0	0
	- other financial expenses	(1,785,594)	(1,404,448)
	Total interests and other financial charges (17)	(3,018,549)	(3,511,350)
17-bis	Exchange-rate gains and losses	5,233,527	(870,709)
	Total financial income and expenses C	4,251,544	(2,127,468)
D	VALUE ADJUSTMENTS OF FINANCIAL ASSETS		
	Value adjustments of financial assets D	0	0
	PROFIT (LOSS) BEFORE TAXES (A-B+/-C+/-D)		
	Profit (loss) before taxes A-B+/-C+/-D	15,702,738	7,666,217
20	Current, deferred and pre-paid income taxes for the year		
	- Direct taxes for the year	(4,994,275)	(2,403,576)
	- Deferred taxes	771,137	(273,617)
	- Income (costs) from participation in tax consolidation scheme	0	409,540
	Total current, deferred and pre-paid income taxes for the year (20)	(4,223,138)	(2,267,653)
21	PROFIT (LOSS) FOR THE YEAR	11,479,600	5,398,564

STATEMENT OF CASH FLOWS AS OF 31 DECEMBER 2017

values in EUR

31 Dec 2017

31 Dec 2016

A	CASH FLOWS FROM INCOME-GENERATING OPERATIONS (INDIRECT METHOD)			
	Profit (loss) for the year	11,479,600	5,398,564	
	Income Tax	4,223,138	2,267,653	
	Interest expenses/(income)	981,983	1,256,759	
	(Dividends)	-	-	
	(Gains)/Losses resulting from the disposal of assets	12,982	-	
	1	Profit (loss) for the year, before income taxes, interest, dividends and gains/losses from asset sales	16,697,703	8,922,976
		Adjustments for non-cash items with no balancing entry in net working capital		
		- Provisions to funds	326,365	555,016
		- Amortisation/Depreciation of fixed assets	5,011,449	4,878,799
		- Write-downs due to permanent impairment	-	-
		- Value adjustments of financial assets and liabilities on derivative financial instruments that do not involve cash transactions	-	-
		- Other adjustments for non-cash items	-	-
		Total adjustments for non-cash items with no balancing entry in working capital	5,337,814	5,433,815
	2	Cash flow before changes in net working capital	22,035,517	14,356,791
		Changes in net working capital		
		- Decrease/(Increase) in inventories	(26,244,825)	4,775,581
		- Decrease/(Increase) in trade receivables	876,467	14,358,543
		- Increase/(Decrease) in trade payables	34,553,144	12,009,635
		- Decrease/(Increase) in accrued income and prepaid expenses	(4,826)	(547)
		- Increase/(Decrease) in accrued expenses and deferred income	(29,145)	17,632
	- Other changes in net working capital	(26,538,710)	(44,632,562)	
	Total changes in net working capital	(17,387,895)	(13,471,718)	
3	Cash flow after changes in net working capital	4,647,622	885,073	
	Other adjustments			
	- Interest received/(paid)	(981,983)	(1,256,759)	
	- (Income taxes paid)	-	-	
	- Dividends received	-	-	
	- (Utilisation of funds)	(307,193)	(288,771)	
	- Other collections/(payments)	-	-	
	Total other adjustments	(1,289,176)	(1,545,530)	
	Cash flow from income-generating operations A	3,358,446	(660,457)	
B	CASH FLOWS FROM INVESTMENT ACTIVITIES			
	Property, plant and equipment			
	- (Investments)	(1,355,177)	(1,143,455)	
	- Divestitures	4,000	0	
	Intangible fixed assets			
	- (Investments)	0	(1,161)	
	- Divestitures	-	-	
	Financial fixed assets			
	- (Investments)	(4,500)	(4,537)	
	- Divestitures	4,532	0	
	Current financial assets			
	- (Investments)	-	-	
	- Divestitures	-	-	
	(Purchase of subsidiaries or business divisions net of liquid assets)	-	-	
	Sale of subsidiaries or business divisions net of liquid assets	-	-	
	Cash flows from investment activities B	(1,351,145)	(1,149,153)	
C	CASH FLOWS FROM FINANCING ACTIVITIES			
	Third party resources			
	- Increase/(Decrease) in short-term liabilities to banks	(2,272,864)	1,925,072	
	- New loans	-	-	
	- (Repayments of loans)	-	-	
	Capital and reserves			
	- Paid-in capital increase	-	-	
	- (Reimbursement of paid-in capital increase)	-	-	
	- Sale/(Purchase) of own shares	-	-	
	- (Dividends and advances on dividends paid)	-	-	
	Cash flows from financing activities C	(2,272,864)	1,925,072	
	INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS A ± B ± C	(265,563)	115,462	
	Exchange rate effect on cash and cash equivalents	-	-	
	Cash and cash equivalents at beginning of year	311,919	196,457	
	Bank and postal deposits	310,505	196,308	
	Checks	-	-	
	Cash on hand and cash equivalents	1,414	149	
	of which not freely usable	86,943	195,341	
	Cash and cash equivalents at year end	46,356	311,919	
	Bank and postal deposits	45,002	310,505	
	Checks	-	-	
	Cash on hand and cash equivalents	1,354	1,414	
	of which not freely usable	13,890	86,943	

NOTES

PRELIMINARY REMARKS

After the major reorganisation of the Marcegaglia group (which was started and completed in 2015), the Company belongs to the Marcegaglia group's heavy plates division, which incorporates the production of heavy plates.

Financial statement preparation criteria and structure

The financial statements for the year ending 31 December 2017 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), their 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.

Note that as an exception to the provisions of Article 2423-bis(1)(6) of the Italian Civil Code, in order to provide a better representation of the company's events and transactions in the financial statements, starting with the 2017 financial statements, the periodic LIFO (last in, first out) method was used for measuring inventories of "base" steel raw materials (slabs) instead of the weighted average cost method used in previous financial years.

The reason for this decision, in the context of using conservative values, was due to structural changes in the steel industry worldwide, and specifically in Europe, that entail increased price volatility.

To summarise, most volatility was due to:

1. Reduction in global production capacity

In general, following the 2008-2009 crisis, in all segments of the steel industry

(carbon and stainless steel, flat products and long products), there was a significant restructuring of production capacity to bring it into line with the (reduced) levels of steel demand. In China as well, after a period of further expansion (2009-2014), in recent years, major, stringent plans to shut down obsolete, polluting plants were implemented by the Chinese government.

2. Resumption of consolidation trend in the sector

With the recovery of profitability and overall positive trend in the commodities sector, the steel sector resumed its merger and acquisition cycle, especially with regard to primary production: in Europe, after the merger of SSAB and Ruuki, ArcelorMittal won the bid for Ilva, and Tata and Thyssenkrupp are in advanced negotiations to form a 50/50 JV.

In India, three significant producers will change ownership (Essar, Bushan and Sail), and Tata and ArcelorMittal are very active as consolidators.

In China, the government is guiding the formation of mega-producers to act as better competitors in the global environment (a recent example is the union of Baosteel and Wuhan).

In North and South America, Ternium and ArcelorMittal have purchased various assets including those of Thyssenkrupp in Brazil and Alabama, and further consolidation is expected with Trump's protectionist policy.

3. Protectionism and greater market regionalisation

Over the last three years, protectionist measures of many countries and "macro regions" have grown with the aim of strengthening local industries and limiting international trade; most of these measures have targeted China, but they have been extended to many other countries, in the case of Europe Russia and Ukraine, as well as Iran and Brazil. Trump's rise to the presidency in the US has produced a further widespread "squeeze" on international trade with likely repercussions in other macro regions, including Europe, which must protect themselves from the risk of a

drastic repositioning of trade flows of countries exporting to the US.

Thus, competition will be more limited among macro regions, and more focused within each "regional" market.

4. Oligopoly nature of steel commodity sector for the primary production of steel (iron ore, coal for carbon steel, and nickel, chromium and molybdenum for stainless steel).

The impact of rising price volatility and of the regionalisation of markets is more pronounced for the "base" steel products that form the raw materials for Marcegaglia Plates, i.e. slabs.

Indeed, the impact on prices is more pronounced on these materials since by nature they are more like commodities, and they are more closely tied to steel raw materials (iron ore, coal, nickel, chromium and molybdenum), which are in turn the growing focus of financial investors due in part to large amounts of cash available in markets and low interest rates.

Unlike raw materials and base steel products derived from them, products from the first and second transformation are less volatile since they are mainly intended for end users, frequently under contracts with a longer duration, and with a larger service component, and since demand and the needs of reference customers are more fragmented.

5. Greater role of financial investors in the commodities (including steel commodities) sector due in part to large amounts of cash in the system and the recovery of profitability in the steel industry.

The company has gradually increased the share of customised products with greater added value in its product offerings owing to a broader range of "specialties" and related services, and it has gradually distanced itself from the approach of the base industry including with regard to the formation of prices for its products.

In view of the different nature of "base" steel raw materials on the one hand, and the semi-finished and finished products of Marcegaglia Plates, on the other hand, it was deemed appropriate

to apply different measurement criteria for inventories adopted. Base steel raw materials were measured criterion with the periodic LIFO method, in order to be conservative and avoid reporting exact values, which, during a specific cycle or economic situation, could be misleading in relation to a “normal” reporting of values over the medium and long term.

On the other hand, for semi-finished and finished products it was deemed appropriate to maintain weighted average cost, which is more consistent with the reporting of the market trend, which, by its nature, is more gradual and “moderate” in terms of changes in prices for these products.

In keeping with accounting rules, the same criteria were used to recalculate the value of beginning inventories in order to properly report consumption in the profit and loss account for the period, and values for 2016 were recalculated for the comparison of the 2016 and 2017 reports.

In addition, during the financial year under review, it was decided to change the criterion for recording the productivity bonuses paid to employees and the resulting ancillary charges. Thus, starting in 2017, these bonuses and ancillary charges are allocated to the financial year when the income and production parameters are measured that were established in supplemental company agreements that determined the amount owed, and not in the financial year when paid. As a result, the bonuses and related contributions owed on the basis of 2017 results and paid in 2018 were allocated in the 2017 financial statements; the bonuses and related contributions due on the basis of 2016 and paid in 2017 were removed from the 2017 profit and loss account, and in accordance with accounting standard OIC 29, they were posted as a reduction to the extraordinary reserve.

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 2017 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 2017. As previously noted, with regard to the new measurement criterion for ending inventories of raw materials and the change in the criterion for accounting for productivity bonuses paid to employees, the amounts for 2016 were recalculated for the purposes of comparing the 2016 and 2017 reports, as shown in the following table.

		Balance sheet changes 2016
C I 1)	Raw and ancillary materials and consumables	-1,080,635
C II 5 ter	Deferred tax assets, due within the following year	301,497
P D 13)	Payables to welfare and social security org., due within the following year	-4,491
P D 14)	Other payables, due within the following year	-14,583
	IMPACT ON SHAREHOLDERS' EQUITY	-798,212

		Profit and loss account changes 2016
B) 11)	Changes in raw and anc. materials, consum. and goods	-1,080,635
B 9) a	Wages and salaries	-14,583
B 9) b	Social security contributions	-4,491
20	Deferred and prepaid taxes	301,497
	IMPACT ON FY 2016 RESULT	-798,212

Classification conventions

The following classification conventions were used when structuring the financial statements at 31 December 2017:

- a. Line items in the asset section of the balance sheet were classified on the basis of their 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.

The statement of cash flows was prepared in accordance with the layout indicated in accounting standard OIC 10, which reports the amount and breakdown of cash and

cash equivalents at the beginning and end of the year, and cash flows for the year from operating, investment and financing activities as required by Article 2425-ter of the Italian Civil Code.

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 and 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 indi-

vidual 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 according their remaining useful life.

Start-up and expansion costs are amortised over a period of five years. Any 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 recognised only if:

- it has been purchased, for up to the cost incurred,
- it arises from the consolidation process, to the extent permitted by impairment testing.

In the exceptional cases where its useful life cannot be estimated reliably, goodwill is amortised over a maximum period of ten years.

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.

Line items of the Financial Statements	Amortisation rate	Book value at 31 December 2017
Start-up and expansion costs		
Company organisation costs	20%	23,864
Industrial patent rights and intellectual property rights		
Licensed software	33%	387
Other intangibles		
Other multi-year costs	33%	0
Intangible fixed assets		24,251

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 the remaining useful life of the assets.

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

Line items of the Financial Statements	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%	498,287
Light constructions (B.II.1)	282,077	10.00%	32,283
Large plants and machinery (B.II.2)	27,564,275	8.00%	2,750,577
Annealing furnaces (B.II.2)	8,622,584	12.00%	881,481
General and specific plant assets (B.II.2)	7,680,912	5%-8%	599,111
Miscellaneous equipment (B.II.3)	258,780	15.00%	55,320
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%	4,262
Electronic machinery (B.II.4)	53,463	20.00%	13,547
Automobiles (B.II.4)	75,650	25.00%	24,596
Trucks and trailers (B.II.4)		20.00%	
Ordinary furniture and furnishings (B.II.4)	49,601	10%-15%	6,984
Fixed assets in progress and advance payments (B.II.5)	1,876,707		

With regard to property, plant and equipment 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 property, plant and equipment 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.

Equity investments and securities reported as fixed assets

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

Inventories

Inventories are measured at the lower of purchase or production cost and market value. The 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 value of ending inventories of base steel raw materials (slabs) was determined using the periodic LIFO method. As already mentioned in the paragraph “Financial statement preparation criteria and structure”, this method replaced the weighted

average cost method used until financial year 2016.

In this regard, note that if the base steel raw materials (slabs) had been measured at weighted average cost instead of the periodic LIFO method, there would have been a positive impact of about Euro 6.2 million on the profit for 2017 and the shareholder's equity at 31 December 2017 (without considering the related IRES and IRAP tax impact).

Ending inventories of semi-finished and finished products are measured at production cost calculated by adding processing costs to the cost of raw materials used in production 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.

Receivables

In general, receivables (both held as fixed and current assets) are recognised using the amortised cost criterion taking into account the time factor and estimated realisable value.

However, OIC 15, paragraph 33 specifies that this criterion need 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 need not be applied to components of items related to transactions that have not fully exhausted their impact on the

financial statements.

Thus, in these 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 foreign currency in the financial statements are measured on the basis of the exchange rates at the end of the year (31 December 2017). Exchange rate differences emerging from such valuation are allocated to the profit and loss account in line 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 deposits, 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 need 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 need not be applied to components of items related to transactions that have not fully exhausted their impact on the financial statements.

Thus, in these 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 foreign currency in the financial statements are measured on the basis of the exchange rates at the end of the year (31 December 2017). Exchange rate differences emerging from such valuation are allocated to the profit and loss account in line 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 from sales are recognised on an accrual basis, that is when both the following conditions are met:

- the goods have been manufactured; and
- title to the goods has been passed, which is when risks and benefits incidental to their ownership has been transferred. Thus, save as otherwise agreed regarding the transfer of risks and benefits:
 - a) in the case of movable assets, risks and benefits are transferred when the goods are shipped or delivered;
 - b) for goods that require notarisation (for instance properties), risks and benefits are transferred when the sale agreement is executed;
 - c) in the case of instalment sales with

retention of title, revenues are recognised upon delivery, regardless of the transfer of title, as article 1523 of the Italian Civil Code provides that the buyer becomes the owner with the payment of the last instalment of the price but assumes the risks upon delivery.

Revenues from services are recognised on an accrual basis, that is when the service has been rendered.

Financial income is recognised on an accrual basis, for the amount accrued in the period of reference.

Costs and charges

Costs related to the purchase of goods are recognised on an accrual basis, that is when both the following conditions are met:

- the goods have been manufactured; and
- title to the goods has been passed, which is when risks and benefits incidental to their ownership has been transferred. Thus, save as otherwise agreed regarding the transfer of risks and benefits:

a) in the case of movable assets, risks and benefits are transferred when the goods are shipped or delivered;

b) for goods that require notarisation (for instance properties), risks and benefits are transferred when the sale agreement is executed;

c) in the case of instalment sales with retention of title, costs are recognised upon delivery, regardless of the transfer of title, as article 1523 of the Italian Civil Code provides that the buyer becomes the owner with the payment of the last instalment of the price but assumes the risks upon delivery.

Service costs are recognised on an accrual basis, that is when the service has been rendered.

Financial expenses are recognised on an accrual basis, for the amount accrued in the period of reference.

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 taxes

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	Goodwill	Other intangible fixed assets	Total intangible fixed assets
Amount at beginning of the year					
Cost	42,113	46,864	50,000	7,925	146,902
Amortisation (Accumulated amortisation)	9,826	46,090	50,000	7,925	113,841
Book value	32,287	774	-	-	33,061
Changes during the year					
Amortisation for the year	8,423	387	-	-	8,810
Total changes	(8,423)	(387)	-	-	(8,810)
Amount at end of the year					
Cost	42,113	46,864	-	-	88,977
Amortisation (Accumulated amortisation)	-	46,477	-	-	46,477
Book value	23,864	387	-	-	24,251

Start-up and expansion costs and development 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
Company organisation costs	42,113	18,249	23,864	Capitalised expenses	Straight-line basis in 5 years
Total	42,113	18,249	23,864		

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
Amount at beginning of the year						
Cost	20,952,313	43,867,771	1,479,042	197,424	1,876,708	68,373,258
Depreciation (Accumulated depreciation)	612,234	4,775,211	201,753	54,837	-	5,644,035
Write-downs	2,875,287	-	-	-	921,354	3,796,641
Book value	17,464,792	39,092,560	1,277,289	142,587	955,354	58,932,582
Changes during the year						
Increases for purchases	171,710	786,276	175,910	17,766	236,324	1,387,986
Reclassifications (of the book value)	-	-	1,190	-	(34,000)	(32,810)
Decreases due to transfers and disposals (in the book value)	-	16,982	-	-	-	16,982
Depreciation for the year	530,570	4,231,169	191,511	49,389	-	5,002,639
Total changes	(358,860)	(3,461,875)	(14,411)	(31,623)	202,324	(3,664,445)
Amount at end of the year						
Cost	21,124,023	44,634,277	1,656,142	215,190	2,079,032	69,708,664
Depreciation (Accumulated depreciation)	1,142,804	9,003,592	393,264	104,226	-	10,643,886
Write-downs	2,875,287	-	-	-	921,354	3,796,641
Book value	17,105,932	35,630,685	1,262,878	110,964	1,157,678	55,268,137

Value reductions 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 HELD AS FIXED ASSETS

	Equity investments in other companies	Total equity investments
Amount at beginning of the year		
Cost	5	5
Book value	5	5
Amount at end of the year		
Cost	5	5
Book value	5	5

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	of which, portion with remaining term over 5 years
Receivables from others held as fixed assets	4,532	(32)	4,500	4,500	4,500
Total receivables held as fixed assets	4,532	(32)	4,500	4,500	4,500

BREAKDOWN OF RECEIVABLES HELD AS FIXED ASSETS BY GEOGRAPHIC AREA

Geographic area	Crediti immobilizzati verso altri	Totale crediti immobilizzati
ITALY	4,500	4,500
Total	4,500	4,500

VALUE OF FINANCIAL FIXED ASSETS

	Book value	Fair value
Equity investments in other companies	5	5
Receivables from others	4,500	4,500

BREAKDOWN OF VALUE OF EQUITY INVESTMENTS IN OTHER COMPANIES HELD AS FIXED ASSETS

Description	Book value	Fair value
CONSORZIO CONAI	5	5
Total	5	5

BREAKDOWN OF VALUE OF RECEIVABLES FROM OTHERS HELD AS FIXED ASSETS

Description	Book value	Fair value
MISCELLANEOUS SECURITY DEPOSITS	4,500	4,500
Total	4,500	4,500

CURRENT ASSETS

INVENTORIES

Current Assets	Amount at beginning of the year	Changes during the year	Amount at end of the year
I - Inventories			
Raw and ancillary materials and consumables	26,452,340	19,066,399	45,518,739
Work in progress and semi-finished products	2,459,950	3,998,921	6,458,871
Finished products and goods	10,479,369	3,179,505	13,658,874
Total inventories	39,391,659	26,244,825	65,636,484

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
II - Receivables				
Receivables from customers recorded in current assets	4,239,319	(876,468)	3,362,851	3,362,851
Receivables from parent companies recorded in current assets	517,107	(517,107)	0	0
Receivables from companies subject to control of parent companies recorded in current assets	53,011,418	(1,939,842)	51,071,576	51,071,576
Tax credits recorded in current assets	72,957	3,944,855	4,017,812	4,017,812
Deferred tax assets recorded in current assets	774,744	971	775,715	
Receivables from others recorded in current assets	2,109,806	(1,172,955)	936,851	936,851
Total receivables recorded in current assets	60,725,351	(560,546)	60,164,805	59,389,090

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 trade receivables	1,236,015	20,275	531,799	1,747,539
Total allowance for uncollectible receivables	1,236,015	20,275	531,799	1,747,539

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	Portion due after the year	of which, portion with remaining term over 5 years
Receivables from factoring companies	2,047,274	-1,150,355	896,919	896,919	0	0
Advances to suppliers	46,605	-28,286	18,319	18,319	0	0
Receivables from social security organisations	3,701	-1,896	1,805	1,805	0	0
Receivables from staff	1,802	-1,318	484	484	0	0
Receiv. from credit institutions for customer collections	10,059	-4,901	5,158	5,158	0	0
Other receivables	365	13,801	14,166	14,166	0	0
Total receivables from others	2,109,806	-1,172,955	936,851	936,851	0	0

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
E.T.A. Srl	52,612,554	-1,725,306	50,887,248	50,887,248	0	0
Marcegaglia Buildtech Srl	58,673	58,673	-	0	0	0
Marcegaglia Carbon Steel Spa	52,530	-11,056	41,474	41,474	0	0
Marcegaglia Specialties Spa	202,684	-59,830	142,854	142,854	0	0
Marfin Srl	84,977	-84,977	-	0	0	0
Total receivables from companies subject to control of parent companies	53,011,418	-1,822,496	51,071,576	51,071,576	0	0

BREAKDOWN OF RECEIVABLES RECORDED IN CURRENT ASSETS BY GEOGRAPHIC AREA

	Italy	Total
Receivables from customers recorded in current assets	3,362,851	3,362,851
Receivables from parent companies recorded in current assets	-	0
Receivables from companies subject to control of parent companies recorded in current assets	51,071,576	51,071,576
Tax credits recorded in current assets	4,017,812	4,017,812
Deferred tax assets recorded in current assets	775,715	775,715
Receivables from others recorded in current assets	936,851	936,851
Total receivables recorded in current assets	60,164,805	60,164,805

CASH AND CASH EQUIVALENTS

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Bank and postal deposits	310,505	(265,503)	45,002
Cash on hand and cash equivalents	1,414	(60)	1,354
Total cash and cash equivalents	311,919	(265,563)	46,356

ACCRUED INCOME AND PREPAID EXPENSES

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Prepaid expenses	547	4,827	5,374
Total accrued income and prepaid expenses	547	4,827	5,374

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Miscellaneous policies	0	4,257	4,257
Vehicle registration fee	485	0	485
Plant/equipment leases	62	570	632
Total prepaid expenses	547	4,827	5,374

NOTES TO FINANCIAL STATEMENTS - LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDER'S EQUITY

CHANGES IN SHAREHOLDERS' EQUITY ITEMS

	Amount at beginning of the year	Use of previous year result	Other changes		Profit (loss) for the year	Amount at end of the year
		Other uses	Increases	Decreases		
Share capital	35,000,000	-	-	-		35,000,000
Share premium reserve	1,027,637	-	-	-		1,027,637
Legal reserve	0	309,713	-	-		309,713
Other reserves						
Extraordinary reserve	0	5,086,344	-	-		5,086,344
Sundry other reserves	(1)	-	-	-		(1)
Total other reserves	(1)	5,086,344	-	-		5,086,343
Profit (loss) carried forward	(2,506)	-	2,506	-		0
Profit (loss) for the year	5,398,564	-	-	5,398,564	11,479,600	11,479,600
Total shareholders' equity	41,423,694	5,396,057	2,506	5,398,564	11,479,600	52,903,293

BREAKDOWN OF SUNDRY OTHER RESERVES

Description	Amount
Difference from rounding off	(1)
Total	(1)

AVAILABILITY AND USE OF SHAREHOLDERS' EQUITY

	Amount	Origin / nature	Potential uses	Available amount
Share capital	35,000,000	shareholders' contributions		-
Share premium reserve	1,027,637		A-B-C	1,027,637
Legal reserve	309,713	profit for the year	B	309,713
Other reserves				
Extraordinary reserve	5,086,344	profit for the year	A B C	5,086,344
Sundry other reserves	(1)	rounding off		-
Total other reserves	5,086,343			5,086,344
Total	41,423,693			6,423,694
Non-distributable amount				1,027,637
Remaining distributable amount				5,396,057

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

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

Description	Amount
Rounding to whole Euros	(1)
Total	(1)

PROVISIONS FOR RISKS AND EXPENSES

	Provision for post-retirement benefits and similar obligations	Provision for taxes, including deferred taxes	Total provisions for risks and expenses
Amount at beginning of the year	271,772	11,846,841	12,118,613
Changes during the year			
Provisions for the year	6,333	1,097,380	1,103,713
Usage for the year	27,354	(770,166)	(742,812)
Total changes	299,126	11,076,675	11,375,801
Amount at end of the year	271,772	11,846,841	12,118,613

BREAKDOWN OF PROVISION FOR POST-RETIREMENT BENEFITS 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
Agents' severance indemnity fund	262,354	81	26,798	0	289,071
Relationship termination indemnity reserve	9,418	6,252	6,889	0	10,055
Total	271,772	6,333	33,687	0	299,126

DETTAGLIO FONDO PER IMPOSTE DIFFERITE

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	11,846,841	1,097,380	327,214	0	11,076,675
Total	11,846,841	1,097,380	327,214	0	11,076,675

Uses of provision for deferred taxes, amounting to Euro 1,097,380, were due to the reversal in 2017 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 only refer to taxes payable on foreign exchange translation gains reported in the profit and loss account for the year.

EMPLOYEE SEVERANCE PAY

	Employee severance pay
Amount at beginning of the year	348,859
Changes during the year	
Provisions for the year	292,678
Usage for the year	300,861
Total changes	(8,183)
Amount at end of the year	340,676

The usage of the employee severance pay reserve is broken down as follows:

Uses during the year for severance pay and advance payments and for payment of substitute tax on the revaluation accrued during the year	Payments to supplementary 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
14,158	143,837	120,992	21,874	300,861

Amounts paid to supplementary pension funds 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, are recorded in item D) 13) “Payables to welfare and social security organisations”.

The employee severance pay reserve was therefore recognised net of said amounts.

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
Payables to banks	3,197,066	(2,272,864)	924,202	924,202
Advance payments	14,542	(14,542)	0	0
Trade payables	54,387,140	34,553,145	88,940,285	88,940,285
Payables to parent companies	34,001,944	(18,026,116)	15,975,828	15,975,828
Payables to companies subject to control of parent companies	1,289,695	(22,829)	1,266,866	1,266,866
Tax payables	772,275	140,250	912,525	912,525
Payables to welfare and social security organisations	442,482	(1,575)	440,907	440,907
Other payables	11,374,160	(3,304,672)	8,069,488	8,069,488
Total payables	105,479,304	11,050,797	116,530,101	116,530,101

Changes in payables are broken down in the following tables.

Detail of "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	10,761,709	-3,370,446	7,391,263	7,391,263	0	0
Payables to staff	600,554	58,804	659,358	659,358	0	0
Security deposits	0	0	0	0	0	0
Sundry payables	11,897	6,970	18,867	18,867	0	0
Total other payables	11,374,160	-3,304,672	8,069,488	8,069,488	0	0

Detail 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	477,581	-379,375	98,206	98,206	0	0
Made Hse Srl	134,554	-101,263	33,291	33,291	0	0
Marcegaglia Carbon Steel Spa	4,878	1,570	6,448	6,448	0	0
Marcegaglia Specialties Spa	662,458	338,348	1,000,806	1,000,806	0	0
Marcegaglia Romania Srl	374	320	694	694	0	0
Abaco Team Spa	9,850	1,970	11,820	11,820	0	0
Marcegaglia Poland Sp.z.o.o.	0	28,398	28,398	28,398	0	0
Marcegaglia Buildtech srl	0	17,961	17,961	17,961	0	0
Marcegaglia Deutschland GmbH	0	60,000	60,000	60,000	0	0
Marcegaglia Iberica sa	0	9,242	9,242	9,242	0	0
Total payables to companies subject to control of parent companies	1,289,695	-22,829	1,266,866	1,266,866	0	0

BREAKDOWN OF PAYABLES BY GEOGRAPHIC AREA

	Italy	EU	Other European countries	Africa Middle East	Asia Oceania	Total
Payables to banks	924,202	-	-	-	-	924,202
Advance payments	-	-	-	-	-	0
Trade payables	12,993,820	780,601	61,750,254	5,456,023	7,959,587	88,940,285
Payables to parent companies	15,975,828	-	-	-	-	15,975,828
Payables to companies subject to control of parent companies	1,170,075	68,112	28,679	-	-	1,266,866
Tax payables	912,525	-	-	-	-	912,525
Payables to welfare and social security organisations	440,907	-	-	-	-	440,907
Other payables	8,069,009	-	-	-	479	8,069,488
Payables	40,486,366	848,713	61,778,933	5,456,023	7,960,066	116,530,101

DEBT SECURED BY COLLATERAL ON COMPANY ASSETS

	Debt secured by collateral		Debt not secured by collateral	Total
	Debt secured by liens	Total debt secured by collateral		
Payables to banks	13,890	13,890	910,312	924,202
Advance payments	-	-	-	0
Trade payables	-	-	88,940,285	88,940,285
Payables to parent companies	-	-	15,975,828	15,975,828
Payables to companies subject to control of parent companies	-	-	1,266,866	1,266,866
Tax payables	-	-	912,525	912,525
Payables to welfare and social security organisations	-	-	440,907	440,907
Other payables	-	-	8,069,488	8,069,488
Total payables	13,890	13,890	116,516,211	116,530,101

In relation to the securitisation of trade receivables without notification, Marcegaglia Plates S.p.A. pledged with Unicredit Banca the current account held with this bank which, at 31 December 2017, had a balance of Euro 25.

It also pledged with Intesa San Paolo the current account held with this bank which, at 31 December 2017, had a balance of Euro 13,865.

ACCRUED EXPENSES AND DEFERRED INCOME

	Amount at beginning of the year	Changes during the year	Amount at end of the year
Accrued expenses	29,186	(29,145)	41
total	29,186	(29,145)	41

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	29,186	-29,186	0
Interest on Irap payments	0	41	41
Total accrued expenses	29,186	-29,145	41

NOTES TO FINANCIAL STATEMENTS - PROFIT AND LOSS ACCOUNT

VALUE OF PRODUCTION

BREAKDOWN OF REVENUES FROM SALES AND SERVICES BY BUSINESS CATEGORY

	Amount for current year
heavy plates	197,314,113
other iron and steel industry products	10,413,954
Total	207,728,067

BREAKDOWN OF REVENUES FROM SALES AND SERVICES BY GEOGRAPHIC AREA

	Amount for current year
Italy	75,552,364
EU	120,698,336
Other European countries	6,670,399
North America	4,526,602
South And Central America	58,771
Africa	221,595
Total	207,728,067

FINANCIAL INCOME AND EXPENSES

Breakdown of interest and other financial charges by type of payable

	Interest and other financial charges
Payables to banks	35,933
Other	1,749,661
Total	1,785,594

More details on 2017 financial charges:

Detail of item "Other"	Other
Interest due to banks and factoring entities	853,213
Other interest and financial charges	896,448
Total other financial charges	1,749,661

In 2017, no applicable financial charges were capitalised.

CURRENT, DEFERRED AND PRE-PAID INCOME TAXES FOR THE YEAR

Deferred taxes recorded in the financial statements at 31 December 2017 are summarised in the following tables.

Pre-paid 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 under examination.

For each of the below-indicated components, pre-paid 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 PRE-PAID TAXES AND RESULTING EFFECTS

	IRES	IRAP
A) Temporary differences		
Total deductible temporary differences	2,782,704	2,765,800
Total taxable temporary differences	40,042,397	37,602,541
Net temporary differences	37,259,693	34,836,741
B) Tax impact		
Provision for deferred (pre-paid) taxes at the beginning of the year	9,514,002	1,558,098
Deferred (pre-paid) taxes for the year	(571,673)	(199,464)
Provision for deferred (pre-paid) taxes at the end of the year	8,942,329	1,358,634

BREAKDOWN OF DEDUCTIBLE TEMPORARY DIFFERENCES

Description	Amount at end of previous year	Changes during the year	Amount at end of year	IRES rate	IRES tax impact	IRAP rate	IRAP tax impact
Foreign exchange translation loss	1,173,103	(1,169,096)	4,007	24.00%	962	-	-
2015 foreign exchange translation losses	1,173,103	-	1,173,103	-	-	-	-
Goodwill	6,640	(2,780)	3,860	24.00%	926	3.90%	151
Write-down of inventory	1,750,006	1,011,934	2,761,940	24.00%	662,866	3.90%	107,716
Association fees	12,897	-	12,897	24.00%	3,095	-	-

BREAKDOWN OF TAXABLE TEMPORARY DIFFERENCES

Description	Amount at end of previous year	Changes during the year	Amount at end of year	IRES rate	IRES tax impact	IRAP rate	IRAP tax impact
Foreign exchange gains	135,791	1,227,600	1,363,391	24.00%	327,214	-	-
2015 Foreign exchange translation gains	135,791	-	135,791	-	-	-	-
Revaluation of assets from contribution (IRES)	42,448,517	(3,769,511)	38,679,006	24.00%	9,282,961	-	-
Revaluation of assets from contribution (IRAP)	41,707,853	(4,105,312)	37,602,541	-	-	3.90%	1,466,499

STATEMENT OF EXPECTED RECOVERY OF DEFERRED TAX ASSETS AND LIABILITIES

Description	2018	2019	2020	2021	Beyond 2021 or unforeseeable	Total
A) Taxable temporary differences						
<i>IRES</i>						
foreign exchange translation gains	1,363,391					1,363,391
revaluation of assets Delta depreciation	3,775,473	3,842,686	4,019,075	4,156,715	22,885,057	38,679,006
	5,138,864	3,842,686	4,019,075	4,156,715	22,885,057	40,042,397
<i>IRAP</i>						
revaluation of assets Delta depreciation	4,076,252	4,075,258	4,070,036	4,065,776	21,315,219	37,602,541
	4,076,252	4,075,258	4,070,036	4,065,776	21,315,219	37,602,541
Total deferred taxes	1,392,302	1,081,180	1,123,309	1,156,177	6,323,708	11,076,676
B) Deductible temporary differences						
<i>IRES</i>						
foreign exchange translation losses	4,007					4,007
goodwill San Giorgio Nogaro business unit	2,780	1,080				3,860
inventory write-downs					2,761,940	2,761,940
Mauro Brogi compensation - 2015 resolution, 2017 payment						0
association fees	12,897					12,897
	19,684	1,080	-	-	2,761,940	2,782,704
<i>IRAP</i>						
goodwill San Giorgio Nogaro business unit	2,780	1,080				3,860
inventory write-downs					2,761,940	2,761,940
	2,780	1,080	-	-	2,761,940	2,765,800
Total pre-paid taxes	4,832	301	-	-	770,580	775,713

In compliance 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)

2017		
Statutory Profit (+) / Loss (-) before taxes	15,702,738	
Theoretical tax rate of 24% on statutory profit before taxes		3,768,657
Effect of increases (+) / decreases (-) on ordinary tax rate		IRES impact
Temporary increases	4,007	962
Temporary decreases	-1,363,391	-327,214
Absorption of temporary decreases	-1,261,211	-302,691
Absorption of temporary increases	4,930,133	1,183,232
Permanent increases	184,934	44,384
Permanent decreases	-278,987	-66,957
Total increases/decreases	2,215,485	531,716
Tax losses from previous financial years		0
Tax profit for the year	17,918,223	4,300,373

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.

As a result of participating in the tax consolidation scheme, Marcegaglia Plates S.p.A. contributed a taxable profit of Euro 17,918,223 to the group's overall income.

RECONCILIATION BETWEEN ACTUAL AND THEORETICAL TAX BURDEN (IRAP)

2017		
Difference between value and cost of production	11,451,194	
Costs not relevant for IRAP purposes	6,888,202	
Theoretical taxable income for IRAP	18,339,396	
Theoretical tax rate of 3.9% on theoretical taxable income for IRAP		715,236
Effect of increases (+) / decreases (-) on ordinary tax rate		IRAP impact
Temporary increases	-	-
Absorption of temporary increases	5,117,246	199,573
Absorption of temporary decreases	-2,780	-108
Permanent increases	442,003	17,238
Permanent decreases	-72,431,00	-2,825,00
Gross value of production (IRAP)	23,823,434	929,114
IRAP deductions	-6,031,117	-235,214,00
IRAP taxable income	17,792,317	693,900

NOTES TO FINANCIAL STATEMENTS - OTHER INFORMATION

EMPLOYMENT DATA

	Average number
Managers	1
Middle managers	1
Office workers	27
Factory workers	56
TOTAL EMPLOYEES	85

Below are the actual numbers of active employees at 31 December 2017:

	Actual number at end of year
Managers	1
Middle managers	1
Office workers	27
Factory workers	56
Other employees	
TOTAL EMPLOYEES	85

COMPENSATION, ADVANCES AND LOANS MADE TO DIRECTORS AND STATUTORY AUDITORS AND OBLIGATIONS ASSUMED ON THEIR BEHALF
In 2017 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 300,000, as per the resolution passed by the board of directors on 11 January 2017.

	Directors	Auditors
Compensation	300,000	36,400

COMPENSATION PAID TO AUDITOR OR INDEPENDENT AUDITOR

The Extraordinary Shareholders Meeting held on 27 November 2015 charged the audit firm MAZARS ITALIA Spa with the responsibility for statutory audits of the annual financial statements, in compliance with and for the purposes and effects of Article 14 of Legislative Decree No. 39 of 27 January 2010, for a period of 3 financial years, and consequently until approval of the financial statements for financial year 2017.

	Amount
Statutory audit of annual financial statements	39,805
Total compensation payable to auditor or independent auditor	39,805

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 interests in compliance with Article 2468 of the Italian Civil Code.

The Extraordinary Shareholders Meeting on 27 November 2015 decided to convert the Company from a limited liability company to a joint stock company, through the issuance of 35,000,000 ordinary shares of Euro 1.00 each.

Description	Initial balance, number	Initial balance, nominal value	Final balance, number	Final balance, nominal value
Ordinary shares	35,000,000	35,000,000	35,000,000	35,000,000
Total	35,000,000	35,000,000	35,000,000	35,000,000

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES NOT REPORTED IN THE BALANCE SHEET

	Amount
Guarantees	427,388,019

Detail:

	31 December 2017	31 December 2016
RISKS TAKEN BY THE COMPANY		
Sureties		
- to parent companies	426,923,819	425,724,803
- to other companies	464,200	0
Total sureties	427,388,019	425,724,803
Total guarantees	427,388,019	425,724,803
Total	427,388,019	425,724,803

INFORMATION ON 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.

INFORMATION ON SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

In the first quarter of 2018, the upward trend in demand continued with further increases in unit prices for both carbon and stainless steel products.

Marcegaglia Plates saw a slight decline in terms of shipped tons corresponding to 91,000 tons (-0.3% compared to 2017).

On the other hand, aggregate revenues increased to Euro 55.6 million (up almost Euro 5 million or approximately +9.3% compared to the first quarter of 2017).

Mark-up declined by 2.2% over 2017, but an improve is expected in future quarters in both absolute terms and in comparison with 2017, with improved year-end goals both in unit terms (Euro/ton) and in absolute value, and as a result of higher volume.

EBITDA and EBIT results for 2018 are expected to improve compared with the already strong results reported in 2017.

Company	Revenues (in Euro thousands)		
	Jan-Mar 2018	Jan-Mar 2017	Δ %
MARCEGAGLIA PLATES	55,636	50,910	9.3

Company	Quantity (tons)			MARK UP (in Euro thousands)		
	Jan-Mar 2018	Jan-Mar 2017	Δ %	Jan-Mar 2018	Jan-Mar 2017	Δ %
MARCEGAGLIA PLATES	91,905	92,217	-0.3	15,515	15,857	-2.2

COMPANIES THAT PREPARE FINANCIAL STATEMENTS FOR THE LARGEST/ SMALLEST GROUPING OF COMPANIES IN WHICH THEY PARTICIPATE AS SUBSIDIARIES

	Largest grouping	Smallest grouping
Company name	FINMAR SRL	MARCEGAGLIA HOLDING SPA
City (if in Italy) or foreign country	MANTUA	MANTUA
Tax ID No. (for Italian companies)	02466170202	02467550204
Place of filing of the consolidated financial statements	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 2016.

SUMMARY BALANCE SHEET OF THE COMPANY WITH MANAGEMENT AND COORDINATION RESPONSIBILITIES

	Latest financial year	Previous financial year
Date of latest approved financial statements	31 December 2016	31 December 2015
B) Fixed assets	118,222,828	119,967,439
C) Current assets	33,727	56,960
Total assets	118,256,555	120,024,399
A) Shareholders' equity		
Share capital	40,000	40,000
Reserves	28,888,180	15,136,058
Profit (loss) for the year	(1,781,212)	12,158,179
Total shareholders' equity	27,146,968	27,334,237
B) Reserves for risks and expenses	5,136	1,366
D) Payables	91,104,417	92,688,781
E) Accrued expenses and deferred income	34	15
Total liabilities and shareholders' equity	118,256,555	120,024,399

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 December 2016	31 December 2015
B) Production costs	49,694	120,805
C) Financial income and expenses	16,446	15,762,261
D) Value adjustments of financial assets	(1,744,193)	(3,298,468)
Income tax for the year	-	184,809
Profit (loss) for the year	(1,777,441)	12,158,179

PROPOSALS FOR ALLOCATION OF PROFITS OR COVERAGE OF LOSSES

The proposed allocation of the net profit of Euro 11,479,600.21 for the year is as follows:

- 5% or Euro 573,980.01 to the legal reserve;
- Euro 2,396,695.40 to the reserve for unrealised gains on exchange rates pursuant to Art. 2426(8-bis) of the Italian Civil Code;
- Euro 8,508,924.80 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 2017. In fact, using the exchange rates in effect at 13 April 2018, 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 1,025,000, with a similar improvement on the income for the year.

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

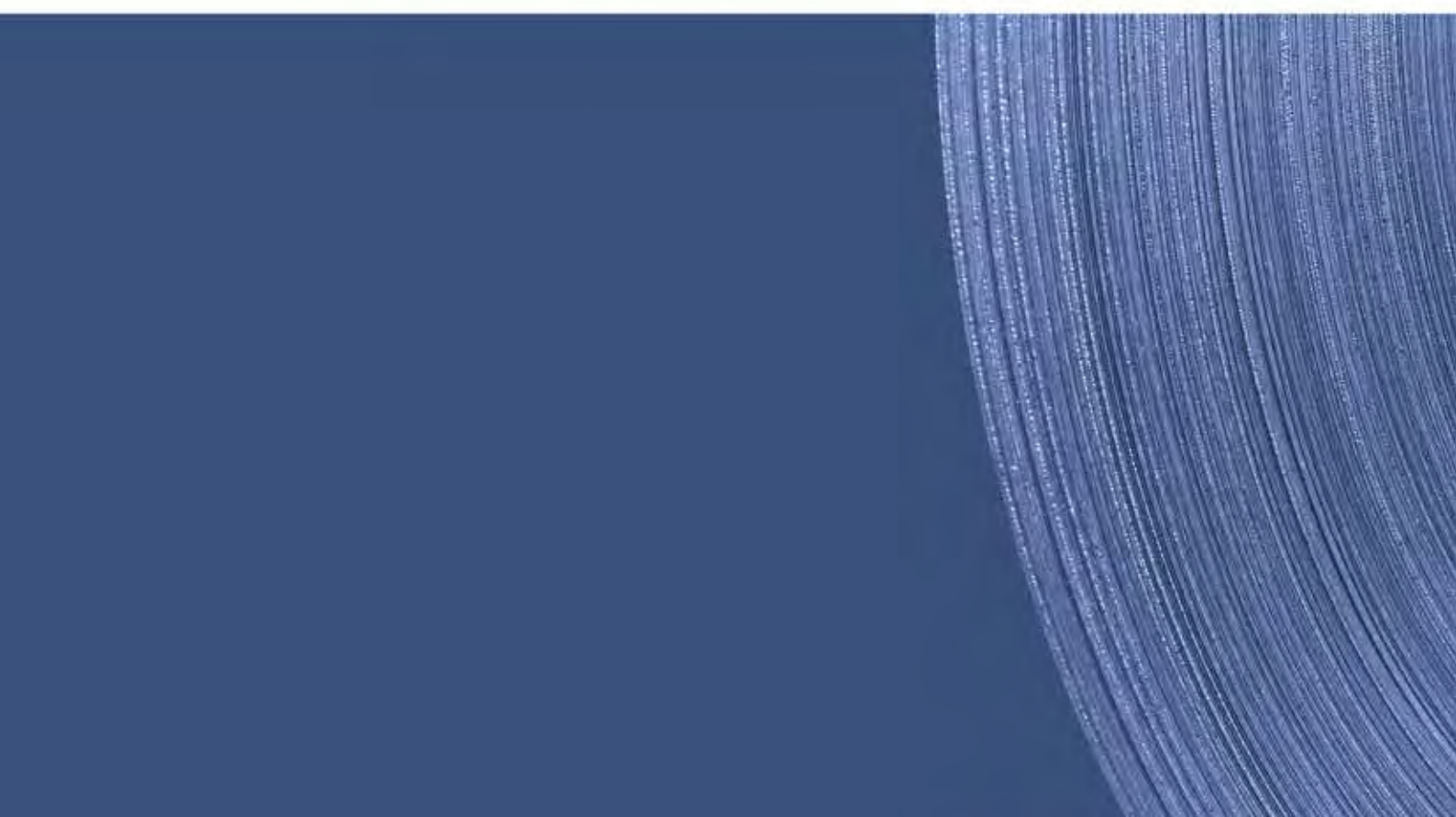
It is hereby stated that the valuation criteria reported herein conform to statutory regulations.

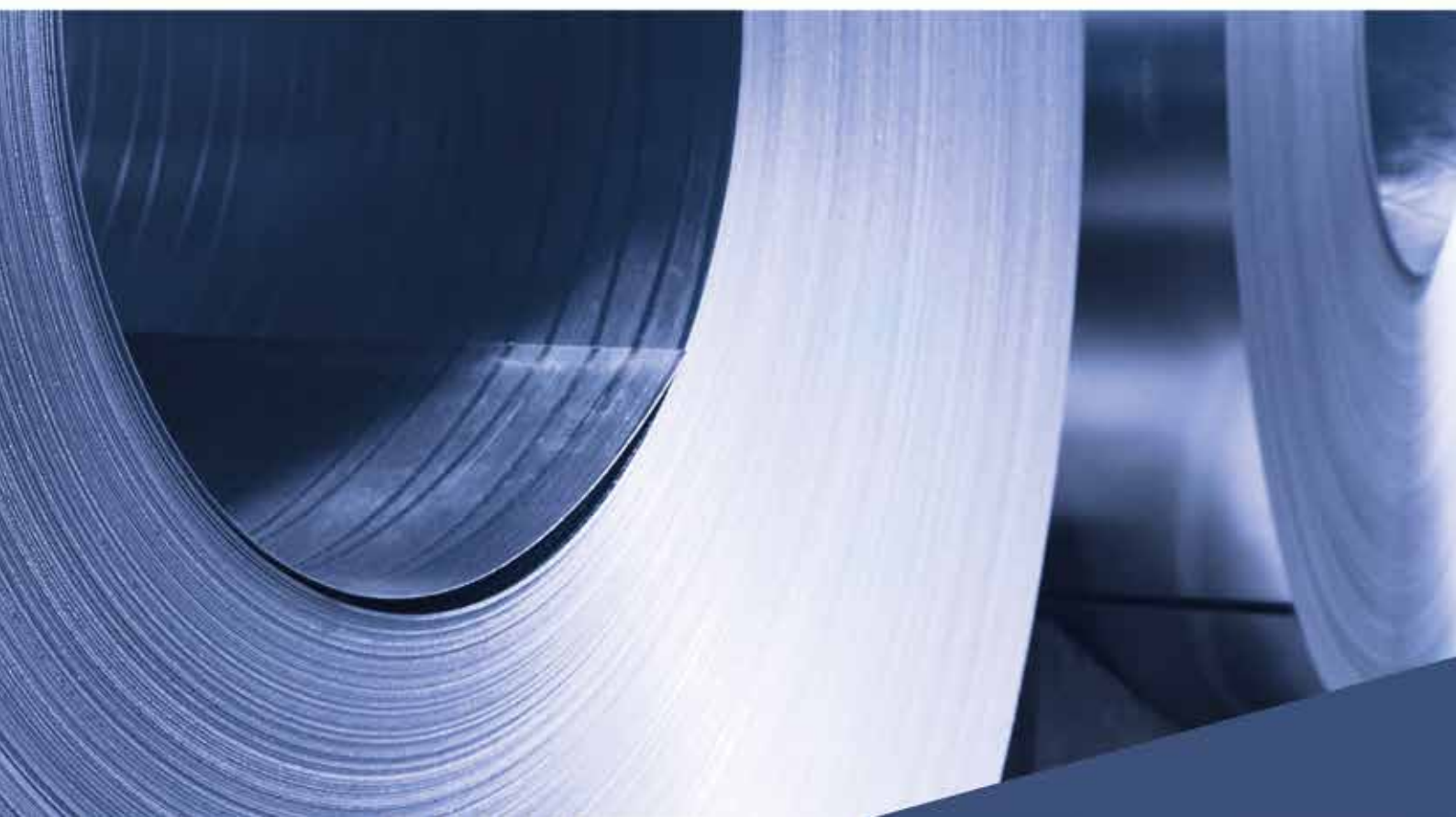
These notes, as well as the entire financial statements of which they are an integral part, provide a true and accurate picture of the company's financial and equity position and operating results for the year.

The reporting of the amounts required by Article 2427 of the Italian Civil Code was prepared in accordance with the clarity principle.

Gazoldo degli Ippoliti, 30 April 2018

Chairman of the
Board of Directors
Antonio Marcegaglia







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