# FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

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## CORPORATE BODIES

### BOARD OF DIRECTORS

| | | |
|---|---|---|
| CHAIRMAN | MR | FILIPPO CASADIO |
| EXECUTIVE DIRECTOR | MR | FRANCESCO GANDOLFI COLLEONI |
| NON-EXECUTIVE DIRECTOR | MR | GIANFRANCO SEPRIANO |
| INDEPENDENT DIRECTOR | MS | FRANCESCA PISCHEDDA |
| INDEPENDENT DIRECTOR | MR | ORFEO DALLAGO |
| INDEPENDENT DIRECTOR | MS | GIGLIOLA DI CHIARA |

### BOARD OF STATUTORY AUDITORS

| | | |
|---|---|---|
| CHAIRMAN | MR | FABIO SENESE |
| STANDING STATUTORY AUDITOR | MR | ADALBERTO COSTANTINI |
| STANDING STATUTORY AUDITOR | MS | DONATELLA VITANZA |
| SUBSTITUTE STATUTORY AUDITOR | MR | GIANFRANCO ZAPPI |
| SUBSTITUTE STATUTORY AUDITOR | MS | CLAUDIA MARESCA |

### INDEPENDENT AUDITORS

PricewaterhouseCoopers SpA

### RISK CONTROL COMMITTEE

MS GIGLIOLA DI CHIARA
MR GIANFRANCO SEPRIANO
MR ORFEO DALLAGO

### REMUNERATION COMMITTEE

MS FRANCESCA PISCHEDDA
MR GIANFRANCO SEPRIANO
MR ORFEO DALLAGO

### INTERNAL AUDITOR

MR FABRIZIO BIANCHIMANI

### SUPERVISORY BODY

MR FRANCESCO BASSI
MR GABRIELE FANTI
MR GIANLUCA PIFFANELLI

# CALLING OF ORDINARY SHAREHOLDERS' MEETING

The Shareholders are convened to the Ordinary Shareholders' Meeting, in first call on 26 April 2018 at 11 am at the registered office of the Company and, if required, in the second call scheduled for 3 May 2018, in the same location and time, in order to discuss and resolve on the following

**AGENDA**

- Separate financial statements as of 31/12/2017 and related reports of the Board of Directors and the Board of Statutory Auditors, and consequent resolutions;
- Presentation of the consolidated financial statements as of 31/12/2017;
- Remuneration report and consequent resolutions;
- Proposal for authorisation to acquire and dispose of own shares, methods of acquisition and transfer.

SHARE CAPITAL AND VOTING RIGHTS – The share capital of the Company is equal to Euro 14,626,560 and divided into 28,128,000 ordinary shares. Each ordinary share gives the right to one vote in the ordinary and extraordinary Shareholders' Meetings of the Company. As of the current date, the Company owns 1,411,774 own shares which represent 5.02% of the share capital, and whose vote is suspended in accordance with Article 2357-ter of the Italian Civil Code.

RIGHT TO ATTEND – In accordance with article 83-*sexies* of Italian Legislative Decree 58/1998, the right to attend the Shareholders' Meeting and to exercise the voting right is established by a communication addressed to the Company – made by the intermediary, in accordance with its accounting records – in the favour of the owner of voting rights and based on the evidence available at the end of the accounting day of the seventh trading day prior to the date established for the Meeting in first call; credit and debit entries made after this deadline are not applicable for determining the right to exercise the voting right in the Meeting. Those determined to be owners of Company shares only after that date will not be entitled to attend and vote in the Meeting. The Company must receive the above-mentioned communication from the intermediary at least two business days before the first call. The above does not prejudice the right to attend and vote should the Company receive the communication beyond that date but before the beginning of the Meeting in first call.

VOTING BY PROXY – Each Shareholder may appoint a proxy, in accordance with the law and in writing, by signing the proxy form issued upon request of the entitled party by qualified intermediaries or available on the website www.irce.it. The proxy can also be sent via registered mail with receipt of return to the registered office of the Company, or certified e-mail to the address ircespa-pec@legalmail.it, attaching a copy of a valid identification document of the principal.

The Company has appointed as Designated Representative, in accordance with Article 135-undecies of Italian Legislative Decree 58/1998 (Consolidated Financial Act), Ms Stefania Salvini (lawyer), who may be appointed as proxy and receive voting instructions on the condition that she receives this proxy via registered mail with receipt of return to Studio legale Avv. Carlo Zoli, via Mengolina No. 18, 48018 Faenza, Italy, or certified e-mail to avvstefaniasalvini@ordineavvocatibopec.it, by the end of the second trading day prior to the date of the Meeting in first call. The proxy granted in this manner is valid only for proposals for which the principal has provided voting instructions; the principal may revoke the proxy and voting instructions before the above deadline.

QUESTIONS ON THE TOPICS ON THE AGENDA – Pursuant to Article 27-ter of Italian Legislative Decree 58/1998, Shareholders can submit questions on the topics on the agenda even before the Meeting via registered mail with receipt of return to the registered office of the Company or certified e-mail sent to ircespa-pec@legalmail.it. The questions, complete with the personal details of the shareholder asking the question and the certification proving the ownership of the shares, must be delivered to the Company by 10:00 am of the day prior to the date of the Meeting in first call.

ADDITIONS TO THE AGENDA — Shareholders which represent, including jointly, at least 2.5% of the share capital can request – in writing and within 10 days from the date of publication of this notice, and in compliance with the provisions of Article 126-bis of Italian Legislative Decree 58/1998 (Consolidated Financial Act) – to add topics to the agenda, indicating in their request any additional topics they propose. This request must be sent via registered mail with return receipt to the Registered Office of the Company or certified e-mail to the address ircespa-pec@legalmail.it. A report on the topics being proposed for discussion must be submitted, by the same deadline and in the same manner, to the Board of Directors of the Company. In addition, and in accordance with the provisions of Article 126-bis, paragraph 3, of the Consolidated Financial Act, an integration of the agenda on the part of Shareholders is not allowed for topics on which the Meeting is called upon to resolve, upon proposal of the Directors or on the basis of a project they prepare.
DOCUMENTATION – The documentation concerning the Meeting will be available to the public, within the terms established by the laws in force, at the Registered Office of the Company, Borsa Italiana S.p.A., and on the website www.irce.it. Shareholders are entitled to obtain a copy of the filed documentation.

This notice will also be published on the website of the Company and on the newspaper "Il Giornale".

Imola, 14 March 2018

IRCE S.p.A

# REPORT ON OPERATIONS FOR 2017

## Consolidated performance for 2017

Introduction

Given the significant impact of the activities of the Parent Company IRCE S.p.A. (henceforth also referred to as the "Company") on the consolidated financial statements of the IRCE Group, this Report on Operations is drafted jointly for the separate financial statements of IRCE S.p.A. and the consolidated financial statements of the IRCE Group.

Dear Shareholders,

The 2017 financial year of the IRCE Group (henceforth also referred to as the "Group") ended with improved revenues and margins compared to 2016.

Consolidated turnover totalled € 357.13 million, up from € 295.81 million in the previous year; the 21% increase was mainly due to the rise in copper prices, which intensified in the final quarter.

Consolidated turnover without metal[1] grew by 6.4%.

Revenues (without the metal component) in the winding wires sector grew by 6.6% compared to 2016, mainly due to the Brazilian market.
The cable segment, which grew in the second half of the year, closed with a 5.4% increase in revenues (without the metal component).

In detail:

| Consolidated turnover without metal (€/million) | Year 2017 | | Year 2016 | | Change |
|---|---|---|---|---|---|
| | Value | % | Value | % | % |
| Winding wires | 63.68 | *79.9%* | 59.72 | *79.7%* | *6.6%* |
| Cables | 15.99 | *20.1%* | 15.17 | *20.3%* | *5.4%* |
| Total | 79.67 | *100.0%* | 74.89 | *100.0%* | *6.4%* |

The following table shows the changes in results compared to the previous year, including adjusted EBITDA and EBIT.

| Consolidated income statement data (€/million) | Year 2017 | Year 2016 Restated | Change |
|---|---|---|---|
| Turnover[2] | 357.13 | 295.81 | 61.32 |
| EBITDA[3] | 18.44 | 6.94 | 11.50 |
| EBIT | 9.97 | (1.06) | 11.03 |
| Profit / (loss) before tax | 8.15 | 0.42 | 7.73 |
| Profit / (loss) for the year | 4.69 | (0.18) | 4.87 |
| | | | |
| Adjusted EBITDA[4] | 16.52 | 8.62 | 7.90 |
| Adjusted EBIT[4] | 8.05 | 0.62 | 7.43 |

[1] Turnover or revenues without metal corresponds to overall turnover after deducting the metal component.

[2] The item "Turnover" represents the "Revenues" reported in the income statement.

[3] EBITDA is a performance indicator the Group's Management uses to assess the operating performance of the company and is not an IFRS measure; IRCE S.p.A. calculates it by adding amortisation/depreciation, provisions and write-downs to EBIT.

[4] Adjusted EBITDA and EBIT are calculated as the sum of EBITDA and EBIT and the gains/losses on transactions on copper derivatives (€ -1.92 million in 2017 and € +1.68 million in 2016). These are indicators the Group's Management uses to monitor and assess the operating performance of the Group and are not IFRS measures. Given that the composition of these measures is not regulated by the reference accounting standards, the criterion used by the Group may not be consistent with that adopted by others and therefore not comparable.

| Consolidated statement of financial position data (€/million) | As of 31/12/2017 | As of 31/12/2016 Restated | Change |
|---|---|---|---|
| Net invested capital | 186.52 | 171.51 | 15.01 |
| Shareholders' equity | 132.40 | 135.08 | (2.68) |
| Net financial debt[5] | 54.12 | 36.43 | 17.69 |

As of 31 December 2017, net financial debt amounted to € 54.12 million, up from € 36.43 million as of 31 December 2016 thanks to the increase in working capital.

The consolidated equity decrease is mainly due to the increase of the negative value (- € 6.6 million) of the foreign currency translation reserve, despite the positive result for the year.

**Investments**

Investments of the Group in 2017 amounted to € 5.86 million and were primarily related to European manufacturing plants.

**Primary risks and uncertainties**

The Group's primary risks and uncertainties, as well as risk management policies, are detailed below:

*Market risk*

The Group is strongly concentrated in the European Market; the risk of major contractions in demand or the worsening of the competitive scenario may significantly impact the results. To address these risks, the medium-long term strategy of the Group focuses on geographic diversification in non-EU and Asian countries, with a constant recovery of margins in the Group's structure.

*Risk associated with changes in financial and economic variables*

- *Exchange rate risk*
  The Group primarily uses the euro as the reference currency for its sales transactions. It is exposed to exchange rate risks in relation to its copper purchases, which it partly carries out in dollars; it hedges such transactions using forward contracts. It is also exposed to foreign currency translation risks for its investments in Brazil, the UK, India, Switzerland, and Poland.
  As for the foreign currency translation risk, the Group believes this risk mainly concerns the investment in Brazil due to the high volatility of the real, which affects the investment's carrying amount. It should be noted that, after a significant recovery of the Real against the Euro in 2016, in 2017 the Brazilian currency depreciated by around 15% since the start of the year.

- *Interest rate risk*
  The Group obtains short and medium/long-term bank financing at floating rates. The risk of strong interest rate fluctuations is not considered significant, therefore the Group does not have specific hedging policies in place.

- *Risks related to fluctuations in prices of raw materials*
  The main raw material used by the Group is copper. The changes in its price can affect margins as well as financial requirements. In order to mitigate the potential effect on margins of changes in the price of copper, the Group implements a hedging policy using forward contracts on the positions generated by operating activities.

[5] Net financial debt is measured as the sum of short-term and long-term financial liabilities minus cash and financial assets, see note No. 16. It should be noted that the methods for measuring net financial debt comply with the methods for measuring the net financial position as defined by Consob Resolution No. 6064293 of 28 July 2006 and CESR recommendation of 10 February 2005.

*Financial risks*
These are risks associated with financial resources.

- *Credit risk*
  Credit risk is not particularly concentrated. This risk is monitored through assessment and lending procedures with respect to each credit position. Selected insurance policies are taken out in order to limit insolvency risk.

- *Liquidity risk*
  Based on its financial situation, the Group rules out the possibility of difficulties in meeting obligations associated with liabilities. The limited used of credit lines suggests that liquidity risk is not significant.

**Outlook**

Sales volumes in the early months of 2018 show a positive trend compared to the corresponding period of the previous year, and this trend is expected to consolidate throughout the entire year. Objectives remain focused on cost reduction, with the recovery of efficiency and consequent positive effects on the overall results of the Group.

**Information on IRCE S.p.A. performance**

The financial statements of the parent company IRCE S.p.A. recorded a turnover of € 233.80 million, up 20.6% compared to € 193.87 million in the previous year, mainly due to the rise in copper prices, which intensified in the final quarter.

Sales of winding wires recorded a growth in volumes compared to 2016, with signs of recovery on the European market; the cable sector was also positive, with a significant recovery in sales volumes in the second half of the year.

Against this backdrop, the Group posted a profit of € 4.86 million, up from € 1.25 million in 2016.

**Intra-group transactions and transactions with related parties**

The transactions between the Parent Company and the subsidiaries are of a commercial and financial nature.
For more details, please refer to Note 34 of the separate financial statements and to Note 33 of the consolidated financial statements.

With regard to transactions with related parties, including intra-group transactions, it should be noted that they can be classified neither as atypical nor unusual, as they are part of the normal course of business of the Group's companies and have been carried out at arm's length.

***Corporate governance***

IRCE S.p.A adopts the provisions of the Corporate Governance Code published by Borsa Italiana S.p.A. as a reference for its corporate governance.

The report on corporate governance and the shareholding structure pursuant to Article 123-bis of the Consolidated Financial Act is available at **www.irce.it** – Investor Relations, in compliance with Article 89-bis of Regulation No. 11971/1999 issued by Consob. This report aims to provide the market and shareholders with a complete disclosure on the governance model chosen by the Company and its actual compliance with the provisions of the Code.

On 28/03/2008, the Company IRCE S.p.A. adopted the organisational, management and control model pursuant to Italian Legislative Decree No. 231/2001 and created the Supervisory Body, which is responsible for monitoring the operation, updating and compliance of the model.

During the year, the updating and review of the 231 Model continued; in particular, the steps concerning the updating of the activities carried out by each company function, the census of existing controls, the risk assessment, the development of the system of relevant information flows were completed and a structure of macro-processes was defined, in relation to which a process was launched for harmonisation with existing procedures.

For issues regarding compliance with and interpretation of the Organisational Model, a Supervisory Body was set up when adopting the first version of the Organisational Model.

The current Supervisory Body was appointed by the Board of Directors on 5 September 2016.

**Own shares and shares of the parent company**

The number of own shares as of 31/12/2017 was 1,411,774, i.e. 5.02 % of total shares and equal to a nominal value of €/000 734. As of 31/12/2017, the Company does not own shares in the parent company Aequafin S.p.A., nor did it trade in them during 2017.

**R&D activities**

Research and development activities in 2017 focused on projects to improve processes and products.
This year, expenses for development activities were recognised in the income statement, as they are not certain to be recovered in the future through future profits.

**Other information**

With regard to the "Conditions for the listing of shares of companies with control over companies established and regulated under the law of non-EU countries" pursuant to Articles 36 and 39 of the Regulation on Markets (Consob Resolution No. 16191/2007), the Company declares it complies with the provisions of the above-mentioned Regulation.

The attached consolidated and separate annual financial statements are audited by the company PricewaterhouseCoopers S.p.A.

The Board of Directors of IRCE S.p.A. approved the "Consolidated Non-Financial Statement", which covers environmental and social issues, as well as issues relating to staff, respect for human rights and the fight against corruption. The statement has been included in the financial statements in accordance with the provisions of Italian Legislative Decree 254/2016.

**Events following the reporting date**

No significant events occurred between the end of financial year 2017 and today's date.

Dear Shareholders,

We invite you to approve the separate financial statements of IRCE S.p.A. as of 31/12/2017, reporting a profit of € 4,864,229.

We propose to approve the distribution of a € 0.05 dividend per share, to be paid out of the profit of the year, with ex-dividend date on 28 May 2018, record date on 29 May 2018, and payment date on 30 May 2018. In addition, we propose to allocate the remaining net profit after the payment of the dividends to the Extraordinary Reserve.

The Board thanks the Shareholders for their trust, all personnel for the service rendered during the year, and the Board of Statutory Auditors for the control activities carried out and the valuable advice.

Imola, 14 March 2018

On behalf of the Board of Directors

The Chairman

Mr Filippo Casadio

# CONSOLIDATED NON-FINANCIAL STATEMENT
# PURSUANT TO ITALIAN LEGISLATIVE DECREE 254/2016

# 1. METHODOLOGICAL NOTE

## 1.1. Scope and purpose

The IRCE Group falls within the scope of application of Italian Legislative Decree 254/2016 – issued in implementation of EU Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 – which provides for the obligation to disclose non-financial information and information on diversity by certain companies and certain large groups.

This Consolidated Non-Financial Statement (also "NFS" or "Statement"), referring to the year ended as of 31 December 2017, represents IRCE Group's commitment to report the non-financial impacts of its business, in accordance with the provisions of the Decree: IRCE has chosen to include the Statement in its 2017 Report on Operations.

## 1.2. Scope of the Consolidated Non-Financial Statement

The reporting scope of this Statement includes the following Companies belonging to the IRCE Group:

- Irce SpA;
- Irce Ltda;
- FD Sims Ltd;
- Smit Draad Nijmegen BV;
- Stable Magnet Wire P. Ltd;
- Isodra GmbH.

The following companies were excluded from the reporting scope:

- Isomet AG;
- DMG GmbH;
- Isolveco Srl;
- Irce S.L.;
- Irce SP ZO.O.

These exclusions are due to the fact that the social, economic and environmental impacts of these companies were not considered significant given their low incidence in terms of turnover compared to the consolidated total, the limited number of employees out of the total, and the type of business (exclusively commercial, not productive). This option is envisaged by Article 4 of Italian Legislative Decree No. 254/2016, according to which the statement may exclude companies that, even if included in the accounting scope of consolidation, are not necessary to understand the Group's business, its performance and the results and impact produced by such business.

## 1.3. Reference guidelines and reporting process

The qualitative and quantitative information reported in the NFS are prepared according to the standards issued in 2016 by the Global Reporting Initiative, in compliance with the requirements of the Decree on the use of reporting standards issued by supranational, international or national authorities (Article 3, Paragraph 3). The level of application of GRI standards corresponds to the Referenced option (see Chapter 7 - GRI Content Index – GRI Correlation Table).

The reporting process was developed according to the following work phases:

1. Preparation and approval of the materiality analysis by a small working group headed by IRCE S.p.A. and consisting of the managers of the main corporate functions (Chair and General Management, Administration and Finance, Management Control, Operations, Human Resources, Legal, Procurement, Commercial, Plant, R&D, Safety and Environment, and Information Technology);
2. Definition of the NFS content regarding material issues and the scope of reporting;
3. Start of the process for collecting non-financial data and information through the distribution of forms containing the previously selected GRI indicators to all companies included in the scope;
4. Drafting of the NFS, initial validation by the internal working group and approval by the Chairman;
5. Approval of the NFS by the Board of Directors, jointly with the Report on Operations;
6. Certification by the Independent Auditors specifically appointed for such verification (see the Audit Report).

This Consolidated Non-Financial Statement is available on the Group website under the section *Investor Relations > Financial Statements and Reports > Financial Statements at 31 December 2017*.

### 1.4. Materiality Analysis

In order to define the material issues subject to reporting herein, IRCE analysed the provisions of Article 3 of Italian Legislative Decree 254/2016, reaching the following conclusions:

- use of energy resources (distinguishing between those produced by renewable sources and non-renewable sources): the issue is considered material for the purposes of the correct representation of the nature of IRCE, and is specifically reported in section 4 of this Statement;
- use of water resources: the issue is considered material for the purposes of the correct representation of the nature of IRCE and is specifically reported in section 4 of this Statement;
- greenhouse gas emissions: the issue is not considered material for the purposes of the correct representation of the nature of IRCE since there are no major sources of greenhouse gas emissions;
- other environmental impacts: the issue of waste is considered material and is specifically reported in section 4 of this Statement;
- social aspects relating to human resources: the issue is considered material and is specifically reported in section 3 of this Statement;
- diversity and equal opportunity: the issue is considered material and is specifically reported in section 3 of this Statement;
- respect for human rights: the issue is considered material and is specifically reported in section 3 of this Statement;
- fight against corruption: the issue is considered material and is specifically reported in section 2 of this Statement;

Following this analysis, IRCE defined a process - described below - aimed at identifying the most significant issues for Stakeholders and the Group.

The process for determining material issues was carried out through the compilation of a questionnaire and following a benchmark activity, in order to complete the materiality analysis and highlight the issues considered most significant for both the IRCE Group and its Stakeholders, as reported herein.
The materiality analysis involved the direct participation of representatives from the parent company IRCE S.p.A., who play a supporting role at a group level for the Non-Financial Statement, and who were given a questionnaire concerning a series of issues classified under six macro areas: Governance, Community, Economic Responsibility, Product Responsibility, Social Responsibility and Environmental Responsibility. For each issue, the representatives had to give a score from 1 to 4 based on their own perception and sensitivity to the topic examined, in order to highlight the issues relevant for the Group.

As regards the issues considered significant for Stakeholders, the first reporting exercise was carried out indirectly: the representatives filling out the questionnaires were asked to give a score, again from 1 to 4, based on the importance given to each individual issue by the Stakeholders of the Group.

The above-described materiality analysis led to the following considerations on the relevant aspects to be reported by IRCE.

The materiality matrix of the IRCE Group resulting from the aforementioned analysis is shown below:

| **Area** | **Material issues** | **Scope of impacts** | |
|---|---|---|---|
| | | **Impacts within the Group** | **Impacts outside the Group** |
| **Governance and Anti-corruption** | Compliance with laws and regulations | Entire Group | Consultants, agents, brokers and partners |
| | Ethics and integrity | Entire Group | Shareholders |
| | Fight against active and passive corruption | Entire Group | Value chain |
| **Human Resources and Respect for Human Rights** | Respect for human rights | Entire Group | Suppliers |
| | Health and safety of employees | Entire Group | Suppliers |
| | Professional training and growth | Entire Group | Suppliers |
| | Diversity and equal opportunity | Entire Group | Suppliers |
| **Environmental Aspects** | Energy consumption | Entire Group | Local area, environment |
| | Water consumption | Entire Group | Local area, environment |
| | Recycling and waste management | Entire Group | Local area, environment |
| **Product Responsibility** | Research and development and product quality | Entire Group | Customers |
| | Customer satisfaction | Entire Group | Customers, suppliers |
| **Economic Performance** | Business strategy | Entire Group | Shareholders |
| | Economic and financial performance | Entire Group | Shareholders |

## 2. GOVERNANCE AND ANTI-CORRUPTION

IRCE management identified the main risks, generated or suffered, in relation to the above issues resulting from business activities, and then identified suitable prevention and mitigation measures.

**Table – Material Issues**

| MATERIAL ISSUES | RELATED RISKS | IMPROVEMENT OBJECTIVES |
|---|---|---|
| ▪ Compliance with laws and regulations<br>▪ Ethics and integrity<br>▪ Fight against active and passive corruption | ▪ Committing corporate crimes<br>▪ Incurring risks relating to corruption<br>▪ Failed compliance or violation of reference legislation or applicable regulations<br>▪ Loss of certifications, approvals or authorisations to operate<br>▪ Loss of reputation | ▪ Promotion of stakeholder engagement to guarantee the most realistic and correct representation of materiality. |

IRCE has adopted and implemented a business model described in the previous sections of this Report on Operations, an Organisational and Management Model pursuant to Italian Legislative Decree 231/01 and consequently, a supervisory board - as described in the Report on Operations and summarised below.

### 2.1. Corporate model

The Corporate Governance structure of the Parent Company IRCE is based on the classic model and is composed of the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.

The Board of Directors is composed from three to twelve members, elected by the Shareholders' Meeting. They remain in office for a period of no more than three financial years, established at the time of nomination, and fall from office on the date of the Shareholders' Meeting called to approve the financial statements relating to the last financial period of their office.

The Board is currently composed as follows:

- **Board of Directors of the Parent Company**: consisting of 6 members, 2 of which are women (1 chairman, 1 executive director, 1 non-executive director and 3 independent directors);
- **Remuneration Committee;**
- **Control and Risks Committee.**

For more information on the corporate bodies, internal committees and the internal control and risk management system, please refer to the Corporate Governance Report published on the website www.irce.it.

| Governance members by gender | | | | | | |
|---|---|---|---|---|---|---|
| **Number of individuals** | **2017** | | | **2016** | | |
| | **Men** | **Women** | **Total** | **Men** | **Women** | **Total** |
| **Board of Directors** | 13 | 2 | 15 | 13 | 2 | 15 |
| **Board of Statutory Auditors** | 2 | 1 | 3 | 2 | 1 | 3 |
| **Supervisory Board** | 3 | - | 3 | 3 | - | 3 |
| **Total** | **18** | **3** | **21** | **18** | **3** | **21** |

### 2.2. Policies, management systems and organisational models

The IRCE Group is an important multinational player in the European market, operating in the sector of winding wires and electric cables. Production takes place at four plants in Italy and five located abroad. The Group also includes five commercial subsidiaries, four of which are foreign. IRCE stands out thanks to its cutting-edge technology, advanced production and self-monitoring processes. These guarantee maximum quality and production standards.

IRCE complies with the standards of the following certifications:

- ISO 9001
- ISO TS 16949*
- ISO 14001**

** The companies Irce SpA (Feb. 2018), Fd Sims Ltd and IRCE Ltda are in a stage of transition to IATF 16949.*
*** Certification only present at the Imola plant (Irce Spa).*

The Organisation also approved specific policies concerning the environment, safety and prevention of major accidents according to Seveso III Directive (Directive 2003/105/EC), implemented in Italy by Legislative Decree No. 238 of 21 September 2005.

In fulfilment of that established by art. 4 of the Corporate Governance Code, the Board of Directors established within it the Control and Risks Committee with consultation and proposing functions.

The objectives of the financial reporting process can be identified in terms of the trustworthiness, accuracy, reliability, and timely nature of the disclosures themselves. Risk management activities are an integral part of the internal control system.

IRCE has adopted and implemented a Code of Ethics, an integral part of the 231 Organisation, Management and Control Model, which contains the values as well as the moral and professional standards to be observed during the performance of all business activities.

The Code of Ethics applies to all participants in the IRCE organisation, namely: directors, auditors, managers, employees, collaborators, consultants, customers, suppliers, business partners and any parties that, directly or indirectly, permanently or temporarily, establish relationships with the Company.

The Code states that, when carrying out their activities and exercising their responsibilities, all workers must behave correctly, transparently and objectively. Moreover, the performance of all business activities must take place in compliance with applicable laws and corporate procedures, according to the criteria of diligence, honesty, collaboration, fairness and loyalty.

Any violations will be reported to the Supervisory Board and the Internal Control Bodies, and may lead to disciplinary, civil or criminal consequences.

- **Fight against active and passive corruption**

On the basis of the Code of Ethics, all Group Companies, according the values of honesty and transparency, undertake to implement all necessary measures to prevent and avoid cases of corruption and conflict of interest.

All collaborators must know, have full awareness of and adapt their activities to the principles and directives of the Code and refrain from conduct that does not comply with the aforementioned principles, also cooperating in the assessment of any violations and reporting any information relevant for the identification of offenders.

Any collaborators who acquire knowledge of alleged non-compliant conduct are required to report information on such conduct to their superiors, and/or the Head of Human Resources of the Company, or the Supervisory Board.

All employees have the right and the duty to consult their direct superiors and/or the Head of Human Resources for any clarification regarding the interpretation and application of the principles and directives of the Code, as well as the conduct to be adopted in case of any doubts as to their correctness or compatibility with the Code itself and/or its inspiring principles.

In case of violation of the Code of Ethics, IRCE adopts disciplinary measures against those responsible for such violation, if considered necessary for the protection of corporate interest and in line with the provisions of the current regulatory framework and employment contracts, which may lead to the removal of the persons responsible from the Company, in addition to compensation for any damages deriving from the violation.

The processes/corruption offences risk matrix was used to calculate the number of activities at risk of corruption in relations with the public administration and at risk of corruption between private parties. 37 activities at risk of corruption out of 75 activities sensitive to the types of offences envisaged by the 231 model (corresponding to 49% of processes) were identified.

## 3. HUMAN RESOURCES AND RESPECT FOR HUMAN RIGHTS

**Table – Material Issues**

| MATERIAL ISSUES | RELATED RISKS | IMPROVEMENT OBJECTIVES |
|---|---|---|
| ▪ Respect for human rights<br>▪ Health and safety of employees<br>▪ Professional training and growth<br>▪ Diversity and equal opportunity | ▪ Damage and/or injuries due to incompetence and negligence<br>▪ Risk of discrimination and unequal treatment<br>▪ Increase in the number of injuries<br>▪ Increase in work-related stress | ▪ Development by the Parent Company of coordination and supervision of training activities, in order to identify the training needs of each employee category and raise awareness about training<br>▪ Development and scaling up of initiatives concerning prevention, awareness and employees health protection |

### 3.1. Policy and management model

People represent an important and central resource for the IRCE Group.

The Group is committed to the implementation of programs that protect the health and safety of its workers and focuses on programs for professional growth, guaranteeing equal opportunity and lack of discrimination.

IRCE is dedicated to improving the workplace and systematically identifies and assesses potential risks for workers and parties involved, defining suitable prevention measures.

Plant operators are the main representatives with respect to risk prevention and are responsible for developing and implementing the Policy for accident prevention, for regularly checking the state of implementation of the Safety Management System adopted and for achieving the objectives set.

All workers are informed, trained and prepared to operate with full knowledge of the potential risks involved in their activities.

The IRCE Group's philosophy aims to pursue excellent performance in an environment where individual satisfaction and wellbeing is a priority, since high retention rates are believed to be crucial for the achievement of corporate objectives.

### 3.2. Non-financial results and indicators

- **Characteristics and breakdown (Diversity and equal opportunity)**

As of 31 December 2017, the IRCE Group counted a total of 653 employees.

The commitment to fostering stable and long-lasting relationships is confirmed by the high percentage of employees hired with a permanent employment contract (97% of the total).

| Total number of employees broken down by type of contract (permanent or fixed-term employment) and gender | | | | | | |
|---|---|---|---|---|---|---|
| Type of contract | 2017 | | | 2016 | | |
| | Men | Women | Total | Men | Women | Total |
| **Permanent** | 587 | 51 | **638** | 587 | 53 | **640** |
| **Fixed-term** | 12 | 3 | **15** | 16 | 2 | **18** |
| **Total** | **599** | **54** | **653** | **603** | **55** | **658** |

92% of employees are male.

The IRCE Group's geographic distribution sees 59% of them employed in Italy, 17% in the Netherlands, 13% in Brazil, 5% in the UK, 4% in India and 2% in Germany.

| Total number of employees broken down by type of contract (full-time and part-time) and gender | | | | | | |
|---|---|---|---|---|---|---|
| Type of contract | 2017 | | | 2016 | | |
| | Men | Women | Total | Men | Women | Total |
| **Full-time** | 594 | 25 | **619** | 598 | 25 | **623** |
| **Part-time** | 5 | 29 | **34** | 5 | 30 | **35** |
| **Total** | **599** | **54** | **653** | **603** | **55** | **658** |

| Number of employees broken down by function and gender | | | | | | |
|---|---|---|---|---|---|---|
| Job category | 2017 | | | 2016 | | |
| | Men | Women | Total | Men | Women | Total |
| **Executives** | 13 | 1 | 14 | 13 | 1 | 14 |
| **Function managers** | 19 | - | 19 | 19 | 1 | 20 |
| **White collars** | 73 | 35 | 108 | 71 | 35 | 106 |
| **Blue collars** | 494 | 18 | 512 | 500 | 18 | 518 |
| **Total** | **599** | **54** | **653** | **603** | **55** | **658** |

| Number of external staff broken down by job category and gender | | | | | | |
|---|---|---|---|---|---|---|
| **Job category** | **2017** | | | **2016** | | |
| | **Men** | **Women** | **Total** | **Men** | **Women** | **Total** |
| **Workers from external agencies** | 31 | 14 | **45** | 32 | 19 | **51** |
| **Others** | - | - | **-** | - | - | **-** |
| **Total** | **31** | **14** | **45** | **32** | **19** | **51** |

| Percentage of total employees covered by collective bargaining agreements | | |
|---|---|---|
| **Number of employees** | **2017** | **2016** |
| **Total number of employees** | 653 | 658 |
| **Total number of employees covered by collective bargaining agreements** | 629 | 618 |
| **Total %** | **96.32%** | **93.92%** |

- **Human rights**

The protection of human rights is an important issue for IRCE, however it does not consider strategic controls necessary; it is in part related to the other material issues addressed herein, such as the health and safety of employees and contractual fairness.

People are a crucial element for company operations; for this reason the IRCE Group gives great importance to personal dignity, protection of moral integrity, tolerance, transparency and, in general, the fundamental rights of every individual.

- **Health and safety of employees**

The health and safety of employees is a priority for the Group, and the adequacy of the working environment and equipment, staff training and preparation and everything necessary for compliance with safety requirements are crucial.

The risk assessment document in which risks are identified and assessed in terms of probability and severity is regularly updated. It is the Group's policy to carry out regular meetings on safety.
In terms of injury rates, in 2017 injuries were 17, down from 35 in 2016.

| Lost days (employees) | | | | | | |
|---|---|---|---|---|---|---|
| **No. days** | **2017** | | | **2016** | | |
| | **Men** | **Women** | **Total** | **Men** | **Women** | **Total** |
| **Lost days due to injury** | 166 | 1 | 167 | 923 | 15 | 938 |

| Injury rates | 2017 | 2016 |
|---|---|---|
| **Seriousness** *(number of lost days for workplace injuries/total number of hours worked) x 1,000* | 0.15 | 0.89 |
| **Frequency** *(number of injuries/total number of hours worked) x 1,000,000* | 15.62 | 33.16 |

- **Professional training and growth**

The IRCE Group's objective is to pursue the development of employee skills in line with the corporate strategy. Training activities involved both employees and external workers.

The Group follows integrated training programs concerning the environment, safety, accident risk and the training of new employees.

| Hours of annual training for employees and external workers | | |
|---|---|---|
| | **2017** | **2016** |
| Total hours of training provided to internal and external workers | 3,551 | 3,458 |
| **Average hours of training per worker** | **5.1** | **4.9** |

## 4. ENVIRONMENTAL ASPECTS

The relevant issues in terms of environmental management are summarised in the table below, together with the main risks identified by IRCE. The following pages describe the policies, the management model and the results achieved.

**Table – Material Issues**

| MATERIAL ISSUES | RELATED RISKS | IMPROVEMENT OBJECTIVES |
|---|---|---|
| ▪ Energy consumption<br>▪ Water consumption<br>▪ Recycling and waste management | ▪ Difficulties regarding continuous electricity supply<br>▪ Air, soil and water pollution | ▪ To increase awareness and attention regarding responsible resource management with respect for the environment |

### 4.1. Policy and management model

IRCE has organised an environmental management system based on the ISO 14001 guidelines and ensures the compliance of management with current environmental regulations.

IRCE S.p.A., in addition to falling within the scope of application of Italian Legislative Decree 81/08, as subsequently amended, on workplace health and safety, it also falls within the scope of application of Italian Legislative Decree 105/2015, since the plant in Imola (BO) contains and uses substances and preparations (paints and solvents) classified as hazardous and exceeding the thresholds indicated in the Decree.

Activities with a significant accident risk are identified in Seveso III Directive (Directive 2003/105/EC), implemented in Italy by Legislative Decree No. 238 of 21 December 2005, through a simple mechanism that takes into account the inherent danger of the substances and preparations produced, used, handled or stored at the plant, including those that may be generated in case of accident, and the amounts of the same, making it mandatory for operators of the aforementioned activities to submit to the competent authorities documents certifying the performance of appropriate risk assessment.

All Group Companies operate with the adoption of responsible and environmentally friendly conduct, in order to reduce the external impact of their activities.

The Group is committed to using products and processes that save resources and minimise the environmental impact.

### 4.2. Non-financial results and indicators

- **Energy consumption**

For the transformation of energy consumption into Giga joules (GJ), conversion factors taken from current technical literature were adopted. In particular, the national standard parameters table of the Ministry for the Environment was used, which in turn uses ISPRA data updated in 2017.

| Energy Consumption | | | | | |
|---|---|---|---|---|---|
| | Unit | 2017 | | 2016 | |
| | | Total | Total GJ | Total | Total GJ |
| **Natural Gas** | **$m^3$** | 1,983,070 | **69,673** | 2,067,096 | **72,625** |
| **Diesel** | **Lt** | 455,207 | **16,366** | 422,168 | **15,178** |
| **LPG** | **tonnes** | 51.13 | **2,359** | 41.42 | **1,911** |
| **Renewable electricity** | **kWh** | 0 | **0** | 0 | **0** |
| **Non-renewable electricity** | **kWh** | 124,100,240 | **446,761** | 117,394,724 | **422,621** |

The percentage of total energy consumption out of the total consumption of raw materials improved, going down from 7.52 GJ/Ton (in 2016) to 7.38 GJ/Ton (in 2017).

In addition, in recent years IRCE S.p.A. has developed various energy saving projects for the Imola and Umbertide plants, from production to auxiliary plants, obtaining energy savings certificates (ESC).

- **Water consumption**

| Water consumption ($m^3$) | | | |
|---|---|---|---|
| **Resource** | **Unit** | **2017** | **2016** |
| Surface water (lake, river, other) | **$m^3$** | 4,380 | 10,603 |
| Groundwater (aqueduct) | | 67,196 | 58,921 |
| Rain water | | 8,000 | 6,000 |
| Other | | 12,291 | 12,338 |
| **Total** | | **91,867** | **87,862** |

Three projects for saving and protecting water resources have been planned and implemented at the Imola plant:

- recovery of water from exhausted cutting fluids;
- realisation of closed-cycle cooling systems;
- closing and securing of the wells.

- **Recycling and waste management**

The IRCE Group aims to reduce and correctly manage the waste it produces. The main projects for correct waste management that IRCE has invested in include:

- use of materials/processes that reduce waste production;
- training and involvement of all staff to raise awareness about environmental programs;
- careful selection of environmental suppliers.

| WASTE (tonnes) | | | | | | |
|---|---|---|---|---|---|---|
| **Type of waste** | **2017** | | | **2016** | | |
| | **Hazardous** | **Non-hazardous** | **Total** | **Hazardous** | **Non-hazardous** | **Total** |
| Re-use | - | 2 | **2** | - | 2 | **2** |
| Recycling | 19.6 | 3,094.2 | **3,113.7** | 27.4 | 3,420.9 | **3,448.2** |
| Composting | - | 51 | **51** | - | 46 | **46** |
| Recovery (also of energy) | 33.5 | 660.9 | **694.4** | 76.8 | 137.4 | **214.3** |
| Incineration | - | 0.5 | **0.5** | - | 0.5 | **0.5** |
| Deep well injection | - | - | **-** | - | - | **-** |
| Landfill | 0.7 | 44.6 | **45.3** | 1.4 | 53.8 | **55.2** |
| On-site storage | - | - | **-** | - | - | **-** |
| Other | 179.5 | 18.7 | **198.2** | 223 | 69 | **292** |
| **Total** | **233.3** | **3,871.9** | **4,105.2** | **328.7** | **3,729.6** | **4,058.3** |

* This does not include data from the Company based in India

## 5. PRODUCT RESPONSIBILITY

The relevant issues in terms of product management are summarised in the table below, together with the main risks identified by IRCE's Management. The following pages describe the policies, the management model and the results achieved.

**Table – Material Issues**

| MATERIAL ISSUES | RELATED RISKS | IMPROVEMENT OBJECTIVES |
|---|---|---|
| ▪ Research, development and product quality<br>▪ Customer satisfaction | ▪ Possible delayed and/or inadequate response to customer returns and expected satisfaction levels<br>▪ Non-compliance of product information<br>▪ Loss of reputation<br>▪ Possible problems arising from after-sales service | ▪ Improve complaints management<br>▪ Increase resources dedicated to research and development |

### 5.1. Policy and management model

IRCE is a leading European industrial group, with two areas of business:

- Winding wires for electrical machines, commonly called enamelled wires;
- Insulated electrical cables for energy transmission.

Winding wires for electrical machines are used in a wide range of applications such as engines and electric generators, transformers, inductors and relays.

Electric wires are used in the installation of electric systems in civil and industrial buildings and for the supply and connection of electrical equipment.

The IRCE Group fosters relationships with strategic suppliers, with the intent of jointly building a common organisational process based on sustainability throughout the production chain. IRCE Group's suppliers procure the main raw materials needed for the production processes: copper, aluminium, petroleum derivatives (such as PVC and polyethylene) and components for electrical cables accessories. Every day the Group is committed to achieving environmental and social targets, relying on qualified suppliers and materials with specific technical characteristics.

### 5.2. Non-financial results and indicators:

- **Research and development and product quality**

The IRCE Group has an important internal R&D office, which constantly focuses on activities for:

- the improvement of product performance and production processes;
- the development of innovative products and technologies;
- the development of customised products made upon specific customer request.

In 2017, no non-compliance was reported in relation to the safety and quality of the products and services offered by the Companies belonging to the IRCE Group.

The raw materials used by the IRCE Group for the production of winding wires and electrical cables are copper, aluminium and insulating materials.

In total, 72,500 tonnes of raw materials were used in 2017, around 6.6% more than in 2016 (68,100 tonnes) as a result of increased production.

- **Customer satisfaction**

IRCE monitors customer satisfaction using two types of indicators:

- External: for each individual customer, represented by the vendor rating issued by the same;
- Internal: related to the monitoring of waste and returns, non-quality costs and customer complaints.

The IRCE Group's quality and service are considered top tier on the market, i.e. at the highest levels in the sector.

## 6. ECONOMIC PERFORMANCE

With regard to issues concerning the policies, management models and risks related to economic aspects, please refer to the information provided in the financial statements of the IRCE Group.

As specific non-financial information, the following table shows the value added reclassified income statement, for the entire financial consolidation scope:

| Economic value generated and distributed | | |
|---|---|---|
| **Amounts in €/000** | **31/12/2017** | **31/12/2016** |
| Revenues | 357,126 | 295,814 |
| Other income | 692 | 816 |
| Financial income | 1,682 | 3,026 |
| **Total economic value generated by the Group** | **359,500** | **299,656** |
| Operating costs | 307,611 | 258,937 |
| Financial charges | 2,734 | 814 |
| Personnel costs | 31,763 | 30,756 |
| Dividends paid to shareholders | | 803 |
| Remuneration of the Public Administration** | | |
| Taxes | 3,544 | 674 |
| Result attributable to non-controlling interests | (77) | (77) |
| **Total economic value distributed by the Group** | **345,574** | **291,907** |
| Bad debts | 194 | 963 |
| Write-downs | | |
| Exchange rate differences | 683 | 735 |
| Adjustments to tangible and intangible assets | 1,531 | 500 |
| Adjustments to financial assets | 79 | 0 |
| Amortisation and depreciation | 6,395 | 5,816 |
| Provisions | 358 | 716 |
| Retained earnings/losses | 4,685 | (981) |
| **Economic value retained by the Group** | **13,926** | **7,749** |

## 7. GRI STANDARDS CORRELATION TABLE

| GRI Standard Title | GRI disclosure number | GRI Disclosure Title | Page number/Notes | Omissions |
|---|---|---|---|---|
| **GRI 102: General Disclosures 2016 - Organisational Profile** | **102-1** | Name of organisation | 1 | |
| | **102-8** | Information on employees and other workers | 25-26-27-28 | |
| **GRI 102: General Disclosures 2016 - Ethics and e integrity** | **102-16** | Values, principles, standards and norms of behaviour | 22-23-24 | |
| **GRI 102: General Disclosures 2016 - Governance** | **102-18** | Governance structure | 22-23-24 | |
| **GRI 102: General Disclosures 2016 - Reporting practice** | **102-45** | List of companies included in the consolidated financial statements | 19 | |
| | **102-46** | Defining report content and topic boundaries | 20 | |
| | **102-47** | List of material topics | 20-21 | |
| | **102-55** | GRI content index | 33 | |
| | **102-56** | External assurance | Report on operations | |
| **GRI 103: Management approach 2016** | **103-1** | Explanation of the material topic and its boundary | 19 | |
| **GRI 201: Economic performance 2016** | **201-1** | Direct economic value generated and distributed | 32 | |
| **GRI 205: Anti-corruption 2016** | **205-3** | Confirmed incidents of corruption and actions taken | 24 | |
| **GRI 301: Materials 2016** | **301-1** | Materials used by weight or volume | 32 (partial coverage) | |
| **GRI 302: Energy 2016** | **302-1** | Energy consumption within the organisation | 29 | |
| **GRI 303: Water 2016** | **303-1** | Water withdrawal by source | 30 | |
| **GRI 306: Effluents and waste 2016** | **306-2** | Waste by type and disposal method | 30 | |
| **GRI 403: Occupational Health and Safety 2016** | **403-2** | Types and rates of injury, occupational diseases, lost days, absenteeism, and number of work-related fatalities | 27-28 | |
| **GRI 404: Training and education 2016** | **404-1** | Average hours of training per year per employee | 28 | |
| **GRI 405: Diversity and equal opportunity 2016** | **405-1** | Diversity of governance bodies and employees | 23 | |
| **GRI 406: Non-discrimination 2016** | **406-1** | Incidents of discrimination and corrective actions taken | No cases of discrimination in the two-year reference period | |
| **GRI 412: Human rights assessment 2016** | **412-2** | Employee training on human rights policies or procedures | 27 | |
| **GRI 416: Customer Health and Safety 2016** | **416-2** | Incidents of non-compliance concerning the health and safety impacts of products and services | 27-28 | |

# CONSOLIDATED FINANCIAL STATEMENTS OF THE IRCE GROUP AS OF 31 DECEMBER 2017

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In Euro)

| ASSETS | Notes | 31/12/2017 | 31/12/2016 Restated* | 01/01/2016 Restated* |
|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | |
| Goodwill and other intangible assets | 1 | 347,598 | 1,827,881 | 2,378,476 |
| Property, plant and equipment | 2 | 50,766,941 | 52,627,264 | 50,706,211 |
| Equipment and other tangible assets | 2 | 1,537,464 | 1,209,192 | 1,236,816 |
| Assets under construction and advances | 2 | 2,211,025 | 4,177,393 | 2,957,721 |
| Non-current financial assets and receivables | 3 | 120,767 | 122,677 | 120,873 |
| Non-current tax receivables | 4 | 811,582 | 811,582 | 1,330,996 |
| Deferred tax assets | 5 | 1,661,765 | 2,462,844 | 2,505,003 |
| **TOTAL NON-CURRENT ASSETS** | | **57,457,142** | **63,238,833** | **61,236,096** |
| **CURRENT ASSETS** | | | | |
| Inventories | 6 | 82,376,132 | 72,428,984 | 79,967,609 |
| Trade receivables | 7 | 89,473,689 | 74,021,855 | 63,258,544 |
| Current tax receivables | 8 | - | 746,740 | 309,220 |
| Receivables due from others | 9 | 2,602,975 | 3,738,383 | 4,614,116 |
| Current financial assets | 10 | 13,180 | 543,981 | 314,482 |
| Cash and cash equivalents | 11 | 7,752,434 | 7,775,562 | 5,401,843 |
| **TOTAL CURRENT ASSETS** | | **182,218,410** | **159,255,505** | **153,865,814** |
| **TOTAL ASSETS** | | **239,675,552** | **222,494,338** | **215,101,910** |

* See paragraph "2016 Restatement" in the Explanatory Notes for further details.

| SHAREHOLDERS' EQUITY AND LIABILITIES | Notes | 31/12/2017 | 31/12/2016 Restated | 01/01/2016 Restated |
|---|---|---|---|---|
| **SHAREHOLDERS' EQUITY** | | | | |
| SHARE CAPITAL | 12 | 14,626,560 | 14,626,560 | 14,626,560 |
| RESERVES | 12 | 113,437,366 | 120,904,124 | 111,605,819 |
| RESULT FOR THE PERIOD | 12 | 4,685,238 | (178,339) | 2,948,384 |
| **TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO SHAREHOLDERS** | | **132,749,164** | **135,352,345** | **129,180,763** |
| **SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS** | | **(350,085)** | **(272,815)** | **(196,667)** |
| **TOTAL SHAREHOLDERS' EQUITY** | | **132,399,079** | **135,079,530** | **128,984,096** |
| **NON-CURRENT LIABILITIES** | | | | |
| Non-current financial liabilities | 13 | 11,966,839 | 13,968,266 | 22,461,892 |
| Deferred tax liabilities | 5 | 254,630 | 289,176 | 991,376 |
| Provisions for risks and charges | 14 | 2,337,016 | 2,434,053 | 2,035,769 |
| Employee benefits provisions | 15 | 5,719,819 | 6,028,867 | 5,735,559 |
| **TOTAL NON-CURRENT LIABILITIES** | | **20,278,304** | **22,720,362** | **31,224,596** |
| **CURRENT LIABILITIES** | | | | |
| Current financial liabilities | 16 | 50,678,998 | 30,316,425 | 29,183,770 |
| Trade payables | 17 | 24,687,869 | 25,034,296 | 14,917,944 |
| Tax payables | 18 | 1,518,262 | 96,187 | 1,079,332 |
| Social security contributions | 19 | 2,099,038 | 2,152,587 | 2,007,135 |
| Other current liabilities | 20 | 8,014,002 | 7,094,951 | 7,705,037 |
| **TOTAL CURRENT LIABILITIES** | | **86,998,169** | **64,694,446** | **54,893,218** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **239,675,552** | **222,494,338** | **215,101,910** |

* See paragraph "2016 Restatement" in the Explanatory Notes for further details.

The effects of related party transactions on the consolidated statement of financial position are reported in Note 33 "Related party disclosures".

# CONSOLIDATED INCOME STATEMENT

(In Euro)

| | Notes | 31/12/2017 | 31/12/2016 Restated* |
|---|---|---|---|
| Sales revenues | 21 | 357,125,758 | 295,813,676 |
| Other income | 22 | 692,250 | 815,813 |
| **TOTAL REVENUES** | | **357,818,008** | **296,629,489** |
| Costs for raw materials and consumables | 23 | (281,001,093) | (222,419,062) |
| Change in Change in inventories of work in progress and finished goods | | 7,202,961 | (4,291,491) |
| Costs for services | 24 | (32,579,888) | (31,269,995) |
| Personnel costs | 25 | (31,762,991) | (30,756,310) |
| Depr./Amort. and impairment of tangible and intangible assets | 26 | (7,926,450) | (6,316,051) |
| Provisions and write-downs | 27 | (552,503) | (1,679,017) |
| Other operating costs | 28 | (1,232,511) | (956,293) |
| **EBIT** | | **9,965,533** | **(1,058,730)** |
| Write-down of equity investments | 29 | (78,901) | - |
| Financial income/(charges) | 30 | (1,735,089) | 1,477,269 |
| **PROFIT BEFORE TAX** | | **8,151,543** | **418,539** |
| Income taxes | 31 | (3,543,575) | (674,172) |
| **PROFIT / (LOSS) FOR THE PERIOD** | | **4,607,968** | **(255,633)** |
| Loss for the period attributable to non-controlling interests | | 77,270 | 77,294 |
| **PROFIT / (LOSS) FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS** | | **4,685,238** | **(178,339)** |

| | | | |
|---|---|---|---|
| Earnings / (loss) per share (EPS) | | | |
| - basic EPS for the year attributable to shareholders of the parent company | 32 | 0.175 | (0.0067) |
| - diluted EPS for the year attributable to shareholders of the parent company | 32 | 0.175 | (0.0067) |

* See paragraph "2016 Restatement" in the Explanatory Notes for further details.

The effects of related party transactions on the consolidated income statement are reported in Note 33 "Related party disclosures".

| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME | 31.12.2017 | 31.12.2016 Restated* |
|---|---|---|
| €/000 | | |
| **PROFIT / (LOSS) BEFORE NON-CONTROLLING INTEREST** | **4,608** | **(256)** |
| Foreign currency translation difference | (6,597) | 7,503 |
| **Total other profit / (loss); net of tax which may be subsequently reclassified to profit / (loss) for the period** | **(6,597)** | **7,503** |
| Net profit / (loss) - IAS 19 | 153 | (404) |
| Income taxes | (43) | 115 |
| | **110** | **(289)** |
| **Total other profit / (loss); net of tax which not be subsequently reclassified to profit / (loss) for the period** | **110** | **(289)** |
| **Total profit / (loss) from statement of comprehensive income, net of taxes** | **(6,487)** | **7,214** |
| **Total comprehensive profit / (loss), net of taxes** | **(1,878)** | **6,958** |
| Ascribable to: | | |
| Shareholders of the parent company | **(1,802)** | **7,036** |
| Minority shareholders | **(77)** | **(77)** |

* See paragraph "2016 Restatement" in the Explanatory Notes for further details.

With regard to the items of consolidated shareholders' equity, please refer to note 12.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | | Other reserves | | | Retained earnings | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| €/000 | Share capital | Own shares | Share premium reserve | Own shares (shares premium) | Other reserves | Foreing currency transaction reserve | Legal reserve | Extraordinar reserve | Reserve IAS 19 | Undivided profit | Result for the period | Total | Minority interest | Total shareholders' equity |
| **Balance as of 31 december 2015** | **14,627** | **(716)** | **40,539** | **306** | **45,924** | **(19,250)** | **2,925** | **30,885** | **(1,125)** | **13,505** | **2,948** | **130,567** | **266** | **130,836** |
| **Restatement** | | | | | | | | | | (1,387) | | (1,387) | (463) | (1,850) |
| **Balance as of 31 december 2015 - Restated** | **14,627** | **(716)** | **40,539** | **306** | **45,924** | **(19,250)** | **2,925** | **30,885** | **(1,125)** | **12,119** | **2,948** | **129,181** | **(197)** | **128,986** |
| | | | | | | | | | | | | | | |
| **Result for the period** | | | | | | | | | | | (178) | (178) | (77) | (255) |
| Other comprehensive profit/(loss) | | | | | | 7,503 | | | (289) | | | 7,214 | | 7,214 |
| **Total profit / (loss) from statement of comprehensive income** | | | | | | **7,503** | | | **(289)** | | **(178)** | **7,036** | **(77)** | **6,959** |
| Allocation of the result of the previous year | | | | | | | | 1,744 | | 1,207 | (2,948) | | | |
| Dividends | | | | | | | | (802) | | | | (802) | | (802) |
| Sell/purchase own shares | | (18) | | (48) | | | | | | | | (66) | | (66) |
| **Balance as of 31 december 2016 - Restated** | **14,627** | **(734)** | **40,539** | **258** | **45,924** | **(11,746)** | **2,925** | **31,827** | **(1,414)** | **13,327** | **(178)** | **135,352** | **(273)** | **135,081** |
| | | | | | | | | | | | | | | |
| **Result for the period** | | | | | | | | | | | 4,685 | 4,685 | (77) | 4,608 |
| Other comprehensive profit/(loss) | | | | | | (6,597) | | | 110 | | | (6,487) | | (6,487) |
| **Total profit / (loss) from statement of comprehensive income** | | | | | | **(6,597)** | | | **110** | | **4,685** | **(1,802)** | **(77)** | **(1,878)** |
| Allocation of the result of the previous year | | | | | | | | 1,251 | | (1,429) | 178 | 0 | | |
| Dividends | | | | | | | | (801) | | | | (801) | | (801) |
| Sell/purchase own shares | | | | | | | | | | | | | | |
| **Balance as of 31 december 2017** | **14,627** | **(734)** | **40,539** | **258** | **45,924** | **(18,343)** | **2,925** | **32,277** | **(1,304)** | **11,897** | **4,685** | **132,749** | **(350)** | **132,400** |

With regard to the items of consolidated shareholders’ equity, please refer to note 12.

| CONSOLIDATED STATEMENT OF CASH FLOWS | Note | 31.12.2017 | 31.12.2016 Restated |
|---|---|---|---|
| *€/000* | | | |
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | **4,685** | **(178)** |
| *Adjustmenrts for:* | | | |
| Amortization/depreciation | 26 | 6,395 | 5,816 |
| Write down goodwill | | 1,531 | 500 |
| Net change in (assets) provision for (advance) deferred taxes | 5 | 767 | (667) |
| (gains)/losses from sell-off of fixed assets | | (54) | 224 |
| (gains)/losses on unrealized translation differences | | 262 | 811 |
| Taxes | 31 | (2,820) | 625 |
| Financial income/(charge) | 30 | 1,052 | (2,212) |
| Operating profit/(loss) before change in working capital | | **11,819** | **4,919** |
| Taxes paid | | (1,237) | (2,224) |
| Decrease (increase) in inventory | 6 | (9,947) | 7,539 |
| (Increase) decrease in current assets and liabilities | | (7,823) | (350) |
| (increase) decrease in non-current assets and liabilities | | (413) | 690 |
| Exchange difference on translation of financial statement in foreign currency | | (4,447) | 3,058 |
| **CASH FLOW GENERATED BY OPERATING ACTIVITIES** | | **(12,049)** | **13,631** |
| **INVESTING ACTIVITIES** | | | |
| Investments in intangible assets | 1 | (154) | (45) |
| Investments in tangible assets | 2 | (9,341) | (10,887) |
| Dispoals | | 3,632 | 4,884 |
| Amount collected fromsale of tangible and intangible assets | | 69 | 68 |
| **CASH FLOW USED IN INVESTMENTS** | | **(5,794)** | **(5,980)** |
| **FINANCIAL ACTIVITIES** | | | |
| Net change in loans | 13 | (5,012) | (8,494) |
| Decrease of loans | | 3,011 | - |
| Net change in short-term debt | 16 | 20,363 | 1,133 |
| Exchange difference on translation of financial statement in foreign currency | | 830 | 588 |
| Change in current financial assets | 10 | 531 | (229) |
| Payment of interest | | (2,734) | (814) |
| Receipt of interest | | 1,682 | 3,026 |
| Change in minority shareholders' capital | | (77) | (76) |
| Change in translation of financial statements in foreign currency with effects in shareholders' equity | | 110 | (802) |
| Dividends paid | | (802) | (279) |
| Sell/purchase own shares | | - | (66) |
| **CASH FLOW GENERATED FROM FINANCIAL TRANSACTION** | | **17,900** | **(6,013)** |
| **NER CASH FLOW FOR THE PERIOD** | | **57** | **1,637** |
| CASH BALANCE AT START OF YEAR | 11 | 7,776 | 5,402 |
| TOTAL NET CASH FLOW FOR THE PERIOD | | 57 | 1,637 |
| EXCHANGE DIFFERENCE | | (80) | 737 |
| CASH BALANCE AT THE END OF YEAR | 11 | 7,752 | 7,776 |

* See paragraph "2016 Restatement" in the Explanatory Notes for further details.

## ACCOUNTING STANDARDS AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

### GENERAL INFORMATION

These annual consolidated financial statements as of 31 December 2017 were authorised for publication by the Board of Directors of IRCE S.p.A. (henceforth also referred to as the "Company") on 14 March 2018.
The IRCE Group owns nine manufacturing plants and is one of the major players in the European winding wire industry, as well as in the Italian electrical cable sector.
Its plants in Italy are located in Imola (Bologna), Guglionesi (Campobasso), Umbertide (Perugia) and Miradolo Terme (Pavia); foreign locations include Nijmegen (NL) – the registered office of Smit Draad Nijmegen BV, Blackburn (UK) – the registered office of FD Sims Ltd, Joinville (SC – Brazil) – the registered office of IRCE Ltda, Kochi (Kerala – India) – the registered office of Stable Magnet Wire P.Ltd. – and Kierspe (D) – the registered office of Isodra GmbH.
Distribution activities are carried out through agents and the following commercial subsidiaries: Isomet AG in Switzerland, DMG GmbH in Germany, Isolveco S.r.l. in Italy, IRCE S.L. in Spain, and IRCE SP.ZO.O in Poland.

### BASIS OF PREPARATION

The annual financial statements for the year 2017 were prepared in accordance with the IFRSs (International Financial Reporting Standards) issued by the IASB (International Accounting Standards Board) and endorsed by the European Union. The term IFRS also refers to all revised International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), including those previously issued by the Standing Interpretations Committee (SIC).

The consolidated financial statements are drafted in Euro and – in order to facilitate their interpretation – all amounts in the explanatory notes are rounded to the nearest thousand, unless otherwise specified.

The formats used for the consolidated financial statements of the IRCE Group have been prepared in accordance with the provisions of IAS 1. In particular:

- the statement of financial position was drafted by presenting current and non-current assets, and current and non-current liabilities, as separate classifications;
- the income statement was drafted by classifying the items by nature;
- the statement of cash flows was drafted, in accordance with IAS 7, by classifying cash flows during the period into operating, investing and financing activities. Cash flows from operating activities were presented using the indirect method.

For the purposes of clarity in reporting, it should be noted that, as of the current financial statements, certain items of the financial statements have been re-classified.

The impact of certain reclassifications on the statement of financial position as of 1 January 2016 is shown below:

| Reclassified item | €/000 | Previous classification | Current classification |
|---|---|---|---|
| VAT receivables, VAT receivables and taxes for IRCE Ltda, Other receivables due from tax authorities | 2,627 | Tax receivables | Receivables due from others |
| VAT payables, Employee IRPEF (personal income tax) payables, Other tax payables | 1,268 | Tax payables | Other current liabilities |

The impact of certain reclassifications on the statement of financial position as of 31/12/2016 is shown below:

| Reclassified item | €/000 | Previous classification | Current classification |
|---|---|---|---|
| VAT receivables, VAT receivables and taxes for IRCE Ltda, Other receivables due from tax authorities | 1,690 | Tax receivables | Receivables due from others |
| VAT payables, Employee IRPEF (personal income tax) payables, Other tax payables | 1,270 | Tax payables | Other current liabilities |

**BASIS OF CONSOLIDATION**

The consolidated financial statements include the financial statements of the Parent Company IRCE S.p.A. and those of the subsidiaries, prepared as of 31 December 2017. The financial statements of the subsidiaries were prepared by adopting the same accounting standards used by the parent company. The main consolidation criteria adopted in drafting of the consolidated financial statements are as follows:

- Subsidiaries are companies over which the Company has the right to exercise, directly or indirectly, control, as defined by IFRS 10 - "Consolidated financial statements". In particular, control exists when the controlling entity simultaneously holds decision-making power over the investee company; has the right to take part in or is exposed to the variable (positive and negative) results of the investee company; has the ability to exercise power over the investee company in such a way as to affect its profits.
- Consolidation of the subsidiaries was implemented by means of the line-by-line method; this technique consists in incorporating all financial statement items for their global amounts, regardless of the percentage of ownership of the Group. Any non-controlling interest is recorded separately in the Statement of Financial Position and Income Statement when determining Shareholder's Equity and the Group's result for the period.
- The carrying amount of equity investments was eliminated against the relevant assets acquired and liabilities assumed.
- All intra-group balances and transactions, including any unrealised gains arising from transactions between Group companies, are eliminated in full.
- With regard to the foreign currency translation of the financial statements of companies with functional currencies other than the one used for the consolidated financial statements, the amounts in the statement of financial position and income statement of all Group companies reported in functional currencies other than the one used for the consolidated financial statements (Euro) are translated as follows:
  - the assets and liabilities in each reported Statement of financial position are translated using the exchange rates at the reporting date;
  - the revenues and costs in each income statement are translated using the average exchange rates for the period;
  - all resulting exchange rate differences are recognised in a specific item of shareholders' equity (foreign currency translation reserve).

Exchange rate differences arising from a monetary element that is part of a net investment in a foreign subsidiary of the Group are recognised in the income statement of the separate financial statements of this subsidiary. In the consolidated financial statements of the Group, these exchange rate differences are recognised in a separate item of shareholders' equity (foreign currency translation reserve) and then in the income statement on the date of disposal, if any, of the net investment.

Non-controlling interests represent that part of profits or losses and of net assets that are not owned by the Shareholders of the Parent Company.

The following table shows the list of companies included in the scope of consolidation as of 31 December 2017:

| Company | % of investment | Registered office | Share capital | | Consolidation |
|---|---|---|---|---|---|
| Isomet AG | 100% | Switzerland | CHF | 1,000,000 | line by line |
| Smit Draad Nijmegen BV | 100% | Netherlands | € | 1,165,761 | line by line |
| FD Sims Ltd | 100% | UK | £ | 15,000,000 | line by line |
| Isolveco Srl | 75% | Italy | € | 46,440 | line by line |
| DMG GmbH | 100% | Germany | € | 255,646 | line by line |
| IRCE S.L. | 100% | Spain | € | 150,000 | line by line |
| IRCE Ltda | 100% | Brazil | BRL | 157,894,223 | line by line |
| ISODRA GmbH | 100% | Germany | € | 25,000 | line by line |
| Stable Magnet Wire P. Ltd. | 100% | India | INR | 165,189,860 | line by line |
| IRCE SP.ZO.O | 100% | Poland | PLN | 200,000 | line by line |

In 2017, the company based in Turkey, IRCE Kablo Ve Tel ltd, was liquidated.

## ASSESSMENT CRITERIA AND ACCOUNTING STANDARDS APPLIED

Below are the summary tables relating to all IFRS updates, amendments and interpretations issued by the IASB, with indication of which concern the 2017 financial statements and which will come into force in future financial years, in line with the provisions of IAS 8.

**New documents issued by the IASB and endorsed by the EU to be mandatorily adopted as from the financial statements for financial years starting on 1 January 2017**

| Description | Effective date | Endorsed as at the reporting date |
|---|---|---|
| Amendments to IAS 7: Disclosure Initiative | 1 January 2017 | Yes |
| Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 | Yes |

**New documents issued by IASB and endorsed by the EU, applicable as of annual periods beginning on 1 January 2018, which have not been adopted in advance**

| Description | Effective date | Endorsed as at the reporting date |
|---|---|---|
| IFRS 15 (Revenue from Contracts with Customers) | 1 January 2018 | Yes |
| IFRS 9 (Financial Instruments) | 1 January 2018 | Yes |
| Amendments to IFRS 4 (Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts) | 1 January 2018 | Yes |
| Clarifications to IFRS 15 (Revenue from Contracts with Customers) | 1 January 2018 | Yes |
| IFRS 16 (Leases) | 1 January 2019 | Yes |

**New documents issued by IASB not yet endorsed by the EU, applicable as of annual periods beginning on 1 January 2018**

| Description | Effective date | Endorsed as at the reporting date |
|---|---|---|
| Amendments to IFRS 2 (Classification and Measurement of Share-based Payment Transactions) | 1 January 2018 | No |
| Annual Improvements to IFRSs: 2014-2016 period | 1 January 2018 | No |
| Interpretation of IFRIC 22 (Foreign Currency Transactions and Advance Consideration) | 1 January 2018 | No |
| Amendments to IAS 40 (Transfer of Investment Property) | 1 January 2018 | No |
| Amendments to IFRS 9 (Prepayment Features with Negative Compensation) | 1 January 2019 | No |
| Amendments to IAS 28 (Long-term Interests in Associates and Joint Ventures) | 1 January 2019 | No |
| Annual Improvements to IFRSs: 2015-2017 period | 1 January 2019 | No |
| IFRIC 23: Uncertainty over Income Tax Treatment | 1 January 2019 | No |

IFRS 15 – Revenue from Contracts with Customers

On 28 March 2014, the IASB published IFRS 15 "Revenue from Contracts with Customers" (hereinafter, IFRS 15), which governs the timing and amount of the recognition of revenues deriving from contracts with customers, including construction contracts. In particular, IFRS 15 established that the recognition of revenues is based on the following five steps: (i) identification of the contract(s) with a customer, (ii) identification of the contractual obligation to transfer goods and/or services to a customer (so-called "performance obligations"), (iii) determination of the transaction price, (iv) allocation of the transaction price to the

performance obligations identified on the basis of the stand-alone sale price of each good or service, and (v) recognition of the revenue when the relevant performance obligation has been met. IFRS 15 also supplements the financial statement disclosures to be provided with reference to the nature, amount, timing and uncertainty of revenues and related cash flows. The new standard, adopted by the European Commission wit EU Regulation 2016/1905 of 22 September 2016, is effective as from financial years starting on or after 1 January 2018. Early adoption is allowed.
With reference to the IRCE Group, the new IFRS 15 accounting standard will mainly impact the accounting of sales of packaging with right of return by the customer. The Group, although still finalising the impact, has verified that the effects on the result of the year and on shareholders' equity will not be material.

IFRS 16 - Leases
On 13 January 2016, the IASB published IFRS 16 "Leases" (hereinafter, "IFRS 16"), which replaces IAS 17 "Leasing" and the related interpretations. IFRS 16 eliminates the distinction between operating and finance leases for the purposes of drafting the financial statements of lessees; for lease contracts with a duration of more than 12 months, the recognition of an asset - representing the right to use - and of a liability - representing the obligation to make the payments under the contract - is required. Instead, lessees continue to classify leases as operating or finance in the preparation of financial statements. IFRS 16 reinforces disclosure requirements for both lessees and lessors. The provisions of IFRS 16 are effective as of 1 January 2019. Early adoption is allowed, subject to the early adoption of IFRS 15.
As regards the IRCE Group, there are no significant impacts expected from the adoption of the new IFRS 16 accounting standard.

IFRS 9 - Financial Instruments
On 24 July 2014, the IASB completed its review of the standard on financial instruments with the release of the complete version of IFRS 9 "Financial Instruments" (hereinafter, "IFRS 9"). The new provisions of IFRS 9: (i) change the model for the classification and measurement of financial assets; (ii) introduce a new impairment method for financial assets (so-called expected credit losses); and (iii) change hedge accounting requirements. The provisions of IFRS 9, adopted by the European Commission with EU Regulation 2016/2067 of 22 November 2016, are effective as from financial years starting on or after 1 January 2018.
The Group, with reference to the impact of the adoption of the new standard as from 1 January 2018, reviewed its financial assets and liabilities and concluded that the application of the standard will not have any significant impact on the same.

**Foreign currency translation of financial statement items**

The consolidated financial statements are presented in Euro, which is the presentation currency adopted by the Group. Each entity of the Group determines its functional currency, which is used to measure the items in the individual financial statements. Foreign currency transactions are initially recognised at the spot exchange rate (referring to the functional currency) at the date of the transaction. Monetary assets and liabilities, denominated in foreign currency, are translated into the functional currency at the spot exchange rate at the reporting date. All exchange rate differences are recognised in the income statement. Non-monetary items measured at their historical cost in a foreign currency are translated using the spot exchange rates at the date of the initial recognition of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rate at the measurement date.

The subsidiaries using a functional currency other than the Euro are listed in the following table:

| | |
|---|---|
| Isomet AG | Swiss Franc |
| FD Sims LTD | British Pound |
| IRCE LTDA | Brazilian Real |
| Stable Magnet Wire Private Limited | Indian Rupee |
| IRCE SP.ZO.O | Polish Zloty |

At the reporting date, the assets and liabilities of these subsidiaries are translated into Euro at the spot exchange rate at that date, and their income statement is translated using the average exchange rate for the year. The exchange rate differences arising on the translation are directly recognised in shareholders' equity and separately reported in in the foreign currency translation reserve.

## Tangible assets

Tangible assets are measured at their purchase cost after deducting discounts and rebates, or at the construction cost, including directly attributable costs less any accumulated depreciation and accumulated impairment losses.
The carrying amount of tangible assets is tested for impairment if events or changes in circumstances indicate that it might be impaired. If there is any such indication, and the asset's carrying amount exceeds its recoverable amount, the asset is written down to this lower value. The recoverable amount of tangible assets is represented by the greater value between the net sales price and the value in use.
The capitalisation of costs related to the expansion, renovation or improvement of the structural elements owned or leased from third parties is exclusively carried out to the extent that they meet the requirements for separate classification as an asset or part of an asset by applying the "component approach" criterion.
On disposal, or when no future economic benefits are expected from the use of an asset, this is derecognised from the financial statements and any gain or loss (calculated as the difference between the disposal value and the carrying amount) is recognised in the income statement in the year the asset is derecognised.
Land, including that ancillary to buildings, is not depreciated.
Assets under construction and advances paid for the acquisition of tangible assets are measured at cost. Depreciation begins when the assets are available and ready for use; at this date, they are classified within their specific category.

Depreciation was calculated on the basis of rates that were deemed representative of the estimated useful life of the relevant tangible assets. The rates applied on an annual basis by Group companies are included in the following ranges:

| | |
|---|---|
| Buildings | 3.0% - 10.0% |
| Plant and equipment | 5.0% - 17.5% |
| Industrial and commercial equipment | 25.0% - 40.0% |
| Other assets | 12.0% - 25.0% |

## Intangible assets

Intangible assets are recognised under assets, in accordance with the provisions of IAS 38 (Intangible Assets) when it is probable that the use of the asset will generate future economic benefits and when the cost of the asset can be determined in a reliable manner.
Intangible assets which are acquired separately are initially capitalised at cost while those which are acquired through business combination transactions are capitalised at their fair value on their acquisition date. After initial recognition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, with the exception of development costs, are not capitalised and are recognised in the income statement as incurred. The Group capitalises development costs only when it is likely that they will be recovered. The useful life of intangible assets is either finite or indefinite. Intangible assets with a finite useful life are amortised over their useful life and tested for impairment whenever there is an indication of a potential impairment loss. The amortisation period and the amortisation method applied are reviewed at the end of each financial year or more frequently, if necessary. Changes in the expected useful life, or in the manner the Group obtains the future economic benefits associated with the intangible asset, are recognised by modifying the amortisation period or the amortisation method and treated as changes in accounting estimates. The amortisation rates for intangible assets with finite useful lives are recognised in the income statement within the cost category that is consistent with the function of the intangible asset.
Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset, and are recognised in the income statement when the asset is disposed of.

A description of intangible assets and the amortisation method used is shown in the following table.

| Intangible asset | Useful life | Rate | Internally produced or acquired | Impairment test |
|---|---|---|---|---|
| Patent and intellectual property rights | Finite | 50% | Acquired | Review of the amortisation method at each reporting date and impairment test if indicators of impairment exist. |
| Concessions and licenses | Finite | 20% | Acquired | Review of the amortisation method at each reporting date and impairment test if indicators of impairment exist. |
| Trademarks and similar rights | Finite | 5.56% | Acquired | Review of the amortisation method at each reporting date and impairment test if indicators of impairment exist. |
| Smit Draad Nijmegen BV's goodwill | Indefinite | n/a | Acquired | Tested for impairment |

The amortisation rates for intangible assets were determined as a function of their specific residual useful lives and are reviewed at each reporting date.

**Business combinations and goodwill**

According to the provisions of IFRS 3, subsidiaries acquired by the Group are accounted for by applying the purchase method, under which:
- the purchase cost is the fair value of the assets, considering any issue of equity instruments, as well as assumed liabilities
- the excess of the purchase cost over the fair value of the Group's interest in the net assets is recognised as goodwill;
- if the purchase cost is less than the fair value of the Group's interest in the net assets of the acquiree, the difference is directly recognised in the income statement.

Goodwill therefore represents the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities that can be recognised separately. It is an intangible asset with an indefinite useful life.
Goodwill is not amortised but allocated to the Cash Generating Units (CGUs) and tested for impairment on an annual basis, or more frequently, if events or changes in circumstances indicate that it may be impaired, in accordance with the provisions of IAS 36 Impairment of Assets. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

**Impairment of assets**

Goodwill is not amortised but instead is tested for impairment at least once a year. All assets falling within the scope of application of IAS 36 are tested for impairment whenever indicators of impairment exist. In this case, the net carrying amount of the assets is compared with the estimated recoverable amount and, if the former is higher, they are written down.
Tangible and intangible assets with a finite useful life are depreciated/amortised and analysed, in order to verify impairment in case events or changes in circumstances indicate that their carrying amount may not be

recoverable. The value of impairment is equal to the difference between the carrying amount of the intangible asset and its recoverable amount. The recoverable amount is the higher between the fair value of the asset net of sale costs and its value in use.
In order to verify the presence of impairment, intangible and tangible assets are grouped at the level of the smallest separately identifiable cash generating unit. Intangible assets with a finite useful life are analysed at each reporting date to assess whether impairment losses recognised in previous periods no longer exist or have decreased. In this case, the loss is reversed and the carrying amount of the asset is restored to no more than its recoverable amount, which may not be higher than the carrying amount that would have been recorded if impairment had not been recognised.
The reversal of an impairment loss is immediately recorded in the consolidated income statement.

## Financial assets

Equity investments

Equity investments in companies other than subsidiaries and associates (with percentage shareholdings that are significantly lower than 20%) are classified, at their time of acquisition, amongst "available for sale" financial assets or amongst "other financial assets measured at fair value through the income statement" under either current or non-current assets.
The above-mentioned investments are measured at fair value, or at cost in the case of non-listed equity investments or those whose fair value is not reliably determinable, or cannot be determined, adjusted for impairment losses. Changes in the value of equity investments classified as assets measured at fair value through the income statement are directly recognised in the income statement. Changes in the value of equity investments classified as available for sale are recognised in an equity reserve that will be transferred to the income statement at the time of the sale.

## Influence of estimates

The drafting of the financial statements in accordance with the IFRS requires the use by the Management of estimates and assumptions, which influence the value of assets and liabilities recorded in the statement of financial position as well as in the disclosures published in the explanatory notes regarding potential assets and liabilities at the reporting date, and the revenues and costs for the period.
These estimates are based on experience and on other factors considered relevant. The effective results could thus differ from those estimated. The estimates are revised on a regular basis and the effects of each change to the same are reflected in the income statement of the period in which the estimate is revised.
The most significant accounting principles that require greater subjectivity by directors when preparing estimates are described below:

a. Measurement of receivables. Trade receivables are adjusted using the relevant bad debt provision to take into account their recoverable amount. The determination of the amount of write-downs requires the directors to make subjective measurements based on the documentation and information available, including the creditworthiness of the client as well as past experience and historical trends;
b. Measurement of inventories. Inventories showing obsolescence are periodically valued and written down if the net realisable value of the same is lower than the carrying amount. Write-downs are calculated on the basis of assumptions and estimates made by the Management, based on the experience of the same and the historical results achieved;
c. Measurement of deferred tax assets. Deferred tax assets are measured on the basis of expected taxable income in future years. The measurement of this expected taxable income depends on factors that may vary over time and have significant effects on the measurement of deferred tax assets;
d. Measurement of goodwill. Goodwill is tested for impairment on an annual basis. This calculation requires the directors to make subjective measurements based on the information available within the Group and on the market, as well as historical experience;
e. Measurement of intangible assets with a finite useful life. The useful life and the amortisation criteria used for the valuation of these assets are verified annually;
f. Pension plans. The Group companies participate in pension plans in various countries. The current value of liabilities for retirement benefits depends on a series of factors that are determined using

actuarial techniques based on certain assumptions, which concern the discount rate, the expected return on plan assets, the rates of future salary increases, as well as mortality and resignation rates. Any changes to the aforementioned assumptions could have significant effects on the liabilities for retirement benefits;

g. Measurement of provisions for risks. The determination of the provisions allocated requires the directors to make subjective measurements based on the documentation and information available on potential liabilities.

**Inventories**

Inventories are measured at the lower of cost and net realisable value. The costs incurred are recognised as follows:

1. Raw materials: average weighted purchase cost, including transportation expenses and customs clearance.
2. Finished and semi-finished goods: direct cost of materials and labour costs plus a share of the indirect costs and production overheads defined on the basis of normal production capacity.

The net realisable value is the normal price to sell less the estimated costs to complete and estimated costs to sell.

**Trade receivables and other receivables**

Receivables are recognised at their fair value, which is their nominal amount less any impairment losses. With regard to trade receivables, an impairment provision is made when there is objective evidence (such as, for example, the probability of insolvency or significant financial difficulty of the debtor) that the Group will not be able to recover all the amounts due on the basis of the original terms of the invoice. The carrying amount of the receivable is reduced using a specific allowance account. Impaired receivables are written off when it is determined that they are not recoverable.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand as well as demand and short-term bank deposits recognised at their nominal amounts; in the latter case, the original maturity shall not exceed three months.

**Financial payables and liabilities**

Financial payables are recognised at amortised cost if due within one year, the carrying amount will be equal to the nominal amount since the effects generated by the amortised cost are not considered significant.
Financial liabilities consisting of loans are initially recognised at their fair value increased by transaction costs; subsequently, they are measured at their amortised cost, i.e. at their initial amount less already made principal reimbursements and adjusted (increased or decreased) on the basis of the amortisation (using the effective interest method) of any differences between the initial amount and the amount at maturity.

**Derecognition of financial assets and liabilities**

Financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset are extinguished;
- the Group retains the right to receive cash flows from the asset but has assumed the contractual obligation to pay them in full without delay to a third party;

- the Group has transferred the right to receive cash flows from the asset and (a) has substantially transferred all the risks and rewards of ownership of the financial asset or (b) has not substantially transferred nor retained all the risks and rewards of the asset but has transferred control.

In cases where the Group transferred its rights to receive cash flows from an asset and has not substantially transferred nor withheld all the risks and rewards or has not lost control over the asset, this is recognised in the financial statements of the Group to the extent of the latter's continuing involvement in the asset. The continuing involvement – which takes the form of guaranteeing the transferred asset – is measured at the lower of the initial carrying amount of the asset and the maximum amount of the consideration that the Group could be required to pay.

In cases where the continuing involvement takes the form of an option that is issued and/or acquired with respect to the transferred asset (including cash-settled options, or similar options), the extent of the Group's involvement corresponds to the amount of the transferred asset which the Group may buy back; however, in the case of a put option which is issued on an asset that is measured at fair value (including the options settled in cash or with similar provisions), the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the exercise price of the option.

Financial liabilities

A financial liability is derecognised when the obligation underlying the liability is settled, cancelled or discharged.

If an existing financial liability is replaced by another from the same lender – with substantially different terms – or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, recognising any differences between the carrying amounts in the income statement.

**Provisions for risks and charges**

Provisions for risks and charges include provisions arising from present obligations (legal or constructive) as a result of past events and for which an outflow of resources is probable. Changes in estimates are reflected in the income statement for the period in which the change occurs. If the effect of discounting the value of money is material, the provisions are discounted using a pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision that arises from the passage of time is recognised as a financing cost.

**Employee Benefits**

Employee benefits substantially include provisions for employee termination indemnities of the Group's Italian companies as well as provisions for retirement benefits plans. Italian Law No. 296 of 27 December 2006 "2007 Budget Law" introduced significant changes to the allocation of quotas of the employee termination indemnities. Up until 31 December 2006, employee termination indemnities were part of post-employment benefit plans of the "defined benefit plans" type, and were measured, in accordance with IAS 19, by independent actuaries using the projected unit credit method. This calculation consists in estimating the amount of the benefit an employee will receive on the estimated date of termination of the work relationship by using demographical and financial assumptions. The amount determined in this manner is discounted and recalculated on the basis of the accrued service as a proportion of the total length of service and represents a reasonable estimate of the benefits each employee has already earned for past service.
Following the occupational pension reform, the provisions for employee termination indemnities – for the amounts accruing from 1 January 2007 – should be considered essentially comparable to a "defined contribution plan". More specifically, these changes gave employees the opportunity to choose how to allocate their accruing employee termination indemnities: in companies with more than 50 employees, employees can decide to transfer the accruing employee termination indemnities into pre-defined pension schemes or keep them with the company, which will transfer them to INPS (Italy's social security institute).
In summary, following the occupational pension reform and with regard to the employee termination indemnities accrued before 2007, the Group actuarially measured them without including the component

referring to future salary increases. The benefits subsequently accrued were instead recognised in accordance with the methods for defined contribution plans.

### Derivative financial instruments

The Group used derivative financial instruments such as forward contracts for the purchase and sale of copper and aluminium in order to hedge against its exposure to the risk of changes in raw material prices as well as forward contracts for currency purchases.
Any gains or losses arising from changes in the fair value of derivatives, which are outstanding as of the reporting date and do not qualify for hedge accounting, are recognised directly in the income statement.

The fair value of forward contracts for the sale of copper outstanding as of the reporting date is determined on the basis of forward prices of copper with reference to the maturity dates of contracts outstanding as of the reporting date.
For the purposes of hedge accounting, hedges are classified as:

- fair value hedges against the risk of changes in the fair value of an underlying asset or liability; or a firm commitment (except for currency risk); or
- cash flow hedges against the exposure to changes in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction;
- hedges of a net investment in a foreign operation (net investment hedge).

At the inception of a hedge, the Group formally designates and documents the hedging relationship to which it intends to apply hedge accounting as well as its risk management objectives and the pursued strategy. The documentation includes the identification of the hedging instrument as well as of the hedged item or transaction, the nature of the risk, and how the company intends to measure the effectiveness of the hedge in offsetting the exposure to changes in the fair value of the hedged item or cash flows attributable to the hedged risk.

These hedges are expected to be highly effective in offsetting the exposure of the hedged item to changes in the fair value or cash flows attributable to the hedged risk. The measurement of the effectiveness of these hedges is conducted on an ongoing basis during the years in which they have been designated.

### Own shares

If the company reacquires its own shares, these are deducted from shareholders' equity. In particular, they are measured at their nominal amount in the "Own shares" reserve and the excess of the purchase amount over the nominal amount is accounted for as a deduction from "Other reserves". The purchase, sale, issue or cancellation of equity instruments does not result in the recognition of any gain or loss in the income statement, but is rather recognised directly as a change in shareholders’ equity.

### Recognition of revenues

Revenues are recognised, in accordance with the provisions of IAS 18, to the extent that it is probable that the economic benefits will flow to the Group and the relevant amount can be measured reliably. The following specific revenue recognition criteria must always be complied with for revenues to be recognised in the income statement.

Sale of goods

Revenue is recognised when the company has transferred the significant risks and rewards of ownership of the good, generally on the date the good is shipped.

Interest

Interest is recognised as financial income after establishing that interest income has accrued (this is done using the effective interest method: the effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividends

Revenues are recognised when the shareholder's right to receive payment is established.

Costs

Costs are recognised on an accrual basis. Research, advertising and promotional costs are recognised in the income statement in the year in which they are incurred.

**Financial income and charges**

Financial income and charges are recognised immediately in the income statement.

**Earnings per share**

As required by IAS 33, the Group presents on the face of the income statement basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity. The information is presented only on the basis of the consolidated data, in accordance with the requirements of the aforementioned IAS.

Basic earnings per share are calculated by dividing the profit or loss attributable to the ordinary equity holders of the parent entity by the weighted number of ordinary shares outstanding during the period, excluding own shares. The weighted average of the shares was applied retroactively for all previous years.

**Income taxes**

Current taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to tax authorities. The tax rates and tax laws used to calculate the amount are those that have been enacted or are expected to apply as of the reporting date.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated using the so-called liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when deferred tax liabilities arise from the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, affects neither accounting profit nor taxable profit/loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except when:

- the deferred tax asset for the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, affects neither accounting profit nor taxable profit;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are recognised only to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reviewed on an annual basis at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.
Deferred tax assets or liabilities relating to items recognised directly in equity are recognised directly in equity and not in the income statement.

**2016 RESTATEMENT**

During the second half of 2017, asset misappropriation to the detriment of the subsidiary Isolveco Srl emerged, which led to the filing of two lawsuits with the Court of Padua on 3 August 2017 and on 30 November 2017, in order to protect the company. Based on the analytical reconstruction of the 2016 accounts, it emerged, in particular, that a significant part of the receivables recorded in the financial statements of Isolveco Srl did not meet liquidity and collectability requirements and, consequently, had to be written down. The effects of this reconstruction mainly impacted the opening balance of Isolveco Srl shareholders' equity as of 1 January 2016, and thus resulted in the restatement of the economic result and financial position as of 1 January 2016 and as of 31 December 2016 in the consolidated financial statements of the Group, as detailed below:

Reconciliation of the consolidated statement of financial position as of 1 January 2016

| **Balance sheet (extracted)** | **01.01.2016** | **Increase/(decrease)** | **01.01.2016 Restated** |
|---|---|---|---|
| Trade receivables | 65,109 | (1,850) | 63,259 |
| **Total assets** | **65,109** | **(1,850)** | **63,259** |
| | | | |
| Reserve | 112,993 | (1,387) | 111,606 |
| Shareholder's equity attribu. to non-controlling inter. | 266 | (463) | (197) |
| **Total shareholder's equity and liabilities** | **113,259** | **(1,850)** | **111,409** |

Reconciliation of the consolidated statement of financial position as of 31 December 2016

| **Balance sheet (extracted)** | **31.12.2016** | **Increase/(decrease)** | **31.12.2016 Restated** |
|---|---|---|---|
| Non - current assets | 63,246 | (7) | 63,239 |
| Trade receivables | 75,918 | (1,896) | 74,022 |
| Other current assets | 85,251 | (17) | 85,234 |
| **Total assets** | **224,415** | **(1,920)** | **222,495** |
| | | | |
| Reserves | 122,288 | (1,384) | 120,904 |
| Profit/ (loss) for the period | 55 | (233) | (178) |
| Shareholder's equity attribu. to non-controlling inter. | 266 | (539) | (273) |
| Non-current liabilities | 22,719 | 1 | 22,720 |
| Current liabilities | 64,461 | 235 | 64,694 |
| **Total shareholder's equity and liabilities** | **209,789** | **(1,920)** | **207,867** |

Reconciliation of the Consolidated Income Statement for 2016

| **Income statement (extracted)** | **31.12.2016** | **Increase/(decrease)** | **31.12.2016 Restated** |
|---|---|---|---|
| Sales revenues | 296,720 | (91) | 296,629 |
| | | | |
| Costs for raw materials | 222,436 | (17) | 222,419 |
| Changes in inventories | 4,304 | (13) | 4,291 |
| Other costs | 70,722 | 256 | 70,978 |
| Financial incomes / (charges) | 1,502 | (25) | 1,477 |
| **Profit/ (Loss) before taxes** | **762** | **(343)** | **419** |
| Income taxes | 707 | (33) | 674 |
| **Result of the group and non-controlling interests** | **55** | **(311)** | **(256)** |
| Non-controlling interests | 0 | (77) | (77) |
| **Profit/ (loss) for the period** | **55** | **(233)** | **(178)** |

Reconciliation of the Statement of Comprehensive Income for 2016

| Comprehensive income statement (extracted) | 31.12.2016 | Increase/(decrease) | 31.12.2016 Restated |
|---|---|---|---|
| Profit/ (loss) before non-controlling interest | 55 | (311) | (256) |
| Total profit from statement of comprehensive income, net of taxes | 7,214 | 0 | 7,214 |
| Total comprehensive profit / (loss) | 7,269 | (311) | 6,958 |
| *Ascribable to:* | | | |
| *Shareholders of the parent company* | 7,269 | (233) | 7,036 |
| *Minority shareholders* | **0** | (77) | (77) |

## DERIVATIVE INSTRUMENTS

The Group utilises the following type of derivative instruments:

- Derivative instruments related to copper and aluminium forward transactions with maturity after 31 December 2017. The Group entered into sale contracts to hedge against price decreases relating to the availability of raw materials, and purchase contracts to prevent price increases relating to sale commitments with fixed copper values. The fair value of forward contracts outstanding at the reporting date is determined on the basis of forward prices of copper and aluminium with reference to the maturity dates of contracts outstanding at the reporting date. These transactions do not satisfy the conditions required for recognising these instruments as hedging instruments for the purposes of hedge accounting.

A summary of derivative contracts related to commodity for forward sales and purchases outstanding at 31 December 2017 is shown below:

| Measurement unit of the notional amount | Notional amount with maturity within one year (tonnes) | Notional amount with maturity after one year | Result with fair value measurement as of 31/12/2017 €/000 |
|---|---|---|---|
| Copper | 2,600 | 0 | (765) |

- Derivative instruments related to USD and GBP forward purchase and sale contracts with maturity after 31 December 2017. These transactions do not satisfy the conditions required for recognising these instruments as hedges for the purposes of cash flow hedge accounting.

A summary of derivative contracts related to USD forward purchases and sales outstanding at 31 December 2017 is shown below:

| Measurement unit of the notional amount | Notional amount in foreign currency with maturity within one year | Notional amount with maturity after one year | Result with fair value measurement as of 31/12/2017 €/000 |
|---|---|---|---|
| USD | 3,000 | 0 | (26) |
| GBP | 4,000 | 0 | (64) |

## FINANCIAL INSTRUMENTS BY CATEGORY

Here below is the breakdown of financial instruments referring to the items of the financial statements:

| As of 31 December 2017 - €/000 | Loans and receivables | Derivatives with a balancing entry in the Income Statement | Derivatives with a balancing entry in shareholders' equity | AFS | Total |
|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | |
| Non-current tax receivables | 812 | | | | 812 |
| Non-current financial assets and receivables | 59 | | | 62 | 121 |
| **Current financial assets** | | | | | |
| Trade receivables | 89,474 | | | | 89,474 |
| Current financial assets | 13 | | | | 13 |
| Cash and cash equivalents | 7,752 | | | | 7,752 |
| **As of 31 December 2016 Restated - €/000** | **Loans and receivables** | **Derivatives with a balancing entry in the Income Statement** | **Derivatives with a balancing entry in shareholders' equity** | **AFS** | **Total** |
| **Non-current financial assets** | | | | | |
| Non-current tax receivables | 812 | | | | 812 |
| Non-current financial assets and receivables | 57 | | | 66 | 123 |
| **Current financial assets** | | | | | |
| Trade receivables | 74,022 | | | | 74,022 |
| Current financial assets | 11 | 533 | | | 544 |
| Cash and cash equivalents | 7,776 | | | | 7,776 |

| As of 31 December 2017 - €/000 | Other financial liabilities | Derivatives with a balancing entry in the Income Statement | Derivatives with a balancing entry in shareholders' equity | Total |
|---|---|---|---|---|
| **Non-current financial liabilities** | | | | |
| Financial payables | 11,967 | | | 11,967 |
| **Current financial liabilities** | | | | |
| Trade payables | 24,688 | | | 24,688 |
| Other payables | 11,631 | | | |
| Financial payables | 49,824 | 855 | | 50,679 |
| **As of 31 December 2016 Restated - €/000** | **Other financial liabilities** | **Derivatives with a balancing entry in the Income Statement** | **Derivatives with a balancing entry in shareholders' equity** | **Total** |
| **Non-current financial liabilities** | | | | |
| Financial payables | 13,968 | | | 13,968 |
| **Current financial liabilities** | | | | |
| Trade payables | 25,034 | | | 25,034 |
| Other payables | 9,344 | | | 9,344 |
| Financial payables | 30,316 | | | 30,316 |

**FAIR VALUE**

A comparison between the carrying amount of financial instruments held by the Group and their fair value did not yield significant differences in value.
IFRS 13 defines the following three levels of fair value for measuring the financial instruments recognised in the statement of financial position:

- Level 1: quoted prices in active markets.
- Level 2: market inputs other than Level 1 inputs that are observable, either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: inputs not based on observable market data.

The following tables show the assets and liabilities that are measured at fair value as of 31 December 2016 and as of 31 December 2017 broken down by level of fair value hierarchy (€/000):

| 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Derivative financial instruments | - | 533 | - | 533 |
| AFS | - | - | | - |
| Total assets | - | 533 | | 533 |
| | | | | |
| Liabilities: | | | | |
| Derivative financial instruments | - | - | - | - |
| Total liabilities | - | - | - | - |

| 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Derivative financial instruments | - | - | | - |
| AFS | - | - | | - |
| Total assets | - | - | | - |
| | | | | |
| Liabilities: | | | | |
| Derivative financial instruments | - | (855) | - | (855) |
| Total liabilities | - | (855) | - | (855) |

During the year, there were no transfers between the three fair value levels specified in IFRS 7.

**SEGMENT REPORTING**

In accordance with the provisions of IFRS 8, an operating segment is a component of an entity:
a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
b) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
c) for which discrete financial information is available.
With regard to the two types of products sold, IRCE's management only monitors the breakdown of revenues between winding wires and cables; with regard to the residual amount that is not allocated, reference is made to revenues from the sale of other materials and services that cannot be classified within the two types of products sold.

Revenues are then analysed by geographical area (revenues from Italian customers, EU customers excluding Italy, and non-EU customers).

The winding wire segment supplies manufacturers of electric motors and generators, transformers, relays and solenoid valves.
The cable segment supplies the following industries: construction, civil and industrial engineering (cabling), and consumer durable goods (electrical devices).

| €/000 | 2017 | | | | 2016 Restated | | | |
|---|---|---|---|---|---|---|---|---|
| | Winding wires | Cables | Not allocated | Total | Winding wires | Cables | Not allocated | Total |
| Revenues | 296,287 | 60,822 | 16 | 357,126 | 242,428 | 53,372 | 14 | 295,814 |

| €/000 | 2017 | | | | 2016 Restated | | | |
|---|---|---|---|---|---|---|---|---|
| | Italy | EU (excluding Italy) | Non-EU | Total | Italy | EU (excluding Italy) | Non-EU | Total |
| Revenues | 122,614 | 155,638 | 78,873 | 357,126 | 100,573 | 138,268 | 56,973 | 295,814 |

## COMMENT ON THE MAIN ITEMS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 1. GOODWILL AND OTHER INTANGIBLE ASSETS

This item refers to intangible assets from which future economic benefits are expected. The changes in their net carrying amount are shown below:

| €/ 000 | Patent and intellectual property rights | Licenses, trademarks, similar rights and other multi-year charges | Assets under development | Goodwill | Total |
|---|---|---|---|---|---|
| Net carrying amount as of 31/12/2015 | 86 | 72 | 189 | 2,031 | 2,378 |
| *Changes during the period* | | | | | |
| . Investments | 44 | 1 | - | - | 45 |
| . Effect of exchange rates | 5 | 2 | - | - | 7 |
| . Reclassifications | - | - | - | - | - |
| . Write-downs | - | - | - | (500) | (500) |
| . Amortisation | (56) | (46) | - | - | (102) |
| Total changes | (7) | (43) | - | (500) | (551) |
| Net carrying amount as of 31/12/2016 | 79 | 29 | 189 | 1,531 | 1,828 |

| €/ 000 | Patent and intellectual property rights | Licenses, trademarks, similar rights and other multi-year charges | Assets under development | Goodwill | Total |
|---|---|---|---|---|---|
| Net carrying amount as of 31/12/2016 | 79 | 29 | 189 | 1,531 | 1,828 |
| *Changes during the period* | | | | | |
| . Investments | 153 | 1 | - | - | 154 |
| . Effect of exchange rates | (5) | (2) | - | - | (7) |
| . Reclassifications | - | - | - | - | - |
| . Write-downs | - | - | - | (1,531) | (1,531) |
| . Amortisation | (91) | (5) | - | - | (96) |
| Total changes | 57 | (6) | - | (1,531) | (1,480) |
| Net carrying amount as of 31/12/2017 | 136 | 23 | 189 | - | 348 |

The goodwill recognised in the financial statements refers to the Cash Generating Unit Smit Draad Nijmegen BV. This goodwill, which was written down by 500 Euro/000 as of 31 December 2016 following impairment testing, was additionally written down as of 30 June 2017 by 900 Euro/000 taking into account the negative performance of the Dutch subsidiary as a result of the negative results obtained, which were significantly lower than the Business Plan forecasts.
The residual value as of 30 June 2017, amounting to 631 Euro/000, at the end of the year was tested for impairment projecting the cash flows estimated in the most recent business plan, which the local Management approved separately and prior to these financial statements. The business plan, which was prepared in nominal terms, was drafted over a period of five years and reflects past experience while excluding any flows deriving from the restructuring, optimisation or improvement of operations. The terminal value of the cash-generating unit (CGU) was estimated on the basis of a constant cash flow (equal to the normalised flow of the fifth period) over an infinite time period. The overall nominal WACC, net of the tax effect, used in the test was equal to 5.82%; the market risk premium inherent in the cost of equity was equal to 5.4% and is common among companies in the sector. The forecast used a growth rate (g) which was equal to 0.0%. The average annual growth rate for sales outlined in the 5-year business plan, which was prepared in nominal terms (including the expected inflation rate), was around 0.5%.

A sensitivity analysis is shown below, comparing the carrying amount of the CGU's invested capital with the corresponding Equity Value calculated on the basis of a discount rate (WACC) and a growth rate (g) half a percentage point below or above the parameters used.

Smit Draad Nijmegen B.V., parameters used WACC 5.8% (g) 0.0%

| (g)=0.0% | | WACC | |
|---|---|---|---|
| €/000 | 5.3% | 5.8% | 6.3% |
| Enterprise value | 18,643 | 17,016 | 15,645 |
| NIC carrying amount as of 31/12/2017 | 17,503 | 17,503 | 17,503 |
| Difference between enterprise value and carrying amount | 1,140 | (487) | (1,858) |

| (g)=0.5% | | | WACC |
|---|---|---|---|
| €/000 | 5.3% | 5.8% | 6.3% |
| Enterprise value | 20,189 | 18,269 | 16,677 |
| NIC carrying amount as of 31/12/2017 | 17,503 | 17,503 | 17,503 |
| Difference between enterprise value and carrying amount | 2,686 | 766 | (826) |

The results of the impairment test showed the need to adjust the amount shown in the financial statements, since the Enterprise Value was lower than the carrying amount of the CGU invested capital. Management thus resolved, also in consideration of the sensitivity analysis, to completely write-down the residual goodwill of the company Smit Draad, equal to 631 Euro/000.

## 2. TANGIBLE ASSETS

| €/000 | Land | Buildings | Plant and equipment | Industrial and commercial equipment | Other assets | Assets under construction and advances | Total |
|---|---|---|---|---|---|---|---|
| Net carrying amount as of 31/12/2015 | 11,843 | 17,871 | 20,991 | 815 | 422 | 2,958 | 54,901 |
| *Changes during the period* | | | | | | | |
| . Investments | - | 7 | 2,348 | 338 | 182 | 3,128 | 6,003 |
| . Effect of exchange rates | 13 | 371 | 2,716 | 17 | 1 | - | 3,118 |
| . Reclassifications | - | - | 1,620 | (5) | 5 | (1,620) | - |
| . Divestments | (1) | - | (4,213) | (68) | (313) | (289) | (4,884) |
| . Depreciation related to disposals | - | - | 4,213 | 65 | 312 | - | 4,590 |
| . Depreciation of the period | - | (1,227) | (3,925) | (385) | (177) | - | (5,714) |
| Total changes | 12 | (849) | 2,759 | (38) | 10 | 1,219 | 3,113 |
| Net carrying amount as of 31/12/2016 | 11,855 | 17,022 | 23,750 | 777 | 432 | 4,177 | 58,014 |

| €/000 | Land | Buildings | Plant and equipment | Industrial and commercial equipment | Other assets | Assets under construction and advances | Total |
|---|---|---|---|---|---|---|---|
| Net carrying amount as of 31/12/2016 | 11,855 | 17,022 | 23,750 | 777 | 432 | 4,177 | 58,014 |
| *Changes during the period* | | | | | | | |
| . Investments | - | 282 | 2,455 | 586 | 319 | 2,067 | 5,709 |
| . Effect of exchange rates | (239) | (828) | (1,803) | (18) | - | (5) | (2,893) |
| . Reclassifications | - | 19 | 3,978 | 39 | (8) | (4,028) | - |
| . Divestments | - | - | (3,002) | (328) | (302) | - | (3,632) |
| . Depreciation related to disposals | - | - | 2,988 | 327 | 302 | - | 3,617 |
| . Depreciation of the period | - | (1,232) | (4,479) | (421) | (167) | - | (6,299) |
| Total changes | (239) | (1,759) | 137 | 185 | 144 | (1,966) | (3,498) |
| Net carrying amount as of 31/12/2017 | 11,616 | 15,263 | 23,887 | 962 | 576 | 2,211 | 54,516 |

Investments amounted to some € 5.71 million and were primarily related to European manufacturing plants.

Divestments refer primarily to machinery no longer in use and depreciated in full, while reclassifications of assets under construction refer to machinery purchased in the previous years.

## 3. NON-CURRENT FINANCIAL ASSETS AND RECEIVABLES

Non-current financial assets and receivables are broken down as follows**:**

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Equity investments in other companies | 62 | 66 |
| - Other receivables | 59 | 57 |
| Total | 121 | 123 |

The item "Equity investments in other companies" refers to a shareholding held in the Indian subsidiary Stable Magnet Wire P. Ltd which is valued at cost, because it is estimated to approximate the fair value.

## 4. NON-CURRENT TAX RECEIVABLES

This item, equal to €/000 812, refers to the tax credit relative to the reimbursement claim for 2007-2011 IRES (corporate income tax), in compliance with Article 2, paragraph 1-quater, of Italian Law Decree No. 201/2011, of the Parent Company IRCE S.p.A.

## 5. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Deferred tax assets | 1,662 | 2,463 |
| - Deferred tax liabilities | (255) | (289) |
| Total deferred tax assets (net) | 1,407 | 2,174 |

The changes for the period are shown below:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| Deferred tax assets (net) as of 1 January | 2,174 | 1,514 |
| Exchange rate differences | (166) | 296 |
| Income statement effect | (558) | 249 |
| Shareholders' equity effect | (43) | 115 |
| Deferred tax assets (net) as of 31 December | 1,407 | 2,174 |

Here below is the breakdown of deferred tax assets and liabilities and the relevant changes for the period, without considering the offsetting of items within the same fiscal jurisdiction:

| Deferred tax assets - €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Amortisation/depreciation IRCE LTDA | 53 | 53 |
| - Allocations to Provisions for risks and charges | 483 | 495 |
| - Allocations to the taxed Bad debt provision | 239 | 177 |
| - Tax losses which can be carried forward | 567 | 1,732 |
| - Intra-group margin | 59 | 98 |
| - Provision for inventory obsolescence | 751 | 751 |
| - IAS 19 reserve | 235 | 367 |
| - Other | 64 | 165 |
| Total | 2,451 | 3,838 |

Tax losses that can be carried forward refer to the subsidiary IRCE Ltda for €/000 342 and to the subsidiary FD Sims Ltd and can be carried forward indefinitely.

Deferred tax assets on tax losses were recognised taking into account that there is a reasonable certainty of positive results being achieved in future financial years such as to absorb these losses.
The Group also recorded tax losses carried forward for 3,375 €/000, for which no deferred tax assets were recorded as of 31 December 2017.

The table below shows the changes in deferred tax assets during 2016 and 2017:

| | Taxed provisions | Tax losses carried forward | Depreciation | Other | Total |
|---|---|---|---|---|---|
| **balance 01.01.2016** | 1,723 | 1,197 | 105 | 414 | 3,440 |
| income statement effect | (301) | 234 | (105) | 154 | (18) |
| shareholders' equity effect | | | | 115 | 115 |
| exchange rate difference | | 301 | | | 301 |
| **balance 31.12.2016** | 1,423 | 1,732 | - | 683 | 3,838 |
| income statement effect | 50 | (1,022) | | (255) | (1.227) |
| shareholders' equity effect | | | | (40) | (40) |
| exchange rate difference | | (143) | | 23 | (120) |
| **balance 31.12.2017** | 1,473 | 567 | | 411 | 2,451 |

The effects on shareholders’ equity refer to changes in the actuarial reserve as per IAS 19.
Deferred tax assets were recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts and to the extent that it is probable that taxable profit will be available against which these differences can be utilised.

| Deferred tax liabilities - €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| Amortisation/depreciation | 42 | 56 |
| - Foreign exchange gains | - | 3 |
| - IAS capital gains on buildings | 97 | 97 |
| - IAS capital gains on land | 413 | 413 |
| - Effect of application of IAS 19 | 3 | - |
| - Effect of tax depreciation of Isomet AG building | 239 | 283 |
| - Effect of tax inventory difference of Isomet AG | 250 | 280 |
| - Effect of tax depreciation of Smit Draad Nijmegen | - | 196 |
| - Effect of tax inventory difference of Smit Draad Nijmegen | - | 337 |
| Total | 1,044 | 1,665 |

The table below shows the changes in deferred tax liabilities during 2016 and 2017:

| | Depreciation | IAS capital gain on land and building | Effect of tax depreciation of Isomet AG building and inventory | Effect of tax depreciation of Smit Draad Nijmegen building and inventory | IAS 19 effect | Other | Total |
|---|---|---|---|---|---|---|---|
| **balance 31.12.2015** | 81 | 573 | 534 | 708 | 30 | | 1,926 |
| income statement effect | (25) | (63) | 24 | (175) | (30) | 3 | (266) |
| shareholders' equity effect | | | | | | | |
| exchange rate difference | | | 5 | | | | 5 |
| **balance 31.12.2016** | 56 | 510 | 563 | 533 | | 3 | 1,665 |
| income statement effect | (14) | | (120) | (533) | | (3) | (670) |
| shareholders' equity effect | | | | | 3 | | 3 |
| exchange rate difference | | | 46 | | | | 46 |
| **balance 31.12.2017** | 42 | 510 | 489 | | 3 | | 1,044 |

## 6. INVENTORIES

Inventories are broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Raw materials, ancillary and consumables | 28,541 | 24,592 |
| - Work in progress and semi-finished goods | 12,260 | 7,651 |
| - Finished products and goods | 44,485 | 43,065 |
| - Provision for write-down of raw materials | (1,982) | (1,982) |
| - Provision for write-down of finished products and goods | (928) | (897) |
| Total | 82,376 | 72,429 |

Recognised inventories are not pledged nor used as collateral.
The increase in final inventories as of 31 December 2017 mainly reflects the price of copper.
The provisions for write-downs correspond to the amount which is deemed necessary to hedge existing obsolescence risks calculated by writing down slow moving packages and finished products.

The table below shows the changes in the provision for write-down of inventories during 2017:

| €/000 | 31/12/2016 Restated | Allocations | Uses | 31/12/2017 |
|---|---|---|---|---|
| Provision for write-down of raw materials | 1,982 | - | - | 1,982 |
| Provision for write-down of finished products and goods | 897 | 39 | (8) | 928 |
| Total | 2,879 | 39 | (8) | 2,910 |

## 7. TRADE RECEIVABLES

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Customers/bills receivable | 90,299 | 75,048 |
| - Bad debt provision | (825) | (1,026) |
| Total | 89,474 | 74,022 |

The balance of receivables due from customers is entirely composed of receivables due within the next 12 months.
The decrease of the bad debt provision as of 31 December 2017 is due to the increase in insured receivables.

The table below shows the changes in the bad debt provision during 2016 and 2017:

| €/000 | 31/12/2015 | Allocations | Uses | 31/12/2016 Restated |
|---|---|---|---|---|
| Bad debt provision | 1,565 | 963 | (1,502) | 1,026 |

| €/000 | 31/12/2016 Restated | Allocations | Uses | 31/12/2017 |
|---|---|---|---|---|
| Bad debt provision | 1,026 | 358 | (559) | 825 |

## 8. CURRENT TAX RECEIVABLES

The item was broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Receivables for income taxes | - | 747 |
| Total | - | 747 |

## 9. RECEIVABLES DUE FROM OTHERS

The item was broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Accrued income and prepaid expenses | 136 | 163 |
| - Receivables due from social security institutions | 161 | 61 |
| - Other receivables | 2,138 | 2,037 |
| - VAT receivables | 168 | 168 |
| - VAT receivables and taxes for IRCE Ltda | - | 1,309 |
| Total | 2,603 | 3,738 |

The item "other receivables" is mainly linked to a bonus to be received by the Parent Company IRCE SpA on energy consumption for the year 2016, assigned by the Authority for electricity with the authorisation from the Ministry for Economic Development; the reduction of the item as of 31 December 2017 is mainly due to the collection of bonuses for the years 2014 and 2015.

## 10. CURRENT FINANCIAL ASSETS

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Mark to Market copper and aluminium forward transactions | - | 465 |
| - Mark to Market USD forward transactions | - | 20 |
| - Mark to Market GBP forward transactions | - | 48 |
| - Guarantee deposits | 13 | 11 |
| Total | 13 | 544 |

## 11. CASH AND CASH EQUIVALENTS

This item includes bank deposits, cash and cash equivalents.

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Bank and postal deposits | 7,736 | 7,758 |
| - Cash and cash equivalents | 16 | 18 |
| Total | 7,752 | 7,776 |

Bank and postal deposits outstanding as of 31 December 2016 are not subject to constraints or restrictions.

## 12. SHAREHOLDERS' EQUITY

<u>Share capital</u>

The share capital is composed of 28,128,000 ordinary shares worth € 14,626,560 without par value. The shares are fully subscribed and paid up and bear no rights, privileges or restrictions as far as dividend distribution and capital distribution, if any, are concerned.
In the year 2017, a dividend of €/000 801 (0.03 per share) was distributed.

Here below is the breakdown of reserves:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Own shares (share capital) | (734) | (734) |
| - Share premium reserve | 40,539 | 40,539 |
| - Own shares (share premium) | 258 | 258 |
| - Other reserves | 45,924 | 45,924 |
| - Foreign currency translation reserve | (18,343) | (11,747) |
| - Legal reserve | 2,925 | 2,925 |
| - Extraordinary reserve | 32,277 | 31,827 |
| - IAS 19 reserve | (1,304) | (1,414) |
| - Undistributed profits | 11,897 | 13,327 |
| Total | 113,437 | 120,904 |

Own Shares

This reserve refers to the par value and share premium of own shares held by the Company; they are recognised as a deduction from shareholders' equity.
Own shares as of 31 December 2017 amounted to 1,411,774 and corresponded to 5.02% of the share capital.
The number of shares outstanding at the beginning and at the end of the last two years is shown below:

| Thousands of shares | |
|---|---|
| **Balance as of 01/01/2016** | **26,752** |
| Share buyback | (36) |
| **Balance as of 31/12/2016** | **26,716** |
| Share buyback | - |
| **Balance as of 31/12/2017** | **26,716** |

Share premium reserve

This item refers to the higher issue value compared to the par value of IRCE S.p.A. shares issued at the time of the share capital increase when the Company was first listed on the stock exchange in 1996.

The item “Other reserves” refers mainly to:

- Merger surplus reserve (due to cancellation) which arose in the year 2001 following the merger of IRCE Cavi S.p.A. and Isolcable S.r.l. into IRCE S.p.A, amounting to €/000 6,621.
- Reserve of profits to be re-invested in Southern Italy totalling €/000 201.
- FTA reserve, which represents the offsetting item for all adjustments made to the financial statements in order to comply with IAS/IFRS as of 1 January 2004 (transition year), amounting to €/000 16,772.
- Revaluation reserve, as per Italian law 266/1995, amounting to €/000 22,328.

Foreign currency translation reserve

This reserve represents the value accounting differences which result from the foreign currency translation of the financial statements of the foreign subsidiaries Isomet AG, FD Sims Ltd, IRCE Ltda, Stable Magnet Wire P.Ltd and IRCE SP.ZO.O by using the official exchange rate as of 31 December 2017.

Extraordinary reserve

The extraordinary reserve consists mainly of retained earnings of the Parent Company.

IAS 19 reserve

This reserve includes actuarial gains and losses accumulated as a result of the application of IAS 19 Revised. The change in the reserve was as follows:

| | |
|---|---|
| **balance 01.01.2015** | (1,125) |
| IAS 19 evaluation | (404) |
| Income tax | 115 |
| **balance 31.12.20145** | (1,414) |
| IAS 19 evaluation | 153 |
| Income tax | (43) |
| **balancel 31.12.2016** | (1,304) |

Undistributed profits

The reserve for undistributed profits primarily refers to the subsidiaries' retained earnings.

The distribution of the reserves and profits of subsidiaries is not planned.

Profit for the year

The profit pertaining to the Group, net of the result attributable to non-controlling interests, is equal to €/000 4,685 (€/000 178 as of 31 December 2016).

SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Capital and reserves attributable to non-controlling interests

This amount refers to the portion of shareholders' equity of investees consolidated using the line-by-line method attributable to non-controlling interests.

Profit attributable to non-controlling interests

This represents the portion of profit/loss for the year of investees consolidated using the line-by-line method attributable to non-controlling interests.

## 13. NON-CURRENT FINANCIAL LIABILITIES

| €/000 | Currency | Rate | Company | 31/12/2017 | 31/12/2016 Restated | Due date |
|---|---|---|---|---|---|---|
| Banco Popolare | EUR | Floating | IRCE SpA | 442 | 2,207 | 2019 |
| CARISBO | EUR | Floating | IRCE SpA | 6,000 | 8,000 | 2020 |
| Banca di Imola | EUR | Floating | IRCE SpA | 2,514 | 3,761 | 2020 |
| Banco Popolare | EUR | Floating | Isomet AG | 3,011 | - | 2021 |
| Total | | | | 11,967 | 13,968 | |

## 14. PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges were broken down as follows:

| €/000 | 31/12/2016 Restated | Allocations | Uses | 31/12/2017 |
|---|---|---|---|---|
| Provisions for risks and disputes | 2,152 | 358 | (439) | 2,071 |
| Provision for severance payments to agents | 282 | - | (16) | 266 |
| Total | 2,434 | 358 | (455) | 2,337 |

Provisions for risks and disputes refer mainly to the outstanding allocation for the risk of capital losses in relation to returns of packages, to the allocation made by the Dutch subsidiary for the costs to be met for employees on sick leave and to various disputes.
Provision for severance payments to agents refers to allocations made for severance payments relating to outstanding agency contracts.

## 15. PROVISIONS FOR EMPLOYEE DEFINED BENEFITS

The table below shows the changes in the Provision for employee defined benefits.

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| Employee benefits provision as of 01/01 | 6,027 | 5,735 |
| Financial charges | 50 | 92 |
| Actuarial (gains)/losses | (153) | 404 |
| Service cost | 184 | 193 |
| Payments | (288) | (396) |
| Effect of exchange rates | (100) | 1 |
| Employee benefits' provision as of 31/12 | 5,720 | 6,029 |

The Provision includes €/000 4,482 related to the Parent Company IRCE S.p.A., €/000 1,173 related to the subsidiary ISOMET AG, and €/000 65 related to the subsidiary Isolveco S.r.l.
The Employee benefits provision is part of the defined benefit plans.
In order to determine the relevant liability, the Company used the Projected Unit Credit (PUC) cost method, which consists in the following:
- it projected up to the estimated future payment date the employee termination indemnity (TFR) accrued by each employee and reassessed as of the date of the financial statements;
- it calculated the probability-based TFR payments that the company will have to make in the event that the employee leaves the company following dismissal, resignation, disability, death and retirement, as well as in the event of advance payment requests;
- it discounted each probability-based payment at the measurement date.

Here below are the demographic assumptions used by the actuary in measuring the employee benefits' provision:
- death: RG48 mortality tables issued by the State General Accounting Department;
- disability: INPS tables based on age and gender;
- pension: 100% on reaching the requirements of the general compulsory insurance (AGO, Assicurazione Generale Obbligatoria).

For the Parent Company IRCE S.p.A. the following technical-economic assumptions were made:

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Annual discount rate | 0.88% | 0.86% |
| Annual inflation rate | 1.50% | 1.50% |
| Annual rate of increase of employee termination indemnities | 2.625% | 2.625% |

The IBOXX Eurozone Corporate AA index with a 7-10 year duration as of the measurement date was used as a benchmark for the discount rate.

The annual rate of increase of employee termination indemnities is equal to 75% of inflation, plus 1.5 percentage points.

Here below are the disclosures required by the IAS 19.
Sensitivity analysis of IRCE S.p.A.'s main measurement parameters:

| €/000 | DBO change as of 31/12/2017 |
|---|---|
| Inflation rate + 0.25% | 4,543 |
| Inflation rate – 0.25% | 4,423 |
| Discount rate + 0.25% | 4,387 |
| Discount rate – 0.25% | 4,581 |
| Turnover rate + 1% | 4,450 |
| Turnover rate -1% | 4,517 |

Service cost: 0.00
Duration of the plan: 9.3

Sensitivity analysis of ISOMET AG's main measurement parameters:

| €/000 | DBO change as of 31/12/2017 |
|---|---|
| Inflation rate - 0.25% | 1,393 |
| Inflation rate + 0.25% | 1,349 |
| Discount rate -0.25% | 1,193 |
| Discount rate + 0.25% | 1,538 |
| Turnover rate -0.25% | 1,428 |
| Turnover rate +0.25% | 1,315 |

2017 service cost with +0.25% discount rate: €/000 162
2017 service cost with +0.25% turnover rate: €/000 179

Duration of the plan: 17.8.

## 16. CURRENT FINANCIAL LIABILITIES

Financial liabilities are broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Payables due to banks | 49,824 | 30,316 |
| - Mark to Market Derivatives | 855 | - |
| Total | 50,679 | 30,316 |

The item "Mark to Market Derivatives" refers to the Mark to Market (Fair Value) measurement of copper, USD and GBP forward contracts outstanding as of 31/12/2017 of the Parent Company IRCE SpA.

With regard to financial liabilities, the overall **net financial position** of the Group, calculated in accordance with the provisions of Consob Communication 6064293 dated 28 July 2006 and CESR recommendation dated 10 February 2005, was as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| Cash | 7,752 | 7,776 |
| Other current financial assets* | 13 | 79* |
| **Liquid assets** | **7,765** | **7,855** |
| Current financial liabilities* | (49,914)* | (30,316) |
| **Net current financial debt** | **(42,149)** | **(22,461)** |
| Non-current financial liabilities | (11,967) | (13,968) |
| **Non-current financial debt** | **(11,967)** | **(13,968)** |
| **Net financial debt** | **(54,116)** | **(36,429)** |

* These items differ from the corresponding items of the statement of financial position, since the fair value measurement of copper forward contracts is not included.

As of 31/12/2017, net financial debt increased compared to the previous year thanks to the increase in working capital.

## 17. TRADE PAYABLES

Trade payables are all due in the next 12 months.
As of 31/12/2017 they totalled €/000 24,688, compared to €/000 25,034 as of 31/12/2016.

## 18. TAX PAYABLES

The item was broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Payables due for income taxes | 1,518 | 96 |
| Total | 1,518 | 96 |

The increase in payables due for income taxes is due to the higher profit achieved by the Parent Company in 2017.

## 19. SOCIAL SECURITY CONTRIBUTIONS

This item, equal to €/000 2,099 as of 31/12/2017, primarily referred to IRCE S.p.A.'s payables for social security contributions due to INPS.

## 20. OTHER CURRENT LIABILITIES

Other payables were broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Payables due to employees | 3,598 | 3,342 |
| - Deposits received from customers | 1,743 | 1,515 |
| - Accrued liabilities and deferred income | 343 | 53 |
| - Other payables | 795 | 1,085 |
| - VAT payables | 1,082 | 743 |
| - Employee IRPEF (personal income tax) payables | 453 | 357 |
| Total | 8,014 | 7,095 |

"Deposits" refers to deposits for packages which will be credited back to customers when they return the packages.

## COMMENT ON THE MAIN ITEMS OF THE CONSOLIDATED INCOME STATEMENT

## 21. SALES REVENUES

These refer to revenues from the sale of goods, net of returns, rebates and the return of packages. Consolidated revenues in 2017, equal to €/000 357,126, reported an increase of 21% compared to the previous year (€/000 295,814). For additional details, refer to the previous paragraph on segment reporting.

## 22. OTHER INCOME

Other income was broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Increases in internally generated assets | 189 | 162 | 27 |
| - Capital gains on disposals of assets | 60 | 26 | 34 |
| - Insurance reimbursements | 27 | 30 | (3) |
| - Contingent assets | 71 | 247 | (176) |
| - Other revenues | 345 | 351 | (6) |
| Total | 692 | 816 | (124) |

## 23. COSTS FOR RAW MATERIALS AND CONSUMABLES

This item, equal to €/000 281,001, includes costs incurred for the acquisition of raw materials, of which the most significant are those represented by copper, insulating materials and materials for packaging and maintenance, net of the change in inventories (€/000 4,667).
The significant increase in the period is due to the increase in the price of copper (2016 average of €/kg 4.40 and 2017 average of €/kg 5.45).

## 24. COSTS FOR SERVICES

These include costs incurred for the supply of services pertaining to copper processing as well as utilities, transportation, commercial and administrative services, and the costs for the use of third-party goods, as detailed below:

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - External processing | 5,397 | 5,311 | 86 |
| - Utility expenses | 14,212 | 13,836 | 376 |
| - Maintenance | 1,797 | 1,540 | 257 |
| - Transportation expenses | 4,791 | 4,556 | 235 |
| - Payable fees | 256 | 391 | (135) |
| - Compensation of Statutory Auditors | 74 | 86 | (12) |
| - Other services | 5,776 | 5,259 | 517 |
| - Costs for the use of third-party goods | 277 | 291 | (14) |
| Total | 32,580 | 31,270 | 1,310 |

The item "other services" includes primarily technical, legal and tax consulting fees as well as insurance and business expenses.
The increase in costs for other services is mainly due to higher expenses for business consulting for the implementation of new projects, for compliance with legal obligations and for the management of the extraordinary event connected to the subsidiary Isolveco Srl.

The increase in "Utility expenses" and "Transportation expenses" are due to the increase in sales.

## 25. PERSONNEL COSTS

Here below is the breakdown of personnel costs:

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Salaries and wages | 22,029 | 21,397 | 632 |
| - Social security charges | 5,581 | 5,362 | 219 |
| - Retirement costs for defined contribution plans | 1,441 | 1,463 | (22) |
| - Other costs | 2,712 | 2,544 | 168 |
| Total | 31,763 | 30,756 | 1,007 |

The item "Other costs" includes costs for temporary work, contract work, and the remuneration of Directors.

The Group's average number of personnel for the year and the current number at year-end is shown below:

| Personnel | 2017 Average | 31/12/2017 | 31/12/2016 |
|---|---|---|---|
| - Executives | 21 | 22 | 20 |
| - White collars | 171 | 168 | 172 |
| - Blue collars | 543 | 534 | 541 |
| Total | 735 | 724 | 733 |

The average number of employees is calculated according to the Full-Time-Equivalent method and includes both internal and external (temporary and contract) staff.
Personnel is classified according to the type of employment contract.

## 26. DEPRECIATION/AMORTISATION AND IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

Here is the breakdown of amortisation/depreciation:

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Amortisation of intangible assets | 96 | 102 | (6) |
| - Depreciation of tangible assets | 6,299 | 5,714 | 585 |
| - Write-down of goodwill of Smit Draad Nijmegen BV | 1,531 | 500 | 1,031 |
| Total amortisation/depreciation and write-downs | 7,926 | 6,316 | 1,610 |

## 27. PROVISIONS AND WRITE-DOWNS

Provisions and write-downs are broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Write-downs of receivables | 195 | 963 | (768) |
| - Provisions for risks | 358 | 716 | (358) |
| Total provisions and write-downs | 553 | 1,679 | (1,126) |

The item "Provisions for risks" refers to a provision used to hedge the risk of capital losses due to returns of packages already invoiced.

## 28. OTHER OPERATING COSTS

Other operating costs are broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Non-income taxes and duties | 800 | 579 | 221 |
| - Capital losses and contingent liabilities | 107 | 26 | 81 |
| - Other costs | 326 | 351 | (25) |
| Total | 1,233 | 956 | 277 |

## 29. WRITE-DOWN OF EQUITY INVESTMENTS

This item amounts to €/000 79 and refers to the Turkish subsidiary IRCE Kablo Ve Tel that was liquidated in October 2017.

## 30. FINANCIAL INCOME AND CHARGES

Financial income and charges are broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Other financial income | 1,682 | 3,026 | (1,344) |
| - Interest and other financial charges | (2,734) | (814) | (1,920) |
| - Foreign exchange gains/(losses) | (683) | (735) | 52 |
| Total | (1,735) | 1,477 | (3,212) |

Here below is the breakdown of "Other financial income":

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Interest income from banks | 5 | 29 | (24) |
| - Interest income on receivables due from customers | 5 | 22 | (17) |
| - Income from LME derivatives | - | 1,680 | (1,680) |
| - Other financial income | 1,672 | 1,295 | 377 |
| Total | 1,682 | 3,026 | (1,344) |

In 2016 the item "Income from LME derivatives" referred to the closing and Mark to Market (Fair Value) measurement at the end of the year of derivative contracts related to commodities for forward sales and purchases.

"Other financial income" refers mainly to the Brazilian subsidiary and concerns interest on extended payment terms granted to customers.

Here below is the breakdown of "Interest and other financial charges":

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Interest expense for short-term payables | 70 | 91 | (21) |
| - Interest expense for medium to long-term payables | 90 | 134 | (44) |
| - Sundry interest expense | 610 | 521 | 89 |
| - Bank fees and expenses | 49 | 68 | (19) |
| - Charges on LME derivatives | 1,915 | - | 1,915 |
| Total | 2,734 | 814 | 1,920 |

The item "Sundry interest expense" refers primarily to the charges related to the no-recourse discount of IRCE Ltda trade receivables and to the interest cost deriving from discounting the Employee Termination Indemnity, pursuant to IAS 19.

Total trade receivables sold in 2016 amount to €/000 4,234 while those sold in 2017 to €/000 11,285.

The item "Charges on LME derivatives" refers to the closing and Mark to Market (Fair Value) measurement at the end of the year of derivative contracts related to commodities for forward sales and purchases.

## 31. INCOME TAXES

| €/000 | 31/12/2017 | 31/12/2016 Restated | changes |
|---|---|---|---|
| - Current taxes | (2,820) | (625) | (2,195) |
| - Deferred tax assets/(liabilities) | (724) | (49) | (678) |
| Total | (3,544) | (674) | (2,873) |

## 32. EARNINGS PER SHARE

As required by IAS 33, here below are the disclosures on the data used to calculate basic and diluted earnings per share.

For the purposes of calculating the basic earnings per share, the profit or loss for the period less the portion attributable to non-controlling interests was used as the numerator. In addition, it should be noted that there were no preference dividends, settlements of preference shares, and other similar effects to be deducted from the profit or loss attributable to the ordinary equity holders. The weighted average number of ordinary shares outstanding was used as the denominator; this figure was calculated by deducting the average number of own shares held during the period from the overall number of shares composing the share capital.

Basic and diluted earnings per share were equal, as there are no ordinary shares that could have a dilution effect and no shares or warrants that could have a dilution effect will be exercised.

| | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| Net profit/(loss) for the period | 4,685,238 | (178,339) |
| Average weighted number of ordinary shares outstanding | 26,716,226 | 26,716,226 |
| Basic earnings/(loss) per Share | 0.175 | (0.0067) |
| Diluted earnings/(loss) per Share | 0.175 | (0.0067) |

## 33. RELATED PARTY DISCLOSURES

In compliance with the requirements of IAS 24, the annual compensation received by the members of IRCE S.p.A.'s Board of Directors is shown below:

| €/000 | Compensation for the office held | Compensation for other tasks | Total |
|---|---|---|---|
| Directors | 215 | 304 | 519 |

This table shows the compensation paid for any reason and in any form, excluding social security contributions.
Following the introduction of Article 123-ter of the Consolidated Financial Act, further details on these amounts are provided in the Remuneration Report, which will be made available within the terms of law at the registered office of the Company, as well as on the website www.irce.it.

## 34. COMMITMENTS

As of the reporting date there are no Group's commitments.

## 35. FINANCIAL RISK MANAGEMENT

The Group's primary risks and uncertainties, as well as risk management policies, are detailed below:

*Market risk*

The Group is strongly concentrated in the European Market; the risks of major contractions in demand or the worsening of the competitive scenario may significantly impact the results. To address these risks, the medium-long term strategy of the Group focuses on geographic diversification in non-EU and Asian countries, with a constant recovery of margins for the Group.

*Risk associated with changes in financial and economic variables*

- *Exchange rate risk*
  The Group primarily uses the Euro as the reference currency for its sales transactions. It is exposed to exchange rate risks in relation to its copper purchases, which it partly carries out in dollars; it hedges such transactions using forward contracts. It is also exposed to foreign currency translation risks for its investments in Brazil, the UK, India, Switzerland, and Poland.

As for the foreign currency translation risk, the Group believes this risk mainly concerns the investment in Brazil due to the high volatility of the Real, which affects the investment's carrying amount. It should be noted that in 2017, after the significant recovery of the Real over the Euro in 2016, the Brazilian currency depreciated by about 15% since the beginning of the year.

Here below is a sensitivity analysis that shows the hypothetical accounting effects on the Group's statement of financial position, simulating a +5% (further depreciation of the Real) -5% (recovery of the Real) change in the EUR/BRL exchange rate compared to 31 December 2017 (3.973 EUR/BRL):

| Consolidated statement of financial position data €/million | 31/12/2017 | Change in EUR/BRL exchange rate +5% Change | -5% Change |
|---|---|---|---|
| Non-current assets | 57.46 | (0.75) | 0.83 |
| Current assets | 182.22 | (1.30) | 1.43 |
| TOTAL ASSETS | 239.68 | (2.05) | 2.26 |
| Total Shareholders' Equity | 132.40 | (1.89) | 2.09 |
| Non-current liabilities | 20.28 | 0.00 | 0.00 |
| Current liabilities | 87.00 | (0.16) | 0.17 |
| TOTAL LIABILITIES | 239.68 | (2.05) | 2.26 |

- *Interest rate risk*

  The Group obtains short and medium/long-term bank financing at floating rates. The risk of severe fluctuations in interest rates is not considered significant and therefore the Group does not implement special hedging policies.

  Here below is a sensitivity analysis showing the effects on the result, simulating a +/- 25 basis points change in interest rates:

| Consolidated income statement data €/million | Year 2017 | Change in interest rates +25 bps Change | -25 bps Change |
|---|---|---|---|
| Turnover | 357.13 | - | - |
| EBITDA | 18.44 | - | - |
| EBIT | 9.97 | - | - |
| Net profit | 4.69 | (0.08) | 0.08 |

- *Risks related to fluctuations in prices of raw materials*

  The main raw material used by the Group is copper. The changes in its price can affect margins as well as financial requirements. In order to mitigate the potential effect on margins of changes in the price of copper, the Group implements a hedging policy using forward contracts on the positions generated by operating activities.

A sensitivity analysis is provided below which shows the effects on the turnover and profit/loss of the Group by simulating a change in the copper price of +/- 5% versus the average LME price in 2017:

| Consolidated income statement data €/million | Year 2017 | Change in the price of copper +5% Change | -5% Change |
|---|---|---|---|
| Turnover | 357.13 | 12.66 | (12.66) |
| EBITDA | 18.44 | 2.18 | (3.10) |
| EBIT | 9.97 | 2.18 | (3.10) |

*Financial risks*
These are risks associated with financial resources.

- *Credit risk*
  The credit risk does not present particular concentrations. The Group monitors this risk using adequate assessment and lending procedures with respect to each credit position. Selected insurance policies are taken out in order to limit insolvency risk.

- *Liquidity risk*
  Based on its financial situation, the Group rules out the possibility of difficulties in meeting obligations associated with liabilities. The limited used of credit lines suggests that liquidity risk is not significant.

Comparative data as of 31 December 2016 and 2017 regarding financial assets and liabilities and the composition of payables is shown below:

| Consolidated financial data €/million | Cash | Finimport and self-liquidating lines | Medium to long-term loan | Total |
|---|---|---|---|---|
| Total assets as of 31/12/2016 | 7.78 | 107.00 | 13.97 | 128.75 |

| Consolidated financial data €/million | Within 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Financial liabilities | 33.73 | 10.64 | | 44.38 |
| Commitments | | | | 0.00 |
| Trade payables and other payables | 34.21 | 3.54 | 3.71 | 41.45 |
| Total debt by expiry date | 67.94 | 14.18 | 3.71 | 85.83 |

| Consolidated financial data €/million | Cash | Finimport and self-liquidating lines | Medium to long-term loan | Total |
|---|---|---|---|---|
| Total assets as of 31/12/2017 | 7.75 | 108.00 | 11.97 | 127.72 |

| Consolidated financial data €/million | Within 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Financial liabilities | 53.18 | 9.77 | | 62.95 |
| Commitments | | | | 0.00 |
| Trade payables and other payables | 34.29 | 3.46 | 3.43 | 41.18 |
| Total debt by expiry date | 87.47 | 13.23 | 3.43 | 104.13 |

The table does not include copper purchase commitments, as this is a commodity quoted on the LME market easily disposed of.

As of 31 December 2017, the financial statements included trade receivables for € 89.47 million and inventories for € 82.38 million.

## 36. MANAGEMENT OF TRADE RECEIVABLES

Here below is the breakdown of receivables by internal rating.
The classification of receivables takes into account any positions subject to renegotiation.

| Risk level | 2017 Exposure, €/000 | 2016 Restated Exposure, €/000 |
|---|---|---|
| Low | 27,073 | 24,490 |
| Medium | 47,557 | 42,130 |
| Above-average | 14,047 | 7,958 |
| High | 1,622 | 2,286 |
| Total | 90,299 | 76,864 |

| Due date | 2017 Exposure, €/000 | 2016 Restated Exposure, €/000 |
|---|---|---|
| Not yet due | 86,342 | 69,902 |
| < 30 days | 1,063 | 3,900 |
| 31-60 | 1,078 | 753 |
| 61-90 | 68 | 133 |
| 91-120 | 39 | 105 |
| > 120 | 1,709 | 2,071 |
| Total | 90,299 | 76,864 |

The Fair Value of trade receivables corresponds to their nominal exposure.
The bad debt provision, equal to €/000 825, refers to the range between 91-120 and > 120 days and to the above-average and high risk level.
Please note that there are no customers generating revenue for the Group exceeding 10% of total revenue.

## 37. CAPITAL RISK MANAGEMENT

The primary objective in managing the Group's capital is to maintain a solid credit rating and adequate capital ratios in order to support operations and maximise shareholder value.

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| Net financial indebtedness (A) | 54,116 | 36,429 |
| Shareholders' equity (B) | 132,399 | 135,080 |
| Total capital (A) + (B) = (C) | 186,515 | 171,509 |
| Gearing ratio (A) / (C) | 29% | 21% |

## 38. FINANCIAL INSTRUMENTS

Here below is a comparison between the carrying amount and fair value of all the Group's financial instruments broken down by category:

| €/000 | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 31/12/2017 | 31/12/2016 Restated | 31/12/2017 | 31/12/2016 Restated |
| Financial assets | | | | |
| Cash and cash equivalents | 7,752 | 7,776 | 7,752 | 7,776 |
| Other financial assets | 13 | 544 | 13 | 544 |
| Financial liabilities | | | | |
| Current loans | 50,679 | 30,316 | 50,679 | 30,316 |
| Non-current loans | 11,967 | 13,968 | 11,967 | 13,968 |
| Other financial liabilities | | | | |

## 39. EVENTS FOLLOWING THE REPORTING PERIOD

No significant events occurred between 1 January 2018 and the date of preparation of these financial statements.

## 40. DISCLOSURE PURSUANT TO ARTICLE 149-DUODECIES OF CONSOB ISSUERS' REGULATIONS

The following statement, drafted in accordance with Article 149-duodecies of Consob Issuers' Regulations, shows the compensation for 2017 for auditing services and for other services, including expenses, supplied by the independent auditor or by entities belonging to its network to the Group's companies.

| €/000 | Entity supplying the service | | Recipient | Compensation for the year 2017 |
|---|---|---|---|---|
| Auditing services | PricewaterhouseCoopers | EUR | IRCE S.p.A | 137 |
| Auditing services | PricewaterhouseCoopers | EUR | Foreign subsidiaries | 86 |
| Other services | PricewaterhouseCoopers | EUR | Foreign subsidiaries | 5 |

## 40. STATEMENT OF RECONCILIATION OF SHAREHOLDERS' EQUITY AND CONSOLIDATED RESULT WITH THE CORRESPONDING FIGURES OF THE PARENT COMPANY

In accordance with Consob Communication dated 28 July 2006, here below is the reconciliation between the result for the year and shareholders' equity of the Group as of 31 December 2016 and 2017 with the corresponding amounts in the Parent Company separate financial statements:

| | 31 december 2017 | | 31 december 2016 Restated | |
|---|---|---|---|---|
| *€/000* | **Shareholders' equity** | **Result** | **Shareholders' equity** | **Result** |
| **Shareholders' equity and result for the year as per the parent Company's financial statement** | **144,178,440** | **4,864,229** | **140,104,877** | **1,251,073** |
| Cancellation of book value of consolidated equity investments | | | | |
| a) difference between book value and pro-rata value of shareholders' equity | 1,227,554 | - | 1,738,966 | - |
| b) investees' pro-rata results | 343,566 | 343,566 | (1,624,564) | (1,624,564) |
| c) Goodwill | - | (1,531,387) | 1,531,387 | (500,000) |
| d) Reversal of gains / losses on foreign currency loans interco | 5,015,667 | 240,390 | 5,288,293 | (272,626) |
| Reversal of write-down of equity investments in subsidiaries | 523,658 | 523,658 | 668,057 | 668,057 |
| Reversal of provision for bad debts towards subsidiary companies | 1,817,533 | 412,612 | 1,197,952 | 205,643 |
| IRCE Kablo ve Tel winding up | (211,423) | (211,423) | - | - |
| Financial statements change in foreign currency | (18,343,260) | - | (11,745,797) | - |
| Write-off of capital gains from disposal of intra-group assets | (63,465) | 14,288 | (77,753) | 29,159 |
| Reversal of deferred tax | (1,502,944) | (12,839) | (1,527,897) | (6,876) |
| Write-off of unrealized intra-group margin | (236,165) | (35,125) | (201,180) | (5,496) |
| **Group shareholders' equity and result for the year** | **132,749,164** | **4,607,968** | **135,352,345** | **(255,633)** |
| Shareholders' equity and result for the year attributable to non-controlling interests | (350,085) | 77,270 | (272,815) | (77,294) |
| **Consolidated shareholders' equity and net result** | **132,399,079** | **4,685,238** | **135,079,530** | **(178,339)** |

## 41. DISCLOSURE PURSUANT TO ARTICLE 36 – SECTION VI OF CONSOB ISSUERS' REGULATIONS NO. 16191/2007

In compliance with the provisions of Article 36 – Section VI of Consob Regulations No. 16191 of 29.10.2007, here below are the accounting statements of subsidiaries incorporated under the law of non-EU countries that are particularly significant for the purposes of Consob Resolution No. 11971 of 1999 and were prepared for the purposes of drafting the consolidated financial statements:

| **ISOMET AG**<br>EUR | **2017** | **2016** |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Intangible assets | 43,582 | 4,004 |
| Property, plant and equipment | 3,989,343 | 4,618,297 |
| Equipment and other tangible assets | 178,346 | 155,880 |
| Equity investments | 2,092 | 2,280 |
| Deferred tax assets | 234,593 | 274,337 |
| **TOTAL NON-CURRENT ASSETS** | **4,447,956** | **5,054,798** |
| **CURRENT ASSETS** | | |
| Inventories | 4,594,611 | 4,674,455 |
| Trade receivables | 1,075,449 | 1,087,230 |
| Tax receivables | 45,126 | 9,011 |
| Receivables due from others | 135,291 | 144,379 |
| Cash and cash equivalents | 378,598 | 718,018 |
| **TOTAL CURRENT ASSETS** | **6,229,075** | **6,633,093** |
| **TOTAL ASSETS** | **10,677,031** | **11,687,891** |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | 674,355 | 674,355 |
| Reserves | 555,741 | 456,343 |
| Foreign currency translation reserve | 924,416 | 1,248,382 |
| Retained earnings/(losses carried forward) | 2,009,024 | 2,325,547 |
| Profit/(loss) for the period | (741,117) | (316,523) |
| **TOTAL SHAREHOLDERS' EQUITY** | **3,422,418** | **4,388,104** |
| **NON-CURRENT LIABILITIES** | | |
| Non-current financial liabilities | 3,010,767 | 281,457 |
| Deferred tax liabilities | 489,223 | 563,513 |
| Employee benefits' provisions | 1,172,964 | 1,371,689 |
| **TOTAL NON-CURRENT LIABILITIES** | **4,672,954** | **2,216,660** |
| **CURRENT LIABILITIES** | | |
| Current financial liabilities | | 3,417,450 |
| Trade payables | 2,319,979 | 1,447,612 |
| Other current liabilities | 261,680 | 218,065 |
| **TOTAL CURRENT LIABILITIES** | **2,581,659** | **5,083,128** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **10,677,031** | **11,687,892** |

| ISOMET AG<br>EUR | 2017 | 2016 |
|---|---|---|
| Sales revenues | 16,903,784 | 15,400,711 |
| Other income | 51,296 | 45,841 |
| **TOTAL REVENUES** | **16,955,080** | **15,446,522** |
| | | |
| Costs for raw materials | (13,854,346) | (11,064,968) |
| Change in inventories of work in progress and finished goods | 320,904 | (1,024,892) |
| Costs for services | (1,061,025) | (1,020,388) |
| Personnel costs | (2,288,892) | (2,235,068) |
| Amortisation and depreciation | (400,161) | (367,278) |
| Write-down of receivables and cash and cash equivalents | - | - |
| Other operating costs | (19,238) | - |
| | | |
| **EBIT** | **(347,678)** | **(266,042)** |
| | | |
| Financial income/(charges) | (426,873) | (31,515) |
| | | |
| **PROFIT/(LOSS) BEFORE TAX** | **(774,551)** | **(297,557)** |
| | | |
| Taxes | 33,432 | (18,966) |
| **NET PROFIT/(LOSS) FOR THE PERIOD** | **(741,119)** | **(316,523)** |

| **IRCE LTDA**<br>EUR | **2017** | **2016** |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Intangible assets | 34,282 | 41,755 |
| Property, plant and equipment | 15,305,706 | 18,216,572 |
| Equipment and other tangible assets | 100,314 | 89,424 |
| Non-current tax receivables | - | - |
| Deferred tax assets | 341,701 | 1,044,999 |
| **TOTAL NON-CURRENT ASSETS** | **15,782,003** | **19,392,750** |
| **CURRENT ASSETS** | | |
| Inventories | 9,759,119 | 6,928,370 |
| Trade receivables | 15,859,704 | 12,197,818 |
| Tax receivables | 715,546 | 1,308,841 |
| Receivables due from others | 56,576 | 214,709 |
| Cash and cash equivalents | 819,817 | 4,291,191 |
| **TOTAL CURRENT ASSETS** | **27,210,762** | **24,940,929** |
| **TOTAL ASSETS** | **42,992,765** | **44,333,679** |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | 58,809,209 | 57,309,209 |
| Foreign currency translation reserve | (15,789,327) | (9,787,562) |
| Retained earnings/(losses carried forward) | (5,926,550) | (6,885,823) |
| Profit/(loss) for the period | 2,665,071 | 959,273 |
| **TOTAL SHAREHOLDERS' EQUITY** | **39,758,403** | **41,595,097** |
| **NON-CURRENT LIABILITIES** | | |
| Non-current financial liabilities due to the parent company | 15,094 | 1,596,447 |
| Deferred tax liabilities | **-** | **-** |
| Provisions for risks and charges | **-** | **-** |
| **TOTAL NON-CURRENT LIABILITIES** | **15,094** | **1,596,447** |
| **CURRENT LIABILITIES** | | |
| Current financial liabilities | 1,578,773 | - |
| Trade payables | 1,099,995 | 622,996 |
| Tax payables | 112,157 | 126,063 |
| Social security contributions | 43,880 | 78,073 |
| Other current liabilities | 384,462 | 315,003 |
| **TOTAL CURRENT LIABILITIES** | **3,219,268** | **1,142,135** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **42,992,765** | **44,333,679** |

| **IRCE LTDA**<br>EUR | **2017** | **2016** |
|---|---|---|
| Sales revenues | 45,344,751 | 28,845,691 |
| Other income | 56,174 | 160,800 |
| **TOTAL REVENUES** | **45,400,925** | **29,006,491** |
| | | |
| Costs for raw materials | (36,686,378) | (20,351,854) |
| Change in inventories of work in progress and finished goods | 1,894,636 | (2,189,625) |
| Costs for services | (3,168,517) | (2,488,879) |
| Personnel costs | (2,363,524) | (1,654,155) |
| Amortisation and depreciation | (1,562,941) | (1,415,004) |
| Write-down of receivables and cash and cash equivalents | - | (16,243) |
| Other operating costs | (508,417) | (265,029) |
| | | |
| **EBIT** | **3,005,784** | **625,702** |
| | | |
| Financial income/(charges) | 1,032,202 | 827,742 |
| | | |
| **PROFIT/(LOSS) BEFORE TAX** | **4,037,986** | **1,453,444** |
| | | |
| Taxes | (1,372,915) | (494,171) |
| | | |
| **NET PROFIT/(LOSS) FOR THE PERIOD** | **2,665,071** | **959,273** |

## Attachment 1

### List of equity investments held by Directors, Statutory Auditors as well as their spouses and underage children

| SURNAME AND NAME | INVESTEE COMPANY | NO. OF SHARES OWNED AS OF 31/12/2016 | NO. OF SHARES ACQUIRED | NO. OF SHARES SOLD | NO. OF SHARES OWNED AS OF 31/12/2017 |
|---|---|---|---|---|---|
| Casadio Filippo | IRCE S.p.A. | 561,371 | | | 561,371 |
| Gandolfi Colleoni Francesco | IRCE S.p.A. | 559,371 (*) | | | 559,371 (*) |
| | IRCE S.p.A. | 30,000 | | | 30,000 |
| Sepriano Gianfranco | IRCE S.p.A. | 3,500 | | | 3,500 |
| Pischedda Francesca | IRCE S.p.A. | 0 | | | 0 |
| Dallago Orfeo | IRCE S.p.A. | 587,267 | | | 587,267 |
| Gigliola Di Chiara | IRCE S.p.A. | 0 | | | 0 |
| Fabio Senese | IRCE S.p.A. | 0 | | | 0 |
| Donatella Vitanza | IRCE S.p.A. | 0 | | | 0 |
| Adalberto Costantini | IRCE S.p.A. | 0 | | | 0 |

(*) Shares owned by his wife, Carla Casadio

**Attachment 2**

**Certification of the annual consolidated financial statements pursuant to Article 154-bis, paragraph 5, of Italian Legislative Decree No. 58 of 24 February 1998**:

We, the undersigned, Mr Filippo Casadio, Chairman, and Ms Elena Casadio, Manager responsible for preparing the corporate accounting documents of IRCE S.p.A., hereby certify, taking into account the provisions of Article 154-bis, paragraph 5, of Italian Legislative Decree No. 58 of 24 February 1998:

- the adequacy in relation to the company's characteristics, and
- the effective application

of the administrative and accounting procedures used to prepare the consolidated financial statements.

In addition, we hereby certify that the consolidated financial statements:

a) are consistent with accounting books and records;
b) are prepared in compliance with international accounting standards and give a true and fair view of the financial position, financial performance and cash flows of the issuer as well as of the group of companies included within the scope of consolidation;
c) that the Report on Operations contains a reliable analysis of the information pursuant to paragraph 4, Article 154-ter of Italian Legislative Decree No. 58 of 24 February 1998.

Imola, 14 March 2018

Filippo Casadio
Chairman

Elena Casadio
Manager responsible for preparing the corporate accounting documents

# SEPARATE FINANCIAL STATEMENTS OF IRCE S.p.A.
# AS OF 31 DECEMBER 2017

## SEPARATE STATEMENT OF FINANCIAL POSITION

(In Euro)

| ASSETS | Notes | 31/12/2017 | 31/12/2016 Restated* | 01/01/2016 Restated* |
|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | |
| Intangible assets | 1 | 232,638 | 205,530 | 257,115 |
| Property, plant and equipment | 2 | 18,798,652 | 17,171,656 | 15,766,034 |
| Equipment and other tangible assets | 2 | 896,430 | 566,556 | 612,042 |
| Assets under construction and advances | 2 | 2,054,890 | 3,059,126 | 2,092,650 |
| Non-current financial assets and receivables | 3 | 16,121,447 | 13,247,261 | 14,668,883 |
| *(of which: related parties)* | | *16,121,279* | *13,247,093* | *14,668,883* |
| Equity investments | 3 | 75,358,415 | 74,084,710 | 74,217,139 |
| Non-current tax receivables | 4 | 811,582 | 811,582 | 811,582 |
| Deferred tax assets | 5 | 938,840 | 1,112,926 | 1,058,439 |
| **TOTAL NON-CURRENT ASSETS** | | **115,212,894** | **110,259,347** | **109,483,884** |
| **CURRENT ASSETS** | | | | |
| Inventories | 6 | 58,477,053 | 50,997,453 | 53,211,116 |
| Trade receivables | 7 | 60,429,895 | 47,682,836 | 43,468,384 |
| Receivables due from subsidiaries | 8 | 6,925,390 | 5,540,687 | 6,082,305 |
| Current tax receivables | 9 | - | 746,740 | 245,652 |
| Receivables due from others | 10 | 986,904 | 1,493,529 | 1,693,913 |
| Current financial assets | 11 | 13,180 | 543,981 | 314,482 |
| Cash and cash equivalents | 12 | 1,505,585 | 567,197 | 793,696 |
| **TOTAL CURRENT ASSETS** | | **128,338,007** | **107,572,423** | **105,809,548** |
| **TOTAL ASSETS** | | **243,550,901** | **217,831,770** | **215,293,432** |

* See paragraph "2016 Restatement" in the Explanatory Notes for further details.

| SHAREHOLDERS' EQUITY AND LIABILITIES | Notes | 31/12/2017 | 31/12/2016 Restated* | 01/01/2016 Restated* |
|---|---|---|---|---|
| **SHAREHOLDERS' EQUITY** | | | | |
| SHARE CAPITAL | 13 | 14,626,560 | 14,626,560 | 14,626,560 |
| RESERVES | 13 | 124,687,651 | 124,227,244 | 123,594,307 |
| PROFIT FOR THE PERIOD | 13 | 4,864,229 | 1,251,073 | 1,744,269 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **144,178,440** | **140,104,877** | **139,965,136** |
| **NON-CURRENT LIABILITIES** | | | | |
| Non-current financial liabilities | 14 | 8,956,071 | 13,968,266 | 18,963,968 |
| Provisions for risks and charges | 15 | 8,341,069 | 7,825,649 | 7,172,162 |
| Employee benefits provisions | 16 | 4,481,949 | 4,546,676 | 4,379,437 |
| **TOTAL NON-CURRENT LIABILITIES** | | **21,779,089** | **26,340,591** | **30,515,567** |
| **CURRENT LIABILITIES** | | | | |
| Current financial liabilities | 17 | 45,872,884 | 22,713,812 | 26,597,118 |
| Trade payables | 18 | 21,036,250 | 20,426,522 | 9,314,332 |
| Payables due to subsidiaries | 19 | 1,854,850 | 1,952,568 | 1,212,433 |
| Tax payables | 20 | 1,452,220 | - | 1,079,332 |
| Social security contributions | 21 | 1,839,840 | 1,696,996 | 1,719,399 |
| Other current liabilities | 22 | 5,537,328 | 4,596,404 | 4,890,118 |
| **TOTAL CURRENT LIABILITIES** | | **77,593,372** | **51,386,302** | **44,812,732** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **243,550,901** | **217,831,770** | **215,293,435** |

* See paragraph "2016 Restatement" in the Explanatory Notes for further details.

## SEPARATE INCOME STATEMENT

(In Euro)

| | Notes | 31/12/2017 | 31/12/2016 Restated* |
|---|---|---|---|
| Sales revenues | 23 | 233,801,883 | 193,866,516 |
| *(of which: related parties)* | | *10,940,962* | *8,508,483* |
| Other income | 24 | 575,622 | 632,741 |
| *(of which: related parties)* | | *157,038* | *63,676* |
| **TOTAL REVENUES** | | **234,377,505** | **194,499,257** |
| Costs for raw materials and consumables | 25 | (183,560,466) | (146,640,474) |
| *(of which: related parties)* | | *(4,974,647)* | *(2,286,444)* |
| Change in Change in inventories of work in progress and finished goods | | 4,537,747 | (1,531,550) |
| Costs for services | 26 | (24,325,048) | (23,922,333) |
| *(of which: related parties)* | | *(863,364)* | *(861,521)* |
| Personnel costs | 27 | (16,974,220) | (16,627,473) |
| Amortisation and depreciation | 28 | (2,632,420) | (2,463,906) |
| Provisions and write-downs | 29 | (934,924) | (1,382,872) |
| Other operating costs | 30 | (441,388) | (375,003) |
| **EBIT** | | **10,046,786** | **1,555,646** |
| Write-down of equity investments | 31 | (602,559) | (668,057) |
| Financial income/(charges) | 32 | (2,197,797) | 998,193 |
| *(of which: related parties)* | | *(84,528)* | *106,025* |
| **PROFIT BEFORE TAX** | | **7,246,430** | **1,885,782** |
| Income taxes | 33 | (2,382,201) | (634,709) |
| **PROFIT FOR THE PERIOD** | | **4,864,229** | **1,251,073** |

* See paragraph "2016 Restatement" in the Explanatory Notes for further details.

| SEPARATE STATEMENT OF COMPREHENSIVE INCOME | 31.12.2017 | 31.12.2016 Restated |
|---|---|---|
| €/000 | | |
| **NET (LOSS) IN PERIOD** | **4,864** | **1,251** |
| Net profit / (loss) - IAS 19 | 14 | (336) |
| Income taxes | (3) | 92 |
| | 11 | (244) |
| **Total other profit / (loss); net of tax which won't be subsequently reclassified to profit / (loss) for the period** | **11** | **(244)** |
| **FINANCIAL YEAR CHANGES** | 11 | (244) |
| **Total comprehensive profit / (loss), net of taxes** | **4,875** | **1,007** |

* See paragraph "2016 Restatement" in the Explanatory Notes for further details.

# STATEMENT OF CHANGES IN EQUITY

| | Share capital | | Other reserves | | | Retained earnings | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| €/000 | Share capital | Own shares | Share premium reserve | Own shares (shares premium) | Other reserves | Legal reserve | Extraordinar reserve | Undivided profit | Reserve IAS 19 | Result for the period | Total |
| **Balance as of 31 december 2015** | **14,627** | **(716)** | **40,539** | **306** | **43,087** | **2,925** | **31,446** | **6,462** | **(454)** | **2,726** | **140,947** |
| **Restatement** | | | | | | | | | | (982) | (982) |
| **Balance as of 31 december 2015 - Restated** | **14,627** | **(716)** | **40,539** | **306** | **43,087** | **2,925** | **31,446** | **6,462** | **(454)** | **1,744** | **139,965** |
| | | | | | | | | | | | |
| **Result for the period** | | | | | | | | | | 1,251 | 1,251 |
| Other comprehensive profit/(loss) | | | | | | | | | (244) | | (244) |
| **Total profit / (loss) from statement of comprehensive income** | | | | | | | | | **(244)** | **1,251** | **1,007** |
| Allocation of the result of the previous year | | | | | | | 1,744 | | | (1,744) | |
| Dividends | | | | | | | (802) | | | | (802) |
| Sell/purchase own shares | | (18) | | (48) | | | | | | | (66) |
| **Balance as of 31 december 2016** | **14,627** | **(734)** | **40,539** | **258** | **43,087** | **2,925** | **32,389** | **6,462** | **(697)** | **1,251** | **140,105** |
| | | | | | | | | | | | |
| **Result for the period** | | | | | | | | | | 4,864 | 4,864 |
| Other comprehensive profit/(loss) | | | | | | | | | 11 | | 11 |
| **Total profit / (loss) from statement of comprehensive income** | | | | | | | | | **11** | **4,864** | **4,875** |
| Allocation of the result of the previous year | | | | | | | 1,251 | | | (1,251) | |
| Dividends | | | | | | | (801) | | | | (801) |
| Sell/purchase own shares | | | | | | | | | | | |
| **Balance as of 31 december 2017** | **14,627** | **(734)** | **40,539** | **258** | **43,087** | **2,925** | **32,839** | **6,462** | **(684)** | **4,864** | **144,178** |

* See paragraph “2016 Restatement” in the Explanatory Notes for further details.

With regard to the items of consolidated shareholders’ equity, please refer to note 12.

| SEPARATED STATEMENT OF CASH FLOWS | Note | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|---|
| *€/000* | | | |
| | | | |
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | **4,864** | **1,251** |
| *Adjustments for:* | | | |
| Amortization/depreciation | 28 | 2,632 | 2,464 |
| Net change in anticipated or deferred taxes | 5 | 174 | (54) |
| | | | |
| (Gains)/losses from sell-off of fixed assets | | (54) | 225 |
| (Gains)/losses on unrealized translation differences | | 38 | 576 |
| Taxes | 33 | 2,212 | 597 |
| Financial income/(charge) | 32 | 1,920 | (1,607) |
| Operating profit/(loss) before change in working capital | | **11,786** | **3,452** |
| | | | |
| Paid taxes | | (562) | (2,184) |
| Decrease/(increase) in inventory | 6 | (7,480) | 2,214 |
| Net change in current assets and liabilities | | (10,036) | 5,426 |
| Net change in current assets and liabilities vs related parties | | (1,482) | 2,068 |
| Net change in non-current assets and liabilities | | 451 | 821 |
| Net change in non-current assets and liabilities vs related parties | | (4,148) | 1,554 |
| **CASH FLOW GENERATED BY OPERATING ACTIVITIES** | | **(11,471)** | **9,899** |
| | | | |
| **INVESTING ACTIVITIES** | | | |
| Investments in intangible assets | 1 | (87) | (32) |
| Investments in tangible assets | 2 | (6,338) | (9,563) |
| Disposal | | 2,798 | 4,563 |
| Amount collected from sale of tangible and intangible assets | | 69 | 68 |
| **CASH FLOW USED IN INVESTMENTS** | | **(3,558)** | **(4,964)** |
| | | | |
| **FINANCIAL ACTIVITIES** | | | |
| Net change in loans | 14 | (5,012) | (4,996) |
| Net change in short-term debt | 17 | 23,159 | (3,883) |
| Change in current financial assets | 11 | 531 | (229) |
| Interests paid | 32 | (2,129) | (315) |
| Interests received | 32 | 210 | 1,922 |
| Dividends paid | | (802) | (802) |
| Change with effect in shareholders' equity | 13 | 11 | (244) |
| Sell/purchase own shares | | 0 | (66) |
| **CASH FLOW GENERATED FROM FINANCIAL TRANSACTION** | | **15,967** | **(8,613)** |
| | | | |
| **NET CASH FLOW FOR THE PERIOD** | | **938** | **(237)** |
| | | | |
| CASH BALANCE AT START OF YEAR | 12 | 567 | 794 |
| TOTAL NET CASH FLOW FOR THE PERIOD | | 938 | (237) |
| CASH BALANCE AT THE END OF YEAR | 12 | 1,506 | 567 |

* See paragraph “2016 Restatement” in the Explanatory Notes for further details.

## ACCOUNTING STANDARDS AND EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

### GENERAL INFORMATION

These annual financial statements as of 31 December 2017 were authorised for publication by the Board of Directors on 14 March 2018.
IRCE S.p.A. (henceforth also referred to as the "Company") is a company incorporated under the law of the Italian Republic and has its registered office in via Lasie 12/a, Imola (Italy), Economic & Administrative Index No. 266734 BO 001785.
IRCE S.p.A. owns four manufacturing plants and is one of the major industrial players in Europe in winding wires, as well as in low-voltage electrical cables in Italy.
Its plants are located in Imola (Bologna), Guglionesi (Campobasso), Umbertide (Perugia), and Miradolo Terme (Pavia).

### BASIS OF PREPARATION

The annual financial statements for the year 2017 were prepared in accordance with the IFRSs (International Financial Reporting Standards) issued by the IASB (International Accounting Standards Board) and endorsed by the European Union. The term IFRS also refers to all revised International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), including those previously issued by the Standing Interpretations Committee (SIC).

The formats used for the financial statements have been prepared in accordance with the provisions of IAS 1; in particular:
- the statement of financial position was drafted by presenting current and non-current assets, and current and non-current liabilities, as separate classifications;
- the income statement was drafted by classifying the items by nature;
- the statement of cash flows was drafted, in accordance with IAS 7, by classifying cash flows during the period into operating, investing and financing activities. Cash flows from operating activities were presented using the indirect method.

For the purposes of clarity in reporting, it should be noted that, as of the current financial statements, certain items of the financial statements have been re-classified.

The impact of certain reclassifications on the statement of financial position as of 1 January 2016 is shown below:

| Reclassified item | €/000 | Previous classification | Current classification |
|---|---|---|---|
| VAT receivables, VAT receivables and taxes for IRCE Ltda, Other receivables due from tax authorities | 238 | Tax receivables | Receivables due from others |
| VAT payables, Employee IRPEF (personal income tax) payables, Other tax payables | 754 | Tax payables | Other current liabilities |

The impact of certain reclassifications on the statement of financial position as of 31/12/2016 is shown below:

| Reclassified item | €/000 | Previous classification | Current classification |
|---|---|---|---|
| VAT receivables | 75 | Current tax receivables | Receivables due from others |
| VAT payables, Employee IRPEF (personal income tax) payables, Other tax payables | 639 | Tax payables | Other current liabilities |

## ASSESSMENT CRITERIA AND ACCOUNTING STANDARDS APPLIED

Below are the summary tables relating to all IFRS updates, amendments and interpretations issued by the IASB, with indication of which concern the 2017 financial statements and which will come into force in future financial years, in line with the provisions of IAS 8.

**New documents issued by the IASB and endorsed by the EU to be mandatorily adopted as from the financial statements for financial years starting on 1 January 2017**

| Description | Effective date | Endorsed as at the reporting date |
|---|---|---|
| Amendments to IAS 7: Disclosure Initiative | 1 January 2017 | Yes |
| Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 | Yes |

**New documents issued by IASB and endorsed by the EU, applicable as of annual periods beginning on 1 January 2018, which have not been adopted in advance**

| Description | Effective date | Endorsed as at the reporting date |
|---|---|---|
| IFRS 15 (Revenue from Contracts with Customers) | 1 January 2018 | Yes |
| IFRS 9 (Financial Instruments) | 1 January 2018 | Yes |
| Amendments to IFRS 4 (Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts) | 1 January 2018 | Yes |
| Clarifications to IFRS 15 (Revenue from Contracts with Customers) | 1 January 2018 | Yes |
| IFRS 16 (Leases) | 1 January 2019 | Yes |

**New documents issued by IASB not yet endorsed by the EU, applicable as of annual periods beginning on 1 January 2018**

| Description | Effective date | Endorsed as at the reporting date |
|---|---|---|
| Amendments to IFRS 2 (Classification and Measurement of Share-based Payment Transactions) | 1 January 2018 | No |
| Annual Improvements to IFRSs: 2014-2016 period | 1 January 2018 | No |
| Interpretation of IFRIC 22 (Foreign Currency Transactions and Advance Consideration) | 1 January 2018 | No |
| Amendments to IAS 40 (Transfer of Investment Property) | 1 January 2018 | No |
| Amendments to IFRS 9 (Prepayment Features with Negative Compensation) | 1 January 2019 | No |
| Amendments to IAS 28 (Long-term Interests in Associates and Joint Ventures) | 1 January 2019 | No |
| Annual Improvements to IFRSs: 2015-2017 period | 1 January 2019 | No |
| IFRIC 23: Uncertainty over Income Tax Treatment | 1 January 2019 | No |

IFRS 15 – Revenue from Contracts with Customers

On 28 March 2014, the IASB published IFRS 15 "Revenue from Contracts with Customers" (hereinafter, IFRS 15), which governs the timing and amount of the recognition of revenues deriving from contracts with customers, including construction contracts. In particular, IFRS 15 established that the recognition of revenues is based on the following five steps: (i) identification of the contract(s) with a customer, (ii)

identification of the contractual obligation to transfer goods and/or services to a customer (so-called "performance obligations"), (iii) determination of the transaction price, (iv) allocation of the transaction price to the performance obligations identified on the basis of the stand-alone sale price of each good or service, and (v) recognition of the revenue when the relevant performance obligation has been met. IFRS 15 also supplements the financial statement disclosures to be provided with reference to the nature, amount, timing and uncertainty of revenues and related cash flows. The new standard, adopted by the European Commission wit EU Regulation 2016/1905 of 22 September 2016, is effective as from financial years starting on or after 1 January 2018. Early adoption is allowed.
With reference to IRCE, the new IFRS 15 accounting standard will mainly impact the accounting of sales of packaging with right of return by the customer. The Company, although still quantifying the impact, has verified that the effects on the result of the year and on shareholders' equity will not be material.

IFRS 16 - Leases
On 13 January 2016, the IASB published IFRS 16 "Leases" (hereinafter, "IFRS 16"), which replaces IAS 17 "Leasing" and the related interpretations. IFRS 16 eliminates the distinction between operating and finance leases for the purposes of drafting the financial statements of lessees; for lease contracts with a duration of more than 12 months, the recognition of an asset - representing the right to use - and of a liability - representing the obligation to make the payments under the contract - is required. Instead, lessees continue to classify leases as operating or finance in the preparation of financial statements. IFRS 16 reinforces disclosure requirements for both lessees and lessors. The provisions of IFRS 16 are effective as of 1 January 2019. Early adoption is allowed, subject to the early adoption of IFRS 15.
As regards the IRCE Group, there are no significant impacts expected from the adoption of the new IFRS 16 accounting standard.

IFRS 9 - Financial Instruments
On 24 July 2014, the IASB completed its review of the standard on financial instruments with the release of the complete version of IFRS 9 "Financial Instruments" (hereinafter, "IFRS 9"). The new provisions of IFRS 9: (i) change the model for the classification and measurement of financial assets; (ii) introduce a new impairment method for financial assets (so-called expected credit losses); and (iii) change hedge accounting requirements. The provisions of IFRS 9, adopted by the European Commission with EU Regulation 2016/2067 of 22 November 2016, are effective as from financial years starting on or after 1 January 2018.
The Group, with reference to the impact of the adoption of the new standard as from 1 January 2018, reviewed its financial assets and liabilities and concluded that the application of the standard will not have any significant impact on the same.

**Foreign currency translation of financial statement items**

The functional and presentation currency adopted by IRCE S.p.A. is the Euro. The following criteria were used:

- monetary items, consisting of money held and assets or liabilities to be received or paid, were translated using the spot exchange rate at the reporting date, and the relevant exchange gains and losses were recognised in the income statement;
- non-monetary items measured at their historical cost in a foreign currency were translated using the spot exchange rate at the date on which the transaction occurred;
- fixed assets, such as loans in foreign currencies, are recognised at the spot exchange rate at their acquisition date and translated into the functional currency using the spot exchange rate at the reporting date. However, the differences deriving from these loans are not recognised in the income statement, but are directly recognised in equity until the investment is disposed of.

**Tangible assets**

Tangible assets are measured at their purchase cost after deducting discounts and rebates, or at the construction cost, including directly attributable costs less any accumulated depreciation and accumulated impairment losses.
At the time of the transition to the IFRSs, certain elements of the items "land and buildings" and "industrial machinery and equipment" were measured by adopting the re-determined value, which was equal to the fair

value at the date of the transition to the IFRSs. This value was then used as the deemed cost at the transition date, generating an FTA - First Time Adoption reserve.
The carrying amount of tangible assets is tested for impairment if events or changes in circumstances indicate that it might be impaired. If there is any such indication, and the asset's carrying amount exceeds its recoverable amount, the asset is written down to this lower value. The recoverable amount of tangible assets is the higher of net price to sell and value in use.

Depreciation, in compliance with IFRS requests, is calculated by using the straight-line method and on the basis of rates which reflect the estimated useful life of the assets to which they refer.
Costs incurred after the acquisition are only capitalised if they result in an increase in the intrinsic future economic benefits of the asset to which they refer; if this is not the case, they are recognised as an expense when incurred.
On disposal, or when no future economic benefits are expected from the use of an asset, this is derecognised from the financial statements and any gain or loss (calculated as the difference between the disposal value and the carrying amount) is recognised in profit or loss in the year the asset is derecognised.

Land, including that ancillary to buildings, is not depreciated.

Assets under construction and advances paid for the acquisition of tangible assets are measured at cost. Depreciation begins when the assets is available and ready for use; at this date, they are classified within their specific category.

Depreciation was calculated on the basis of rates that were deemed representative of the estimated useful life of the relevant tangible assets. The rates applied on an annual basis are included in the following ranges:

| | |
|---|---|
| Buildings | 3.0% - 10.0% |
| Plant and equipment | 7.5% - 17.5% |
| Industrial and commercial equipment | 25.0% - 40.0% |
| Other assets | 12.0% - 25.0% |

**Intangible assets**

Intangible assets are recognised under assets, in accordance with the provisions of IAS 38 (Intangible Assets) when it is probable that the use of the asset will generate future economic benefits and when the cost of the asset can be determined in a reliable manner.
Intangible assets which are acquired separately are initially capitalised at cost while those which are acquired through business combination transactions are capitalised at their fair value on their acquisition date. After initial recognition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, with the exception of development costs, are not capitalised and are recognised in profit or loss as incurred. The Company capitalises development costs only when there is reasonable certainty they will be recovered. The useful life of intangible assets is either finite or indefinite. Intangible assets with a finite useful life are amortised over their useful life and tested for impairment whenever there is an indication of a potential impairment loss. The amortisation period and the amortisation method applied are reviewed at the end of each financial year or more frequently, if necessary. Changes in the expected useful life, or in the manner the Company obtains the future economic benefits associated with the intangible asset, are recognised by modifying the amortisation period or the amortisation method and treated as changes in accounting estimates. The amortisation charges for intangible assets with finite useful lives are recognised in profit or loss within the cost category that is consistent with the function of the intangible asset.
IRCE S.p.A. did not recognise intangible assets with an indefinite useful life.
Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset, and are recognised in profit or loss when the fixed asset is disposed of.

A description of intangible assets and the amortisation method used is shown in the following table.

| Intangible asset | Useful life | Rate | Internally produced or acquired | Impairment test |
|---|---|---|---|---|
| Patent and intellectual property rights | Finite | 50% | Acquired | Review of the amortisation method at each reporting date and impairment test if indicators of impairment exist. |
| Concessions and licenses | Finite | 20% | Acquired | Review of the amortisation method at each reporting date and impairment test if indicators of impairment exist. |
| Trademarks and similar rights | Finite | 5.56% | Acquired | Review of the amortisation method at each reporting date and impairment test if indicators of impairment exist. |

The amortisation rates for other intangible assets were determined as a function of their specific residual useful lives and are reviewed at each reporting date.

**Impairment of assets**

Goodwill is not amortised but instead is tested for impairment at least once a year. All assets falling within the scope of application of IAS 36 are tested for impairment whenever indicators of impairment exist. In this case, the net carrying amount of the assets is compared with the estimated recoverable amount and, if the former is higher, they are written down.
Tangible and intangible assets with a finite useful life are depreciated/amortised and analysed, in order to verify impairment in case events or changes in circumstances indicate that their carrying amount may not be recoverable. The value of impairment is equal to the difference between the carrying amount of the intangible asset and its recoverable amount. The recoverable amount is the higher between the fair value of the asset net of sale costs and its value in use.
In order to verify the presence of impairment, intangible and tangible assets are grouped at the level of the smallest separately identifiable cash generating unit. Intangible assets with a finite useful life are analysed at each reporting date to assess whether impairment losses recognised in previous periods no longer exist or have decreased. In this case, the loss is reversed and the carrying amount of the asset is restored to no more than its recoverable amount, which may not be higher than the carrying amount that would have been recorded if impairment had not been recognised.
The reversal of an impairment loss is immediately recorded in the consolidated income statement.

**Financial assets**

Equity investments

Equity investments in subsidiaries, joint ventures and associates are valued using the cost method, including the costs directly attributable to the investment, adjusted for impairment.

Subsidiaries are companies over which the Company has the right to exercise, directly or indirectly, control, as defined by IFRS 10 - "Consolidated financial statements". In particular, control exists when the controlling entity simultaneously:

- holds decision-making power over the investee company;
- has the right to take part in or is exposed to the variable (positive and negative) results of the investee company;

- has the ability to exercise power over the investee company in such a way as to affect its profits.

A joint venture is a joint arrangement in which the parties which hold joint control have rights over the net assets of the arrangement and, therefore, have a stake in the joint venture.

An associate is a company in which the Company holds at least 20% of the voting rights or exercises significant influence, but not control or joint control, over the financial and managerial policies.

At each reporting date, the Company reviews the carrying amount of the equity investments to determine whether there are any indications of impairment and, in that case, it carries out impairment tests.
Given objective indications of possible impairment, recoverability is verified by comparing the carrying amount with the recoverable amount, which is the higher of the fair value (net of disposal costs) and the value in use generally determined within the limits of the relevant portion of equity.
The Company restores the value of the equity investments should the reasons which led to the impairment no longer exist.

Equity investments in companies other than subsidiaries, associates and joint ventures, which are recorded under non-current assets, are valued at fair value with the impact recognised in the equity reserve for other components of comprehensive income; the changes in fair value recognised in equity are recorded in the income statement when equity investments are written down or sold.

Dividends are recorded on the date they are approved by the Shareholders' meeting and are recognised in the income statement also should they derive from the distribution of reserves of profits generated prior to the acquisition date. The distribution of these profit reserves is an event which involves impairment and, therefore, the need to verify the recoverability of the carrying amount of the equity investment.

Non-current receivables and other assets

Non-current receivables and other assets consist of receivables due from subsidiaries as well as deferred tax assets and other items.
Receivables and other financial assets to be held until maturity are recognised at cost, represented by the fair value of the initial consideration given increased by transaction costs. The amount at initial recognition is subsequently adjusted for principal reimbursements and any write-downs.

**Inventories**

Inventories are measured at the lower of cost and net realisable value. The costs incurred are recognised as follows:

- Raw materials: average weighted purchase cost, including transportation expenses and customs clearance.
- Finished and semi-finished goods: direct cost of materials and labour costs plus a share of the indirect costs and production overheads defined on the basis of normal production capacity.

The net realisable value is the normal price to sell less the estimated costs to complete and estimated costs to sell.

**Trade receivables and other receivables**

Receivables are recognised at their fair value, which is their nominal amount less any impairment losses. With regard to trade receivables, an impairment provision is made when there is objective evidence (such as, for example, the probability of insolvency or significant financial difficulty of the debtor) that the company will not be able to recover all the amounts due on the basis of the original terms of the invoice. The carrying amount of the receivable is reduced using a specific allowance account. Impaired receivables are written off when it is determined that they are not recoverable.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand as well as demand and short-term bank deposits recognised at their nominal amounts; in the latter case, the original maturity shall not exceed three months.

**Financial payables and liabilities**

Payables are recognised at their nominal amount if they are due within the subsequent year; they are measured with the amortised cost method if due after 12 months.
Financial liabilities consisting of loans are initially recognised at their fair value increased by transaction costs; subsequently, they are measured at their amortised cost, i.e. at their initial amount less already made principal reimbursements and adjusted (increased or decreased) on the basis of the amortisation (using the effective interest method) of any differences between the initial amount and the amount at maturity.

**Derecognition of financial assets and liabilities**

Financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset are extinguished;
- the Company retains the right to receive cash flows from the asset but has assumed the contractual obligation to pay them in full without delay to a third party;
- the Company has transferred the right to receive cash flows from the asset and (a) has substantially transferred all the risks and rewards of ownership of the financial asset or (b) has not substantially transferred nor retained all the risks and rewards of the asset but has transferred control.

In cases where the Company transferred its rights to receive cash flows from an asset and has not substantially transferred nor withheld all the risks and rewards or has not lost control over the asset, this is recognised in the financial statements of the Company to the extent of the latter's continuing involvement in the asset. The continuing involvement – which takes the form of guaranteeing the transferred asset – is measured at the lower of the initial carrying amount of the asset and the maximum amount of the consideration that the Company could be required to pay.

In cases where the continuing involvement takes the form of an option that is issued and/or acquired with respect to the transferred asset (including cash-settled options, or similar options), the extent of the Company's involvement corresponds to the amount of the transferred asset which the Company may buy back; however, in the case of a put option which is issued on an asset that is measured at fair value (including the options settled in cash or with similar provisions), the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the exercise price of the option.

Financial liabilities

A financial liability is derecognised when the obligation underlying the liability is settled, cancelled or discharged.

If an existing financial liability is replaced by another from the same lender – and with substantially different terms – or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, recognising any differences between the carrying amounts through profit or loss.

**Provisions for risks and charges**

Provisions for risks and charges include provisions arising from present obligations (legal or constructive) as a result of past events and for which an outflow of resources is probable. Changes in estimates are reflected in the income statement for the period in which the change occurs. If the effect of discounting the value of money is material, the provisions are discounted using a pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision that arises from the passage of time is recognised as a financing cost.

**Employee Benefits**

Employee benefits substantially include employee termination indemnities as well as retirement funds. Italian Law No. 296 of 27 December 2006 "2007 Budget Law" introduced significant changes to the allocation of quotas of the employee termination indemnities. Up until 31 December 2006, employee termination indemnities were part of post-employment benefit plans of the "defined benefit plans" type, and were measured, in accordance with IAS 19, by independent actuaries using the projected unit credit method. This calculation consists in estimating the amount of the benefit an employee will receive on the estimated date of termination of the work relationship by using demographical and financial assumptions. The amount determined in this manner is discounted and recalculated on the basis of the accrued service as a proportion of the total length of service and represents a reasonable estimate of the benefits each employee has already earned for past service.
Following the occupational pension reform, the provisions for employee termination indemnities – for the amounts accruing from 1 January 2007 – should be considered essentially comparable to a "defined contribution plan". More specifically, these changes gave employees the opportunity to choose how to allocate their accruing employee termination indemnities: in companies with more than 50 employees, employees can decide to transfer the accruing employee termination indemnities into pre-defined pension schemes or keep them with the company, which will transfer them to INPS (Italy's social security institute).
In summary, following the occupational pension reform and with regard to the employee termination indemnities accrued before 2007, the Group actuarially measured them without including the component referring to future salary increases. The benefits subsequently accrued were instead recognised in accordance with the methods for defined contribution plans.

**Derivative financial instruments**

The company used derivative financial instruments such as forward contracts for the purchase and sale of copper and aluminium in order to hedge against its exposure to the risk of changes in raw material prices as well as forward contracts for currency purchases.
Any gains or losses arising from changes in the fair value of derivatives, which are outstanding as of the reporting date and do not qualify for hedge accounting, are recognised directly in the income statement.

The fair value of forward contracts for the sale of copper outstanding as of the reporting date is determined on the basis of forward prices of copper with reference to the maturity dates of contracts outstanding as of the reporting date.
For the purposes of hedge accounting, hedges are classified as:

- fair value hedges against the risk of changes in the fair value of an underlying asset or liability; or a firm commitment (except for currency risk); or
- cash flow hedges against the exposure to changes in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction;
- hedges of a net investment in a foreign operation (net investment hedge).

At the inception of a hedge, the company formally designates and documents the hedging relationship to which it intends to apply hedge accounting as well as its risk management objectives and the pursued strategy. The documentation includes the identification of the hedging instrument as well as of the hedged item or transaction, the nature of the risk, and how the company intends to measure the effectiveness of the hedge in offsetting the exposure to changes in the fair value of the hedged item or cash flows attributable to the hedged risk.

These hedges are expected to be highly effective in offsetting the exposure of the hedged item to changes in the fair value or cash flows attributable to the hedged risk. The measurement of the effectiveness of these hedges is conducted on an ongoing basis during the years in which they have been designated.

**Own shares**

If the company reacquires its own shares, these are deducted from shareholders' equity. In particular, they are measured at their nominal amount in the "Own shares" reserve and the excess of the purchase amount over the nominal amount is accounted for as a deduction from "Other reserves". The purchase, sale, issue or cancellation of equity instruments does not result in the recognition of any gain or loss in the income statement, but is rather recognised directly as a change in shareholders' equity.

**Recognition of revenues**

Revenues are recognised, in accordance with the provisions of IAS 18, to the extent that it is probable that the economic benefits will flow to the company and the relevant amount can be measured reliably. The following specific revenue recognition criteria must always be complied with for revenues to be recognised in the income statement.

Sale of goods

Revenue is recognised when the company has transferred the significant risks and rewards of ownership of the good, generally on the date the good is shipped.

Interest

Interest is recognised as financial income after establishing that interest income has accrued (this is done using the effective interest method: the effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividends
Revenues are recognised when the shareholder's right to receive payment is established.

**Costs**

Costs are recognised on an accrual basis. Research, advertising and promotional costs are recognised in the income statement in the year in which they are incurred.

**Financial income and charges**

Financial income and charges are recognised immediately in the income statement.

**Income taxes**

Current taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to tax authorities. The tax rates and tax laws used to calculate the amount are those that have been enacted or are expected to apply as of the reporting date.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated using the so-called liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when deferred tax liabilities arise from the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, affects neither accounting profit nor taxable profit/loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except when:

- the deferred tax asset for the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, affects neither accounting profit nor taxable profit;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are recognised only to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reviewed on an annual basis at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.
Deferred tax assets or liabilities relating to items recognised directly in equity are recognised directly in equity and not in the income statement.

**Influence of estimates**

The drafting of the financial statements in accordance with the IFRS requires the use by the Management of estimates and assumptions, which influence the value of assets and liabilities recorded in the statement of financial position as well as in the disclosures published in the explanatory notes regarding potential assets and liabilities at the reporting date, and the revenues and costs for the period.
These estimates are based on experience and on other factors considered relevant. The effective results could thus differ from those estimated. The estimates are revised on a regular basis and the effects of each change to the same are reflected in the income statement of the period in which the estimate is revised.
The most significant accounting principles that require greater subjectivity by directors when preparing estimates are described below:

a. Measurement of receivables. Trade receivables are adjusted using the relevant bad debt provision to take into account their recoverable amount. The determination of the amount of write-downs requires the directors to make subjective measurements based on the documentation and information available, including the creditworthiness of the client as well as past experience and historical trends;
b. Measurement of inventories. Inventories showing obsolescence are periodically valued and written down if the net realisable value of the same is lower than the carrying amount. Write-downs are calculated on the basis of assumptions and estimates made by the Management, based on the experience of the same and the historical results achieved;
c. Measurement of deferred tax assets. Deferred tax assets are measured on the basis of expected taxable income in future years. The measurement of this expected taxable income depends on factors that may vary over time and have significant effects on the measurement of deferred tax assets;

d. Measurement of intangible assets with a finite useful life. The useful life and the amortisation criteria used for the valuation of these assets are verified annually;
e. Pension plans. The Group companies participate in pension plans in various countries. The current value of liabilities for retirement benefits depends on a series of factors that are determined using actuarial techniques based on certain assumptions, which concern the discount rate, the expected return on plan assets, the rates of future salary increases, as well as mortality and resignation rates. Any changes to the aforementioned assumptions could have significant effects on the liabilities for retirement benefits;
f. Measurement of provisions for risks. The determination of the provisions allocated requires the directors to make subjective measurements based on the documentation and information available on potential liabilities.

## 2016 RESTATEMENT

During the second half of 2017, asset misappropriation to the detriment of the subsidiary Isolveco Srl emerged, which led to the filing of two lawsuits with the Court of Padua on 3 August 2017 and on 30 November 2017, in order to protect the company. Based on the analytical reconstruction of the 2016 accounts, it emerged, in particular, that a significant part of the receivables recorded in the financial statements of Isolveco Srl did not meet liquidity and collectability requirements and, consequently, had to be written down. The effects of this reconstruction mainly impacted the opening balance of Isolveco Srl shareholders' equity as of 1 January 2016, and thus resulted in the restatement of the economic result and financial position as of 1 January 2016 and as of 31 December 2016 in the separate financial statements of IRCE S.p.A., as detailed below:

| **Balance sheet (extracted)** | **01.01.2016** | **Increase/(decrease)** | **01.01.2016 Restated** |
|---|---|---|---|
| Equity investiments | 74,412 | (195) | 74,217 |
| Receivables from subsidiaries | 6,869 | (787) | 6,082 |
| **Total assets** | **81,281** | **(982)** | **80,299** |
| | | | |
| Profit/ (loss) for the period | 2,726 | (982) | 1,744 |
| **Total shareholder's equity and liabilities** | **2,726** | **(982)** | **1,744** |

| Balance sheet (extracted) | 31.12.2016 | Increase/(decrease) | 31.12.2016 Restated |
|---|---|---|---|
| Equity investiments | 74,280 | (195) | 74,085 |
| Receivables from subsidiaries | 6,533 | (992) | 5,541 |
| **Total assets** | **80,813** | **(1,187)** | **79,626** |
| | | | |
| Extraordinar reserve | 33,370 | (981) | 32,389 |
| Profit/ (loss) for the period | 1,457 | (206) | 1,251 |
| **Total shareholder's equity and liabilities** | **34,827** | **(1,187)** | **33,640** |

| Income statement (extracted) | 31.12.2016 | Increase/(decrease) | 31.12.2016 Restated |
|---|---|---|---|
| Devaluation of receivables | 860 | 205 | 1,065 |
| Profit/ (Loss) before taxes | 2,091 | (205) | 1,886 |
| Income taxes | (634) | | (634) |
| Profit/ (loss) for the period | 1,457 | (206) | 1,251 |

## DERIVATIVE INSTRUMENTS

The Company uses the following type of derivative instruments:

- Derivative instruments related to copper forward transactions with maturity after 31 December 2017. The Group entered into sale contracts to hedge against price decreases relating to the availability of raw materials, and purchase contracts to prevent price increases relating to sale commitments with fixed copper values. The fair value of forward contracts outstanding at the reporting date is determined on the basis of forward prices of copper and aluminium with reference to the maturity dates of contracts outstanding at the reporting date. These transactions do not satisfy the conditions required for recognising these instruments as hedging instruments for the purposes of hedge accounting.

A summary of derivative contracts related to commodity for forward sales and purchases outstanding at 31 December 2017 is shown below:

| Measurement unit of the notional amount | Notional amount with maturity within one year (tonnes) | Notional amount with maturity after one year | Result with fair value measurement as of 31/12/2017 €/000 |
|---|---|---|---|
| Copper | 2,600 | 0 | (765) |

- Derivative instruments related to USD and GBP forward purchase and sale contracts with maturity after 31 December 2017. These transactions do not satisfy the conditions required for recognising these instruments as hedges for the purposes of cash flow hedge accounting.

A summary of derivative contracts related to USD and GBP forward purchases and sales outstanding at 31 December 2017 is shown below:

| Measurement unit of the notional amount | Notional amount in foreign currency with maturity within one year | Notional amount with maturity after one year | Result with fair value measurement as of 31/12/2017 €/000 |
|---|---|---|---|
| USD | 3,000 | 0 | (26) |
| GBP | 4,000 | 0 | (64) |

**FINANCIAL INSTRUMENTS BY CATEGORY**

Here below is the breakdown of financial instruments referring to the items of the financial statements:

| As of 31 December 2016 Restated - €/000 | Loans and receivables | Derivatives with a balancing entry in the Income Statement | Derivatives with a balancing entry in shareholders' equity | Total |
|---|---|---|---|---|
| **Non-current financial assets** | | | | |
| Non-current tax receivables | 812 | | | 812 |
| Other non-current financial assets and receivables | 13,247 | | | 13,247 |
| **Current financial assets** | | | | |
| Trade receivables | 53,224 | | | 53,224 |
| Other current financial assets | 11 | 533 | | 544 |
| Cash and cash equivalents | 567 | | | 567 |

| As of 31 December 2017 - €/000 | Loans and receivables | Derivatives with a balancing entry in the Income Statement | Derivatives with a balancing entry in shareholders' equity | Total |
|---|---|---|---|---|
| **Non-current financial assets** | | | | |
| Non-current tax receivables | 812 | | | 812 |
| Other non-current financial assets and receivables | 16,121 | | | 16,121 |
| **Current financial assets** | | | | |
| Trade receivables | 67,355 | | | 67,355 |
| Other current financial assets | 13 | | | 13 |
| Cash and cash equivalents | 1,506 | | | 1,506 |

| As of 31 December 2016 Restated - €/000 | Other financial liabilities | Derivatives with a balancing entry in the Income Statement | Derivatives with a balancing entry in shareholders' equity | Total |
|---|---|---|---|---|
| **Non-current financial liabilities** | | | | |
| Financial payables | 13,968 | | | 13,968 |
| **Current financial liabilities** | | | | |
| Trade payables | 22,379 | | | 22,379 |
| Other payables | 6,293 | | | 6,293 |
| Financial payables | 22,714 | | | 22,714 |

| As of 31 December 2017 - €/000 | Other financial liabilities | Derivatives with a balancing entry in the Income Statement | Derivatives with a balancing entry in shareholders' equity | Total |
|---|---|---|---|---|
| **Non-current financial liabilities** | | | | |
| Financial payables | 8,956 | | | 8,956 |
| **Current financial liabilities** | | | | |
| Trade payables | 22,891 | | | 22,891 |
| Other payables | 8,829 | | | 8,829 |
| Financial payables | 45,018 | 855 | | 45,873 |

## FAIR VALUE

A comparison between the carrying amount of financial instruments held by the Company and their fair value did not reveal significant differences.
IFRS 13 defines the following three levels of fair value for measuring the financial instruments recognised in the statement of financial position:

- Level 1: quoted prices in active markets.
- Level 2: market inputs other than Level 1 inputs that are observable, either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: inputs not based on observable market data.

The following tables show the assets and liabilities that are measured at fair value as of 31 December 2016 and as of 31 December 2017 broken down by level of fair value hierarchy (€/000):

| 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Derivative financial instruments | - | 533 | - | 533 |
| Total assets | - | 533 | - | 533 |
| Liabilities: | | | | |
| Derivative financial instruments | - | - | - | - |
| Total liabilities | - | - | - | - |

| 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Derivative financial instruments | - | - | - | - |
| Total assets | - | - | - | - |
| Liabilities: | | | | |
| Derivative financial instruments | - | (855) | - | (855) |
| Total liabilities | - | (855) | - | (855) |

During the year, there were no transfers between the three fair value levels specified in IFRS 7.

**SEGMENT REPORTING**

In accordance with the provisions of IFRS 8, an operating segment is a component of an entity:
a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
b) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
c) for which discrete financial information is available.

With regard to the two types of products sold, as from 2011, IRCE's management only monitors the breakdown of revenues between winding wires and cables; with regard to the residual amount which is not allocated, reference is made to revenues from the sale of other materials and services which cannot be classified within the two types of products sold.
Revenues are then analysed by geographical area (revenues from Italian customers, EU customers excluding Italy, and non-EU customers).

The winding wire segment supplies manufacturers of electric motors and generators, transformers, relays and solenoid valves.

The cable segment supplies the following industries: construction, civil and industrial engineering (cabling), and consumer durable goods (electrical devices).

| €/000 | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Winding wires | Cables | Not allocated | Total | Winding wires | Cables | Not allocated | Total |
| Revenues | 184,347 | 49,439 | 16 | 233,802 | 151,307 | 42,546 | 14 | 193,867 |

| €/000 | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Italy | EU (excluding Italy) | Non-EU | Total | Italy | EU (excluding Italy) | Non-EU | Total |
| Revenues | 122,702 | 91,889 | 19,211 | 233,802 | 100,718 | 79,052 | 14,097 | 193,867 |

## COMMENT ON THE MAIN ITEMS OF THE SEPARATE STATEMENT OF FINANCIAL POSITION

### 1. INTANGIBLE ASSETS

This item refers to intangible assets from which future economic benefits are expected. The changes in their net carrying amount are shown below:

| €/000 | Patent and intellectual property rights | Licenses, trademarks, similar rights and multi-year charges | Assets under development | Total |
|---|---|---|---|---|
| Net carrying amount as of 31/12/2015 | 23 | 44 | 190 | 257 |
| *Changes during the period* | | | | |
| . Investments | 31 | 1 | - | 32 |
| . Reclassifications | - | - | - | - |
| . Amortisation | (39) | (44) | - | (83) |
| Total changes | (8) | (43) | - | (51) |
| Net carrying amount as of 31/12/2016 Restated | 15 | 1 | 190 | 206 |

| €/000 | Patent and intellectual property rights | Licenses, trademarks, similar rights and multi-year charges | Assets under development | Total |
|---|---|---|---|---|
| Net carrying amount as of 31/12/2016 Restated | 15 | 1 | 190 | 206 |
| *Changes during the period* | | | | |
| . Investments | 86 | 1 | - | 87 |
| . Reclassifications | - | - | - | - |
| . Amortisation | (58) | (2) | - | (60) |
| Total changes | 28 | (1) | - | 27 |
| Net carrying amount as of 31/12/2017 | 43 | - | 190 | 233 |

On a recurring basis, the Company incurs R&D expenses that are recognised in the income statement, as they do not meet the conditions for capitalisation pursuant to IAS 38.

### 2. TANGIBLE ASSETS

| €/000 | Land | Buildings | Plant and equipment | Industrial and commercial equipment | Other assets | Assets under construction and advances | Total |
|---|---|---|---|---|---|---|---|
| Net carrying amount as of 31/12/2015 | 7,836 | 4,455 | 3,475 | 379 | 234 | 2,092 | 18,471 |
| *Changes during the period* | | | | | | | |
| . Investments | - | - | 1,828 | 120 | 176 | 2,876 | 5,000 |
| . Reclassifications | - | - | 1,620 | - | - | (1,620) | - |
| . Divestments | (1) | - | (3,892) | (68) | (313) | (289) | (4,563) |
| . Depreciation related to disposals | - | - | 3,893 | 65 | 312 | 0 | 4,270 |
| . Depreciation of the year | - | (491) | (1,551) | (213) | (126) | 0 | (2,381) |
| Total changes | (1) | (491) | 1,898 | (96) | 49 | 967 | 2,326 |
| Net carrying amount as of 31/12/2016 Restated | 7,835 | 3,964 | 5,373 | 283 | 283 | 3,059 | 20,797 |

| €/000 | Land | Buildings | Plant and equipment | Industrial and commercial equipment | Other assets | Fixed assets under construction and advances | Total |
|---|---|---|---|---|---|---|---|
| Net carrying amount as of 31/12/2016 Restated | 7,835 | 3,964 | 5,373 | 283 | 283 | 3,059 | 20,797 |
| *Changes during the period* | | | | | | | |
| . Investments | - | 277 | 956 | 389 | 279 | 1,638 | 3,539 |
| . Reclassifications | - | 19 | 2,624 | - | - | (2,642) | 1 |
| . Divestments | - | - | (2,169) | (327) | (302) | - | (2,798) |
| . Depreciation related to disposals | - | - | 2,154 | 327 | 302 | - | 2,783 |
| . Depreciation of the year | - | (493) | (1,741) | (210) | (128) | - | (2,572) |
| Total changes | - | (197) | 1,824 | 179 | 151 | (1,004) | 953 |
| Net carrying amount as of 31/12/2017 | 7,835 | 3,767 | 7,197 | 462 | 434 | 2,055 | 21,750 |

IRCE S.p.A.'s investments amounted to € 3.54 million in 2017.

Divestments refer primarily to machinery no longer in use and depreciated in full.

## 3. NON-CURRENT FINANCIAL ASSETS AND RECEIVABLES AND EQUITY INVESTMENTS

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| Non-current financial assets and receivables | 16,121 | 13,247 |
| - Equity investments | 75,358 | 74,085 |
| Total | 91,479 | 87,332 |

Receivables due from subsidiaries

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - DMG GmbH | 1,707 | 1,711 |
| - FD Sims Ltd | 7,113 | 6,209 |
| - IRCE S.L | 1,582 | 1,511 |
| - IRCE Ltda | 15 | 1,596 |
| - ISODRA GmbH | 1,926 | 1,919 |
| - ISOMET AG | - | 281 |
| - IRCE SP.ZO.O | 68 | 20 |
| - SMIT DRAAD | 3,710 | - |
| Total | 16,121 | 13,247 |

The receivables reported above refer to intra-group interest bearing loans.

<u>Equity investments in subsidiaries</u>

The list of equity investments included in Attachment 2 forms part of these Explanatory Notes.

The carrying amount of the equity investments in FD Sims Ltd, IRCE Ltda and Smit Draad Nijmegen B.V. was tested for impairment, after indicators of impairment were identified. This test was carried out projecting the cash flows estimated in the most recent business plan, which Management approved separately and prior to these financial statements. These business plans were drafted over a period of five years and reflect past experience while excluding any flows deriving from restructuring, optimisation or improvements to operations.

In line with the provisions of IAS 36, the impairment test was carried out by comparing the recoverable amount of the investments net of the net financial position ("NFP") as of 31 December 2017 ("Equity Value") with the related carrying amounts for the equity investments as of 31 December 2017.

For the purposes of estimating the recoverable amount, the Equity Value of the investments was calculated using the "Discounted Cash Flow – asset side" method, which considers the cash flows from operations expected by the company based on the plans approved by management and subtracting the net financial position at the reporting date.

The discount rate used for cash flows is the Weighted Average Cost of Capital (WACC) relating to the equity investment. The method applied is the Capital Asset Pricing Model: the rate is calculated based on a mathematical model given by the sum of a risk-free asset plus a market premium risk. The market premium risk in its turn is the product of the market average risk multiplied by the specific beta for the sector.

In applying this method the main assumptions used are the estimate of future increases in sales, the gross margin, operating costs, the growth rate of the terminal values, the investments, the changes in working capital and the weighted average cost of capital (discount rate).

The terminal value of the Cash Generating Unit (CGU) was estimated on the basis of a cash flow (equal to the normalised cash flow of the last period) discounted at growth rates (g) equal to 0.0% for FD Sims Ltd and Smit Draad Nijmegen B.V. and 5.0% for IRCE Ltda over an infinite period of time. The 5-year business plan of FD Sims – which was prepared in nominal terms (including the forecast inflation rate) – has an annual average growth rate of revenues of around 4.5%, 0.5% for Smit Draad Nijmegen B.V. and for IRCE Ltda this rate is around 14%.

The nominal WACC, net of the tax effect, used in the test was equal to 6.9% for FD Sims Ltd, 5.8% for Smit Draad Nijmegen B.V. and 11.9% for IRCE Ltda; the risk premium inherent in the cost of equity was equal to 5.4% and is common among companies in the sector, as well as the borrowing rate used. The test did not indicate the need to adjust the reported amount. The rates used were determined by taking into account the market rates on the basis of the current economic situation. In addition, and with reference to the reported amounts of the equity investments, the sensitivity analyses carried out did not indicate a risk profile requiring a write-down.

A sensitivity analysis is shown below, comparing the carrying amount of the CGU's invested capital with the corresponding Equity Value calculated on the basis of a discount rate (WACC) and a growth rate (g) half a percentage point below or above the parameters used.

FD Sims Ltd, parameters used WACC 6.9%; (g) 0.0%.

| "g"=0.0% | | WACC | |
|---|---|---|---|
| €/000 | 6.4% | 6.9% | 7.4% |
| Equity value | 10,731 | 9,539 | 8,508 |
| Carrying amount of equity investment | 8,065 | 8,065 | 8,065 |
| Difference between equity value and carrying amount | 2,666 | 1,474 | 443 |

| "g"=0.5% | | WACC | |
|---|---|---|---|
| €/000 | 6.4% | 6.9% | 7.4% |
| Equity value | 11,789 | 10,424 | 9,258 |
| Carrying amount of equity investment | 8,065 | 8,065 | 8,065 |
| Difference between equity value and carrying amount | 3,724 | 2,359 | 1,193 |

As the above tables show, the CGU is not exposed to any risk that would require a write-down.

IRCE Ltda, parameters used WACC 11.9%; (g) 5.0%.

| (g)=5.0% | | WACC | |
|---|---|---|---|
| €/000 | 11.4% | 11.9% | 12.4% |
| Equity value | 67,215 | 62,963 | 59,288 |
| Carrying amount of equity investment | 58,466 | 58,466 | 58,466 |
| Difference between equity value and carrying amount | 8,749 | 4,497 | 822 |

| (g)=4.5% | | WACC | |
|---|---|---|---|
| €/000 | 11.4% | 11.9% | 12.4% |
| Equity value | 64,603 | 60,793 | 57,467 |
| Carrying amount of equity investment | 58,466 | 58,466 | 58,466 |
| Difference between equity value and carrying amount | 6,137 | 2,327 | (999) |

| (g)=5.5% | | WACC | |
|---|---|---|---|
| €/000 | 11.4% | 11.9% | 12.4% |
| Equity value | 70,271 | 65,473 | 61,372 |
| Carrying amount of equity investment | 58,466 | 58,466 | 58,466 |
| Difference between equity value and carrying amount | 11,805 | 7,007 | 2,906 |

As the above tables show, one scenario includes the possibility of impairment losses hat the Directors consider entirely attributable to the negative impact of the Euro/Real exchange rate at year-end. In fact, the devaluation of the Real only led to a reduction of the carrying amount of plants and machinery in the accounts of the subsidiary since, as they have been purchased in the past from European manufacturers, it is believed they will continue to maintain a quotation in Euro. Consequently, the Directors do not see risk profiles requiring to recognise impairment losses on the equity investment.

Smit Draad Nijmegen B.V., parameters used WACC 5.8% (g) 0.0%

| (g)=0.0% | | WACC | |
|---|---|---|---|
| €/000 | 5.3% | 5.8% | 6.3% |
| Equity value | 12,950 | 11,323 | 9,952 |
| Carrying amount of equity investment | 7,273 | 7,273 | 7,273 |
| Difference between equity value and carrying amount | 5,677 | 4,050 | 2,679 |

| (g)=0.5% | | WACC | |
|---|---|---|---|
| €/000 | 5.3% | 5.8% | 6.3% |
| Equity value | 14,496 | 12,576 | 10,985 |
| Carrying amount of equity investment | 7,273 | 7,273 | 7,273 |
| Difference between equity value and carrying amount | 7,223 | 5,303 | 3,712 |

As the above tables show, the CGU is not exposed to any risk that would require a write-down.

## 4. NON-CURRENT TAX RECEIVABLES

This item, equal to €/000 812, refers to the tax credit relative to the reimbursement claim for 2007-2011 IRES (corporate income tax), in compliance with Article 2, paragraph 1-quater, of Italian Law Decree No. 201/2011. Lacking precise information on the reimbursement date by the tax authorities, the asset has been classified as non-current.

## 5. DEFERRED TAX ASSETS

The item "Deferred tax assets" is the net amount of deferred tax assets less deferred tax liabilities, as shown below:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Deferred tax assets | 1,494 | 1,682 |
| - Deferred tax liabilities | (555) | (569) |
| Total | 939 | 1,113 |

The Company recognised deferred tax assets for the following items:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Allocations to Provisions for risks and charges | 483 | 495 |
| - Allocations to the taxed Bad debt provision | 239 | 177 |
| - Provision for inventory obsolescence | 751 | 751 |
| - Effect of application of IAS 19 | - | 93 |
| - Other | 21 | 166 |
| Total | 1,494 | 1,682 |

The table below shows the changes in deferred tax assets during 2016 and 2017:

| | Taxed provisions | Other | Total |
|---|---|---|---|
| **balance 01.01.2016** | 1,724 | 18 | 1,742 |
| income statement effect | (301) | 148 | (153) |
| shareholders' equity effect | | 93 | |
| **balance 31.12.2016** | 1,423 | 259 | 1,682 |
| income statement effect | (188) | | |
| shareholders' equity effect | | (238) | |
| **balance 31.12.2017** | 1,235 | 21 | 1,682 |

Deferred tax assets were recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts and to the extent that it is probable that taxable profit will be available against which these differences can be utilised.

Deferred tax liabilities are broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| Amortisation/depreciation | 42 | 56 |
| - Foreign exchange gains | - | 3 |
| - IAS capital gains on buildings | 413 | 413 |
| - IAS capital gains on land | 97 | 97 |
| - Effect of application of IAS 19 | 3 | - |
| Total | 555 | 569 |

The table below shows the changes in deferred tax liabilities during 2016 and 2017:

| | Depreciation | IAS capital gain on land and building | Change | IAS 19 effect | Total |
|---|---|---|---|---|---|
| **balance 31.12.2015** | 81 | 573 | - | 30 | 684 |
| income statement effect | (25) | (63) | 3 | (30) | (115) |
| shareholders' equity effect | | | | | |
| **balance 31.12.2016** | 56 | 510 | 3 | - | 569 |
| income statement effect | (14) | | (3) | | (17) |
| shareholders' equity effect | | | | 3 | 3 |
| **balance 31.12.2017** | 42 | 510 | - | 3 | 555 |

## 6. INVENTORIES

Inventories are broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Raw materials, ancillary and consumables | 21,291 | 18,349 |
| - Work in progress and semi-finished goods | 9,059 | 5,408 |
| - Finished products and goods | 31,006 | 30,119 |
| - Provision for write-down of raw materials | (1,982) | (1,982) |
| - Provision for write-down of finished products | (897) | (897) |
| Total | 58,477 | 50,997 |

Recognised inventories are not pledged nor used as collateral.
The increase in final inventories as of 31/12/2017 mainly reflects the price of copper.
The provisions for write-downs correspond to the amount which is deemed necessary to hedge existing obsolescence risks calculated by writing down slow moving packages and finished products.
The table below shows changes in the provision for write-down of inventories during 2017:

| €/000 | 31/12/2016 Restated | Allocations | Uses | 31/12/2017 |
|---|---|---|---|---|
| Provision for write-down of raw materials | 1,982 | - | - | 1,982 |
| Provision for write-down of finished products and goods | 897 | - | - | 897 |
| Total | 2,879 | - | - | 2,879 |

## 7. TRADE RECEIVABLES

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Customers/bills receivable | 61,179 | 48,562 |
| - Bad debt provision | (749) | (879) |
| Total | 60,430 | 47,683 |

The balance of receivables due from customers is entirely composed of receivables due within the next 12 months.
The decrease of the bad debt provision as of 31/12/2017 is also due to the increase in insured receivables.

The table below shows the changes in the bad debt provision during 2016 and 2017:

| €/000 | 31/12/2015 | Allocations | Uses | 31/12/2016 Restated |
|---|---|---|---|---|
| Bad debt provision | 1,472 | 860 | (1,453) | 879 |

| €/000 | 31/12/2016 Restated | Allocations | Uses | 31/12/2017 |
|---|---|---|---|---|
| Bad debt provision | 879 | 164 | (294) | 749 |

## 8. RECEIVABLES DUE FROM SUBSIDIARIES

The balance of trade receivables due from subsidiaries was broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - FD Sims LTD | 226 | 83 |
| - Isolveco SRL | 1,656 | 992 |
| - Isomet AG | 1,433 | 858 |
| - IRCE S.L | 2,303 | 2,290 |
| - DMG | 8 | 3 |
| - ISODRA GmbH | 1,161 | 1,037 |
| - IRCE LTDA | 79 | 42 |
| Stable Magnet Wire P. Ltd. | 1,458 | 1,089 |
| - Smit Draad Nijmegen BV | 6 | 139 |
| Bad debt provision on receivables from Isolveco Srl | (1,405) | (992) |
| Total | 6,925 | 5,541 |

| €/000 | 31/12/2015 | Allocations | Uses | 31/12/2016 Restated |
|---|---|---|---|---|
| Bad debt provision | 787 | 205 | - | 992 |

| €/000 | 31/12/2016 Restated | Allocations | Uses | 31/12/2017 |
|---|---|---|---|---|
| Bad debt provision | 992 | 413 | - | 1,405 |

## 9. CURRENT TAX RECEIVABLES

The item was broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Receivables for income taxes | - | 747 |
| Total | - | 747 |

## 10. RECEIVABLES DUE FROM OTHERS

The item was broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Accrued income and prepaid expenses | 123 | 128 |
| - Receivables due from INPS | 60 | - |
| - Other receivables | 804 | 1,291 |
| - VAT receivables | - | 75 |
| Total | 987 | 1,494 |

The item "other receivables" is mainly linked to a bonus to be received by the Parent Company IRCE SpA on energy consumption for the year 2016, assigned by the Authority for electricity with the authorisation from the Ministry for Economic Development; the reduction of the item as of 31 December 2017 is mainly due to the collection of bonuses for the years 2014 and 2015.

## 11. CURRENT FINANCIAL ASSETS

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Mark to Market copper and aluminium forward transactions | - | 465 |
| - Mark to Market USD forward transactions | - | 20 |
| - Mark to Market GBP forward transactions | - | 48 |
| - Guarantee deposits | 13 | 11 |
| Total | 13 | 544 |

## 12. CASH AND CASH EQUIVALENTS

This item includes bank deposits, cash and cash equivalents.

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Bank and postal deposits | 1,491 | 554 |
| - Cash and cash equivalents | 15 | 13 |
| Total | 1,506 | 567 |

Bank and postal deposits outstanding as of 31 December 2016 are not subject to constraints or restrictions.

## 13. SHAREHOLDERS' EQUITY

Share capital

The share capital is composed of 28,128,000 ordinary shares worth € 14,626,560 without par value.
The shares are fully subscribed and paid up and bear no rights, privileges or restrictions as far as dividend distribution and capital distribution, if any, are concerned.
In the year 2017, a dividend of €/000 801 (0.03 per share) was distributed.

Here below is the breakdown of reserves:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Own shares (share capital) | (734) | (734) |
| - Share premium reserve | 40,539 | 40,539 |
| - Own shares (share premium) | 258 | 258 |
| - Other reserves | 43,087 | 43,087 |
| - Legal reserve | 2,925 | 2,925 |
| - Extraordinary reserve | 32,839 | 32,577 |
| - IAS 19 reserve | (686) | (697) |
| - Undistributed profits | 6,461 | 6,461 |
| TOTAL | 124,688 | 124,416 |

Detail of origin, availability and use of equity items:

| Description | Amount | Possibility of use | Quota available | Distributable |
|---|---|---|---|---|
| **Share capital** | **14.626.560** | | | |
| **Capital's reserves** | | | | |
| Share premium reserve | 40.538.732 | A,B,C | 40.538.732 | 40.538.732 |
| Other reserves | 6.035.757 | A,B,C | 6.035.757 | 6.035.757 |
| **Total capital's reserve** | **46.574.489** | | **46.574.489** | **46.574.489** |
| **Earning's reserves** | | | | |
| Legal | 2.925.312 | B | 2.925.312 | - |
| Extraordinary | 32.838.524 | A,B,C | 32.838.524 | 32.838.524 |
| IAS | 5.775.610 | A,B | 5.775.610 | 1.597.853 |
| Own shares | - 476.176 | - | - 476.176 | - 476.176 |
| Cash flow hedge | - | A,B | - | - |
| Other reserves | 585.888 | A,B,C | 585.888 | 585.888 |
| **Total earning's reserves** | **41.649.159** | | **41.649.159** | **34.546.090** |
| **Reserves in tax suspension** | | | | |
| Other reserves | 201.160 | A,B,C | 201.160 | 201.160 |
| Revaluation | 22.327.500 | A,B,C | 22.327.500 | 22.327.500 |
| Revaluation n.266/2005 | 13.935.343 | A,B | 13.935.343 | |
| **Total reserves in tax suspension** | **36.464.003** | | **36.464.003** | **22.528.660** |
| | | | | |
| **Total reserves** | **124.687.651** | | **124.687.651** | **103.649.239** |
| **profit 2017** | **4.864.229** | | | |
| **total equity** | **144.178.440** | | | |
| | | **Total reserves available** | 124.687.651 | |
| | | | - | |
| | | **Quota not available for legal reserves** | 2.925.312 | |
| | | **Quota not available IAS** | 4.177.757 | |
| | | **Quota nor available fair value land** | 13.935.343 | |
| | | **Residual quota available** | **103.649.239** | |

Key: A: increase in capital; B: coverage of losses; C: distributable.

Own Shares

This reserve refers to the par value and share premium of own shares held by the Company; they are recognised as a deduction from shareholders' equity.

Own shares as of 31 December 2017 amounted to 1,411,774 and corresponded to 5.02% of the share capital.

The number of shares outstanding at the beginning and at the end of the last two years is shown below:

| Thousands of shares | |
|---|---|
| **Balance as of 01/01/2016** | **26,752** |
| Share buyback | (36) |
| **Balance as of 31/12/2016** | **26,716** |
| Share buyback | - |
| **Balance as of 31/12/2017** | **26,716** |

Share premium reserve

This item refers to the higher issue value compared to the par value of IRCE S.p.A. shares issued at the time of the share capital increase when the Company was first listed on the stock exchange in 1996.

Other reserves

Other reserves refer to the following:

- Merger surplus reserve (due to cancellation) which arose in the year 2001 following the merger of IRCE Cavi S.p.A. and Isolcable S.r.l. into IRCE S.p.A, amounting to €/000 6,621.
- Reserve of profits to be re-invested in Southern Italy totalling €/000 201.
- FTA reserve, which represents the offsetting item for all adjustments made to the financial statements in order to comply with IAS/IFRS as of 1 January 2004 (transition year), amounting to €/000 13,935.
- Revaluation reserve, as per Italian law 266/1995, amounting to €/000 22,328.

Extraordinary reserve

The extraordinary reserve consists mainly of retained earnings.

IAS 19 reserve

This reserve includes actuarial gains and losses accumulated as a result of the application of IAS 19 Revised. The change in the reserve was as follows:

| | |
|---|---|
| **balance 01.01.2016** | (452) |
| IAS 19 evaluation | (336) |
| Income tax | 92 |
| **balance 31.12.2016** | (697) |
| IAS 19 evaluation | 14 |
| Income tax | (3) |
| **balance 31.12.20167** | (686) |

Profit for the year

The profit for the year amounted to €/000 4,864 (€/000 1,251 as of 31 December 2016).

### 14. NON-CURRENT FINANCIAL LIABILITIES

| €/000 | Currency | Rate | Company | 31/12/2017 | 31/12/2016 Restated | Due date |
|---|---|---|---|---|---|---|
| Banco Popolare | EUR | Floating | IRCE SpA | 442 | 2,207 | 2019 |
| CARISBO | EUR | Floating | IRCE SpA | 6,000 | 8,000 | 2019 |
| Banca di Imola | EUR | Floating | IRCE SpA | 2,514 | 3,761 | 2019 |
| Total | | | | 8,956 | 13,968 | |

## 15. PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges were broken down as follows:

| €/000 | 31/12/2016 Restated | Allocations | Uses | 31/12/2017 |
|---|---|---|---|---|
| Provisions for risks and disputes | 1,753 | 358 | (365) | 1,746 |
| Provision for severance payments to agents | 252 | - | - | 252 |
| Provision for the coverage of losses of IRCE SL | 3,269 | 111 | - | 3,380 |
| Provision for the coverage of losses of Isodra GmbH | 2,382 | 44 | - | 2,426 |
| Provision for the coverage of losses of IRCE SO.ZO.O | 15 | 52 | - | 67 |
| Provision for the coverage of losses of Stable Magnet Wire | 155 | 315 | - | 470 |
| Total | 7,826 | 883 | (366) | 8,341 |

Provisions for risks and disputes refer mainly to the risk of capital losses in relation to returns of packages and to various disputes.
Provision for severance payments to agents refers to allocations made for severance payments relating to outstanding agency contracts.

## 16. PROVISIONS FOR EMPLOYEE DEFINED BENEFITS

The table below shows the changes in the Provision for employee defined benefits.

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| Employee benefits provision as of 01/01 | 4,547 | 4,379 |
| Financial charges | 43 | 68 |
| Actuarial (gains)/losses | (14) | 336 |
| Payments | (94) | (236) |
| Employee benefits' provision as of 31/12 | 4,482 | 4,547 |

The Employee benefits provision is part of the defined benefit plans.

In order to determine the relevant liability, the Company used the Projected Unit Credit (PUC) cost method, which consists in the following:

- it projected up to the estimated future payment date the employee termination indemnity (TFR) accrued by each employee and reassessed as of the date of the financial statements;
- it calculated the probability-based TFR payments that the company will have to make in the event that the employee leaves the company following dismissal, resignation, disability, death and retirement, as well as in the event of advance payment requests;
- it discounted each probability-based payment at the measurement date.

Here below are the demographic assumptions used by the actuary in measuring the employee benefits' provision:

- death: RG48 mortality tables issued by the State General Accounting Department;
- disability: INPS tables based on age and gender;
- pension: 100% on reaching the requirements of the general compulsory insurance (AGO, Assicurazione Generale Obbligatoria).

In addition, the following technical-economic assumptions were made:

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Annual discount rate | 0.88% | 0.86% |
| Annual inflation rate | 1.50% | 1.50% |
| Annual rate of increase of employee termination indemnities | 2.625% | 2.625% |

The IBOXX Eurozone Corporate AA index with a 7-10 year duration as of the measurement date was used as a benchmark for the discount rate.

The annual rate of increase of employee termination indemnities is equal to 75% of inflation, plus 1.5 percentage points.

Here below are the disclosures required by the new IAS 19.

Sensitivity analysis of IRCE S.p.A.'s main measurement parameters:

| €/000 | DBO change as of 31/12/2017 |
|---|---|
| Inflation rate + 0.25% | 4,543 |
| Inflation rate – 0.25% | 4,423 |
| Discount rate + 0.25% | 4,387 |
| Discount rate – 0.25% | 4,581 |
| Turnover rate + 1% | 4,450 |
| Turnover rate -1% | 4,517 |

Service cost: 0.00
Duration of the plan: 9.3

## 17. CURRENT FINANCIAL LIABILITIES

Financial liabilities are broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Payables due to banks | 45,018 | 22,714 |
| - Mark to Market Derivatives | 855 | - |
| Total | 45,873 | 22,714 |

The item "Mark to Market Derivatives" refers to the Mark to Market (Fair Value) measurement of copper, USD and GBP forward contracts outstanding as of 31/12/2017.

With regard to financial liabilities, the **net financial position** of the Company, excluding intra-group financial receivables, calculated in accordance with the provisions of Consob Communication 6064293 dated 28 July 2006 and CESR recommendation dated 10 February 2005, was as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| Cash | 1,506 | 567 |
| Other current financial assets* | 13 | 79* |
| **Liquid assets** | **1,519** | **646** |
| Current financial liabilities* | (45,108)* | (22,714) |
| **Net current financial debt** | **(43,589)** | **(22,068)** |
| Non-current financial liabilities | (8,956) | (13,968) |
| **Non-current financial debt** | **(8,956)** | **(13,968)** |
| **Net financial debt** | **(52,545)** | **(36,036)** |

** These items differ from the corresponding items of the statement of financial position, since the fair value measurement of copper forward contracts is not included.*

As of 31/12/2017, net financial debt increased compared to the previous year thanks to the increase in working capital.

## 18. TRADE PAYABLES

Trade payables are due in the next 12 months.
As of 31/12/2017 they totalled €/000 21,036 against €/000 20,427 as of 31/12/2016.

## 19. PAYABLES DUE TO SUBSIDIARIES

Trade payables due to subsidiaries were broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - DMG GmbH | 97 | 110 |
| - FD SIMS Ltd | 32 | 170 |
| - ISOLVECO Srl | 23 | 49 |
| - IRCE SL | 115 | 125 |
| - IRCE Ltda | 1,579 | 1,499 |
| - SMIT DRAAD | 9 | - |
| Total | 1,855 | 1,953 |

## 20. TAX PAYABLES

The item was broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Payables due for income taxes | 1,452 | - |
| Total | 1,452 | - |

The increase in payables due for income taxes is due to the higher taxable income achieved in 2017.

## 21. SOCIAL SECURITY CONTRIBUTIONS

This item, equal to €/000 1,840, primarily refers to the contributions payable to INPS.

## 22. OTHER CURRENT LIABILITIES

Other payables were broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| - Payables due to employees | 2,387 | 2,376 |
| - Deposits received from customers | 1,743 | 1,515 |
| - Accrued liabilities and deferred income | 30 | 34 |
| - Other payables | 140 | 125 |
| - VAT payables | 784 | 189 |
| - IRPEF (personal income tax) payables | 453 | 357 |
| Total | 5,537 | 4,596 |

## COMMENT ON THE MAIN ITEMS OF THE SEPARATE INCOME STATEMENT

### 23. SALES REVENUES

These refer to revenues from the sale of goods, net of returns, rebates and the return of packages. In 2011 turnover, equal to €/000 233,802, reported an increase of 21 % compared to the previous year (€/000 193,867).
For additional details, refer to the previous paragraph on segment reporting.

### 24. OTHER INCOME

Other income was broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Capital gains on disposals of assets | 60 | 26 | 34 |
| - Increases in internally generated fixed assets | 189 | 162 | 27 |
| - Insurance reimbursements | 27 | 30 | (3) |
| - Contingent assets | 71 | 247 | (176) |
| - Other revenues | 229 | 168 | 61 |
| Total | 576 | 633 | (57) |

### 25. COSTS FOR RAW MATERIALS AND CONSUMABLES

This item, equal to €/000 183,560, includes costs incurred for the acquisition of raw materials, of which the most significant are those represented by copper, insulating materials and materials for packaging and maintenance, net of the change in inventories (€/000 2,942).
The significant increase in the period is due to the increase in the price of copper (2016 average of €/kg 4.40 and 2017 average of €/kg 5.45).

### 26. COSTS FOR SERVICES

These include costs incurred for the supply of services pertaining to copper processing as well as utilities, transportation, other commercial and administrative services, and the costs for the use of third-party goods, as detailed below:

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - External processing | 5,397 | 5,311 | 86 |
| - Utility expenses | 10,513 | 10,527 | (14) |
| - Maintenance | 572 | 604 | (32) |
| - Transportation expenses | 3,014 | 2,886 | 128 |
| - Payable fees | 1,092 | 1,214 | (122) |
| - Compensation of Statutory Auditors | 74 | 86 | (12) |
| - Rental costs | 20 | 32 | (12) |
| - Other services | 3,643 | 3,262 | 381 |
| Total | 24,325 | 23,922 | 403 |

The item "other services" includes primarily technical, legal and tax consulting fees as well as insurance and business expenses.

The increase in costs for other services is mainly due to higher expenses for business consulting for the implementation of new projects and for compliance with legal obligations.

## 27. PERSONNEL COSTS

Here below is the breakdown of personnel costs:

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Salaries and wages | 11,059 | 10,810 | 249 |
| - Social security charges | 3,547 | 3,480 | 67 |
| - Retirement costs for defined contribution plans | 811 | 804 | 7 |
| - Other costs | 1,557 | 1,533 | 24 |
| Total | 16,974 | 16,627 | 347 |

The item "Other costs" includes costs for temporary work, contract work, and the remuneration of Directors.

The Company's average number of personnel for the year and the current number at year-end is shown below:

| Personnel | 2017 Average | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|---|
| - Executives | 11 | 12 | 10 |
| - White collars | 99 | 97 | 100 |
| - Blue collars | 300 | 292 | 299 |
| Total | 410 | 401 | 409 |

The average number of employees is calculated according to the Full-Time-Equivalent method and includes both internal and external (temporary and contract) staff.

Personnel is classified according to the type of employment contract.

## 28. AMORTISATION/DEPRECIATION

Here is the breakdown of amortisation/depreciation:

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Amortisation of intangible assets | 60 | 83 | (23) |
| - Depreciation of tangible assets | 2,572 | 2,381 | 191 |
| Total amortisation/depreciation | 2,632 | 2,464 | 168 |

## 29. PROVISIONS AND WRITE-DOWNS

Provisions and write-downs are broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Write-downs of receivables | 164 | 860 | (696) |
| - Write-downs of receivables due from subsidiaries | 413 | 206 | 207 |
| - Provisions for risks | 358 | 317 | 41 |
| Total provisions and write-downs | 935 | 1,383 | (448) |

The item "Provisions for risks" mainly refers to a provision used to hedge the risk of capital losses related to returns of packages.

## 30. OTHER OPERATING COSTS

Other operating costs are broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Non-income taxes and duties | 296 | 314 | (18) |
| - Capital losses and contingent liabilities | 106 | 26 | 80 |
| - Other | 39 | 35 | 4 |
| Total | 441 | 375 | 66 |

## 31. WRITE-DOWN OF EQUITY INVESTMENTS

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - IRCE SL | 112 | 185 | (73) |
| - Isodra GmbH | 43 | 180 | (137) |
| - IRCE Kablo Ve Tel Ltd | 79 | 72 | 7 |
| Stable Magnet Wire P. Ltd. | 315 | 168 | 147 |
| - IRCE SP.ZO.O | 54 | 63 | (9) |
| Total | 603 | 668 | (65) |

## 32. FINANCIAL INCOME AND CHARGES

Financial income and charges are broken down as follows:

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Other financial income | 125 | 1,816 | (1,691) |
| - Income from subsidiaries | 85 | 106 | (21) |
| - Interest and other financial charges | (2,130) | (315) | (1,815) |
| - Foreign exchange gains/(losses) | (278) | (609) | 331 |
| Total | (2,198) | 998 | (3,196) |

Here below is the breakdown of "Other financial income":

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Interest income from banks | - | 1 | (1) |
| - Interest income on receivables due from customers | 5 | 22 | (17) |
| - Sundry interest income | 120 | 113 | 7 |
| - Income from LME derivatives | - | 1,680 | (1,680) |
| Total | 125 | 1,816 | (1,691) |

Here below is the breakdown of "Interest and other financial charges":

| €/000 | 31/12/2017 | 31/12/2016 Restated | change |
|---|---|---|---|
| - Interest expense for short-term payables | 13 | 16 | (3) |
| - Interest expense for medium to long-term payables | 90 | 134 | (44) |
| - Sundry interest expense | 45 | 121 | (76) |
| - Bank fees and expenses | 67 | 44 | 23 |
| - Charges on derivatives | 1,915 | - | 1,915 |
| Total | 2,130 | 315 | 1,815 |

The item "Sundry interest expense" includes the interest cost deriving from the discounting of the Employee Termination Indemnity pursuant to IAS 19.

## 33. INCOME TAXES

| €/000 | 31/12/2017 | 31/12/2016 Restated | changes |
|---|---|---|---|
| - Current taxes | (2,212) | (597) | (1,616) |
| - Deferred tax assets/(liabilities) | (171) | (38) | (133) |
| Total | (2,383) | (635) | (1,748) |

The numerical reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate is shown below:

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| Result before tax | 7,246 | 1,886 |
| Taxes calculated with applicable IRES rate (24%) | 1,739 | 575 |
| **Tax impact of non-deductible IRES costs** | | |
| *Permanent changes* | 164 | 208 |
| *Temporary changes* | (27) | 109 |
| *ACE deduction* | (92) | (305) |
| IRAP rate (effective) | 555 | 184 |
| Taxes related to previous years | (127) | (174) |
| Total | 2,212 | 597 |

## 34. RELATED PARTY DISCLOSURES

The Company engages in commercial and financial transactions with Group companies, as reported below:

| Società €/000 | Ricavi | Proventi Finanziari | Costi per acquisti | Costi per servizi | Crediti finanziari | Crediti commerciali | Debiti commerciali |
|---|---|---|---|---|---|---|---|
| FD Sims Ltd | 2.105 | 27 | 3.346 | 7 | 7.113 | 226 | 32 |
| Smit Draad Nijmegen BV | 12 | | 47 | - | 3.710 | 6 | 10 |
| Isomet AG | 4.800 | 2 | - | 7 | - | 1.433 | - |
| IRCE Ltda | 487 | 8 | 1.579 | - | 15 | 79 | 1579 |
| Isolveco Srl | 2.571 | | - | 125 | - | 1.656 | 23 |
| DMG Gmbh | 25 | 7 | 2 | 456 | 1.707 | 8 | 97 |
| IRCE SL | 3 | 16 | - | 268 | 1.582 | 2.303 | 115 |
| Stable Magnet Wire P.Ltd | 802 | | - | - | - | 1.459 | - |
| ISODRA Gmbh | 292 | 12 | 1 | - | 1.927 | 1.161 | - |
| Irce Sp. Zo.o | - | | | | 68 | | |
| | 11.098 | 72 | 4.975 | 863 | 16.121 | 8.330 | 1.855 |

In compliance with the requirements of IAS 24, the annual compensation received by the members of the Board of Directors is shown below:

| €/000 | Compensation for the office held | Compensation for other tasks | Total |
|---|---|---|---|
| Directors | 215 | 304 | 519 |

This table shows the compensation paid for any reason and in any form, excluding social security contributions.
Following the introduction of Article 123-ter of the Consolidated Financial Act, further details on these amounts are provided in the Remuneration Report, which will be made available within the terms of the law at the registered office of the Company, as well as on the website www.irce.it.

## 35. MANAGEMENT OF TRADE RECEIVABLES

Here below is the breakdown of receivables by internal rating.
The reclassification of receivables takes into account any positions subject to renegotiation.

| Risk level | 2017 Exposure, €/000 | 2016 Restated Exposure, €/000 |
|---|---|---|
| Low | 13,076 | 7,849 |
| Medium | 32,551 | 30,536 |
| Above-average | 14,000 | 7,958 |
| High | 1,552 | 2,219 |
| Total | 61,179 | 48,562 |

| Due date | 2017 Amount, €/000 | 2016 Restated Amount, €/000 |
|---|---|---|
| Not yet due | 57,508 | 45,859 |
| < 30 days | 1,161 | 486 |
| 31-60 | 977 | 217 |
| 61-90 | - | 11 |
| 91-120 | - | 30 |
| > 120 | 1,533 | 1,959 |
| Total | 61,179 | 48,562 |

The Fair Value of trade receivables corresponds to their nominal exposure.
The bad debt provision, equal to €/000 749, refers to the range between 91-120 and > 120 days and to the above-average and high risk level.

Please note that there are no customers generating revenue for the Group exceeding 10% of total revenue.

## 36. CAPITAL RISK MANAGEMENT

The primary objective in managing the Group's capital is to maintain a solid credit rating and adequate capital ratios in order to support operations and maximise shareholder value.

| €/000 | 31/12/2017 | 31/12/2016 Restated |
|---|---|---|
| Net financial indebtedness (A) | 52,545 | 36,036 |
| Shareholders' equity (B) | 144,178 | 140,105 |
| Total capital (A) + (B) = (C) | 196,723 | 176,141 |
| Gearing ratio (A) / (C) | 26.7% | 20.4% |

## 37. FINANCIAL INSTRUMENTS

Here below is a comparison between the carrying amount and fair value of all the Group's financial instruments broken down by category:

| €/000 | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2017 | 2016 Restated | 2017 | 2016 Restated |
| Financial assets | | | | |
| Cash and cash equivalents | 1,506 | 567 | 1,506 | 567 |
| Other financial assets | 13 | 544 | 13 | 544 |
| Financial liabilities | | | | |
| Current loans | 45,873 | 22,714 | 45,873 | 22,714 |
| Non-current loans | 8,956 | 13,968 | 8,956 | 13,968 |

## 38. DISCLOSURE PURSUANT TO ARTICLE 149-DUODECIES OF CONSOB ISSUERS' REGULATIONS

The following statement, drafted in accordance with Article 149-duodecies of the Consob Issuers' Regulations, shows the compensation for 2017 for auditing services and for other services supplied by the independent auditor or by entities belonging to its network to IRCE S.p.A.

| €/000 | Entity supplying the service | Compensation for the year 2017 |
|---|---|---|
| Annual statutory audit | PricewaterhouseCoopers SpA | 137 |

## 39. EVENTS FOLLOWING THE REPORTING PERIOD

No significant events occurred between 01 January 2018 and the date of preparation of these financial statements.

Imola, 14 March 2018

On behalf of the Board of Directors

The Chairman

Mr Filippo Casadio

## Attachment 1

**Certification of the annual separate financial statements of IRCE S.p.A. pursuant to Article 154-bis, paragraph 5, of Italian Legislative Decree No. 58 of 24 February 1998**:

We, the undersigned, Mr Filippo Casadio, Chairman, and Ms Elena Casadio, Manager responsible for preparing the corporate accounting documents of IRCE S.p.A., hereby certify, taking into account the provisions of Article 154-bis, paragraph 5, of Italian Legislative Decree No. 58 of 24 February 1998:

- the adequacy in relation to the company's characteristics, and
- the effective application

of the administrative and accounting procedures used to prepare the separate financial statements.

In addition, we hereby certify that the annual separate financial statements:

d) are consistent with accounting books and records;
e) are prepared in compliance with international accounting standards and give a true and fair view of the financial position, financial performance and cash flows of the Company;
f) that the Report on Operations contains a reliable analysis of the information pursuant to paragraph 4, Article 154-ter of Italian Legislative Decree No. 58 of 24 February 1998.

Imola, 14 March 2018

Filippo Casadio
Chairman

Elena Casadio
Manager responsible for preparing the corporate accounting documents

## Attachment 2

## List of equity investments in direct subsidiaries

The amounts referring to foreign investees have been translated into Euro using historical exchange rates. Solely for reporting purposes, in the following table, the provision for write-down of equity investments – included in the provision for the coverage of the subsidiaries' losses – was recognised as a deduction from the carrying amount of the equity investments for which it was set aside.

| 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Company** | **Share capital** | **Shareholders' equity** | **Quota of Shareholders' equity** | **Result for the year** | **Quota of result for the year** | **Book value** | **Future charges** | **Difference** |
| FD SIMS ltd | 18,173,127 | 8,037,912 | 8,037,912 | 1,173,625 | 1,173,625 | 8,065,313 | | (27,400) |
| Smit Draad Nijmegen BV | 1,165,761 | 11,100,684 | 11,100,684 | (1,902,473) | (1,902,473) | 7,273,000 | | 3,827,684 |
| Isomet AG | 674,354 | 3,422,418 | 3,422,418 | (741,117) | (741,117) | 1,434,650 | | 1,987,767 |
| IRCE Ltda | 58,809,209 | 39,656,361 | 39,656,361 | 2,665,071 | 2,665,071 | 58,465,925 | | (18,809,564) |
| Isolveco SRL | 46,440 | (1,400,337) | (1,050,253) | (309,079) | (231,809) | 0 | | (1,050,253) |
| DMG Gmbh | 255,646 | 1,626,446 | 1,626,446 | (25,491) | (25,491) | 119,526 | | 1,506,920 |
| IRCE SL | 150,000 | (3,380,170) | (3,380,170) | (84,355) | (84,355) | 0 | (3,380,170) | 0 |
| Stable Magnet Wire P.Ltd | 2,601,531 | (470,174) | (470,174) | (338,357) | (338,357) | 0 | (470,174) | (0) |
| Isodra Gmbh | 25,000 | (2,425,779) | (2,425,779) | (43,428) | (43,428) | 0 | (2,425,779) | 0 |
| Irce SP.ZO.O | 48,156 | (67,977) | (67,977) | (50,829) | (50,829) | 0 | (67,977) | (0) |
| Total | | | | | | 75,358,414 | | |

# *Independent auditor's report*

*in accordance with article 14 of Legislative Decree no. 39 of January 27, 2010 and article 10 of Regulation (EU) no. 537/2014*

To the Shareholders of IRCE SpA

## *Report on the audit of the consolidated financial statements*

### *Opinion*

We have audited the consolidated financial statements of IRCE SpA (hereinafter also the "Company") and its subsidiaries (the "IRCE Group"), which comprise the consolidated statement of financial position as of December 31, 2017, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the IRCE Group as of December 31, 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005.

### *Basis for opinion*

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

### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| *Key audit matters* | *Auditing procedures performed in response to key audit matters* |
|---|---|
| ***Inventories: evaluation of the "copper component"***<br><br>*(See note no. 6 to the consolidated financial statements)* | |
| The main raw material used by the IRCE Group in the production process is copper, which accounts for a high percentage of the inventory amount as of December 31, 2017 (equal to some Euro 82.4 million) and of the Group's total assets (equal to some Euro 239.7 million). The "copper component", whose value is included within raw materials, products in course of manufacturing and finished products but distinct from the "manufacturing component", is recognised within inventories at the lower of cost and the presumed realisable value.<br><br>The selling price of finished products, which is usually defined when the related order is placed by customers, is determined, with reference to the "copper component" based on the price of the LME ("London Metal Exchange", i.e. the major market for non-ferrous metals) and with reference to the "manufacturing component" on the basis of business arrangements with customers.<br><br>The price of copper is subject to daily fluctuations, even significant; therefore, a prolonged downward trend in the copper prices after the closing date of the financial statements entails the risk that copper held within inventories is then sold at a lower price than its carrying amount and that its value is to be written down when preparing the financial statements.<br><br>Considering that inventory is turned over 4 times a year on average, when preparing the consolidated financial statements ending December 31, the IRCE Group' management verifies, on the basis of the copper prices in the first month of the year and the trend in the subsequent months, if the conditions exist to write down the copper component, taking into account the commitments and sales orders | We obtained an understanding of and evaluated the procedure used by the IRCE Group to evaluate the "copper component" within inventories and to determine its presumed realisable value.<br><br>We verified, on a sample basis, the accuracy of the calculation of the weighted average cost used to measure the "copper component" included within raw materials, products in course of manufacturing and finished products in stock as of December 31, 2017.<br><br>In order to verify the presumed realisable value of the copper component, we carried out the following procedures:<br><br>• we reviewed the reasonableness of the calculation prepared by the IRCE Group's management to determine the copper unit price to be considered as the presumed realisable value;<br><br>• we re-calculated the average prices on the LME in the months of January and February 2018 and we analysed the price trend in March 2018;<br><br>• we obtained evidence of the difference between the average unit price of copper in stock and its presumed realisable value and we verified the related accuracy;<br><br>• we also obtained a detail of commitments and sales orders placed at the year-end and we verified the existence of any losses on transactions;<br><br>• finally, we obtained a detail of the sales turnover in January and February 2018 and, in relation to a sample of invoices, |

| | |
|---|---|
| already placed at the end of the financial year.<br><br>As part of our auditing of the consolidated financial statements as of December 31, 2017, we focused our attention on the "copper component" included within inventories, considering its significance and the need to make complex estimates in respect of the performance of the metal prices, in order to verify the presumed realisable value of copper. | we analysed whether there were any sales below cost and checked the consistency with the IRCE Group's evaluations in respect of the "copper component" as of December 31, 2017. |

### *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management of IRCE SpA is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so.

Those charged with governance *("Collegio Sindacale")* are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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

Our objectives are to obtain 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 auditors' 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 International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

- we identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained 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 omissions, misrepresentations, or the override of internal control;

- we obtained 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;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. 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 modify our opinion. 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 IRCE Group to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

## *Additional disclosures required by article 10 of Regulation (EU) no. 537/2014*

On April 29, 2011, the shareholders of IRCE SpA in general meeting engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending December 31, 2011 to December 31, 2019.

We declare that, in relation to the year 2017, we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) no. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

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

### *Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree no. 39/2010 and article 123-bis, paragraph 4, of Legislative Decree no. 58/1998*

Management of IRCE SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the IRCE Group as of December 31, 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree no. 58/1998, with the consolidated financial statements of the IRCE Group as of December 31, 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of IRCE Group as of December 31, 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree no. 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

### *Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree no. 254 of December 30, 2016*

Management of IRCE SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree no. 254 of December 30, 2016.
We have verified that management approved the non-financial statement.
Pursuant to article 3, paragraph 10, of Legislative Decree no. 254 of December 30, 2016, the non-financial statement is the subject of a separate statement of compliance issued by another auditor.

Bologna, March 30, 2018

PricewaterhouseCoopers SpA

*signed by*

Gianni Bendandi
(Partner)

*"This report has been translated into the English language from the original, which was issued in Italian language, solely for the convenience of international readers. Reference in this report to the consolidated financial statements refer to the consolidated financial statements in original Italian and not to any their translation."*

## *Independent auditor's report*

*in accordance with article 14 of Legislative Decree no. 39 of January 27, 2010 and article 10 of Regulation (EU) no. 537/2014*

To the Shareholders of IRCE SpA

## *Report on the audit of the separate financial statements*

### *Opinion*

We have audited the separate financial statements of IRCE SpA (hereinafter also the "Company"), which comprise the statement of financial position as of December 31, 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of IRCE SpA as of December 31, 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005.

### *Basis for opinion*

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

### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| *Key audit matters* | *Auditing procedures performed in response to key audit matters* |
|---|---|

***Inventories: evaluation of the "copper component"***

*(See Note no. 6 to the separate financial statements)*

The main raw material used by IRCE SpA in the production process is copper, which represents a high percentage of the inventory amount as of December 31, 2017 (equal to some Euro 58.5 million) and of the Company's assets (equal to some Euro 243.6 million). The "copper component", whose value is included within raw materials, products in course of manufacturing and finished products but distinct from the "manufacturing component", is recognised within inventories at the lower of cost and the presumed realisable value.

The selling price of finished products, which is usually defined when the related orders are placed by customers, is determined, with reference to the "copper component", based on the price in the LME ("*London Metal Exchange*", i.e. the major market for non-ferrous metals) and, with reference to the "manufacturing component", on the basis of business arrangements with customers.

The price of copper is subject to daily fluctuations, even significant; therefore, a prolonged downward trend in the copper prices after the closing date of the financial statements entails the risk that copper held within inventories is then sold at a lower price than its carrying amount and that its value is to be written down when preparing the financial statements.

Considering that inventory is turned over 4 times a year on average, when preparing the financial statements ending December 31, the IRCE SpA' management verifies, on the basis of the copper prices in the first month of the year and the trend in the subsequent months, if the conditions exist to write down the "copper component", taking into account the commitments and sales orders already placed at the end of the financial year.

We obtained an understanding of and evaluated the procedure used by the Company to evaluate the "copper component" within inventories and to determine its presumed realisable value.

We verified, on a sample basis, the accuracy of the calculation of the weighted average cost used to measure the "copper component" included within raw materials, products in course of manufacturing and finished products in stock as of December 31, 2017.

In order to verify the presumed realisable value of the "copper component", we carried out the following procedures:

- we reviewed the reasonableness of the calculation prepared by the Company's management to determine the copper unit price to be considered as the presumed realisable value;
- we re-calculated the average prices on the LME in the months of January and February 2018 and we analysed the price trend in March 2018;
- we obtained evidence of the difference between the average unit price of copper in stock and its presumed realisable value and we verified the related accuracy;
- we also obtained a detail of commitments and sales orders placed at the year-end and we verified the existence of any losses on transactions;
- finally, we obtained a detail of the sales turnover in January and February 2018 and, in relation to a sample of invoices,

As part of our auditing of the separate financial statements as of December 31, 2017, we focused our attention on the "copper component" included within inventories, considering its significance and the need to make complex estimates in respect of the performance of the metal prices, in order to verify the presumed realisable value of copper.

we analysed whether there were any sales below cost and checked the consistency with the Company's evaluations in respect of the "copper component" as of December 31, 2017.

***Evaluation of the equity investment in the Brazilian subsidiary IRCE Ltda***

*(See Note no. 3 to the financial statements)*

The investment in IRCE Ltda, the Brazilian company fully owned by the parent company IRCE SpA, is recognised in the separate financial statements at its carrying amount of some Euro 58.5 million, a cost which can be adjusted in the event of any impairment loss.

At each reporting date, if there is any impairment indication, the management of IRCE SpA tests for impairment the equity investment in order to verify that the recoverable amount is higher than the carrying value of the investment, using the "Discounted Cash Flow" method.

We focused our attention on the equity investment in IRCE Ltda, since it represents 78 per cent of the item "equity investments" and 24 per cent of total assets in the separate financial statements; furthermore, the carrying value of the investment as of December 31, 2017 is higher than the equity interest contributed into the consolidated financial statements of IRCE Group by the subsidiary, equal to some Euro 18.8 million, mainly because of the devaluation of the Brazilian currency versus the Euro over the recent years.
Finally, we note that the impairment test is a complex exercise, considering that estimating the expected cash flows and determining the discount rate require a high degree of professional judgement and that the sensitivity analysis carried out by management within certain scenarios could lead to the necessity to partially write down the investment.

We obtained the impairment test performed by IRCE SpA's management on the equity investment in IRCE Ltda and the related supporting documentation.

We reviewed the reasonableness of the FY2018-2022 business plan prepared by IRCE Ltda's management and the main underlying assumptions, focusing our attention on the reasonability of the growth trend of revenue and margins.

We also verified the reliability of the forecasts made by management, analysing the achievement of the FY2017 budget and verifying that final results for the first two months of FY2018 were in line with the growth expectations set out in the FY2018 budget plan.

Finally, with the involvement of PwC network experts in valuations, we verified the consistency of the impairment model adopted by the Company with the standard valuation practice, also by re-performing the impairment test on an independent basis, and we reviewed the reasonableness of the key assumptions used by management and the accuracy of the calculations prepared.
Our controls also covered the notes to the financial statements in order to verify the adequacy and completeness of the disclosures therein.

### *Responsibilities of management and those charged with governance for the financial statements*

Management of IRCE SpA is responsible for the preparation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance *("Collegio Sindacale")* are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

### *Auditor's responsibilities for the audit of the separate financial statements*

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

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

- we identified and assessed the risks of material misstatement of the separate financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained 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 omissions, misrepresentations, or the override of internal control;
- we obtained 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 Company's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- we evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

We provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

### *Additional disclosures required by article 10 of Regulation (EU) no. 537/2014*

On April 29, 2011, the Shareholders of IRCE SpA in their general meeting engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending December 31, 2011 to December 31, 2019.

We declare that, in relation to the year 2017, we did not provide any prohibited non-audit services referred to in article 5, paragraph 1 of Regulation (EU) no. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to those charged with governance *("Collegio Sindacale"),* in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

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

### *Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree no. 39/2010 and article 123-bis, paragraph 4, of Legislative Decree no. 58/1998*

Management of IRCE SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of IRCE SpA as of December 31, 2017, including their consistency with the relevant separate financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) no. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree no. 58/1998, with the separate financial statements of IRCE SpA as of December 31, 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the separate financial statements of IRCE SpA as of December 31, 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree no. 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Bologna, March 30, 2018

PricewaterhouseCoopers SpA

*signed by*

Gianni Bendandi
(Partner)

*"This report has been translated into the English language from the original, which was issued in Italian language, solely for the convenience of international readers. Reference in this report to the financial statements refer to the financial statements in original Italian and not to any their translation."*

**IRCE S.p.A.**

Independent Auditors' Report on the
consolidated non-financial statement
pursuant to article 3, paragraph 10 of
Legislative Decree no. 254
of December 30, 2016 and of art. 5 of
CONSOB Regulation n. 20267

AGL/FMG/bmc RC078042017BD1222

Tel: +39 051 27.15.54
Fax: +39 051 46.86.021
www.bdo.it

Corte Isolani, 1
40125 Bologna



# Independent Auditors' Report

on the consolidated non-financial statement pursuant to article 3, paragraph 10 of Legislative Decree no. 254 of December 30, 2016 and of art. 5 of CONSOB Regulation n. 20267

To the Board of Directors of
IRCE S.p.A.

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 ("Decree") and to article 5 of the CONSOB Regulation n. 20267, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of IRCE S.p.A. and subsidiaries (the "Group") as of December 31, 2017 prepared on the basis of art. 4 of the Decree, and approved by the Board of Directors on March 14, 2018 (hereinafter the "NFS").

## Directors' and Board of Statutory Auditors' responsibility on the Consolidated Non-Financial Statement

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and "Global Reporting Initiative Sustainability Reporting Standards" established by GRI – Global Reporting Initiative ("GRI Standards"), with reference to the selection of GRI Standards.
The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, Its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for identifying and managing the risks generated or undertaken by the Group.
The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, compliance with the provisions set out in the Decree.

## Auditors' Independence and quality check

Our independence is based on the principles of ethics and independence expressed within the Code of Ethics for Professional Accountants (the "Code"), which has been released by the International Ethics Standards Board for Accountants. The Code is based on the principles of integrity, objectivity competency, confidentiality and professional behaviour. Our auditing firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and it maintains a system of quality control that includes directives and procedures concerning the compliance to ethics and professional principles and regulations of the applicable laws.

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Pescara, Potenza, Roma, Torino, Treviso, Trieste, Verona, Vicenza

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Codice Fiscale, Partita IVA e Registro Imprese di Milano n. 07722780967 - R.E.A. Milano 1977842
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**Auditors' responsibility**

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards. We conducted our work in accordance with the criteria established in the *International Standard on Assurance Engagements 3000 (Revised) ~ Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ISAE 3000 Revised")*, issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The standard requires the compliance with ethical principles, including independence requirements, and that we plan and perform the engagement to obtain limited assurance whether the report is free from material misstatement. The procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with *ISAE 3000 Revised*, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. Analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the process in place for the selection process in the light of the provisions of art. 3 of the Decree and taking into account the adopted reporting standard.
2. Analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance to the Decree.
3. If applicable: comparison of data and financial economic information included in the NFS with data and information included in the consolidated financial statements.
4. Understanding of the following matters:
   - Business management model of the Group's activity, with reference to the management of the topics specified by article 3 of the Decree;
   - Policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
   - Main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

   With reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 5, letter a) of this report.
5. Understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

   In particular, we carried out interviews and discussions with the management of IRCE S.p.A. and with the employees of IRCE S.p.A. We therefore carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

   In addition, for material information, taking into consideration the Group's activities and characteristics:

   - at parent company's level and subsidiaries:
     a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence.
     b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in to ensure, on a sample basis, the correct aggregation of data.

- for the following subsidiaries, divisions and sites (IRCE S.p.A., Draad Nijmegen BV, FD Sims Ltd, IRCE Ltda, ISODRA GmbH and Stable Magnet Wire PVT Ltd), which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

## Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the IRCE Group as of December 31, 2017 is not prepared, in all material respects, in accordance with article 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" established by GRI – Global Reporting Initiative ("GRI Standards").

## Other matters

The comparative information included in the non financial statement for the year ended December 31, 2016, was not examined by auditors.

Bologna, March 28, 2018

Signed by
BDO Italia S.p.A.

Alessandro Gallo
Partner

*This report has been translated into English language*
*Solely for the convenience of international readers.*

<u>**Irce S.p.A.**</u>

Registered office Imola (Bologna) Via Lasie No. 12/B

Share capital € 14,626,560.00 fully paid up

Bologna Companies’ Register and Tax Code No. 82001030384

Economic and Administrative Index (REA) No. 266734

# Report of the Board of Statutory Auditors to the Shareholders’ Meeting of IRCE S.p.A., pursuant to art. 153 of Italian Legislative Decree 58/98 and art. 2429, paragraph 3, of the Italian Civil Code

Dear Shareholders,

The separate financial statements for the financial year ended 31 December 2017, which are submitted for the approval of the Shareholders’ Meeting of this company, show a profit of € 4,864,229.

First, please note that the current Board of Statutory Auditors was appointed by the Shareholders' Meeting on 28 April 2017.

The financial statements, which the Board of Directors submitted to the Board of Statutory Auditors within the time limits prescribed by law, have been prepared in accordance with IAS/IFRS (International Accounting Standards/International Financial Reporting Standards) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

The Company's Financial Statements include the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement, and the Notes to the Financial Statements. The financial statements are supplemented with the Directors’ Report on Operations, which outlines the main risks and uncertainties and the outlook of the company.

Pursuant to article 123-bis of the Consolidated Financial Act and to the Rules of the Markets organised and managed by Borsa Italiana S.p.A., the Company has prepared the annual Report on Corporate Governance and Shareholding Structure.

During the financial year ended 31 December 2017, the Board of Statutory Auditors has carried out its supervisory activities in compliance with art. 149 of Italian Legislative Decree 58/98, in accordance with the code of ethics of the Board of Statutory Auditors in companies with shares listed in regulated markets drafted by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (Italian Board of Chartered Accountants and Accounting Consultants), as well as CONSOB recommendations concerning accounting audits and activities of the Board of Statutory Auditors.

In preparing this report, we have taken into consideration CONSOB communications No. 1025564 of 6 April 2001, No. 321582 of 4 April 2003, and No. 6031329 of 7 April 2006 and the guidelines indicated in the Corporate Governance Code, which concern the content of the reports of the Board of Statutory Auditors to the shareholders' meetings of listed companies.

In particular, the Board has:

- supervised compliance with the Law and the Articles of Association as well as the principles of correct management. On the basis of the information obtained through its own supervisory activities, the Board of Statutory Auditors believes the company's operations conform to the principles of correct management, have been resolved upon and implemented in compliance with the law and the articles of association, and are in the interest of the company. Moreover, said operations do not appear to be manifestly imprudent, reckless or uninformed. They do not conflict with the resolutions passed by the shareholders' meeting, nor do they appear to compromise the integrity of the company's assets;

- attended meetings of shareholders and the Board of Directors and has obtained from the board members information on the operations and the transactions carried out by the company and its subsidiaries that were most significant to the financial performance, financial position and cash flows;
- supervised to ensure the adequacy of the administrative-accounting system, both on the basis of direct checks and through the periodic exchange of information with the Independent Auditors, from which the Board of Statutory Auditors has not received any reports of errors as defined in art. 155, paragraph 2 of Italian Legislative Decree 58/1998. The Board of Statutory Auditors believes that the administrative-accounting system is essentially adequate for ensuring that the company's operations are presented fairly in the individual and consolidated financial statements;
- obtained information from the Manager responsible for preparing the corporate accounting documents in accordance with the provisions of art. 154-bis of Italian Legislative Decree 58/1998. Said Manager has not reported any particular or significant deficiencies in the operating and control processes such as to question the adequacy and actual application of administrative-accounting procedures for the purpose of presenting fairly the company's financial performance, financial position and cash flows in compliance with international accounting standards;
- liaised with members of the Control and Risks Committee established within the Board of Directors, receiving information from the professional entrusted with the internal audit function. As outlined in the Report on Company Governance and the Shareholding Structure, in compliance with the provisions of the Corporate Governance Code, the Board of Directors assumed responsibility for the Company's internal control. The Chairman of the Board of Statutory Auditors attended the

meetings of the Control and Risks Committee;

- gathered information about the activities carried out by the person entrusted with the internal audit function during 2017, specifically concerning the control of payroll management, investments, derivatives, closing of accounts and consolidation.
- took note of the suggestions provided by the Control and Risks Committee to the Board of Directors to improve the efficiency of the internal control system, considering this a priority. In this regard, the company appointed to audit the accounts, in its periodic exchange of information with the Board of Statutory Auditors, has not reported any critical situations with reference to the internal control system, although it stressed the need for improvements;
- supervised – since the Board of Statutory Auditors is not required to carry out an analytical control of the substance of the financial statements' contents – the overall presentation of the financial statements drafted in accordance with IAS/IFRS, as well as compliance with the law concerning their preparation and presentation, and has no remarks to make;
- obtained, during the year, information on the operations of the Supervisory Body as per the organisational, management and control model (Italian Legislative Decree 231/01), as reported also in the Supervisory Body's annual report, issued on 2 March 2018;
- verified that the report on operations for 2017 complies with applicable laws and regulations, consistently with the resolutions passed by the Board of Directors and the representations in the financial statements. The Board of Statutory Auditors had no remarks to make on the consolidated half-yearly report. The half-yearly and quarterly reports have been published according to applicable laws and regulations.
- supervised the new obligations concerning non-financial information pursuant to Italian Legislative Decree no. 254/2016, verifying, in

particular, the proper fulfilment of the requirements in connection with the drawing up and publication of the consolidated non-financial statement by the Parent Company;

- supervised the actual functioning and the effective implementation by the Board of Directors of the procedure for the management and approval of related-party transactions adopted by resolution of 30/11/2010, pursuant to art. 2391-bis of the Italian Civil Code and art. 4 of the Regulation on related-party transactions adopted by CONSOB with resolution No. 17221 of 12 March 2010.

It should be noted that at the meeting of 14 March 2018 the Board of Directors, as recommended in a document dated 3 March 2010 issued jointly by the Bank of Italy/CONSOB/ISVAP, has certified, independently and prior to approving the draft financial statements, the compliance of impairment testing with IAS 36.

Specifically, the Company tested for impairment the amounts reported by the investees FD Sims LTD, Irce Ltda and Smit Draad Nijmegen BV.

The Explanatory Notes to the Financial Statements include information on, and the results of, our assessment.

During our supervisory activity, as described above, we found no significant issues to be mentioned in this report.

Auditing was performed by the Independent Auditors PricewaterhouseCoopers S.p.A., with which the Board held periodic meetings to exchange information about the operations of the Company and its subsidiaries, also for the purposes of preparing this report by gathering information on the audit report as per articles 14 and 16 of Italian Legislative Decree 39/2010.

The Board of Statutory Auditors examined the PricewaterhouseCoopers S.p.A. Independent Auditors' reports dated 30 March 2017, issued pursuant to article 14 of Italian Legislative Decree 39/2010 and article 10 of Regulation (EU) No. 537/2014, acknowledging that, in the opinion of the independent auditors, the separate financial statements of the company and the consolidated financial statements of the group as of 31 December 2017 comply with the International Financial Reporting Standards as endorsed by the European Union and, therefore, are clear and give a true and fair view of the financial position, financial performance and cash flows for the financial year ended on said date, outlining in the same reports the key aspects of the audit that it regards as the most significant within the work carried out.

It is also the opinion of the Independent Auditors that the Report on Operations and the information as per paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of art. 123-bis of Italian Legislative Decree 58/1998 contained in the Report on Corporate Governance are consistent with the financial statements.

While auditing the separate and consolidated financial statements of Irce S.p.A., the Independent Auditors did not find any actions or events to be reported to the Board of Statutory Auditors.

The Board of Statutory Auditors examined the report by the Independent Auditors BDO Italia S.p.A. on the consolidated non-financial statement pursuant to article 3, par. 10, of Italian Legislative Decree 254/2016 and article 5 of CONSOB Regulation No. 20267, issued on 28 March 2018, acknowledging that, in the opinion of the Independent Auditors, there are no elements that suggest that the Irce Group’s NFS for the year ended 31/12/2017 has not been drawn up in compliance with the requirements of articles 3 and 4 of the Decree and the GRI Standards defined by the Global Reporting Initiative in 2016.

Within the scope of its responsibility, pursuant to article 153 of the above-mentioned Italian Legislative Decree 58/98 and in accordance with CONSOB resolution DEM 1025564 of 6/4/2001, the Board of Statutory Auditors also specifies that:

- it received from Board Members, during both board meetings and the meetings held on a regular basis, detailed and relevant information about the company's operations, and especially the transactions that were most significant to its financial performance, financial position and cash flows;

- the report on operations, the information supplied during the Board of Directors’ Meeting, and that received by the company's management and the Independent Auditors did not reveal any atypical and/or unusual transactions, including intra-group or related party transactions;
- during the financial year, neither PricewaterhouseCoopers S.p.A. nor other companies belonging to its network were assigned any duties other than auditing;
- during the financial year the company BDO Italia S.p.A. has been appointed Auditor in charge of preparing the consolidated non-financial statement. In this regard, it is noted that the preparation of the consolidated non-financial statement exempts the subsidiaries already included therein from the preparation of the report;
- during the financial year, the Board of Statutory Auditors did not submit any opinions or proposals in accordance with the law;
- during the financial year, the following meetings were held:
  1 Shareholders’ Meeting;
  9 Meetings of the Board of Directors;
  5 Meetings of the Board of Statutory Auditors;
- during 2017 and to date, no claims were made pursuant to art. 2408 of the Italian Civil Code nor did shareholders and/or third parties submit any complaints;
- the Board of Statutory Auditors acts as the “*Internal Control and Audit Committee*”, as defined in art. 19 of Italian Legislative Decree 39/2010; in this regard, based also on the information received from the Chairman of the Board of Directors, the members of the Control and Risks Committee, person in charge of the internal audit function, and

the Independent Auditors, the Board of Statutory Auditors confirms that the internal control system is adequate to the company's size;

- the Board also supervised the adequacy of the orders the company gave to its subsidiaries in accordance with art. 114, paragraph 2, of Italian Legislative Decree 58/98, obtaining information from the Independent Auditors and the company's Directors. It found transactions with subsidiaries to be substantially adequate.

In carrying out its supervision, the Board of Statutory Auditors found no errors, omissions or irregularities to be mentioned in this Report.

The Board of Statutory Auditors does not consider it necessary to exercise the right to make proposals to the Shareholders' Meeting under art. 153 paragraph two of Italian Legislative Decree 58/1998.

In light of the above, the Board of Statutory Auditors gives its favourable opinion to the approval of the Financial Statements as of 31 December 2017 and has no objections to the Board of Directors' proposal concerning the allocation of the profit for the year 2017.

Bologna, 30 March 2018

THE BOARD OF STATUTORY AUDITORS

(Dott. Fabio Senese) ____________________

(Dott. Adalberto Costantini) ____________________

(Dott.ssa Donatella Vitanza) ____________________