YEAR

2017

FINANCIAL REPORT

FERALPI GROUP

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YEAR 2017 FINANCIAL REPORT

FERALPI GROUP

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A SPECIAL TRIBUTE GOES TO THE MEMORY OF THE FOUNDER CARLO PASINI AND HIS WIFE LIDIA CAMILLA SAVOLDI

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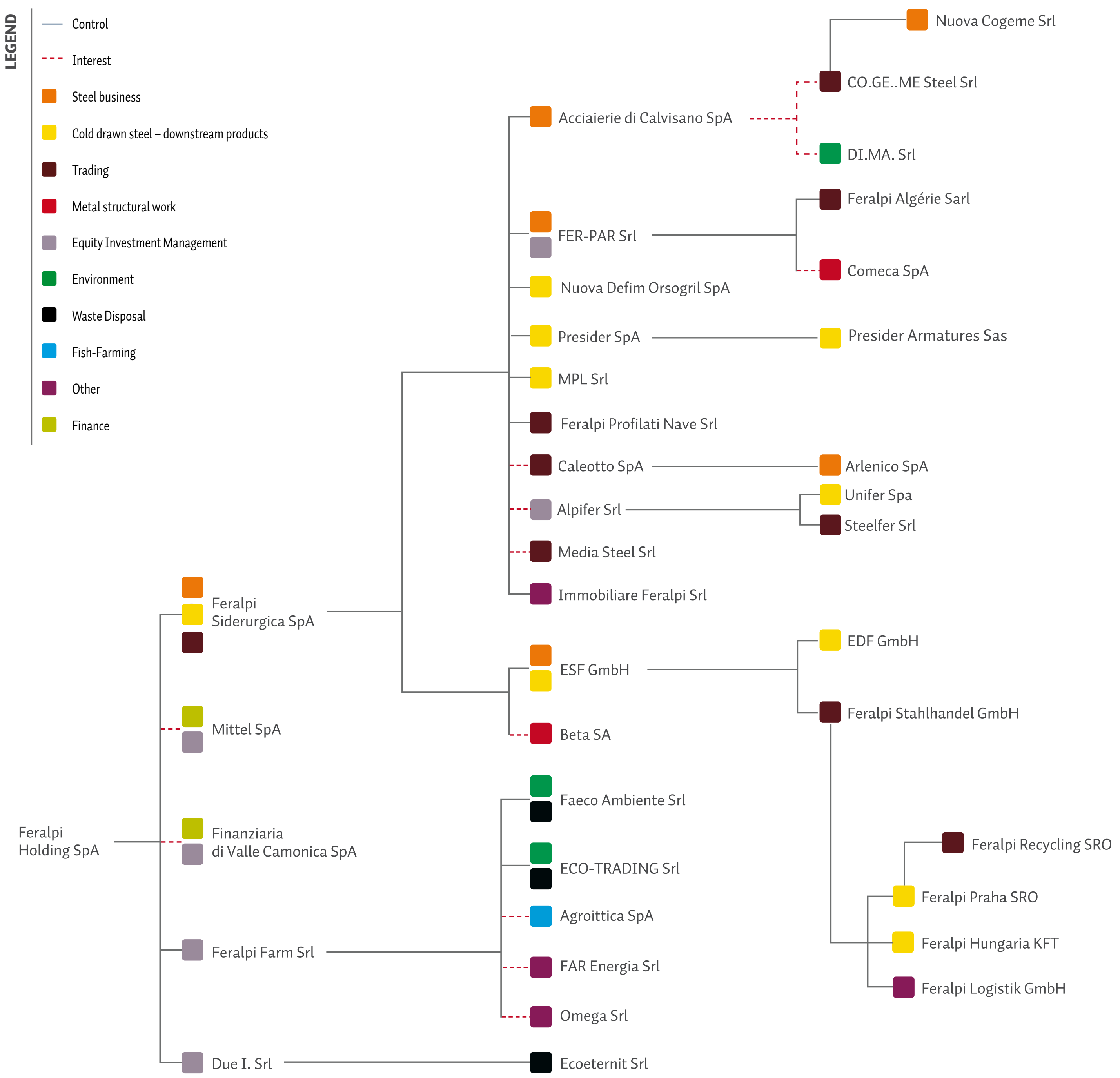
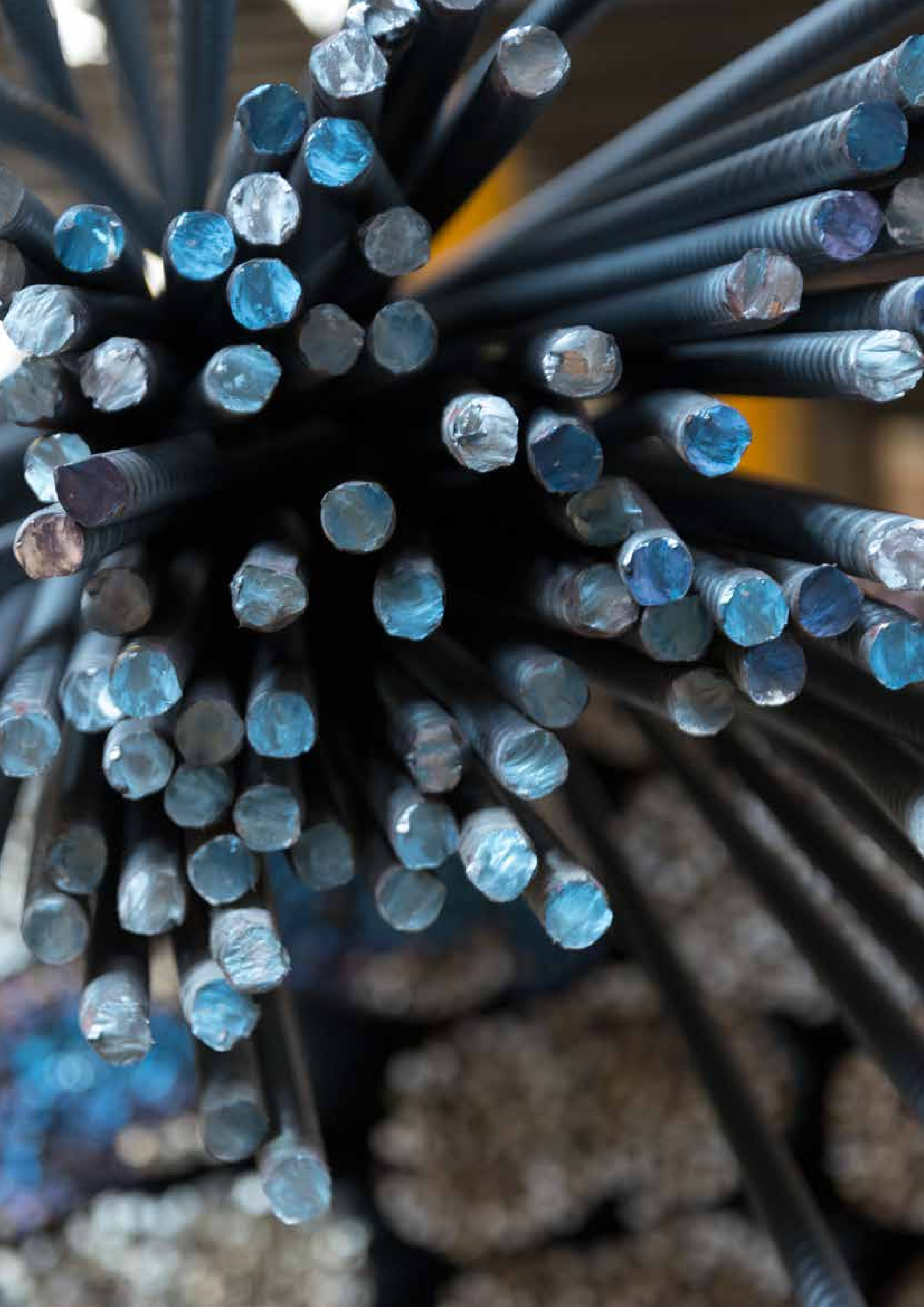
(CONSOLIDATED)

FERALPI SIDERURGICA SPA
(CONSOLIDATED)

STRUCTURE

FERALPI GROUP'S STRUCTURE 2018





KEY ECONOMIC FIGURES
KEY EQUITY AND FINANCIAL FIGURES

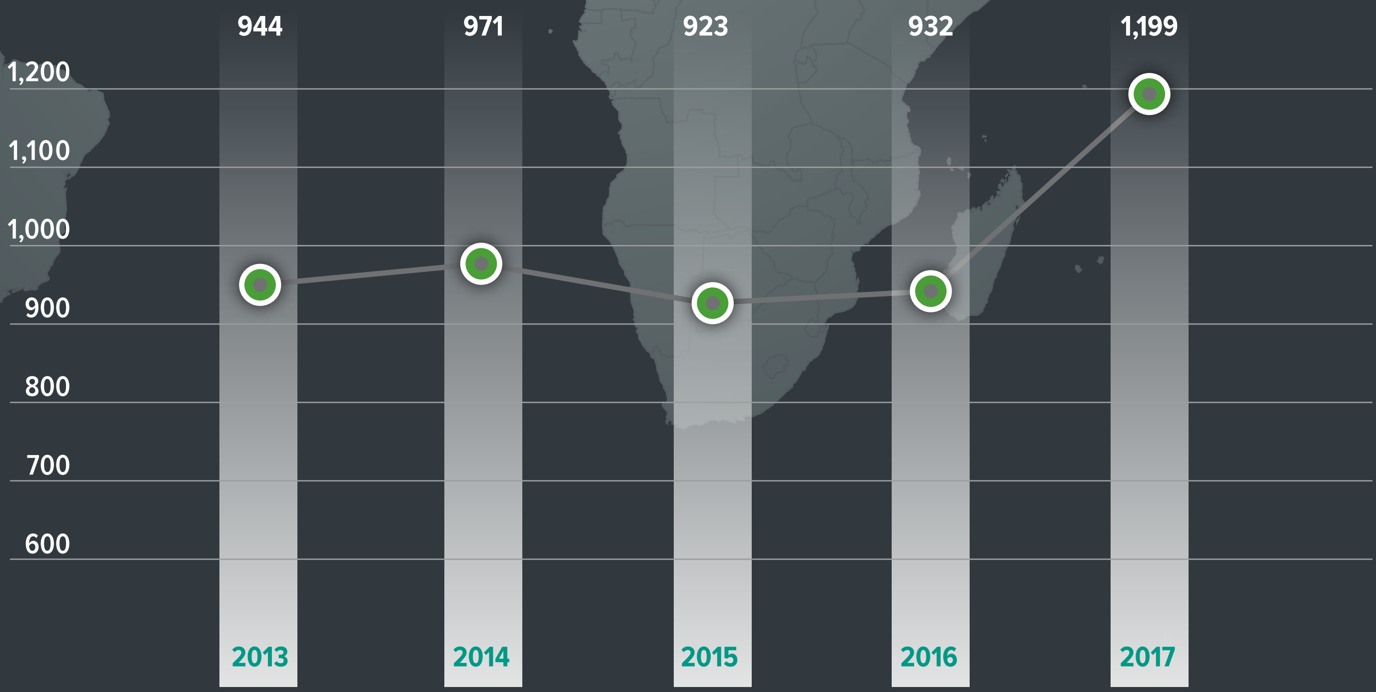
KEY ECONOMIC FIGURES	2015	2016	2017
Sales	922,898	932,002	1,198,970
Italy	(32%) 291,310	(32%) 295,124	(36%) 431,323
Exports	(68%) 631,588	(68%) 636,878	(64%) 767,647
Production value	932,864	944,321	1,244,835
Pre-tax result	6,907	53,197	50,574
Net result for the year	(1,541)	37,484	30,576
Depreciation, amortisation and write-off	(40,972)	(40,076)	(43,412)
Cash Flow	39,431	77,560	73,988
Ebitda	53,801	99,900	96,598
Ebit	12,829	59,824	53,186

(€/M)

KEY EQUITY AND FINANCIAL FIGURES	2015	2016	2017
Investments made	42,653	40,438	36,861
Net fixed assets	311,744	318,305	333,977
Net equity	361,845	398,531	423,525

(€/M)

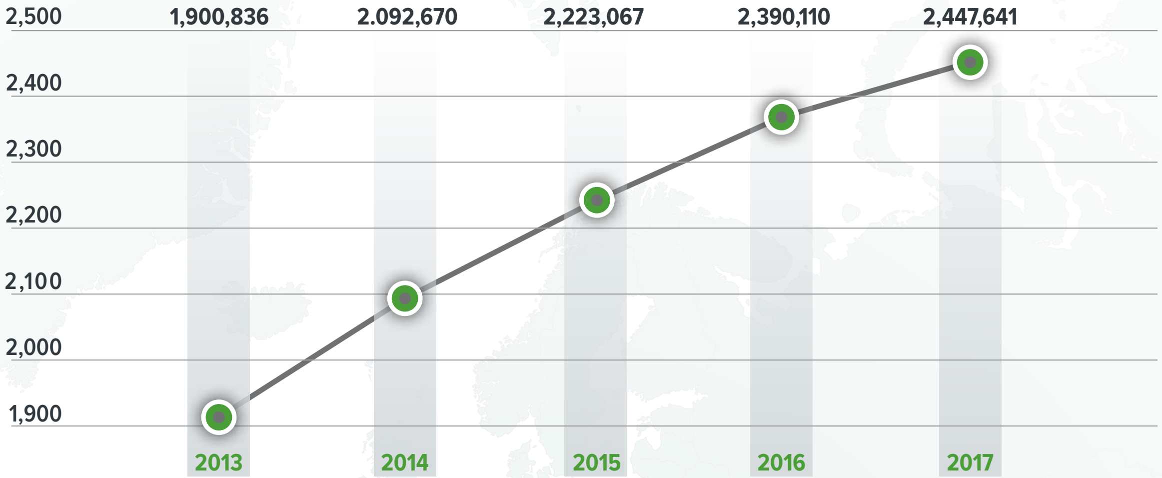
CONSOLIDATED SALES (€/M)



PRODUCTION

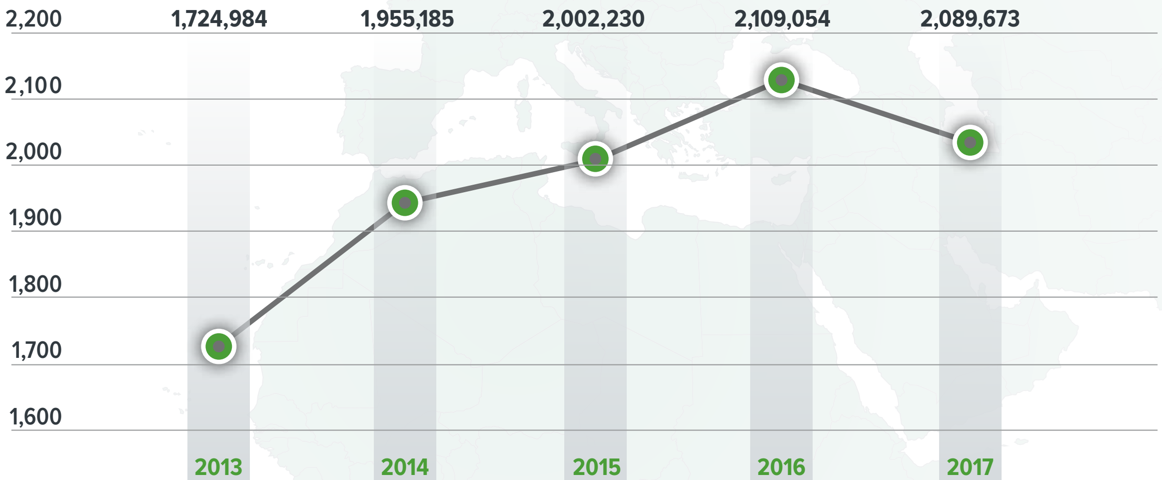
STEEL

STEEL BILLETS - (TONNES)



Feralpi Siderurgica SpA – Acciaierie di Calvisano SpA
ESF GmbH

REBAR, REINFORCING STEEL IN COILS AND WIRE ROD - (TONNES)



Feralpi Siderurgica SpA – ESF GmbH
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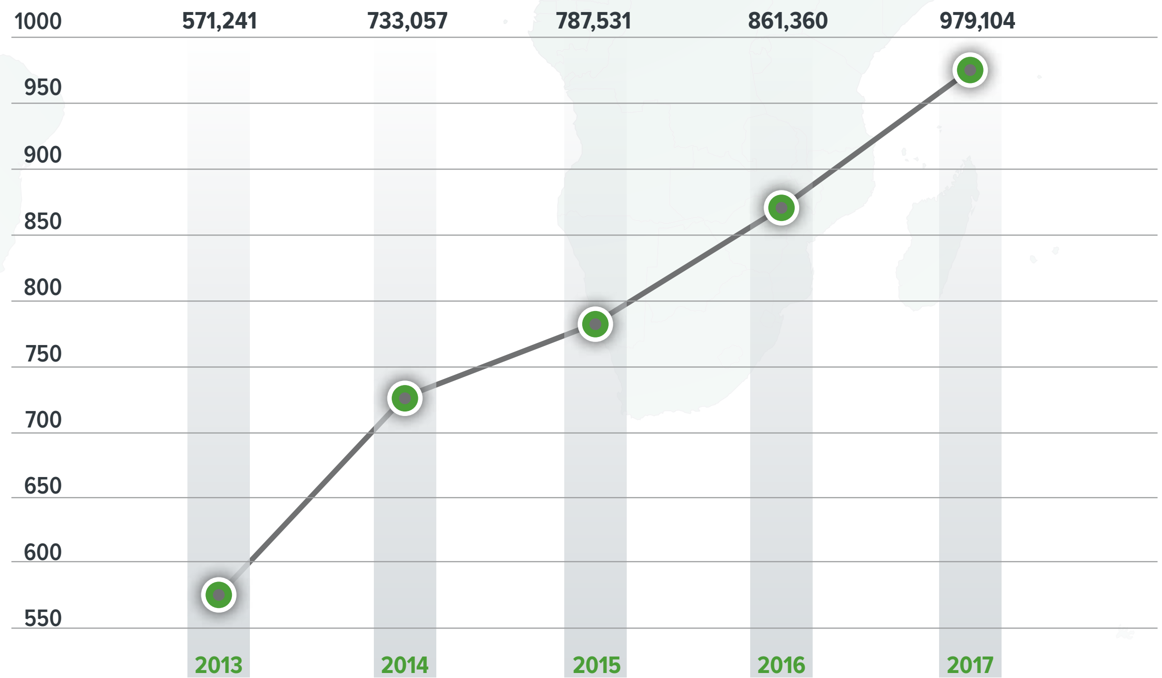
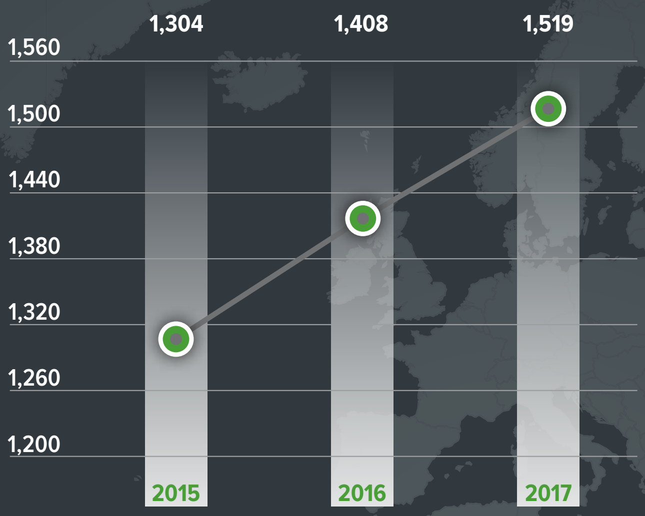
COLD AND OTHER DOWNSTREAM PROCESSES - (TONNES)

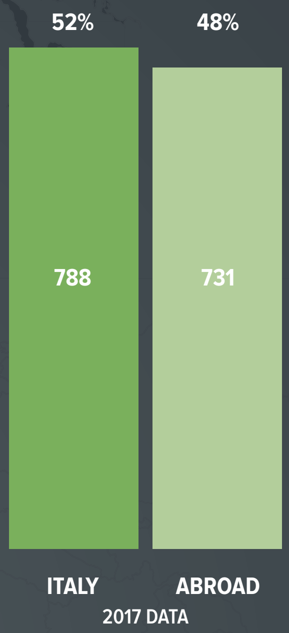


Feralpi Siderurgica SpA
Nuova Defim SpA – ESF GmbH – EDF GmbH
Feralpi Praga Sro – Feralpi Hungaria Kft

PERSONNEL

PERSONNEL AS AT 31/12





TRAINING HOURS

COMPANY	2015	2016	2017
Feralpi Holding	587	1,320	475
Feralpi Siderurgica	5,558	4,053	4,216
Acciaierie di Calvisano	5,169	1,961	1,470
Nuova Defim	878	1,549	1,592
Feralpi Profilati Nave*	-	-	44
Fer-Par	-	1,050	2,402
Presider**	-	-	608
MPL**	-	-	0
ESF	6,312	8,216	11,127
EDF	1,372	3,166	1,817
Feralpi Stahlhandel	71	65	40
Feralpi-Logistik	354	250	450
Feralpi Praha	498	454	337
Feralpi Hungaria	-	-	0
Feralpi Algérie	-	-	7
TOTAL	20,212	22,084	24,585

* formerly called “Dieffe S.r.l.”
** annualized figure (from 06/2017 company held by 100%)


Feralpi Group
EMAS
IQNet
IGQ






EMAS

Feralpi Siderurgica
IT - 001669
del 10.12.2014

Feralpi STAHL Riesa
DE - 144 - 00047
von 2.08.2012

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CERTIFICATIONS

FERALPI HOLDING SPA

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31/12/2017

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FINANCIAL STATEMENTS AS AT 31/12/2017
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Business Report
on the Consolidated Financial Statements as at 31st December 2017

To the Shareholders,

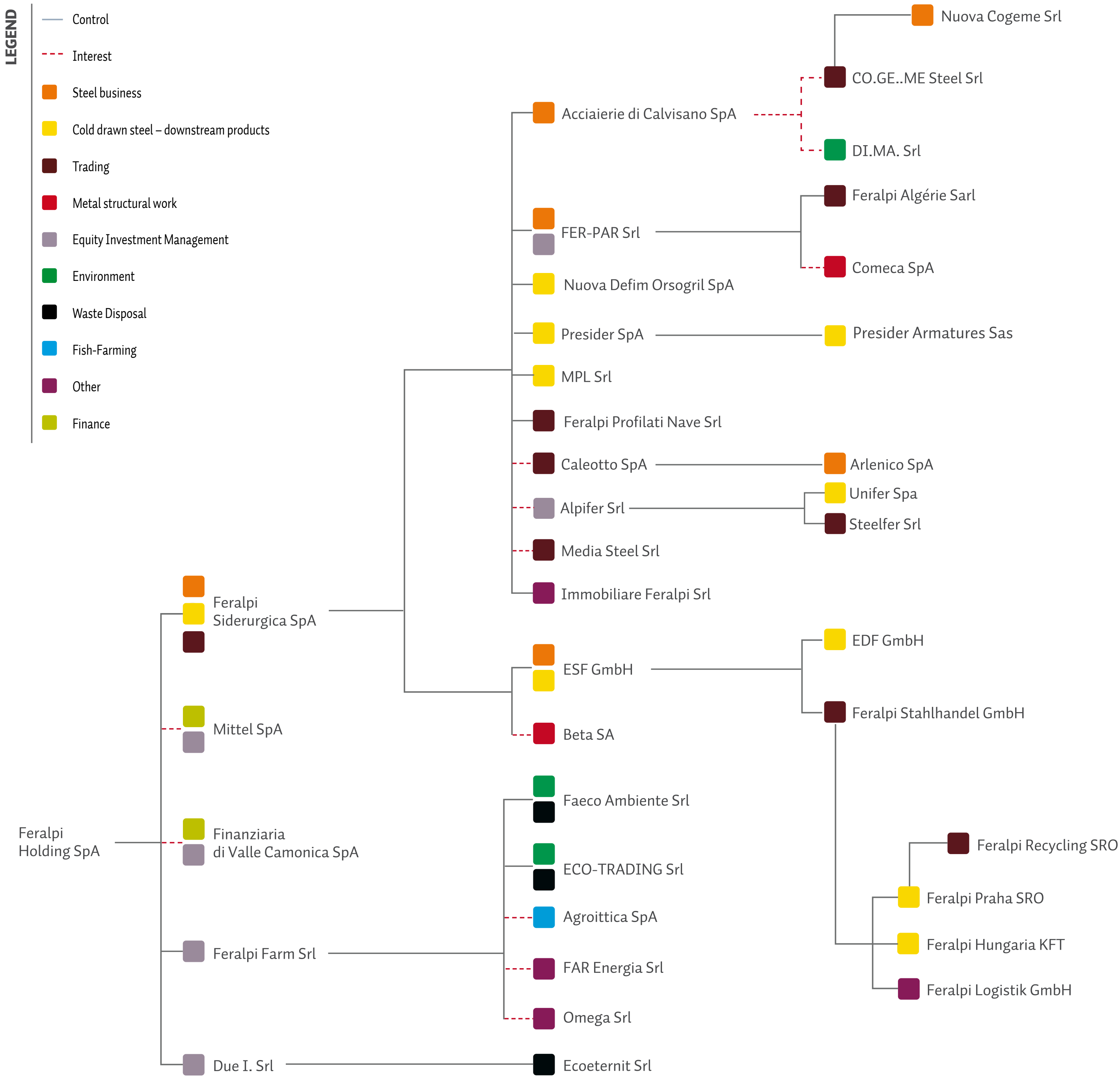
This Business Report on the Consolidated Financial Statements for the year ended 31.12.2017, was prepared in accordance with article 40 of Legislative Decree no. 127/91. It constitutes a source of information and support for the financial statements themselves, and aims to provide an overall picture of the companies included in the consolidation process, with specific reference to the management trends of the Group taken as a single economic unit.

The year which ended on 31.12.2017 shows **a positive result for the Group** amounting to €30 million and a turnover of €1,199 million.

A detailed examination of the figures in the Financial Statements is called for, following an analysis of the Group's structure.

The Group, which is controlled by Feralpi Holding, is essentially comprised of **two main areas**, one focusing on steel-making activities (**Steel business**) and one on environmental issues (**Diversified Holdings**), combining operations in the environmental sector and portfolio holdings.
The company organisation chart for the Feralpi Group as at 31.12.2017 is as follows.

COMPANY ORGANISATION CHART 2017



Group structure

Steel business

The Italian production hub consists of the following companies:

Feralpi Siderurgica S.p.A. – Italy (100% directly controlled)
The company, which is located in Lonato del Garda, to the east of Brescia, makes steel billets, rebar, reinforcing steel in coils, wire rod and downstream products, and is the main company in the group's Steel Business. It is also the Group's sub-holding for the steel sector and controls all the Italian and foreign subsidiaries.
The production site covers 433,100 m^2, including 99,300 m^2 indoors, and is served by a railway siding.

Acciaierie di Calvisano S.p.A. - Italy (100% owned by Feralpi Siderurgica S.p.A.)
The plant, which is located in Calvisano, to the south of Brescia, makes steel billets and common and quality steel blooms. Products are mainly sold on the Italian market. The production site covers 250,214 m^2, including 43,976 m^2 indoors.

Feralpi Profilati Nave S.r.l. - Italy (100% owned by Feralpi Siderurgica S.p.A.)
The company Dieffe S.r.l., after the takeover of operations under "Stefana" composition, changed its corporate name into Feralpi Profilati Nave S.r.l. The main activity is the marketing of steel sections.

Fer-Par S.r.l.- Italy (100% owned by Feralpi Siderurgica S.p.A.)
The company, which was set up in 2012, holds an equity interest in production and trading companies operating in the steel and structural work industry, such as ESF GmbH (2%), Comeca S.p.A. and Feralpi Algérie S.a.r.l.
The company also acquired the plant engineering line of business under the "Stefana" composition and works as subcontractor for Feralpi Profilati Nave S.r.l.

Nuova DE.FI.M. S.p.A. - Italy (100% owned by Feralpi Siderurgica S.p.A.)
The company, which is based in Alzate Brianza, near Como, manufactures custom mesh for the industry, safety and fencing mesh, and wire mesh for underwater pipelines. It also makes vertical and horizontal gratings for building construction and other applications under the Orsogril brand.

Immobiliare Feralpi S.r.l. - Italy (100% owned by Feralpi Siderurgica S.p.A.)
This company, which was set up in 2013 and was intended to be the Group's real estate company, received from Investimenti Sebino an industrial building situated in Pisogne, to the north of Brescia, and again in 2013 it acquired a second building in Anzano del Parco, near Como, that is currently leased to Nuova Defim.
In 2015, the company also acquired an industrial building in Odolo, to the north of Brescia. In 2016, it also acquired an industrial building in Nave (BS) from Stefana S.p.A. under composition proceedings.

Presider S.p.A. – Italy (100% owned by Feralpi Siderurgica S.p.A.)
The company is located at Borgaro Torinese (TO) and manufactures reinforcing steel in bar and coils for building sites for use in the construction industry. It covers a surface area of 38,285 m^2, of which 20,830 m^2 indoors, including the sheds and buildings.

The company also has a production plant in Maclodio (BS) covering 6,100 m^2 and one in Rome covering 21,624 m^2.

MPL Metallurgica Piemontese Lavorazioni S.r.l. – Italy (**100% owned by Feralpi Siderurgica S.p.A.**)
The company, which is based in Sito (TO), specialises in the manufacture of girders for use in building sites.

A breakdown of the **sales figures of the main Italian subsidiaries** is given in the table below.

(€,000)	2017	2016	*% change*
Feralpi Siderurgica S.p.A.	525,574	454,952	15.5%
Acciaierie di Calvisano S.p.A.	162,433	122,749	32.3%
Feralpi Profilati Nave S.r.l.	38,281	13,444	184.7%
Nuova Defim S.p.A.	34,771	25,868	34.4%
Fer Par S.r.l.	5,621	3,152	78.3%
Presider S.p.A.	90,955	81,142	12.1%
MPL S.r.l.	21,338	18,003	18.5%
Total	878,974	719,310	22.2%

The **Group's second production hub is based in Riesa,** in the region of Saxony, Germany. It comprises the following companies:

ESF Elbe-Stahlwerke Feralpi GmbH - Germany (98% owned by Feralpi Siderurgica S.p.A. and 2% by Fer-Par S.r.l.)

The company was set up in 1992 as part of the German Democratic Republic's process of privatizing steel production. It makes steel billets, rebar, reinforcing steel in coils and wire rod. Products are mostly sold in Germany and neighbouring countries, such as Belgium, Holland, the Czech Republic, Hungary and Poland.

The production site covers 607,000 m^2, including 153,000 m^2 indoors and is served by a railway siding.

ESF is also the parent company for German activities, under the brand Feralpi Stahl, and coordinates the activities of the subsidiaries in the Czech Republic and Hungary as well as those in Germany.

EDF Elbe-Drahtwerke Feralpi GmbH - Germany (90% owned by ESF and 10% by Feralpi Stahlhandel)
Founded in 2002, this company makes standard and customised drawn steel and electro-welded mesh mainly for the domestic market, thus completing the range of products for the German construction industry.

Feralpi Stahlhandel GmbH - Germany (66.67% owned by ESF and 33.33% by Feralpi Siderurgica S.p.A.)

The company markets and distributes the products of Feralpi Siderurgica, ESF and EDF in Germany, Holland, Belgium, Austria and Eastern Europe.

Feralpi Logistik GmbH - Germany (65% owned by Feralpi Stahlhandel GmbH and 35% by ESF GmbH)

The company owns the trucks normally used for the delivery of products made by ESF, EDF and third parties.

A breakdown of the **sales figures of the main companies in Germany** is given below.

(€,000)	2017	2016	% change
ESF GmbH	454,630	364,004	24.9%
EDF GmbH	101,476	89,795	13.0%
Feralpi Stahlhandel GmbH	10,681	6,745	58.4%
Feralpi Logistik GmbH	4,010	3,866	3.7%
Total	570,797	464,410	22.9%

In **Eastern Europe**, the Group controls companies operating in the Czech Republic and Hungary. They both hold market shares for products used in the domestic construction industry.

Feralpi Praha Sro – Czech Republic (100% owned by Feralpi Stahlhandel GmbH)
The company is located in Kralupy, near Prague. It makes drawn products and electro-welded mesh.

Feralpi Hungaria Kft - Hungary (100% owned by Feralpi Stahlhandel GmbH)
The company has a production plant in Budapest for the production of drawn products and electro-welded mesh.

Feralpi Recycling Sro – Czech Republic (90% owned by Feralpi Praha Sro)
This company does not carry out any production activity for the time being.

A breakdown of **sales figures of the main companies** is given in the table below.

(€,000)		*2017*	*2016*	*% change*
Feralpi Praha Sro	Czech Republic	22,250	20,251	9.9%
Feralpi Hungaria Kft	Hungaria	5,800	5,130	13.1%
Total		28,050	25,381	10.5%

The **Steel Business** also comprises the following companies:

Feralpi Algérie Sarl - Algeria (70% owned by Fer-Par S.r.l.)
This company was set up at the end of 2013 to strengthen the presence of products made by Feralpi Siderurgica and the other Group companies in North Africa, a market characterised by significant investments in infrastructures and with a high growth potential. It is based in Oran and sells rebar and electro-welded mesh.

(€,000)		*2017*	*2016*	*% change*
Feralpi Algerie Sarl	Algeria	10,659	3,678	189.8%
Total		10,659	3,678	189.8%

Presider Armatures Sas – France (99% owned by Presider S.p.A.)
Like the parent, this company manufactures shaped reinforcing steel in bar and coils for building sites. The Saint Soupplets-based production plant covers over 37,000 sq.m. The company has been in operation since 2018.

The tables below provide a summary of the activities carried out by the Group companies to give further information for the assessment of the **Steel Business.**

Production (in tonnes)

Steel billets	*Country*	*2017*	*2016*	*% change*
Feralpi Siderurgica S.p.A. - Lonato	Italy	1,072,878	1,071,325	0.1%
Acciaierie di Calvisano S.p.A. - Calvisano	Italy	407,201	369,706	10.1%
ESF GmbH - Riesa	Germany	967,562	949,079	1.9%
Total		*2,447,641*	*2,390,110*	*2.4%*

Finished products (Rebar – Reinforcing steel in coils – Wire rod)	*Country*	*2017*	*2016*	*% change*
Feralpi Siderurgica S.p.A. - Lonato	Italy	1.165.912	1.223.183	(4,7%)
Ferlpi Profilati Nave S.r.l.	Italy	60,847	29,346	107.3%
ESF GmbH - Riesa	Germany	892,914	885,871	(2,6%)
Total		*2,089,673*	*2,138,400*	*(2,3%)*

The situation regarding downstream conversion processes (**downstream products**) is detailed in the table below.

Cold-drawn steel	*2017*	*2016*	*% change*
Total cold-drawn steel - downstream products	979.104	861.360	13,7%

The following **non-controlling interests** come under the **Steel Business:**

Alpifer S.r.l. – Italy (50% owned by Feralpi Siderurgica S.p.A.)
Alpifer is a company holding a 100% interest in Unifer S.p.A. and Steelfer S.r.l.
The former manufactures and sells “special and cut-to-size” electro-welded mesh, the latter is a commercial company that distributes steel products.

Caleotto S.p.A. – Italy (50% owned by Feralpi Siderurgica S.p.A.)
Caleotto S.p.A. and its 100% subsidiary Arlenico S.p.A. are located in Lecco.
The company is active in the production and sale of quality wire rod to suit specific applications in numerous fields of industry, especially in the mechanical and automotive sectors.
It covers a surface area of 96,000 m^2, of which 47,000 m^2 indoors (sheds and buildings). The company is 50% owned by Feralpi Siderurgica and Duferco Italy Holding S.p.A.

CO.GE.ME Steel S.r.l. - Italy (50% owned by Acciaierie di Calvisano S.p.A.)
This company, jointly with its 100% owned Nuova Cogeme S.r.l., is based in Casalmaggiore, to the south of Cremona. It is a specialist manufacturer of hot rolled products for use in the building and the mechanical industry. It covers a surface area of around 40,000 m^2, of which 26,000 m^2 indoors (sheds and buildings)

Media Steel S.r.l. – Italy (45% 50% owned by Feralpi Siderurgica S.p.A.)
Media Steel, which is based in Montignoso, near Massa Carrara, is a brokerage company specialising in the procurement and sale of ferrous scrap in Italy and abroad. It is equally owned (45%) by Duferco Italy Holding S.p.A., the reminder stake is owned by the management.

DI.MA. S.r.l. – Italy (31% 50% owned by Acciaierie di Calvisano S.p.A.)
The company, which is based in Montichiari, to the south of Brescia, runs two facilities for the reuse of slag from the steelwork and other materials. The company has also established a plant in Calvisano (BS) for the reuse of slag and other materials.

Comeca S.p.A. – Italy (19.85% owned by Fer-Par S.r.l.)
This company, which is located in Lonato del Garda, to the east of Brescia, makes metal structures, especially complete installations or component parts for use in the steel industry. The main customers are Italian leading steel mills and also major world steel manufacturers.

Beta SA - Romania (28.35% owned by Feralpi Siderurgica S.p.A.)
Based in Buzau, the company makes metal structures for application mainly in the oil industry.

Ecology-Environment and Diversified Equity Investments

The following companies come under this line of business.

Feralpi Farm S.r.l. – Italy (100% owned directly by Feralpi Holding)
Established in 2014, following the spin-off of Fer-Par, this company holds interests in Faeco Ambiente, Eco-Trading, Agroittica, Far Energia and Omega.

Faeco Ambiente S.r.l. – Italy (70% owned by Feralpi Farm S.r.l.)
The corporate mission is to further develop activities in the environmental sector, in connection with the processing and recycling of waste

Eco-Trading S.r.l. – Italy (100% owned by Feralpi Farm S.r.l.)
The business purpose of this company is the trading of waste.

Agroittica Lombarda S.p.A. – Italy (45.32% owned by Feralpi Farm S.r.l.)
The company breeds, processes and sells various species of fish. It has two fish-farms in Calvisano (at Viadana and at Ca' Nove) in the province of Brescia. It has recently acquired the company Fjord, with the production plant located in Busto Arsizio, which produces and sells smoked products. The company has earned itself a name at an international level, mainly due to its production of caviar, and is the world's leading producer of caviar obtained from sturgeon in captivity. Other important products are fresh fish (mostly sturgeon) and smoked and frozen products.

Far Energia S.r.l. – Italy (20% owned by Feralpi Farm S.r.l.)
This company provides the supply, installation and maintenance services for waste-to-energy systems.

Omega Immobiliare S.r.l. – Italy (40% owned by Feralpi Farm S.r.l.)
This company operates in the property sector to enhance the value of its own sites in Montichiari, in the province of Brescia.

Due I. Investimenti S.r.l. – Italy (100% owned directly by Feralpi Holding)
This company acquires stakes in Italian and foreign companies and controls Ecoeternit S.r.l.

Ecoeternit S.r.l. – Italy (70% owned by Due I. Investimenti Industriali S.p.A.)
This company runs a landfill in Montichiari, to the south of Brescia, for the disposal of asbestos cement.

Feralpi Holding holds a direct interest in the following companies:

Mittel S.p.A. – Italy (1.876% interest)
This holding company is listed on the Milan Stock Exchange.

Finanziaria di Valle Camonica S.p.A. - Italy (3% interest)
An investment company dealing mainly in the property and energy sectors, with stakes in the bank and insurance sectors as well.

Highlights

An analysis of the **Income Statement** clearly show an increase in both turnover (28.5%) and the production value (+31.8%), which, in absolute terms, reached €1,199m and €1,244m respectively.
This result is partly due to the first-time inclusion of Presider S.p.A. and MPL S.r.l. in the scope of consolidation, which account for about 9 percentage points on turnover and the overall production value.
The rise in sales prices, driven in turn by the increase in raw materials, had a decisive impact, however.
The cost of raw materials grew to a more than proportionally (+33.7%) compared to revenue items.
In terms of impact on the production value, the increase is equal to 2 percentage points and reached 63.8%. This increase is offset by the reduction in the weight of other cost items, namely those relating to personnel expenses and amortization and depreciation, which are definitely less flexible.
A significant impact derives from sums allocated to the provision for contingent liabilities relating to the fine imposed to Feralpi Siderurgica S.p.A. (€29.4m) for alleged breach of Italian Antitrust rules.
This issue will be dealt with in other sections of this report.
The difference between the production value and production costs is lower than the 2016 figure, both numerically (€53.2m against €59.8m), and in percentage (4.3% against 6.3%).
Net of the allocation to the provision, the percentage incidence would be 6.6%, equivalent to €88.6m in absolute value.
The impact of financial income and expenses on the production value is insignificant at 0.28%.
The €2.2m negative value adjustments in 2016 currently show an operating surplus of about €1m, as a result of the improvement of associates not included in the consolidation scope.
Net of income taxes (around €20m), the operating result came at over €30m, slightly down on the previous year (over €37m).

An analysis of the **Balance Sheet** shows a marked increase in fixed assets (as a result of heavy technical investments in information technology).
Net tangible assets also increased significantly (€+15.7m), with a further rise in depreciation allowances (€39.5m).
Nearly €15m of tangible assets relates to the change in the consolidation scope and hence the incorporation of Presider S.p.A. and MPL S.r.l.., while the value of the item *associates* decreased.
The increase in equity interest in other companies is mainly associated with increase of the share in Metal interconnector (€6.2m) by Feralpi Siderurgica S.p.A. and Acciaierie di Calvisano S.p.A.
The impact of growth in the unit values of steel products determined the huge increase in *inventories* and *trade debtors*, thus generating an overall increase of around €150m in current assets.

Total assets exceeds one billion euros, with shareholders' equity reaching €423m, with a year-on-year increase of €25m.
Trade creditors (including payables owed to associates) totalled €281m (€211m in 2016). Net current assets increased from €125m to €201m.
Equity capital accounted for 103.7% of total non-current assets, while permanent sources was 138.2%, thus showing a further improvement in the financial structure.
Net Financial Position increased from €117m to €142m, with an incidence of medium/long-term loans of 67% of the total.
The Net Financial Position to EBITDA ratio was 1.13 (against 1.17 in 2016), despite an increase in overall debt relating to the inclusion of Presider S.p.A. and MPL S.r.l. in the consolidation scope.

The explanatory notes contain the **Cash Flow Statement** of the Group.
As can be seen, EBIT came to €47m, against €57m in the previous year, as a result, among other things, of the impact of the fine imposed by the Italian Antitrust commission. At a cash flow level, the impact is nullified, prior to changes in net current assets, allowing to reach €122.8m against €102m in 2016.
Changes in net current assets accounted for over €110m.
Cash flows from operating activities totalled €27.2m, mainly absorbed by investment activities (€54.6m). Net financial position worsened at €142m.

For a better understanding of the Group's operating result, a statement of the **reclassified Income Statement, Balance Sheet and Result Indicators** is given below.

Income Statement

Item	2017	%	2016	%
Production value	1,244,835		944,321	
Raw materials consumption	787,141		578,030	
General expenses	240,202		186,709	
Added value	217,492	17.5%	179,582	19.0%
Personnel expenses	83,118		75,310	
Provisions	32,222		2,969	
Gross operating margin	102,152	8.2%	101,302	10.7%
Depreciation, amortisaton & write-downs	42,390		38,606	
Net operating margin	59,762	4.8%	62,697	6.6%
Sundry operating expenses	6,576		2,873	
Operating income before financial results	53,186	4.3%	59,824	6.3%
Financial income	491		255	
Financial expenses	4,092		4,651	
Income net of financial operations	49,584	4.0%	55,428	5.9%
Revaluation of equity interests	1,958		507	
Impairment of equity interests	967		2,738	
Pre-tax result	50,574	4.1%	53,197	5.6%
Income tax	19,998		15,713	
Net operating result	30,576	2.5%	37,484	4.0%

Balance Sheet - Assets

Item	2017	%	2016	%
Current assets	379,971	37.5%	283,572	33.4%
Ready cash and cash equivalents	64,699	6.4%	56,483	6.7%
Cash and cash equivalents	64,699		56,483	
Deferred cash and cash equivalents	315,272	31.1%	227,089	26.7%
Subscribed capital unpaid	-		-	
Short-term current receivables	311,677		222,376	
Short-term non-current receivables	604		2,055	
Financial assets	802		802	
Prepayments and accrued income	2,190		1,856	
Inventories	199,404	19.7%	144,637	17.0%
Inventories	199,404		144,637	
Non-current assets	433,930	42.8%	420,728	49.6%
Intangible assets	12,534		10,260	
Tangible assets	333,977		318,305	
Financial assets	60,473		63,741	
Medium/long-term current receivables	26,947		28,422	
Total utilisation	1,013,305	100.0%	848,938	100.0%

Balance Sheet - Liabilities

Item	2017	%	2016	%
Minority interest	2,676	0.3%	2,954	0.3%
Current liabilities	448,455	44.3%	342,397	40.3%
Short-term payables	447,204		341,122	
Accruals and deferred income	1,251		1,275	
Consolidated liabilities	141,325	13.9%	108,010	12.7%
Medium/long-term liabilities	95,970		91,165	
Provisions for contingent liabilities and charges	37,047		8,649	
Provision for severance pay	8,309		8,195	
Shareholders' equity	420,849	41.5%	395,577	46.6%
Share capital	54,427		54,316	
Reserves	302,678		264,854	
Profit/(Loss) brought forward	33,746		39,446	
Profit/(Loss) for the year	29,998		36,961	
Total sources	1,013,305	100.0%	848,938	100.0%

Cash flow indicators	2017	2016
Availability margin (Current assets / Current Liabilities	130,920	85,812
Availability ratio (Current assets to Current Liabilities)	1.29	1.25
Cash flow margin (Def.cash + Ready Cash) - Current liabilitie:	(68,484)	(58,825)
Cash flow ratio (Def.Cash + Ready cash) to Current Liabilities	0.85	0.83

Soundness indicators	2017	2016
Primary structure margin (Equity - Non-current Assets	(13,081)	(25,151)
Primary structure ratio (Equity to Non-current Assets)	0.97	0.94
Sec. struct. margin (Equity+Cons.Liab.) - Non-Current Assets	128,244	82,858
Sec. struct. ratio (Equity to Cons.Liab.) - Non-Current Assets	1.30	1.20
Overall indebtedness ratio (Cons. Liab.+Curr.Liab.) to Equity	1.4	1.1

An in-depth analysis of the Group's business trend shows the situation of the companies belonging to the **Steel Business** as at 31.12.2017, as shown in the following table.

	% stake	Total shareholders ' equity	Group's shareholders 'equity 2017	Group's average equity 2017	Carrying value of equity investments	Difference	Net pro-quota result	ROE
Feralpi Siderurgica	100	178,376,343	178,376,343	176,521,580	64,931,961	113,444,382	8,745,175	5.0
Acciaierie di Calvisano	100	27,287,038	27,287,038	26,372,809	16,155,185	11,131,853	1,828,464	6.9
Feralpi Profilati Nave	100	7,988,264	7,988,264	7,746,374	7,804,991	183,273	483,781	6.2
Nuova Defim	100	4,080,317	4,080,317	3,511,589	4,456,000	(375,683)	1,137,451	32.4
Immobiliare Feralpi	100	174,979	174,979	103,279	550,000	(375,021)	(56,600)	(54.8)
Fer-Par	100	4,191,535	4,191,535	2,960,350	7,285,710	(3,094,175)	(2,537,631)	(85.7)
Comeca	19.85	8,605,849	1,708,261	1,704,375	335,862	1,372,399	5,977	0.4
Caleotto Gruppo	50	9,845,537	4,922,769	4,653,225	6,030,000	(1,107,232)	752,100	16.2
Presider	100	12,598,545	12,598,545	9,509,893	15,266,411	(2,667,866)	(457,687)	(4.8)
MPL	100	2,282,173	2,282,173	1,615,937	2,568,555	(286,382)	(125,286)	(7.8)
Alpifer	50	18,974,347	9,487,174	9,495,346	9,431,333	55,841	(16,369)	(0.2)
Feralpi Algérie	70	506,812	354,768	293,548	368,798	(14,030)	158,605	54.0
Co.ge.me Steel	50	280,002	140,001	70,001	1,200,000	(1,059,999)	(309,046)	(441.5)
ESF	100	139,238,049	139,238,049	136,673,527	10,696,836	128,541,213	34,779,730	25.4
EDF	100	29,118,215	29,118,215	27,184,323	1,500,000	27,618,215	3,867,785	14.2
Feralpi Stahlhandel	100	10,532,943	10,532,943	10,532,942	6,727,232	3,805,711	1,139,141	10.8
Feralpi Logistik	100	1,524,393	1,524,393	1,524,392	1,000,000	524,393	1,210,173	79.4
Feralpi Praha	100	8,362,217	8,362,217	7,643,578	3,110,594	5,251,623	1,006,473	13.2
Feralpi Hungaria	100	2,375,715	2,375,715	3,192,168	4,700,303	(2,324,588)	167,096	5.2
Dima	31	1,203,570	373,107	345,635	722,592	(349,485)	16,252	4.7
Media Steel	45	4,212,999	1,895,850	1,752,286	990,000	905,850	287,128	16.4
Beta	28.35	14,437,863	4,093,134	4,104,423	353,512	3,739,622	15,877	0.4
Total		486,197,705	451,105,789	437,511,578	166,185,875	284,919,914	52,098,589	11.9

The carrying value of the companies belonging to the **Steel Business** are significantly lower than the relevant shareholders' equity.
The Group's aggregate assets reached €451m, compared to €423.9m in 2016.

The **Ecology-Environment** and **Diversified Equity**, the carrying values of shareholders' equity are lower than assets.

	% stake	Total shareholders ' equity	Group's shareholders 'equity 2017	Group's average equity 2017	Carrying value of equity investments	Difference	Net pro-quota result	% ROE
Due I. Investimenti	100	3,004,027	3,004,027	2,496,805	991,432	2,012,595	1,030,607	41.3
Feralpi Farm	100	20,799,314	20,799,314	20,422,479	8,755,742	12,043,572	753,670	3.7
Faeco Ambiente	70	5,285,406	3,699,784	4,129,932	980,000	2,719,784	49,704	1.2
Ecoeternit	70	3,128,811	2,190,168	2,145,013	746,397	1,443,771	1,140,310	53.2
Eco-Trading	100	45,831	45,831	54,704	45,829	2	(17,748)	(32.4)
Agroittica	45.32	21,661,997	9,817,217	9,804,139	20,092,978	(10,275,761)	36,612	0.4
Far Energia	20	443,955	88,791	91,257	5,000	83,791	938	1.0
Omega	20	(205,758)	(41,152)	(19,113)	(82,303)	41,151	(44,076)	231
Total		54,163,583	39,603,980	39,125,214	31,535,075	8,068,905	2,950,017	7.5

At a consolidated level, the **results** are shown below.

	Group's shareholders'equity 2017	Group's average equity 2017	Net pro-quota result	% ROE
Total consolidated	423,525,286	411,027,930	29,998,336	7.3%

Overall, the **Group's Assets in 2017** totalled **€423.5m** versus a **net profit of about €30m**, with a ROE of **7.3%.**

Revenues and operating expenses

The **main revenues** are detailed in the table below.

Description	2017	2016	Change
Revenues from sales and services rendered	1,198,970	932,002	266,968
Other revenues and income	15,647	4,550	11,097
Total	1,214,617	936,552	278,065

The **main operating expenses** are detailed in the table below.

Description	2017	2016	Change
Raw materials, supplies and consumables	794,274	583,930	210,344
Services	236,791	183,813	52,978
Hire and lease fees	3,411	2,896	515
Personnel	83,118	75,310	7,808
Amortisation and depreciaton allowances	43,412	40,076	3,337
Change in inventories of raw materials	(7,133)	(5,900)	(1,233)
Other charges	6,576	2,873	3,703
Total	1,160,449	882,998	277,451

Financial management shows an unbalance of €3.6m.

Description	2017	2016	Change
From equity investments	48	65	- 17
Interest income from associates	130	54	76
Other financial income	313	137	176
Total financial income	**491**	**256**	**235**
Interest expense and other financial expenses	4,201	4,694	(493)
Total financial expenses	**4,201**	**4,694**	**(493)**
Exchange gains and losses	108	43	65
Total	(3,602)	(4,395)	793

Risk management

Disclosure pursuant to art. 2428, subsection 2, point 6-bis, of the Italian Civil Code

The Feralpi Holding Group mainly operates, through Feralpi Siderurgica, in the iron and steel industry, a sector that entails **various types of risk**:

- operational risks relating to the environment and health and safety in the workplace;
- business risks mainly relating to fluctuations in the price of raw materials and end products, and credit risk;
- financial risks relating to fluctuations in interest and currency rates.

Operation risks are dealt with in detail in the Business Report to the Consolidated Financial Statements of Feralpi Siderurgica, to which reference should be made.
Business risks are associated with more or less significant fluctuations in the price of end products and raw materials (mainly ferrous scrap and energy) in the short and long term. The long-term price trend for ferrous scrap tends to be in line with that of end products.
For **credit risk** management, the Group implements a credit insurance policy at a global level.

The **risk deriving from currency fluctuations**, which was very low as most transactions are handled in euro, is covered by swap agreements (by setting variable indices), as appropriate, or similar instruments when the risk arises. The Group also implements a selective currency rate hedging policy.

As regards the **Ecology–Environment and Diversified Equity Interests sector,** the main risk factor is virtually the one associated with changes to environmental laws and regulations and their interpretation and application by the surveillance bodies.

Antitrust fine

On 19 July 2017, the Competition and Markets Authority fined eight national steel companies, including Feralpi Siderurgica.
The amount imposed on all the companies totalled €142.7, of which €29.4m on Feralpi Siderurgica.
The fine is to be considered unfair and unacceptable in that the company was convinced of having always operated in compliance with legislation and the principles of transparency.
The charge was based on a complaint relating to the fortnightly reporting of market prices, by comparing supply and demand in public meetings, promoted by a public institution (the Brescia Chambe of Commerce).
This type of initiatives are regularly held at Chambers of Commerce, under the control of the Ministry of Economic Development, without being the subject of any complaint.
Feralpi Siderurgica has already lodged an appeal to the Regional Court (TAR), which is expected to settle the matter in the short term. At the same time the company requested to pay the fine in instalments, which was granted and, since November 2017, has been paying monthly amounts which will continue for thirty months.

Corporate Social Resonsibility

The CSR activities the Group performed in 2017 were geared along the guidelines given by the UN 2030 Agenda.
The international institution has outlined the Sustainable Development Goals, as part of a broader vision, dictated by the principles of integration, universality and participation.
The Group has therefore confirmed its vision, by identifying the preferential channels in which it applies its Corporate Social Responsibility.
More specifically, Feralpi focused on creating shared value for its stakeholders, moving along four directions: innovation and infrastructure, sustainable towns and communities, responsible production and consumption, the tackling of climate change.
All this is possible also thanks to a Corporate Governance that responsibly recognises its economic, environmental and social role, and hence has openly identified the creation of a tangible, widespread and long-lasting value, among paramount objectives.
Equitable, responsible and sustainable industrialisation is further enhanced through investments in operations, technologies and processes aimed at reducing the impact on the environment, strengthening the value that is created when an enterprise ideally combines sustainable development with the ability to be strong and competitive on all the targeted markets.
Health, environment, value for stakeholders, transparency, ethical standards, attention to the local community and expansion of stakeholders are just some of the cornerstones of Feralpi vision, an approach that is transferred and sustained by all the subsidiaries.
Among these, the focus on young people is a common denominator at a national and international level.
Every action taken by the parent company and each of its subsidiairies is organised, performed and disseminated among stakeholders in a transparent way, with an open and inclusive approach to encourage the sharing of ever increasing multi-stakeholder objectives.
The communication tools are created under this aegis.
The Group publishes and periodically releases news and information though both traditional (e.g. Verdeferalpi House Organ, leaflets, posters and notices…) and digital tools
The web sites www.feralpigroup.com and www.feralpi.de provide up-to-date information and ensure access to digital platforms reserved for customers, suppliers and employees.

Personnel

In the reporting period, the Group's **average workforce** rose y-on-y by 101.2 units, from 1,399.6 units in 2016 to 1,500.8 in 2017.
Most of the increase in personnel (over 70%) can be attributed to the takeover of Presider S.p.A. and MPL S.r.l. (formerly associated to the Group) in 2017.

The data relating to this acquisition have been annualized for comparison purposes.

Consolidated average figure	2017	2016	Change
Executives	27.4	22.8	4.6
Office workers and middle managers	421.6	346.7	74.9
Factory workers	1,051.8	1,030.1	21.7
Total	1,500.8	1,399.6	101.2

The end-of-period workforce increased y-o-y by **111 units**, with **1,519 employees as at 31.12.2017**, compared to 1,408 in 2016.
A breakdown by qualification and geographical area is given in the table below.

Number of employees at year end by category	2017	2016	Change
Executives	27	23	4
Office workers and middle managers	425	355	70
Factory workers	1,067	1,030	37
Total	1,519	1,408	111

Number of employees at year end by geographical area	2017	2016	Change
Italy	788	712	76
Abroad	731	696	35
Total	1,519	1,408	111

Training

The centrality of human capital finds concrete realisation in the training activities put in place with particular emphasis on corporate technical and organisational developments and the need for constant technical and professional updating.
As common feature to all Group companies, training activities relating to the health and safety in the workplace play a major role.

Training hours	2017	2017
Feralpi Holding	475	1,320
Feralpi Siderurgica	4,216	4,053
Acciaierie di Calvisano	1,470	1,961
Nuova Defim	1,592	1,549
Feralpi Profilati Nave*	44	
Fer-Par	2,402	1,050
Presider**	608	
MPL**	0	
ESF	11,127	8,216
EDF	1,817	3,166
Feralpi Stahlhandel	40	65
Feralpi-Logistik	450	250
Feralpi Praha	337	454
Feralpi Hungaria	0	-
Feralpi Algérie	7	-
Total	24,585	22,084

* formerly Dieffe Srl

** companies owned since 2017

An analysis of the number of training hours in each Group company shows a diversified scenario attributable to specific technical updating programmes of personnel and frequency of training on safety issues.

Last but not least, it should be noted that the reduction in training hours found in the parent Feralpi Holding is due to the completion of the extensive training activities put in place in 2016 for the implementation of the new ERP SAP management system.

As part of institutional activities, following the coming into force of legislative decree no. 231 of 8 June 2001, which first introduced in Italian legislation the concept of corporate "administrative responsibility" for businesses, the parent company Feralpi Holding S.p.A. and the most important Italian subsidiaries of the Group adopted their own Organisation, Management and Control Model, which identifies the risk processes and regulates how the various players must behave in each process of daily work.

This adjustment process is performed taking account of both the dictates of Italian Legislative Decree no. 231/01, and the specific initiatives already implemented by the Feralpi Group in relation to "*Corporate Governance*", based upon the company's acceptance of CSR (*Corporate Social Responsibility*).
The parent company Feralpi Holding S.p.A. and its Italian major Italian subsidiaries constantly supplement and update their Models. The review of the Organisational Models, currently in force, was approved by the respective Boards of Directors, or equivalent bodies, of most of the Group companies during 2017. The latest update is a consequence to the "risk assessment" activity, which entailed the need to update the Organisational Models, following the entry into force of measures regarding certain crimes in relation to the administrative liability of corporate entities under Legislative Decree 231/2001, namely the new self-laundering crime (Law no. 186/2014), the extension of measures regarding crimes against the environment (law no. 68/2015) and changes to rules regarding crimes against the public administration, and corporate criminal liability, including so-called false statement in relation to financial accounts (Law no. 69/2015).
The updated version of the Organisational Model also takes into account the entry into force of Law no. 199/2016, whose art. 25-quinquies of Legislative Decree no. 231/2001 introduced the new crime of unlawful intermediation and labour exploitation, known as the "Caporalato", which punishes those who uses, hires or employs labour, subjecting the workers to exploitative conditions.
Some regulatory changes of potential interest to the Group have been introduced, including the provisions of legislative decree no. 38 of 15 March 2017, which came into force on 15 April 2017, regarding bribery among individuals, the main one being:

- ✓ the new formulation of bribery among private individuals (art. 2635 of the Italian Civil Code), a crime that entails the administrative liability of entities, pursuant to art. 25-ter of Legislative Decree no. 231/2001, in which the offense is considered as a crime of mere conduct (or danger), i.e. without the provision of a damage event.
- ✓ the introduction of the independent crime of "instigation to bribery among private individuals (art. 2635-bis of the Italian Civil Code), thereby the active subject is prosecuted even when the offer or promise of money or other benefits to perform unloyal action towards own company is not accepted by the passive subject of bribery.

Following the introduction of these changes to the type of crime in Legislative Decree no. 231/2001, the company is currently conducting risk assessment activities.

Following the introduction of these changes to the type of crime in Legislative Decree no. 231/2001, the company is currently conducting risk assessment activities.

On the basis of the findings, the company is assessing the appropriateness of the organisational, management and control models already adopted to prevent the occurrence of such new crimes and, whenever an unidentified risk profile emerges, the Models are updated by creating or adding monitoring procedures and protocols, if the existing ones are inadequate. Act no. 179 of 30 November 2017 (effective since 29 December 2017) on "whistleblowing" also introduced the new subsection 2-bis, of art. 6 of Legislative Decree 231/2001, pursuant to which, the organisational models adopted must provide for the activation of one or more channels allowing the reporting of proven illicit conduct, to protect the integrity of the entity, relevant to the offences envisaged therein and based on factual and concordant facts, or violations of the organisational and management model, which have come to knowledge when performing own tasks. These channels must guarantee the confidentiality of the identity of the reporting person when handling the report and at least it must be possible to ensure the privacy on computerized means. Appropriate changes to existing models are in progress and the company is assessing the reporting channels most convenient to comply with statutory provisions.

Business outlook

The European economy shows signs of recovery and is expected to confirm the brilliant performance of 2017, which clearly has a strong impact on steel-using sectors.
The table below shows the forecasts regarding the construction industry and **steel-using sectors.**

	% on total consumption	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Q2 19	Q3 19	Q4 19	2019
construction	35	3.6	2.1	3.0	2.6	2.8	2.7	2.6	1.8	1.9	2.2
mech. engineering	14	4.8	4.8	3.8	2.7	4.0	2.8	2.3	1.9	2.2	2.3
automotive	18	2.1	2.2	2.4	0.6	1.8	0.4	1.0	1.0	0.7	0.8
domestic appliances	3	3.8	5.2	3.8	4.1	4.2	2.1	1.6	2.7	2.2	2.1
other transport	2	1.0	3.8	3.4	3.0	2.7	3.3	2.5	1.5	2.5	2.5
pipes	13	-1.5	-2.3	1.5	3.6	0.2	1.0	1.7	0.2	-0.1	0.7
metal items	14	5.6	5.4	3.7	2.9	4.4	1.9	1.8	2.1	2.4	2.1
miscellaneous	2	2.1	4.0	3.5	2.1	2.9	2.8	1.4	0.6	1.4	1.6
total	**100**	**3.1**	**2.7**	**2.9**	**2.3**	**2.8**	**2.0**	**2.0**	**1.8**	**1.7**	**1.9**

Source: Eurofer

As can be seen from the above table, the growth is significant, though at a slower pace than in 2017. The market trend in the steel industry is thus expected to be upwards.

Germany and France (among the Group's main target markets) continue to show extremely positive trends.

As regards **Italy,** a real recovery in the industry is again postponed. Apart from the changes in decimal points, the economic climate is precarious, with private investments in residential and non-residential buildings virtually absent.
Public investments are affected by budgetary difficulties, especially in the absolutely inefficient regulatory and management system.
Clearly, the political uncertainties do not help to sort out the situation.

In such a contradictory scenario, the Group continues pursue its policy aimed at increasing its presence in sectors other than construction in order to reduce its dependence and, at the same time, gain a foothold in sectors characterized by higher added value.
In support of traditional activities in the construction sector, the Group has recently developed an increasingly effective presence in outlet markets.
The acquisition of Presider S.p.A. and the equity interest in Alpifer S.r.l. has undoubtedly contributed to improving the competitive edge in this segment. The presence on foreign markets has also been strengthened, as a result, among other things, of the foreseeable structural slowdown on the Algerian market.
The Ecology, Environment and Diversified Equity Investment line and the relevant business lines are showing a favourable trend.
Ecoeternit S.r.l. is developing its business with excellent results.

Following the recent acquisition of the Fjord S.p.A.'s smoked line of business, Agroittica Lombarda S.p.A. has caught good opportunities of growth, which are shared by some of other minority interest companies.
Overal, the Group boasts human, technological and financial resources to support the achievement of strategic objectives.
The 2017 operating results are clear proof of this.

Number and par value of own shares owned through Feralpi Farm S.r.l.

Treasury shares account for 0.99% of the share capital, equal to 497,250 of a par value of €1,027,529.

The Chairman
Giuseppe PASINI

The Vice-Chairman
Cesare PASINI

The Managing Director
Giovanni PASINI

Board Directors
Maria Giulia PASINI

Marco LEALI

Andrea TOLETTINI

Alessandra TOLETTINI

Guido CORBETTA

Lonato del Garda, 24th May 2018

CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO EU DIRECTIVE IV: FERALPI HOLDING S.p.A. AS AT 31ST DECEMBER 2017

(figures expressed in thousands of euros)

BALANCE SHEET

ASSETS				31.12.2017	31.12.2016
A			Subscribed capital unpaid, with separate indication of called-up portions:		
B			Fixed assets:		
	I		Intangible assets:		
		1	Incorporation and extension costs	2	33
		2	Research, development and publicity costs	23	-
		3	Patents and rights for use of intellectual property	2,534	307
		5	Goodwill	1,707	30
		6	Works in progress and down payments	339	1,831
		7	Others	7,930	8,060
			Total intangible assets	12,534	10,260
	II		Tangible assets:		
		1	Land &buildings	165,435	156,559
		2	Plant & equipment	136,635	134,549
		3	Trade & industrial fixtures	826	526
		4	Other assets	8,599	8,499
		5	Work in progress & down payments	22,481	18,172
			Total tangible assets	333,977	318,305
	III		Long term financial assets, with separate indication for each item of amounts collectable within 12 months		
		1	Equity interests:		
		b)	Associates	40,909	50,861
		d)	Other companies	12,039	5,365
			Total equity interests	52,949	56,226
		2	Accounts receivable		
		b)	from associates		
			less than 12 months	604	2,055
			over 12 months	7,500	7,500
			Total receivables from associates	8,104	9,555

	d-bis)	from other lenders		
		over 12 months	24	15
		Total receivables from other lenders	24	15
		Total financial receivables	8,128	9,569
	3	Other securities	802	802
		Total financial assets	61,879	66,597
		Total fixed assets	408,390	395,163
C		Current assets		
I		Inventories		
	1	Raw materials, supplies & consumables	74,936	52,736
	2	Work-in-progress & semi-finished products	22,984	11,388
	4	Finished products and goods	101,483	80,271
	5	Payments of account	-	243
		Total inventories	199,404	144,637
II		Accounts receivable, with separate indication for each item of the amounts collectable within 12 months		
	1	from trade debtors		
	a)	less than 12 months	262,519	165,651
	b)	over 12 months	-	3,809
		Total trade debtors	262,519	169,460
	3	from associates		
	a)	less than 12 months	21,091	21,898
	b)	over 12 months	-	-
		Total receivables from subsidiaries	21,091	21,898
	5-bis	crediti tributari		
	a)	less than 12 months	14,071	9,482
	b)	over 12 months	3	-
		Total tax assets	14,074	9,482
	5-ter	Tax assets		
	a)	less than 12 months	467	218
	b)	over 12 months	26,931	24,599
		Total prepaid tax assets	27,398	24,817

	5-quater	from others		
	a)	less than 12 months	13,078	24,679
	b)	over 12 months	13	13
		Total receivables from others	13,091	24,692
		Total receivables	338,173	250,348
	III	Financial assets other than fixed assets:		
	6	Other securities	450	450
		Total financial assets	450	450
	IV	Cash and cash equivalents		
	1	Bank and postal deposits	64,683	56,465
	2	Cheques	8	14
	3	Cash on hand	7	5
		Total cash and cash equivalents	64,699	56,483
		Total current assets	602,726	451,919
D		Prepayments and accrued income		
	1	Prepayments and accrued income	2,190	1,856
		Total prep.& and accrued income	2,190	1,856
		Total assets	1,013,305	848,938

BALANCE SHEET
LIABILITIES

			31.12.2017	31.12.2016
A		Shareholders' equity		
I		Share capital	50,000	50,000
II		Share premium reserve	516	516
III		Revaluation reserves	138	138
IV		Legal reserve	3,772	3,662
V		Statutory reserves	-	-
		Total shareholders' equity and reserves	54,427	54,316
VI		Other reserves, indicated separately		
	1	Extraordinary reserve	16,038	15,595
	2	Capital reserves	-	-
	3	Special tax system reserves	-	-
	4	Non-distributable profit reserve	-	-
	5	Consolidation reserve	287,628	250,623
	6	Currency translation reserve	361	(69)
	7	Capital contribution reserve	-	-
	8	Other reserves	-	-
	9	Accelerated depreciation reserve	-	-
	10	Reserve for financial statements in euros	-	-
		Total other reserves	304,027	266,148
VII				
	1	Expected cash flow hedging reserve	(321)	(267)
VIII		Profit/(Loss) brought forward	33,746	39,446
IX		Profit/(Loss) for the year	29,998	36,961
		Total shareholders' equity	421,877	396,604
X		Reserve for treasury share	(1,028)	(1,028)
		Total minority interest	2,676	2,954
		Total shareholders' equity	423,525	398,531

B		Provisions for contingent liabilities and charges		
	1	Retirement benefits and similar indemnities	1,321	1,133
	2	Taxes, including deferred taxes	546	1,600
	3	Financial derivatives liability	430	332
	4	Others	34,750	5,585
		Total provisions for cont. liabilities and charges	37,047	8,649
C		Provision for employees' severance pay	8,309	8,195
D		Payables with separate indication of amounts falling due within 12 months		
	2	convertible bonds		
		a) less than 12 months	10,000	-
		b) over 12 months	347	10,000
		Total convertible bonds	10,347	10,000
	3	Shareholders' loans		
		a) less than 12 months	-	210
		Total Shareholders' loans	-	210
	4	Bank borrowings		
		a) less than 12 months	111,451	92,610
		b) over 12 months	95,219	80,832
		Total bank borrowings	206,670	173,443
	6	Down payments		
		a) less than 12 months	621	47
		Total down payments	621	47
	7	Trade creditors		
		a) less than 12 months	230,334	168,819
		b) over 12 months	-	38
		Total trade creditors	230,334	168,857
	10	payables to associates		
		a) less than 12 months	51,056	42,128
		b) over 12 months	-	-
		Total payables to associates	51,056	42,128
	12	Tax liabilities		
		a) less than 12 months	18,155	11,534
		Total tax liabilities	18,155	11,534
	13	Social security liabilities		
		a) less than 12 months	3,979	3,921
		Total social security liabilities	3,979	3,921

	14	Other payables		
		a) less than 12 months	21,609	21,852
		b) over 12 months	404	295
		Total other payables	22,013	22,147
		Total payables	543,174	432,287
E		Accruals and deferred income		
	1	Accruals and deferred income	1,251	1,275
		Total accruals and deferred income	1,251	1,275
		Total liabilities	1,013,305	848,938

INCOME STATEMENT			31.12.2017	31.12.2016
A		Production value:		
	1	revenue from goods sold and services rendered	1,198,970	932,002
	2	changes in inventories of WIP, semi-finished and finished products	27,601	5,488
	4	increase in fixed assets from internal work	2,616	2,280
	5	other revenue and income		
	a)	contributions in trading account	1,940	432
	b)	others	13,707	4,118
		Total other revenue and income	15,647	4,550
		Total production value	1,244,835	944,321
B		Production costs:		
	6	for raw materials, supplies, consumables and goods	794,274	583,930
	7	for services	236,791	183,813
	8	for hire, purchase and leasing charges	3,411	2,896
	9	for personnel:		
	a)	wages and salaries	61,648	56,725
	b)	social security contributions	16,817	15,296
	c)	employees leaving indemnity allowance	2,245	1,883
	d)	retirement benefits and similar rights	11	31
	e)	other costs	2,396	1,374
		Total personnel expenses	83,118	75,310
	10	depreciation, amortisation & write-downs:		
	a)	amortisation of intangible assets	2,928	1,415
	b)	depreciation of tangible assets	39,463	37,191
	d)	write-downs of receivables under current assets and cash and cash equivalents	1,022	1,470
		Total depr., amortisation & write-downs	43,412	40,076
	11	changes in inventories of raw materials, supplies, consumable and goods	(7,133)	(5,900)
	12	provision for contingent liabilities	29,451	150
	13	other provisions	1,749	1,349
	14	other charges	6,576	2,873
		Total production costs	1,191,649	884,497
		Difference between production value and costs	53,186	59,824
C		Financial income and expenses		
	15	Investment income, with separate indication of those referring to subsidiaries and associates and to parent companies and entities under parent control		
	b)	from associates	-	54
	e)	from other companies	48	65
		Total income from equity investments	48	119

16		Other financial income		
	a)	receivables entered under non-current assets, with separate indication of those referring to subsidiaries and associates and to parent companies and entities under parent control		
		from associates	25	20
		from others	105	2
		Total long-term investments under non-current assets	130	22
		from others	312	115
		Total income other than previous ones	312	115
		Total other financial income	442	137
17		Interest and other financial expenses, with separate indication of those referring to subsidiaries, associates and parent companies		
	d)	from others	4,200	4,693
		Total interest and other financial expenses	4,200	4,693
17-bis		Exchange gains and losses	(108)	(43)
		Total financial income and expenses	(3,602)	(4,395)
D		Adjustments to the value of financial assets and liabilities		
18		Revaluations		
	a)	equity interests	1,935	507
	d)	financial derivatives	22	-
		Total revaluations	1,958	507
19		Impairments		
	a)	equity interests	953	2,738
	d)	financial derivatives	14	-
		Total impairment	967	2,738
		Total adjustments to the value of financial assets and liabilities	990	(2,231)
		Pre-tax result		
		Pre-tax result	50,574	53,197
T		Income tax for the year		
20		Current, deferred and prepaid income taxes		
	a)	current	19,968	15,731
	b)	deferred	(142)	(87)
	c)	prepaid	172	69
		Total income taxes for the year	19,998	15,713
21		Profit (loss) for the year		
		Consolidated operating result for the year	30,576	37,484
V		Result for the Group		
22		Minority interest result	578	523
		Result for the Group	29,998	36,961

Cash Flow	Current Year	Previous Year
A. Cash flows generated by operating activities (indirect method)		
Profit (loss) for the year	30,576	37,484
Income taxes	19,998	15,731
Interest expenses (interest income)	(3,602)	4,353
(Dividends)	(48)	(119)
(Capital gains)/capital losses from the sale of assets	-	(430)
1. Profit (loss) for the year before income taxes, interest, dividends and capital gains/losses from the sale of assets	46,924	57,019
Adjustments for non-cash items that had no contra-entry in net working capital		
Allocations to provisions	33,445	3,383
Non-current asset amortisation and depreciation	42,390	38,606
Write-downs for impairment losses	(990)	2,231
Other adjustments for non-cash items	1,022	672
Total adjustments for non-cash items	*75,867*	*44,892*
2. Cash flow before changes in net working capital	122,791	101,911
Changes in net working capital		
Decrease/(increase) in inventories	(54,767)	(11,849)
Decrease/(increase) in trade receivables	(94,081)	(41,284)
Increase/(decrease) in trade payables	62,050	55,335
Decrease/(increase) in accrued income and prepaid expenses	(334)	94
Increase/(decrease) in accrued expenses and deferred income	(25)	(620)
Increase/(decrease) infragroup transactions	9,735	(8,682)
Other changes in net working capital	(33,093)	(3,490)
Total changes in net working capital	*(110,513)*	*(10,496)*
3. Cash flow after changes in net working capital	12,278	91,415
Other adjustments		
Interest received/(paid)	(4,395)	(5,155)
(Income taxes paid)	15,713	(8,425)
Utilisation of provisions	3,604	(3,130)
Total other adjustments	14,921	(16,710)
4. Cash flow after other adjustments	27,199	74,705
Cash flow from operating activities (A)	27,199	74,705

B. Cash flows generated by investment activities		
Tangible assets		
(Investments)	(55,134)	(43,752)
Realizable price of divestments		430
Intangible assets		
(Investments)	(5,202)	(2,999)
Realizable price of divestments		
Financial assets		
(Investments)	4,268	(11,501)
Realizable price of divestments		
Financial assets other than fixed assets		
(Investments)	1,441	-
Acquisition or transfer of subsidiaries or business units net of cash		
Cash flows generated by investment activities (B)	(54,627)	(57,822)
C. Cash flows generated by funding activities		
Loan capital		
Increase in short-term borrowings from banks	24,925	(6,476)
Opening of loans	34,500	35,000
Loan repayment	(18,200)	(18,000)
Equity		
Shareholders' loan		
Extraordinary transactions (merger by incorporation)	(582)	
Dividends and advances on dividends paid	(5,000)	
Cash flows generated by funding activities ©	35,643	10,524
Increase (decrease) in cash and cash equivalents (a ± b ± c)	8,215	27,407
Cash and cash equivalents as at January 1	56,483	29,076
Cash and cash equivalents as at December 31	64,699	56,483
Increase (decrease) in cash and cash equivalents	8,215	27,407

AIB Prize “Maestro del Lavoro” Awarding to Fiorella Mario - Feralpi Group

Explanatory Note to the Consolidated Financial Statements

as at 31st December 2017

(Figures expressed in thousands of euros)

The Group's Consolidated Financial Statements for the year ended on 31st December 2017, of which this Explanatory Note forms an integral part pursuant to Art. 29 of Legislative Decree no. 127/91, were drawn up in compliance with articles 29-39 of the same legislative decree and Legislative Decree no. 6 of 17 January 2003 and subsequent amendments.
These Consolidated Financial Statements were prepared in accordance with the provisions of the Italian Civil Code and, when necessary, with the accounting policies of the National Boards of Chartered Accountants and Auditors, by applying the same valuation criteria.

Pursuant to the provisions of law, the valuation criteria adopted were the same as those adopted for the parent company and the other companies in the group, and the financial statements of the individual companies were adjusted for cases in which the accounting criteria were not homogeneous.

The following points should also be noted:

- In exceptional cases requiring derogations pursuant to article 29, subsection 4 of the above decree, full motivation is provided in these explanatory notes, and the effects on the equity and the results are also reported.
- A breakdown of the items under assets and liabilities is detailed when the figure is substantial.
- Risks and losses for the year were taken into account, even if known after the closing date.
- The 2017 consolidated financial statements were prepared in accordance with the provisions of Legislative Decree no. 127/91 and allow y-on-y comparison pursuant to art. 2423-ter of the Civil Code. Any reclassifications were reported in the comments to the financial statements items.

Activities

The parent company is a mixed equity investment holding operating in the production of steel in billets, rebar and wire rod.
The financial statements of the Italian companies included in the scope of consolidation are those approved and/or being approved by the related general assemblies, while those of companies abroad were included in the consolidated financial statements of ESF GmbH, in accordance with German law.

These Financial Statements are based on homogeneous valuation criteria within the Group and were reclassified and adjusted as required.

The consolidated Financial Statements consist of the Balance Sheet (prepared in accordance with the layout provided by arts. 2424 and 2424-bis of the Italian Civil Code), the Income Statement (prepared in accordance with the layout provided by arts. 2425 and 2425-bis of the Civil Code), the Cash Flow Statement (complying with

art. 2425-ter of the Italian Civil Code, and presented in accordance with Italian Accounting Standards Board OIC 10) and these Explanatory Notes, which were prepared in accordance with art. 38 of Italian Legislative Decree 127/1991.
The Explanatory Note analyse and complement the accounting figures with the information deemed necessary to provide a true and fair representation of the data shown, taking into account that no exemptions were made pursuant to art. 29 of the Legislative Decree 127/1991.
To this end, the Explanatory Notes are accompanied by a statement reconciling the parent company's operating result with the consolidated operating result, and the parent company's shareholders' equity with the consolidated shareholders' equity, and by the list of companies included in the scope of consolidation.

Items not expressly included in the Balance Sheet and the Income Statement, as provided by arts. 2424 and 2425 of the Italian Civil Code and the Cash Flow Statement prepared in accordance with OIC 10, are considered void. The option of not including said items is intended only for the case in which they amount to zero in both current and previous financial years.

Reference is made to the board of directors' business report for additional information regarding the Group's business situation and outlook, the operating result as a whole and by business sector in which the Group operates, with particular regard to costs, revenues and investments, as well as for a description of the main risks and contingencies to which the Group is exposed.

Scope of consolidation

Contents and form of the consolidated financial statements
Subsidiaries as identified by art. 26 of Italian Legislative Decree 127/1991 are subject to consolidation.
The Group's consolidated financial statements comprise the financial statements as at 31 December 2017 of Feralpi Holding S.p.A. (parent) and the companies listed below.

Name and location	Share capital	Dir.	Indir.	Stake held by	%
Feralpi Siderurgica Brescia (Bs)	50,000		X	Feralpi Holding S.p.A.	100.00%
Acciaierie di Calvisano S.p.A. Calvisano (Bs)	3,250		X	Feralpi Siderurgica S.p.A.	100.00%
Feralpi Profilati Nave Srl Lonato (Bs)	1,900		X	Feralpi Siderurgica S.p.A.	100.00%
Nuova Defim S.p.A. Brescia (Bs)	300		X	Feralpi Siderurgica S.p.A.	100.00%
Ecotrading Srl Lonato del Garda (Bs)	50	X		Feralpi Holding S.p.A.	100.00%
Immobiliare Feralpi Srl Lonato del Garda (Bs)	50		X	Feralpi Siderurgica S.p.A.	100.00%
Fer-Par Srl Lonato del Garda (Bs)	20		X	Feralpi Siderurgica S.p.A.	100.00%
Presider S.p.A. Borgaro Torinese (TO)	4,160		X	Feralpi Siderurgica S.p.A.	100.00%
MPL Srl Rivoli (TO)	2,555		X	Feralpi Siderurgica S.p.A.	100.00%
ESF Elbe-Stahlwerke Feralpi GmbH Riesa (D)	11,000		X X	Feralpi Siderurgica S.p.A. Fer-Par Srl	98.00% 2.00%
Feralpi Stahlhandel GmbH Riesa (D)	2,100		X X	Feralpi Siderurgica S.p.A. ESF GmbH	33.33% 66.67%
EDF Elbe-Drahtwerke Feralpi GmbH Riesa (D)	1,500		X X	ESF GmbH Feralpi Stahl. GmbH	90.00% 10.00%
Feralpi Logistik GmbH Riesa (D)	1,000		X X	ESF GmbH Feralpi Stahl. GmbH	35.00% 65.00%
Feralpi Praha Sro Kralupy (Cs)	3,427		X	Feralpi Stahlhandel GmbH	100.00%
Feralpi Hungaria KFT Budapest (H)	6,684		X	Feralpi Stahlhandel GmbH	100.00%
Feralpi Farm	80	X		Feralpi Holding S.p.A.	100.00%
Ecoeternit	1,000	X		Due I Inv. Industriali S.p.A.	70.00%
Due I Inv. Industriali S.p.A.	60	X		Feralpi Holding S.p.A.	100.00%
Faeco Ambiente	1,000	X		Feralpi Holding S.p.A.	70.00%
Feralpi Algerié Oran (Algeria)	471		X	Fer-Par Srl	70.00%

The table below shows the list of associates values using the equity method.

Name and location	Name and location	Dir.	Indir.	Stake held by	%
Beta SA Buzau (R)	766		X	Feralpi Siderurgica S.p.A.	28.35%
Agroittica S.p.A. Calvisano (BS)	4,500		X	Fer-Par S.r.l.	45.32%
Far Energia S.r.l. Sirmione (BS)	100		X	Fer-Par S.r.l.	20.00%
Omega S.r.l. Calcinato (BS)	10		X	Fer-Par S.r.l.	20.00%
Dima Srl Italy	26		X	Acciaierie di Calvisano	31.00%
Media Steel S.r.l. Italy	200		X	Feralpi Siderurgica S.p.A.	45.00%
Comeca S.p.A. Italy	2,800		X	Fer Par S.r.l.	19.85%
Caleotto S.p.A. Italy	2,000		X	Feralpi Siderurgica S.p.A.	50.00%
Arlenico S.p.A. Italy	1,000		X	Feralpi Siderurgica S.p.A.	50.00%
Alpifer S.r.l. Italy	1,200	X		Feralpi Siderurgica S.p.A.	50.00%
Cogeme Steel. S.r.l. Italy	200		X	Acciaierie di Calvisano	50.00%

Changes in the scope of consolidation

It should be noted that the previously correlated companies Presider S.p.A. and MPL S.r.l. were included in the scope of consolidation using the full method, in that the Company acquired 52% of their share capital, so acquiring 100% ownership.

It is worth noting that in 2017 there were no changes in the companies evacuate using the equity method, except for Presider S.p.A. and MPL S.r.l., which were fully included in the scope of consolidation.

Consolidation method

The full consolidation method was used for all the subsidiaries. This method consists of fully incorporating the assets and liabilities and the costs and revenues of entities within the scope of consolidation, regardless of the percentage of equity interest of the consolidating entity.

Consolidated balance sheet and income statement show all the elements of the parent company and the other companies within the scope of consolidation, net of the adjustments shown here below.
The carrying value of equity interests in subsidiaries is cancelled against the corresponding fractions of shareholders' equity. This involves replacing the value of the corresponding balance sheet item with the assets and liabilities of each of the consolidated companies. Any difference between the equity interest purchase price and the carrying shareholders' equity on the date on which the control was acquired is recognised, where possible, in each identifiable acquired asset, within the limit of the current value of that asset and, in any case, for values not exceeding their recoverable amount, and in each identifiable assumed liability, including any prepaid and deferred taxes to be recognised against plus or minus values allocated to items in the consolidated companies' assets and liabilities.
Any difference resulting from the allocation process:

- if positive, is recognised as "goodwill" under assets, provided that it meets the requirements for recognition, in accordance with the OIC 24 "Intangible assets", conversely (if the difference does not, in whole or in part, correspond to a higher value of the subsidiary, it is recognised in the income statement under item B14 "other charges").
- if negative, is recognised as "consolidation reserve" under shareholders' equity, unless it relates, in whole or in part, to estimated unfavourable economic results (in which case a specific "Consolidation provision for risks and future contingencies" is established among consolidated liabilities).

Moreover, the financial statements of the parent company and its subsidiaries were adjusted as appropriate:

- by recognising the financial lease using the financial method, i.e. by eliminating the effect on the income statement of lease fees relating to capital goods obtained under lease agreements and by restoring the effect those goods would have on the balance sheet if they were purchased originally under a specific loan (thus recognising the value of leased fixed asset and the corresponding financial liability in the balance sheet and the related depreciation allowances and interests in the income statement);
- by eliminating the effect of tax consolidation for IRES purposes;
- by eliminating intra-group balances and transactions.

These operations have modified the relevant operating results and hence the shareholders' equity of the companies included in the scope of consolidation. The financial statements adjusted as above were converted into euro, where required, and were used for form the consolidated financial statements.

Consolidated equity and operating result and minority interest

All equity transactions carried out between the Group and entities exercising their rights and duties as shareholders are recognised in shareholders' equity. The share capital shown in the consolidated financial statements coincides with that of the parent company.
Shareholders' equity shares and the consolidated economic result corresponding to minority shareholders are recognised as "Share capital and minority shareholders reserves" and as "Profit (Loss) pertaining to minority shareholders", respectively, in dedicated items under consolidated shareholders' equity. The portion of operating result corresponding to minority interests is deducted from the overall consolidated economic result.
If any losses pertaining to a subsidiary causes the "Share capital and minority shareholders reserves" to turn into the negative, the negative excess is accounted for by the majority shareholders. If a profit is generated subsequently, the portion entitled to minority shareholders is allocated to majority shareholders until the overall

losses previously charged are fully offset. If the minority shareholders have expressly undertaken to recover the loss, and this is likely to occur, the loss is left as is in “Share capital and minority shareholders reserves”.
If, on the acquisition of a stake, the minority interest consists of a deficit, it is valued at zero, unless the minority shareholders have expressly undertaken to recover the loss.
When cancelling the stake, this situation is reflected in an increase in the write-off difference.
Any subsequent profit pertaining to minority shareholders are deducted until making up the goodwill entered when allocating the write-off difference until full recovery of the loss initially recognized as an increase in goodwill net of amortization.

Conversion of foreign currency financial statements

For the purpose of consolidating companies that issue their financial statements in a currency other than the euro, a conversion into euro is first made. The same applies to equity interests valued using the shareholders' equity method.
Foreign currency financial statements are converted for consolidation purposes, using:
a) the spot exchange rate on the closing date for items under assets and liabilities;
b) the exchange rate prevailing on the date of each transaction for items in the income statement and cash flow statement;
c) the historical exchange rate in force at the time of their establishment for equity reserves (other than the conversion difference reserve).
The net effect of foreign currency conversion into the account currency in the financial statements of an associate is recognised in “Conversion difference reserve” as part of the consolidated shareholders' equity that becomes available in the event of the partial/total transfer of a foreign company.

If an associate operates in a high-inflation foreign country, before converting the financial statements into the parent company's account currency for consolidation purposes, a revaluation is made of the cost of tangible assets and related depreciation and any other adjustments of the carrying value of other assets, liabilities, income and expenses, in order to offset the distorting effects of inflation.
Inflation in the country where the associate operates is considered to be more or less high, depending on specific circumstances, taking into account, for example, the current and cumulative inflation rate and the share capital used in managing the subsidiary. As a general rule, a country whose economy is subject to a cumulative inflation rate of at least 100% over three years is considered to be a high-inflation country.

Accounting concepts and principles in the preparation of financial statements

In accordance with the provisions of art. 2423 of Italian Civil Code, the general principles of clarity and correct and fair representation of Company's equity and financial situation and the operating result for the year have been complied with.
The recognition, valuation, presentation and disclosure of items may differ from the provisions of the law on financial statements in cases where their non-compliance has no significant effect on the correct and fair representation of the Company's equity and financial situation and the operating result for the year. To this end, by ‘relevant disclosure', in qualitative and/or quantitative terms, is meant when its omission or wrong indication could reasonably influence the decisions made by users on the basis of corporate financial statements. Further specific criteria adopted to identify the concept of irrelevance are shown for individual items in the financial

statements when involved in their application. The relevance of individual items is determined within the context of other similar items.

The principles laid out in art. 2423-bis of the Italian Civil Code were also complied with, as outlined below.
The assessment of the various items of the financial statements was carried out in accordance with the principles of prudence and going-concern, and also taking into consideration the substance of the transaction or contract. For each transaction or fact, and in general for every business event, the substance is then identified regardless of its origin, and the possible interdependence of several contracts making up complex transactions was also assessed.

Profits/losses indicated in the financial statements are only those realized on the reporting date.
Income and expenses shown are those pertaining to the financial year, regardless of the date of collection or payment.
Risks and losses pertaining to the financial year were taken into consideration, regardless of whether they were known on the reporting date.
Miscellaneous elements included in individual items were valued and recognised separately.
Pursuant to art. 2423-ter, subsection 5, of the Italian Civil Code, the amount of the corresponding item of previous financial year is shown for each item in the balance sheet and income statement. If the items are not comparable, those of the previous year are appropriately adjusted and the non-comparability and adaptation or impossibility are reported and commented on in these explanatory notes.
In accordance with art. 2423-ter, subsection 2, of the Italian Civil Code, the items preceded by Arabic numerals may be further subdivided, without deleting the whole item and the corresponding amount; they can be grouped only when grouping is quantitatively irrelevant to the effect of a correct and fair representation of company's equity and financial position and the operating result for the year or when this provides a clearer view of the financial statements. In the latter case, the explanatory notes contain a breakdown of the items being grouped.
The financial statements and all the figures in the comments and statements in these explanatory notes are expressed in units of euro.
The information in these explanatory notes relating to items in the balance sheet and income statement is presented in the order in which they are listed in the balance sheet and income statement in accordance with art. 2427, subsection 2, of the Italian Civil Code.

Valuation criteria

The valuation criteria of the various items of the financial statements comply with those set out by art. 2426 of the Italian Civil Code and the reference accounting standards. Among the accounting concepts there is also the continuity with the previous year in the application of valuation criteria adopted for the preparation of the financial statements.
The new provisions of law and individual accounting principles have envisaged transitional rules to the new valuation criteria that enable companies to make certain choices regarding their applicability in the first and the following years of adoption.
In these financial statements, the concept expressed above no longer applies to the items that have been influenced by amendments to the regulatory framework, which have been illustrated in the 'Introduction', whether are they required by law or made according to regulatory estimates and reference standards.

Intangible assets

Intangible assets are entered at cost and refer to costs pertaining to more than one year. They are amortised over five years or, if different, in proportion to the expected useful life, in compliance with article 2426 of the Civil Code.
R&D costs pertaining to more than one year are recognised and amortised over five years, with the agreement of the Board of Auditors.

Category	%
Incorporation and extension costs	20%
Research and Development costs	20%
Industrial patent fees	20%
Concessions, licences and trademarks	10% 20%
Goodwill	20%
Other tangible assets	10% 20%

intangible assets

Tangible assets are entered at cost, plus directly allocated accessory charges, and adjusted according to revaluation made in accordance with the law. Land and Buildings are also adjusted by attributing in the first consolidation the difference between the amount entered under equity interest and shareholders' equity of the associate, in as far as the value has been ascertained by independent experts. The cost of tangible assets is adjusted by depreciation calculated on the basis of the estimated residual life of the assets.

The following depreciation rates have not changed compared to the previous year.

Steel

Category	%
Land and buildings	5%
Lightweight construction	10%
Plant and machinery	5% - 10%
Industrial and commercial equipment	12,50/20/25/100%
Other tangible assets	10/12/20/25%

Environment

Category	%
Plant and machinery	10% - 15%
Industrial and commercial equipment	12%
Other tangible assets	12% - 20%

In order to adjust average depreciation to actual temporal use in the first year of life of the new asset, amortisation plans provide for the application of a rate that takes into account the date on which the asset was first used.
In particular, it should be noted that, within the Group, assets are amortised at rates that take into account their residual life, in compliance with the provisions of article 2426 of the Civil Code, and according to the amortisation plan, that has not changed compared to the previous year.

Financial assets

Equity investments in associates, as defined in art. 2359 of the Civil Code, are valued using the equity method.
Irrelevant and/or non-operational equity investments in associates, and in other companies, are entered at cost, adjusted if necessary due to durable losses in value.
Amounts receivable are entered at the nominal value, corresponding to the estimated realisable value.
The entry can be adjusted due to durable losses in value, as required.
Other securities are recognised at the nominal value, corresponding to the estimated realisable value.

Inventories

Inventories are valued according to the lesser of either the cost of acquisition (including accessory charges) or production and the market value, pursuant to art. 2426 of the Civil Code, points 9-10.

The average weighted cost method was used for raw materials, supplies, consumables, intermediate products, end products and work in progress.
Manufacturing costs include the cost of raw materials, goods and labour, and all other direct and indirect production costs.

Accounts receivable and payable

Receivables are entered at amortised cost, taking into account the time factor and within the limits of their expected realisable value and are, therefore, recognised in the balance sheet net of the provision for bad debts deemed appropriate to cover the loss due to reasonably predictable uncollectability.
If the interest rate associated with the transaction does not differ significantly from the market rate, the receivable is first entered at a value equal to its nominal value, net of all premiums, trade discounts, rebates and bonuses and inclusive of all costs directly attributable to the transaction that had generated the receivable. These transaction costs, sales commissions paid or received and any difference between the original value and nominal value at maturity are allocated over the duration of the receivable, using the actual interest rate method.
Conversely, if the transaction interest rate deriving from the contract conditions differs significantly from the market rate, the receivable (and the corresponding revenue in the event of commercial transactions) is initially entered at a value equal to the current value of future cash flows plus any transaction costs. The rate used to discount future cash flows is the market rate.

In the case of receivables deriving from commercial transactions, the difference between the original accounting value of the receivable so established and the forward value is recognized in the income statement as financial income for the entire duration of the receivable, using the actual interest rate method.
In the case of financial receivables, the difference between cash and cash equivalents paid and the actual value

of future financial flows, determined using the market interest rate, is recognised among financial expenses or income in the income statement at the time of the original recognition, unless the substance of the transaction or contract does not suggest the attribution of another nature to that component. Subsequently, interest income accruing on the transaction is calculated at the actual interest rate and recognised in the income statement with the value of the receivable as contra-entry.
The value of receivables is subsequently reduced of the amounts received, as both principal sum and interest, and of any write-downs in order to bring the receivables back to their estimated realisable value or of losses.

The company assumes the effects deriving from the application of the amortised cost and discounting as non-significant when the receivables maturity is within 12 months, taking into account all contractual and material considerations existing at the time of their recognition, and the amount of any transaction costs and difference between the original value and the nominal value at maturity is not significant. In this case, discounting was not considered, the interest was calculated at the nominal value and the transaction costs were entered as deferrals and amortised on a straight-line basis over the term of the receivable in order to adjust the nominal interest income.

Tax assets

This item covers amounts receivable from Inland Revenue, which are recognised at the estimated realisable value.

Prepaid taxes

This item covers amounts resulting from postponed deductibility of negative income components, which are recognised at the estimated realisable value.

Cash and cash equivalents

These are valued at their nominal value.

Prepayments and Accruals

Prepayments and accrued income and charges and deferred income have been calculated on an accrual basis.

Provisions for risks and contingencies

This item refers to provisions estimated on the basis of amounts payable or losses of a set nature and of either a certain or probable existence, the amount of which or the date of occurrence is unspecified on the closing day. The general criteria of prudence and competence were applied in evaluating these provisions and no generic provisions not supported by economic reasons were established. Potential liabilities were recognized in the balance sheet and allocated to provisions as they were considered probable and their extent reasonably determinable.

Provision for employee-leaving indemnity

This provision is calculated according to the law and existing labour agreements and reflects the amounts payable to employees due at the closing date.

Tax liabilities

Tax liabilities show income tax for the year based on a realistic forecast, in addition to the various dues and VAT and to debts of the individual companies stemming from withholding tax positions.

Costs and revenues for the year are recorded on an accrual basis.
Revenues and gains, and costs and charges are entered after deduction of returns, discounts and allowances.

Income tax for the year

Direct tax liability for the year is entered on the basis of the estimated taxable income, in compliance with the provisions of law and applicable rates, taking into account any applicable exemptions.
An analysis of the existence of temporary differences between the value of assets and liabilities and the corresponding values of relevance for tax purposes and/or between income components recognized in the income statement and those taxable or deductible in future years for the recognition of accrued taxes, as required by OIC 25.
In the presence of temporary taxable differences, deferred tax liabilities are entered, with the exceptions provided by OIC 25.
In the presence of deductible temporary differences, deferred taxes are recognised only if there is reasonable certainty of their future recovery.

Prepaid and deferred taxes are calculated on the cumulative amount of all temporary differences for the year at the tax rates applicable in the year in which the temporary differences are recognized, as provided for by the tax law in force at the reporting date.

Prepaid tax assets and deferred tax liabilities are not discounted.

For classification purposes in the financial statements, tax assets and liabilities are offset only if there exists a legally enforceable right to offset the amounts recognized based on tax legislation and there is an intention to settle tax assets and liabilities on a net basis with a single payment.

Currency conversion criteria

In accordance with art. 2426, subsection 1, no. 8-bis of the Italian Civil Code, assets and liabilities expressed in a currency other than the reporting currency (so-called "account currency") are, following the original entry, recognized at the spot exchange rate in force at the reporting date. The resulting gains and losses are recognized in the income statement under C17-bis "Exchange gains and losses", and any net profit contributing to the formation of the operating result for the year is allocated to the dedicated reserve of non-distributable profit pending realization.
Non-monetary assets and liabilities in a currency other than the account currency are recognized at the exchange rate prevailing at the time of purchase. If the exchange rate in force at the reporting date is significantly different from that applicable at the date of acquisition, the difference is one of the elements taken into consideration in the valuation process to determine the carrying amount for individual non-monetary assets. In this case, the (positive or negative) exchange differences contribute to the determination of the recoverable amount.
With reference to equity investments valued using the equity method, in which the underlying financial statements are expressed in a foreign currency, they are converted into the account currency in accordance with OIC 17 "Consolidated financial statements and equity method" and the equity investment is subsequently valued according to the specific equity accounting policy.
Significant, unforeseeable fluctuations in exchange rates after the end of the year with foreign currencies to which the company is most exposed without hedges are not recognized in the financial statements as pertaining to the next financial year, but they are illustrated in these explanatory notes, under the dedicated section "significant events after year end".

Change in accounting principles

Except as provided in the section entitled "First-time adoption rules", about the transition to the rules contained in the new set of OIC accounting standards and statutory provisions transposing the so-called "Accounting Directive" and related choices made by the Company, a description is provided below of the accounting policies adopted following the change to the voluntary or mandatory accounting standards, unless different specific rules are provided.
The change of an accounting standard is recognized in the year in which it was adopted and the associated facts and transactions are dealt with in accordance with the new standard that is applied retrospectively. This entails the recognition of the resulting effects on the opening shareholders' equity amount for the year.
For comparative purposes only, when not feasible or it is too costly, the previous year opening shareholders' equity amount and any previous-year comparative data are adjusted as if the new accounting standard had always been applied.
When it is impracticable to calculate the previous cumulative effect of the change of standard or the determination of the previous effect is too costly, the Company adopts the new accounting standard from the first feasible date. When this date coincides with the beginning of the current year, the new accounting standard is applied prospectively.
Any effects on the balance sheet, income statement and cash flow statement resulting from the adoption of new accounting standards have been highlighted and explained in these explanatory notes in connection with the accounting items specifically concerned.

Correction of errors

An error is recognised at the time an incorrect qualitative and/or quantitative representation of an accounting figure and/or any disclosure in the explanatory note is identified and the correct disclosure and data are available for proper processing. Material errors are corrected by adjusting the accounting item that was previously affected by the error, by recognizing the correction to the opening shareholders' equity value for the year in which the error is identified.
For comparative purposes only, the company fixes, when practicable, a material error committed in the previous year by restating the comparative amounts; if the error was committed in the years prior to the previous year, it is fixed by re-determining the opening balances of the previous year. When it is impracticable to determine the cumulative effect of a material error for all previous years, the Company reinstates the comparative values to correct the material error, starting from the first date on which it is practicable.
Non-material errors committed in previous years are recognized in the income statement of the year in which the error was identified.

ASSETS

B) Non-current assets

I. Intangible assets

The table below shows the movement of intangible assets during 2017.

	Incorporation and extension costs	R&D costs	Industrial patent fees	Goodwill	Work in progress &downpay	Other intangible assets	Total intangible assets
Opening value							
Cost	1,465	1,572	4,289	1,716	1,831	34,871	45,744
Amortisation (accumulated)	(1,432)	(1,572)	(3,982)	(1,686)	-	(26,812)	(35,484)
Carrying value	33	-	307	30	-	8,059	10,260
Changes during the year							
Increase due to acquisitions	-	25	2,876	2,047	451	1579	6,978
Amortisation allowance	(31)	(2)	(283)	(370)	(173)	(2,067)	(2,928)
Change in scope of consolidation	(7)	-	(8)	-	(1,769)	-	(1,784)
Other changes	7	-	(358)	-	(1)	359	7
Total changes	(31)	23	2,227	1,677	(1,492)	(129)	2,273
Closing value							
Cost	1,458	1,597	7,157	3,763	513	36,450	50,938
Amortisation (accumulated)	(1,456)	(1,574)	(4,623)	(2,056)	(174)	(28,520)	(38,405)
Carrying value	2	23	2,534	1,707	339	7,930	12,534

Incorporation and extension costs

Incorporation and extension costs are mainly related to costs and expenses sustained previously for the takeover of the Defim and Orsogrill lines of business by Nuova Defim and refer to the registration fee and notarial expenses and advisory fees.

Research and development costs

The costs for research and development relate to charges incurred in order to obtain predetermined scientific and technical know-how in the field in which the Group operates and to implement the necessary procedures for economic exploitation of the know-how acquired.

Industrial patents and intellectual property rights

These refer entirely to the costs for software and computer applications. They relate to Feralpi Siderurgica S.p.A. and Nuova Defim and the parent company Feralpi Holding S.p.A.

Goodwill

In 2017 the companies Presider S.p.A. and MPL S.r.l. were taken over, which generated a €2,047 thousand goodwill for the Group. This goodwill is amortised over ten years.

Works in progress and advances
The increase in this item is mainly attributable to expenses for the implementation of the new in-house ERP for €451 t thousand.

Other intangible assets
The main increase in this item relates to expenses incurred by the subsidiary Ecoeternit for completing landfills and the repair of embankments for the amount of €1,410 thousand.

II. Tangible assets
The table below shows the movements of tangible assets during the year.

	Land and buildings	Plant and machinery	Leased plant and machinery	Industrial and commercial equipment	Other tangible assets	Work in progress & down payments	Total tangible assets
Opening value							
Cost	246,601	660,907	8,315	9,499	35,765	18,172	979,259
Depreciation (accumulated)	(90,042)	(526,358)	(8,315)	(8,973)	(27,266)	-	(660,954)
Carrying value	156,559	134,549	-	526	8,499	18,172	318,305
Changes during the year							
Increase due to acquisitions	8,063	23,900	-	332	256	4,310	36,861
Depreciation allowance	(7,533)	(28,098)	-	(306)	(3,526)	-	(39,463)
Other changes	(92)	(99)	-	(98)	772	-	483
Change in cons. - Cost	13,575	14,017		635	1,187	-	29,414
Change in cons. - Provision	(5,137)	(7,634)		(263)	1,411	-	(11,623)
Total changes	438	(4,297)	-	(72)	(2,498)	4,310	(2,119)
Closing value							
Cost	268,239	698,824	8,315	10,466	37,208	22,482	1,045,534
Depreciation (accumulated)	(102,804)	(562,189)	(8,315)	(9,640)	(28,609)	0	(711,557)
Carrying value	165,435	136,635	-	826	8,599	22,481	333,977

The item Land and Buildings includes the amount (net of accumulated depreciation) relating to adjustments made at first consolidation of Acciaierie di Calvisano S.p.A. for €134 thousand, due to the attribution of the difference between the value of the equity interest and shareholders' equity on the date of first consolidation. This allocation is supported by expert independent appraisal.
It should be noted that the increase of €40,438 thousand for acquisitions are illustrated in detail under the related section of the business report. It is worth noting that the most significant increase of about 14,000 thousand relates to the subsidiary Feralpi Siderurgica S.p.A. for interventions involving the steel mill, rolling mills, the cold-processing bay and the building.

II. Financial assets

A breakdown of financial assets showing the changes compared to the previous year is given in the table below.

Description	2017	2016	Change
Equity interest	52,949	56,226	(3,278)
Receivables from associates	8,104	9,555	(1,451)
Receivables from others	24	15	1
Other sedurities	802	802	-
Total	61,879	66,597	(4,728)

The decrease in equity interest in associates is mainly due to the change of Presider S.p.A. and MPL S.r.l. from associates to subsidiaries following the acquisition of the remaining 52% of their share capital.
The items equity interest in associates reflects the result pertaining to the group of individual companies, which is detailed in the relevant section of the income statement.

Equity interests in associates

The following associates were valued using the equity method.

Name and location	Share capital	Shareholders' equity	Profit/ (Loss)	Relevant Profit/ (Loss)	% stake held	Carrying value
Beta S.A. Buzau (R)	766	14,518	56	16	28.35%	2,944
Media Steel Srl	200	3,575	638	287	45.00%	2,038
Dima	1,000	1,026	8	(63)	31.00%	455
Caleotto S.p.A.	2,000	8,341	1,504	752	50.00%	4,953
Alpifer Srl (Unifer-Steelfer)	1,200	19,007	706	353	50.00%	9,206
Cogeme Steel Srl	200	200	(618)	(309)	50.00%	345
Comeca S.p.A.	2,800	8,567	30	6	19.85%	1,708
Agroittica S.p.A.	6,500	21,604	81	36	45.77%	19,218
San Vigilio partecipazioni	50	114	-	-	33.00%	25
Far Energia S.r.l.	100	469	28	6	20.00%	99
Omega S.r.l.	10	19	-	-	40.00%	(82)
Total imprese collegate				1,084		40,909

Details on the new acquisitions are provided in a dedication section of the business report.

Other companies

A breakdown of movements during the year for this item is given below.

Description	2016	Increase	Decrease	2017
Mittel S.p.A.	2,380	477	-	2,857
Finanziaria di Valle Camonica S.p.A.	2,610	-	-	2,610
Fondazione nazionale CRS	5	-	-	5
CSMT	22	-	-	22
Feralpi Salò	148	59	(63)	144
Metalinterconnector	21	6,174	-	6,195
Other minority interest companies	179	27	-	206
Total other companies	5,365	6,737	(63)	12,039

The most significant increases under "Others" mainly relate to the €477 thousand revaluation of Mittel S.p.A., a company listed in Milan Stock exchange, and also the acquisition of a stake in the Metalinterconnector share capital by Feralpi Siderurgica and Acciaierie di Calvisano for the amount of €6,174 thousand. It is worth noting that the carrying value of the Mittel equity interest in the consolidated financial statements coincides with the value entered in the statutory financial statements, valued at the average stock market price of the last six months.

Financial receivables

Description	2016	Change in cons.	Increase	Decrease	2017
Non-consolidated subsidiaries (<12 months)	-	-	-	-	-
Non-consolidated subsidiaries (>12 months)	-	-	-	-	-
Associates (<12 months)	2,055	-	-	(1,451)	604
Associates (>12 months)	7,500	-	-	-	7,500
Others (<12months)	-	-	-	-	-
Others (>12months)	15	6	3	-	24
Total	9,569	6	3	(1,451)	8,128

Financial receivables from associates

The decrease in receivables from associates maturing within twelve months, amounting to €1,451 thousand, is related to the reduced funding by associates to Omega Immobiliare and San Vigilio. A breakdown of this item is given in the table below.

Description		2017	2016	Change
Fer-Farm S.r.l.	Fin. Omega S.r.l.	478	1,858	(1,380)
Fer-Farm S.r.l.	Fin. San Vigilio S.r.l.	126	197	(71)
Agroittica S.p.A.	Fin. Agroittica S.p.A.	-	-	-
Caleotto S.p.A.	Fin. Caleotto S.p.A.	7,500	7,500	-
Total		8,104	9,555	(1,451)

Financial receivables maturing over 12 months

These receivables are mainly attributed to long-term guarantee deposits granted by the parent company and Italian companies.

C) Current assets

I. Inventories

Inventories, which are recognised at the lower of the cost and the fair value, are valued using the weighted average cost method.
This method is more appropriate to normalize the fluctuations in the price of raw materials than that of finished products, thus allowing the reader to have a better interpretation of the accounting figures.
Closing inventories as at 31.12.2017 were assessed by means of a physical inventory under the supervision of the various heads of department.

A breakdown of individual items is given in the table below.

Description	2017	Change in Cons.	2016	Change
Raw materials, supplies and consumables	64,601	10,335	52,736	11,866
Work in progress and unfinished products	22,984	-	11,388	11,597
Finished products and goods	101,483	-	80,271	21,213
Down payments	-	-	243	(243)
Total	189,069	10,335	144,637	44,432
Total 2017 with change in scope of consolidation		199,404	144,637	54,767

It is worth noting that the increase on the previous year is mainly due to the increase in price.

II. Accounts receivables

The balance of this item is given below.

Description	2017	Change in Cons.	2016	Change
Receivables from customers under current assets	232,230	30,289	169,460	62,769
Receivables from subsidiaries under current assets	-	-	-	-
Receivables from associates under current assets	21,091	-	21,898	(807)
Receivables from parents under current assets	-	-	-	-
Tax assets under current assets	12,297	1,777	9,482	2,815
Prepaid tax assets under current assets	27,123	275	24,817	2,306
Receivables from others under current assets	12,612	479	24,692	(12,079)
Total	305,353	32,820	250,348	55,005
Total 2017 with change in scope of consolidation		338,173	250,348	87,825

The considerable increase in "Receivables from customers under current assets", amounting to €62,769 thousand, is mainly attributable to increased sales of the entire Feralpi Group, namely the Parent with an increase of €54,000 thousand. Similarly, the newly acquired companies entered in the scope of consolidation brought a further increase of €30,289 thousand.
Conversely, the €12,079 thousand decrease in "Receivables from others" is mainly due to the collection of the accrued portion of subsidies granted to "Energy-consuming plants" by the Group companies during 2017, namely involving Feralpi Siderurgica and Acciaierie di Calvisano.

A breakdown of accounts receivable by due date for the year ended 31 December 2017 is given below.

Description	Less than 12 months	Over 12 months	Over 5 years	Total
Receivables from customers under current assets	262,519	-	-	262,519
Receivables from subsidiaries under current assets	-	-	-	-
Receivables from associates under current assets	21,091	-	-	21,091
Receivables from parents under current assets	-	-	-	-
Tax assets under current assets	14,071	3	-	14,074
Prepaid tax assets under current assets	467	26,931	-	27,398
Receivables from others under current assets	13,078	13	-	13,091
Total	311,226	26,947	-	338,173

Accounts receivable from customers are recognised net of the provision for doubtful debts, which currently stands at €6,677 thousand. The adjustment of the nominal value to the estimated realisable value was achieved via the provision for doubtful debts, which recorded the following movements over the year.

Description	2016	Utilisation	Allocation	2017
Provision for doubtful debts	5,322	(807)	1,550	6,065
Prov. for doubtful debts - change in cons.	208	(363)	767	612
Total	5,530	(1,170)	2,317	6,677

Receivables from customers are of a commercial nature only and are broken down by geographical area as illustrated in the table below.

	Italy Commercial	Italy Others	Other EU countries	Other EU countries	Non-EU	Total
Receivables from customers under current assets	171,826	-	62,195	4	28,494	262,519
Receivables from subsidiaries under current assets	-	-	-	-	-	-
Receivables from associates under current assets	19,700	1,380	11	-	-	21,091
Tax assets under current assets	5,352	5,995	2,599	-	127	14,073
Prepaid tax assets under current assets	275	27,121	-	-	2	27,398
Receivables from others under current assets	478	8,154	3,677	-	782	13,091
Total	197,632	42,650	68,481	4	29,405	338,173

Tax assets

Tax assets, totalling €14,074 thousand, are broken down as shown below.

Description	2017	Change in Cons.	2016	Change
VAT assets	8,171	1,647	4,679	3,493
R&D assets	1,656	33	1,240	416
IRAP/IRES tax assets	2,480	57	3,074	(594)
Other tax assets	11	19	490	(479)
Total	12,318	1,756	9,482	2,837
Total 2017 with change in consolidation scope		14,074	9,482	4,593

The €3,493 thousand increase in VAT is mainly attributable to the significant credit accrued at Feralpi Profilati Nave on the acquisition of the original inventories by auction under the Stefana proceedings in 2016. In addition, the companies consolidated during the year with the full method, such as Presider S.p.A. and MPL S.r.l. brought input IVA to €1,647 thousand, as shown in the table.

Prepaid taxes

A breakdown of prepaid taxes is given below.

Description	2017
Opening value - deferred tax assets	24,817
Provision for deferrization material, slag and offgas	96
Adjusted calculation of deferred tax assets from 2017 tax return	(107)
Deferred taxes on 2016 tax losses - subsidiaries	2,496
Financial derivatives	96
Total	27,398

Receivables from others

Receivables from others, amounting to €13,091 thousand, decreased by €11,601 thousand compared to the previous year, and can be broken down as follows.

Description	2017	Change in Cons.	2016	Change
Energy cost refund	9,705	-	23,899	(14,194)
Receivables from other Group companies	-	-	-	-
Unemployment benefits	164	-	8	156
Social security institutions	226	-	287	(61)
Sundry receivables	310	-	25	285
Contributions received for investments	-	-	-	-
Down payments from suppliers	1,927	129	175	1,752
Others	279	350	298	(19)
Total	12,612	479	24,692	(12,080)
Total 2017 with change in consolidation scope		13,091	24,692	(11,601)

As shown in the summary table, the most significant item is related to the collection of some amounts accrued in previous years in accordance with "Subsidies granted to energy-consuming companies".

IV) Cash and cash equivalents

Description	2017	Change in Cons.	2016	Change
Bank and postal deposits	63,552	1,131	56,465	7,088
Cheques	-	8	14	(14)
Cash in hand	4	3	5	(1)
Total	63,557	1,142	56,484	7,073
Total 2017 with change in consolidation scope		64,699	56,484	8,215

The balance represents cash in hand and the existence of cash and securities available on the closing date, the majority of which is held by the Group's German companies. For more details on the origins of the liquidity funds, please refer to the financial statements illustrated in the business report.

D) Prepayments and accrued income

They measure income and charges received or paid in advance or on an accrual basis; they are independent of the date of payment or collection of the related income and charges, refer to two or more years and can be allocated on an accrual basis. For these items too, the criteria adopted in assessing and translating values expressed in a foreign currency are shown in the first part of this explanatory note. As at 31.12.2017 there were no prepayments or accruals pertaining to more than five years. A breakdown of this item is given below.

Description	2017	Change in Cons.	2016	Change
Other accrued income	1,845	345	1,856	(11)
Total	1,845	345	1,856	(11)
Total 2017 with change in consolidation scope		2,190	1,856	334

Description	2017	Change in Cons.	2016	Change
Sundry	555	170	532	23
Interest and commissions	604	-	1,018	(414)
Insurance and guarantees	686	175	400	286
Total accrued income	1,845	345	1,950	(105)
Total 2017 with change in consolidation scope		2,190	1,950	240

SHAREHOLDERS' EQUITY

A) Shareholders' equity

It is noted that the share capital of the parent company amounted to €55,000 thousand as at 31 December 2017. The adjustments deriving from the consolidation process resulted in the following differences between the financial statements as at 31 December 2017 for the parent company Feralpi Siderurgica S.p.A. and the Group's consolidated financial statements on that date.

RECONCILIATION STATEMENT BETWEEN THE PARENT COMPANY'S SHAREHOLDERS' EQUITY AND OPERATING RESULT AND THE SAME ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31/12/17

	Operating result	Opening share capital and reserves	Shareholders' equity
Feralpi Hoding S.p.A.	14,521	104,210	118,732
Adaptation to Group's accounting policies			
Intangible assets amortisation adjustement	(98)	718	620
Inventory valuation adjustment	897	(232)	665
Elimination of intercompany transaction effects			
Intra-group margins included in the value of inventories			
Gains from intra-group sales of assets		(283)	(283)
Elimination of equity interest carrying value			
Elision of equity interests	22,364	280,060	302,424
Elision of dividends	(7,520)	7,520	-
Consolidation using the equity method	(166)	(115)	(281)
Profit/(Loss) for the Group	29,998	391,878	421,877
Treasury share reserve		(1,027)	(1,027)
Minority interest profit / share capital	578	2,098	2,676
Consolidated profit/share capital	30,576	392,949	423,525

The figures shown are net of taxes

Movements in shareholders' equity are shown in the table below.

	Share capital	Share premium reserve	Legal reserve	Extraord. Reserve	Profit/(Loss) brought forward	Currency transl. reserve	Share premium reserve	Negative share premium reserve	Reval. Reserve	Consol. Reserve	Financial operatons hedging reserve	Result for the year	Total	Minority interest result	Minority interest capital	Total
31 December 2016	50,000	516	3,662	15,595	39,446	(69)	-	(1,028)	138	250,355	(267)	36,962	395,310	523	2,431	398,263
Allocation of the 2017 operating result			110	443						37,272		(36,962)	863	(523)	(2,431)	(2,091)
Dividends					(5,700)								- 5,700			(5,700)
Other movements						431					(54)		378			378
Change in scope of consolidation													-			-
2017 operating result												29,998	29,998	2,098	578	32,674
31 December 2017	50,000	516	3,772	16,038	33,746	362	-	(1,028)	138	287,627	(321)	29,998	420,849	2,098	578	423,525

The currency conversion reserve reflects the exchange rate difference between Shareholders' equity as at 31 December 2017 and that at 31 December 2016, entered following the valuation of the ESF consolidated financial statements for Hungarian and Czech equity investments. Other reserves, amounting to €1,028 thousand, comprise the negative reserve for treasury shares in portfolio.

B) Provisions for contingent liabilities and charges

A breakdown of this item is given below.

Description	2016	Change in cons.	Increase	Decrease	2017
Suppl. sales agents' customer indemnity	1,133	134	54	-	1,321
Provision for deferred taxation	1,600	-	197	1,251	546
Financial derivatives liability	331	-	98	-	429
For slag disposal	580	-	-	243	337
Other contingencies	5,005	310	31,209	2,110	34,414
Total	8,649	444	31,558	3,604	37,047

The most significant change in the Provision for contingencies and charges is related to the item "Other contingencies", reflecting the provision covering the €29,429 thousand antitrust fine net of the two instalments paid during the year. The increase is also attributable to the amount set aside by Ecoeternit for landfill coverage and three-year post-management expenses.

It is also worth to note that Financial derivatives liabilities were recognised at the market value at 31 December 2017, in accordance with OIC 32 accounting standards.

The €1,251 thousand decrease in the provision for deferred taxation is related to the subsidiary ESF for the use of €417 thousand capital gains taxable in future years and €934 thousand regarding a tax audit for the years 2010-2012 and allocated in the previous year.

The item "Other provisions" includes the amount allocated to the disposal of slag at Feralpi Siderurgica S.p.A. A detail of the movements during the year is given below.

	Provision for employee severance pay and similar obligations	Provision for deferred and other taxes	Other provisions	Total provisions for contingent liabilities and charges
Opening value	1,133	1,600	5,916	8,649
Change during the year				
Allocation for the year	54	197	31,307	31,558
Utilisation during the year	-	(1,251)	(2,353)	(3,604)
Change in scope of consolidation	134	-	310	444
Closing value	1,321	546	35,180	37,047

C) Employees' severance pay

The movement was as follows.

	Employee severance pay
Opening value	8,195
Changes during the year	
Allocation for the year	2,052
Utilisation during the year	(2,305)
Opening value following the change in scope of consolidation	339
Allocation following the change in scope of consolidation	194
Utilisation following the change in scope of consolidation	(166)
Closing value	8,309

The figure set aside reflects the amount the company actually owes its employees as at 31 December 2017, net of any advances paid.

D) Accounts payable

Accounts payable are valued at their nominal value and due date, as detailed below.

Description	2017	Change in cons.	2016	Change
Convertible bonds	10,000	347	10,000	- 0
Shareholders' loans	-	-	210	- 210
Bank borrowings	180,960	25,710	173,443	7,518
Borrowings from other lenders	-	-	-	-
Down payments	86	535	47	38
Trade creditors	215,601	14,733	168,857	46,744
Payables owed to subsidiaries	-	-	-	-
Payables owed to associates	51,056	-	42,128	8,928
Payables owed to parent companies	-	-	-	-
Tax liabilities	17,942	213	11,534	6,407
Social security contribution liabilities	3,786	193	3,921	(135)
Other liabilities	22,013	-	22,147	(134)
Total	501,443	41,731	432,287	69,156
Total 2017 with change in scope of consolidation		543,174	432,287	110,887

Description	Less than 12 months	Over 12 months	Over 5 years	Total
Convertible bonds	10,000	347	-	10,347
Shareholders' loans	-	-	-	0
Bank borrowings	109,914	93,257	3,500	206,670
Borrowings from other lenders	-	-	-	-
Down payments	621	-	-	621
Trade creditors	230,334	-	-	230,334
Payables owed to subsidiaries	-	-	-	-
Payables owed to associates	51,056	-	-	51,056
Payables owed to parent companies	-	-	-	-
Tax liabilities	18,155	-	-	18,155
Social security contribution liabilities	3,979	-	-	3,979
Other liabilities	21,609	404	-	22,013
Total	445,667	94,007	3,500	543,174

Convertible bonds

The liability consists of a debenture loan approved by resolution passed at an extraordinary meeting of a nominal value of €10,000 thousand, expiring in 2018, represented by 1,000,000 bonds of a nominal value of 10 euro each, convertible at a ratio of 1 share every 2 bonds.

Bank borrowings

Loans and borrowings from banks and credit institutions covering investments and financial restructuring work totalled €206,670 thousand as at 31 December 2017. They are secured by collateral for €105 thousand (€85 thousand Feralpi Siderurgica and €20 thousand Calvisano). It is noted that there are no covenants on loans in being as at 31 December 2017. As to loans falling due after 5 years, a significant reduction of €5,107 thousand is noted, compared to the previous year.

The table below shows a breakdown of this item.

Description	2017	Change in cons.	2016	Change
Bank current accounts	57,521	24,380	50,715	6,806
Loans falling due <12 months	28,220	0	40,358	(12,138)
Loans falling due >12 months and <5 years	90,026	2,436	73,763	16,263
Loans falling due >5 years	3,500	587	8,607	(5,107)
Total	179,267	27,403	173,443	5,824
Total 2017 with change in scope of consolidation		206,670	173,443	33,227

New loans were taken out in 2017 for about €34.5m by Feralpi Siderurgica S.p.A. and €3m by Presider S.p.A. and €7 million by the German subsidiary ESF.

Trade creditors

Payables owed to suppliers are all of a commercial nature. A breakdown by geographical area is given below.

Description	Italy Commercial	Other EU countires Commercial	Non EU	Total
Trade creditors	152,550	73,123	4,661	230,334
Total	152,550	73,123	4,661	230,334

Tax liabilities

Tax liabilities within 12 months are broken down as follows.

Description	2017	Change in cons.	2016	Change
Individual income tax (IRPEF)	2,280	202	1,844	436
VAT liability	4,547	-	1,537	3,010
Sundry tax and duty liabilities	11,121	5	8,153	2,968
Total	17,948	207	11,534	6,414
Total 2017 with change in scope of consolidation		18,155	11,534	6,621

Other payables

The table below shows the item “Other payables” broken down by type.

Description	2017	Change in cons.	2016	Change
Personnel expenses paid	9,424	268	9,439	(15)
Rewards to customers	7,390	-	7,490	(100)
Others	4,822	109	5,218	(396)
Total	21,636	377	22,147	(511)
Total 2017 with change in scope of consolidation		22,013	22,147	(134)

The most significant amount is related to employee remuneration and collaborator fees accrued in December. It should be noted that payables owed to others is virtually unchanged compared to the previous year. .

E) Accruals and deferred income

Accruals and deferred income reflects harmonised items for the year calculated on an accrual basis. It should be noted that as at 31 December 2017 there were no accruals and deferred income exceeding five years.

A breakdown of accruals is given below.

Description	Opening value	Change in cons.	Change during the year	Closing value
Accruals and deferred income	1,275	64	(88)	1,251
Total	1,275	64	(88)	1,251
Total with change in scope of consolidation		1,339	(88)	1,427

Deferred income, amounting to €1,251 thousand, is mainly related to investment subsidies that will be used in the future and concerns ESF GmbH and EDF GmbH for €812 thousand.

A breakdown of deferred income distributed over time is given below.

Description	Less than 12 months	Over 12 months	Over 5 years	Total
Accruals and deferred income	787	464	-	1,251
Total	787	464	-	1,251

It should be noted that the Parent company issued €130m guarantees in favour of credit institutions for credit lines and/or loans granted to Group companies.

Income statement

A comparison is made between the 2017 and 2016 consolidated income statements, with details of the change to the scope of consolidation following the inclusion of Presider S.p.A., MPL S.r.l. and Presider Armature SaS.

A) Production value

A breakdown of this item is detailed below.

Description	2017	Change in Cons.	2016	Change
Revenues from goods sold and services rendered	1,148,373	50,597	932,002	216,371
Change in product inventories	27,914	(313)	5,488	22,426
Change in WIP on order	-	-	-	-
Increase in capitalized internal work	2,611	5	2,280	330
Other revenues and income	13,668	1,979	4,550	9,118
Total	1,192,566	52,268	944,321	248,246
Total 2017 with change in scope of consolidation		1,244,835	944,321	300,514

The increase in turnover on the previous year reflects the market situation in the industry, which was characterised by a steady recovery. Further details are provided in the business report.

A breakdown of other revenues and income by category is given in the table below.

Category	2017	Change in Cons.	2016	Change
Rentals	793	-	771	23
Insurance and other collection	148	-	701	(552)
GSE incentives	-	-	255	(255)
Incentives	1,523	28	1,078	444
Other revenues and income	11,204	1,951	1,746	9,458
Total	13,668	1,979	4,550	9,118
Total 2017 with change in scope of consolidation		15,647	4,550	11,097

The item “incentives” comprises subsidies for R&D activities, mainly regarding the Parent company for €390 thousand and the subsidiary Acciaierie di Calvisano for €688.

Revenues from sales by geographical area are broken down as follows.

Geographical area	2017	Change in Cons.	2016	Change
Italy	403,017	28,306	295,124	107,894
Other EU countries	562,164	17,218	429,537	132,626
Non-EU countries	183,192	5,073	207,341	(24,149)
Total	1,148,373	50,597	932,002	216,371
Total 2017 with change in scope of consolidation		1,198,970	932,002	266,968

B) Production costs

The breakdown and changes of this item are shown in the table below.

Description	2017	Change in Cons.	2016	Change
Raw materials, supplies, consumables and goods	774,449	19,825	583,930	190,519
Services	216,053	20,738	183,813	32,240
Hire, purchase and leasing charges	2,896	515	2,896	-
Personnel	79,377	3,741	75,310	4,067
Amortisation, depreciation and write-downs	40,863	2,549	40,076	788
Changes in inventories	(10,701)	3,568	(5,900)	(4,801)
Provision for contingent liabilities	29,451	-	150	29,301
Other provisions	1,749	-	1,349	400
Other operating charges	5,668	908	2,873	2,795
Total	1,139,805	51,844	884,497	255,308
Total 2017 with change in scope of consolidation		1,191,649	884,497	307,152

Cost for raw materials, supplies, consumables and goods

Compared to the previous year, the cost of raw materials, supplies, consumables and goods increased significantly by €190,519 thousand. For further details on the economic situation during the year, reference is made to the business report.
It should be noted that the cost of scrap accounted for 83% of the total cost of raw materials.

Cost for services

The table below shows a breakdown of the cost for services, where almost all the listed items show a significant increase. This increase is mainly the result of the rise in turnover, as illustrated in detail in the business report.

Description	2017	Change in Cons.	2016	Change
Maintenance and outsourced services	23,047	393	12,660	10,387
Production services	38,340	10,120	26,070	12,270
Energy and utilities	91,907	551	78,764	13,143
Transport and internal movements	36,698	6,597	38,143	(1,445)
Consultancy, insurance, advertising	13,913	1,049	12,496	1,417
Others	12,149	2,028	15,681	(3,532)
Total	216,054	20,738	183,814	32,240
Total 2017 with change in scope of consolidation		236,791	183,814	52,977

Costs for hire, purchase and leasing charges

A breakdown of this item is given in the table below.

Description	2017	Change in Cons.	2016	Change
Rentals	2,206	338	2,156	50
Licence fees	690	177	740	(50)
Total	2,896	515	2,896	-
Total 2017 with change in scope of consolidation		3,411	2,896	-

Personnel expenses

This item comprises all expenses for employees, including merit salary increases, promotions, cost-of-living increases, cost of untaken leave and provisions required by law and collective labour agreements.

Description	2017	Change in Cons.	2016	Change
Wages and salaries	58,920	2,729	56,725	2,195
Social security contributions	16,015	802	15,296	719
Severance pay allowance	2,042	203	1,883	159
Others	2,402	5	1,406	997
Total	79,379	3,739	75,310	4,070
Total 2017 with change in scope of consolidation		83,118	75,310	7,808

Depreciation allowance for non-current assets

This allowance was calculated on the basis of the useful life of assets and their utilisation in the production process.

The amount in the provision for doubtful debts relates to its adjustment and was allocated on the basis of the estimated collectability of receivables entered in the accounts.

Description	2017	Change in Cons.	2016	Change
Depreciation of tangible assets	37,797	1,665	37,191	606
Amortisation of intangible assets	2,813	114	1,415	1,398
Impairment of receivables	255	768	1,470	(1,215)
Total	40,865	2,547	40,076	789
Total 2017 with change in scope of consolidation		43,412	40,076	3,336

Other write-downs of non-current assets

None.

Write-down of receivables included under current assets and cash and cash equivalents

An allowance of €1,470 thousand was allocated to the provision for doubtful debts, taking into account unsecured receivables.

Provision for risks

The most significant figure attributable to Feralpi Siderurgica relates to a €29,429 thousand set aside to cover contingencies. For further details, reference must be made to the dedicated section.

Other provisions

These are amounts set aside during the year by the companies that manage landfills, in relation to post-closure expenses.

Other operating charges

This item comprises association membership fees, the property tax (IMU), losses on receivables, sundry taxes, duties and tax non-deductible expenses.

Description	2017	Change in Cons.	2016	Change
Donations and charities	54	-	44	10
Membership fees	372	-	440	(68)
Taxes and duties	1,129	71	961	168
Loss on receivables	95	407	-	95
Others	4,018	430	1,427	2,591
Total	5,668	908	2,873	2,795
Total 2017 with change in scope of consolidation		6,576	2,873	3,703

The €1,132 thousand increase in "Others" is mainly related to the subsidiary ESF, which recognised €920 thousand for assets under construction, with immediate effect in the year.

C) Financial income and expenses

Description	2017	Change in Cons.	2016	Change
From equity investments in associates	-	-	54	(54)
From equity investments in other companies	48	-	65	(17)
Interest income from associates	130	-	-	130
Other financial income	208	105	137	71
Total financial income	386	105	256	184
Interest and other financial expenses from parents	-	-	-	-
Interest and other financial expenses	3,896	305	4,694	(798)
Total financial expenses	3,896	305	4,694	(798)
Exchange gains and losses	(19)	127	43	(62)
Total	(3,529)	(73)	(4,395)	920
Total 2017 with change in scope of consolidation		(3,602)	(4,395)	793

The decrease in financial expenses is mainly due to the considerable decrease in interest rates on financial markets.

Financial income

This item mainly reflects bank interest income and interest charged to customers.

Description	2017	2016	Change
Dividends	75	119	(44)
Bank and other interest income	16	22	(6)
Interest income from customers	400	115	285
Total	491	256	235

Financial expenses

A breakdown of interests and other financial expenses is given in the table below.

Description	2017	2016	Change
Bank interest expense	(1,387)	(959)	(428)
Interest on loans	(1,304)	(2,034)	730
Financial discount and expenses	(694)	(1,744)	1,050
interest expense on hedges	(511)	43	(554)
Total	(3,896)	(4,694)	798

D) Adjustment to the value of financial assets

Revaluations/impairments

The table below shows the revaluations and impairment losses for 2017, which are mainly associated with the valuation of equity investments in associates included in the scope of consolidation using the equity method and other minor companies.

Description	2017	2016	Change
Beta	16	104	(88)
Media Steel	287	318	(31)
Far energia	6	6	-
Feralpi Farm	-	-	-
Alpifer	353	-	353
Caleotto	752	-	752
Dima	3	-	3
Agroittica	36	35	1
Comeca	6	44	(38)
Total revaluations - Associates	1,459	507	952
Mittel	477	-	477
Altri minori	22	-	22
Total revaluations - Other companies	499	-	499
Total revaluations	1,958	507	1,451
Agroittica	225	347	(122)
Presider	-	217	(217)
Cogeme Steel	309	546	(237)
Caleotto	-	348	(348)
MPL	-	70	(70)
Alpifer	-	578	(578)
Omega	90	-	90
Dima	66	138	(72)
Total impairments - Associates	690	2,244	(1,554)
Mittel		279	
Feralpi Salò	263	174	89
Altre minori	14	41	(27)
Total impairments - Other companies	277	494	62
Total impairments	967	2,738	(1,492)

Income tax for the year

Description	2017	Change in Cons.	2016	Change
Current taxes	19,942	26	15,731	4,211
Deferred taxes	(142)	-	(86)	(56)
Prepaid taxes	28	144	68	(40)
Total	19,828	170	15,713	4,115
Total 2017 with change in scope of consolidation		19,998	15,713	4,285

All the companies with a negative operating result recognised deferred taxes on the fiscal loss for the year.

Employees

The average number of employees in the Group by category is given in the table below.

Description	2017 average	2016 average	Change
Executives	27	23	4
Office workers and middle managers	422	347	75
Factory workers	1,052	1030	22
Total	1,501	1,400	101

The average number of employees by company is given in the table below.

Company	2017 average	2016 average	Change
Feralpi Holding S.p.A. (Italy)	46	42	4
Ecoeternit S.r.l. (Italy)	4	4	-
Ecotrading (Italy)	3	3	-
Presider S.p.A. (Italy)	62	nc	nc
MPL S.r.l. (Italy)	12	nc	nc
Feralpi Siderurgica S.p.A. (Italy)	385	377	8
Acciaierie di Calvisano S.p.A. (Italy)	110	109	1
Fer Par S.r.l. (Italy)	92	93	(1)
Feralpi profilati Nave S.r.l. (Italy)	3	2	1
Nuova Defim S.p.A. (Italy)	76	75	1
ESF GmbH (Germany)	449	441	8
Feralpi Stahlhandel GmbH (Germany)	11	10	1
EDF GmbH (Germany)	144	144	-
Feralpi Logistik GmbH (Germany)	31	30	1
Feralpi Algerié (Algeria)	12	12	-
Feralpi Praha Sro (Czech Republic)	50	48	2
Feralpi Hungaria Kft (Hungary)	11	10	1
Total	1,501	1,400	27

Supplementary disclosure

As required by law, the overall fees paid to the members of board of directors and board of auditors are shown below.

Description	Remuneration
Board of directors	2,579
Board of auditors	164
Total	2,743

The fees paid for statutory audits of the group companies' accounts and the supervision of the group consolidated financial statements amounted to €215 thousand.

Facts of note occurring after the closing date

For some time now, the Group has undergone a process of renewal and diversification, the last step of which occurred at the end of 2017 at a company level, with the establishment of the French company Presider Armatures.

The focus is now on developing the Group's integration and functionality, through a corporate and organisational review, supported by the most appropriate operating methods.

A considerable effort at all levels, including in economic spending, is aimed at improving the information systems necessary to manage an organization that has recently become increasingly complex. The newly acquired companies also require a deep technical and organisational review. To this end, the Group has invested heavily in human and financial resources, thanks to a positive economic and financial situation. In a still highly competitive market, the Group is able to play a leading role.

These Financial Statements, comprising the Balance Sheet, the Income Statement and Explanatory Note and the Cash Flow Statement give a correct and fair view of the company's assets and liabilities, financial situation and the operating result, and correspond to the accounting records.

The Chairman
Giuseppe PASINI

The Vice-Chairman
Cesare PASINI

The Managing Director
Giovanni PASINI

Board Directors
Maria Giulia PASINI

Marco LEALI

Andrea TOLETTINI

Alessandra TOLETTINI

Guido CORBETTA

Lonato del Garda, 24th May 2018

Board of Auditors' report

on Feralpi Holding S.p.A.'s Consolidated Financial Statements

for the year ended 31st December 2017

To the shareholders' meeting of Feralpi Holding S.p.A. ("Company" or "Feralpi"),

The consolidated financial statements of the Feralpi Group, as at 31st December 2017, was prepared in accordance with the law and is accompanied by the business report.
With reference to the Explanatory Notes, the statements provide a clear and exhaustive representation of the method used in the preparation of the financial statements and the specific accounting standards adopted.
As a result of the information provided and the audits carried out, we can state that the format and layout of the consolidated financial statements comply with the generally accepted accounting standards and the provisions of the Italian Civil Code**,** which were applied correctly**.**
Please also note that:

- the consolidated financial statements reflect the events and information that have come to our knowledge in carrying out our tasks;
- the business report to the Feralpi Group's financial statements is drawn up in complete form and in accordance with the provisions of art. 2428 of the Italian Civil Code.

In conclusion, considering all the above and also the results of the activities performed by the supervisory board, no significant events worth mentioning herein occurred during the year.

Lonato del Garda, 13th June 2018

THE BOARD OF AUDITORS
Giancarlo Russo Corvace
Stefano Guerreschi
Alberto Soardi

Feralpi Holding S.p.A.

Consolidated Financial Statements as at December 31, 2017

Independent auditor's report
Pursuant to art. 14 of Legislative Decree no. 39 of January 27, 2010

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INDEPENDENT AUDITOR'S REPORT
pursuant to art. 14 of Legislative Decree no. 39 of 27 January 2010

To the Sole Shareholder of
Feralpi Holding S.p.A.

Report on the Financial Statements

Opinion

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italy). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the *Audit of the Consolidated Financial Statements* section of our report. We are independent of the Feralpi Holding S.p.A. in accordance with the code of ethics for professional accountants established by Italian law on financial statements auditing. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and the Board of Auditors for the Consolidated Financial Statements

Directors are responsible for the preparation and fair representation of the consolidated financial statements in accordance with Italian Law governing the preparation standards and, within the terms of the law, for such internal control as directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Directors are responsible for assessing the Group's ability to continue as a going concern, the appropriateness of the use of the going-concern assumption and the adequate relevant disclosure, as applicable. Directors are also responsible for using the going-concern basis in preparing the financial statements, unless they have ascertained the existence of the conditions for the liquidation of the parent company or cease operations, or there is no realistic alternative but to do so.

The board of auditors are responsible for overseeing the Group's financial reporting process.

Independent Auditor's responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain 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 conducted in accordance with ISA 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 an audit in accordance with International Standards on Auditing (ISA Italy), we exercised professional judgement and maintained professional scepticism throughout the audit. We also took steps to:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by directors.
- conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, on 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. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to review our opinion accordingly. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate 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 a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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Opinion pursuant to art. 14, subsection 2, letter e) of Italian Legislative Decree no. 39 of 27 January 2010

The directors of Feralpi Holding S.p.A. are responsible for preparing the Feralpi Holding Group's business report as at 31 December 2017, including consistency with the related consolidated financial statements and compliance with the law.

We performed the procedures required under audit standard (ISA Italia) no. 720B in order to express an opinion on the consistency of the business report with the consolidated financial statements of the Feralpi Holding Group as at 31st December 2017, and on its compliance with the provision of law, as well as issue a declaration on any material error.

In our opinion, the business report is consistent with the consolidated financial statements of the Feralpi Holding Group as at 31st December 2017, which was prepared in compliance with legal requirements.

With reference to the report issued pursuant to art. 14, subsection 2, letter e), of Legislative Decree no. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Brescia, 13th June 2018

Reconta Ernst & Young S.p.A.
[Signatures illegible]
Stefano Colpani
(Partner)

FERALPI SIDERURGICA SPA
CONSOLIDATED FINANCIAL STATEMENTS AS AT 31/12/2017

BUSINESS REPORT
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Directors' Business Report on the Consolidated Financial Statements for the year ended 31 December 2017

To the shareholders,

This Business Report on the Consolidated Financial Statements for the year ended 31.12.2017 was prepared in accordance with article 40 of Italian Legislative Decree no. 127/91. Unlike the Explanatory Notes, the business report, though not forming an integral part of the Financial Statements, constitutes a source of information and support for the financial statements themselves, and aims to provide an overall picture of the companies included in the scope of consolidation, with specific reference to management trends of the Group taken as a single economic unit.

The year which ended on 31.12.2017 shows a positive operating result for the Group amounting to €19.7m, after having allocated €41.2m to the provision for amortisation, depreciation and write-down, thus generating a cash flow of €91m as against €76.5m in 2016.

International and national scenario

The world economy regained momentum in 2017, with a 3.7% increase in GDP, compared to the previous year. This generalized increase was recorded in both advanced economies and developing economies.

In the European Union, the 2.7% recorded in 2017 (2% in 2016) was supported mainly by Germany (+2.5%), Spain (+3.1%) and Austria (+2.9%).
The table below shows the trend in steel-using sectors.

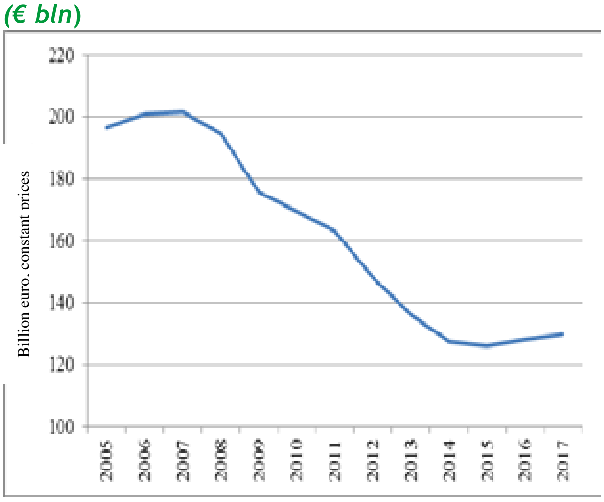
	% share on total consumption	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Year 2017
Construction	35%	5.0	4.1	4.6	3.4	4.3
Mechanical engineering	14%	5.4	3.5	5.0	5.8	4.9
Automotive	18%	6.4	-0.4	2.8	6.2	3.7
Domestic appliances	3%	4.6	1.4	5.0	3.9	3.7
Other transport	2%	6.4	-	-0.8	3.3	2.3
Pipes	13%	12.3	7.1	8.4	5.2	8.3
Metal goods	14%	6.1	3.0	5.0	6.2	5.0
Miscellaneous	2%	4.4	0.8	3.8	2.6	2.9
Total	**100%**	**6.4**	**3.0**	**4.6**	**4.9**	**4.7**

Source: Eurofer

Italy remained the weak link of European growth, albeit the increase in GDP from 0.9% in 2016 to 1.5% in 2017. This slight improvement was the result of a positive trend in exports and, more importantly, the significant amount of gross capital investments (+3.9%), including means of transport (+35.5%).

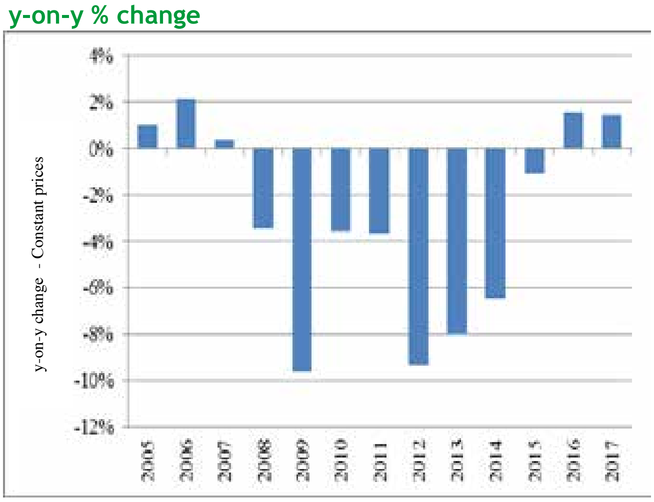
Gross capital investments in the construction industry increased by 1.4%.

(€ bln)



Source: ISTAT

y-on-y % change



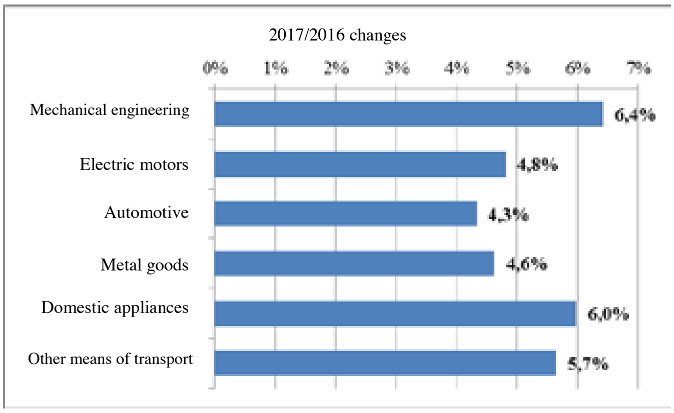
Source: ISTAT

Industrial production rose by 3.6%, mainly in the steel-using sectors.

y-on-y percentage change

Source: ISTAT

steel-using sectors (% 2017/2016)



Source: ISTAT

Global steel industry

The world production of steel recorded a new all-time peak in 2017, with 1,689 million tonnes, with a 3.8% increase.

A breakdown of global steel production volumes over recent years by macro geographical areas is given below.

(million tonnes)	2013	2014	2015	2016	2017	% change 2017/2016	% share 2017
European Union (28)	166.4	169.3	166.1	162.0	168.4	4.0%	10.0%
Other European countries	38.6	38.4	35.8	37.7	42.3	12.4%	2.5%
CIS	108.4	106.1	101.6	102.1	100.8	-1.3%	6.0%
North America	119.0	121.1	110.9	110.6	115.8	4.6%	6.9%
South America	45.8	45.0	43.9	40.2	43.7	8.6%	2.6%
Africa	16.0	14.9	13.7	13.1	15.1	14.9%	0.9%
Middle East	27.0	30.0	29.4	31.5	34.5	9.5%	2.0%
Asia	1,123.6	1,139.2	1,112.9	1,123.9	1,162.9	3.5%	68.8%
Oceania	5.6	5.5	5.7	5.8	6.0	2.1%	0.4%
World	1,650.4	1,669.5	1,620.0	1,627.0	1,689.4	3.8%	100.0%

Sources: Federacciai and Worldsteel

The table clearly shows the predominant weight of the Asian continent (68.8%), China first and foremost (49.3%).

The European Union recorded an excellent performance in steel production (+4%), with positive results in all countries, except the United Kingdom, and extremely high peaks in Poland (+14.8%) and Austria (+9.4%).

(million tonnes)	2013	2014	2015	2016	2017	% Change 2017/2016	% share 2017
United Kingdom	11.9	12.1	10.9	7.6	7.5	(1.9%)	4.4%
Germany	42.6	42.9	42.7	42.1	43.4	3.1%	25.8%
Italy	24.1	23.7	22.0	23.4	24.1	3.0%	14.3%
France	15.7	16.1	15.0	14.4	15.5	7.6%	9.2%
Spain	14.3	14.2	14.8	13.6	14.5	6.2%	8.6%
Poland	8.0	8.6	9.2	9.0	10.3	14.8%	6.1%
Austria	8.0	7.9	7.7	7.4	8.1	9.4%	4.8%
Others	53.8	55.8	54.7	52.1	52.5	0.8%	26.8%
European Union (28)	116.4	169.3	166.1	162.0	168.4	4.0%	100%

Sources: Federacciai and Worldsteel

Steel production in Italy

The production of crude steel in 2017 accounted for 24.1 million tonnes, with a 3% increase year on year – a result definitely far from the peaks reached in 2006-2007 and in 2011.

bn tonnes

Source: Federacciai

y-on-y % change

Source: Federacciai

The production of long products increased by 2.3%, reaching 11.9 million tonnes, with particular emphasis on merchant bars, with 3.8m tonnes (+11.9%) and wire rod, with 4.5m tonnes (+8.5%), while products most related to the construction industry, such as reinforcing bars and beams, declined further.
While the production of flat products decreased (-2.1%) at 11.3 million tonnes.

A look to apparent consumption trend shows a 3.7% increase in long products, due mainly to a shaft rise in imports (+10.5%) and a substantial stability in deliveries and exports.
The increase in exports in the European Union (+22.6%) was offset by a decline in operations with non-EU countries (-25.7%).
This was mainly affected by the decline of exports to Algeria, as a result of a partial ban on the importation of rebar and wire rod, due to regulatory interventions by local government.
The apparent consumption of flat products increased by 1.3%, reaching 15.7 million tonnes.

An analysis of the Group's reference countries (Italy and Germany), in relation to the two main products (rebar and wire rod), shows a diversified situation.

The rebar market in Italy continued to decline, with over a 10% drop in production and -3.5% apparent consumption.
The shrinkage in exports to Algeria mostly contributed to the nearly 40% decrease in non-EU exports, which was only partly offset by higher aggressiveness towards European countries.
The domestic market is still very weak.

Rebar (thousands of tonnes)	2017	2016	% change
Output	2,834	3,179	(10.9)
Deliveries	2,860	3,161	(9.5)
EU imports	8	5	60.0
Non-EU imports	5	23	(78.3)
Total Imports	13	28	(53.6)
EU exports	697	420	66.0
Non-EU exports	832	1,376	(39.5)
Totalexports	1,529	1,796	(14.9)
Apparent comsumption Italy	1,344	1,393	(3.5)

Source: Federacciai

As to wire rod, whose reference market is clearly more diversified (building construction, mechanical components, automotive), the performance is definitely different.
The production shows an increase of over 8 percentage points and apparent consumption exceeding 5 points, while the import-to-export balance virtually breaks even.

Wire rod (thousands of tonnes)	2017	2016	% change
Output	4,468	4,117	8.5
Deliveries	3,831	3,667	4.5
EU imports	1,114	887	25.6
Non-EU imports	293	299	(2.0)
Total Imports	1,407	1,186	43.3
EU exports	982	787	24.8
Non-EU exports	427	437	(2.3)
Total exports	1,409	1,224	15.1
Apparent comsumption Italy	3,829	3,629	5.5

Source: Federacciai

trend in the construction industry, while export volumes declined.

Rebar (thousands of tonnes)	2017	2016	% change
Deliveries	2,232	2,181	2.3
EU imports	541	431.0	25.4
Non-EU imports	124	189.6	-34.5
Total Imports	665	620.6	7.1
EU exports	549	556.0	-1.3
Non-EU exports	132	178.0	-25.8
Total exports	681	734.0	-7.2
Apparent consumption Germany	2,216	2067.6	7.2

Source: Wirtschaftsvereinigung Stahl

The wire rod market also performed positively. In addition to the steady surplus of the balance of trade, the domestic market further improved, with an increase in apparent consumption of over 3%.

Wire rod (thousands of tonnes)	2017	2016	% change
Deliveries	6,138	6,073	1.1
EU imports	1,358	1,327	2.3
Non-EU imports	250	227	10.1
Total imports	1,608	1,554	3.5
EU exports	1,767	1,926	(8.3)
Non-EU exports	618	521	18.6
Total exports	2,385	2,447	(2.5)
Apparent consumption Germany	5,361	5,180	3.5

Source: Wirtschaftsvereinigung Stahl

Group's production activities

2017 saw an increase in the production of crude steel, which exceeded 2.4 million tonnes, with an increase of 2.4%, while the production of finished products decreased by 2.3% year on year, at about 2.1 million tonnes. Cold-rolled products rose by 13.7%, as a result of increase in the production of electro-welded mesh.

Production (in tonnes)

Steel billets		*2017*	*2016*	*% change*
Feralpi Siderurgica SpA - Lonato	Italy	1,072,878	1,071,325	0.1%
Acciaierie di Calvisano SpA - Calvisano	Italy	407,201	369,706	10.1%
ESF GmbH - Riesa	Germany	967,562	949,079	1.9%
Total		*2,447,641*	*2,390,110*	*2.4%*

Finished product (reinforcing steel in bar – rebar in coil - wire rod - merchant bar)		*2017*	*2016*	*% change*
Feralpi Siderurgica SpA - Lonato	Italy	1,165,912	1,223,183	(4.7%)
Feralpi Profilati Nave Srl	Italy	60,847	29,346	107.3%
ESF GmbH - Riesa	Germany	862,914	885,871	(2.6%)
Total		*2,089,673*	*2,138,400*	*(2.3%)*

The trend in downstream processed products is shown below:

Cold-drawn products	*2017*	*2016*	*% change*
Total cold-drawn products - downstream processed products	979,104	861,360	13.7%

Subsidiaries

A breakdown of aggregate sales figures by production and commercial subsidiaries is given below.

(€,000)		2017	2016	% change
Feralpi Siderurgica SpA	Italy	525,574	454,952	15.5%
Acciaierie di Calvisano SpA	Italy	162,433	122,749	32.3%
Feralpi Profilati Nave Srl	Italy	38,281	13,444	184.7%
Nuova Defim SpA	Italy	34,771	25,868	34.4%
Fer-Par Srl	Italy	5,621	3,152	78.3%
Presider SpA	Italy	90,955	81,142	12.1%
MPL Srl	Italy	21,338	18,003	18.5%
ESF GmbH*	Germany	454,630	364,004	24.9%
EDF GmbH*	Germany	101,476	89,795	13.0%
Feralpi Stahlhandel GmbH*	Germany	10,681	6,745	58.4%
Feralpi Logistik GmbH*	Germany	4,010	3,866	3.7%
Feralpi Praha Sro*	Eastern Europe	22,250	20,251	9.9%
Feralpi Hungaria Kft*	Eastern Europe	5,800	5,130	13.1%
Feralpi Algèrie Sarl*	Non-EU	10,659	3,678	189.8%
Aggregate total		1,488,480	1,212,779	22.7%

* figures taken from financial statements prepared in accordance with the local standards of each company.

A breakdown of consolidated sales by geographical area is given below.

(€,000)	2017	% breakdown	2016	% breakdown	% change 2017/2016
Italy	422,449	35.5	288,596	31.2	46.4%
UE	579,383	48.7	429,537	46.4	34.9%
Non-EU	188,265	15.8	207,341	22.4	(9.2%)
Consolidated total	1,190,097	100.0	925,474	100.0	28.6%

Associated companies

A breakdown of aggregate turnover by production and commercial associated companies is given below.

(€,000)		2017	2016	% change
Beta Sa	Romania	8,013	10,180	(21.3%)
Comeca SpA	Italy	17,522	17,091	2.5%
Media Steel Srl	Italy	201,447	162,508	24.0%
Caleotto SpA	Italy	91,396	62,798	45.5%
Cogeme Steel Srl	Italy	9,710	10,018	(3.1%)
Alpifer Srl	Italy	53,364	-	NA
Aggregate total		381,452	262,595	45.3%

Revenues and operating expenses

The main revenues are detailed in the table below.

(€,000)	2017	2016	Change	% change
Revenues from goods sold and services rendered	1,190,095	925,473	264,622	28.6%
Other revenues and income	5,212	4,543	669	14.7%
Total	1,195,308	930,017	265,291	28.5%

The main operating expenses are detailed in the table below.

(€,000)	2017	2016	Change	% change
Raw materials and supplies	794,131	583,688	210,443	36.1%
Services	238,517	185,686	52,831	28.5%
Hire and lease fees	2,775	2,117	658	31.1%
Personnel	79,169	71,444	7,724	10.8%
Amortisation, depreciation and impairments	41,243	37,957	3,286	8.7%
Change in inventory	(7,133)	(5,900)	(1,233)	20.9%
Accantonamenti per rischi	29,451	150	29,301	NC
Sundry operating expenses	4,682	2,370	2,312	97.6%
Total	1,182,834	877,512	305,323	34.8%

Investments

Equity investments

Feralpi Siderurgica acquired 52% of Presider S.p.A. and MPL Srl, thus obtaining full control thereof.
Presider manufactures reinforcing bar for use by building construction companies and, during the year, it set up Presider Armatures Sas, a company under French law, thereby enhancing its visibility and paving the way to international operations, the aim being to gain a foothold in markets characterized by major developments in infrastructures.
MPL specializes in the manufacture of beams and operates in synergy with other Group companies.

Feralpi Siderurgica and Acciaierie di Calvisano have also subscribed to the increase in the share capital of Metalinterconnector ScpA, which entailed an overall investment exceeding 6 million euro.

Technological investments

In 2017, numerous interventions were planned during the summer and year-end shutdown, which involved production activity and environmental protection and safety issues.

Below is a list of the main ones:

Feralpi Siderurgica S.p.A.

Steel mill

- ✓ Commissioning of the scrap refiner and the new self-propelled electric loader.
- ✓ Complete reconstruction of the crusher wiring system, upgrading and adaptation of facilities and advanced control of the safety devices in the area.
- ✓ Installation of the iSTEEL TEMP temperature measuring robot.
- ✓ Installation of a robotized station to automatically apply labels to the billets produced in the steel mill and improve material traceability.
- ✓ Installation of the new TDR on the EAF furnace to better control the operation of electrodes.

Rolling mills

- ✓ Replacement of roughing stand drives at Rolling Mill 2 and revamping of the roll train automation system.
- ✓ Replacement of the coil-forming laying head with a new-generation machine with oil film that allows for smaller diameters to achieve greater rolling speeds and reduce maintenance interventions.
- ✓ New smart feeder at Rolling Mill 2.
- ✓ Optical billet recognition system at Rolling Mill 2.

Downstream process

- ✓ Upgrading of an electro-welded mesh rolling machine.
- ✓ Installation of automatic warehouses in the tooling and maintenance area

Buildings, storage yards and other facilities

- ✓ Continuation of work on replacing the asbestos roofing and wall at Rolling Mill 1, the result being better luminosity in the operating departments.
- ✓ Construction of a new area for white slag processing.
- ✓ Completion of upgrading of the fire detection and alarm system.
- ✓ Construction of the new thermal power plant feeding the administration block and other buildings.

Acciaierie di Calvisano S.p.A.

- ✓ Completion and operation of a new scrap processing area to separate undesirable trace elements.
- ✓ Construction of an automatic eccentric bottom tap-hole (EBT) filling and cleaning system to improve and enhance these operations and make them safer.

- ✓ Installation of new hoppers feeding additives to ladle at tapping in order to increase the range of manageable ferroalloys and increase operating safety.
- ✓ Purchase of a new automatic electrode nippling station to improve the operation and make it safer.
- ✓ Extension of the offgas uptake system to create two new ladle heating stations.
- ✓ Installation of a new plant for the distribution of ingot mould oil and powder, in order to improve the quality of product surface.

Fer-Par Srl

Extraordinary maintenance work was carried out on:

- ✓ 11 rolling stands
- ✓ Lubrication plants
- ✓ Cooling water distribution network
- ✓ Compressor room
- ✓ Overhead crane runway rails
- ✓ Complete revamping of lathe with the installation of numerical control

Investments

- ✓ Construction work prior to the installation of the trio plant in 2018 (aimed at using 140 or 160 mm billets).
- ✓ Computerized optical system for billet tracking.
- ✓ Purchase and installation of a second strapping machine for the packaging of finished product bundles.

Presider S.p.A.

The most significant changes concern *Plant and machinery*, and mainly relate to the purchase of new stands (Borgaro plant), stirrup bending machines (Maclodio plant) and cutting systems (Pomezia plant).

Presider Armature Sa

Major invesments were made at Presider Armature in France. An industrial building was bought at St. Soupplets (around 50 kilometres from Paris) and the production equipment was acquired. The entire area covers 37,000 sq.m., of which 6,000 sq.m. indoors.

Investments in production equipment mainly concerned an automatic robot for latest-generation bar bending and stirrup bending and bar shaping machines.

ESF Elbe-Stahlwerke Feralpi GmbH

- ✓ During the last winter plant shutdown, a CSB Gauging Block was installed to increase the rolling speed on the wire rod production line.
- ✓ Installation of a fourth weighing bridge at the downstream product outgoing area.
- ✓ Replacement of power regulation and control systems with latest-generation systems, at the rolling mill.
- ✓ Building of a shed with a dust removal plant to protect the black slag discharge area in the steelmaking mill.
- ✓ Purchase of a new lathe for the cylinder manufacturing bay.
- ✓ Work on improving ventilation inside the steelworks and rolling mill buildings.

EDF Elbe-Drahtwerke Feralpi GmbH

- ✓ Commissioning of a new wire stretching machine
- ✓ Numerous interventions for environmental protection

Environment and Safety

Respecf for the environment, health and safety in the workplae have alway the Group's primary goal.
The main actions taken in this regard are summarised below.

Feralpi Siderurgica S.p.A.

Activities relating to environmental improvement

- ✓ On 25 January, by decree no. 170-2017, the Brescia Provincial Authority issued the new Integrated Environmental Authorisation, which entailed a review of the environmental control and monitoring plans.
- ✓ The iron scrap sorting plant feeding the melting cycle was commissioned during the year to increase the global efficiency of the production process.
- ✓ Work on connecting internal users to the district heating system, which uses the residual heat of the water used to cool down the offgas system continued, including Feralpi's entire office building.
- ✓ Various activities envisaged in the environmental improvement plan continued during the year, according to the circular economy approach, including the reuse of slag for the construction of floorings and manufactured products used in the plant, the reuse of refractory material, the separate collection of waste produced and managed.
- ✓ Following the assessment conducted by the Inspection Committee on the Major Accident Risk Management System, pursuant to Legislative Decree 105/15, the final favourable report issued by the Ministry was received in January.
- ✓ A monitoring visit was conducted on the Environmental Management System by the IGQ certifying body in February, which confirmed the maintenance of the certificate of conformity of the safety management system to ISO 14001 standard.
- ✓ In March, TÜV conducted an audit to confirm EMAS certification, which allowed the Group to validate the new revision of the Environmental Declaration, containing data updated as at 31 December 2016.

Activities relating to the health of workers and workplaces

- ✓ Activities regarding all aspects of the prevention and protection of workers' health and safety continued throughout the year, including the monitoring of chemical and physical agents in the workplace, constant updating of risk assessment, development of plant engineering and work environments, procedure optimisation, personnel training, constant improvement of the H&S Management System.
  Below is an illustrative list of the interventions carried out in different areas:
- ✓ As many as 74 courses were held on occupational health and safety issues, which involved a total of 91 lessons 3,504 training hours.
- ✓ Personnel continued to be involved in periodical meetings with Management and heads of departments, mainly on safety issues, including the development of the "Zero Accident" project, which focuses on the Safety Tutor team, which involved all company personnel.

Activities relating to continuous improvement in the safety level of plants and environment

- ✓ General interventions were made on the crushing system to revamp safety devices.
- ✓ A project covering the revamping of fire detection and extinction systems was implemented in various areas of the steelworks department.
- ✓ Work was completed on the roads of transit of the special vehicle used to transport slag and in the coil storage area adjacent to Rolling Mill 2.
- ✓ Activities continued to optimise the systems of access at height, which involved the replacement of existing safety lifelines and the installation of new devices (lifelines, walkways, access ladders).
- ✓ Fully automated warehouses were installed to limit the exposure of personnel to manual handling operations.

- ✓ Within the process of continuous risk assessment updating and constant focus on the best technical solutions available in accident prevention, Personal Protection Equipment was regularly upgraded.
- ✓ As part of the programme for the disposal of asbestos roofing, over 3,000 sq.m. of Eternit were removed in 2017.
- ✓ A monitoring visit was conducted by the IGQ certifying body on the Safety Management System, which confirmed the maintenance of the certificate of conformity of the safety management system to OHSAS 18001.

Acciaierie di Calvisano S.p.A.

Activities relating to environmental improvement

- ✓ Following the audit carried out by the Quality Assurance Institute (IGQ), the compliance of the Environmental Management System with UN ISO 14001 standard was confirmed for 2017 as well.
- ✓ Installation of the "machine for the separation of undesirable trace elements in ferrous scrap" to improve the quality of scrap and reduce the production of melting waste was completed during the year.
- ✓ A re-assessment was made of the daytime acoustic impact and the values were below the limits.
- ✓ A weather station was installed and the data collected are sent in real time to the municipal autority via the QCumber portal.

Activities relating to the health of workers and workplaces

- ✓ As many as 15 different training courses were held on occupational health and safety, for a total of 1,880 hours.
- ✓ Brand-new equipment was commissioned in 2017 for the automatic extension of graphite electrodes of the EAF. With this equipment the operation can be carried out "off line", which considerably reduces risks associated with working in the vicinity of the furnace. However, on 15 January 2018, as seriuos accident occurred if the continuous casting area of Acciaierie di Calvisano: the investigations conducted by the judicial authority did not result in production shutdowns and, more importantly, the employee who reported severe burns was finally discharged from the Niguarda Hospital in Milan and started the rehabilitation therapy in a facility located in the town of residence of the family.

FER-PAR Srl

Activities relating to environmental improvement

- ✓ The asbestos roofing o the office building was removed and the entire roof was remade.
- ✓ Steps were taken to start the procedure for obtaining the renewal of the Integrated Environmental Authorisation (IEA), which involved a discussion of the planned improvement interventions (water cycle, acoustic impact towards the outside and soil protection).

Activities relating to the health of workers and workplaces

- ✓ Numerous courses were held on occupational health and safety (with particular reference to workers and supervisors), the use of equipment, emergency management, electrical work, for a total of 750 hours.
- ✓ Improvement activities on the level of safety of production plants and work enviroments were implemented (namely safety improvement interventions by restoring existing protection devices and guards, the installation of new safety guards, the refurbishing of the roofing of the canteen building, the construction of a new departmental rest room, the reordering, cleaing and reorganisation of environments, transit routes and storage areas).
- ✓ Improvements were made for the safety of machine tools in the mechanical workshop.
- ✓ The runways of the overhead cranes were made safer by installing lifelines and anchoring points on the gantries. .
- ✓ New management procedures and work instructions were determined, which had already been envisaged when creating a safety management system complying with ISO 14001 and OHSAS 18001 standards.

ESF Elbe-Stahlwerke Feralpi GmbH

Activities relating to environmental improvement

- ✓ Publication of the updated Environamental Declaration.
- ✓ The audit for DIN ISO 50001 certification was successfully passed.
- ✓ On 30.05.2017, check were carried out on disposal operations, namely the inspection of the shredder system, according to the ordinance on end-of-life vehicles.
- ✓ A series of boxes were built in the slag area in relation to a new dust removal plant.
- ✓ The scrap cranes were equipped with a radiation monitoring system.
- ✓ Completion of a campaign for the monitoring of noise in the sites in the vicinity of ESF, with proof of compliance with all standard values during the day and at night.
- ✓ The specific consumption of alloy and aggregate materials decreased by 7% in the last two years.
- ✓ Similarly to raw materials, specific oxygen consumption decreased decreased by about 7% from 2015 to 2017.
- ✓ Specific electricity consumption per tonne of finished product decreased by about 5% on 2015.
- ✓ In recent years, the company succeeded in optimising scrap logistics and increasing electric furnance efficiency.
- ✓ Specific natural gas consumption decreased significantly in recent years, as did the use of cooling waters.
- ✓ Specific volume of waste at Feralpi Stahl in Riesa has decreased by about 11% since 2011, mainly due to improved control of ferrous scrap.
- ✓ Specific release of CO_2 emissions decreased by over 16% from 2015 to 2017, as a result of improved control of scrap and smelting and rolling operations.

Activities relating to the health of workers and workplaces

- ✓ Stationary (dust, total chromium) and personal (chromium VI compounts) measurements were carried out, all of which showed values below the occupational exposure limit (AGW).
- ✓ Completion of the campaign for the monitoring of noise in the sites in the vicinity of ESF, with proof of compliance with all standard values during the day and at night.

EDF Elbe-Drahtwerke Feralpi GmbH

Activities relating to environmental improvement

- ✓ The production of finished products increased on 2016, with an almost constant consumption of electricity.
- ✓ The specific consumption of electricity in kWH per tonne of finished product came to 0.5 kWh/t, compared to the 2016 minimum value.
- ✓ The specific volume of waste waters per tonne of finished product reached the lowest levels ever reported.

Feralpi Logistik GmbH

Activities relating to environmental improvement

- ✓ The company replaced 10 tractors and acquired an additional unit with significant better fuel consumption.
- ✓ All the tractors in the fleet of vehicles have no more than four years and fall within the emission class EURO 6 or higher.
- ✓ The trailers have no more than 10 years.

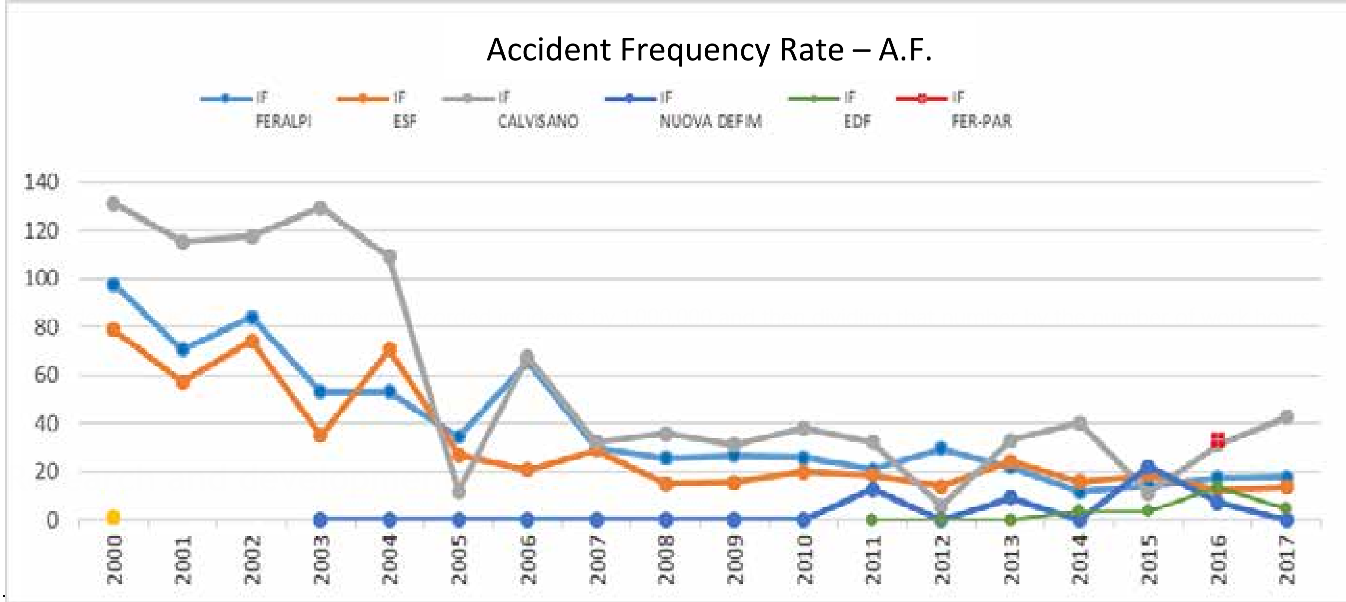
Activities relating to the health of workers and workplaces

- ✓ An FES Zentralwerkstatt firefighting system was commissioned during the year.

- ✓ As many as 9 locking systems were installed on fire doors, in the supply channel between UW-Riesa Mitte in the direction of TH West, and the appropriate fire-fighting damper.
- ✓ The fire dampers in the supply channel area have been replaced.

Details of the accident rate by company are given below.

	FERALPI	ESF	CALVISANO	NUOVA DEFIM	EDF	FER-PAR
2000	97.7	78.8	131.0	-	-	-
2001	70.5	57.2	115.3	-	-	-
2002	84.2	74.2	117.4	-	-	-
2003	53.0	34.9	129.5	-	-	-
2004	53.2	70.7	108.9	-	-	-
2005	34.5	27.1	11.7	-	-	-
2006	65.7	20.8	67.6	-	-	-
2007	30.2	28.9	32.3	-	-	-
2008	25.6	15.0	35.9	-	-	-
2009	26.9	15.7	31.3	-	-	-
2010	26.1	20.1	38.2	-	-	-
2011	21.2	18.7	32.2	12.9	-	-
2012	29.6	13.9	5.6	-	-	-
2013	22.0	24.4	33.1	9.2	-	-
2014	11.9	15.9	40.2	-	3.8	-
2015	14.1	18.6	11.3	22.3	3.8	-
2016	17.5	12.4	31.1	7.6	13.3	33.4
2017	17.9	13.8	42.8	-	4.6	14.7



By accident rate is meant the number of recorded incidents by 1,000,000 and then dividing that number by the number of work hours,

Research and development

Feralpi Siderurgica S.p.A.

The following R&D projects launched in previous year continued throughout 2017:

- ✓ Rolling Mill Safety Implementation programme by identifying controlled segregation areas and safety automation using dedicated supervisors.
- ✓ Implementation of the Safety at Heights project aimed at improving the working conditions of operators on runways and other high-up locations continued throughtout the year.
- ✓ Improvement of sustainability performance of the overall production process. The project covers 4 macro-areas: air, noise, water and slag.
- ✓ The upgrading of automatic applications continued in 2017 with the installation of the new level 2 to improve the dissemination of information.
- ✓ A three-year research programme, called Rimfoam, partly funded by the European Community "Research Fund For Coal And Steel" (RFCS), concerning the assessment and tests on the use of waste materials containing metal oxides and hydrocarbons, as foaming agents for the EAF process.
- ✓ The FabeFin project, which received support from the Lombardy Regional Authority as part of the Competitiveness Agreements. It is divided into five stages: Quadrislitting hot rolling, Recoiling of wire exceeding 18mm, Internal district cooling, Innovative management of white slag, Innovative scrap-refining process.
- ✓ Internal district heating system by recovering the heat generated by the steelworks offgas cooling system.
- ✓ SW programme for the monitoring of the operating parameters of rolling mill heating profiles, aiming at optimising consumption during production.
- ✓ The programme covering the installation of measurement systems and the design of a data collection system for monitoring consumption and possible feedback on compressors.

- ✓ A project aimed at reducing energy consumption in the smelting furnace, by optimising the electric parameters of the furnace.
- ✓ A project aimed at increasing the control level of the product during the rolling process by installing optical meters and a tool detecting wire rod profiles.
- ✓ A long-term project funded by the RFCS PerMonList grant for the development and the application in industries of calculation systems and methods for monitoring the performance of steelmaking processes, taking into account the entire production of molten steel and on-line process conditioning, which is able to self-learn from previous years.
- ✓ The project for the development of new steels for Feralpi Siderurgica aimed at extending the range of steel grades and expanding the potential market of the company, especially high-carbon steels.
- ✓ Project for the optimization of secondary cooling in the Continuous Casting bay.
- ✓ The project for the installation of a new gauging block and revamping of the wire rod line of rolling mill 2, to obtain better characteristics in terms of wire rod sizing and increased productivity.
- ✓ The project for the development of a process and product tracking system necessary to ensure full knowledge of the production cycle of each product leaving the factory, the association with the billet from which it was obtained and the parameters used in production.
- ✓ A project called Furic – Future Recycled Inert Concrete made of steelworks residues – dedicated to the development of solutions for the recovery of waste from steel production through the reuse for the production of building materials and concrete.

Acciaierie di Calvisano S.p.A.

- ✓ Research and development continued in 2017 under a multi-year cooperation programme that started in 2014 called "*Optimization of Scrap Charge Management and Related Process Adaptation for EAF Performance Improvement and Cost Reduction*" - OptiScrapManage – co-funded by the European Community as part of RFCS projects. This project aims at optimising scrap charge management, determining the best operating practices and scrap management procedures and containing production costs.
- ✓ The project SteelPro4.0 on the development of special steels through innovation in implementing the manufacturing process, material characterisation, and the integrated management of the production chain, commenced with the aim of improving production processes through plant solutions along the entire process and software. The project is funded by the Lombardy Regional Authority and involves Milan Polytechnic, Brescia University, Optel and Visiorobotics.
- ✓ The project "QualityIntegration: -"Increase product quality and production flexibility of wire rod and section bar through innovative technologies applied to the entire production chain", co-funded by the Ministry for Economic Development (MISE). This R&D project involves two group partners Acciaierie di Calvisano for the production of billets, Arlenico for the production of special steel wire rod and FER_PAR for drawing billets in the shape of sections, round and square bars.
- ✓ The four-year project "SupportCast", co-funded by the European Community with the RFCS grant – *Research Fund for Coal and Steel* – with the aim to improve the surface quality of billets leaving the continuous casting machine.
- ✓ Simulations of billet characterisation were carried out in collaboration with Milan Polytechnic.

Fer-Par Srl

- ✓ In 2017, the project "QualityIntegration: "Increase product quality and production flexibility of wire rod and section bar through technologies applied to the entire production change", funded by the Ministry of Economic Development (MISE), as already illustrated for Acciaierie di Calvisano S.p.A., also commenced. As part of this project, the main operations carried out by Fer-Par included the design and acquisition of equipment for commencing the production of section bars, and round and square bars, obtained from billets of varying characteristics, and putting into production new special section bar shapes.

ESF Elbe-Stahlwerke Feralpi GmbH

- ✓ Environmental Innovation Programme
- ✓ ESF participates in a programme supported by the Federal Ministry of the Environment entitled "Innovative process engineering combination in a high-power steel mill with an adjacent rolling mill, in view of reducing environmental pollution". Overall control of the ferrous scrap management interfaces, melting activities, continuous casting plant and rolling mill at a process integration level allows the hitherto separate steel mill and rolling mill processes to be linked together and optimised, the aim being to improve the efficiency of the entire production cycle.
- ✓ Billet quality improvement project
  In collaboration with the university of Freiburg, a project was carried out on the improvement of the quality of billets made of micro-alloyed steels to reduce possible defects for markets with higher quality requirements.
- ✓ Project on the electrical and chemical setting of the melting furnace
  In collaboration with the university of Freiberg a project was implemented to optimize the energy efficiency of the EAF..
- ✓ Project on the improvement of electric-arc cover with foamy slag
  The FEOS system, which uses an acoustic sensor to assess the efficiency of electric-arc cover with foamy slag and act directly on the coal injection to control slag foaming, was tried in 2017.
  A study was also commenced on the use of a similar system, which takes into account the acoustic emission of the furnace and also the distorsions of electrical parameters of the electric arc furnace in controlling the electrical and chemical parameters of the furnace.

Communication

Corporate Social Responsibility and Communication activities at the Feralpi Group continued to provide strategic direction for all associated initiatives in 2017, which were created and implemented with one common objective - to provide information and, in particular, engage with all stakeholders. Sharing and inclusiveness have therefore been the prerequisites of activities that have also extended to the subsidiaries and companies owned by the whole of the Feralpi Group. Numerous initiatives aimed at different stakeholders took place during the year, and were tailored to specific requirements with regard to language, subject area, content, tools and delivery methods, with increasing focus on local communities.

Activities regarding external relationships had a wide-reaching role which involved Feralpi Siderurgica directly, and the subsidiaries directly and indirectly. The fundamental principle was ongoing engagement with the local community, characterised by a mutual relationship based on an open and constructive approach.
During the year relationships built in all areas where Feralpi has operated were strengthened.
Following numerous takeovers, some of them immediately prior to 2017, activities regarding external relationships had to extend to a larger area, while maintaining the professional, cooperative and inclusive approach typical of Feralpi's operations. Consequently, relationships with local and national trade organisations, government departments, non-profit organisations, schools, universities and training organisations were consolidated.

An integral part of external relationships is activity relating to media relationships, which are managed with the aim of continually providing the public with accurate and appropriate information on Feralpi activities, in order to maintain and support the positive reputation that Feralpi has established over the years.
To do this, media relationships operate at a local and national level by communicating with general and specialist press organisations (international included), using tools such as press communications, editorials and press conferences.

The company magazine VerdeFeralpi is dedicated to distributing information and has proven to be a versatile and wide-reaching communication channel. It was mainly set up to share news among Group employees and subsidiaries, but now reaches a wider audience which includes a selection of external company contacts interested in having regular information on the world of Feralpi. The magazine also includes news on the foreign subsidiaries, and is published in Italian and German.
Based on a spirit of sharing and edited under professional coordination, VerdeFeralpi has an increasing number of contributors, who are mostly Feralpi employees.

An open approach and mutual exchange are the two factors that underpin event activities.
Throughout the year numerous events involved a large and varied range of stakeholders. Particular focus was placed on younger groups i.e. students, especially those who are particularly attuned to and mindful of Feralpi activities due to geographical proximity, though there were plenty of events dedicated to customers, suppliers, and more generally, financial stakeholders or training organisations with which the company is involved, including trade associations, government organisations and the authorities.
Computer-based presentations where created for many of these events, which involved a wide range of subjects depending on the target audience.
In addition to the more standard company presentations, targeted presentations were developed for specific categories, such as school pupils and university students, government departments and technicians, with presentations on products, technologies and plants.

In 2017 the Group's website (www.feralpigroup.com) was updated continually, providing visitors with current information through the use of videos, the preferred channel for multimedia information. The two strands that characterised the website were news and events, and technical information, incorporating details of a corporate and institutional nature.
During the year the number of users increased by 25.4% to reach a total of 51,000.
88,000 sessions meant an annual increase of 28.8%.
The average duration of visits was in line with the previous year, exceeding 2 minutes.
The Feralpi Stahl website www.feralpi.de also proved to be an effective communication channel, thanks to the publication of news and technical updates providing digital visitors with ongoing and timely information.

Corporate Social Responsibility

Integration, universality and participation are the three principles that led the United Nations to defining Sustainable Development Goals (SDGs) for the 2030 Agenda. They outline an integrated vision which Feralpi recognises in the company and has taken on board, by incorporating these values within the Corporate Social Responsibility that steers strategic decisions.

In particular there are four of the 17 SDGs defined by the United Nations of which Feralpi is especially mindful and to which the Group is committed - innovation and infrastructure, sustainable towns and communities, responsible production and consumption, and tackling climate change.

In practice Feralpi production processes and products are the expression of fair, responsible and sustainable manufacturing which is directly involved in projects to build strong infrastructure.

Sustainable towns and communities need companies that are committed to making places where people live inclusive, safe, long-lasting and sustainable. Responsible production and consumption models are, and will be, the only sustainable models.

The Group demonstrated its commitment in this direction some time ago, by setting up investments and projects to implement the Corporate Social Responsibility that continues to make respect and transparency the company's key drivers.

More specifically, in 2017 the Group focused on creating shared value, the principle aim being to enable the integration of economic, social and environmental value in a company which lives and works responsibly in the community and areas where it operates. This vision must be measured and communicated continuously to stakeholders in a systematic and scientific manner.

The strategic method the Group adopted in 2017 to define CSR was based on maintaining materiality matrices, which mapped areas of specific focus. Some of the most important stakeholders include employees, younger generations and local communities, and these were the Group’s focus.

Feralpi Stahl also continued to engage with the local community. In Riesa a survey was carried out among the inhabitants to objectively and anonymously measure the local community's opinion of the company. A positive picture emerged in which Feralpi Stahl was viewed as being committed to the environment and the company’s economic and social role.

Among the numerous initiatives designed to create value for employees is the Workplace Health Promotion (WHP) project, which was set up in 2013 and extended its scope in 2017 to include a new subsidiary, with current initiatives for employees on physical and mental wellbeing, and incentives to adopt a healthy lifestyle in and outside the work environment. Activities to complete the workplace climate survey, demonstrating the focus placed on employees, concluded in 2017. Feralpi Stahl also implemented activities aimed at employees.

This was illustrated by an employee stress assessment study, and ongoing training for apprentices, (including educational visits to other organisations).

Also worthy of note was the support provided for various sporting organisations in the area.

The Feralpi Bootcamp also put young people at the centre of CSR, with educational and training activities organised across various projects that involved high school students, with an emphasis on schools operating in the area, and the children of employees.

Donations and benefits for the local community also deserve special mention.
Feralpi strengthened its partnership with *Fondazione Comunità Bresciana* (Brescia Community Foundation), an independent, ethical organisation and modern tool of philanthropy, which enables the principles of solidarity and social responsibility to take shape in various communities. Feralpi achieved this through its ongoing commitment to the Carlo & Camilla Pasini Fund. Each action was assessed and initiated by adhering to a clear company mission renewing a commitment to keep making Feralpi a company capable of generating shared value in line with sustainability criteria.

Personnel

Organisation and workforce

In the reporting year, the consolidated average workforce increased by 96.5 units compared to the previous year, from 1,350.7 to 1.447.2 units.
The table below details the average figures by company.

Consolidated average figure	2017	2016	Change
Feralpi Siderurgica	384.7	377.4	7.3
Acciaierie di Calvisano	109.8	108.6	1.2
Nuova Defim	76.3	75.0	1.3
Feralpi Profilati Nave *	2.9	2.0	0.9
Fer-Par **	91.9	93.1	-1.2
Presider **	61.9	0.0	61.9
MPL **	11.9	0.0	11.9
ESF	449.2	440.8	8.4
EDF	143.5	143.7	-0.2
Feralpi Stahlhandel	11.3	10.3	1.0
Feralpi-Logistik	31.2	30.0	1.2
Feralpi Praha	49.7	48.2	1.5
Feralpi Hungaria	10.9	9.6	1.3
Feralpi Algérie	12.0	12.0	0.0
Total	1,447.2	1,350.7	96.5

* formerly called "Dieffe S.r.l."
**annualized figure (from 06/2017 company held by 100%)

The table below shows the overall number of employees as at 31.12 by geographical area.

Number of employees at year-end	*2017*	*2016*	*Change*
Executives	19	15	4
White collar staff and middle-managers	382	315	67
Blue collar staff	1,064	1,027	37
Total	*1,465*	*1,357*	*108*

Most of the increase in personnel as at 31.12.2017 related to the takeover of the companies Presider and MPL, which had been 48% held until May and have 72 employees.

Training

Human resources are the fundamental and core value for the Group.
This statement is rooted in the Group's mission, which can be well summarized in the motto "producting and growing respect for man and the environment".
This centrality of human capital is evident in the training programme that the company has put in place, with particular emphasis on business technical and organisational developments and the need for constant technical and professional updating.

As common feature to all the Group companies, training activities relating to occupational health and safety play a major role.

The Group delivered a total of 24,110 hours of training (compared with 20,764 in 2016) showing an increase of 16.1%. Within the company, the 4 macro areas that are the main drivers of personnel training and development are the following:

- ✓ manual trades and technical-specialist areas
- ✓ health and safety in the workplace
- ✓ the environment, environmental management and energy
- ✓ management expertise and studying foreign languages.

Safety represents a fundamental element among the various activities. For this reason, training initiatives designed to increase safety in the workplace have continued over the years, and have focused on:

- ✓ the safe use of tools, machinery, equipment and lifting apparatus/accessories
- ✓ specialist safety subjects (e.g. first aid teams and fire wardens, safety officers and operators)
- ✓ specialist update courses for Safety and Prevention Officers/Managers and Workers' Safety Representatives

Illustrating the company's commitment to safety is the *Verso Zero Infortuni* (zero accidents) project set up in 2012 at Acciaierie di Calvisano and adopted the following year at Feralpi Siderurgica. The main project objective is to reduce accidents, which is pursued progressively not only by making the necessary investment in the most advanced technology, but by involving the 'human factor', which continues to be crucial in reaching high standards of safety.
The training initiatives for colleagues at the Nave site, which was taken over halfway through 2016, were especially important.
In addition to the adaptation of safety training for personnel, professional development and skills update courses were also delivered.

With regard to higher education, 4 colleagues in the Group are attending modules in the 2017/2018 Master's course on Business Management & Innovation under a scheme with Brescia University and Associazione Industriale Bresciana (Brescia Industrial Association).
Additionally, two colleagues are attending a Master's course in Metallurgy 4.0 as a result of the partnership between AQM, Isfor and Riconversider.
With regard to interdepartmental initiatives, the introduction of SAP ERP saw on-the-job training provided in 2017, supporting operation of the management system.

Training at the German companies included core professional/technical update courses and language classes, in addition to training on health and safety in the workplace.
The alternating education-work scheme introduced in the German companies by the Feralpi Group in 1997 continued to be prominent.
In terms of recruitment, Feralpi is committed to integrating young immigrants within the company and the German training system.
2017 saw the renewed participation of various employees in the Meisterausbildung Programme (skills initiative) aimed at acquiring specific skills to provide a greater contribution to company innovation.
The initiative is aimed at employees who, having successfully completed an apprenticeship scheme, wish to progress further and commit to studying part-time for another two-and-a-half years (while working full-time), ultimately achieving a significant skill level. 10 employees took part throughout the year, achieving the higher Meisterausbildung qualification.

Other initiatives and activities

Continuing its commitment to focusing on colleagues, in 2017 the Group worked to strengthen the initiatives designed for personnel which were already in existence, in addition to setting up new activities.

WHP – The network of companies in Lombardy promoting good health

As part of its Corporate Social Responsibility efforts Feralpi Siderurgica has been part of the first regional WHP network of companies in Lombardy promoting health in the workplace since 2013.

Workplace Health Promotion is a European project in which companies are strategic in encouraging a healthy lifestyle.

A healthy diet, stopping smoking, taking exercise, safe and sustainable travel, tackling addictions and work-life balance are the six areas of the project that focus on good habits to promote health in the workplace.

Employee health day

An Employee Health Day was organised at the German subsidiaries in 2017, and for the first time the event was held on two days (in October and November).

With the support of qualified experts, employees were able to address various subjects relating to health, diet and accident prevention, and also receive an annual anti-flu vaccination free of charge.

Attaining good health

In Italy 40% of deaths are due to cardiovascular conditions. On the basis of this figure Feralpi Siderurgica set up the Guadagnare in Salute (Attain Good Health) project in 2016, aimed at increasing awareness on how our health depends on our day-to-day choices, and also providing diagnostic examinations free of charge.

WELFer

Following the signing of the agreement to renew the second-level contract, the WELFer web platform offering flexible benefits for employees has been operational in Feralpi Siderurgica and Feralpi Holding since September 2017.

Employees can create their own package of benefits independently and, on the basis of a set budget and prior selection, can obtain refunds or vouchers.

1) Feralpi Bootcamp

With regard to community and company welfare, the Group set up various activities in 2014 aimed at new generations within the Feralpi Bootcamp initiative. In particular, the following three separate but complementary initiatives have been established:

Guidance for employees' children

In 2017 five guidance initiatives were set up in the Group's Italian companies specifically for the children of employees.

Make the right choice!

Career guidance

This initiative is designed to provide the offspring of employees with practical skills for seeking employment, and consists of three afternoon sessions on the following subjects -aspirations (analysis of individual talents, values, interests and aptitudes), job market guidance (skills sought by companies and types of contracts on offer), and self-marketing (proactive employment search methods, support in creating CVs, interview techniques).

Managing money

The children's initiative *L'Albero del Risparmio* (The Money Tree) is aimed at younger members of employees' families, and aims to make them aware of the value of money and managing it sensibly.

FERplay: life is a team sport

With this initiative the Group, in conjunction with Feralpisalò, wanted to offer employees' teenagers the chance to get to grips with an important subject for their future - learning about teamwork.

The event took place one morning in Salò at the team base of the Garda Lions, and enabled them to understand the important, critical nature of teamwork, with exercises and activities on the playing field.

In the afternoon a similar company event was held in Lonato, home to the Group's headquarters, where the teenagers were able to visit the steelworks and rolling mill after a session with a production department manager (who is basically a coach managing production teams).

The entire day was dedicated to team values, following rules, and cooperation, with the shared objective of working towards a common goal.

The Pompieropoli initiative

Designed for the children of employees, the Pompieropoli initiative was also a day dedicated to activities that centre on safety.

The 'town' of Pompieropoli opened its doors in the yard of the Nuova Defim Orsogril premises in Anzano del Parco. 45 youngsters up to 12 years old who are related to company employees were able to interact with local firefighters.

Organised in conjunction with the National Firefighting Association, the afternoon included games with the aim of raising awareness and educating children on safety issues.

All day the mini-firefighters worked with dedication, sliding down the station pole and saving cuddly toys threatened by flames, after negotiating tunnels and various obstacles safely, just like a responsible firefighter. This initiative, where learning and enjoyment capitalised on the youngsters' enthusiasm, took place on a day that preceded an important international event - international youth day, which took place a few days later.

At the end of the day even they have a right to be safe.

The SIAMO SICURI? project

Learning about safety in daily life and emergencies

This new initiative for the offspring of employees started in 2017.

It is important to be able to recognise risk and know how to react at work, in emergencies, and in everyday life. This is the aim of this event for the children of employees aged between 11 and 14 years old.

In the morning there was first-aid training using role play to provide instructions on what and what not to do in emergency situations.

The afternoon centred on accounts from volunteers on their direct experience of disaster situations, including a contribution from a dog unit with a dog trained for rescues on land.

Thanks to the border collie Jack, the children were able to take part in simulations of rescue and recovery operations in emergencies. The day concluded with a visit to the Feralpi Siderurgica production departments, with a focus on safety systems, which represent quality and a priority for the company.

2) Alternating work-education project

Since 2015 Feralpi has been operating an alternating education and work scheme to consolidate the traditional work experience training scheme. This enables groups of students to experience work activities at the company for 8 weeks, split into 3 phases.

The main element of innovation is the extensive training offered to students (110 hours of classroom-based teaching), which concerns specific technical aspects in the steel environment, the development of soft skills, in addition to aspects on health and safety in the workplace.

3) Advanced training courses (IFTS/TS and Feralpi Sider+)

Feralpi is continuing the company's advanced technical training programmes in conjunction with technical colleges.

IFTS and ITS technical college courses

- ✓ The partnership with technical training colleges (IFTS), which Feralpi has been involved in since 2014, fits into this context.
- ✓ Since autumn 2017 the Group has been collaborating in a new Mechatronics course at a technical college (ITS), which has followed on from the partnership between IIS Cerebotani and Associazione Industriale Bresciana. This is a two-year advanced technical course resulting in a higher diploma in automation and mechatronic systems, which is recognised at a European level and characterised by skills to create, integrate and control machines and automatic systems.

Feralpi Sider+ Training

- ✓ In September 2016 the Feralpi Sider+ three-week induction course was set up for new recruits to consolidate skills and knowledge on the steel industry.

Management Performance

In 2017, a project to review the Management Performance system in three Italian companies in the Group was launched with the support of a leading consultancy firm.

The system aims to support the theory underpinning group strategy, which is that collaborative work, whereby each person’s efforts are geared towards common objectives, achieves the best results.

During the year the introductory phase of the new system, known as *Palestra,* was implemented with the involvement of 17 managers. The system will be fully operational in 2018.

Financial highlights

The 2017 consolidated financial statements are significantly influenced by the change in the scope of consolidation, as the result of the takeover of Presider S.p.A. and MPL Srl, which were previously 48% held. We therefore also highlight some changes relating to change in the scope of consolidation.

An analysis of the Balance Sheet shows an increase in non-current assets from €357.5m to €372.4m, the major portion of which is represented by capital goods, which increased from €317m to €333.9m (€320.8m with the same scope of consolidation), exceeding, however, technical depreciation allowances for the period (€38m).
As a result of the takeover of Presider and MPL, financial assets in associates declined, though partly offset by increased investments in other companies.
This increase is due to investments made by Feralpi Siderurgica S.p.A. and Acciaierie di Calvisano S.p.A. by contributing to the increase in the capital of Metal Interconnector ScpA (around €6.2m overall).
Total financial assets decreased from €39.4m to €35.9m.
Current assets discounted the effect of the change in the scope of consolidation and also the sharp rise in the unit values of finished products and raw materials.
Inventories increased from €144.6m to €199.4m (€185.4m with the same scope of consolidation). Trade receivables (from associates) come to €274.3m (against €179.6m). Those attributable to Presider and MPL accounted for €56.3m.
Current assets, net of cash on hand at the end of the period, came to €525.5m, rose sharly compared to €328m in 2016.

Under liabilities, the Group's shareholders equity exceeds €350m, with an overall increase of about €15m, though discounting the payment of €5m dividend to Feralpi Holding S.p.A.
Provisions for contingent liabilities and charges came to €30.5m. Most of this amount relates to the fine levied against Feralpi Siderurgica by the Italian Anti-trust Authority during 2017, reference of which is made also in other sections of this report.
Bank borrowings increased from €170.8m to €205.8m, net of cash and cash equivalents, which rose from €119.3m to €147.6m, as the result of the cost for the acquisition of Presider S.p.A. and MPL Srl and the inclusion of their indebtedness into the scope of consolidation.
Payables owed to third suppliers came to €228.7m, including €279.7m (vs €208.7m) relating to associates.
Net current assets amounted to €193.9m, compared to €115.5m in 2016.
Shareholders' equity accounted for 94.2% of non-current assets, while the total amount of permanent sources in consolidated non-current assets was 122.2%.
All the above, without taking into consideration, among the permanent sources, the amount set aside for the anti-trust fine.

An analysis of the income statement shows that turnover (+28.6%) and, to a more significant extent, the production value (+30.7%) really leaped out, exceeding by far one billion euro. This result is not due to increased sales volumes and, to a slight extent, to the change in the scope of consolidation, following the inclusion of Presider S.p.A. and MPL Srl.
The main impact comes from the increase in unit sales prices, which are growing less than the price of raw materials, which increased by 35.9% inclusive of changes in inventories.

The improvement in the differences between the value and costs of production which, net of the fine levied by the Italian Antitrus Authority, increased from €60.3m to €72.1m, is substantially attributable to the slight change in fixed and half-fixed costs. Accumulated amortisation and depreciation increased from €38m to €41.2m, while personnel expenses rose from €71.4m to 79.2m.
This increase is also attributable to the change in the scope of consolidation: personnel expenses for the two acquired companies (Presider S.p.A. and MPL Srl) amounted to €3.7m, with €2.5m amortisation and depreciation allowances.
Unlike for services, which grew virtually in proportion with turnover (+28.4%), but were considerably affected by the incorporation of the two new companies (€20.7m) .
Financial revenues and expenses further declined from €4.4m to 3.5m, with an incidence on the production value of 0.29%.
The impact of the €29.4m fine, evidence of which is given in other sections of this report, led to a pre-tax result of €40.2m, compared to €54.4m in 2016.
After taxation, the result came to €19.8m, definitely lower than the 2016 result, but still more than satisfactory.
Below are some key revenue indicators for the Group in 2017, compared to the previous two years.

Gross Operating Margin (€m)			Net Result (€m)			Cash Flow (€m) Net profit + amort./depr.		
2017	2016	2015	2017	2016	2015	2017	2016	2015
113.3 *	98.1	46.1	19.7	38.5	(6.6)	90.5*	76.5	33.2

* excluding the effects of the €29.4m antitrust fine in the Gross Operating Margin and cash flow.

The table below shows the result in percentage points.

Gross Operating Margin			Net Result			Cash Flow (Net Profit + amort./depr.)		
Production value								
2017	2016	2015	2017	2016	2015	2017	2016	2015
9.2%	10.5%	5.0%	1.6%	4.1%	(0.7%)	7.4%	8.2%	3.6%

The explanatory notes also disclose the cash flow statement.
In short, prior to changes in current assets, cash flows are on the uptrend (€113.3m), compared to €101.4m in the previous year, despite recording a net result and lower EBIT. This is essentially due to the impact of the fine imposed by the Italian Antitrust Authority.
The impact of the increase in the prices of raw materials and finished products caused a strong reduction in the generation of liquidity (over €75m), which also reduces cash flow available to €38.2m.

Interest expenses and tax liabilities amounted to €23.8m (vs €15.2 in 2016), thus reducing to €14.4m the cash flow of income management.
Investments accounted for over €54m, mainly involving tangible assets.

Balance Sheet - Liabilities

Item	2017	%	2016	%
Minority interest	152	0.0%	100	0.0%
Current liabilities	474,643	49.6%	366,667	46.3%
Short-term payables	473,419		365,423	
Accruals and deferred income	1,224		1,244	
Consolidated liabilities	132,306	13.8%	90,193	11.4%
Medium/short-term liabilities	94,901		79,501	
Provisions for contingent liabilities and charges	30,516		3,874	
Provisions for employees' severance pay	6,889		6,819	
Shareholders' equity	350,637	36.6%	335,717	42.4%
Share capital	105,322		105,154	
Reserves	164,919		126,302	
Profit/(Loss) brought forward	60,700		65,700	
Profit/(Loss) for the year	19,696		38,560	
Total sources	957,738	100.0%	792,676	100.0%

Cash flow indicators	2017	2016
Availability margin (Current Assets – Current Liabilities)	86,109	42,798
Availability ratio (Current Assets to Current Liabilities)	1.18	1.12
Cash flow margin (Diff. Liq + Imm. Liq.) – Current liabilities	(113,295)	(101,839)
Cash flow ratio (Diff. Liq. + Imm. Liq.) to Current Liabilities	0.76	0.72

Soundness indicators	2017	2016
Primary structure margin (Equity – Non-current Assets)	(46,349)	(47,495)
Primary structure ratio (Equity to Non-current Assets)	0.88	0.88
Secondary struct. margin (Equity + Cons. Liab.) – Non-current assets	85,957	42,699
Secondary struct. (Equity + Cons. Liab.) to Non-current assets	1.22	1.11
Overall indebtedness ratio (Cons. Liab. + Curr-Liab.) to Equity	1.7	1.4

Economic situation

For a better comprehension of the Group's operationg result, the table below provides a reclassification of the income statement.

Income Statement

Item	2017	%	2016	%
Production value	1,225,525		937,785	
Raw materials consumption	786,998		577,788	
General expenses	241,292		187,802	
Added value	197,235	16.1%	172,195	18.4%
Personnel expenses	79,169		71,444	
Provisions	30,460		607	
Gross operating margin	87,607	7.1%	100,143	10.7%
Amortisation, depreciation and write-downs	40,234		37,500	
Net operating margin	47,372	3.9%	62,643	6.7%
Sundry operating expenses	4,682		2,370	
Operating income before financial results	42,691	3.5%	60,274	6.4%
Financial income	507		188	
Financial expenses	4,036		4,602	
Income net of financial operations	39,162	3.2%	55,860	6.0%
Revaluation of equity interests	1,439		466	
Impairment of equity interests	389		1,897	
Pre-tax result	40,211	3.3%	54,428	5.8%
Income tax	20,448		15,876	
Net operating result	19,764	1.6%	38,552	4.1%

Risk management

Statement in accordance with art. 2428, subsection 2, point 6-bis, of the Italian Civil Code.

The Feralpi Group operates in the iron and steel industry, a sector which entails various types of risk:

- operational risks related to the environment and to health and safety in the workplace;
- business risks mainly related to fluctuations in the price of raw materials and end products, and credit risk;
- financial risks deriving from fluctuations in interest and currency rates.

Operational risks are dealt with in detail in the Business Report, to which reference should be made.
Business risks are associated with more or less significant fluctuations in the price of end products and raw materials (mainly ferrous scrap and energy) in the short and long term.
The long-term price trend for ferrous scrap tends to be in line with that of end products.
For credit risk management, the Group implements a credit insurance policy at a global level.

The risk deriving from currency fluctuations, which was very low as most transactions are handled in euro, is covered by swap agreements (by setting variable indices), as appropriate, or similar instruments when the risk arises.
The Group also implements a selective currency rate hedging policy.

Antitrust Fine

On 19 July 2017, the Competition and Markets Authority fined eight national steel companies, including Feralpi Siderurgica.
The amount imposed on all the companies totalled €142.7, of which €29.4m on Feralpi Siderurgica.
The fine is to be considered unfair and unacceptable in that the company was convinced of having always operated in compliance with legislation and the principles of transparency.
The charge was based on a complaint relating to the fortnightly reporting of market prices, by comparing supply and demand in public meetings, promoted by a public institution (the Brescia Chambe of Commerce).
This type of initiatives are regularly held at Chambers of Commerce, under the control of the Ministry of Economic Development, without being the subject of any complaint.
Feralpi Siderurgica has already lodged an appeal to the Regional Court (TAR), which is expected to settle the matter in the short term. At the same time the company requested to pay the fine in instalments, which was granted and, since November 2017, it has been paying monthly amounts which will continue for thirty months.

Compliance with Legislative Decree 231/2001

The parent Feralpi Siderurgica and its main Italian subsidiaries have adopted their own organisational, management and montrol model that identifies processes at risk and regulates how the various players must behave in every process of daily work.
All of them constantly supplement and update their Models.
This adjustment process is performed taking account of both the dictates of Italian Legislative Decree no. 231/01, and the specific initiatives already implemented by the Feralpi Group in relation to "Corporate Governance", based upon the company's acceptance of CSR (Corporate Social Responsibility).
The review of the Organisation Models, currently in force, was approved by the respective Boards of Directors of the Group companies during 2017.
Some statutory changes have subsequently occurred, including the change potentially applicable to the Group, introduced by Legislative Decree no. 38 of 15 March 2017, which came into force on 15 April 2017, and entailed changes regarding offenses associated with corruption among private individuals, whose main innovations are as follows:

- ✓ the new formulation of bribery among private individuals (art. 2635 of the Italian Civil Code), a crime that entails the administrative liability of entities, pursuant to art. 25-ter of Legislative Decree no. 231/2001, in which the offense is considered as a crime of mere conduct (or danger), i.e. without the provision of a damage event.
- ✓ the introduction of the independent crime of "instigation to bribery among private individuals (art. 2635-bis of the Italian Civil Code), thereby the active subject is prosecuted even when the offer or promise of money or other benefits to perform unloyal action towards own company is not accepted by the passive subject of bribery.

Following the introduction of these changes to the type of crime in Legislative Decree no. 231/2001, the company is currently conducting risk assessment activities. On the basis of the findings, the company is assessing the appropriateness of the organisational, management and control models already adopted to prevent the occurrence of such new crimes and, whenever an unidentified risk profile emerges, the Models are updated by creating or adding monitoring procedures and protocols, if the existing ones are inadequate.
Act no. 179 of 30 November 2017 (effective since 29 December 2017) on "whistleblowing" also introduced the new subsection 2-bis, of art. 6 of Legislative Decree 231/2001, pursuant to which, the organisational models adopted must provide for the activation of one or more channels allowing the reporting of proven illicit conduct, to protect the integrity of the entity, relevant to the offences envisaged therein and based on factual and concordant facts, or violations of the organisational and management model, which have come to knowledge when performing own tasks.
These channels must guarantee the confidentiality of the identity of the reporting person when handling the report and at least it must be possible to ensure the privacy on computerized means.
Appropriate changes to existing models are in progress and the company is assessing the reporting channels most convenient to comply with statutory provisions.

Business outlook

The global economy has maintained a sustained pace of growth in steel production in 2018.
After a few weaker months at the beginning of the year, the data collected monthly by the World Steel Association shows a marked acceleration of production. In May alone, steel production increased by 6.6% compared to May 2016, with nearly 154.86 million tonnes produced.

In the first five months of the year, overall steel output almost reached 729.2 million tonnes (+4.3%).

The table below shows this trend by geographical distribution.

bn tonnes	5 months 2018	5 months 2017	% Change 2018/2017
EU 28	**73,069**	**71,785**	**1.8%**
Other non-EU countries in Europe	17,297	16,460	5.1%
Confederation of Independent States	42,403	41,260	2.8%
North America	49,465	47,985	3.1%
South America	18,353	17,824	3.0%
Africa	5,955	5,574	6.8%
Middle-East	14,625	12,831	14.0%
Asia	505,359	483,167	4.6%
Oceania	2,691	2,372	13.4%
World	**729,217**	**699,258**	***4.3%***

Source: World Steel Association

In the EU scenario, Italy increased by 3.9%, at 10.663 million tonnes.

Minor increases were recorded in Spain (+1.9%) with 6.248 million tonnes and France (+1.8%) with 6.709 million tonnes. Germany, the historic leader of European production and second reference country for the Group (+4%) remained virtually stable with 18,685 million tonnes.

Asian countries reported a good result for China (+5.4%) with 369.8 million tonnes, by far the largest world steel producer, with a share exceeding 50% of total production.
In this area, the only country showing a downtrend is Taiwan with a 12.5% decrease, at 8.481 million tonnes.
The particular growth of the Middle East is basically attributable to Iran, which has reached the production size of Italy.
2017 saw a strong recovery of the world economies.
The overall growth in Europe (+2.4%) can be attributed to a series of factors, but it was driven primarily by investment in iindustrial plants, construction and export activities.
This trend is expected to last throughout 2018 and 2019 (+2.2% and +1.9%, respectively), albeit at a slow pace.
The index of business confidence suffered a setback, basically due to an increase in the cost of production factors and their availability (human resources), the rise of the dollar (recently partly corrected) and fears of the re-emergence of economic protectionism.

In fact, customs duties on steel (25%) and aluminium (10%) recently introduced by the US government will not only have a direct effect, but may also risk to trigger a spiral of retaliation to the detriment of international trade. The outlook remains positive, however, especially for the steel-using sectors, for which the outlook is largely positive for both the current year and the year ahead.

An analysis by steel-using sector made by Eurofer gave the following results.

	% on total consumption	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Q2 19	Q3 19	Q4 19	2019
construction	35	3.6	2.1	3.0	2.6	2.8	2.7	2.6	1.8	1.9	2.2
mech. engineering	14	4.8	4.8	3.8	2.7	4.0	2.8	2.3	1.9	2.2	2.3
automotive	18	2.1	2.2	2.4	0.6	1.8	0.4	1.0	1.0	0.7	0.8
domestic appliances	3	3.8	5.2	3.8	4.1	4.2	2.1	1.6	2.7	2.2	2.1
other transport	2	1.0	3.8	3.4	3.0	2.7	3.3	2.5	1.5	2.5	2.5
pipes	13	-1.5	-2.3	1.5	3.6	0.2	1.0	1.7	0.2	-0.1	0.7
metal items	14	5.6	5.4	3.7	2.9	4.4	1.9	1.8	2.1	2.4	2.1
miscellaneous	2	2.1	4.0	3.5	2.1	2.9	2.8	1.4	0.6	1.4	1.6
total	100	3.1	2.7	2.9	2.3	2.8	2.0	2.0	1.8	1.7	1.9

Source: Eurofer

The 2017 growth (+5%) of the same sectors should not be forgotten, however.

Among these sectors, the construction industry increased significantly in 2017 and this upward trend is expected to continue over the coming years.
Growth in Germany, Holland and the Great Britain is spreading to important countries, such as France and Poland. The most powerful driver is new homes and renovations, but this also extends to private and public non-residential buildings.
Civilian infrastructures are of particular interest in Central and Eastern Europe.

As regards the Italian market, the Italian Statistics Institute indicates a 1.4% increase in 2017, which, however, is contradicted by other reliable sources, such as the Italian National Association of Building Contractors (ANCE).

In any case, while the situation is still stagnant for 2017, a strong recovery is expected in 2018.
The scenario above highlights a persistent, severe weakness of the industry in Italy, which in itself weighs significantly on the overall economic development of the country.
The new political majorities area also a worrying factor. Indeed, the strategic decisions regarding large infrastructures, which the country needs – and, more generally, the industrial policy – are not clear.

Non-European market show a very discontinuous scenario.
Among the difficulties encountered in some of these countries, the most significant relates to Algeria, due to the progressive production self-sufficiency and a heavy reliance on the oil price trend for purchases. Other countries show interesting opportunities.

The Group has long been in a process of renewal and diversification, and the last step of this, at company level, came at the end of 2017, with the establishment of the French company Presider Armatures.

Attention has now turned to developing the integration and functional characteristics of the Group, through a corporate organisational review supported by appropriate mechanisms.

Remarkable efforts, also in financial terms, are being made in order to improve information systems, which are necessary for the management of a company that, in recent years, has increased in complexity.

The recently acquired companies also require a thorough technical-organisational reappraisal. To this end, various important financial and other resources have been invested, thanks to positive financial and economic circumstances.

In a market that is still extremely competitive, the Group exhibits its ability to maintain a leading position.

Number and nominal value of parent company's shares held within the Group

It should be noted that there are no parent company's shares held by any of the companies within the scope of consolidation, either directly or through trustees or intermediaries.

We wish to thank you for the trust you have placed in us, and invite you to examine the consolidated financial statements as presented.

Chairman
Giuseppe PASINI

Board Directors
Giovanni TOLETTINI

Giovanni PASINI

Faustino LEALI

Dante Giuseppe TOLETTINI

Cesare PASINI

Ercole TOLETTINI

Alberto MESSAGGI

Lorenzo ANGELINI

Lonato del Garda, 24th May 2018

CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO EU DIRECTIVE IV FERALPI SIDERURGICA S.p.A. AS AT 31st DECEMBER 2017

(figures expressed in thousands of euros)

BALANCE SHEET

ASSETS				31.12.2017	31.12.2016
A			Subscribed capital unpaid, with separate indication of called-up portions:		
B			Fixed assets:		
	I		Intangible assets:		
		1	Incorporation and extension costs	2	33
		2	Research, development and publicity costs	23	-
		3	Patents and rights for use of intellectual property	149	156
		5	Goodwill	1,707	30
		6	Works in progress and down payments	56	56
		7	Others	713	797
		8	Consolidation differences	-	-
			Total intangible assets	2,650	1,072
	II		Tangible assets:		
		1	Land & buildings	165,435	156,559
		2	Plant & equipment	136,635	133,465
		3	Trade & industrial fixtures	826	526
		4	Other assets	8,474	8,325
		5	Work in progress & down payments	22,481	18,172
			Total tangible assets	333,852	317,048
	III		Long-term financial assets, with separate indication for each item of amounts collectable within 12 months:		
		1	Equity interests:		
		b)	Associates	21,649	31,300
		d)	Other companies	6,390	216
			Total equity interests	28,039	31,516
		2	Accounts receivable		
		b)	from associates		
			over 12 months	7,500	7,500
			Total receivables from associates	7,500	7,500

		d-bis)	from others		
			over 12 months	24	15
			Total receivables from others	24	15
			Total financial receivables	7,524	7,515
		3	Other securities	347	347
			Total financial assets	35,910	39,378
			Total fixed assets	372,412	357,498
C			Current assets		
	I		Inventories		
		1	Raw materials, supplies and consumables	74,936	52,736
		2	Work-in-progress & semi-finished products	22,984	11,388
		4	Finished products and goods	101,483	80,271
		5	Advance payments	-	243
			Total inventories	199,404	144,637
	II		Accounts receivable, with separate indication for each item of the amounts collectable within 12 months		
		1	from trade debtors		
		a)	over 12 months	254,558	157,654
			Total trade debtors	254,558	157,654
		3	from associates		
		a)	less than 12 months	19,711	21,898
		b)	over 12 months	-	-
			Total receivables from associates	19,711	21,898
		4	from parent companies		
		a)	less than 12 months	1,043	153
		b)	over 12 months	24,857	26,000
			Total receivables from parent companies	25,900	26,152
		5-bis	Tax assets		
		a)	less than 12 months	12,441	6,649
		b)	over 12 months	3	-
			Total tax assets	12,443	6,649
		5-ter	Prepaid taxes		
		a)	less than 12 months	467	218
		b)	over 12 months	50	50
			Total prepaid taxes	518	268

	5-quater	From others		
	a)	less than 12 months	13,021	24,651
	b)	over 12 months	11	11
		Total receivables from others	13,032	24,662
		Total receivables	326,162	237,283
	IV	Cash and cash equivalents		
	1	Bank and postal deposits	57,666	51,521
	2	Cheques	8	14
	3	Cash on hand	6	4
		Total cash and cash equivalents	57,680	51,539
		Total current assets	583,246	433,459
D		Prepayments and accrued income		
	1	Prepayments and accrued income	2,080	1,720
		Total prepayments and accrued income	2,080	1,720
		Total assets	957,738	792,676

BALANCE SHEET
LIABILITIES

			31.12.2017	31.12.2016
A		Shareholders' equity:		
I		Share capital	50,000	50,000
II		Share premium reserve	13,501	13,501
III		Revaluation reserves	34,000	34,000
IV		Legal reserve	7,821	7,654
V		Statutory reserves	-	-
		Total shareholders' equity and reserves	105,322	105,154
VI		Other reserves, indicated separately		
	1	Extraordinary reserve	3,912	729
	2	Capital contributions	-	-
	3	Special tax system reserves	-	-
	4	Non-distributable profit reserve	-	-
	5	Consolidation reserve	160,966	125,909
	6	Currency translation reserve	361	(69)
	7	Capital contribution reserves	-	-
	8	Other reserves	-	-
	9	Accelerated depreciation reserve	-	-
	10	Reserve for financial statements in euros	-	-
		Total other reserves	165,240	126,569
VII				
	1	Expected cash flow hedging reserve	(321)	(267)
VIII		Profit/(Loss) brought forward	60,700	65,700
IX		Profit/(Loss) for the year	19,696	38,560
		Total Group's shareholders' equity	350,637	335,717
X		Treasury share reserve	-	-
X		Share capital, reserves, minority interest		
	1	minority interest	84	108
	2	minority interest profif/(loss)	68	(8)
		Total minority interest	152	100
		Total shareholders' equity	350,789	335,816

B		Provisions for contingent liabilities and charges		
	1	Retirement benefits and similar indemnities	1,321	1,133
	2	Taxes, including deferred taxes	546	1,600
	3	Provision for financial derivatives liability	430	332
	4	Others	28,219	810
		Total provisions for contingent liabilities and charges	30,516	3,874
C		Provision for employees' severance pay	6,889	6,819
D		Accounts payable and other liabilities, with indication for each item of sums falling due within 12 months:		
	2	Convertible bonds		
	b)	over 12 months	347	-
		Total convertible bonds	347	-
	3	Shareholders' loans		
	a)	less than 12 months	-	654
		Total shareholders' loans	-	654
	4	Bank borrowings		
	a)	less than 12 months	110,764	91,280
	b)	over 12 months	94,546	79,493
		Total bank borrowings	205,311	170,773
	6	Down payments		
	a)	less than 12 months	620	47
		Total down payments	620	47
	7	Trade creditors		
	a)	less than 12 months	228,651	166,596
		Total trade creditors	228,651	166,596
	10	Payables to associates		
	a)	less than 12 months	51,056	42,128
		Total payables to associates	51,056	42,128
	11	Payables to parent companies		
	a)	less than 12 months	45,333	29,245
		Total payables to parent companies	45,333	29,245
	12	Tax liabilities		
	a)	less than 12 months	12,857	11,019
		Total tax liabilities	12,857	11,019

	13	Social security liabilities		
		a) less than 12 months	3,551	3,496
		Total social security liabilities	3,551	3,496
	14	Other payables		
		a) less than 12 months	20,587	20,957
		b) over 12 months	8	8
		Total other payables	20,595	20,965
		Total payables	568,320	444,923
E		Accruals and deferred income		
	1	Accruals and deferred income	1,224	1,244
		Total accruals and deferred income	1,224	1,244
		Total liabilities	957,738	792,676

INCOME STATEMENT			31.12.2017	31.12.2016
A		Production value		
	1	revenue from goods sold and services rendered	1,190,095	925,473
	2	changes in inventories of WIP, semi-finished and finished products	27,601	5,488
	4	increase in fixed assets from internal work	2,616	2,280
	5	other revenue and income		
	a)	contributions in trading account	1,865	432
	b)	others	3,347	4,111
		Total other revenue and income	5,212	4,543
		Total production value	1,225,525	937,785
B		Production costs:		
	6	for raw materials, supplies, consumables and goods	794,131	583,688
	7	for services	238,517	185,686
	8	for hire, purchase and leasing charges	2,775	2,117
	9	for personnel:		
	a)	wages and salaries	58,808	53,954
	b)	social security contributions	15,933	14,435
	c)	employees' severance pay allowance	2,046	1,685
	d)	retirement benefits and similar rights	11	31
	e)	other costs	2,371	1,339
		Total personnel expenses	79,169	71,444
	10	depreciation, amortisation & write-downs:		
	a)	amortisation of intangible assets	832	379
	b)	depreciation of tangible assets	39,402	37,121
	d)	write-downs of receivables under current assets and cash and cash equiv.	1,009	457
		Total depreciation, amortisation & write-downs	41,243	37,957
	11	changes in inventories of raw materials, supplies, consumable and goods	(7,133)	(5,900)
	12	provision for contingent liabilities	29,451	150
	14	other charges	4,682	2,370
		Total production costs	1,182,834	877,512
		Difference between production value and costs	42,691	60,274
C		Financial income and expenses:		
	15	Investment income, with separate indication of those referring to subsidiary and associates and those referring to holding companies and to entities under holding company control		
	b)	from associates	50	54
	e)	from other companies	16	1
		Total income from equity investments	66	55

16		other financial income		
	a)	from long-term investments under assets, with separate indication of those from subsidiaries, associates and holding companies and from entities under holding company control		
		from associates	25	20
		from other companies	105	2
		Total income from receivables under fixed assets	130	22
		other income	311	111
		Total income other than above	311	111
		Total other financial income	441	133
17		interest and other financial charges, with separate indication of those from subsidiaries and associate to parent companies		
	c)	from parent companies	260	348
	d)	from other companies	3,883	4,296
		Total interest and other financial charges	4,144	4,644
17-bis		exchange gains and losses	(108)	(43)
		Total financial income and expenses	(3,529)	(4,414)
		Adjustment to financial assets and liabilities		
18		revaluations:		
	a)	equity interests	1,417	466
	d)	financial derivatives	22	-
		Total revaluations	1,439	466
19		impairments		
	a)	equity interests	375	1,897
	d)	financial derivatives	14	-
		Total impairments	389	1,897
		Total adjustments to the value of financial assets and liabilities	1,050	(1,431)
		Pre-tax result		
		Pre-tax result	40,211	54,428

T			Income tax		
	20		current, deferred and prepaid income taxes		
		a)	current taxes and duties	20,418	15,894
		b)	deferred taxes and duties	(142)	(99)
		c)	prepaid taxes and duties	172	81
			Total income tax for the year	20,448	15,876
	21		Profit (Loss) for the year		
			Consolidated operating result for the year	19,764	38,552
V			Result for the Group:		
	22		minority interest operating result	68	(8)
			Operating result pertaining to the Group	19,696	38,560

Cash Flow Statement

	Year	Year
A. Cash flows generated from current operations (indirect method)		
Profit (loss) for the year	19,696	38,552
Income taxes	20,448	15,894
Interest expenses (interest income)	3,703	4,372
(Dividends)	(66)	(55)
(Capital gains)/capital losses from the sale of assets		(431)
1. Profit (loss) for the year before income taxes, interest, dividends and capital gains/losses from the sale of asset	43,780	58,332
Adjustments for non-cash items that had no contra-entry in net working capital		
Allocations to provisions	29,028	3,708
Non-current asset amortisation and depreciation	40,234	37,500
Write-downs for impairment losses	(1,050)	1,431
Other adjustments for non-cash items	1,284	457
Total adjustments for non-cash items	*69,496*	*43,096*
2. Cash flow before changes in net working capital	113,277	101,428
Changes in net working capital		
Decrease/(increase) in inventories	(54,767)	(11,849)
Decrease/(increase) in trade receivables	(96,742)	(42,638)
Increase/(decrease) in trade payables	62,629	54,050
Decrease/(increase) in accrued income and prepaid expenses	(360)	6
Increase/(decrease) in accrued expenses and deferred income	(20)	(626)
Increase/(decrease) in infragroup relations	27,455	(6,022)
Other changes in net working capital	2,602	(5,250)
Total changes in net working capital	*(59,203)*	*(12,329)*
3. Cash flow after changes in net working capital	54,073	89,099
Other adjustments		
Interest received/(paid)	(4,414)	(4,424)
(Income taxes paid)	(15,876)	(7,113)
Utilisation of provisions	(3,485)	(3,664)
Total other adjustments	(23,775)	(15,201)
4. Cash flow after other adjustments	30,298	73,898
Cash flows generated from current operations (A)	30,298	73,898

B. Cash flows generated by investment activities		
Tangible assets		
(Investments)	(57,038)	(43,665)
Divestment salvage price	0	431
Intangible assets		
(Investments)	(1,578)	(492)
Divestment salvage price		
Financial assets		
(Investments)	4,518	(10,788)
Divestment salvage price		
Cash flows generated by investment activities (B)	(54,099)	(54,514)

C. Cash flows generated by funding activities		
Loan capital		
Increase in short-term borrowings from banks	12,476	(5,967)
Opening of loans	44,580	33,000
Loan repayment	(21,807)	(18,000)
Equity		
Shareholders' loan	(307)	(2,545)
Exceptional transactions (merger by incorporation)		
Dividends and advances on dividends paid	(5,000)	(3,000)
Cash flows generated by funding activities ©	29,941	3,488
Increase (decrease) in cash and cash equivalents (a ± b ± c)	6,141	22,873
Cash and cash equivalents on 1st January	51,539	28,666
Cash and cash equivalents on 31st December	57,680	51,539
Increase (decrease) in cash and cash equivalents	6,141	22,873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Explanatory notes to the Consolidated Financial Statements

ended on 31st December 2017

(Figures expressed in thousands of euros)

The Group's Consolidated Financial Statements for the year ended on 31st December 2017, of which these Explanatory Notes form an integral part pursuant to Art. 29 of Legislative Decree no. 127/91, were drawn up in compliance with articles 29-39 of the same legislative decree and Legislative Decree no. 6 of 17th January 2003 as amendments.
These Consolidated Financial Statements were prepared in accordance with the provisions of the Italian Civil Code and, when necessary, with the accounting policies of the National Boards of Chartered Accountants and of Auditors, using the same valuation criteria.

Pursuant to the provisions of law, the valuation criteria adopted were the same as those adopted by the parent company and the other correlated companies, and the financial statements of the individual companies were adjusted for cases in which the accounting criteria were not homogeneous.

The following points should also be noted:

- In exceptional cases requiring derogations pursuant to article 29, subsection 4 of the above decree, full motivation is provided in these explanatory notes, and the effects on the equity and the results were also reported.
- A breakdown of the items under assets and liabilities is detailed when the figure is substantial.
- Risks and losses for the year were taken into account, even if known after the closing date.
- The 2017 Consolidated Financial Statements are officially drawn up in accordance with Legislative Decree 127/91 and show a comparison with the previous year's figures. Reclassifications have been made where necessary to allow a comparison pursuant to art. 2423-ter of the Italian Civil Code. Reclassifications appear in the part showing comments on the various items.

Activities

The parent company is active in the production of steel in billets, rebar and wire rod.
The financial statements of the Italian companies included in the scope of consolidation are those approved and/or being approved by the related general assemblies, while those of companies abroad were included in the consolidated financial statements of ESF GmbH, in accordance with German law.

These Financial Statements are based on homogeneous valuation criteria within the Group and were reclassified and adjusted as required.

The consolidated financial statements as at December 31, 2017 were prepared in accordance with the provisions of Legislative Decree no. 127/1991 and the Italian Civil Code, as amended by Legislative Decree no. 139/2015 (the "Decree"), interpreted and complemented by Italian accounting standards issued by Italian Standard Setter (OIC) applicable to financial statements beginning on or after 1 January 2016.

The Consolidated Financial Statements consist of the Balance Sheet (prepared in accordance with the layout provided by arts. 2424 and 2424-bis of the Italian Civil Code), the Income Statement (prepared in accordance with the layout provided by arts. 2425 and 2425-bis of the Italian Civil Code), the Cash Flow Statement (complying with art. 2425-ter of the Italian Civil Code and presented in accordance with the OIC 10) and this Explanatory Note prepared in accordance with art. 38 of Italian Legislative Decree 127/1991.
The Explanatory Note analyses and complements the accounting figures with information deemed necessary to provide a true and correct representation of the data shown, taking into account that no exemptions were made pursuant to art. 29 of the Legislative Decree 127/1991. To this end, the Explanatory Note is accompanied by a statement reconciling the parent company's operating result with the consolidated operating result, and the parent company's shareholders' equity with the consolidated shareholders' equity, and by the list of companies included in the scope of consolidation.
Items not expressly included in the Balance Sheet and the Income Statement, as provided by arts. 2424 and 2425 of the Italian Civil Code and the Cash Flow Statement prepared in accordance with the OIC 10, are considered void. The option of not including said items is intended only for the case in which they amount to zero in both current and previous financial years.
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Reference is made to the board of directors' business report for additional information regarding the Group's business situation and outlook, the operating result as a whole and by business sector in which the Group operates, with particular regard to costs, revenues and investments, as well as for a description of the main risks and contingencies to which the Group is exposed.

Scope of consolidation

Contents and form of the consolidated financial statements
Subsidiaries as identified by art. 26 of Italian Legislative Decree 127/1991 are subject to consolidation.
The Group's consolidated financial statements comprise the financial statements as at 31 December 2017 of Feralpi Siderurgica SpA (parent) and the companies listed below.

Name and location	Share capital	Dir.	Indir.	Interest held by	%	% Parent
Acciaierie di Calvisano S.p.A. Calvisano (BS)	3,250	X		Feralpi Siderurgica S.p.A	100.00%	100.00%
Feralpi Profilati Nave S.r.l. Lonato (BS)	1,900	X		Feralpi Siderurgica S.p.A	100.00%	100.00%
Nuova Defim S.p.A. Brescia (BS)	300	X		Feralpi Siderurgica S.p.A	100.00%	100.00%
Immobiliare Feralpi S.r.l. Lonato del Garda (BS)	50	X		Feralpi Siderurgica S.p.A	100.00%	100.00%
Fer-Par S.r.l. Lonato del Garda (BS)	20	X		Feralpi Siderurgica S.p.A	100.00%	100.00%
Presider S.p.A. Borgaro Torinese (TO)	4,160	X		Feralpi Siderurgica S.p.A	100.00%	100.00%
MPL S.r.l. Rivoli (TO)	2,555	X		Feralpi Siderurgica S.p.A	100.00%	100.00%
ESF Elbe-Stahlwerke Feralpi Gm Riesa (D)	11,000	X		Feralpi Siderurgica S.p.A	98.00%	
			X	Fer-Par S.r.l.	2.00%	
				Totale		100.00%
Feralpi Stahlhandel GmbH Riesa (D)	2,100	X		Feralpi Siderurgica S.p.A	33.33%	
			X	ESF GmbH	66.67%	
				Totale		100.00%
EDF Elbe-Drahtwerke Feralpi Gm Riesa (D)	1,500		X	ESF GmbH	90.00%	
			X	Feralpi Stahl. GmbH	10.00%	
				Totale		100.00%
Feralpi Logistik GmbH Riesa (D)	1,000		X	ESF GmbH	35.00%	
			X	Feralpi Stahl. GmbH	65.00%	
				Totale		100.00%
Feralpi Praha Sro Kralupy (Cs)	3,427		X	Feralpi Stahlhandel Gmbl	100.00%	100.00%
Feralpi Hungaria KFT Budapest (H)	6,684		X	Feralpi Stahlhandel Gmbl	100.00%	100.00%
Feralpi Algerié Orano (Algeria)	473		X	Fer-Par S.r.l.	70.00%	70.00%

The table below lists the associates valued using the equity method.

Name and location	Share capital	Dir.	Indir.	Interest held by	%
Beta SA Buzau (R)	766	X		Feralpi Siderurgica S.p.A.	28.35%
Dima S.r.l. Italy	1,000		X	Acciaierie di Calvisano	31.00%
Media Steel S.r.l. Italy	200	X		Feralpi Siderurgica S.p.A.	45.00%
Comeca S.p.A. Italy	2,800		X	Fer Par S.r.l.	19.85%
Caleotto S.p.A. Italy	2,000	X		Feralpi Siderurgica S.p.A.	50.00%
Arlenico S.p.A. Italy	1,000	X		Feralpi Siderurgica S.p.A.	50.00%
Alpifer S.r.l. Italy	1,200	X		Feralpi Siderurgica S.p.A.	50.00%
Cogeme Steel. S.r.l. Italy	200		X	Acciaierie di Calvisano	50.00%

Changes in the scope of consolidation

It is to be noted that during the year the formerly correlated companies Società Presider S.p.A. and MPL S.r.l. were included in the scope of consolidation using the full method, since the Company acquired 25% of their share capital, reaching a nearly 100% control.

It should also be noted that in 2017, the Companies valued using the equity method did not change, except for Presider S.p.A. and MPL S.r.l., which entered in the scope of full consolidation.

Consolidation method

The full consolidation method was used for all the subsidiaries. This method consists of fully incorporating the assets and liabilities and the costs and revenues of entities within the scope of consolidation, regardless of the percentage of equity interest of the consolidating entity.
Consolidated balance sheet and income statement show all the elements of the parent company and the other companies within the scope of consolidation, net of the adjustments shown here below.
The carrying value of equity interests in subsidiaries is cancelled against the corresponding fractions of shareholders' equity. This involves replacing the value of the corresponding balance sheet item with the assets and liabilities of each of the consolidated companies. Any difference between the equity interest purchase price and the carrying shareholders' equity on the date on which the control was acquired is recognised, where possible, in each identifiable acquired asset, within the limit of the current value of that asset and, in any case, for values not exceeding their recoverable amount, and in each identifiable assumed liability, including any prepaid and deferred taxes to be recognised against plus or minus values allocated to items in the consolidated companies' assets and liabilities.
Any difference resulting from the allocation process:

- if positive, is recognised as "goodwill" under assets, provided that it meets the requirements for recognition, in accordance with the OIC 24 "Intangible assets", conversely (if the difference does not, in whole or in part, correspond to a higher value of the subsidiary, it is recognised in the income statement under item B14 "other charges").
- if negative, is recognised as "consolidation reserve" under shareholders' equity, unless it relates, in whole or in part, to estimated unfavourable economic results (in which case a specific "Consolidation provision for risks and future contingencies" is established among consolidated liabilities).

Moreover, the financial statements of the parent company and its subsidiaries were adjusted as appropriate:

- by recognising the financial lease using the financial method, i.e. by eliminating the effect on the income statement of lease fees relating to capital goods obtained under lease agreements and by restoring the effect those goods would have on the balance sheet if they were purchased originally under a specific loan (thus recognising the value of leased fixed asset and the corresponding financial liability in the balance sheet and the related depreciation allowances and interests in the income statement);
- by eliminating the effect of tax consolidation for IRES purposes;
- by eliminating intra-group balances and transactions.

These operations have modified the relevant operating results and hence the shareholders' equity of the companies included in the scope of consolidation. The financial statements adjusted as above were translated into euro, where required, and were used for form the consolidated financial statements.

Consolidated equity and operating result and minority interest

All equity transactions carried out between the Group and entities exercising their rights and duties as shareholders are recognised in shareholders' equity. The share capital shown in the consolidated financial statements coincides with that of the parent company.
Shareholders' equity shares and the consolidated economic result corresponding to minority shareholders are recognised as "Share capital and minority shareholders reserves" and as "Profit (Loss) pertaining to minority shareholders", respectively, in dedicated items under consolidated shareholders' equity. The portion of operating result corresponding to minority interests is deducted from the overall consolidated economic result.

If any losses pertaining to a subsidiary causes the "Share capital and minority shareholders reserves" to turn into the negative, the negative excess is accounted for by majority shareholders. If a profit is generated subsequently, the portion entitled to minority shareholders is allocated to the majority shareholders until the overall losses previously charged are fully offset. If the minority shareholders have expressly undertaken to recover the loss, and this is likely to occur, the loss is left as is in "Share capital and minority shareholders reserves".
If, on the acquisition of a stake, the minority interest consists of a deficit, the minority interest is valued at zero, unless the minority shareholders have expressly undertaken to recover the loss.
When cancelling the stake, this situation is reflected in an increase in the write-off difference.
Any subsequent profit pertaining to minority shareholders are deducted until making up the goodwill entered when allocating the write-off difference until full recovery of the loss initially recognized as an increase in goodwill net of amortization.

Conversion of foreign currency financial statements

For the purpose of consolidating companies that issue their financial statements in a currency other than the euro, a conversion into euro is first made. The same applies to equity interests valued using the shareholders' equity method.
Foreign currency financial statements are converted for consolidation purposes, using:
a) the spot exchange rate on the closing date for items under assets and liabilities;
b) the exchange rate prevailing on the date of each transaction for items in the income statement and cash flow statement;
c) the historical exchange rate in force at the time of their establishment for equity reserves (other than the conversion difference reserve).
The net effect of foreign currency conversion into the account currency in the financial statements of an associate is recognised in "Conversion difference reserve" as part of the consolidated shareholders' equity that becomes available in the event of the partial/total transfer of a foreign company.
If an associate operates in a high-inflation foreign country, before converting the financial statements into the parent company's account currency for consolidation purposes, a revaluation is made of the cost of tangible assets and related depreciation and any other adjustments of the carrying value of other assets, liabilities, income and expenses, in order to offset the distorting effects of inflation.
Inflation in the country where the associate operates is considered to be more or less high, depending on specific circumstances, taking into account, for example, the current and cumulative inflation rate and the share capital used in managing the subsidiary. As a general rule, a country whose economy is subject to a cumulative inflation rate of at least 100% over three years is considered to be a high-inflation country.

Management and coordination

The parent company is subject to the management and coordination of Feralpi Holding SpA in accordance with arts. 2497-sexies and 2497-septies of the Italian Civil Code.
Reference must be made to the board of directors' business report for more details about the business relationship between the entity exercising the direction and management and the other companies subject to it, and its effect on the corporate operations and results. The business report also gives details of the reasons for the decisions made by the Company, which have been influenced by the entity exercising the management and coordination.

Accounting concepts and principles in the preparation of financial statements

In accordance with the provisions of art. 2423 of Italian Civil Code, the general principles of clarity and true and correct representation of Company's equity and financial situation and the operating result for the year have been complied with.
The recognition, valuation, presentation and disclosure of items may differ from the provisions of the law on financial statements in cases where their non-compliance has no significant effect on the true and correct representation of the Company's equity and financial situation and the operating result for the year. To this end, by 'relevant disclosure', in qualitative and/or quantitative terms, is meant when its omission or wrong indication could reasonably influence the decisions made by users on the basis of corporate financial statements. Further specific criteria adopted to identify the concept of irrelevance are shown for individual items in the financial statements when involved in their application. The relevance of individual items is determined within the context of other similar items.

The principles laid out in art. 2423-bis of the Italian Civil Code were also complied with, as outlined below.
The assessment of the various items of the financial statements was carried out in accordance with the principles of prudence and going-concern, and also taking into consideration the substance of the transaction or contract. For each transaction or fact, and in general for every business event, the substance is then identified regardless of its origin, and the possible interdependence of several contracts making up complex transactions was also assessed.

Profits/losses indicated in the financial statements are only those realized on the reporting date.
Income and expenses shown are those pertaining to the financial year, regardless of the date of collection or payment.
Risks and losses pertaining to the financial year were taken into consideration, regardless of whether they were known on the reporting date.

Miscellaneous elements included in individual items were valued and recognised separately.
Pursuant to art. 2423-ter, subsection 5, of the Italian Civil Code, the amount of the corresponding item of previous financial year is shown for each item in the balance sheet and income statement. If the items are not comparable, those of the previous year are appropriately adjusted and the non-comparability and adaptation or impossibility are reported and commented on in this explanatory note.
In accordance with art. 2423-ter, subsection 2, of the Italian Civil Code, the items preceded by Arabic numerals may be further subdivided, without deleting the whole item and the corresponding amount; they can be grouped only when grouping is quantitatively irrelevant to the effect of a true and correct representation of company's equity and financial position and the operating result for the year or when this provides a clearer of the financial statements. In the latter case, the explanatory note contains a breakdown of the items being grouped.
The financial statements and all the figures in the comments and statements in this explanatory note are expressed in units of euro. The information in this explanatory note relating to items in the balance sheet and income statement are presented in the order in which they are listed in the balance sheet and income statement in accordance with art. 2427, subsection 2, of the Italian Civil Code.

Valuation criteria

The valuation criteria of the various items of the financial statements comply with those set out by art. 2426 of the Italian Civil Code and the reference accounting standards. Among the accounting concepts there is also the continuity with the previous year in the application of valuation criteria adopted for the preparation of the financial statements.
The new provisions of law and individual accounting principles have envisaged transitional rules to the new valuation criteria that enable companies to make certain choices regarding their applicability in the first and the following years of adoption.
In these financial statements, the concept expressed above no longer applies to the items that have been influenced by amendments to the regulatory framework, which have been illustrated in the 'Introduction', whether are they required by law or made according to regulatory estimates and reference standards.

The most significant valuation criteria and first-time adoption rules opted for are illustrated here below, with specific indication of the choices made among several accounting alternatives, if permitted by the legislator.

Intangible assets

Intangible assets are recognised in the balance sheet when they can be identified individually and their cost is estimated with sufficient reliability. They are entered at their purchased or production cost, including auxiliary charges. They are amortised systematically according their expected useful life.
At each date of reference of the financial statements, the Company ascertains the presence of any impairment loss indicators, in which case an estimate is made of the recoverable amount of the asset involved and writes it down, in accordance with art. 2426, subsection 1, number 3, of the Italian Civil Code, should the value of the asset permanently less than its net carrying value. Please refer to paragraph 'Write-downs for durable impairment losses of tangible and intangible assets".
The following rates were used. They have not been changed compared to the previous year:

Category	%
Incorporation and extension costs	20%
Research and development costs	20%
Industrial patent fees	20%
Concessions, licences and trademarks	10% 20%
Goodwill	20%

Deferred charges

Deferred charges are entered under assets in the balance sheet when:

- their future utility is proven;
- there exists an objective correlation with future benefits in favour of the Company;
- their recoverability can be estimated with reasonable certainty.

R&D costs are amortised over a period of 5 years, due to the impossibility to make an accurate estimate of their useful life.
As long as amortization is not completed, dividends can only be distributed if there are sufficient available reserves to cover the amount of non-amortised costs.

Intangible assets

The amortisation period of intangible assets is at most equal to the statutory or contractual limit. If the Company expects to use the asset for a shorter period, the useful life reflects such reduced period, compared to the statutory or contractual limit established for amortization calculation purposes.
The amortisation period of patent rights is at most equal to the statutory or contractual limit. If the Company expects to use the asset for a shorter period, the useful life reflects such reduced period, compared to the statutory or contractual limit established for amortization calculation purposes.

Tangible assets

Tangible assets are stated at the purchase cost actually incurred for the acquisition or production of the asset. This comprises the purchase cost, auxiliary purchasing costs and all costs incurred to bring the asset to the place of destination and at the conditions necessary to constitute a durable asset for the Company. The production cost comprises direct costs (such as materials and direct labour, design costs and outsourced supplies) and production overheads, for the portion reasonably attributable to the asset for the period of its manufacture up to when it is ready for use.

Tangible assets, whose use is limited over time, are systematically depreciated in each financial year in relation to their residual useful life. Depreciation begin when the asset is made available and ready for use.
The depreciation allowance allocated to each financial year relates to the distribution of the cost incurred over its estimated useful life.
The initial value to be depreciated, which is initially estimated at the time of preparation of the depreciation plan according to realisable market price obtained from the sale of assets with the same technical features and the same process of utilisation, is reviewed periodically in order to verify whether the initial estimate still applies. This value is considered net of presumed removal costs. If the removal cost exceeds the realisable value, the surplus is accrued over the useful life of the asset, by allocating pro rata a provision for restoration and remediation or other similar provision.
The realisable value is not taken into account when it is considered insignificant compared to the value to be depreciated.
If the tangible asset comprises component parts, appurtenances or accessories with a useful life of a duration other than that of the main asset, the depreciation of such components is calculated separately from the main asset, unless its value is not significant or viable.

The depreciation rates, which are the same as those used in the previous year, are as follows.

Category	%
Incorporation and extension costs	5%
Research and development costs	10%
Industrial patent fees	da 5% a 20%
Concessions, licences and trademarks	12,50% - 20% - 25% - 100%
Goodwill	12% - 20% - 25%

Assets temporarily unused are also subject to depreciation.

Maintenance costs of an ordinary nature are charged in full to Income Statement in the year in which they are incurred. Incremental maintenance costs are attributed to assets to which they refer and within the limits of the recoverable amount of the asset and are amortised on a unitary basis, taking into account the new carrying value of the asset and its residual useful life.

Advances to suppliers for the purchase of tangible assets are originally recognised on the date in which the obligation to pay the advance arises.

The tangible assets held for sale are classified separately from the other tangible assets and allocated in a specific item under non-current assets and are valued at the lower of the net carrying amount and the realisable value calculated according to market trend, without being subject to depreciation any longer. This reclassification is made if the following requirements are met:

- tangible assets are sellable under the current conditions and do not require such changes as to differentiate their disposal;
- the sale is highly probable in the light of the initiatives undertaken, the expected price and the market conditions;
- the transaction is expected to be finalised in the short term.

The valuation criteria adopted for assets held for sale also applies to obsolete assets and in general to assets that will no longer be used or are usable in the production cycle.

An assessment of the presence of impairment loss indicators is made at each reporting date, and if they exist, the Company shall make an estimate of the recoverable value of the asset and writes it off should the asset value is lower than the net carrying amount. See paragraph “Write-downs for durable impairment losses on tangible and intangible assets”.

Tangible assets are revalued only in the cases permitted by law.

Write-downs for durable impairment losses of tangible and intangible assets

Durable impairment losses of tangible and intangible assets are recognized according to the provisions of the OIC 9 accounting standard.
In the presence of signs of durable impairment losses of the value of tangible assets, a valuation is made of their recoverable value at the reporting date.
Specifically, if the recoverable value, intended as the greater of the value in use and the fair value, is less than the corresponding carrying value, the asset is recognized at that lower value. The difference is recognized in the income statement as durable impairment loss and recognized under item B10c of the income statement.
In order to ascertain the presence of a durable impairment loss, the Company assesses at least the following indicators, if:

- the fair value of an asset has decreased significantly during the year, i.e. more than it would be expected overt time or under normal use;
- significant changes occurred during the year or are likely to occur in the near future, with a negative effect on the technological, market, economic or regulatory environment in the which the company operates or in the target market for that asset;
- the obsolescence or physical deterioration of an asset is evident;
- significant changes occurred during the year with a significant negative impact on the Company (such as discontinued use of an asset, disposal or restructuring plans, redefinition of its useful life) or are expected to occur in the near future, in terms of extent and the manner in which the asset is used or expected to be used.

If the recoverable value of each asset cannot be estimated, the recoverable value of the corresponding Cash-Generating Unit (CGU) is measured. This occurs when individual assets do not generate cash flows independently of other Non-current assets. In such a case, if the recoverable value is lower than its carrying amount, the write-down of the carrying value of the assets belonging to that CGU primarily involves the value of goodwill allocated to that CGU and then to the other assets on a pro rata basis, according to the carrying value of each asset belonging to that CGU.
If there are no signs of potential impairment, the recoverable value is not determined.

If the reasons that had generated the write-down due to durable impairment losses no longer exist, the original value is reinstated within the limits of the value the asset would have had if the impairment loss had never occurred.

Equity investments

Equity investments are entered under financial assets if they are to be permanently held in company's portfolio, otherwise they are recognised in current assets. It is also noted that equity investments in associates are valued using the equity method.

Non-current, non-controlling and/or associating and/or joint venture equity investments
Equity investments in controlled or associated companies are valued at the purchase or subscription cost, including any ancillary charges. The cost sustained on the acquisition of a non-current equity investment is maintained in the following financial years, unless is a durable impairment loss has occurred. In the presence of signs of durable impairment losses of the value of equity investments , a valuation is made of their recoverable value at the reporting date. If there are signs that the value of equity investment has decreased, the Company carries out an impairment test at each reporting date. Durable impairment losses are measured by comparing the carrying amount of the equity investment and its recoverable value, which is determined on the basis of expected future benefits for the investor. If the reasons that had generated the write-down due to durable impairment losses no longer exist, the write-down is not maintained.

Equity investments other than non-current assets
They are valued at the lower value of the purchase cost and the realisable value determined according to the market trend. The general method for valuing equity investments is the cost-specific method, as envisaged by art. 2426, subsection 1, number 10 of the Italian Civil Code. In the case of unlisted equity investments other than current assets it is difficult to identify the fair value for comparison with the cost. In this regard, the Company uses its best professional endeavour and sustains costs proportionate with the complexity and importance of the investment to acquire all the information available to make a reliable estimate of the realizable value, taking into account the reduced marketability of the investment.

Debt instruments

The classification of debt instruments under non-current assets or current assets is directly associated with the actual prospect of their permanence in a given portfolio.

Non-current securities
Securities intended to remain permanently in the company's assets are entered under non-current assets. For the purpose of identifying their permanent nature, non-current securities a consideration is made of their characteristics, the top management's will and the actual ability to hold the securities for a long term.

Listed or unlisted securities are entered at amortized cost, inclusive of bank and financial brokerage costs, consultancy other directly recognisable brokerage fees, expenses and revenue stamps and any other difference between the original value and the nominal value at maturity. All these costs are allocated over the expected duration of securities, according to the actual interest rate method and the portion accrued for the year is added to the equity yield calculated at the nominal yield rate.

Securities are valued individually, i.e. by attributing the specific cost to each of them.

Debt instruments

The classification of debt instruments under non-current assets or current assets is directly associated with the actual prospect of their permanence in a given portfolio.

Non-current securities

Securities intended to remain permanently in the company's assets are entered under non-current assets. For the purpose of identifying their permanent nature, non-current securities a consideration is made of their characteristics, the top management's will and the actual ability to hold the securities for a long term.

Listed or unlisted securities are entered at amortized cost, inclusive of bank and financial brokerage costs, consultancy other directly recognisable brokerage fees, expenses and revenue stamps and any other difference between the original value and the nominal value at maturity. All these costs are allocated over the expected duration of securities, according to the actual interest rate method and the portion accrued for the year is added to the equity yield calculated at the nominal yield rate.

Securities are valued individually, i.e. by attributing the specific cost to each of them.

The various economic components related to non-current debt instruments are recognised in the income statement, namely:

- Interest income, gains relating to securities traded before natural maturity and premiums associated with bonds drawn by lot are recognised in item C16-b);
- Losses relating to securities traded before natural maturity are recognised in item C17.

A durable impairment loss on non-current securities arises when, for reasons related to issuer's repayment ability, it can be reasonably proven that the cash flows – either principal sum or interests – under the contract cannot be collected in full.

The allowance for durable impairment loss is fully accounted for in the year it is recognised in item D19 b) "Write-downs of financial assets other than equity investments". Its amount is measured by taking into consideration all useful elements relating to situations existing at the reporting date, although they are known after the closing of the financial year.

Current securities

Current securities are valued at the lower of amortised cost and the value based on the market performance trend. The amortised cost, inclusive of bank and financial brokerage costs, consultancy other directly recognisable brokerage fees, expenses and revenue stamps and any other difference between the original value and the nominal value at maturity, is determined specifically for each security.

The fair value of listed securities is determined on the basis of an average of findings observed for a period deemed appropriate for valuation purposes. The market performance trend after the closing of the financial year is a disclosure which, together with others, contributes to measure the estimated realizable value and should, however, reflect the situation as of the financial statement reference date.

If there is no market to be taken as reference for calculating the estimated realizable value, valuation techniques are used to identify a value expressing the amount to which a hypothetical sale of the security is likely to be finalized as of the financial statement reference date.

The write-down of securities at the lower realisable value is effected individually for each security.

If the reasons that had generated the write-down due to a recovery of the fair value, the write-down is cancelled up to and not more than the reinstatement of the cost.

The various economic components related to non-current debt instruments are recognised in the income statement, namely:

- Interest income (net of costs and any differences between the original value the nominal value at maturity amortised during the year) and gains relating to securities traded before natural maturity are recognised in item C16 c);
- Losses relating to securities traded before natural maturity are recognised in item C17.
- The write-down and reinstatement in item D19) c) and item D18) c), respectively.

Derivative financial instruments

Derivative financial instruments are measured from the date on which the contract is signed, effective from when the Company is subject to the related rights and obligations.

In accordance with the provisions of art. 2426, subsection 1, number 11-bis, of the Italian Civil Code and the OIC 32, derivative financial instruments, although incorporated in other financial instruments, are valued at fair value at the date of first recognition and any date subsequent to the closing date. The entry and the change of the fair value compared to the previous year is recognised in different ways depending on whether or not the derivative financial instrument can be qualified (and actually designated) as a transaction hedging financial risks or not.

Transactions qualifying (and designated) as hedging instruments

The Company uses derivative financial instruments to hedge interest rate-related risks.

Hedging transactions are designated as such, when:

a) the hedging relationship only consists of eligible hedging instruments and eligible hedged instruments, in accordance with OIC 32;
b) there is a close and documented correlation between the characteristics of the hedged instrument or transaction and those of the hedging instrument, in accordance with art. 2426, subsection 1, number 11-bis,of the Italian Civil Code; the documentation concerns the formalization of the hedging relationship, the risk management objectives of the Company and its hedging strategy;
c) the hedging relationship meets all the following hedging efficiency requirements;
    i. there is an economic relationship between the hedged item and the hedging instrument;
    ii. the effect of counterparty credit risk of the derivative financial instrument and the hedged item, when the credit risk is not risk hedged, does not prevail over any changes in value resulting from the economic relationship;
    iii. the hedging ratio is determined equal to the ratio of the amount of derivative financial instruments used to the amount of hedged items (to such an extent as not to entail the above-anticipated hedging ineffectiveness).

The economic relationship is verified both qualitatively, by checking whether the basic elements of the hedging instrument and the hedged instrument coincide or are closely aligned, and quantitatively. When hedging transactions are related to derivative financial instruments with characteristics very similar to those of the hedged item (known as "simple hedges") and the derivative financial instrument is entered into at market conditions, the hedging relationship is considered effective by simply checking that the basic elements (such as the nominal amount, the cash flow settlement date, the maturity and the underlying variable) of the hedging instrument and the hedged item match or are closed aligned and the counterparty credit risk is not such as to significantly affect the fair value of both the hedging instrument and the hedged item.

The presence of the eligibility requirements is verified on an ongoing basis, and the Company assesses whether the hedging relationship still meets the effectiveness requirements at every financial statement reporting date.

1. Cash flow hedging
The hedging of cash flows is activated when the hedging objective is to limit the exposure to the risk of cash flow fluctuations attributable to an asset or a liability entered in the balance sheet, irrevocable commitments or highly probable planned transactions.

The Company recognises at fair value in the balance sheet the cash flow hedging instrument associated with a recorded asset or a liability, an irrevocable commitment or highly probable planned transaction, and the corresponding amount is reversed to item A) VII "Reserve for hedging expected cash flows" for the hedging component deemed effective, while the ineffectiveness component calculated for hedging transactions not qualified as simple, is recognised in section D) of the income statement.
In cash flow hedging, an asset or a liabilities entered in the balance sheet or a highly probable planned transaction or irrevocable commitments, the amount of the reserve is recognised in the income statement of the financial years in which the hedged cash flows have an impact on the operating profit (loss) and in the same item involved by the cash flows. In the hedging of cash flows associated with a highly probable planned transaction or an irrevocable commitment subsequently involving the recognition of a non-financial asset or a liability, the Company shall write off the amount of the reserve for hedging expected cash flows at the time of recognition of the asset or liability and incorporates it directly into the carrying value of that asset (within the recoverable limit) or liability. If the reserve is in the negative, however, and it is unlikely to recover the whole or part of the loss in a one or more financial years, the Company immediately recognizes the expected unrecoverable reserve (or part of the reserve) in the income statement.

Inventories
Inventories are entered at the lower of the purchase or production weighed average cost and the realisable value based on the market trend on the reporting date.
In addition to the invoiced price, the cost comprises ancillary costs, such as customs duties, transport charges and other charges directly attributable to that material, net of any returns, trade discounts, rebates and bonuses.
The value of inventories is depreciated systematically due to the obsolescence of goods and their actual sales opportunities according to their turnover.
The value of inventories is reinstated within the limits of the cost originally sustained in the year in which the reasons that caused a previous depreciation no longer exist.

Receivables

Receivables originating from revenues for the sale of goods or the supply of services are recognized in current assets on an accrual basis, when the conditions for recognition of the relevant revenues exist.
Receivables arising due to other reasons are recognised if there is "title" to receivables and hence when they actually represent a third-party obligation toward the company; financial receivables classified under financial assets, with an indication of the portion collectable within the end of the following year.
Receivables are entered at amortised cost, taking into account the time factor and within the limits of their expected realizable value and are, therefore, recognised in the balance sheet net of the provision for bad debts deemed appropriate to cover the loss due to reasonably predictable non-collectability.
If the interest rate associated with the transaction does not differ significantly from the market rate, the receivable is first entered at a value equal to its nominal value, net of all premiums, trade discounts, rebates and bonuses and inclusive of all costs directly attributable to the transaction that had generated the receivable. These transaction costs, sales commissions paid or received and any difference between the original value and nominal value at maturity are allocated over the duration of the receivable, using the actual interest rate method.
Conversely, if the transaction interest rate deriving from the contract conditions differs significantly from the market rate, the receivable (and the corresponding revenue in the event of commercial transactions) is initially entered at a value equal to the current value of future cash flows plus any transaction costs. The rate used to discount future cash flows is the market rate.

In the case of receivables deriving from commercial transactions, the difference between the original accounting value of the receivable so established and the forward value is recognized in the income statement as financial income for the entire duration of the receivable, using the actual interest rate method.
In the case of financial receivables, the difference between cash and cash equivalents paid and the actual value of future financial flows, determined using the market interest rate, is recognised among financial expenses or income in the income statement at the time of the original recognition, unless the substance of the transaction or contract does not suggest the attribution of another nature to that component. Subsequently, interest income accruing on the transaction is calculated at the actual interest rate and recognised in the income statement with the value of the receivable as contra-entry.
The value of receivables is subsequently reduced of the amounts received, as both principal sum and interest, and of any write-downs in order to bring the receivables back to their estimated realizable value or of losses.

The company assumes the effects deriving from the application of the amortised cost and discounting as non-significant when the receivables maturity is within 12 months, taking into account all contractual and material considerations existing at the time of their recognition, and the amount of any transaction costs and difference between the original value and the nominal value at maturity is not significant. In this case, discounting was not considered and the interest was calculated at the nominal value and the transaction costs were entered as deferrals and amortised on a straight-line basis over the term of the receivable in order to adjust the nominal interest income.

Write-off of receivables
Receivables are written off from the balance sheet, whenever:
- the contractual rights on cash flows deriving from the amount receivable are extinguished; or
- the title to contractual rights and cash flows deriving from credit is transferred and so are basically all the credit-related risks.

For the purpose of assessing the transfer of risks, all the contractual clauses, such as repurchase obligations at the occurrence of certain events or the existence of sales commissions, franchises or non-payment penalties, are taken into due account.
When a receivable is written off from the balance sheet following a transfer that entails the material transfer of all risks, the difference between the consideration and the value recognised at the time of the transfer is recognised as transfer loss under B14 of the income statement, unless the economic components of a different nature, including financial nature, cannot be identified in the contract.
When the credit transfer contract does not entail the material transfer of all risks (e.g. recourse factoring), the credit is retained in the balance sheet. In the event of advance payment of part of the agreed consideration by the assignee, the amount received is entered as contra-entry as a financial debt. The cost elements, such as interest and sales commissions, to be paid to the assignee are recognised in the income statement according to their nature.
If, under a transfer contract covering the material transfer of all credit-related risks, some minimal risks are identified for the Company, an assessment is conducted to verify whether there are the conditions for allocating a sum to a specific provision for risks.

Cash and cash equivalents

Bank and postal deposits and cheques (current account, bankers' drafts and the like) are valued in accordance with the general principle of estimated realizable value that coincides with the nominal value in the absence of difficult situations in terms of collectability.
Cash and revenue stamps on hand are valued at their nominal value.

Cash pooling

Cash pooling is a centralized cash management strategy adopted by a company belonging to a Group to optimize the use of financial resources, whereby the debt and credit positions regarding the cash pooling managing company, namely account withdrawals and cash paid in, are offset. The Group recognizes receivables generated under "Financial assets for centralized cash management", by specifying the counter-party, which can be either the subsidiary or the parent company, in financial assets other than non-current assets. If the receivables are not collectible in the short term, they are classified as financial assets. Any write-downs or revaluations of the receivables are recognised in the income statement, under "Write-downs of financial assets for centralised cash management" and "Revaluations of financial assets for centralised cash management" with an indication of the counter-party. Any debit position resulting from centralized cash management is classified in accordance with OIC 19 "Payables".

Accruals and deferrals

Expenses and revenues common to two or more financial years are recognised under these items, in accordance with the economic and time-accrual basis. According to this principle, the recognition of any accrual or deferral occurs when the following conditions are met:

- a contract begins in a set financial year and ends in a subsequent one;
- the consideration is contractually due in advance or in arrears compared to supplies common to two or more consecutive financial years;
- the amount of accruals and deferrals varies with time.

Accruals and deferrals do not include revenues and expenses that have fully matured in the financial year to which the financial statements refer or in subsequent ones.
At the end of each financial year, an assessment is made to ascertain whether the conditions that had determined the original recognition of the accrual or deferral are still applicable; if necessary, the required value adjustments are made. This assessment takes into account not only the time factor but also the recoverability of the amount entered in the financial statements.

Shareholders' equity and treasury shares

This item encompasses all equity transactions carried out between the Parent and entities exercising their rights and performing their duties as shareholders. The capital increase if recognised only after it has been entered in the Register of Companies, in compliance with the provisions of art. 2444, subsection 2, of the Italian Civil Code.
In this case, the corresponding amount is recognised in a dedicated shareholders' equity item (other than "Share Capital") that encompasses the amounts of the capital subscribed by the shareholders and that will be subsequently reclassified as a result of the above conditions.
Any decrease in share capital following the withdrawal of a shareholder entails the obligation for the Company to purchase the shares of the withdrawing shareholder as a repayment, unless the shares are purchased by the remaining shareholders; A negative reserve is recognized in item AX "Negative reserve for portfolio treasury shares". The difference between the decrease in shareholders' equity and the amount receivable from the leaving shareholder is allocated to a reserve.
If a shareholder is faulty, the share capital will decrease for an amount equivalent to the value of the cancelled shares, which entails a reversal of the credit owed from the faulty shareholder (for the tenths not yet paid in) and the difference between the decrease in shareholders' equity and the amount receivable from the faulty shareholder is allocated to a reserve.

Provisions for risks and charges

Provisions for risks are entered to cover liabilities of a certain and probable existence, whose values are estimated. There are, therefore, potential liabilities relating to situations already entered in the balance sheet but characterised by a state of uncertainty, the outcome of which depends on the probable occurrence one or more future events.

Provisions for charges are entered to cover liabilities of a determined and certain existence, whose values and date of occurrence are estimated, relating to obligations already assumed at the reporting date, but whose payment will occur in future financial years.

Provisions are quantified on the basis of estimates that take into account all available elements in terms of principles of competence and prudence. These elements also include the time factor in the presence at the reporting date of a certain contractual or statutory obligation, whose payment can be reliably estimated and the reasonably determinable date of occurrence is sufficiently distant in time to make the actual value significantly different from the obligation at the reporting date compared to the value estimated at the time of disbursement.

No steps were taken to establish generic provisions for risks without an economic reason.

Potential liabilities, if any, are recognised in the balance sheet and entered under provisions only if they are deemed probable and the amount of the relative obligation can be reasonably established. Therefore, no risks of a remote nature were taken into account, while in the case of potential liabilities considered possible, though non-probable, the explanatory note provides information on the uncertainty situation, where relevant, that would cause the loss, the estimated amount or the indication that it cannot be determined, other possible though non evident effects, an indication of the opinion of company management and its legal consultants and other experts, where available.
With regard to the classification, allocations to provisions for risks and charges are recognised primarily in income statement cost items in the relevant classes (B, C or D), according to their nature. In cases where the correlation between the nature of allocation and any of the items in the above classes is not immediately feasible, allocations for risks and charges are entered in items B12 and B13 of the income statement.

Employee-leaving indemnity

The provision for employee-leaving indemnity is allocated to cover the entire liability accrued in favour of the employees of Italian companies, in accordance with current legislation and national collective bargaining agreements and corporate supplementary agreements. This liability is subject to revaluation under art. 2120 of the Italian Civil Code.

The employee-leaving indemnity recorded in the accounts is the sum of all individual indemnities accrued by employees, inclusive of revaluations, net of any advances paid and taking into account the effects of the reform introduced by law no. 296 of 27 December 2006 (Budget Law 2007) on the appropriation of the employee-leaving indemnity (TFR) (to Italian Social Welfare Institute (INPS) or other selected entities).

As a result of this reform, TFR allowances accrued up to 31 December 2006 are held by the company and contribute to making up the provision for the employee-leaving indemnity allocated in the financial statements,

Beginning 1 January 2007, TFR allowances accrued during the year are posted to income statement and the portion to be paid to INPS or other institutes is reflected in current payables under item D14.

Payables

Payables originating from the purchase of goods are recognised in the balance sheet when significant risks, charges and benefits associated with the title are materially transferred. Payables relating to services are recognised when the services are rendered, i.e. the duty was performed.

Financial payables arising out of loan transactions and payables associated to reasons other than the purchase of goods and services are recognised when the company undertakes an obligation against the counter-party that is identified on the basis of statutory and contractual provisions.

The item advances contains all down payments received from customers for the supply of goods or services not yet delivered.

Payables are valued at amortised cost, taking into account the time factor.

If the interest rate of the transaction does not differ significantly from the market interest rate, the liability is originally recognised at a value equal to the nominal value, net of all transaction costs, premiums, discounts and rebates resulting directly from the transaction that generated the liability. These transaction costs, such as ancillary expenses incurred to obtain loans, sales commissions paid and received and any difference between the original value and the nominal value at maturity are allocated over the duration of the liability, using the actual interest method.

When instead the transaction interest rate resulting from contractual conditions differs significantly from the market rate, the liability (and the corresponding cost in case of commercial transactions) is originally entered at a value equal to the actual value of future cash flows and taking into account any transaction costs. The rate used to discount future cash flows is the market rate.

In the case of payables resulting from commercial transactions, the difference between the original recognition value of the liability so determined and the forward value is recognised in income statement as a financial expense over the duration of the liability, using the actual interest rate method. In the case of financial liabilities, the difference between the cash paid and the actual value of future cash flows, determined using the market interest rage, is recognised as revenue or financial expenses in the income statement at the time of the original recognition, unless the substance of the transaction or contract does not entail the attribution of a different nature to that component. Subsequently interest expense accruing on the transaction are calculated a the actual interest rate and recognised in the income statement, with the value of the payable as a contra-entry.

The value of payables is subsequently reduced by the amounts paid, both as principal sum and interest.

The company considers the effects deriving from the application of the amortised cost and discounting as non-relevant when the maturity of payables is within 12 months, taking into account also all the contractual and material considerations existing at the time of recognition of the liability, and the amount of transaction costs and any difference between the original value and the nominal value at maturity is not significant. In this case, discounting is omitted and interest is calculated at nominal value and the transaction costs are recognised among deferrals and amortised on a straight-line basis over the duration of the liability as an adjustment of nominal interest expense.

Payables towards Group companies

Items D9, D10 and D11 comprise payables towards associates and parent companies, as defined under art. 2359 of the Italian Civil Code. These payables are entered separately in the balance sheet.

Item D11 also includes payables towards parent companies controlling the Company indirectly via their intermediate subsidiaries.

Payables towards entities subject to common control (so-called sister companies), other than subsidiaries, associates or parent, are recognised under item D11-bis.

Revenues

Revenues generated from the sale of goods are recognised on an accrual basis when both of the following conditions are met:

- the production process of goods or services has been completed;
- the exchange has already taken place, i.e. the material, and not formal, transfer of title has occurred. In the case of the sale of goods, this time coincides with the despatch or delivery of movable goods, while for goods requiring a public deed (immovable and movable property) with the date of execution of the sales contract. In the case of supply of services, the exchange is considered completed when the service is rendered, i.e. the service is provided.

Revenues from services rendered are recognised at the date on which the services are completed, i.e. for those covered by contracts with periodic consideration, at the date of maturity of the consideration.

Revenues from sales are recognised net of any returns, discounts, rebates and premiums, as well as taxes directly related to the sales of products and the provision of services, and any adjustments of revenues accrued during the year are deducted directly from the revenue item.

"Other revenues and income" contain non-financial positive income components deriving solely from ancillary management.

Costs

Purchase costs are recognised on an accrual basis. The cost of raw materials, supplies, consumables and goods is inclusive of ancillary purchase costs (such as transport, insurance, loading and unloading) if they have been included in the purchase price, otherwise they are recognized separately in costs for services, according to their nature.
They are recognized among costs, not only those of a certain amount, but also those not yet documented, for which the transfer of title has already occurred or the service has already been received.

Financial income and expenses

This item comprises all positive and negative components of the income statement associated with the company's financial asset and are recognized on an accrual basis.

Dividends

Dividends are recognised at the time when the right of collection is acquired, following a resolution passed at the associate's general meeting that had approved the distribution of profit or any reserves. The dividend is recognized as financial income, regardless of the nature of the reserves being distributed. The associate verifies that, as a result of the distribution, the recoverable amount of the equity investment has not decreased to such an extent as to cause the recognition of an impairment loss.

Income taxes for the year

Direct tax liability for the year is entered on the basis of the estimated taxable income, in compliance with the provisions of law and applicable rates, taking into account any applicable exemptions.
An analysis of the existence of temporary differences between the value of assets and liabilities and the corresponding values of relevance for tax purposes and/or between income components recognized in the income statement and those taxable or deductible in future years for the recognition of accrued taxes, as required by OIC 25.
In the presence of temporary taxable differences, deferred tax liabilities are entered, with the exceptions provided by OIC 25.
In the presence of deductible temporary differences, deferred taxes are recognised only if there is reasonable certainty of their future recovery.

Prepaid and deferred taxes are calculated on the cumulative amount of all temporary differences for the year at the tax rates applicable in the year in which the temporary differences are recognized, as provided for by the tax law in force at the reporting date.

Prepaid tax assets and deferred tax liabilities are not discounted.

For classification purposes in the financial statements, tax assets and liabilities are offset only if there exists a legally enforceable right to offset the amounts recognized based on tax legislation and there is an intention to settle tax assets and liabilities on a net basis with a single payment.

Currency conversion criteria

In accordance with art. 2426, subsection 1, no. 8-bis of the Italian Civil Code, assets and liabilities expressed in a currency other than the reporting currency (so-called "account currency") are, following the original entry, recognized at the spot exchange rate in force at the reporting date. The resulting gains and losses are recognized in the income statement under C17-bis "Exchange gains and losses", and any net profit contributing to the formation of the operating result for the year is allocated to the dedicated reserve of non-distributable profit pending realization.
Non-monetary assets and liabilities in a currency other than the account currency are recognized at the exchange rate prevailing at the time of purchase.
If the exchange rate in force at the reporting date is significantly different from that applicable at the date of acquisition, the difference is one of the elements taken into consideration in the valuation process to determine the carrying amount for individual non-monetary assets. In this case, the (positive or negative) exchange differences contribute to the determination of the recoverable amount.
With reference to equity investments valued using the equity method, in which the underlying financial statements are expressed in a foreign currency, they are translated into the account currency in accordance with OIC 17 "Consolidated financial statements and equity method" and the equity investment is subsequently valued according to the specific equity accounting policy.
Significant, unforeseeable fluctuations in exchange rates after the end of the year with foreign currencies to which the company is most exposed without hedges are not recognized in the financial statements as pertaining to the next financial year, but they are illustrated in this explanatory note, under the dedicated section "significant events after year end".

Change in accounting principles

Except as provided in the section entitled "First-time adoption rules", about the transition to the rules contained in the new set of OIC accounting standards and statutory provisions transposing the so-called "Accounting Directive" and related choices made by the Company, a description is provided below of the accounting policies adopted following the change to the voluntary or mandatory accounting standards, unless different specific rules are provided.
The change of an accounting standard is recognized in the year in which it was adopted and the associated facts and transactions are dealt with in accordance with the new standard that is applied retrospectively. This entails the recognition of the resulting effects on the opening shareholders' equity for the year.
For comparative purposes only, when not feasible or it is too costly, the previous year opening shareholders' equity value and any previous-year comparative data are adjusted as if the new accounting standard had always been applied.
When it is impracticable to calculate the previous cumulative effect of the change of standard or the determination of the previous effect is too costly, the Company adopts the new accounting standard from the first feasible date. When this date coincides with the beginning of the current year, the new accounting standard is applied prospectively.
Any effects on the balance sheet, income statement and cash flow statement resulting from the adoption of new accounting standards have been highlighted and explained in this explanatory note in connection with the accounting items specifically concerned.

Correction of errors

An error is recognised at the time an incorrect qualitative and/or quantitative representation of an accounting figure and/or any disclosure in the explanatory note is identified and the correct disclosure and data are available for proper processing. Material errors are corrected by adjusting the accounting item that was previously affected by the error, by recognizing the correction to the opening shareholders' equity value for the year in which the error is identified.

For comparative purposes only, the company fixes, when practicable, a material error committed in the previous year by restating the comparative amounts; if the error was committed in the years prior to the previous year, it is fixed by re-determining the opening balances of the previous year. When it is impracticable to determine the cumulative effect of a material error for all previous years, the Company reinstates the comparative values to correct the material error starting, from the first date on which it is practicable.
Non-material errors committed in previous years are recognized in the income statement of the year in which the error was identified.

ASSETS

B) Fixed assets

I. Intangible assets

The breakdown is as follows.

	Incorporation and extension costs	R&D costs	Industrial patent fees	Goodwill	Other intangible assets	Total intangible assets
Opening value						
Cost	1,458	1,568	1,721	1,716	23,964	30,427
Amortisation (accumulated)	(1,425)	(1,568)	(1,565)	(1,686)	(23,111)	(29,355)
Carrying value	33	-	156	30	853	1,072
Changes during the year						
Increase due to acquisitions	-	13	112	2,047	147	2,319
Amortisation allowances	(31)	(2)	(175)	(370)	(254)	(832)
Other changes	-	-	-	-	-	-
Changes in the consolidation scope	-	12	56	-	23	91
Total changes	(31)	23	(7)	1,677	(84)	1,578
Closing value						
Cost	1,458	1,593	1,889	3,763	24,134	32,837
Amortisation (accumulated)	(1,456)	(1,570)	(1,740)	(2,056)	(23,365)	(30,187)
Carrying value	2	23	149	1,707	769	2,650

Incorporation and extension costs

Incorporation and extension costs are mainly related to costs and expenses sustained previously for the takeover of the Defim and Orsogrill lines of business by Nuova Defim and refer to the registration fee and notarial expenses and advisory fees.

Research and Development costs

The costs for research and development relate to charges incurred in order to obtain predetermined scientific and technical know-how in the field in which the Group operates and to implement the necessary procedures for economic exploitation of the know-how acquired.

Industrial patents and intellectual property rights

These refer entirely to the costs for software and computer applications, which increased by €112 thousand during the year, with a €56 thousand in increase in the change of the scope of consolidation.

Goodwill

In 2017, the takeover of Presider S.p.A. and MPL S.r.l. generated a goodwill of €2,047 thousand in the consolidated statements. This amount is amortized over ten years.

Other intangible assets

The main increase in this item relates to costs associated with the taking out of new mortgage loans of the amount of €147 thousand.

II. Tangible assets

	Land and buildings	Plant and machinery	Leased plant and machinery	Industrial and trade fixtures	Other tangible assets	Work in progress and advances	Total tangible assets
Opening value							
Cost	246,604	659,822	8,315	9,597	35,126	18,172	977,636
Depreciation (accumulated)	(90,045)	(526,357)	(8,315)	(9,071)	(26,801)	-	(660,589)
Carrying value	156,559	133,465	-	526	8,325	18,172	317,047
Changes during the year							
Increase due to acquisitions	8,063	23,900	-	332	244	4,309	36,848
Depreciation allowances	(7,533)	(28,097)	-	(306)	(3,466)	-	(39,402)
Other changes	(92)	(100)	-	-	2,890	-	2,698
Change in cons. - cost	13,575	15,101	-	537	1,188	-	30,401
Change in cons. - provision	(5,137)	(7,634)	-	(263)	(707)	-	(13,741)
Total changes	8,876	3,170	-	301	149	4,309	16,805
Closing value							
Cost	268,242	698,823	8,315	10,466	36,558	22,481	1,044,885
Depreciation (accumulated)	(102,807)	(562,188)	(8,315)	(9,640)	(28,084)	-	(711,034)
Carrying value	165,435	136,635	-	826	8,474	22,481	333,852

For details on the increases during the year, reference is made to the dedicated section of the business report.
Land and buildings also includes €134 thousand (net of depreciation) relating to adjustments made upon consolidation of Acciaierie di Calvisano S.p.A. for the difference between the value of the stake and equity on the date of the first consolidation. This allocation was supported by an estimate made by an independent expert.
Revaluations made in accordance with the 2008 Act (Law Decree no. 185/2008) involved the following companies:

Companies	Categories revalued	Value	Effect on equity
Feralpi Siderurgica S.p.A.	Land	34,000	34,000
Acc. Di Calvisano S.p.A.	Land	10,768	10,768
Dieffe S.r.l.	Land and buildings	*2,648*	*2,586*
Total		*47,416*	*47,354*

The €40,438 thousand increase is detailed for each company in the business report

III. Financial assets

A breakdown of financial assets is given in the table below.

Description	2017	2016	Change
Equity investments	28,039	31,516	(3,477)
Receivables from associates	7,500	7,500	-
Rec. from other companies	24	15	10
Other securities	347	347	-
Total	35,910	39,378	(3,467)

The individual items are detailed below.

Description	2016	Increase	Decrease	2017
Subsidiaries	-	-	-	-
Prov. for equity inv. impairment	-	-	-	-
Total subsidiaries	-	-	-	-
Associates	31,300	1,436	11,087	21,649
Parent companies	-	-	-	-
Other companies	216	6,174	-	6,390
Prov. for equity inv. impairment	-	-	-	-
Total other companies	216	6,174	-	6,390
Total	31,516	7,610	11,087	28,039

The decrease in equity investments in associates mainly relates to the transition of Presider S.p.A. and MPL S.r.l. from their state of associates to subsidiaries following the acquisition of the remaining 52% share in their capital.

Clearly, equity investments in associates reflects the result pertaining to each group company, which is described in the corresponding income statement section.

Associates

The table below shows the list of associates valued using the equity method.

Name and location	Share capital	Shareholders' equity	Profit/(Loss)	Attributable Profit/ (Loss)	% interest held	Carrying value
Beta S.A. Buzau (R)	766	14,518	56	16	28.35%	2,944
Media Steel S.r.l.	200	3,575	638	287	45.00%	2,038
Dima	1,000	1,026	8	(66)	31.00%	455
Caleotto S.p.A.	2,000	8,767	1,504	752	50.00%	4,953
Alpifer S.r.l. (Unifer-Steelfer)	1,200	19,007	706	353	50.00%	9,206
Cogeme Steel S.r.l.	200	200	(618)	(309)	50.00%	345
Comeca S.p.A.	2,800	8,404	30	6	19.85%	1,708
Total associates						21,649

Details on the new acquisitions are provided in a dedicated section of the business report.

Other companies

Equity interest in other companies totalled €216 thousand. The increment is due to the acquisition of a stake in Metalinterconnector by the parent and Acciaierie di Calvisano for the amount of €6,174 thousand. A breakdown of this item is given in the table below.

Description		2017	Increase	Decrease	2016
Az. Soc. Att. Tur. S.p.A. Bagolino	No. 2,520 shares par value 10,000	-	-	-	-
Az. Banca Coop. Valsabbina	No. 1,825 shares + no. 546	31	-	-	31
Az. Banca Pop. Novara	No. 5,544 shares + 1,584 W	11	-	-	11
Az. Banca Pop. Etruria e Lazio	No. 37,862 shares	-	-	-	-
Az. Tuxor S.p.A. - Turin	equal to 5% C.S.	31	-	-	31
Soc.Cons. RAM Ricerca Amb. Met.		16	-	-	16
Isfor 2000	No. 20 shares	4	-	-	4
Consorzio CIS-B		13	-	-	13
Assocaf	No. 1 share	-	-	-	-
SISMIC iron		5	-	-	5
A.Q.M.	No. 3.076 shares = 0.103%	6	-	-	6
AQM impairment		(2)	-	-	(2)
GAS Intensive		1	-	-	1
Consorzio Tera Energia		23	-	-	23
Consorzio Albero della Vita		5	-	-	5
Metalinterconnector		34	-	-	33
Banco Popolare		8	-	-	8
Assocaf (2000)		-	-	-	-
Gas Intensive (2002)		1	-	-	1
Consorzio Tera Energia		-	-	-	-
Ramet		3	-	-	3
Metalinterconnector SCPA		21	6,174	-	6,195
Other minority interest		7	-	-	7
Total other companies		216	6,174	-	6,390

Financial accounts receivable

A breakdown of this item is given in the table below.

Description	2016	Ch. in cons.	Increase	Decrease	2017
Subsidiaries (less than 12 months)	-	-	-	-	-
Subsidiaries (over 12 months)	-	-	-	-	-
Associates (over 12 months)	7,500	-	-	-	7,500
Others (less than 12 months)	-	-	-	-	-
Others (over 12 months)	15	6	3	-	24
Total	7,515	6	3	-	7,524

Receivables from associates, amounting to €7,500 thousand, relates to loans granted to Caleotto S.p.A.

Financial accounts receivable from others – over 12 months

The figure of €24 thousand refers to long-term guarantee deposits relating to the parent company and Italian companies.

C) Current assets

I. Inventories

Inventories, which are recognised at the lower of the cost and the fair value, are valued using the weighted average cost method.
This method is more appropriate to normalize the fluctuations in the price of raw materials than that of the finished product, thus allowing the reader to have a better interpretation of the accounting figures.
Closing inventories as at 31.12.2017 were assessed by means of a physical inventory under the supervision of the various heads of department.
A breakdown of individual items is given in the table below.

Description	2017	Ch. in cons.scope	2016	Change
Raw materials, supplies and consumables	64,601	10,335	52,736	22,201
Work in progress and semifin.pr.	22,984	-	11,388	11,597
Finished products and goods	101,483	-	80,271	21,213
Advances	-	-	243	(243)
Total	189,069	10,335	144,637	54,767
Total 2017 with change in consolidation scope		199,404	144,637	54,767

The year-on-year increase is mainly due to the rise in price and the quantities associated with the increase in orders.

II. Accounts receivable

A breakdown of this item is given below.

Description	2017	Ch. in cons.scope	2016	Change
Receivables from customers entered under current assets	224,269	30,289	157,654	96,904
Receivables from associates entered under current assets	19,711	-	21,898	(2,187)
Receivables from parents entered under current assets	25,900	-	26,152	(253)
Tax assets entered under current assets	10,666	1,777	6,649	5,795
Prepaid tax assets entered under current assets	243	275	268	250
Receivables from others entered under current assets	12,553	479	24,662	(11,630)
Total	293,342	32,820	237,283	88,880
Total 2017 with change in consolidation scope		326,162	237,283	88,880

The € 96,904 thousand increase in "Receivables from customers entered under current assets" is mainly due to the increase in the sale volumes of the entire Feralpi Group, especially the Parent, which accounted for €54,000 thousand. In addition, the newly acquired companies included in the scope of consolidation contributed with a further increase of €30,289 thousand.

The €11,630 thousand decrease in "Receivables from others" is due mainly to the collection of the previous portion of "energy-saving grants" by the Group companies in 2017, especially the Parent and Acciaierie di Calvisano.

A breakdown of accounts receivable by due date for the year ended 31 December 2017 is given below.

Description	Less than 12 months	Over 12 months	Over 5 years	Total
Receivables from customers entered under current assets	254,558	-	-	254,558
Receivables from subsidiaries entered under current assets	-	-	-	-
Receivables for associates entered under current assets	19,711	-	-	19,711
Receivables from parents entered under current assets	1,043	24,857	-	25,900
Tax assets entered under current assets	12,441	3	-	12,443
Prepaid tax assets entered under current assets	467	50	-	518
Receivables from others entered under current assets	13,021	11	-	13,032
Total	301,242	24,920	-	326,162

Receivables from customers

Accounts receivable from customers are recognised net of the provision for doubtful debts, which currently stands at €2,816 thousand.
The adjustment of the nominal value to the estimated realisable value was achieved via the provision for doubtful debts, which recorded the following movements over the year.

Description	2016	Utilisation	Accrual	2017
Provision for doubtful debts	2,594	(807)	241	2,028
Prov. for doubtful debts - ch. in cons. scope	208	(363)	767	612
Total	2,802	(1,170)	1,009	2,640

Accounts receivable from customers are all of a trade nature and are divided by geographical area, as shown in the table below.

Description	Italy Trade	Italy Others	Other EU countries Trade	Other EU countries Others	Non-EU	Total
Receivables from customers entered under current assets	163,866	-	62,195	4	28,494	254,558
Receivables from associates entered under current assets	19,700	-	11	-	-	19,711
Receivables from parents entered under current assets	-	25,900	-	-	-	25,900
Receivables subject to parent's control						-
Tax assets entered under current assets	5,352	4,364	2,599	-	127	12,443
Prepaid tax assets entered under current assets	275	241	-	-	2	518
Receivables from others entered under current assets	478	8,094	3,677	-	782	13,032
Total	189,672	38,599	68,482	4	29,405	326,162

Receivables from the parent company

Receivables from the parent company are related only to Feralpi Holding S.p.A. and are of a financial nature and associated with the applicable tax consolidation regime. A breakdown is given in the table below.

Description	Receivable from parent companies	
	trade	financial
Feralpi Siderurgica S.p.A.	-	15,744
Acciaierie di Calvisano S.p.A.	-	7,913
Feralpi Stahl	-	-
Nuova Defim S.p.A.	-	-
Feralpi Profilati Nave S.r.l.	-	714
Fer Par S.r.l.	-	1,526
Beta	-	-
MediaSteel	-	-
Immobiliare Feralpi	-	3
Italy	-	25,900
Esf Group	-	-
Abroad	-	-
Total	-	25,900
Total receivables		25,900

Non-trade receivables are related to the national tax consolidation regime and represent the amount the Group is owed from the parent Feralpi Holding following the transfer of the tax losses accumulated in previous years to the parent.

Tax assets

Tax assets, totalling €12,443 thousand, are broken down as shown below.

Description	2017	Change in cons. scope	2016	Change
VAT	8,171	1,647	4,678	3,493
R&D	1,656	33	1,240	416
IRAP/IRES (Regional business tax/Corporate income tax)	849	57	282	567
Others less significant	11	19	449	(438)
Total	10,687	1,756	6,649	4,038
Total 2017 with change in consolidation scope		12,443	6,649	5,794

The €3,493 thousand increase in input VAT is mainly attributable to the significant credit relating to Feralpi Profilati Nave following the acquisition of inventories in 2016 by auction under Stefana proceedings. Moreover, the newly acquired Presider S.p.A. and MPL S.r.l. contributed to increase input VAT by €1,647 thousand, as shown in the table above.

Prepaid taxes

A breakdown of prepaid taxes is given below.

Description	2017	Change in cons. scope	2016	Change
Material for slag and offgas deferrization	190	-	226	(36)
Prepaid tax on doubtful debts	53	275	42	11
Total	243	275	268	(25)

Receivables from others

A breakdown of this item is given below.

Description	2017	Change in cons. scope	2016	Change
Energy cost refund	9,705	-	23,899	(14,194)
Receivables from other Group companies	-	-	-	-
Unemployment benefits	164	-	8	156
Social security institutions	226	-	283	(57)
Sundry amounts receivable	310	-	-	310
Grant received for investments	-	-	-	-
Down payments to suppliers	1,927	129	175	1,752
Other less significant	220	350	297	(77)
Total	12,553	479	24,662	(12,109)
Total 2017 with change in consolidation scope		13,032	24,662	(11,630)

As shown in the summary table, the most significant item relates to the collection of previous portions of grants under “aid to energy-intensive companies”.

IV. Cash and cash equivalents

Description	2017	Change in cons. scope	2016	Change
Bank and postal current accounts	56,535	1,131	51,521	5,013
Cheques	-	8	14 -	14
Cash and cash equivalents	3	3	4	-
Total	56,537	1,142	51,539	5,000
Total 2017 with change in consolidation scope		57,679	51,539	6,140

The balance represents cash on hand and the existence of cash and securities available on the closing date, the majority of which is held by the Group’s German companies. For more details on the origins of the liquidity funds, please refer to the cash flow statement illustrated at the beginning of this Explanatory Notes.

D) Prepayments and accrued income

They measure income and charges received or paid in advance or on an accrual basis; they are independent of the date of payment or collection of the related income and charges, refer to two or more years and can be allocated on an accrual basis.

For these items, too, the criteria adopted in assessing and translating values expressed in foreign currency are shown in the first part of these notes.

A breakdown of this item is given below.

Description	2017	Change in cons. scope	2016	Change
Sundry prepaid expenses	1,735	345	1,720	15
Total	1,735	345	1,720	15
Total 2017 with change in consolidation scope		2,080	1,720	360

A breakdown of this item is given below.

Description	2017	Change in cons. scope	2016	Change
Sundry	479	170	481	(2)
Interest and commissions	588	-	1,017	(429)
Insurance and guarantees	668	175	401	267
Total prepaid expenses	1,735	345	1,899	(164)
Total 2017 with change in consolidation scope		2,080	1,899	181

A breakdown by deadline is given in the table below.

Description	Less than 12 months	Over 12 months	Total
Prepayments and accrued income	1,346	734	2,080
Total	1,346	734	2,080

As can be seen from the table, this item did not undergo significant changes year on year; the increase is due only to the change in the consolidation area.

LIABILITIES

A) Shareholders' equity

The share capital of the parent company as at 31st December 2017 amounted to €50,000,000.

Adjustments deriving from the consolidation process resulted in the following differences between the financial statements as at 31st December 2017 for the parent company Feralpi Siderurgica S.p.A. and the Group's consolidated financial statements on that date.

RECONCILIATION STATEMENT OF PARENT COMPANY'S EQUITY/OPERATING RESULT

	Result	Initial share capital and reserves	Shareholders' equity
Feralpi siderurgica S.p.A.	8,745	169,631	174,376
Adjustment to Group's accounting principles	(98)	(98)	(197)
Write-off of intercompany transaction effects	897	442	1,339
Write-off of equity investment carrying value			
Elision of equity investments	41,460	127,428	168,888
Goodwill amortisation	(350)		
Elision of dividends	(32,000)	32,000	
Consolidation using the equity method	1,042	1,538	
Group profit/equity	19,696	330,941	350,637
Minority interest profit/equity	68	84	152
Consolidated profit/equity	19,764	331,025	350,789

The figures shown are net of taxes.

Movements in shareholders' equity are shown in the table below.

	share capital	share premium reserve	legal reserve	extraord.reserve	profit/loss brought forward	cash flow hedging transaction reserve	other reserves	currency translation reserve	consolida-tion reserve	result for the year	total	minority interes result	minority equity	total
31 December 2016	50,000	13,501	7,653	730	65,700	(267)	34,000	(69)	125,909	38,560	335,717	(8)	108	335,816
allocation of the 2015 result			168	3,182					35,311	(38,560)	101	8	(108)	1
dividends					(5,000)						(5,000)			(5,000)
other movements						(54)	430				376			376
acquisitions during the year									(254)		(254)			(254)
2017 operating result										19,696	19,696	68	84	19,849
31 December 2017	50,000	13,501	7,821	3,912	60,700	(321)	34,430	(69)	160,966	19,696	350,636	68	84	350,789

It is worth noting that the item "Other movements" shows a €54 thousand change in the consolidation reserve due to hedging instruments.

The amount of €68 thousand under "Minority interest result" is entirely related to the minority interest of the subsidiary Feralpi Algérie.

B) Provision for contingent liabilities and charges

Description	2016	Change in cons. scope	Increase	Decrease	2017
Supplementary indemnity fund for sales agents	1,133	134	54	-	1,321
Deferred taxes	1,600	-	197	1,251	546
Financial derivative liabilities	332	-	98	-	430
Slag disposal	580	-	-	243	337
Other sundry risks	230	310	29,452	2,110	27,882
Total	3,874	444	29,801	3,604	30,516

The most significant change in this item relates to "Other sundry risks", which includes €27,882 thousand allocated by the parent to cover the antitrust sanction of €29,429 thousand, net of the payment of two instalments made during the year.

C) Employees' severance pay

The breakdown of this item is given below.

	Employee severance pay
Opening value	6,819
Changes during the year	
Allocation during the year	1,852
Utilisation during the year	(2,149)
Initial provision for change in consolidation scope	339
Allocation for change in consolidation scope	194
Utilisation for change in consolidation scope	(166)
Closing value	6,889

The figure set aside reflects what the company actually owe its employees as at 31.12.2017, after deduction of advances paid. The table also shows the change in the scope of consolidation.

D) Accounts payable

Accounts payable are valued at their nominal value and due date, as detailed below.

Description	2017	Change in cons. scope	2016	Change
Convertible bonds	-	347	-	-
Shareholders' loans	-	-	654	(654)
Bank borrowings	179,601	25,710	170,773	8,828
Borrowings from other lenders	-	-	-	-
Advanced payments received	85	535	47	38
Trade creditors	213,918	14,733	166,596	47,322
Notes payables	-	-	-	-
Payables owed to subsidiaries	-	-	-	-
Payables owed to associates	51,056	-	42,128	8,928
Payables owed to parent companies	45,333	-	29,245	16,087
Payables owed to entities controlled by parent companies	-	-	-	-
Tax liabilities	12,644	213	11,019	1,625
Payables owed to social security institutes	3,358	193	3,496	(138)
Other payables	20,595	-	20,965	(371)
Total	526,589	41,731	444,923	81,666
Total 2017 with change in consolidation scope		568,320	444,923	123,397

Description	Less than 12 months	Over 12 months	Over 5 years	Total
Convertible bonds	-	347	-	347
Shareholders' loans	-	-	-	-
Bank borrowings	110,764	91,046	3,500	205,311
Borrowings from other lenders	-	-	-	-
Advanced payments received	620	-	-	620
Trade creditors	228,651	-	-	228,651
Notes payables	-	-	-	-
Payables owed to subsidiaries	-	-	-	-
Payables owed to associates	51,056	-	-	51,056
Payables owed to parent companies	45,333	-	-	45,333
Payables owed to entities controlled by parent companies	-	-	-	-
Tax liabilities	12,857	-	-	12,857
Payables owed to social security institutes	3,551	-	-	3,551
Other payables	20,587	8	-	20,595
Total	473,419	91,401	3,500	568,320

"Payables owed to associates" mainly relates to the amount owed by the parent and Acciaierie di Calvisano to the associate Media Steel for the purchase of scrap.

Bank borrowings

Loans and borrowings from banks and credit institutions covering investments and financial restructuring work totalled €205,311 thousand as at 31 December 2017. They are secured by collateral for €105,700 thousand (€85 thousand Feralpi Siderurgica and €20 thousand Calvisano).

Description	2017	Change in cons. scope	2016	Change
Bank current accounts	56,835	24,380	50,708	6,127
Loans falling due within 12 months	28,220	-	39,033	(10,813)
Loans falling due over 12 months and within 5 years	89,353	2,436	72,424	16,929
Loand falling due over 5 years	3,500	587	8,608	(5,108)
Total	177,908	27,403	170,773	7,135
Total 2017 with change in consolidation scope		205,311	170,773	34,538

New loans were taken out in 2017 for about €34.5m, of which €3m by Feralpi Siderurgica S.p.A. and €3m by Presider S.p.A. and €7m by the German subsidiary ESF.

It should be noted that the Company issued guarantees in favour of credit institutions for credit lines and/or loans for Group companies, totalling €124m.

Trade creditors

Payables owed to suppliers are all of a trade nature. A breakdown by geographical area is given below.

Description	Trade - Italy	Trade - Other EU countries	Non-EU	Total
Trade creditors	150,868	73,123	4,660	228,651
Total	150,868	73,123	4,660	228,651

Payables relating to Feralpi Holding S.p.A., amounting to €45,333 thousand, are broken down as follows.

Companies	Italy	
	trade	financial
Feralpi Siderurgica S.p.A.	1,970	41,304
Acciaierie di Calvisano S.p.A.	317	506
Feralpi Profilati Nave S.r.l.	-	522
Nuova Defim S.p.A.	22	100
Fer Par S.r.l.	-	299
Immobiliare Feralpi S.r.l.	-	22
Italy	2,309	42,753
ESF Group	271	
Abroad	271	-
Total	2,580	42,753
Total payables		45,333

Tax liabilities

The table below shows tax liabilities broken down by type.

Description	2017	Change in cons. scope	2016	Change
Withholding tax (IRPEF)	1,976	202	1,525	451
VAT liability	4,459	-	1,537	2,922
Sundry tax liabilies and duties	6,215	5	7,957	(1,742)
Total	12,650	207	11,019	1,631
Total 2017 with change in consolidation scope		12,857	11,019	1,838

The considerable increase is attributable to VAT output, namely relating to the German subsidiary ESF for a total amount of €3,632 thousand.

Other payables

The table below shows Other payables broken down by type.

Description	2017	Change in cons. scope	2016	Change
Personnel expenses	8,778	268	8,825	(47)
Rewards to customers	7,390	-	7,490	(100)
Others less significant	4,050	109	4,650	(600)
Total	20,218	377	20,965	(747)
Total 2017 with change in consolidation scope		20,595	20,965	(370)

E) Accruals and deferred income

These items are calculated on an accrual basis.
A breakdown of accruals is given below.

Description	Opening value	Change in cons. scope	Change during the year	Closing value
Accruals and deferred income	1,244	64	(84)	1,224
Total	1,244	64	(84)	1,224
Total 2017 with change in consolidation scope		1,308	(84)	1,392

€1,244 thousand deferred income is mainly due to investment subsidies for future use by ESF GmbH and by EDF GmbH for the amount of €812 thousand.

Description	Less than 12 months	Over 12 months	Over 5 years	Total
Accruals and deferred income	760	464	-	1,224
Total	760	464	-	1,224

It should be noted that the Company issued guarantees in favour of credit institutions for credit lines and/or loans for Group companies, totalling €121m.

Income Statement

A comparison is made below of the consolidated financial statements for 2017 and 2016, with details of the change in the scope of consolidation by the complete inclusion of Presider S.p.A., MPL S.r.l. and Presider Armature S.a.S.

A) Production value

A breakdown of this item is detailed below.

Description	2017	Change in cons. scope	2016	Variazione
Revenues from goods sold and services rendered	1,139,498	50,597	925,473	214,025
Changes in product stock	27,914	(313)	5,488	22,426
Changes in work in progress on order	-	-	-	-
Increase in non-current assets for internal work	2,611	5	2,280	330
Other revenues and income	3,233	1,979	4,543	(1,310)
Total	1,173,257	52,268	937,785	235,471
Total 2017 with change in consolidation scope		1,225,525	937,785	287,740

The increase in turnover on the previous year reflects the market situation in the industry, which was characterised by a steady recovery. Further details are provided in the business report.
A breakdown of other revenues and income by category is given in the table below.

Category	2017	Change in cons. scope	2016	y-o-y % change 2017/2016
Rentals	793	-	771	23
Insurance and other amounts recovered	148	-	701	(552)
GSE incentives	-	-	255	(255)
Other incentives	1,447	28	1,078	368
Other revenues	845	1,951	1,739	(894)
Total	3,233	1,979	4,543	(1,310)
Total 2017 with change in consolidation scope		5,212	4,543	669

The item "Incentives" comprises subsidies mainly relating to the parent for the amount of €390 thousand and the subsidiary Acciaierie di Calvisano for the amount of €688 for R&D activities.

Revenues from sales by geographical area are broken down as follows.

Geographical area	*2017*	*Change in Cons.*	*2016*	*Change*
Italy	394,143	28,306	288,596	105,548
EU	562,165	17,218	429,537	132,627
Non-EU	183,192	5,073	207,341	-24,149
Total consolidated	1,139,499	50,597	925.473	214,026
Total 2017 with change in consolidation scope		1,190,095	925,473	264,623

B) Production costs

The breakdown and changes relating to this item are shown in the table below.

Description	2017	Change in cons. scope	2016	Change
Raw materials, supplies and consumables	774,306	19,825	583,688	190,618
Services	217,779	20,738	185,686	32,093
Leases and rentals	2,260	515	2,117	143
Personnel expenses	75,428	3,741	71,444	3,983
Amortisation and depreciation allowances	38,694	2,549	37,957	737
Changes in the stock of raw materials	(10,701)	3,568	(5,900)	(4,801)
Provision for risks	29,451	-	150	29,301
Other operating charges	3,774	908	2,370	1,404
Total	1,130,990	51,844	877,512	253,478
Total 2017 with change in consolidation scope		1,182,834	877,512	305,323

Cost for raw materials, supplies, consumables and goods

The cost of raw materials, supplies and consumables increased y-o-y by €190,612 thousand. For further details on the economic situation during the year, reference is made to the business report.
It is noted that the cost of scrap accounted for 83% of the total cost of raw materials.

Costs for lease of third-party assets

A breakdown of this item is given below.

Description	2017	Change in cons. scope	2016	Change
Leases - Rentals	2,150	338	2,056	94
Licence of use fees	110	177	61	49
Total	2,260	515	2,117	143
Total 2017 with change in consolidation scope		2,775	2,117	658

Costs for services

The table below shows a breakdown of the cost for services, which shows a significant increase of almost all the items listed. The increase is mainly attributable to increased turnover, as better detailed in the business report.

Description	2017	Change in cons. scope	2016	Change
Maintenance and outsourced services	21,240	393	12,535	8,705
Production services	38,340	10,120	26,070	12,270
Energy and other utilities	91,907	551	78,764	13,143
Transport and in-house handling	36,698	6,597	38,143	(1,445)
Consultancy, insurance, advertising	17,768	1,049	14,814	2,954
Other less significant costs	11,826	2,028	15,360	(3,534)
Total	217,779	20,738	185,686	32,093
Total 2017 with change in consolidation scope		238,517	185,686	52,831

Personnel expenses

This item comprises all expenses for employees including merit salary increases, promotions, cost-of-living increases, cost of untaken leave and provisions required by law and collective labour agreements.

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Description	2017	Change in cons. scope	2016	Change
Wages and salaries	56,079	2,729	53,954	2,125
Social security contributions	15,131	802	14,435	696
Severance pay allowance	1,843	203	1,685	158
Others	2,377	5	1,370	1,007
Total	75,430	3,739	71,444	3,985
Totale 2017 with change in consolidation scope		79,169	71,444	7,724

Depreciation allowance for tangible assets, intangible assets and write-downs

This allowance was calculated on the basis of the useful life of assets and their utilisation in the production process.

The amount in the provision for bad debts relates to its adjustment and was allocated on the basis of the estimated collectability of receivables entered in the accounts.

Description	2017	Change in cons scope	2016	Change
Depreciation allowance for tangible assets	37,737	1,665	37,121	617
Amortisation allowance for intangible assets	718	114	379	339
Allowance for doubtful debts	241	768	457	(217)
Total	38,696	2,547	37,957	739
Total 2017 with change in consolidation scope		41,243	37,957	3,286

Other Non-current assets impairments

None.

Provision for doubtful debts included under current assets and cash and cash equivalents

An allowance of €457 thousand was allocated to the provision for bad debts, taking into account secured receivables.

Allocation for risks

During the year, Feralpi Siderurgica allocated €29,451 thousand to the provision for risks. Further details are provided in the section dedicated to the provision for risks.

Other operating charges

This item comprises association membership fees, the property tax (IMU), losses on receivables, sundry taxes, duties and non-deductible costs. A breakdown is shown in the table below.

Description	2017	Change in cons. scope	2016	Change
Donations and charities	31	-	36	(5)
Membership fees	361	-	342	19
Taxes and duties	1,120	71	955	165
Loss on deductible receivables	94	407	-	94
Others	2,168	430	1,036	1,132
Total	3,774	908	2,370	1,404
Total 2017 with change in consolidation scope		4,682	2,370	2,312

The €1,132 thousand increase in "Others" is mainly attributable to the subsidiary ESF, which accounted €920 thousand for assets in progress, with immediate recognition in the year.

C) Financial income and expenses

Description	2017	Change in cons. scope	2016	Change
Income from other equity investments	66	-	55	11
Interest receivable from associates	130	-	22	108
Other financial income	206	105	111	95
Total financial income	402	105	188	214
Interest and other financial expenses from parent companies	260		348	(88)
Interest and other financial expenses from others	3,578	305	4,296	(718)
Total financial expenses	3,839	305	4,644	(805)
Exchange gains and loesses	(19)	127	43	(63)
Total	(3,456)	(73)	(4,414)	957
Total 2017 with change in consolidation scope		(3,529)	(4,414)	885

The decrease in financial expenses is due mainly to the considerable decline in interest rates on financial markets.

Interest and other financial income

They accounted for €188 thousand and are related to interest accrued on receivables from customers.

Description	Parent companies	Associates	Others	Total
Dividends	-	75	-	75
Bank and other interest income	-	-	16	16
Interest income	-	-	416	416
Total	-	75	432	507

Interest and other financial expenses

The figure of €341 thousand for the parent company is related to interest maturing between Feralpi Siderugica and Feralpi Holding in connection with their intercompany mutual current account.

A breakdown of other financial expenses is given in the table below.

Description	Parent companies	Associates	Others	Total
Bank interest expense	(260)	-	(1,387)	(1,647)
Interest on loans	-	-	(1,304)	(1,304)
Bank commissions and charges	-	-	(637)	(637)
Sundry interest and other expenses	-	-	(45)	(45)
Hedging interest	-	-	(511)	(511)
Exchange gains/(losses)	-	-	108	108
Total	(260)	-	(3,776)	(4,036)

D) Adjustment to the value of financial assets

The table below shows the revaluations and impairment losses for 2016, which are mainly associated with the valuation of equity investments in associates included in the scope of consolidation using the equity method.

Description	2017	2016	Change
Media Steel	287	318	(31)
Beta	16	104	(88)
Alpifer	353	-	353
Caleotto	752	-	752
Dima	3	-	3
Comeca	6	44	(38)
Altre minori	22	-	22
Total revaluations	1,439	466	973
Mpl	-	70	(70)
Alpifer	-	217	(217)
Dima	66	138	(72)
Cogeme Steel	309	546	(237)
Caleotto	-	348	(348)
Alpifer	-	578	(578)
Altre minori	14	-	14
Total write-downs	389	1,897	(1,522)
Total	1,050	(1,431)	2,495

Income tax for the year

A breakdown is given below.

Description	2017	Change in cons. scope	2016	Change
Current taxes	20,391	26	15,894	4,497
Deferred taxes	(142)	-	(99)	(43)
Prepaid taxes	28	144	81	(53)
Total	20,277	170	15,876	4,401
Total 2017 with change in consolidation scope		20,447	15,876	4,571

All the companies with a negative operating result recognised deferred taxes on the fiscal loss for the year.

Employees

The average number of employees in the Group (entirely consolidated companies) increased y-o-y by 96 units, which is broken down by category as shown in the scope of consolidation change column in the table below.

Description	Average 2017	Change in cons. scope	Average 2016	Change
Executives	16	2	15	1
Office workers	327	49	309	18
Factory workers	1,029	24	1027	2
Total	1,372	75	1,351	21
Total		1,447	1,351	96

Additional information

As required by law, the overall fees paid to the members of the board of directors and board of auditors are shown below.

Qualification	Fee
Directors	1,903
Board of auditors	113
Total	2,016

The fees paid for statutory audit of the group companies' accounts amounted to €206 thousand overall.

Facts of note occurring after the reporting date

The Group has long been in a process of renewal and diversification, and the last step of this, at company level, came at the end of 2017, with the establishment of the French company Presider Armatures.
Attention has now turned to developing the integration and functional characteristics of the Group, through a corporate organisational review supported by appropriate mechanisms

Remarkable efforts, in financial and other terms, are being made in order to improve information systems, which are necessary for the management of a company that, in recent years, has increased in complexity.
The recently acquired companies also require a thorough technical-organisational reappraisal. To this end, various important financial and other resources have been invested, thanks to positive financial and economic circumstances.
In a market that is still extremely competitive, the Group exhibits its ability to maintain a leading position.

These Financial Statements, comprising the Balance Sheet, the Income Statement and Explanatory Notes and the Cash Flow Statement give a correct and fair view of the company's assets and liabilities, financial situation and the operating result, and reflect the accounting records.

Chairman
Giuseppe PASINI

Board Directors
Giovanni TOLETTINI

Giovanni PASINI

Faustino LEALI

Dante Giuseppe TOLETTINI

Cesare PASINI

Ercole TOLETTINI

Alberto MESSAGGI

Lorenzo ANGELINI

Lonato del Garda, 24th May 2018


EMAS

Board of Auditors' report

on Feralpi Siderurgica S.p.A.'s Consolidated Financial Statements

for the year ended 31st December 2017

To the shareholders' meeting of Feralpi Siderurgica S.p.A. ("Company" or "Feralpi"),

The consolidated financial statements of the Feralpi Group, as at 31st December 2017, was prepared in accordance with the law and is accompanied by the business report.

With reference to the Explanatory Notes, they provide a clear and exhaustive representation of the method used in the preparation of the financial statements and the specific accounting policy adopted.

As a result of the information provided and the audits carried out, we can state that the format and layout of the consolidated financial statements comply with the generally accepted accounting standards and the provisions of the Italian Civil Code, which were applied correctly.

Please also note that:

- the consolidated financial statements reflect the events and information that have come to our knowledge in carrying out our tasks;
- the business report to the Feralpi Group's financial statements is drawn up in complete form and in accordance with the provisions of art. 2428 of the Italian Civil Code.

In conclusion, considering all the above and also the results of the activities performed by the supervisory board, no significant events worth mentioning herein occurred during the year.

Lonato del Garda, 13th June 2018

THE BOARD OF AUDITORS

Giancarlo Russo Corvace

Stefano Guerreschi

Alberto Soardi

Building a better working world

Feralpi Siderurgica S.p.A.

Consolidated Financial Statements as at December 31, 2017

Independent auditor's report
Pursuant to art. 14 of Legislative Decree no. 39 of January 27, 2010

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INDEPENDENT AUDITOR'S REPORT
pursuant to art. 14 of Legislative Decree no. 39 of 27 January 2010

To the Sole Shareholder of
Feralpi Siderurgica S.p.A.

Report on the Financial Statements

Opinion

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italy). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the *Audit of the Consolidated Financial Statements* section of our report. We are independent of the Feralpi Siderurgica S.p.A. in accordance with the code of ethics for professional accountants established by Italian law on financial statements auditing on financial statements auditing. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and the Board of Auditors for the Consolidated Financial Statements

Directors are responsible for the preparation and fair representation of the consolidated financial statements in accordance with Italian Law governing the preparation standards and, within the terms of the law, for such internal control as directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Directors are responsible for assessing the Group's ability to continue as a going concern, the appropriateness of the use of the going-concern assumption and the adequate relevant disclosure, as applicable. Directors are also responsible for using the going-concern basis in preparing the financial statements, unless they have ascertained the existence of the conditions for the liquidation of the parent company or cease operations, or there is no realistic alternative but to do so.

The board of auditors are responsible for overseeing the Group's financial reporting process.

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Independent Auditor's responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain 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 conducted in accordance with ISA 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 an audit in accordance with International Standards on Auditing (ISA Italy), we exercised professional judgement and maintained professional scepticism throughout the audit. We also took steps to:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by directors.
- conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, on 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. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to review our opinion accordingly. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate 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 a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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Opinion pursuant to art. 14, subsection 2, letter e) of Italian Legislative Decree no. 39 of 27 January 2010

The directors of Feralpi Siderurgica S.p.A. are responsible for preparing the Feralpi Siderurgica Group's business report as at 31 December 2017, including consistency with the related consolidated financial statements and compliance with the law.

We performed the procedures required under audit standard (SA Italia) no. 720B in order to express an opinion on the consistency of the business report with the consolidated financial statements of the Feralpi Siderurgica Group as at 31st December 2017, and on its compliance with the provision of law, as well as issue a declaration on any material error.

In our opinion, the business report is consistent with the consolidated financial statements of the Feralpi Siderurgica Group as at 31st December 2017, which was prepared in compliance with legal requirements.

With reference to the report issued pursuant to art. 14, subsection 2, letter e), of Legislative Decree no. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Brescia, 13 June 2018

Reconta Ernst & Young S.p.A.
[Signatures illegible]
Stefano Colpani
(Partner)

THANK YOU VERY MUCH TO EVERYONE

"Gratitude is the memory of the heart"
Lao Tsè

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