# BELTRAME GROUP CONSOLIDATED FINANCIAL STATEMENTS 2019

(TRANSLATION FROM THE ORIGINAL IN ITALIAN)

AFV BELTRAME GROUP

# Consolidated Financial Statements 2019

BELTRAME GROUP
STEEL SINCE 1896

# 01

## Index

## 2019 Report on Operations



AFV BELTRAME GROUP
STEEL SINCE 1896


**AFV Acciaierie Beltrame S.p.A.**
Viale della scienza 81
36100 Vicenza - (Italy)
Share capital as of December 31, 2018:
Euro 113,190,480 fully paid in
Tax identificazion number:
No 13017310155

**Registered office and headquarters:**
Viale della scienza, 81 - zona industriale
36100 Vicenza (Italy)
T. (+39) 0444 967 111
F. (+39) 0444 348 577

**gruppobeltrame.com**

## 02

## Consolidated Balance Sheet, Income Statement, Statement of cash flows



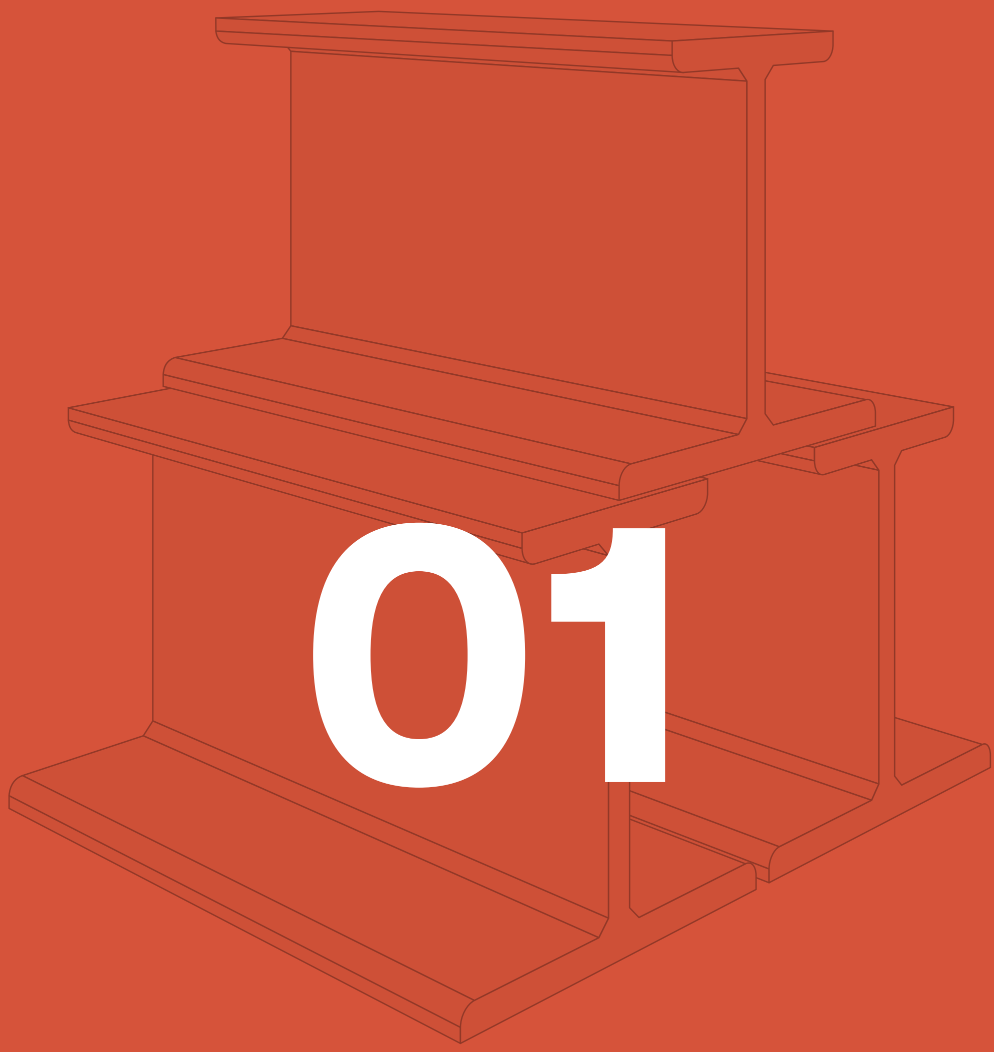
## 03

## Notes to the Consolidated Financial Statements



## 04

## Independent Auditors' Report



# 01

# Report on Operations

# A Highlights

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Revenues from sales | 1,102,419 | 1,240,303 | 1,071,985 |
| VALUE ADDED | 201,060 | 242,439 | 215,035 |
| % | 18.24% | 19.55% | 20.06% |
| EBITDA | 70,427 | 114,717 | 93,429 |
| EBITDA (adjusted) | 73,971 | 113,635 | 94,892 |
| % | 6.71% | 9.16% | 8.85% |
| OPERATING PROFIT (LOSS) | 31,055 | 73,143 | 56,503 |
| NET PROFIT (LOSS) | 14,599 | 49,646 | 29,648 |
| | | | |
| Number of employees as at December 31 | 2,046 | 2,012 | 1,949 |
| | | | |
| Fixed assets | 403,947 | 389,209 | 379,583 |
| Net working capital | 34,252 | 55,585 | 70,807 |
| Shareholders' equity | 320,477 | 319,169 | 278,598 |
| Net financial position | 73,524 | 75,822 | 126,778 |
| | | | |
| Operating cash flow | 65,975 | 98,434 | 74,505 |
| Cash flow for technological investments | (38,061) | (43,679) | (27,081) |

The values shown herein are expressed in thousands of Euro, while the original data are measured and consolidated by the Group in Euro.

It is highlighted that, to better represent the operating performance of the Group and to provide more consistent comparative information relating to the results of the previous periods, in the table providing the summary data and in the Report on Operations, the Ebitda was adjusted to take into account primarily the following non-recurring elements, which impacted some items in the financial statements as at December 31, 2019:

- the company Stahl Gerlafingen, following non-recurring events, suffered from production interruptions in the summer months, which caused it to incur direct and indirect costs, net of insurance reimbursements received, for a total amount of Euro 2,655 thousand;
- the Group continued the activities directed at managing and increasing the value of the sites to be divested, and it incurred net non-recurring expenses, recorded according to their nature among the operating components of the income statement, amounting to Euro 307 thousand.

The economic-financial performance of the Group is measured also on the basis of some indicators not defined in the accounting standards promulgated by Organismo Italiano di Contabilità, including the Ebitda, the Ebitda adjusted and the Net Financial Position, which could therefore not be directly comparable to the indicators used by the other operators of the same industry.

# B Corporate bodies

1  2  3 

4  5  6 

| | | | |
|---|---|---|---|
| **Board of Directors** | **Antonio Beltrame** | Chairman and Managing Director | 1 |
| | **Patrizia Beltrame** | Deputy Chairwoman and Managing Director | 2 |
| | **Angiola Beltrame** | Deputy Chairwoman and Managing Director | 3 |
| | **Raffaele Ruella** | Managing Director | 4 |
| | **Carlo Beltrame** | Director | 5 |
| | **Fabio Buttignon** | Director | 6 |

| | | |
|---|---|---|
| **Board of Statutory Auditors** | **Dario Semenzato** | Chairman |
| | **Andrea Valmarana** | Standing Auditor |
| | **Alessandra Lazzaris** | Standing Auditor |

| | |
|---|---|
| **Independent Auditors** | **Deloitte & Touche S.p.A.** |

## C Management and coordination

AFV Acciaierie Beltrame S.p.A. is not subject to management and coordination activities by the majority shareholder Beltrame Holding S.p.A., inasmuch as the parent company does not have an adequate structure to manage the subsidiary and to set up a system of synergies among the different companies of the Beltrame Group, nor does it have any significant commercial or financial relationship with them.

## D Structure of the Beltrame Group


No changes were reported compared to the previous year.

E

# Economic Scenario

In 2019, according to the data of the OECD and the most recent indications of the main international organisations, the world's GDP rose by 2.9% on an annual basis, due to an overall reduction in growth across all countries, although with uneven performance in different economies.

Global growth remained limited throughout 2019 and global trade resumed expansion only in the third quarter of the year, after 3 consecutive quarters with negative performance, with imports recovering in both advanced and emerging economies. On the basis of the estimates of the Bank of Italy, in 2019 international trade increased by 0.6%, showing a considerable reduction compared to the previous year.

In the manufacturing sector in the main advanced economies, the cyclical phase remained unfavourable, as did short-term outlooks for international trade.

In China, economic activity slowed in the summer, and then stabilised in later months. Growth declined more considerably in India and remained modest in both Russia and Brazil.

In December, the United States and China reached an initial preliminary trade agreement for a broader discussion on economic relations between the two countries. The agreement forestalled US tariff hikes, while the Chinese government committed to increase imports of agricultural products and energy from the United States.

At the end of 2019, the US Congress approved the new trade agreement between the United States, Mexico and Canada, making rules on product origin and production standards in the automotive sector more restrictive. On the other hand, the decision regarding duties on imports of vehicles and components from the European Union (EU) was postponed to a later date.

Inflation in the main advanced economies remained restricted in 2019, basically stable compared to the previous year.

Oil product prices rose in the course of the year and were supported by higher optimism in the markets with regard to the effects of the trade agreements between the United States and China and the agreement on the rationing of production by OPEC countries. The implicit volatility in crude option prices, gradually declining from the highs reached in September, in any event remained high.

In the Eurozone, growth remained weak throughout 2019, slowed especially by manufacturing sector trends and, according to the latest OECD data, GDP increased by 1.2% overall on an annual basis.

Economic activity was supported by domestic demand and in particular by consumption, which strengthened thanks to positive employment trends. The contribution of overseas trade was slightly negative, within an overall framework of weak global trade.

Industrial sector activities progressively contracted starting in the summer months, with a particularly notable decline in Germany.

Inflation in the Eurozone remained stable and contained (the macroeconomic projections of the OECD anticipate an annual rate of 1.3% in 2019), with a declining trend, also

due to the drop in energy prices and the worsening overall prospects for growth in the area.
On January 31, 2020, the United Kingdom exited the EU and a negotiation phase began on the new rules that will define economic relations between the two areas.

In its main points, the agreement for the United Kingdom's withdrawal from the EU calls for:

a) a transition period until December 31, 2020, during which time the EU's regulations will continue to apply, with the possibility to agree on a one or two year extension of that period by June 30, 2020;

b) the confirmation of the rights deriving from the free circulation of people in the EU;

c) the definition of calculation criteria and methods for settling the financial obligations undertaken by the United Kingdom while it was a member of the EU;

d) an agreement governance structure contemplating the immediate applicability of the provisions contained in it and their supremacy over domestic law even within the United Kingdom;

e) a mechanism to ensure the maintenance of an open border (with no physical control stations) between Ireland and Northern Ireland, even after the end of the transition period, establishing a de facto dual customs and regulatory system.

The political statement on future relations between the EU and the United Kingdom annexed to the withdrawal agreement envisages no duties for the trade of goods even in the future; instead, for the trade of services, there is a generic target for more liberalisation than that established by the World Trade Organization (WTO).
If the transition period - especially if there is no extension - is not sufficient to conclude the agreements laid out in the political statement, and in any event for the trade sectors not covered by the agreements, after the end of 2020 the system established by the WTO would apply, with significant discontinuity in bilateral relations compared to those currently in force.
In Italy, gross domestic product remained basically unchanged in 2019 and, according to the most recent indications of the ISTAT (Italian National Institute of Statistics), the GDP grew by 0.2% year on year.
Activity was impeded mainly by the slowdown of the manufacturing sector and the decline in investments, in particular in capital equipment. The contribution of overseas trade was negative, due to a slight reduction in exports and a consistent increase in imports. Value added declined in industry strictly speaking as well as in agriculture.
Inflation in Italy remained quite limited, especially due to energy prices, and overall came to 0.5% in 2019.

E

| | Forecast (variations in percentage) | | | |
|---|---|---|---|---|
| | **2019** | **2020** (nov. 2019) | **2020** (mar. 2020) | **2020** (apr. 2020) |
| **GDP** | | | | |
| **World** | **2.9** | **2.9** | **2.4** | **(3.00)** |
| **Advanced Countries** | | | | |
| of which: Euro area | 1.2 | 1.1 | 0.8 | (7.50) |
| Japan | 1.0 | 0.6 | 0.2 | (5.20) |
| United Kingdom | 1.2 | 1.0 | 0.8 | (6.50) |
| USA | 2.3 | 2.0 | 1.9 | (5.90) |
| **Emerging Countries** | | | | |
| of which: Brazil | 0.8 | 1.7 | 1.7 | (5.30) |
| China | 6.2 | 5.7 | 4.9 | 1.20 |
| India | 5.8 | 6.2 | 5.1 | 1.90 |
| Russia | 1.1 | 1.6 | 1.2 | (5.50) |
| **Italiy** | 0.2 | 0.5 | - | (9.10) |

Source: OECD, Interim Economic Outlook Assessment March 2020 - In. Monetary Fund World Economic Outlook apr. 2020

Outlooks for the development of economic activity in the Eurozone and all global economies, moderately positive in OECD forecasts developed in November 2019, are now modified due to the Coronavirus epidemic that spread from the Chinese city of Wuhan starting at the end of December 2019 to then develop in Europe and worldwide in the early months of 2020. The short-term impact on the Chinese and global economy will be much more severe than what happened in 2003 with the SARS epidemic, as there are numerous countries currently heavily impacted by the measures adopted at every level by their respective governments.

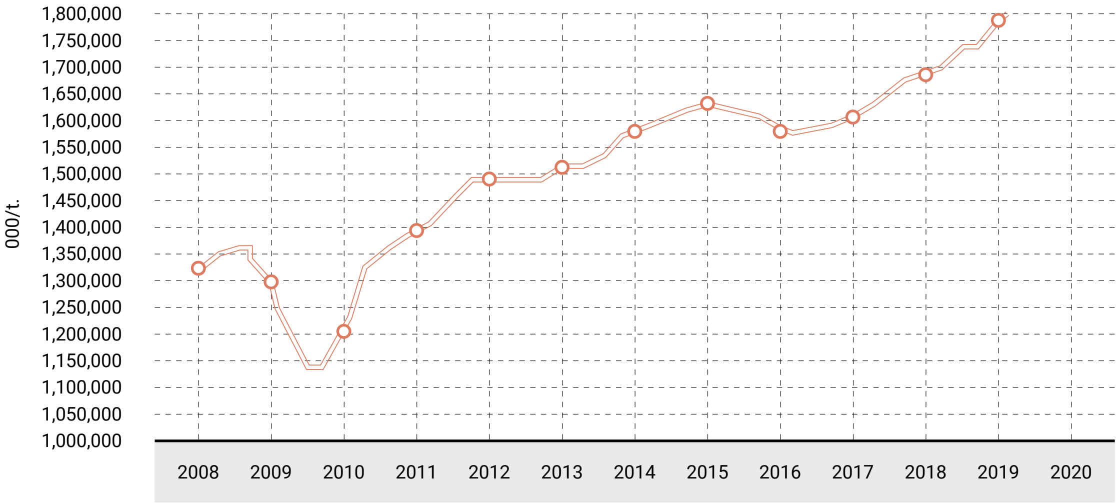
European and global GDP growth will be struck by a drastic decline not just in consumption, but also in production. To date, a significant decline in GDP growth can be expected at least in the first part of 2020.

The intensity and duration of this contraction will depend on the spread of the virus and whether the governments of the various countries impacted will be able to impose adequate measures to prevent the development of contagion and to support national healthcare systems, and subsequently deploy adequate resources for policies supporting the sectors most impacted and to relaunch the economy.

# F Performance of the steelmaking sector

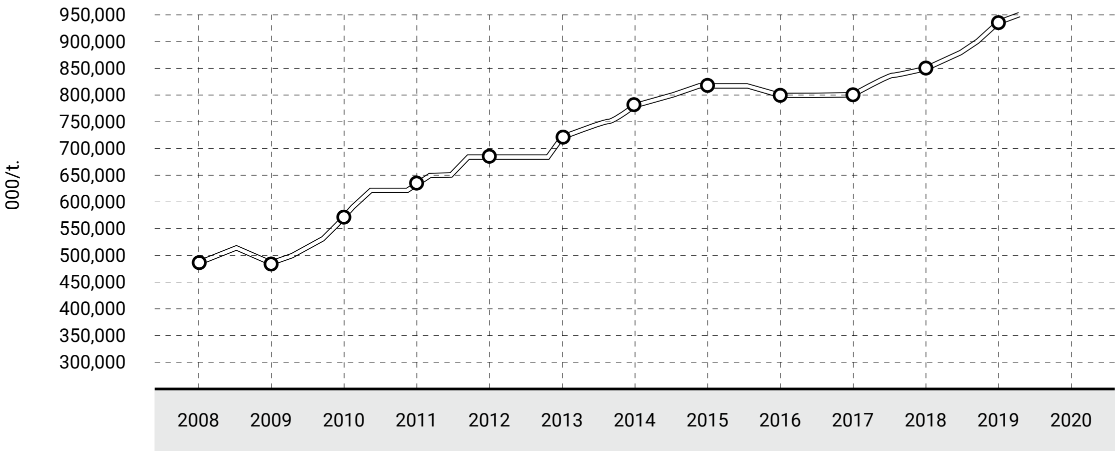
In 2019, worldwide steel production, according to the most recent indications published by the World Steel Association, amounted to 1,870 million tonnes, an increase by approximately 3.4% compared to the previous year.

China confirmed its position as the world's leading producer, with a total output of 996 million tonnes and a 8.3% increase compared to the previous year.




**World Steel Production**

Source: World Steel Association




**China Steel Production**

Source: World Steel Association

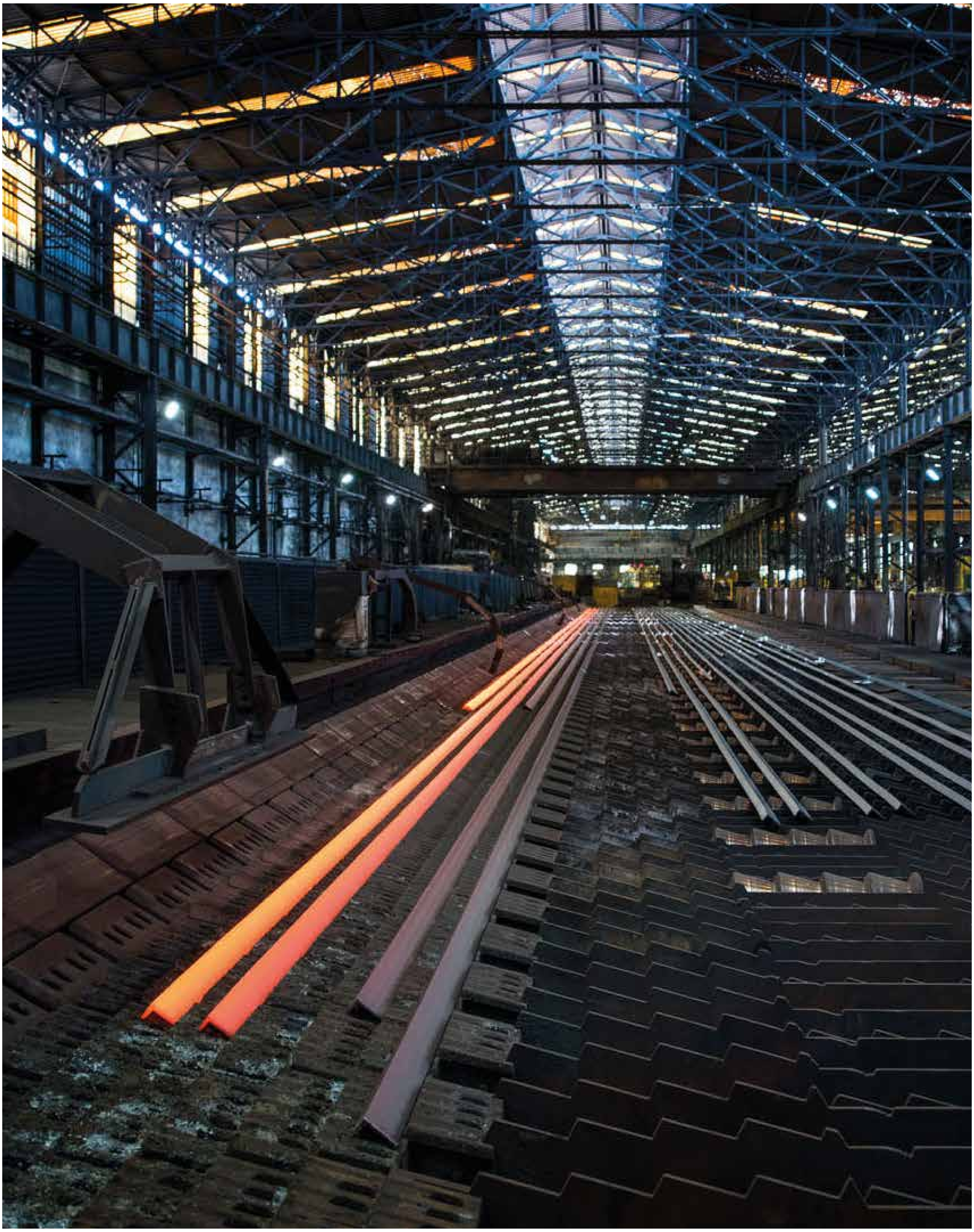
| (milion of tons) | 2019 | 2018 | variation |
|---|---|---|---|
| **Steel production** | | | |
| | | | |
| **World** | **1,869.9** | **1,808.4** | **3.4%** |
| **Asia** | **1,341.6** | **1,269.8** | **5.7%** |
| of which: China | 996.3 | 920.0 | 8.3% |
| Japan | 99.3 | 104.3 | -4.8% |
| **Europe** | **298.8** | **311.0** | **-3.9%** |
| of which: EU (28) | 159.4 | 167.7 | -4.9% |
| CIS | 100.4 | 100.9 | -0.5% |
| **North America** | **120.0** | **120.9** | **-0.7%** |
| of which: USA | 87.9 | 86.6 | 1.5% |
| **South America** | **41.2** | **44.9** | **-8.2%** |
| **Africa** | **17.0** | **17.4** | **-2.3%** |
| **Middle East** | **45.3** | **38.0** | **19.2%** |
| **Oceania** | **6.2** | **6.3** | **-1.6%** |

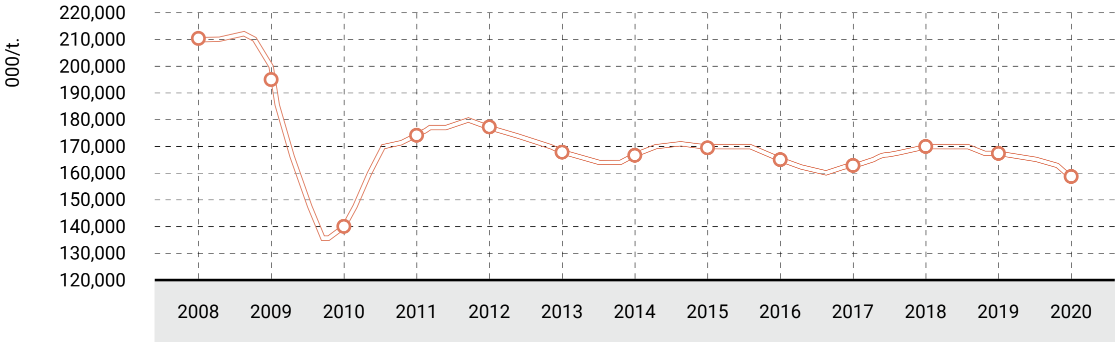
Source: World Steel Association

| (milion of tons) | 2019 | 2018 | variation |
|---|---|---|---|
| **Steel production** | | | |
| | | | |
| **EU (28)** | **159.4** | **167.7** | **-4.9%** |
| of which: Germany | **39.7** | **42.4** | **-6.4%** |
| Italy | **23.2** | **24.5** | **-5.3%** |
| France | **14.5** | **15.4** | **-5.8%** |
| Spain | **13.6** | **14.3** | **-4.9%** |
| Poland | **9.1** | **10.2** | **-10.8%** |
| Belgium | **7.9** | **8.0** | **-1.3%** |
| Austria | **7.4** | **6.9** | **7.2%** |
| United Kingdom | **7.2** | **7.3** | **-1.4%** |
| Holland | **6.7** | **6.8** | **-1.5%** |

Source: World Steel Association

The European Union reported an overall production of 159 million tonnes, down by 4.9% compared to the previous year. Germany and Italy were confirmed as the main European producers, respectively with 40 million tonnes (-6.4% compared to 2018) and 23 million tonnes (-5.3% compared to 2018).






**Steel Production in EU**

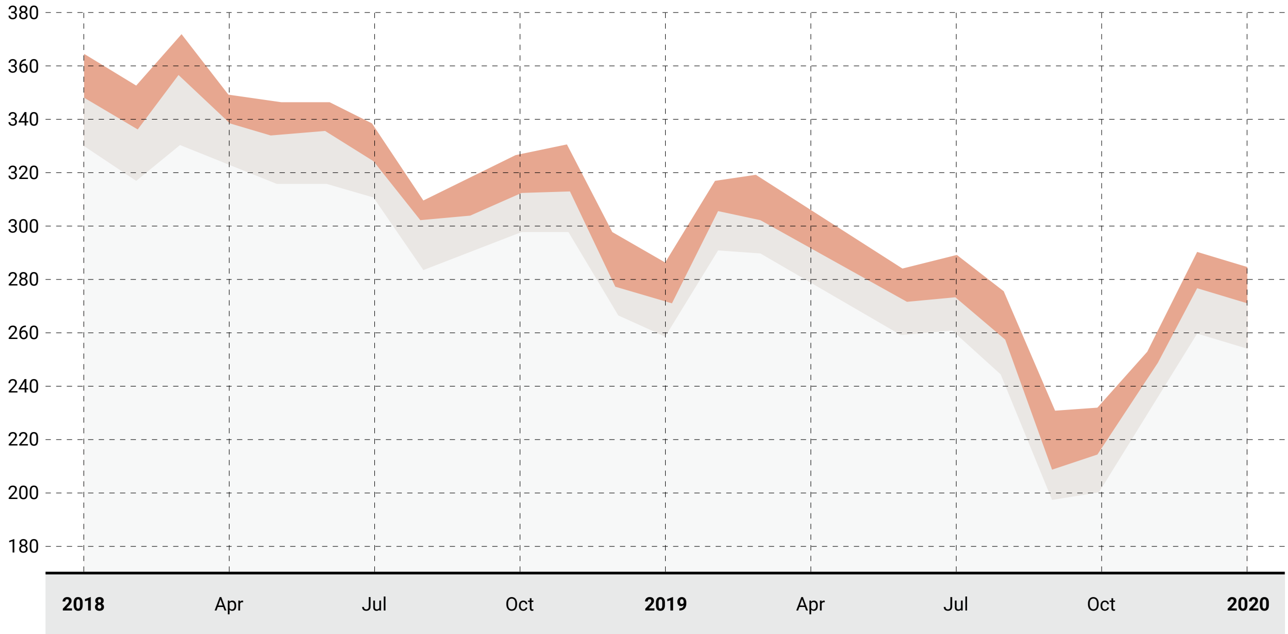
Source: World Steel Association


**Steel Production in Italy**

Source: World Steel Association

In 2019 average prices for steel products remained at a lower level compared to the average of the previous year, in a context which was however characterised by high volatility resulting from the price trend of steelmaking commodities, both ore and ferrous scrap metal. The volatility was particularly severe in the final quarter of 2019, which saw a sharp drop in prices in European and international markets in September and October and a significant recovery in November and December.

# F




**Scrap Iron Production**

Source: Platts

TS01011 - Platts TSI HMS 1&2 (80:20) - CFR, Turkey, $/t

FERDD00 - Platts TSI HMS 1&2 (75:25) - FOB Rotterdam, Europe export, $/t

SB01228 - Shredded - FOB Rotterdam export, $/t

The considerable slowdown in production activities in steel user sectors, in combination with the deterioration in steel consumption intensity, resulted in a 3.3% decrease in real demand for steel products on an annual basis in 2019, according to Eurofer.
This negative trend resulted primarily from the ongoing crisis in the EU manufacturing sector, caused by weaker exports and investments, a phenomenon that became more and more intense during the year.
Continuing uncertainties on short-term trade terms and high market volatility are contributing to this overall scenario. Import trends as a whole indeed showed clear signals of distortion at individual product level, reflecting the flaws of the current safeguard mechanism which resulted in the maximisation of the quarterly quotas of some important exporters to the EU, such as Turkey and China.
Throughout 2019 European manufacturing activity continued to be limited, with continuous declines in performance in all quarters. Only the construction sector bucked the trend, marking stable growth.

In this context, in 2019 European user sectors progressively lost momentum and, overall, achieved zero growth on an annual basis.
The European construction sector continued with its expansionary trend that began in 2017, and remained unchanged for the third consecutive year, posting 3.8% growth on an

annual basis and again proving itself to be the best steel user segment.

Production growth continued to be particularly sustained in Hungary, the Netherlands, Poland and Spain. In the second half of 2019, Germany, Sweden, Italy and the United Kingdom recorded lower growth rates than those reported in the first half of the year, while France and the Netherlands reported rising growth rates.

European automotive sector production activities declined by 5.9% on an annual basis in 2019, undermined by decreasing internal demand and exports which remained weak in important markets such as Turkey, the United States and China throughout the year. The decline was also caused by the delay in obtaining the WLTP certification relating to fuel consumption and vehicle emissions on the part of several manufacturers, which negatively affected production.

In any event, overall vehicle sales rose by 1.2% on an annual basis, reaching more than 15.3 million units and marking the sixth year in a row of growth, unlike sales of commercial vehicles, which have recorded negative growth since September of last year.

Production in the European mechanical engineering sector declined by 0.3% on an annual basis, with uneven but overall negative trends in Western European countries such as Germany, the Netherlands, Belgium, Italy, Spain, the United Kingdom and France.

This was caused for the most part by the downturn in international trade due to rising trade tensions, the significant loss of trust in the business sector and pessimism surrounding orders, which led increasing numbers of companies to delay investment decisions.

F

| Users Sectors | Share of consuption | Q1 19 | Q2 19 | Q3 19 | Q4 19 | Year 2019 |
|---|---|---|---|---|---|---|
| Constructions | 35.0% | 6.4% | 4.6% | 3.4% | 1.0% | 3.8% |
| Automotive | 18.0% | -6.5% | -9.5% | -2.5% | -5.0% | -5.9% |
| Mechanical engineering | 14.0% | 1.2% | -0.5% | -1.2% | -0.5% | -0.3% |
| Metal articles | 14.0% | 0.4% | -1.6% | -2.3% | -1.8% | -1.3% |
| Oil & Gas | 13.0% | 0.0% | 0.5% | -0.1% | -0.2% | 0.0% |
| Appliances | 3.0% | -2.6% | -2.4% | -0.4% | -0.2% | -1.4% |
| Other transports | 2.0% | 10.9% | 8.8% | 2.5% | 0.5% | 5.7% |
| Other | 2.0% | 1.0% | -1.0% | -1.5% | -1.5% | -0.8% |
| Total | **100.0%** | **1.5%** | **-0.4%** | **0.2%** | **-1.0%** | **0.0%** |

Source: Eurofer January 2020

The final measures introduced by the European Community on February 2, 2019 to preserve traditional steel trade flows, and in force until June 30, 2021, were meant to be the European response to the steel tariffs imposed by the US administration; a safeguard which was supposed to defend the European steel industry but which, in the initial phase, did not prevent competition from low cost foreign products from flooding European markets.

According to Eurostat, in 2018 imports from Turkey rose by 60% on an annual basis in Italy, by 49% on an annual basis in Spain and more than doubled in Belgium. Analogous trends were seen for steel products from Russia, Serbia and Taiwan, with the result that imports throughout the EU marked a 9.2% increase on an annual basis. In 2019, the trend began to reverse, but the fear remains that the rules revised by Brussels are not yet enough to guarantee a recovery, while there are still risks relating to import distortions and continued global steel market overcapacity.
Indeed, in September 2019 following a review inquiry, the EU Commission made several amendments (effective as of October 1, 2019) to the Regulation establishing the definitive safeguard measures.
Regulation (EU) 35/2020 of January 15, 2020 restored, with retroactive effect, the situation in place prior to October 1, 2019, as the modifications previously made did not have the expected benefit, but rather resulted in operational and procurement difficulties.
Overall, the safeguard measures have not yet achieved the targets initially established and also triggered issues linked to the complexity of the mechanism developed and created further hardships for operators.

G

# Performance of the Beltrame Group

In 2019, the Beltrame Group recorded a decrease in sale volumes compared to the previous year, totalling 1.6%, with a trend characterised by a reduction in income margins concentrated in the last quarter and linked to the slowdown in activities in the main user sectors and price volatility of ferrous scrap metal.

Merchant bar sales experienced a reduction of 3.0% compared to the previous year, maintaining their leadership in the segment of merchant bars in the main domestic markets of interest. The Italian and French production facilities continued to continuously improve their efficiency and maintained excellent industrial performance levels, but were unable to entirely offset the decline in profitability deriving from the reduction in commercial margins in the European construction and mechanical engineering markets and the inflationary dynamic of energy costs. Overall, the business achieved adjusted Ebitda of Euro 57 million (Euro 81 million in 2018).

Steel sales for construction, produced in the Gerlafingen plant (reinforced concrete rebar and derivatives) showed growth in volumes of 3.5% on an annual basis, in an environment characterised by keen competition from foreign producers. Despite the continuous improvement in efficiency and industrial performance, the profitability of the business was down due to the reduction in the commercial margins of the European construction markets and the inflationary dynamic of energy costs. The plant recorded an overall adjusted Ebitda of Euro 16 million (Euro 24 million in 2018).

Sales of large dimensions special steel (SBQ - Special Bar Quality) rounds produced in the Calarasi plant reached 109 thousand tonnes (down 12.1% compared to 2018) and the business recorded adjusted Ebitda of Euro 0.6 million (Euro 7 million in 2018). The market situation of user sectors, particularly automotive, oil & gas plants and earth moving equipment, is experiencing a highly critical period. Even large competitors of Donalam are suffering from this situation, leading to a sudden drop in volumes and sale prices, therefore reducing margins. The market is expected to recover starting in the second half of 2020.

The Beltrame Group's economic and financial performance in 2019 can be summarised as follows:

- net revenues changed from Euro 1,240 million in 2018 to Euro 1,102 million in 2019, with a decrease of 11.13%; sales volumes changed from 2,064 thousand tonnes in 2018 to 2,032 thousand tonnes in 2019;
- the adjusted Ebitda amounted to Euro 74 million (Euro 113.7 million in 2018) with a positive contribution from all business lines;
- depreciation and amortisation, allocations to provisions and impairment totalled Euro 39.4 million (Euro 41.6 million in 2018);
- operating profit amounted to Euro 31.1 million (profit for 2018 was of Euro 73.1 million);
- financial charges amounted to Euro 9.2 million (Euro 9.2 million in 2018);
- net profit amounted to Euro 14.6 million (Euro 49.6 million in 2018) and included net exchange losses of Euro 0.4 million.

The Group's profitability was highly influenced in the course of 2019 by the deflationary dynamic of steel product and ferrous scrap prices, with a negative effect on Ebitda linked to the progressive decline scrap purchase prices and consequently the value of finished product inventories in stock at month end and shipped in subsequent months, of around Euro 12.3

million (positive Euro 6.0 million in 2018). Gross of these effects, adjusted Ebitda would have reached 7.8% of turnover (adjusted Ebitda of 8.7% of turnover in 2018).

The net financial position improved from Euro 75.8 million as at 31 December 2018 to Euro 73.5 million as at 31 December 2019.

During the year, the net cash flow showed that liquidity totalling Euro 2.3 million was generated (Euro 51.0 million in 2018). More specifically, this result was generated by a positive operating cash flow of Euro 66.0 million (Euro 98.4 million in 2018), partially absorbed by net investments in tangible and intangible fixed assets amounting to Euro 39.9 million (Euro 45.0 million in 2018), payment of dividends for Euro 16 million (Euro 10 million in 2018) and the acquisition of net financial fixed assets of Euro 5.3 million (Euro 1.2 million in 2018).

The investments in tangible fixed assets made in 2019 totalled Euro 38.1 million and referred mainly to work on steel production plants, directed at improving product quality and optimising energy consumption, and on rolling mills and product finishing and verticalisation lines, for the progressive expansion of the production range and to broaden the offering in the market segments with the highest margins.

The investment projects developed during the year were also directed at maintaining high plant and environmental safety standards.

The intangible and tangible fixed asset net book values have been tested for impairment. The recoverable amount of each site was determined as the higher value between their fair value and their values in use, calculated as the net present value of the expected cash flows for the period 2020 - 2022.

Please note that the cash flows used in the impairment test do not reflect possible evolutions linked to the current national and international scenario characterised by the spread of the Covid-19 virus, as this event, as set forth in the reference accounting principles, is considered a "non-adjusting event" and as such entails no adjustments to the balances in the 2019 financial statements. These circumstances, which emerged in the initial months of 2020 and are extraordinary in terms of nature as well as extent, will have direct and indirect repercussions on economic activity and have created a context of general uncertainty, the evolutions and relative effects of which cannot be predicted.

Deferred tax assets equal to Euro 13.0 million (Euro 14.8 million in 2018) were accounted for in compliance with the principle of prudence and with the reasonable certainty of sufficient future taxable income that would allow their recovery, estimated to take place in 5 years. Deferred tax assets not recognised in the consolidated financial statements, on prudential basis, referred to the benefit for tax losses carried forward by the foreign companies, amounted to Euro 12.9 million.

In September 2019 the Parent Company executed an agreement with banks which entailed the repayment of the medium and long-term loans existing at that date and the disbursement of a new loan, the main features of which are listed below:

- a amortising facility for Euro 70 million;
- a bullet facility for Euro 50 million;
- a RCF facility for Euro 30 million;
- a CAPEX facility for Euro 50 million.

More information is provided in the Notes to the financial statements.

# H Economic and financial data and indicators

## 1. The Group

AFV BELTRAME GROUP
STEEL SINCE 1896

| Income statement (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Revenues from sales (A.1 + A.5) | 1,102,419 | 1,240,303 |
| Value of operating production (A.1 + A.2 + A.3 + A.4) | 1,080,990 | 1,253,442 |
| - External operating costs (B.6 + B.7 + B.8 + B.11 + B.14) | 886,839 | 1,019,180 |
| VALUE ADDED | 201,061 | 242,439 |
| % | 18.24% | 19.55% |
| - Personnel costs (B.9) | 130,634 | 127,723 |
| EBITDA | 70,427 | 114,717 |
| EBITDA adjusted | 73,971 | 113,635 |
| % | 6.71% | 9.16% |
| - Amortisation, depreciation and allocations to provisions (B.10 + B.12 + B.13) | 39,372 | 41,573 |
| OPERATING PROFIT (LOSS) | 31,055 | 73,143 |
| +/- Profit (loss) from the financial area (C + D) | (9,644) | (10,014) |
| GROSS PROFIT (LOSS) | 21,411 | 63,129 |
| - Income taxes | (6,812) | (13,483) |
| NET PROFIT (LOSS) | 14,599 | 49,646 |

| Statement of Financial Position (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Tangible and intangible fixed assets | 388,435 | 379,088 |
| Financial fixed assets | 15,512 | 10,121 |
| Trade receivables | 47,559 | 73,758 |
| Trade payables | 251,368 | 272,567 |
| Closing balances of warehouse facility | 223,507 | 251,690 |
| Other current assets and liabilities | 14,554 | 2,704 |
| ***Net working capital*** | 34,252 | 55,585 |
| Provisions for risks and charges and severance indemnity | 44,198 | 49,803 |
| ***Capital resources, net*** | 394,001 | 394,991 |
| Shareholders' equity | 320,477 | 319,169 |
| ***Net financial position*** | 73,524 | 75,822 |

| Indicators | 2019 | 2018 |
|---|---|---|
| Operating cash flow (in thousands of Euro) | 65,975 | 98,434 |
| Cash flow for technological investments (in thousands of Euro) | (38,061) | (43,679) |
| Equity / fixed assets ratio (MP / Af) | 0.79 | 0.82 |
| Equity plus consolidated liabilities / fixed assets ratio [(MP + Pml) / Af] | 1.06 | 1.15 |
| Debt to equity ratio [(Pml + Pc) / MP] | 1.39 | 1.59 |
| Debt (long-term interest bearing) to equity ratio (Pfn / MP) | 0.23 | 0.24 |
| Current assets / current liabilities ratio (Ac / Pc) | 1.07 | 1.16 |
| Deferred liquidity + immediate liquidity / Current liabilities ratio | 0.41 | 0.49 |
| Ebitda adjusted / net revenues | 6.71% | 9.16% |
| Financial charges, net / net revenues | 0.87% | 0.66% |
| Labour cost / net revenues | 0.12 | 0.10 |
| Pfn / Ebitda adjusted | 0.99 | 0.67 |

KEY:

MP: Shareholders' equity | Pml: Consolidated liabilities | Pf: Net financial position

Af : Fixed assets | Pc: Current liabilities | Ac: Current assets

H

# 2
# The Parent Company AFV Beltrame S.p.A.

ACCIAIERIE BELTRAME S.P.A.
BELTRAME GROUP

| **Income statement** (in thousands of Euro) | **2019** | **2018** |
|---|---|---|
| Revenues from sales (A.1 + A.5) | 492,225 | 570,420 |
| Value of operating production (A.1 + A.2 + A.3 + A.4) | 480,381 | 578,871 |
| - External operating costs (B.6 + B.7 + B.8 + B.11 + B.14) | 398,835 | 477,432 |
| VALUE ADDED | 87,789 | 109,398 |
| % | 17.84% | 19.18% |
| - Personnel costs (B.9) | 49,174 | 49,063 |
| EBITDA | 38,615 | 60,335 |
| EBITDA adjusted | 39,282 | 60,802 |
| % | 7.98% | 10.66% |
| - Amortisation, depreciation and allocations to provisions (B.10 + B.12 + B.13) | 9,946 | 12,718 |
| OPERATING PROFIT (LOSS) | 28,669 | 47,617 |
| +/- Profit (loss) from the financial area (C + D) | (4,421) | (5,909) |
| GROSS PROFIT (LOSS) | 24,248 | 41,708 |
| - Income taxes | (6,179) | (12,689) |
| NET PROFIT (LOSS) | 18,069 | 29,019 |

| **Statement of Financial Position** (in thousands of Euro) | **2019** | **2018** |
|---|---|---|
| Tangible and intangible fixed assets | 166,718 | 159,901 |
| Financial fixed assets | 173,326 | 167,693 |
| Trade receivables | 39,222 | 61,970 |
| Trade payables | 118,211 | 134,581 |
| Closing balances of warehouse facility | 96,737 | 109,617 |
| Other current assets and liabilities | 7,960 | (1,677) |
| ***Net working capital*** | 25,708 | 35,329 |
| Provisions for risks and charges and severance indemnity | 27,850 | 31,643 |
| ***Capital resources, net*** | 337,902 | 331,280 |
| Shareholders' equity | 318,295 | 315,573 |
| ***Net financial position*** | 19,607 | 15,707 |

| Indicators | 2019 | 2018 |
|---|---|---|
| Operating cash flow (in thousands of Euro) | 35,736 | 57,876 |
| Cash flow for technological investments (in thousands of Euro) | (13,318) | (15,564) |
| Equity / fixed assets ratio (MP / Af) | 0.94 | 0.96 |
| Equity plus consolidated liabilities / fixed assets ratio [(MP + Pml) / Af] | 1.24 | 1.34 |
| Debt to equity ratio [(Pml + Pc) / MP] | 0.87 | 1.05 |
| Debt (long-term interest bearing) to equity ratio (Pfn / MP) | 0.06 | 0.05 |
| Current assets / current liabilities ratio (Ac / Pc) | 1.48 | 1.55 |
| Deferred liquidity + immediate liquidity / Current liabilities ratio | 0.92 | 1.02 |
| Ebitda adjusted / net revenues | 7.98% | 10.66% |
| Financial charges, net / net revenues | 0.90% | 0.71% |
| Labour cost / net revenues | 0.10 | 0.09 |
| Pfn / Ebitda adjusted | 0.50 | 0.26 |

KEY:
MP: Shareholders' equity
Af : Fixed assets
Pml: Consolidated liabilities
Pc: Current liabilities
Pf: Net financial position
Ac: Current assets

Revenues from sales, totalling Euro 492,225 thousand, decreased compared to the previous year mainly as a result of the overall decrease in the prices of steel products. The decrease, mostly tied to the downturn of the average prices of commodities in the year, amounted approximately to 13.7% compared to 2018. Volumes shipped amounted to 767 thousand tonnes (797 thousand tonnes in 2018).

The Italian production facilities continued to continuously improve their efficiency and maintained excellent industrial performance levels, but were unable to entirely offset the decline in profitability deriving from the reduction in commercial margins in the Southern European construction and mechanical engineering markets and the inflationary dynamic of energy costs.

The financial structure of the company shows overall net financial indebtedness of Euro 19.6 million, up by a total of Euro 3.9 million compared to December 31, 2018, after distributing dividends of Euro 16 million, mostly as a result of the significant cash flows generated by operating activities, stemming from high margins and from the efficient management of net working capital.

The most significant information about the Parent Company's currently active production units is provided below:

**VICENZA:**

— Electric steel plant comprising electric furnace, ladle furnace, two continuous casting systems for blooms and slabs;

— Rolling mill comprising continuous mill for mid-size products with 19 cages for sections

/ small beams;

— Rolling mill comprising continuous mill for small products with 21 cages for small sections.

**SAN DIDERO (TO):**

— Rolling mill comprising continuous mill for mid-size products with 19 cages for sections / small beams;

— Rolling mill comprising continuous mill for small products with 24 cages for small sections, reinforced concrete rebar.

**SAN GIOVANNI VALDARNO (AR):**

Rolling mill comprising continuous mill with 18 cages for small sections.

H

# 3 The Subsidiary Laminés Marchands Européens S.A.

LAMINÉS MARCHANDS EUROPÉENS
AFV BELTRAME GROUP

As reported above in point D. "Structure of the Beltrame Group", the Parent Company owns 80.23% of the company's share capital. The minority interest is held by ARCELORMITTAL - Luxembourg.

The values shown below differ from those of the company's filed financial statements because they were adapted for consistency with Italian accounting standards, used to prepare the consolidated financial statements.

| **Income statement** (in thousands of Euro) | **2019** | **2018** |
|---|---|---|
| Revenues from sales (A.1 + A.5) | 274,509 | 311,191 |
| Value of operating production (A.1 + A.2 + A.3 + A.4) | 267,573 | 308,026 |
| - External operating costs (B.6 + B.7 + B.8 + B.11 + B.14) | 220,414 | 255,283 |
| VALUE ADDED | 50,351 | 54,493 |
| % | 18.34% | 17.51% |
| - Personnel costs (B.9) | 32,665 | 33,560 |
| EBITDA | 17,686 | 20,933 |
| EBITDA adjusted | 17,908 | 21,291 |
| % | 6.52% | 6.84% |
| - Amortisation, depreciation and allocations to provisions (B.10 + B.12 + B.13) | 10,877 | 10,480 |
| OPERATING PROFIT (LOSS) | 6,809 | 10,453 |
| +/- Profit (loss) from the financial area (C + D) | (2,676) | (3,871) |
| GROSS PROFIT (LOSS) | 4,133 | 6,582 |
| - Income taxes | (552) | (736) |
| NET PROFIT (LOSS) | 3,581 | 5,846 |

| **Statement of Financial Position** (in thousands of Euro) | **2019** | **2018** |
|---|---|---|
| Tangible and intangible fixed assets | 77,129 | 73,736 |
| Financial fixed assets | 1,410 | 1,665 |
| Trade receivables | 6,949 | 9,472 |
| Trade payables | 54,407 | 52,913 |
| Closing balances of warehouse facility | 53,294 | 58,122 |
| Other current assets and liabilities | 4,328 | 1,464 |
| ***Net working capital*** | 10,164 | 16,145 |
| Provisions for risks and charges and severance indemnity | 12,630 | 12,073 |
| ***Capital resources, net*** | 76,073 | 79,473 |
| Shareholders' equity | 60,160 | 56,579 |
| ***Net financial position*** | 15,913 | 22,894 |

H

| Indicators | 2019 | 2018 |
| --- | --- | --- |
| Operating cash flow (in thousands of Euro) | 18,164 | 19,255 |
| Cash flow for technological investments (in thousands of Euro) | (11,184) | (12,130) |
| Equity / fixed assets ratio (MP / Af) | 0.77 | 0.75 |
| Equity plus consolidated liabilities / fixed assets ratio [(MP + Pml) / Af] | 1.09 | 1.12 |
| Debt to equity ratio [(Pml + Pc) / MP] | 1.69 | 1.81 |
| Debt (long-term interest bearing) to equity ratio (Pfn / MP) | 0.26 | 0.40 |
| Current assets / current liabilities ratio (Ac / Pc) | 1.09 | 1.12 |
| Deferred liquidity + immediate liquidity / Current liabilities ratio | 0.39 | 0.34 |
| Ebitda adjusted / net revenues | 6.52% | 6.84% |
| Financial charges, net / net revenues | 0.66% | 0.68% |
| Labour cost / net revenues | 0.12 | 0.11 |
| Pfn / Ebitda adjusted | 0.89 | 1.08 |

KEY:

| | | |
| --- | --- | --- |
| MP: Shareholders' equity | Pml: Consolidated liabilities | Pf: Net financial position |
| Af : Fixed assets | Pc: Current liabilities | Ac: Current assets |

Revenues from sales, totalling Euro 274,509 thousand, decreased compared to the previous year as a result of the significant decline in the prices of steel products. The decrease, mostly tied to the downturn of the average prices of commodities in the year, amounted approximately to 11.8% compared to 2018. Volumes shipped amounted to 497 thousand tonnes (506 thousand tonnes in 2018).

The French production facility continued to continuously improve its efficiency and maintained excellent industrial performance levels, but was unable to entirely offset the decline in profitability deriving from the reduction in commercial margins in the Northern European construction and mechanical engineering markets and the inflationary dynamic of energy costs.

The financial structure of the company shows overall net financial indebtedness of Euro 15.9 million, down by a total of Euro 7.0 million compared to December 31, 2018, mostly as a result of the significant cash flows generated by operating activities.

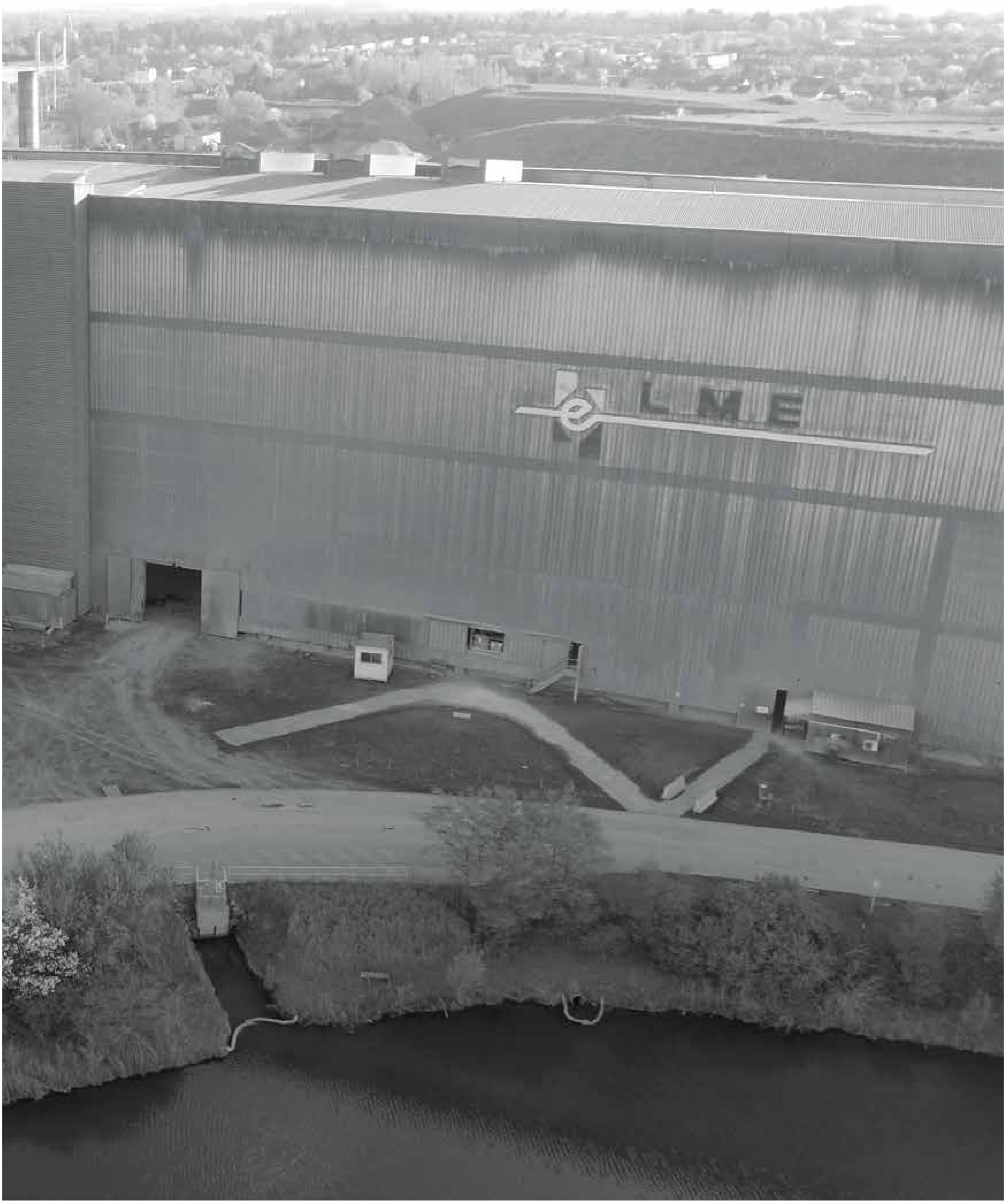
By reason of the fact that the recovery of prior tax losses is uncertain over a limited number of years, the company's financial statements did not disclose, on prudential basis, the related tax benefit of Euro 12.9 million.

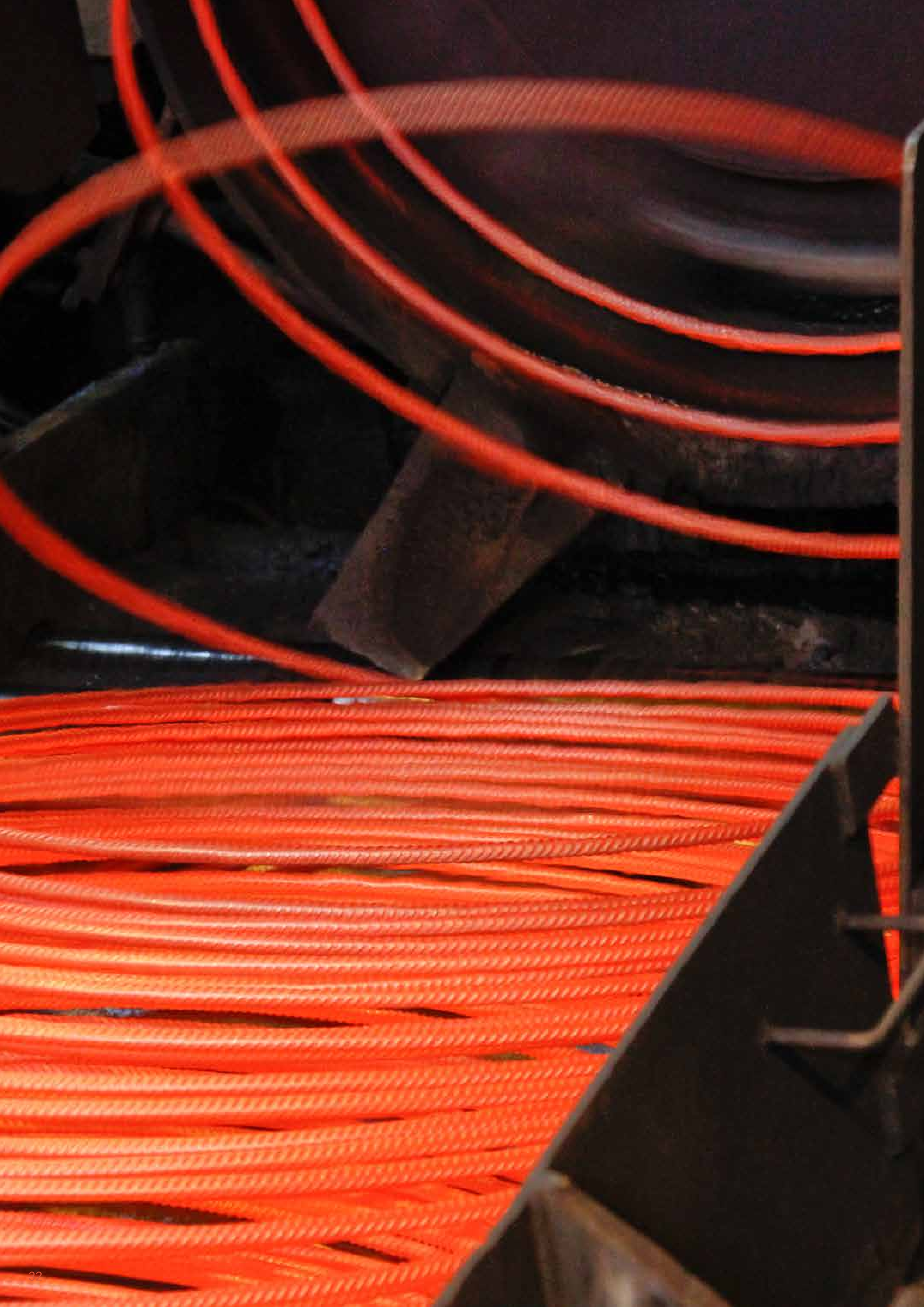
The most significant information about the Company's production units is provided below:

— Electric steel plant comprising electric furnace, ladle furnace, continuous casting system for billets / blooms;

— Rolling mill comprising TG&P continuous mill with 21 cages for sections/beams;

— Rolling mill comprising TPP continuous mill with 20 cages for small sections.


LME



# 4
# The Subsidiary Stahl Gerlafingen A.G.

As reported above in point D. "Structure of the Beltrame Group", the Parent Company holds the entirety of the company's share capital.

The values shown below differ from those of the company's filed financial statements because they were adapted for consistency with Italian accounting standards, used to prepare the consolidated financial statements.

| **Income statement** (in thousands of Euro) | **2019** | **2018** |
|---|---|---|
| Revenues from sales (A.1 + A.5) | 342,343 | 359,354 |
| Value of operating production (A.1 + A.2 + A.3 + A.4) | 340,362 | 364,593 |
| - External operating costs (B.6 + B.7 + B.8 + B.11 + B.14) | 283,540 | 301,156 |
| VALUE ADDED | 58,203 | 65,725 |
| % | 17.00% | 18.29% |
| - Personnel costs (B.9) | 44,767 | 41,429 |
| EBITDA | 13,436 | 24,296 |
| EBITDA adjusted | 16,097 | 24,296 |
| % | 4.70% | 6.76% |
| - Amortisation, depreciation and allocations to provisions (B.10 + B.12 + B.13) | 14,461 | 13,233 |
| OPERATING PROFIT (LOSS) | (1,025) | 11,063 |
| +/- Profit (loss) from the financial area (C + D) | (1,588) | (445) |
| GROSS PROFIT (LOSS) | (2,613) | 10,618 |
| - Income taxes | 0 | 0 |
| NET PROFIT (LOSS) | (2,613) | 10,618 |

| **Statement of Financial Position** (in thousands of Euro) | **2019** | **2018** |
|---|---|---|
| Tangible and intangible fixed assets | 110,094 | 110,354 |
| Financial fixed assets | 332 | 319 |
| Trade receivables | 2,006 | 2,938 |
| Trade payables | 62,098 | 59,919 |
| Closing balances of warehouse facility | 51,526 | 54,451 |
| Other current assets and liabilities | 3,026 | 3,069 |
| ***Net working capital*** | (5,540) | 539 |
| Provisions for risks and charges and severance indemnity | 2,961 | 4,343 |
| ***Capital resources, net*** | 101,925 | 106,869 |
| Shareholders' equity | 75,603 | 75,397 |
| ***Net financial position*** | 26,322 | 31,472 |

| Indicators | 2019 | 2018 |
|---|---|---|
| Operating cash flow (in thousands of Euro) | 12,426 | 26,782 |
| Cash flow for technological investments (in thousands of Euro) | (7,761) | (14,255) |
| Equity / fixed assets ratio (MP / Af) | 0.68 | 0.68 |
| Equity plus consolidated liabilities / fixed assets ratio [(MP + Pml) / Af] | 1.02 | 1.11 |
| Debt to equity ratio [(Pml + Pc) / MP] | 1.39 | 1.52 |
| Debt (long-term interest bearing) to equity ratio (Pfn / MP) | 0.35 | 0.42 |
| Current assets / current liabilities ratio (Ac / Pc) | 1.04 | 1.18 |
| Deferred liquidity + immediate liquidity / Current liabilities ratio | 0.28 | 0.37 |
| Ebitda adjusted / net revenues | 4.70% | 6.76% |
| Financial charges, net / net revenues | 0.46% | 0.12% |
| Labour cost / net revenues | 0.13 | 0.12 |
| Pfn / Ebitda adjusted | 1.64 | 1.30 |

KEY:
MP: Shareholders' equity — Pml: Consolidated liabilities — Pf: Net financial position
Af : Fixed assets — Pc: Current liabilities — Ac: Current assets

Revenues from sales, totalling Euro 342,343 thousand, decreased compared to the previous year as a result of the significant decline in the prices of steel products. The decrease, mostly tied to the downturn of the average prices of commodities in the year, amounted approximately to 4.7% compared to 2018. Volumes shipped amounted to 659 thousand tonnes (637 thousand tonnes in 2018).

Despite the continuous improvement in efficiency and industrial performance, the profitability of the Swiss production facility was down due to the reduction in the commercial margins of the European construction markets and the inflationary dynamic of energy costs.

The financial structure of the company shows overall net financial indebtedness of Euro 26.3 million, down by a total of Euro 5.2 million compared to December 31, 2018, mostly as a result of the significant cash flows generated by operating activities.

The most significant information about the Company's production units is provided below:

- electric steel plant comprising electric furnace, with 80 t nominal capacity, ladle furnace, continuous casting system for billets and blooms;
- 1 continuous rolling mill for rods, reinforced concrete rebar and wire rod;
- 1 continuous rolling mill for sheets and broad plates, sections and beams;
- 1 system for the production of welded wire meshes;
- 6 rewinders.

# 5
# The Subsidiary Donalam S.r.l.

As reported above in point D. "Structure of the Beltrame Group", the Parent Company 80,36% of the company's share capital. The minority interest is held by FINEST S.p.A..

The highlights from the consolidated financial statements of Donalam SRL and of its subsidiary Donalam Siderprodukte AG (Switzerland) are summarised below. The values shown below differ from those of the company's filed financial statements because they were adapted for consistency with Italian accounting standards, used to prepare the consolidated financial statements.

| **Income statement** (in thousands of Euro) | **2019** | **2018** |
|---|---|---|
| Revenues from sales (A.1 + A.5) | 78,259 | 102,594 |
| Value of operating production (A.1 + A.2 + A.3 + A.4) | 72,355 | 98,153 |
| - External operating costs (B.6 + B.7 + B.8 + B.11 + B.14) | 69,093 | 88,486 |
| VALUE ADDED | 4,592 | 12,903 |
| % | 5.87% | 12.58% |
| - Personnel costs (B.9) | 4,028 | 3,671 |
| EBITDA | 564 | 9,232 |
| EBITDA adjusted | 564 | 7,326 |
| % | 0.72% | 7.14% |
| - Amortisation, depreciation and allocations to provisions (B.10 + B.12 + B.13) | 3,214 | 3,646 |
| OPERATING PROFIT (LOSS) | (2,650) | 5,586 |
| +/- Profit (loss) from the financial area (C + D) | (1,770) | (1,403) |
| GROSS PROFIT (LOSS) | (4,420) | 4,183 |
| - Income taxes | (56) | (30) |
| NET PROFIT (LOSS) | (4,476) | 4,153 |

| **Statement of Financial Position** (in thousands of Euro) | **2019** | **2018** |
|---|---|---|
| Tangible and intangible fixed assets | 34,232 | 34,845 |
| Financial fixed assets | 5 | 5 |
| Trade receivables | 6,388 | 8,239 |
| Trade payables | 23,988 | 35,583 |
| Closing balances of warehouse facility | 21,950 | 29,499 |
| Other current assets and liabilities | (1,126) | (484) |
| ***Net working capital*** | 3,224 | 1,671 |
| Provisions for risks and charges and severance indemnity | 80 | 57 |
| ***Capital resources, net*** | 37,381 | 36,464 |
| Shareholders' equity | 25,002 | 30,218 |
| ***Net financial position*** | 12,379 | 6,246 |

# H

| Indicators | 2019 | 2018 |
|---|---|---|
| Operating cash flow (in thousands of Euro) | (2,603) | (3,216) |
| Cash flow for technological investments (in thousands of Euro) | (3,379) | (2,442) |
| Equity / fixed assets ratio (MP / Af) | 0.73 | 0.87 |
| Equity plus consolidated liabilities / fixed assets ratio [(MP + Pml) / Af] | 1.03 | 1.17 |
| Debt to equity ratio [(Pml + Pc) / MP] | 1.60 | 1.69 |
| Debt (long-term interest bearing) to equity ratio (Pfn / MP) | 0.50 | 0.21 |
| Current assets / current liabilities ratio (Ac / Pc) | 1.03 | 1.15 |
| Deferred liquidity + immediate liquidity / Current liabilities ratio | 0.30 | 0.42 |
| Ebitda adjusted / net revenues | 0.72% | 7.14% |
| Financial charges, net / net revenues | 2.26% | 1.37% |
| Labour cost / net revenues | 0.05 | 0.04 |
| Pfn / Ebitda adjusted | 21.96 | 0.85 |

KEY:
MP: Shareholders' equity
Af : Fixed assets
Pml: Consolidated liabilities
Pc: Current liabilities
Pf: Net financial position
Ac: Current assets

Revenues from sales, totalling Euro 78,259 thousand, decreased compared to the previous year by around 23.7% as a result of the reduction in volumes and the significant decrease in the prices of steel products. Volumes shipped amounted to 109 thousand tonnes (124 thousand tonnes in 2018).

The company's financial structure highlights an overall net financial indebtedness of Euro 12.4 million, up by Euro 6.2 million as at December 31, 2018.

The market situation of user sectors, particularly automotive, oil & gas plants and earth moving equipment, is experiencing a highly critical period. Even large competitors of Donalam are suffering from this situation, leading to a sudden drop in volumes and sale prices, therefore reducing margins. The market is expected to recover starting in the second half of 2020.

The productive structure of the company consists of a rolling mill with 4 cages for large sections and bars. In 2012, the system was equipped with the necessary machinery for the production of medium and large thickness plates.

H

# 6
# The Smaller Companies

## Sipro Beltrame AG (Zurich - Switzerland)

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Current assets | 4,310 | 4,743 |
| Total assets | 4,310 | 4,743 |
| Liabilities | 3,614 | 4,063 |
| Shareholders’ equity | 696 | 680 |
| Revenues | 28,664 | 29,632 |
| Net profit (loss) | 85 | 97 |

The Company carries out trading activities in some Central European countries of the merchant bars produced by the Parent Company and the subsidiaries Stahl Gerlafingen AG and Laminés Marchands Européens S.A..

## Laminoirs du Ruau S.A. (Monceau sur Sambre - Belgium)

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Current assets | 771 | 1,507 |
| Total assets | 1,024 | 1,760 |
| Liabilities | 3,584 | 3,456 |
| Shareholders’ equity | (2,560) | (1,696) |
| Net profit (loss) | (864) | (1,751) |

The Company, wholly owned by the subsidiary LME S.A., owns the industrial site, where production ceased definitively in 2011.
Currently, the only activities pertain to in-depth studies of the environmental issues connected with the future use of the site, to maintaining the residual assets and seeking potential buyers for the industrial site.

## Ferriera Sider Scal S.r.l. in liquidation (offices in Vicenza and site in Villadossola – Verbania Cusio-Ossola)

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Current assets | 1,749 | 1,967 |
| Total assets | 1,749 | 1,967 |
| Liabilities | 2,318 | 2,526 |
| Shareholders' equity | (569) | (559) |
| Net profit (loss) | (10) | (1,869) |

The company owns a production facility in Villadossola (VB) which, in 2008, ceased definitively its production. The rolling mill was definitely dismantled and sold in 2017.
The production site, active since the end of the 19th century, was purchased by the company in October 2001. Previously, for the time interval that goes from March 2000 to October 2001, it was operated by another subsidiary of the Parent Company.
Currently, the company is engaged in the management of two environmental issues. The first one is related to the presence of contaminated materials located at the production site for which we are waiting for the service conference to be called for the approval of additions made to the reclamation project.
The second issue is related to areas outside the plant, in particular to the bed of a canal which crosses the site and to lands located downstream of the site, where contaminated materials were found.

## Metal Interconnector S.c.p.A. (registered office in Milan)

Metal Interconnector is a joint-stock Consortium Company, established by companies in the steelmaking segment and in other energy-intensive sectors of the Italian industry, such as the non-ferrous metallurgy, also including companies in other segments (wood, paper, chemistry, concrete and glass). This consortium was established in the second half of 2014. Metal Interconnector represents energy-intensive companies with a high impact of electricity consumption on their production. It includes little less than 70% of companies that took part in the Terna bids, as envisaged by art. 32 "Fostering the creation of a single energy

market through the interconnector development and the involvement of energy-intensive end customers" of Law no. 99 of 2009.

The consortium is intended to be an instrument to fund the electric interconnection lines between Italy and other Countries, which will permit other shareholder companies involved to use the same lines, as soon as operational and in proportion to the level of investment made.

Two initiatives assigned to the investees are currently in the realisation/design phase:

- Interconnector Italia. A direct current "Italy-France" interconnection between the Piossasco and Grande Ile nodes. The project will make the electricity border with France the most important one for our country, increasing the cross-border interconnection capacity by 1200 MW from the currently roughly 3 GW to more than 4 GW, of which 350 MW already available under the exemption right to the Selected Parties. On July 26, 2019, on mandate of the Selected Parties, a request for exemption for additional capacity of 250 MW on the border with France was submitted to the Ministry of Economic Development.
- Interconnector Energy Italia. This project calls for the creation of a direct current 500 kV interconnection line between the stations of Villanova (IT) and Lastva (ME) with a route, part in undersea cable and part in underground cable, of roughly 445 kilometres. The entry into operation of the first interconnection module will make it possible to create an interconnection capacity of 600 MW already at the end of 2019. Of the 600 MW associated with the first module, 200 MW will be available under the exemption right to the Selected Parties.

# I Productions

## 1. The Production Process

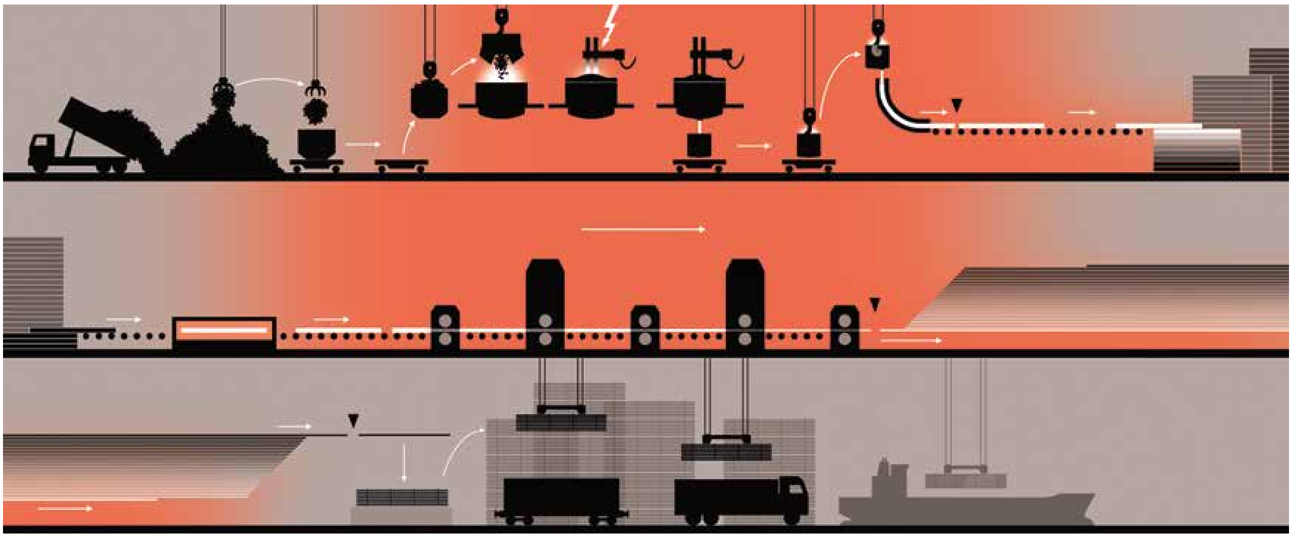
The first stage of the production process entails melting the raw material consisting of scrap iron in the Electric Arc Furnace (EAF), at a temperature of approximately 1,600 °C. The operation is carried out through the electric arc of the graphite electrodes inserted in the furnace. Once melting is completed and the chemical and temperature analyses are carried out, the unimproved liquid steel is drawn through an opening located in the lower part of the furnace into a container (ladle) and transferred to the ladle furnace where ferroalloys are added as necessary to obtain the desired steel quality and where the cast is purified with the removal of the extraneous elements that are typically present.

The container (ladle) containing the liquid steel is carried from the improvement furnace to the "continuous casting machine". At this point the liquid steel is moved to a container coated with refractory material (tundish) which feeds multiple solidification lines (steel parallelepipeds with square or rectangular cross section and variable length from 4 metres to 12 metres) and cut to measure by oxy-fuel cutting.

The billet still at temperature can be used immediately for the rolling process or cooled and stored.

The final stage of the process, called rolling, takes place in the unit called "rolling mill", where the semi-finished product, before being worked over, is brought to a temperature of approximately 1,050 °C.

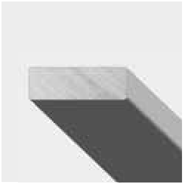
In this unit, the semi-finished product is plastically deformed in consecutive steps by making it pass through pairs of opposed rollers until obtaining the desired section and subsequently cut by a flying shear, before it enters (at approximately 950 °C) the cooling plate with moving blades and lastly it is introduced into the product storage warehouse.

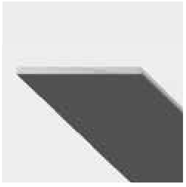


## 2.
## The Products

The sections produced in the Group's plants are illustrated below:

### Merchant bars


Flat bars


Universal flats


Equal angles


Unequal angles


Sharp edged equal angles


Sharp edged unequal angles

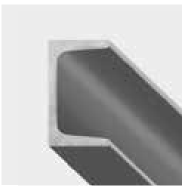

T bars

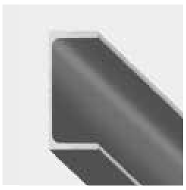

Small U-channels

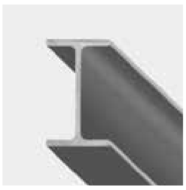

Squares


Rounds

### Beams


Rolled Beams UPN


Rolled Beams UPE/UAP


Rolled Beams IPE


Rolled Beams IPN


Rolled Beams HE

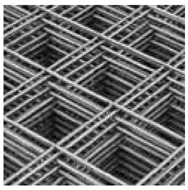
### Special steel SBQ and reinforcing steel


Special Bar Quality SBQ


Reinforcing bars topar-S 500C


Reinforcing bars topar-Rc in compact rings


Wire rod


Stock meshes
Connecting systems
Distance cones

J

# EHS system management - Environment, Health and Safety

The sustainable development and the continuous improvement have always been the fundamental priorities for the Beltrame Group, considered as key prerequisites for the safeguard of people and the environment, thus guaranteeing the rights of future generations.

In line with its own Code of Ethics, the Beltrame Group considers caring for and protecting the safety and health of the workers and of the environment in which it operates to be fundamental principles to adhere to in exercising its own activities. This vision is put in practice by promoting communication with the employees, providing them with adequate training and continuous awareness and involvement work.

The headquarters in Vicenza is tasked with harmonising the activities pertaining to Environment, Health and Safety (EHS) Management, defining the action lines, checking their application and coordinating the activities carried out in individual plants. The resources allocated to each plant are specifically trained and dedicated to the management of these activities.

The Group intends to adhere to the following principles:

— integrating the concepts of environment, health and workplace safety in its corporate management;

— evaluating beforehand the risks of each work activity carried out within the Group's sites, in order to take adequate actions to prevent work-related injuries or illnesses and to minimise, insofar as it is technically feasible, the severity and likelihood of such events;

— voluntarily complying with the laws and the other prescriptions pertaining to workers' health and safety and environmental protection, through continuous updates and timely verification of fulfilment of the

prescribed obligations;

— favouring a continuous and effective communication activity with all involved parties (employees, customers, contractors, suppliers, agencies, institutions, citizens) and information / training, when required, in relation to health, safety and environmental matters, in order to assure an adequate level of awareness;

— constantly monitoring, for continuous improvement, the environment aspects and the residual risks for health and safety, using adequate control instruments and monitoring systems.

Based on the principles expressed above, the Group develops programmes oriented to the continuous improvement of the efficiency and effectiveness of its own processes and systems, defining objectives and targets to:

— promote the reduction of risks of injury, work-related illnesses, the workplace health and safety of all personnel;

— pursue the reduction of its own significant environmental impacts (atmospheric emissions, production of waste, energy consumption and water consumption).

In this context, the Group carried out important investments, both on plants and machinery, and in the development of its human resources.

In 2019, the new Integrated Quality, Health, Safety and Environment Policy was released, as revised in relation to the content of the reference standards (e.g., ISO 14001 and ISO 45001), emphasising aspects relating to the context analysis, the involvement of all parties concerned and the continuous improvement of processes and company management systems.

The main activities and the results obtained in 2019 in relation to the protection of the environment, health and workplace safety and integrated management systems are illustrated below.

# 1. Environmental Protection

## 1.1 Environmental management

Operators in the steelmaking business are required to manage a number of environmental aspects. The Group has performed an impact assessment on its activities, products and services in order to manage and prevent environmental impacts, promoting the use of the best technologies available across all European countries in which it operates.

With regard to the activities connected with environmental protection, we note that during the year there were no cases in which the Group companies were finally declared liable in relation to harm to the environment or in which, in that regard, any penalties or punishments were assessed.

## 1.2 Improvement projects on environmental aspects

The projects for improvement in the management of environmental aspects carried out in 2019 pertained to:

- the optimisation of waste management at the Trith Saint Léger site with the "Ambassadeurs du tri" (separated waste collection ambassador) initiative, which involved personnel in training and information activities and a subsequent competition intended to obtain a level of separated collection exceeding 95%;
- the biodiversity analysis for the Trith Saint Léger site, as a pilot for the Group, in order to understand the current situation and define actions in the field of biodiversity promotion;
- the completion of the installation and deployment of the steel plant continuous emissions monitoring system (Vicenza);
- the construction of a new warehouse for the storage of chemicals (Gerlafingen);
- the consolidation of in-house recycling of materials resulting from the plant maintenance activities, with recovery of magnesium and aluminium materials used in lieu of raw materials (dolomite, bauxite). It was thus possible to achieve savings, in 2019 as well, of natural resources corresponding to approximately 50,000 kilograms of $CO_2$ equivalent, for the Vicenza and Trith Saint Léger facilities;
- the renovation work on the network for the collection and treatment of rainwater of the Saint Léger steel plant site, where in November 2019 rainwater treatment tests were launched to identify the best applicable technologies;
- the implementation and extension of measures to improve work space quality, by installing spray dust abatement systems on hot rolling lines (Saint Léger and Vicenza);
- the installation of new filtering emission systems in the rolling line workshops (Vicenza);
- the work to complete the rainwater collection network in the Altavilla area, at the Vicenza site (parking lot and storage area), with the installation of a rolling and sedimentation tank and connection shafts and the relative pipes connecting to the existing oil separator;
- the preparation of a new temporary mill scale storage area (San Giovanni Valdarno site);
- the optimisation of wastewater monitoring at the Gerlafingen site;
- the revamping of the cooling water tornado descaler at the Calarasi site;
- the reduction of the consumption of wood used to package the finished products of the Calarasi site.

## 1.3 Eco-Index

In order to monitor their own environmental performance and direct their improvement plans, all the Group's plants are provided with an instrument called "Eco-index", which integrates the main environmental aspects and relative impacts in a single parameter, easy to read and visualised on a dashboard. The indicator is specific for each Group site and is based on specific impacts and improvement objectives of the individual site.
In 2019, the Eco-Index (average of the trend of all companies) was 86%.

## 1.4 Environmental authorisations

All of the Group's EU sites operate in compliance with the IPPC Directive and according to the requirements of the specific authorisations issued by the competent entities. In Switzerland, environmental authorisations are issued by the competent AFU (Amt für Umwelt – Office for the Environment).
The Italian plants operate within the scope of the IPPC (Integrated Pollution Prevention and Control) Directive and they are subjected to periodic checks by the Authorities (Provincial Administrations and ARPA) to verify compliance with the regulatory and prescriptive provisions set out in Integrated Environmental Authorisations.
In 2019, the checks carried out by the Regional Environmental Agency certified full compliance with regulatory prescriptions (at the San Giovanni site in Vicenza, the check is planned for 2020).
The activities planned by AIA 17/2017 continued during the year at the Vicenza plant, in compliance with prescribed deadlines or in any case with authorised extensions.
In particular, the continuous emissions monitoring system (EMS) was installed and the relative monitoring system management manual was presented, the data acquired by the system were validated and a report was sent to ARPAV and the Province of Vicenza regarding the validation of data acquired by the system (EMS) and any amendments to the management manual. This system serves the E21 emission point linked to the steel plant unit (extraction of steel plant fumes).
The third-party certification was maintained again in 2019 for the production system of an industrial aggregate, called Beltreco, deriving from the processing of electric furnace slag in the Vicenza plant, according to the reference standards: EN 13242:2002+A1:2007 (roadbeds) Beltreco 0/90 and Beltreco 0/40 and EN 12620:2002+A1:2008 (aggregates for concrete). The surveillance audit by the supervisory body RINA took place on May 31, 2019.
In 2019, also following a national regulation scenario on secondary materials of uncertain interpretation, there were some difficulties in identifying civil or infrastructural works in which the Beltreco industrial aggregate, which is produced from the processing of furnace slag, could be used (similar difficulties also emerged for the similar Swiss product, called Ruvido), with consequent disposal to landfill of a significant portion of material. For this reason, the quantity of waste produced and disposed of as such showed a marked increase beginning in 2018 and that trend continued in 2019. Several innovative projects are under way to identify possible uses of the Beltreco product as a noise barrier (the product has

been shown to have excellent soundproofing and sound absorbing qualities) or other uses in composite form (e.g., concrete).
Energy efficiency projects also continued to be carried out to reduce consumption and use energy more efficiently. In addition to the projects already initiated in previous years (e.g., reduction in Power Off time on electric arc furnaces (EAF), the optimisation of rolling and steel plant shut-downs, management of billet heating furnaces), in the course of 2019 a re-lamping project was implemented with LED lights, through an EPC (Energy Performance Contract), at various industrial facility sites and areas (e.g., in Vicenza the replacement of steel plant lighting, parking lot high mast lighting).

## 1.5 CO2 quota assignment

Greenhouse gas emissions under Italian Law 316/2004 can be summarised below:

| | 2018 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | AFV | LME | Donalam | AFV | LME | Donalam |
| Assignments | 111,137 | 73,535 | 13,538 | 108,899 | 72,055 | 13,274 |
| Purchase of quotas | 0 | 50,000 | 0 | 0 | 0 | 0 |
| Sale of quotas | 0 | 0 | 0 | 0 | 0 | 0 |
| Emissions | 107,947 | 77,208 | 15,223 | 90,732 (*) | 67,000 (*) | 13,097 (*) |

Note (*): The value specified for 2019 is updated at November 2019.

It is noted that pursuant to the MiFID2 directive, the CO2 emission allowances (EUAs) were considered as equivalent to a financial instrument.
The Gerlafingen plant is not within the scope of the ETS (Emission Trading System) and is subject to the obligations prescribed by Swiss Law no. 641.71 "Federal law on the reduction of CO2 emissions".
Extending the horizon to the so-called IV allocation period (valid for the years 2021-2030), all plants completed the collection of historical data required by the European Union and, to date, the preliminary assignments of quotas expected for the year 2021 have been valued within a range as indicated below. The criteria for defining the actual values are not yet known.
In any event, the matter of the ETS will be significantly influenced in the coming years by the "Green Deal" announced by the European Commission (Carbon Neutrality by 2050). The values provided in the table above may therefore be modified due to ambitious projects for the reduction of permitted CO2 emissions.

# 2. Workplace Safety

## 2.1 Workplace safety management

Workplace health and safety activities are some of the primary assets of our Group. To optimise them, we have made the utmost commitment to worker information, instruction and training, the evolution of plant engineering and of work environments and constant improvements in the company health and safety management system. Activities pertaining to workplace health and safety continued throughout 2019.

## 2.2 Main initiatives

The following table shows a list of examples related to the main interventions carried out in the various fields:

— a monthly meeting of the EHS Committee was held in all Group sites. Particularly for the Italian plants, the committee meeting is periodically held for the three production facilities, and the invitation to attend the meeting is extended to persons in charge, according to the issues discussed;

— the "safety walk and talk" behaviour audit programme continued, with the involvement of managers and team leaders as in-field auditors, with a view to correcting unsafe behaviours and promoting the adoption of the safe behaviours that have been defined as "key";

— roughly 27,000 training hours on health and safety were provided across all sites. The main topics concerned basic and

specific training for Workers, Foremen and Managers, the safe use of work equipment (e.g. shovels, forklifts, gantry cranes), first aid and use of defibrillators (BLSD), work at heights and access to restricted spaces;

— the need for reporting continued to be promoted with respect to near misses, dangerous conditions and unsafe behaviours and related definition of the consequent improvement actions. At the Group level, 513 situations were reported, for which improvement actions were carried out;

— the fifth edition of the Group Safety Day was organised, involving over 2000 people including employees and external entities / organisations. Safety Day took place in different ways and with different timing in the various Group companies and focused on key topics of prevention and the promotion of a culture of safety (e.g., in Trith Saint Léger there was a focus on safe and sustainable driving; in Vicenza the focus was on behaviours and attention to safety; in San Giovanni the focus was on medical treatments and environmental emergency management, in Calarasi the focus was on working at heights; in San Didero the focus was on the safety formula and separated waste collection);

— employees were involved in the risk assessment and the management of the behaviours to be followed in emergency cases;

— new raised access systems were implemented (walkways, ladders, lifelines), along with risk management systems to prevent falls;

— the LO.TO.TO (lock out - tag out - try out) system was implemented with the isolation of all energy sources on occasion of interventions on machinery and plants through adequate procedures and the purchase of energy locking and shut off devices in plants under maintenance;

— the project for the improvement of safety plants and work equipment was completed according to the evolution of technical standards involving Group plants (MASAI – Machine Safety Improvement project);

— access and segregation systems (e.g., with access inter-locking, installation of trap key systems and security PLC) in at-risk areas were extended;

— works were implemented for fire prevention and the obtaining of compliance certificates (activity no. 48 of the Presidential Decree 151/11 for transformers with > 1 mc potentially inflammable liquids) that will be continued in the next few years (Vicenza - San Didero - San Giovanni);

— A safety campaign was carried out at the Trith Saint Léger site relating to hand injuries (Prévention des accidents de la main et des doigts);

— at the Italian sites (Vicenza, San Didero, San Giovanni Valdarno), in order to further promote environment, health and safety matters in the company, the new EHS TUTOR role was established. The EHS TUTOR is a team member who carefully checks EHS aspects every day and actively contributes to problem solving while promoting an EHS culture.

## 2.3 Group EHS Roadmap

In 2019, in all Group plants, the "EHS Roadmap for Excellence" programme continued with the following main activities:

- Implementation of the Group's EHS standards, i.e. ten defined, applied and monitored standards:
  1. H&S Reporting and Investigation and Environmental reporting;
  2. Mobile Equipment;
  3. Work at Height;
  4. Housekeeping and 5s implementation;
  5. Contractor Safety Management;
  6. EHS Audit – EHS Scorecard;
  7. Energy Isolation and LO.TO.TO.;
  8. Liquid steel (management of risks linked to liquid steel and slag in all movement and transport phases);
  9. SWAT programme;
  10. JSA – Job safety analysis for non-routine operation risk assessment;
- definition of a specific improvement plan by individual site (EHS Roadmap);
- monthly meetings of the EHS Committee in all companies;
- monthly calls for coordination and sharing amongst the companies;
- execution of the EHS Group meeting.

J

## 2.4 Work-related injuries and illnesses

With regard to injuries, we point out that the Group recorded progressive improvement in terms of injuries in recent years.
The following table shows the details with LTIFR = Lost Time Injury Frequency Rate. The reporting standard defined at Group level considers in the LTIFR calculation all injuries that entailed at least one day of work lost.

| Year | LTIFR AFV Beltrame | LTIFR LME | LTIFR DONALAM | LTIFR STAHL GERLAFINGEN | LTIFR Beltrame Group |
|---|---|---|---|---|---|
| 2009 | 74.12 | 95.76 | 0.00 | 43.78 | 60.61 |
| 2010 | 64.28 | 63.95 | 10.36 | 39.71 | 50.93 |
| 2011 | 73.57 | 15.54 | 2.71 | 43.82 | 50.19 |
| 2012 | 61.27 | 51.30 | 2.26 | 39.85 | 44.69 |
| 2013 | 59.53 | 64.99 | 2.71 | 35.28 | 43.77 |
| 2014 | 39.16 | 34.03 | 0.00 | 30.11 | 29.81 |
| 2015 | 38.93 | 51.55 | 2.05 | 10.53 | 27.88 |
| 2016 | 23.96 | 21.34 | 6.29 | 15.73 | 18.45 |
| 2017 | 11.42 | 11.99 | 2.03 | 17.65 | 11.86 |
| 2018 | 12.75 | 17.02 | 5.67 | 10.63 | 12.02 |
| 2019 | 29.92 | 35.16 | 0.00 | 28.22 | 25.75 |

In 2019, there was an increase in the frequency index (LTIFR) by roughly 14 points. The injury cause analysis (LTI) showed that the main reasons were:

- Behavioural in 61% of cases;
- Technical in 19% of cases;
- Organisational in 16% of cases;
- Undefined in 4% of cases.

Injury prevention programmes will be set up addressing these causes in 2020. In particular:

- preparation of an operating standard for the prevention of accidents linked to stumbles and slips, with a reference to the behavioural standards to be followed;
- definition of a calendar of thematic Workshops for accident prevention with the participation of the Top Management, Managers and supervisors of the company, to review the analyses of causes and define specific action plans;
- increase in SWAT (Safety Walk and Talk) with a greater focus on behavioural aspects.

In 2019 no cases were reported with definitive responsibility for claims related to liabilities for work-related illnesses or causes of mobbing.

J

## 3. Health, safety and environment investments

The main investment projects for the management of environment, health and safety concern the following:

— maintenance of the BS OHSAS 18001 (Health and Safety at Work Management System) certification at LME and Stahl Gerlafingen and transition to ISO 45001 for AFV (all Italian sites) and Donalam;

— maintenance of the EDP certification (Environmental Product Declaration for merchant bars and reinforced concrete rebar);

— with the coordination of the CTF (Central Technical Function) and the Group EHS Department, start of a project for the assessment of possible robotic / industry 4.0 applications for the management of activities that involve exposure to various risk factors. For example, the robot installed at the Vicenza LF furnace;

— definition of a project to reduce the risks related to the exposure to liquid steel in all the steel plants of the group, with the definition of new procedures, segregation of areas and specific controls on the equipment involved in the route of liquid steel;

— improvement of plant and machine tool safety in all the sites of the Group (MASAI – Machine Safety Improvement project);

— investments for the improvement of the road system and signage on the sites in order to control the risks linked to the vehicles – pedestrian interferences;

— re-lamping implementation: new lighting of production areas (e.g. scrap metal area in Vicenza and Gerlafingen plants);

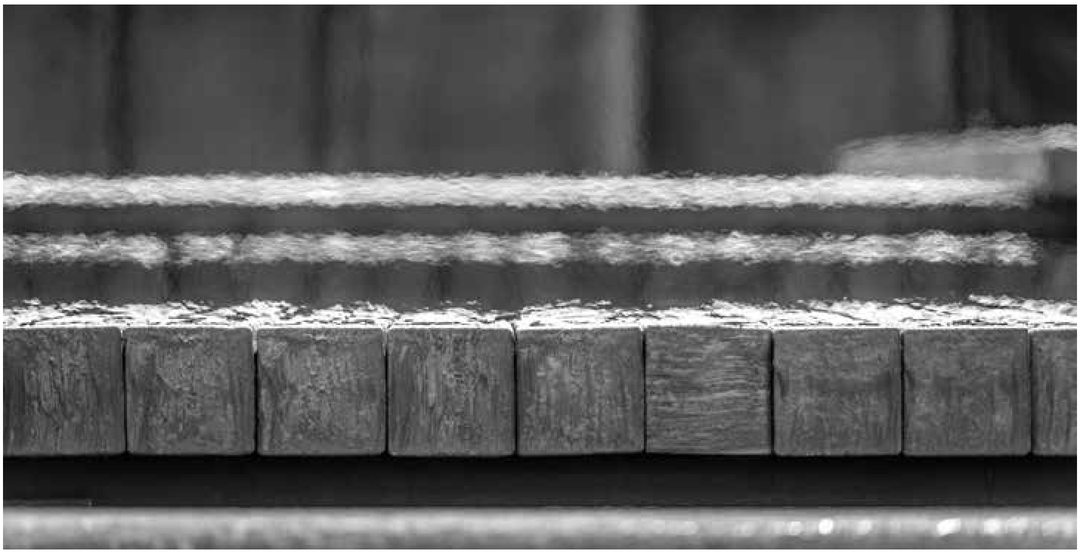
— optimisation of installations of spray dust abatement systems on hot rolling lines (for example in the Vicenza and Trith Saint Léger sites);

— adjustments linked to fire safety (e.g., fire doors);

— CC2 casting room vapour aspiration and expulsion modifications (Vicenza);

— installation of lifelines and fall prevention devices (e.g., Vicenza new lifeline on the EAF furnace roof);

— project for the improvement of machine / plant safety and revamping (e.g., Pomini evacuation, adaptation of SIMAC/POMINI packer, metalisation bench, machine tools).



# 4. QHSE Integrated Management System

To guarantee the principles of the code of ethics and of the quality, health and safety, and environment policies (QHSE), the Group adopted an Integrated Management System. The purpose of this system is to facilitate the process for the identification, registration and measurement of QSA results, in order to drive the continuous improvement process. The obtaining of a certification, by an external entity, is the logical step to implement a management system. The target is to obtain a credited and independent acknowledgement of the Group's commitment.

Standards adopted:

- ISO 9001:2015 - Quality management systems;
- ISO 14001:2015 - Environmental management systems – Requirements and user guide;
- OHSAS 18001:2007 or ISO 45001 - Occupational health and safety management systems - Requirements;
- ISO 50001:2011 - Energy management systems - Requirements with guidance for use.

The obtaining of certifications allowed for the evolution of performance, thus facilitating the measurement of performance and ensuring the control of corporate processes.

The table below shows the situation of the certifications obtained by the Group's plants as at the ending date of the 2019 financial year.

| | | Quality Management System | Environmental Management System | Health and Safety Management System | | Energy Management System |
|---|---|---|---|---|---|---|
| **Company** | **Site** | **EN ISO 9001** | **EN ISO 14001** | **BS OHSAS 18001** | **ISO 45001** | **ISO 50001** |
| AFV Acciaierie BELTAME SPA | Vicenza | x | x | - | x | - |
| | San Didero (TO) | x | x | - | x | - |
| | San Giovanni Valdarno (AR) | x | - | - | x | - |
| STAHL GERLAFINGEN AG | Gelafingen (CH) | x | x | x | - | - |
| LAMINÉS MARCHANDS EUROPÉENS LME | Trith Saint Léger (F) | x | x | x | - | x |
| S.C. DONALAM SRL | Calarasi (RO) | x | x | - | x | - |

J

In 2019, the Group:

— confirmed the certification of the environmental management system for all companies (ISO 14001);

— confirmed, following the surveillance and certification audits, the certification of the compliance of the safety management system with the OHSAS 18001 regulations for LME and Stahl Gerlafingen;

— obtained, amongst the first companies in the sector, the ISO 45001 certification for AFV Beltrame and Donalam.

In particular, the ISO 45001 standard has many new elements compared to the former BS OHSAS 18001. The main new features of ISO 45001 regard the analysis by the organisation of the context in which it is operating, as well as the needs and expectations of the parties concerned, as requirements “preparatory” for the proper set-up of the entire HSMS (health and safety management system). The standard clearly outlines the purposes of these new activities, the essential objective of which is to understand the most important contextual issues which may positively or negatively (risks/opportunities) influence how the company handles its health and safety responsibilities. To that end, the context analysis aims to provide the organisation with a set of information that it must use - at strategic as well as operational level - to orient its efforts in the implementation and continuous improvement of the HSMS. Like the Context, the Leadership and consultation and participation of workers point is also new in ISO 45001; furthermore, there is also a particular focus on the concept of participation in safety management.

## 4.1 EHS Cross Audit

To complement the integrated system audits, in 2019 an EHS Cross Audit programme has been defined and implemented between the Group’s various sites.

The audits, coordinated by the group EHS department, are carried out by a team of Group auditors. The purpose of such audits is to monitor aspects of compliance, governance and operations management of the following areas of the Health and Safety Management System:

1. EHS Management System
2. Occupational health and safety
3. Reporting of accidents/injuries and near misses
4. Pollution prevention and control
5. Suppliers, Contractors and Visitors
6. Working at heights
7. Internal logistics and circulation plan
8. Isolation of energy sources (LOTOTO)
9. Machinery Safety
10. Workplace tidiness, cleanliness and organisation
11. Management of temporary workers
12. Heavy lifting (use of gantries and lifting accessories)
13. Use of Forklift Trucks
14. Management of emergencies
15. Protection of isolated workers
16. Restricted spaces
17. Risks linked to the presence of liquid steel / incandescent slag
18. Legionella risk prevention

19. Health surveillance
20. Collection and separation of waste

In 2019, the audits took place between October and November for 11 audit days, and involved 15 auditors across 6 production sites in 4 European countries.  The main areas for improvement emerging from the audits were the management of workplaces according to the 5S approach, restricted spaces in relation to guidelines defined at Group level, machinery safety and the management of environmental aspects in the field. The issues arising from such audits have been included in the specific improvement plans of each site.

J

## 5. 5 Environmental Product Declaration (EPD®)

The Group strongly believes in the journey of sustainability undertaken and sees the environmental product declaration (EPD) as a tool with multiple benefits: from external communication, to support for the marketing of our products and the assessment of environmental performance. The EPD can act as a veritable operational support in the continuous improvement process. In the current context, it is evident that the theme of environmental sustainability is strictly linked to performance and the success of every organisation, and this is particularly true for steel companies.

The Environmental Product Declaration (EPD®) is a voluntary product certification scheme developed in application of ISO 14025 (Type III environmental labels) according to the International EPD System Programme.
The EPD is a document that makes it possible to communicate objective, comparable and credible information relating to the environmental performance of products and services. The information contained in the EPD is exclusively informational/communicative as regards environmental performance, and there are no prescriptive performance thresholds.
The Beltrame Group developed the life cycle analysis and prepared an Environmental Product Declaration of hot rolled merchant bars and reinforced concrete rebar in coils.
In particular, the AFV Beltrame Merchant Bars EPD was validated and registered as part of the main international schemes (International EPD® System and Institut Bauen und Umwelt) and obtained validation from ICMQ with subsequent publication with the national Program Operator EPDItaly. Participation in the EPDItaly programme makes it possible to improve the visibility at international level and at the same time promotes the Italian commitment to environmental product declarations.
In 2019, the assessments of parameters linked to the product life cycle were updated, and the new documents were submitted.

## 6. Green Deal of the European Commission

On December 11, 2019, the European Commission officially presented its communication relating to the European Green Deal to the European Parliament in plenary session.
The Green Deal, considered the top political priority of the new EU executive, aims for decisive action for the climate, with the commitment to adopt already by March 2020 the “European Climate Law”, which will make the objective of climate neutrality by 2050 legally binding.
This is a veritable roadmap which announces the measures, legislative and otherwise, which the Commission undertakes to propose in the coming years to transform the European

economy from a sustainable perspective.

With reference to the topics of greatest interest for the steel sector, in the short/medium term this will entail:

— by the end of June 2020: an assessment of the definitive National Energy & Climate Plans;

— by the end of summer 2020: a proposal to increase the greenhouse gas emission reduction targets at 2030 from 40% to at least 50%, with the goal of "responsibly" reaching 55%;

— by the end of June 2021: a proposal to revise the energy taxation directive (ETD) and additional review proposals on the ETS, renewables and energy efficiency, in order to adjust legislation to the increase in the target at 2030;

— by the end of 2021: a proposal on the carbon border adjustment measure for certain specific sectors included in ETS (the steel sector could be amongst the first candidates).

A significant part of the communication is dedicated to the industrial strategy for the green and circular economy. In the words of President von der Leyen, the Green Deal is not only a tool to deal with the challenges linked to climate change and protection of the environment, but it represents the new growth strategy which aims to transform the EU into a more just, prosperous and modern society, with a more competitive and efficient economy.

K

## Opex – The Continuous Improvement programme of the Beltrame Group

OPEX BELTRAME

The Group's Continuous Improvement programme was launched in 2016, with the introduction of two functions: APC (Action Plan & Control) and OpEx (Operational Excellence).
This programme, which has been developed further in the course of the year, is based on the implementation of improvement projects across every area of the company which strive to achieve excellence in all processes.
The Programme's pillars are based on the support of strategic management activities, through Action Plan & Control (APC) and OpEx Project management techniques.
APC aims to ensure that planning is shared and respected for every strategic activity, and OpEx has the goal of training effective and efficient Project Leaders.
From 2016 to 2019, 118 group resources were trained on Lean Six-Sigma project management techniques which reduce variability (Six-Sigma) and improve flows (Lean Manufacturing); these resources belong to all company functions, so as to ensure the widespread dissemination of continuous improvement approaches. The projects were managed through dedicated work groups, attended by 14% of the Group's staff.
This process has resulted in the achievement of the certification recognised at international level by the British Quality Foundation: 53 team leaders earned the Green Belt certification by demonstrating project management abilities, and 9 the Black Belt certification, which in addition validates their statistical knowledge applied to processes.
Individuals dedicated to continuous improvement at each site identify team leaders and strategic projects, and then act as facilitators during project execution and in the disclosure of results.
A central structure supports the production sites and company departments in promoting best practice projects in the various plants and aligning those projects with management requirements.
Since the beginning of the Continuous Improvement programme, 290 improvement projects have been implemented, thus permitting significant savings, and more than 2,500 planned actions have been completed.
The OpEx and APC activities are, by now, entirely integrated within Group strategies and are directly involved in all high potential improvement projects.

L

# Adoption of the model pursuant to Italian Leg. Decree 231/2001

The Board of Directors of the Parent Company, to assure the best conditions of correctness, transparency and lawfulness in the execution of its own corporate functions, adopted, with the Board of Directors' resolution of December 15, 2008, the Organisation, Management and Control Model under Italian Legislative Decree no. 231/2001, which governs the company's administrative liability for unlawful acts by top managers or employees or contractors of the company in the interest or for the benefit of the company.

An integral part of the Organisational Model is the Code of Ethics, approved concurrently with the model, which contains the principles and rules of behaviour guiding the Beltrame Group's activity.

Considering that the Code of Ethics references principles of behaviour (including lawfulness, integrity and transparency) suitable also to prevent the unlawful behaviours under Italian Legislative Decree no. 231/2001, this document acquires relevance for the purposes of the Model and, therefore, it is complementary thereto.

## 1. Objectives

The purpose of the model is the construction of a structured, organic system of control procedures and activities, such as to allow, through a monitoring action on areas of activity at risk, to intervene promptly to prevent or contrast the perpetration of the types of offences contemplated by Italian Legislative Decree no. 231/2001.

## 2. Revisions

Through the years, the Model was revised in view of the new offences taken into consideration by the lawmakers as requirements for the enforcement of Italian Legislative Decree no. 231/2001.

Lastly, on December 19, 2019, the company's Board of Directors resolved to proceed with the update of the Organisation, Management and Control Model in order to apply new standards and organisational changes that occurred with respect to the previous reviews of the model, the last of which was approved on June 28, 2018.

## 3. Vigilance over the model and over the other internal control activities

The company appointed the Supervisory Committee to oversee the operation and compliance of the Organisational Model. The Supervisory Committee is vested with autonomous powers of initiative, expense and control and reports directly to the Board of Directors.
The company also appointed a Committee to coordinate internal control activities, with the task, inter alia, of coordinating the activities of the various corporate bodies and functions that act in the system of corporate controls and overseeing the adequacy of the overall internal control system set up by the company, periodically reporting to the Board of Directors.

# M Risk management

As is well known, since January 2020 the national and international scenario has been characterised by the spread of the Coronavirus and the resulting restrictive measures intended to limit it, enacted by the public authorities of the countries concerned, including Italy. These circumstances, which are extraordinary in terms of nature as well as extent, are having significant repercussions on global economic activity, creating a general context of uncertainty, the evolutions and relative effects of which cannot currently be predicted.

The effects of this macro economic context inevitably also affect the management of the risk highlighted below.

The objectives and policies for the management of the risks to which the companies of the Group are subject are indicated below:

**Risks connected with the Group's activity, strategy and operations**

The Group's profitability depends on reaching determined minimum sale volumes. Any reduction in sales would compromise the operating results and the financial situation of the Group because of the significant incidence of fixed costs. In addition, the Group is constantly engaged in the implementation of actions directed at containing costs and hence mitigating this risk.

**Risks connected with the performance of global financial markets, with the economy in general**

The Group's operating results and financial position can be influenced by various macroeconomic factors, including changes in the GDP, in the level of confidence of consumers and businesses, in interest rates, in the prices of energy and raw material, in particular in the Eurozone.
In general, demand in the steelmaking

M

segment has historically been subject to high cyclicity and tends to reflect the general performance of the economy, in most cases anticipating it and amplifying it. This tendency leads to a lack of predictability concerning product demand and consequently production volumes.

**Risks connected with trends in commodity markets**

The Group is affected to a significant extent by commodity prices, in particular scrap iron, electrodes, ferroalloys and energy costs, which represent two of the most important expenditure items. In case of significant price increases, the impact on the operating results and on the financial situations of the Group could be significantly negative. The Group constantly monitors the evolution of these cost factors on international markets and promptly adopts, if necessary, special procurement measures or hedging instruments available and deemed effective for its business model. The Group's commercial strategy is directed at reflecting these higher costs on sale prices and hence to the mitigation of this risk.

**Risks deriving from the high level of competition**

The sector where the Group's companies operate is characterised by a high level of competition where a limited number of significant producers is accompanied by numerous small entities (in particular in the transformation of semi-finished products into finished products). In particular, for the small players, a significant availability of semi-finished products originating from extra-European producers could give rise to a significant contraction of profit margins.

The steelmaking sector is also characterised by significant overcapacity. To date, the plant shutdowns by lower-performance producers has only partly reabsorbed the excess output, which continues to cause downward pressures on prices.

**Risks deriving from limitations in cash and cash equivalent and from limited access to loans**

The Group's companies could have a need to obtain additional loans in order to finance investment programmes or to address contractions in sales, which would have negative effects on working capital and on liquidity. The monetary policies implemented by the European Central Bank and situations of stress on the liquidity of Credit Institutions, in particular Italian ones, could weaken the financial situation and cause the contraction of the operating results, reducing the ability to fulfil the obligations assumed with respect to counterparties. The financial structure and the availability of additional credit facilities also enable the Group to mitigate this risk.

**Risks deriving from disputes**

The Group's companies are involved directly or through subsidiaries in disputes relating to the environment, concerning employees, and other disputes. The financial statements of the company report allocations that, in view of the uncertainty on the quantification and on the actual possibility that expenditures may manifest themselves, reflect the estimate of the aforesaid liabilities. The negative outcome of these disputes is not individually deemed significant, but the negative outcome of the disputes as a whole would in fact be significant. The Group's companies constantly

monitor the evolution of the disputes, also with the aid of outside advisors.

**Risks connected with international markets**

The Group operates mainly in the markets of Europe, North Africa and in the near Middle East. The situation of the near Middle East and North Africa has had, and continues to have, negative effects on the European economic development. A further deterioration of the situation in these areas could cause negative effects on the entire European economy and consequently on the Group.

The presence of extra-European producers with significant excess production, which benefit from support policies by their countries, could create distorting effects on the European market, which is the Group's reference market.

**Risks deriving from the Management's ability to operate effectively**

The Group's results are tied, to a large extent, to the top executives' and the management's ability to operate effectively. If the Group were not able to provide adequate incentives or to replace these persons with internal or external resources, the activities, the financial situation and the operating results could suffer from negative impacts. While there are no situations in these areas that may originate critical issues, the Group has defined training and experience paths which may make it possible to overcome the occurrence of such events.

**Risks deriving from regulations and government policies**

A significant part of the employees of the Group's companies are represented by unions and are subject to collective employment agreement and safeguarded by current labour regulations which can limit the Group's ability to rapidly reorganise activities and reduce costs in response to changes in market conditions. These limitations could negatively influence the ability to promptly adapt the Group's structures, without influencing other competitors, subject to less rigid regulations.

**Risks connected with changes on currency exchange rates**

The risks deriving from fluctuations in currency rates seem small, inasmuch as the vast majority of the activities is carried out in Euro.

In the case of the Swiss subsidiary Stahl Gerlafingen AG, the majority of revenues and costs are recorded in Swiss Francs and therefore the results are substantially balanced. Revenues from sales and purchase costs of scrap are expressed in local currency but strictly related to the price in Euro expressed by European markets.

Transactions denominated in other currencies are systematically monitored and generally hedged using specific financial instruments.

**Risks connected with interest rate changes**

The risk of variation of interest rates, mainly connected to the medium term financial debt whose interest rates are linked to the Euribor, is constantly monitored and generally managed through appropriate hedging instruments.

**Risks connected with changes in purchase and sale prices**

The risks of variations in the level of purchasing and selling prices, in particular for firm commitments, are mitigated due to a short operating cycle. The volatility of such prices which are often correlated but not synchronised, leads however to a significant residual risk to the inventory value and income margins in the short term.

**Credit risk**

Credit risk represents the risk that one of the parties in a financial instrument does not fulfil an obligation causing a financial loss to the counterparty. The Group presents different degrees of credit risks in relation to the different markets; however, this is mitigated by the fact that the credit risk is subdivided over a large number of counterparties and customers, almost 95% of which are located in the European Union. The remaining part of receivables are mainly relative to subjects resident in Switzerland.

The financial activities are shown in the financial statements net of the allowance calculated on the basis of default risk, considering the available information on the solvency of the customers and of the counterparties in general, and considering historical data. In most cases loans are subject to insurance guarantees, transfers without recourse, bank guarantees or other procedures suitable to limit the risk.

**Cash flow risk**

Cash flow risk represents the risk that future cash flows will fluctuate due to a change in the market interest rates.

The Group covers the cash flow risk, mainly related to mid-term debts linked to the Euribor, through hedging instruments. Further comments on financial debts and hedging instruments were provided in the Notes to the consolidated financial statements.

N

## Atypical and unusual transactions and related-party transactions

**Atypical and unusual transactions**

No atypical and/or unusual transactions are noted, including intercompany transactions, nor any transactions which fall outside of the usual activities carried out by the Group or which could influence in a significant way the Group's financial position, results of operations and cash flows.

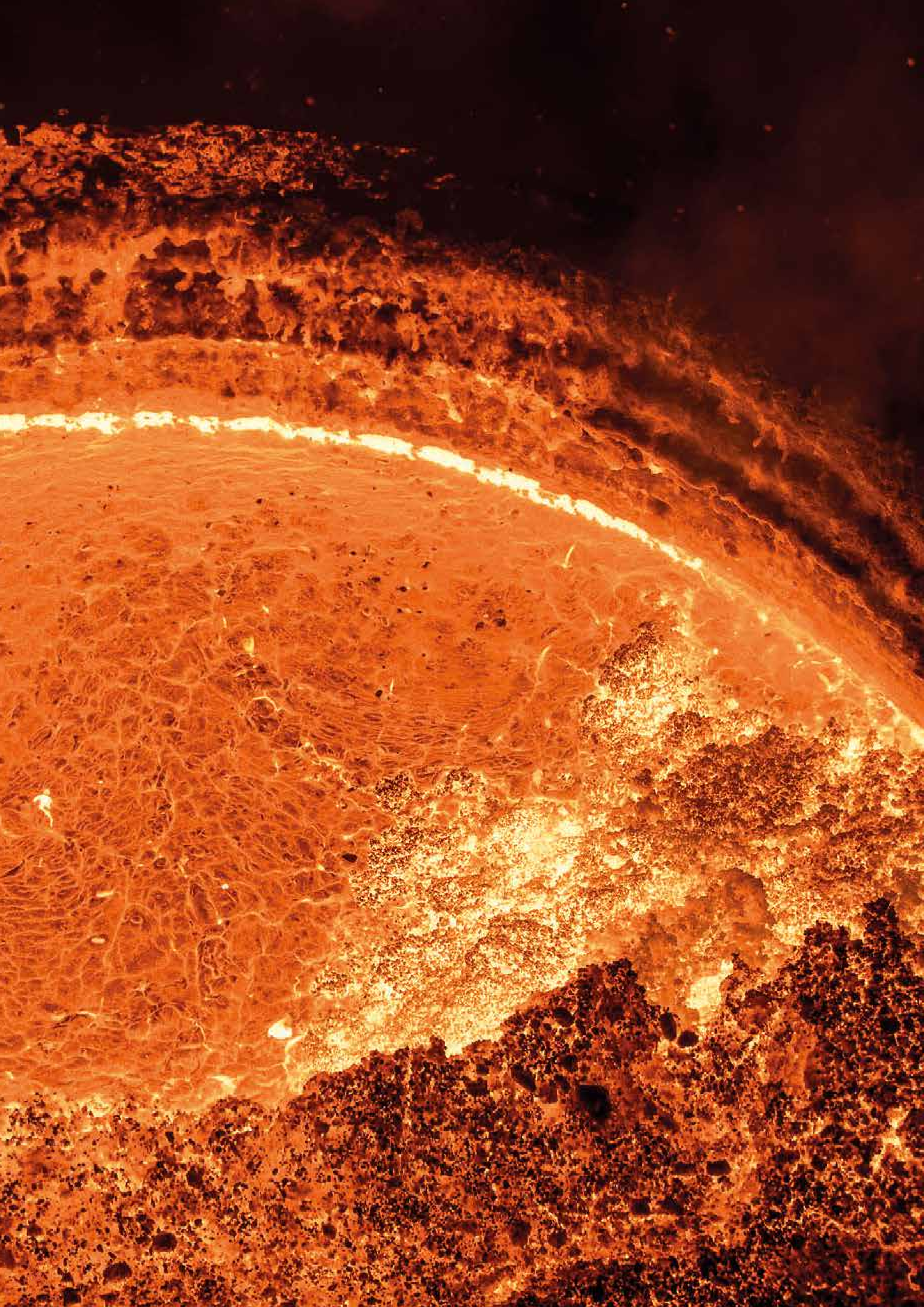
**Transactions with subsidiaries, affiliates, the Parent Company and with related parties**

The Parent Company carries out significant commercial and financial transactions with the subsidiaries, settled at arm's length conditions. The details, by macro-class, are shown in the following tables:

| Income statement values (in thousands of Euro) | Revenues from sales | Services and other revenues | Financial income (expenses) | Purchase of goods and services | Total |
|---|---|---|---|---|---|
| LME S.A. | 4,272 | 2,164 | 997 | 61,922 | 69,355 |
| Donalam S.r.l. | --- | 1,042 | 504 | 215 | 1,761 |
| Sipro Beltrame AG | 16,018 | --- | --- | --- | 16,018 |
| Stahl Gerlafingen AG | 7,922 | 1,659 | 1,826 | 6,048 | 17,455 |
| Ferriera Sider Scal S.r.l. - in liquidazione | --- | 12 | 21 | --- | 33 |
| Beltrame Holding S.p.A. | --- | 21 | 3 | --- | 24 |
| Consorzio Valbel | 3,727 | 3 | 1 | 6 | 3,737 |

| Loans disbursed by the Parent Company (in thousands of Euro) | Balance as at December 31, 2018 | 2019 Disbursements | 2019 Reimbursements | Balance as at December 31, 2019 |
|---|---|---|---|---|
| **Disbursed** | | | | |
| Stahl Gerlafingen AG for loans | 46,000 | 14,000 | 24,000 | 36,000 |
| LME S.A. for loans | 25,000 | 10,000 | 11,500 | 23,500 |
| Donalam S.r.l. for loans | 10,050 | 11,300 | 10,500 | 10,850 |
| Donalam S.r.l. for advances on supplies | 1,661 | 6,221 | 7,723 | 159 |
| Ferriera Sider Scal S.r.l. – in liquidation | 552 | 510 | 215 | 847 |
| Beltrame Holding S.p.A. | 359 | --- | 359 | --- |

We also point out that none of the Group's companies, in the current year and in previous ones, held any treasury shares or parent company shares.



O

# Events after the reporting date

The coronavirus arose in the People's Republic of China very close to the closing date of the 2019 financial statements, and the situation has been evolving rapidly since December 31, 2019. Although the initial information on cases of infection provided by the authorities of the People's Republic of China date back to the end of 2019, only on January 30, 2020 did the World Health Organisation's International Health Regulations Emergency Committee announce the existence of an international emergency. Since that time, many cases have been diagnosed in other countries as well, triggering the adoption of specific decisions both in China and in other nations, including Italy and also in major European countries.

In light of the timeline of the events and news made available after the reporting date, the event is classified in events taking place after the reporting date which do not entail any adjustment in the 2019 balance sheet, but do require specific disclosure (non-adjusting event).

The Group immediately took measures to combat the crisis and established a crisis committee with a view to creating a shared set of guidelines to ensure worker health as well as business continuity, sharing the actions and measures adopted in the various countries, analysing the numerous issues and proposing solutions.

For all countries in which the Group operated, on February 24 guidelines were shared for the adoption of safeguard measures such as the suspension of business travel and trips, the use of audio/video conference tools for work meetings, avoiding the entry of outside parties (customers/suppliers/consultants) in the Beltrame Group's sites, inviting employees who needed to travel for professional or personal reasons to inform the applicable human resources department, implementing basic measures at all sites to prevent contagion (such as frequent hand-washing, maintaining a safe distance, staying home for those who have any flu-like symptoms, etc.).

Suitable information was provided to both employees and external companies, and moreover precautionary measures were activated for transporter access to plants.

Subsequently, smart working was implemented, personnel working in the incoming goods area and at the reception area were provided with masks and gloves, and methods for accessing the canteen and the changing rooms were modified to maintain a safe distance.

Some of these measures (such as accessing the canteen and the changing rooms) were progressively further strengthened while recourse to smart working was also extended and sanitisation began in the offices, canteen, changing rooms, infirmary, lounge areas, ledges and the reception area.

Activities in the steelmaking sector are suffering from significant impacts due to the COVID-19 epidemic and the restrictions ensuing from the decisions taken by national authorities in relation to the evolution of the health situation, which have entailed the limitation or suspension of certain economic activities.

With respect to the Group's sites, we report that:

— at Italian sites, production activities were progressively halted from March 16 in order to proceed with better sanitisation of certain work stations; the resumption of work, originally planned for March 23, has been postponed, in accordance with

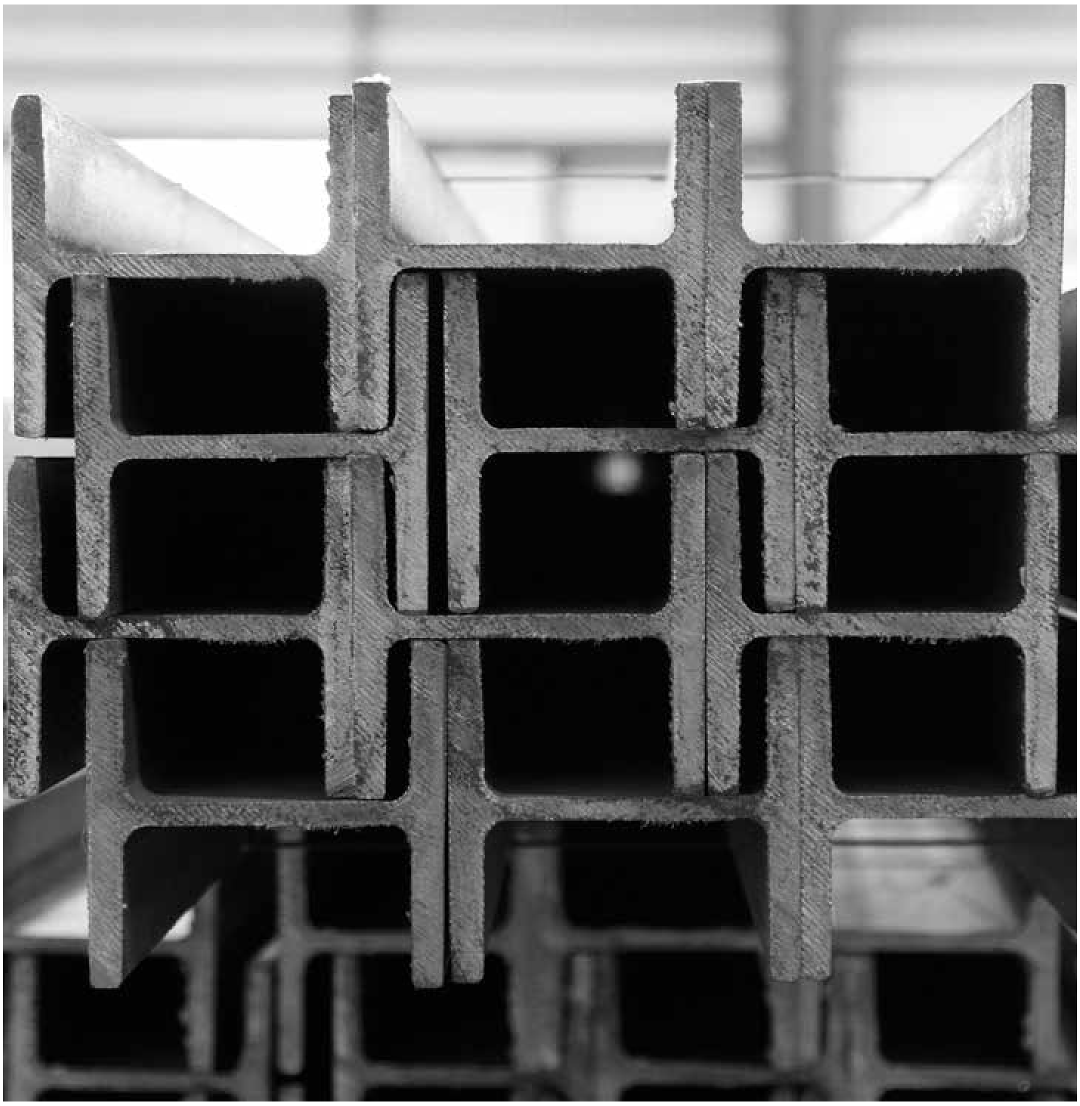
O

the requirements of the Prime Ministerial Decree of March 20, 2020. After sending a notice to the competent Prefect and in accordance with the requirements of the Prime Ministerial Decrees of March 22, April 1 and April 10, production activities were then progressively and for the moment partially resumed;

— at the Trith Saint Léger site at the request of the workers, activity was suspended on March 16 and, starting on April 16, it was progressively and for the moment partially resumed;

— at the Gerlafingen and Calarasi sites, regular activities continued.

Considering the continuous evolution of this situation, it appears particularly difficult to predict the effects of the current scenario; in any case, this significant event may influence the Group's results in the course of 2020, at least in the short term.



P

# Business outlook

At the end of 2019, the main international experts forecast a progressive improvement in 2020 in the recovery of economic activities in the steel user sectors; in particular in the automotive and mechanical engineering sectors, concentrated in the second part of the year.
Overall, forecasts pointed to growth expectations in 2020 and 2021 of 0.6% and 1.4%, respectively.

| Users Sectors | Share of consuption | Q1 20 | Q2 20 | Q3 20 | Q4 20 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|---|---|
| Constructions | 35.0% | 0.5% | 0.9% | 1.0% | 0.9% | 0.8% | 0.8% |
| Automotive | 18.0% | -1.6% | 0.6% | 2.7% | 2.6% | 1.0% | 2.8% |
| Mechanical engineering | 14.0% | -1.1% | 0.6% | 1.4% | 1.6% | 0.6% | 1.5% |
| Metal articles | 14.0% | -2.1% | -0.3% | 0.9% | 1.1% | -0.1% | 1.5% |
| Oil & Gas | 13.0% | -1.3% | 1.2% | 1.2% | 0.9% | 0.5% | 0.8% |
| Appliances | 3.0% | -1.2% | 0.0% | 0.4% | 0.4% | .-0.1% | .1.3% |
| Other transports | 2.0% | 0.3% | 1.4% | 2.2% | 3.9% | 1.9% | 1.7% |
| Other | 2.0% | -1.7% | -0.4% | 0.0% | 1.4% | -0.2% | 1.2% |
| **Total** | **100.0%** | **-0.9%** | **0.5%** | **1.3%** | **1.4%** | **0.6%** | **1.4%** |

Source: Eurofer January 2020

The real outlooks for sector development in 2020 in Europe are now highly influenced by the spread of the COVID-19 virus. When the measures adopted by governments to limit the epidemic begin to bear fruit, the path of growth will be able to continue with increasing intensity.

The Board of Directors of the Parent Company, while pointing out that the Group's profitability is closely tied to this risk, deems that the solid financial position with which the Group is about to face the new scenario is a valid factor for assuming that it will overcome it.

**AFV ACCIAIERIE BELTRAME S.P.A.**
**The Chairman of the Board of Directors**
**Mr.Antonio Beltrame**

# 02

# Consolidated Balance Sheet, Consolidated Income Statement and Consolidated statement of cash flows

# Consolidated balance sheet as of December 31st, 2019 and 2018

| BALANCE SHEET - ASSETS (amounts in unit of Euro) | 2019 | 2018 |
|---|---|---|
| A - AMOUNTS DUE FROM STOCKHOLDERS FOR SHARE | | |
| SUBSCRIBED BUT NOT CALLED | | 0 |
| B - FIXED ASSETS | | |
| I - INTANGIBLE FIXED ASSETS | | |
| 3) Industrial patents and intellectual property rights | 887,031 | 988,867 |
| 6) Assets under construction and advances | 847,294 | 356,902 |
| 7) Others | 1,313,100 | 1,624,067 |
| Total I - Intangible assets | 3,047,425 | 2,969,836 |
| II - TANGIBLE FIXED ASSETS | | |
| 1) Land and buildings | 143,928,360 | 142,415,941 |
| 2) Plant and machinery | 194,840,308 | 189,674,526 |
| 3) Industrial and commercial equipment | 17,177,190 | 13,164,599 |
| 4) Other assets | 2,402,069 | 2,048,719 |
| 4-bis) Leased property | 1,200,000 | 1,200,000 |
| 5) Construction in progress and advances | 25,840,001 | 27,614,376 |
| Total II - Tangible fixed assets | 385,387,928 | 376,118,161 |
| III - FINANCIAL FIXED ASSETS | | |
| 1) Investments in: | | |
| d bis) others | 5,647,505 | 5,647,505 |
| 2) Receivables: | | |
| d bis) others receivables | 9,864,580 | 4,473,558 |
| Total III - Financial fixed assets | 15,512,085 | 10,121,063 |
| TOTAL B - FIXED ASSETS | 403,947,438 | 389,209,060 |
| C - CURRENT ASSETS | | |
| I - INVENTORIES | | |
| 1) Raw, ancillary and consumables materials | 51,788,302 | 61,280,578 |
| 2) Work in progress and semi-finished products | 43,258,621 | 48,895,824 |
| 4) Finished products and goods | 128,227,797 | 141,281,209 |
| 6) Plant and machinery held for sale | 232,268 | 232,268 |
| Total I - Inventories | 223,506,988 | 251,689,879 |
| II - RECEIVABLES | | |
| 1) Trade receivables | 47,527,811 | 73,616,284 |
| 2) Receivables from subsidiaries | | |
| a) trading receivables | 10,727 | 9,956 |
| b) financial receivables | 846,794 | 552,323 |
| 4) Receivables from parent company | | |
| a) trading operations | 20,036 | 131,299 |

| BALANCE SHEET - ASSETS (amounts in unit of Euro) | 2019 | 2018 |
|---|---|---|
| | | |
| b) financial | 0 | 359,069 |
| 5-bis) Tax receivables | 14,471,234 | 12,707,835 |
| 5-ter) Deferred tax assets | 13,006,662 | 14,796,463 |
| 5-quater) Other receivables | 6,950,725 | 5,945,910 |
| Total II - Receivables | 82,833,989 | 108,119,139 |
| IV - LIQUID FUNDS | | |
| 1) Bank and post office accounts | 50,406,415 | 72,003,590 |
| 3) Cash on hand | 33,539 | 21,924 |
| Total IV - Liquid funds | 50,439,954 | 72,025,514 |
| TOTAL C - CURRENT ASSETS | 356,780,931 | 431,834,532 |
| | | |
| D - ACCRUED INCOME AND PREPAID EXPENSES | | |
| I - ACCRUED INCOME AND PREPAID EXPENSES | | |
| 1) within one year | 4,060,196 | 4,420,541 |
| 2) beyond one year | 645,408 | 190,778 |
| TOTAL D - ACCRUED INCOME AND PREPAID EXPENSES | 4,705,604 | 4,611,319 |
| | | |
| **TOTAL ASSETS** | **765,433,973** | **825,654,911** |

# Consolidated balance sheet as of December 31st, 2019 and 2018

| BALANCE SHEET - LIABILITIES AND SHAREHOLDERS' EQUITY (amounts in unit of Euro) | 2019 | 2018 |
|---|---|---|
| A - SHAREHOLDERS' EQUITY | | |
| I - SHARE CAPITAL | 113,190,480 | 113,190,480 |
| II - SHARE PREMIUM RESERVE | 4,014,685 | 4,014,685 |
| III - REVALUATION RESERVE | 0 | 0 |
| IV - LEGAL RISERVE | 17,315,082 | 15,864,139 |
| V - STATUTORY RESERVES | 0 | 0 |
| VI - OTHER RISERVES | | |
| a) Extraordinary reserve and other reserves | 152,911,376 | 121,233,227 |
| b) Tax suspension reserve | 515,391 | 515,391 |
| b-2) Tax suspension reserve - Law 244/2007 | 1,241,811 | 0 |
| VII - RESERVE FOR DERIVATIVE FINANCIAL INSTRUMENTS | (1,607,250) | (2,419,930) |
| VIII - PROFIT (LOSS) CARRIED FORWARD | 0 | 0 |
| IX - GROUP PROFIT (LOSS) | 13,792,799 | 48,417,065 |
| X - NEGATIVE RESERVE FOR OWN SHARES IN PORTFOLIO | 0 | 0 |
| GROUP SHAREHOLDERS' EQUITY | 301,374,374 | 300,815,057 |
| MINORITY INTEREST | 18,296,461 | 17,125,263 |
| INCOME (LOSS) ATTRIBUTABLE TO MINORITY SHAREHOLDERS | 806,392 | 1,229,047 |
| NET EQUITY ATTRIBUTABLE TO MINORITY SHAREHOLDERS | 19,102,853 | 18,354,310 |
| TOTAL A - TOTAL SHAREHOLDERS' EQUITY | 320,477,227 | 319,169,367 |
| B - RESERVE FOR RISKS AND CHARGES | | |
| 1) For retirement benefits and similar obligations | 562,608 | 662,347 |
| 2) For taxes, also deferred | 12,131,574 | 12,879,642 |
| 3) For derivate financial instruments | 2,114,802 | 3,184,117 |
| 4) Other | 13,262,508 | 16,343,770 |
| TOTAL B - TOTAL RESERVE FOR RISK AND CHARGES | 28,071,492 | 33,069,876 |
| C - RESERVE FOR EMPLOYEE SEVERANCE INDEMNITY | 16,126,492 | 16,732,649 |
| D - AMOUNTS PAYABLE | | |
| 4) Borrowings from banks | | |
| 1) due within one year | 15,734,295 | 18,481,133 |
| 2) due beyond one year | 105,721,727 | 127,621,011 |
| 5) Payables to other lenders | | |
| 1) due within one year | 2,028,821 | 830,376 |
| 2) due beyond one year | 1,326,036 | 1,826,767 |
| 6) Advance payments | 1,183,660 | 20,055 |

| BALANCE SHEET - LIABILITIES AND SHAREHOLDERS' EQUITY (amounts in unit of Euro) | 2019 | 2018 |
|---|---|---|
| | | |
| 7) Trade payables | | |
| 1) due within one year | 250,183,050 | 272,547,353 |
| 9) Payables to subsidiaries | | |
| 1) trading operations | 1,085 | 0 |
| 12) Tax payables | | |
| 1) due within one year | 3,407,056 | 10,473,459 |
| 13) Social security payables | | |
| 1) due within one year | 5,627,686 | 6,333,944 |
| 14) Other payables | 12,488,151 | 14,499,118 |
| TOTAL D - TOTAL PAYABLES | 397,701,567 | 452,633,216 |
| | | |
| E - ACCRUED EXPENSES AND DEFERRED INCOME | | |
| I - ACCRUED EXPENSES AND DEFERRED INCOME | | |
| 1) due within one year | 3,057,195 | 4,049,803 |
| TOTAL E - TOTAL ACCRUED EXPENSES AND DEFERRED INCOME | 3,057,195 | 4,049,803 |
| | | |
| **TOTAL LIABILITIES** | **765,433,973** | **825,654,911** |

# Consolidated Income Statement
# as of December 31st, 2019 and 2018

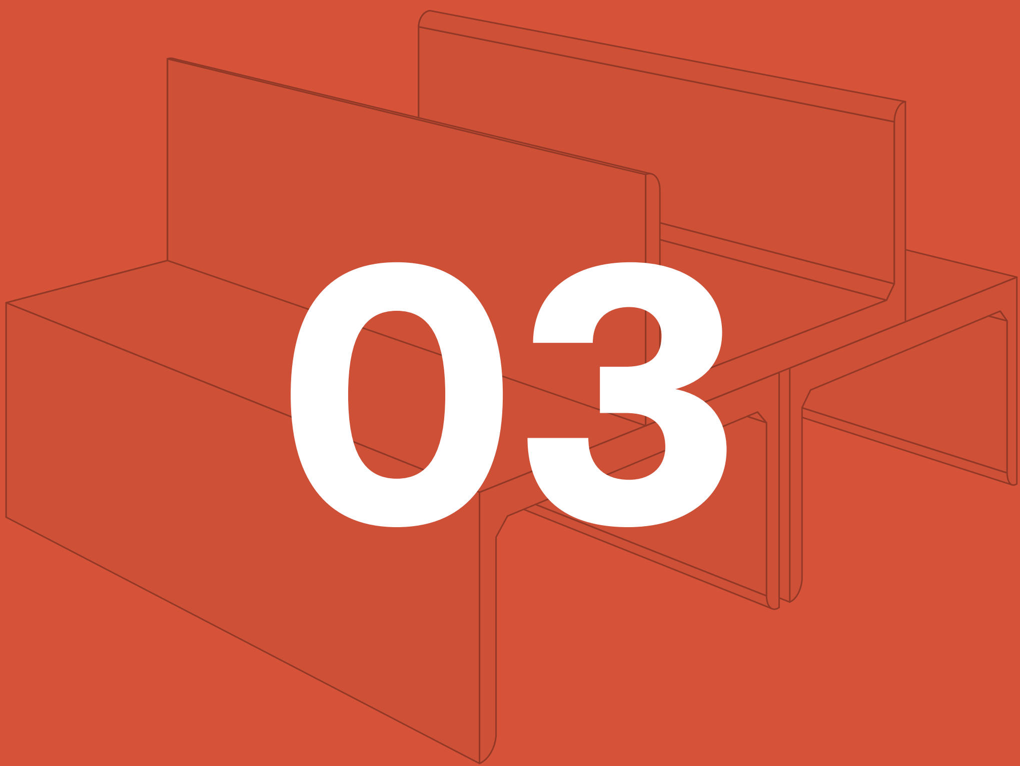
| CONSOLIDATED INCOME STATEMENT (amounts in unit of Euro) | 2019 | 2018 |
|---|---|---|
| A - VALUE OF PRODUCTION | | |
| 1) Revenue from sales and services | 1,095,509,331 | 1,232,125,716 |
| 2) Changes in work in progress, semifinished and finished products inventories | (18,378,487) | 18,906,031 |
| 4) Additions to internally produced fixed assets | 3,859,105 | 2,410,212 |
| 5) Other income and revenues | | |
| - grants | 628,625 | 1,636,127 |
| - others | 6,281,397 | 6,540,921 |
| Total value of production | 1,087,899,971 | 1,261,619,007 |
| B - COST OF PRODUCTION | | |
| 6) Raw, ancillary and consumable materials | 666,760,270 | 825,946,888 |
| 7) Services | 197,656,006 | 187,615,133 |
| 8) Leases and rentals | 5,475,054 | 5,147,515 |
| 9) Personnel costs | | |
| a) Wages and salaries | 94,154,533 | 90,820,271 |
| b) Social security costs | 27,814,318 | 27,270,960 |
| c) Employment severance indemnity | 2,555,578 | 2,527,062 |
| e) Other costs | 6,109,291 | 7,104,435 |
| Total 9 - Personnel costs | 130,633,720 | 127,722,728 |
| 10) Amortisation, depreciation and writedowns | | |
| a) amortisation of intangible fixed assets | 988,912 | 1,012,709 |
| b) depreciation of tangible fixed assets | 36,234,494 | 34,104,322 |
| c) writedown of fixed assets | 180,800 | 966,977 |
| d) writedown of receivables among current assets | 238,836 | 719,079 |
| Total 10 - Amortisation, depreciation and writedowns | 37,643,042 | 36,803,087 |
| 11) Changes in raw materials, ancillary and consumable materials | 10,083,976 | (6,294,878) |
| 12) Provisions for risks | 1,184,910 | 2,425,940 |
| 13) Others provisions | 543,811 | 2,344,176 |
| 14) Other operating expenses | 6,864,186 | 6,764,987 |
| Total cost of production | 1,056,844,975 | 1,188,475,576 |
| DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A-B) | 31,054,996 | 73,143,431 |
| C - FINANCIAL INCOME AND EXPENSES | | |
| 16) Other financial income: - from subsidiaries | 23,727 | 14,700 |
| - from parent company | 2,582 | 18,830 |
| - from third parties | 113,181 | 114,011 |

| CONSOLIDATED INCOME STATEMENT (amounts in unit of Euro) | 2019 | 2018 |
|---|---|---|
| 17) Interests and financial charges - from third parties | 9,346,260 | 9,340,906 |
| - from subsidiares company | 1,085 | 0 |
| 17 bis) Profit (loss) on exchange rates | (436,309) | 1,038,434 |
| Total financial income and expenses | (9,644,164) | (8,154,931) |
| | | |
| D - ADJUSTMENT TO FINANCIAL ASSETS | | |
| 19) Writedowns of | | |
| a) equity investments | 0 | 1,859,498 |
| Total adjustment to financial assets | 0 | (1,859,498) |
| | | |
| PROFIT (LOSS) BEFORE TAX | 21,410,832 | 63,129,002 |
| | | |
| 22) Income taxes | | |
| a) current | 6,633,840 | 14,508,922 |
| b) deferred costs | (1,355,364) | (725,168) |
| c) deferred income | 1,533,165 | (300,864) |
| Total 22 - Taxes | 6,811,641 | 13,482,890 |
| | | |
| 23) Income (loss) for the year | 14,599,191 | 49,646,112 |
| | | |
| Group net income (loss) | 13,792,799 | 48,417,065 |
| | | |
| Minority interest | 806,392 | 1,229,047 |

# Consolidated Statements of Cash Flows for the Year ended December 31st, 2019 and 2018

| CONSOLIDATED STATEMENTS OF CASH FLOWS (amounts in unit of Euro) | 2019 | 2018 |
|---|---|---|
| | | |
| **A. Cash flows from (used in) operating activities** | | |
| - Profit (loss) for the year | 14,599,191 | 49,646,112 |
| - Income taxes | 6,811,641 | 13,482,890 |
| - Interests income and charges, net | 9,207,855 | 9,193,365 |
| - Net gain (loss) on disposal of tangible fixed assets | (666,000) | (1,679,789) |
| **1 Profit (loss) for the year after income taxes, interests, dividends and gains/losses for disposals** | 29,952,687 | 70,642,578 |
| - Provisions | 3,969,567 | 8,725,341 |
| - Depreciation of tangible fixed assets | 37,223,406 | 35,117,031 |
| - Depreciations | 419,636 | 2,826,693 |
| - Other adjustments for non-cash items | 223,689 | (339,022) |
| *Total adjustments for non-cash items* | 41,836,298 | 46,330,043 |
| **3 Cash flow before changes in net working capital** | 71,788,985 | 116,972,621 |
| *Changes in net working capital* | | |
| - (Increase) decrease in inventories | 29,460,373 | (24,862,830) |
| - (Increase) decrease in accounts receivables | 25,996,878 | 14,555,154 |
| - Increase (decrease) in trade payables | (28,193,327) | 17,192,407 |
| - (Increase) decrease in accrued incomes and prepaid expenses | (122,699) | 169,324 |
| - Increase (decrease) in accrued expenses and prepaid incomes | (987,115) | 441,877 |
| - Others changes in net working capital | (2,447,002) | (666,922) |
| *Total changes in net working capital* | 23,707,108 | 6,829,009 |
| **3 Cash flow after changes in net working capital** | 95,496,092 | 123,801,630 |
| *Others adjustments* | | |
| - Interests received / (paid) | (7,817,414) | (8,740,432) |
| - Income tax payments | (16,092,686) | (11,581,590) |
| - Provision utilizations | (5,611,470) | (5,045,584) |
| *Total amount of others adjustments* | (29,521,570) | (25,367,606) |
| **Cash flow from operating activities ( A )** | 65,974,523 | 98,434,024 |
| | | |
| **B. Cash flows from (used in) investment operations** | | |
| ***Tangible fixed assets*** | | |
| Additions | (38,061,000) | (43,678,750) |
| Disposals | 785,000 | 10,030,470 |
| ***Intangible fixed assets*** | | |
| Additions | (1,870,000) | (1,313,114) |
| ***Financial fixed assets*** | | |
| Additions | (5,682,936) | (2,023,429) |
| Disposals | 304,000 | 0 |
| ***Others non- fixed financial assets*** | | |

| CONSOLIDATED STATEMENTS OF CASH FLOWS (amounts in unit of Euro) | 2019 | 2018 |
|---|---|---|
| | | |
| Additions | 0 | 0 |
| Disposals | 64,598 | 843,570 |
| **Cash flows from (used in) investment operations ( B )** | (44,460,338) | (36,141,253) |
| | | |
| **C. Cash Flows from (used in) financial activities** | | |
| *Third parties* | | |
| Increase (decrease) in short term bank debts | 1,546,342 | (6,256,149) |
| Loans granted | 121,504,129 | 3,519,303 |
| Loans reinboursed | (146,556,420) | (39,142,688) |
| Accessory charges relating new loan | (1,994,353) | 0 |
| Disbursment for derivative financial instruments | (1,901,850) | 0 |
| Dividends | (16,065,135) | (10,495,089) |
| **Cash Flows from (used in) financial activities ( C )** | (43,467,287) | (52,374,623) |
| | | |
| Translation adjustment | 367,542 | 454,788 |
| | | |
| *Net increase (decrease) in liquid funds (A+/- B +/- C)* | (21,585,560) | 10,372,936 |
| *Liquid funds at beginning of the year* | 72,025,514 | 61,652,578 |
| *Liquid funds at end of the year* | 50,439,954 | 72,025,514 |



# 03

# Consolidated Financial Statements as of December 31st, 2019

# Notes to the Consolidated Financial Statements

# 1 Form and Content of the Consolidated Financial Statements

The consolidated financial statements of the Beltrame Group consist of the AFV Acciaierie Beltrame S.p.A. financial statements as at December 31, 2019 (hereinafter also referred to as the "Parent Company") and those of the following companies directly or indirectly controlled by the Parent Company:

| Name | Interest percentage | |
|---|---|---|
| | Direct | Indirect |
| Donalam S.r.l. - Steel manufacturing company<br>Calarasi (Ro) – Share capital Leu 143,392,700 | 80.36 | --- |
| Donalam Siderprodukte AG - Trading company<br>Zurich (CH) – Share capital CHF 300,000 | --- | 60.27 |
| Laminés Marchands Européens S.A. - Steel manufacturing company<br>Trith Saint Léger (F) – Share capital Euro 32,300,345<br>(hereafter also LME S.A.) | 80.23 | --- |
| Laminoirs du Ruau S.A. - Steel manufacturing company<br>Monceau sur Sambre (B) – Share capital Euro 10,000,000<br>(hereafter also RUAU S.A.) | --- | 80.23 |
| Sipro Beltrame AG – Trading company<br>Zurich (CH) – Share capital CHF 300,000 | 50.00 | --- |
| Stahl Gerlafingen AG – Steel manufacturing company<br>Gerlafingen (CH) – Share capital CHF 50,000,000 | 100.00 | --- |

The financial statements were prepared by consolidating the Financial Statements of the above mentioned companies on a line-by-line basis. There are no changes to be reported compared to the previous year as regards the scope of consolidation and the percentages held.

The Parent Company and its subsidiaries have a majority holding or exercise significant influence on the following companies:

| Name | Interest percentage | |
| --- | --- | --- |
| | Direct | Indirect |
| Ferriera Sider Scal S.r.l. in liquidation – Steel manufacturing company | | |
| Vicenza – Share capital Euro 100,000 | 100.00 | --- |
| Consorzio Valbel – Service company | | |
| Vicenza – Share capital Euro 70,000 | 14.28 | --- |
| Immobiliare Siderurgica S.r.l. - Real estate company | | |
| Milan – Share capital Euro 99,000 | 5.03 | --- |
| Laminados Industriales S.A. – Steel manufacturing company | | |
| Villa Constitution (RA) – Share capital Pesos 185,605,200 | | |
| (hereafter also LISA) | 14.84 | --- |
| Metal Interconnector S.c.p.A. – Financial company | | |
| Milan – Share capital Euro 110,000,000 | 5.12 | --- |
| Nord Ferro – Manufacturing company | | |
| ZAC de Valenciennes (F) – Share capital Euro 200,000 | --- | 25.00 |

No changes were reported compared to the previous year.

As regards Ferriera Sider Scal S.r.l., in liquidation, this investee was not consolidated on materiality grounds.

The consolidated financial statements, comprised of the balance sheet, the income statement, the statement of cash flows and the notes to the financial statements, have been prepared in accordance with the criteria stated by the Italian Legislative Decree 127/91, as well as being supplemented with the accounting principles prepared by "Organismo Italiano di Contabilità – OIC" and, where deficient and inasmuch as they are not in contrast with the Italian accounting rules and standards, by the International Accounting Standards / International Financial Reporting Standards.

These financial statements were drafted on the going concern assumption, as the Directors have confirmed the capacity of the Parent Company and the Group to meet their obligations in the foreseeable future, also taking into account what is set forth in paragraph 5.23 Significant events after the reporting date.

The financial statements of the consolidated companies are those prepared by the Board of Directors for approval. They have been adjusted, where necessary, in order to conform to the valuation criteria of art. 2426 of the Civil

1

Code, uniformly applied within the Group, as well as being interpreted and integrated with the accounting principles issued by Organismo Italiano di Contabilità – OIC and, where deficient, by the International Accounting Standards / International Financial Reporting Standards.

These notes to the consolidated financial statements fulfil the function of providing an illustration, an analysis, and, in each case, a supplement to the financial statements. They also contain the information required by articles 2427 and 2427 bis of the Italian Civil Code, other provisions of Italian Legislative Decree no. 127/1991, or other laws. Moreover, they contain all the relevant information deemed necessary in order to provide a true and fair view, even if not required by specific provisions of the law.

The Balance Sheet, the Income Statement and the Statement of Cash Flows contain values expressed in units of Euros, while in these notes to the consolidated financial statements, except where indicated otherwise, values are expressed in thousands of Euros.

In compliance with art. 2423 ter of the Italian Civil Code, the sub captions of the Balance Sheet and of the Income Statement identified by a capital letter and an Arabic number have been omitted, as the amount was zero for both the financial years.

Amounts to be settled beyond twelve months have been separately shown in the Balance Sheet.

For an analysis of the nature of the activity and of the significant events occurred after December 31, 2019, of the business outlook and of any other information pertaining to the financial statements of the year, please refer to the report on operations.

The reconciliation between Shareholders' equity and net income of AFV Acciaierie Beltrame S.p.A. as at December 31, 2019 and those reflected in the consolidated financial statements of the same date is detailed in the following table (in thousands of Euro):

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Shareholders' equity** | **Result for the year** | **Shareholders' equity** | **Result for the year** |
| Statutory fin. st. of the Parent Company | 318,295 | 18,069 | 315,573 | 29,019 |
| Group's share of the adjusted shareholders' | | | | |
| equity of the consolidated companies | 137,967 | (4,201) | 140,481 | 19,232 |
| Carrying value of consolidated companies | (157,001) | --- | (157,864) | --- |
| Translation difference of the financial year | 2,113 | (28) | 2,625 | 256 |
| Dividend collected from the consolidated companies | --- | (47) | --- | (90) |
| Consolidated Group financial statements | 301,374 | 13,793 | 300,815 | 48,417 |

2

# Criteria

## CONSOLIDATION CRITERIA

The most relevant consolidation principles, adopted for the preparation of the consolidated financial statements, and which do not differ from those used in the previous financial year, with the exception of what is noted in the "Other information" paragraph, are as follows:

a) the assets and liabilities, income and expenses of the consolidated companies are consolidated on a line-by-line basis, eliminating the carrying amounts of the equity investments against the subsidiaries' Shareholders' equity regardless of the percentage owned;

b) the difference between the acquisition cost and the Shareholders' equity of the investees is allocated to the specific assets and liabilities on the basis of their fair value at the acquisition date. Any excess amount is posted as the goodwill between the intangible fixed assets net of the related amortisation calculated estimating their expected future benefit;

c) the lower price paid at the time of the acquisition of investments compared to the related shareholders' equity is allocated in the consolidated shareholders' equity as "Consolidation reserve" or, when the lower price paid is due to a forecast of unfavourable results, as a liability to the line item "Consolidation allowance for risks and future charges";

d) receivables, payables, revenues and expenses, as well as unrealised profit deriving from transactions between Group consolidated companies are eliminated;

e) dividends received from Group companies are eliminated from the consolidated income statement;

f) minority interests in consolidated subsidiaries are separately indicated as well as income attributable to minority shareholders;

g) adjustments and provisions accounted for in application of tax laws only are eliminated;

h) the translation into Euro of the financial statements of foreign subsidiaries is made using the year-end exchange rates for balance sheet items, historic rates for the Shareholders' equity reserves, while the average exchange rate for the year has been used for the income statement. The exchange rate differences caused by the translation have been accounted for within an equity reserve.

The following exchange rates were applied:

| | CHF | Leu |
|---|---|---|
| Exchange rate as at December 31, 2018 | 1.1269 | 4.6635 |
| Average exchange rate in the financial year 2019 | 1.1124 | 4.7453 |
| Exchange rate as at December 31, 2019 | 1.0854 | 4.7830 |

**VALUATION CRITERIA**

The most significant valuation criteria adopted for the preparation of the consolidated financial statements are the following:

**INTANGIBLE FIXED ASSETS**

Intangible fixed assets are accounted for at acquisition or realisation cost. The cost of intangible assets with finite life is amortised over the useful life, generally of five years.
In the cases where, irrespective of the amortisation already accounted for, a long-term loss of value resulted, the fixed assets are correspondingly impaired. If in following years the assumptions of the impairment no longer hold true, then the original value will be restated, to the limit of the net book value that the asset would have had, had the impairment not been accounted for.

**TANGIBLE FIXED ASSETS**

Tangible fixed assets are recorded at acquisition or construction cost, adjusted in order to take into account the higher purchase price paid compared to the tangible fixed asset book values held by the acquiring companies. In any case, the carrying amounts are within the limits of the corresponding market value and/or value in use of the assets.
Acquisition cost includes ancillary costs. The cost of production includes all costs directly referred to the fixed asset. It may also include other costs, for the portion that can be reasonably referred to the asset during the manufacturing period until the asset can be used.
Depreciation for finite life tangible fixed assets is calculated every financial period on a straight-line basis in relation to their residual useful lives.

During the periodic updating of the useful life of assets, in 2017 a specialised company was entrusted the task to update the estimate of the useful and residual life of the main fixed tangible assets, in order to obtain useful elements for a correct calculation of the depreciation period. As a consequence of this update useful and residual life of the following asset categories were redefined:

| | Useful life | Residual life |
|---|---|---|
| Large specific plants | 18 | 9 |
| Generic plants | 18 | 7 |
| General and specific equipment | 11 | 4 |

For those assets, in place as at December 31, 2016, depreciation was calculated allocating residual value over residual life. For newly acquired assets, depreciation was calculated allocating historic cost over useful life.

For those categories of tangible fixed assets, which were not included in the study, the depreciation rates and criteria which had previously been applied remained in place and are shown hereafter:

| | |
|---|---|
| Industrial buildings | 3.0 - 5.0% |
| Office furniture and commercial equipment | 12.0 - 20.0 – 25.0% |
| Means of transport | 20.0 - 25.0% |

In the cases where, independently of the depreciation already accounted for, a long-term loss of value resulted, the fixed assets are correspondingly impaired. If in following years the assumptions of the impairment no longer hold true, then the original value will be restated.

The carrying amount of the tangible fixed assets cannot exceed the recoverable amount. The recoverable amount is defined as the higher between the market value (the amount that can be obtained from the disposal of the tangible fixed asset in an arm's length transaction between knowledgeable willing parties, net of costs to sell) and its value in use (present value of the future cash flows expected to be derived from the continuous use of the asset, including the amount recoverable from its disposal at the end of its useful life).

The estimation of the value in use implies forecasting future positive and negative cash flows derived from its operations and eventual disposal and by applying appropriate discount rates.

Ordinary repair and maintenance expenses are charged in the income statement as incurred.

Leased assets have been accounted for following the financial method, which requires the assets and residual liabilities to be included into the balance sheet, while amortisation and financial expenses are to be shown in the income statement.

**FINANCIAL FIXED ASSETS**

Investments in unconsolidated subsidiaries and associates are measured at equity. If the value of the investment is not significant, it is valued at cost, represented by the value of the underwriting or the acquisition price. The cost is reduced in case of impairment that is when the subsidiaries' incurred losses and insufficient profits to absorb those losses are expected in the near future. The original value is reinstated in future years if the reasons for such write-downs no longer apply.

**INVENTORIES**

Inventories are stated at the lowest of purchase or manufacturing cost, determined using the weighted average cost method, and the corresponding market value (replacement cost for raw material and net realisable costs

for finished and semi-finished goods).
Manufacturing costs include the cost of raw materials, labour and both direct and indirect production costs attributable to the finished products.
Manufacturing cost is determined assuming normal capacity of the production facilities. The normal capacity is defined as the production expected to be achieved on average by the production facilities assuming reasonable levels of efficiency.
Inventories are written down due to obsolescence and/or slow moving stock.

**RECEIVABLES AND PAYABLES**

Receivables and payables are recognised in the financial statements according to the amortised cost criterion. The amortised cost criterion is not applied when effects are immaterial or if receivables are short term (i.e. with due date of less than 12 months). Receivables are stated at their estimated realisable value by means of an adequate allowance for doubtful accounts.

**SECURITIES REPORTED IN WORKING CAPITAL**

Securities reported in working capital are valued at the lower of purchase costs inclusive of ancillary costs and the realisable value obtained from the market.

**ACCRUALS AND PREPAYMENTS**

The caption prepayments and accrued income details the revenues of the current financial year whose consideration is due in successive financial years, as well as those costs incurred before year-end but accrued in subsequent financial years. The caption accrued expenses and deferred income lists the costs of the financial year that are due in successive financial years and the revenues whose consideration is collected before year-end and relate to successive financial years. The amounts are determined on a time basis.

**PROVISIONS FOR RISKS AND CHARGES**

The provisions for risks and charges include provisions to cover losses or liabilities likely to be incurred, but where uncertainty remains as to the amount or date when this will happen. Provisions reflect the best estimate of losses to be incurred based on the information available. Contingent liabilities are disclosed in the illustrative notes, without allocation to a provision for risks and charges.

**ALLOWANCE FOR EMPLOYEE SEVERANCE INDEMNITY**

The allowance reflects the liabilities to all employees of the Group companies, determined on the basis of laws and labour contracts in force in the countries in which the companies included in the consolidation area operate.
With regard to the Parent Company, starting January 1, 2007, as a result of the pension reform introduced by the 2007 National Budget, the severance indemnity accrued from that date onwards is transferred monthly to private pension funds or to a treasury fund held by INPS, based on the employees' choice. The allowance reflects the liabilities up to December 31, 2006, net of the advances paid, for current employees and revalued in compliance with the law.
In the case of the foreign subsidiaries, the provisions are discounted once a year on the basis of a rate matching that of low-risk

bonds, of average retirement age, on average time of employment with the company, on life expectancy and on salary increases.

**DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments are assets and liabilities recognised at fair value.
Derivatives are classified as hedging instruments only when, at the start of the hedge, there is a close, documented correlation between the characteristics of the hedged element and those of the hedging instrument and such hedging relationship is formally documented and the effectiveness of the hedge, verified periodically, is high.

When hedging derivatives cover the risk of change in the fair value of the hedged instruments (fair value hedge) they are recognised at fair value through profit or loss; consistently, the hedged items are adequate to reflect fair value changes associated with the hedged risk.
When the derivatives cover the risk of changes in the future cash flows of the hedged instruments (cash flow hedge), the effective portion of the gains or losses on the derivative financial instrument is suspended in the shareholders' equity. The gains and losses associated with a hedge for the ineffective portion are recognised in the income statement. At the time the related transaction is realised, the accumulated gains and losses, recorded in shareholders' equity until that time, are recognised in the income statement at the time when the related transaction is realised (as an adjustment or supplement of the income statement item impacted by the hedged cash flows). Therefore, changes in the fair value of hedging derivatives are allocated:

— in the income statement, under items D18 or D19 in the case of fair value hedge of an asset or liability recorded in the balance sheet, as well as fair value changes of the hedged items (if the fair value change of the hedged item has a higher absolute value than the fair value change of the hedging instrument, then the difference is recognised in the income statement entry affected by the covered item);
— in a dedicated equity reserve (in item AVII "Reserve for hedges of expected cash flows") in the case of cash flow hedge in such a way as to offset the effects of the hedged flows (the ineffective component, as well as the change in the time value of options and forwards, is classified under items D18 and D19).

For derivatives classified as held for trading, inasmuch as, though they were stipulated to hedge the interest rate risk, they were not designated in hedge accounting, fair value changes are recognised in the balance sheet and allocated to the income statement under items D18 or D19.

The derivative instruments embedded in other financial instruments also have to be measured at fair value. An embedded derivative is separated from the primary contract and accounted for as a derivative financial instrument if, and only if:

— the economic characteristics and the risks of the embedded derivative are not closely correlated to the economic characteristics and the risks of the primary contract. There is a close correlation in the cases in which the hybrid agreement is stipulated according to market practices;

— all the elements of the definition of derivative financial instruments, as defined by OIC 32.11, are satisfied.

The provisions of Article 2426 11-bis) of the Italian Civil Code, by express indication contained in the article itself, shall not apply if the following conditions are concurrently met:

— the contract was executed and is maintained to meet the needs expected by the company that prepares the financial statements for the purchase, sale or utilisation of the goods;
— the contract was intended for this purpose since its execution;
— performance of the contract is expected to take place through the delivery of the goods.

**COSTS AND REVENUES**

Costs from purchases and revenues from sales are accounted for on an accrual basis. Revenues for sales of goods are accounted for when transfers of ownership have taken place, which generally corresponds to the time of shipping or receiving.

**CURRENT YEAR GRANTS**

Current year grants are accounted for on an accrual basis in the income statement taking into account the disbursement resolutions of the supplying entities and the accrual principle.

**DIVIDENDS**

Dividends are recorded in the period in which their distribution is approved by the shareholders.

**INCOME TAXES**

Income taxes are accrued by each consolidated company in the year to which they relate on the basis of the taxable income, taking into account the due tax credits.

Deferred tax assets and liabilities are accounted for on the temporary difference between assets and liabilities recorded in the financial statements and the related values recognised for tax purposes. Moreover, they are recorded on the consolidated adjustments, wherever applicable.

Deferred tax assets on tax losses carried forward are recorded when their utilisation in the short term becomes reasonably certain. This is due to future taxable incomes that will absorb the tax losses before their expiry dates, in compliance with tax laws. On the other hand, deferred tax liabilities are accounted for on all temporary differences. Deferred tax liability on reserves under tax suspension regimes are not recorded if it is highly unlikely the reserves will be distributed to the shareholders.

**FOREIGN CURRENCY BALANCES**

Foreign currency costs and revenues are converted into Euros at the exchange rates at the relevant transaction date. For sale or purchase agreements of goods in currencies different to the Euro, with deferred delivery and a related hedging instrument, the exchange differences since the contractual date are classified as an adjustment to the underlying commercial transaction.

The exchange differences between the transaction and the balance sheet date for receivables, payables and foreign currencies held in cash not classified as long term, are recorded in the income statement.

**GUARANTEES AND COMMITMENTS**

Guarantees, commitments and third party

## 2

assets held by the company, excluding guarantees given and commitments made for events recognised in the financial statements or entailing additional risks that are deemed remote, are described in point 5.20 below.

**RECOGNITION OF ASSETS AND LIABILITIES AT AMORTISED COST IN THE BALANCE SHEET**

Receivables and payables present in the balance sheet are recognised using the amortised cost criterion. The initial recognition value is the nominal value minus any bonuses, discounts, rebates, transaction costs, fee income and expenses and every difference between initial value and nominal value at maturity. At the end of each year following the year of recognition, the book value is aligned to the present value of future cash flows at the effective interest rate.

## 3 Other Information

***Dispensations with reference to the 4th sub-section of art. 2423 of the Italian Civil Code***

It is also stated that no dispensation was used with reference to the 4th sub-section of art. 2423 of the Italian Civil Code.

***AFV Beltrame German Branch***

In the year 2016, in order to simplify the Group corporate structure, the subsidiary AFV Beltrame Gmbh was merged in the Parent Company and a branch was established to support the activities of Group companies in Germany that were previously performed by the merged company. The structure became fully operating in the first months of 2017. Transactions carried out by the branch are included in these financial statements values. In these explanatory notes, the amounts, resulting from transactions performed by the branch, when significant, are separately shown.

# 4 Comments on the Principal Items of the Balance Sheet

Comments on the economic environment and Beltrame Group operations as well as comparison between the current financial year figures against the previous one are made in the "Report on Operations".

## 4.1 Intangible Fixed Assets

Intangible fixed assets, net of amortisation, consist of the following:

| (in thousands of Euro) | Information technology system development and software acquisition | Expenses for work on third party assets | Start-up and expansion costs and others | In progress | Total |
|---|---|---|---|---|---|
| Balance as at December 31st, 2017 | 2,183 | 30 | 121 | 204 | 2,538 |
| Additions | 1,022 | 86 | --- | 206 | 1,314 |
| Translation differences | 6 | --- | --- | --- | 6 |
| Reclassification and others | 199 | 100 | (121) | (53) | 125 |
| Amortisation | (968) | (45) | --- | --- | (1,013) |
| Balance as at December 31st, 2018 | 2,442 | 171 | --- | 357 | 2,970 |
| Additions | 620 | --- | --- | 564 | 1,184 |
| Capital losses from write-offs | --- | (96) | --- | --- | (96) |
| Translation differences | (1) | --- | --- | --- | (1) |
| Reclassification and others | 63 | (11) | --- | (73) | (21) |
| Amortisation | (975) | (14) | --- | --- | (989) |
| Balance as at December 31st, 2019 | 2,149 | 50 | --- | 848 | 3,047 |

The additions for the current financial year are equal to Euro 1,184 thousand (Euro 1,314 thousand in 2018). The most significant additions refer to the purchase and implementation of software mainly used for production, safety and financial planning.

The amortisation of the intangible assets in 2019 was Euro 989 thousand (Euro 1,013 thousand in the previous year). The prevalently used amortisation rate is 20%.

## 4.2 Tangible Fixed Assets

Most of the tangible fixed assets consist of items owned by the Parent Company and by its subsidiaries with manufacturing operating activities. The changes that occurred during the year, compared to the previous one, are summarised as follows:

| (in thousands of Euro) | Land and buildings | Plant and machinery | Industrial and commercial equipment | Assets transferable to others | Work in progress and advances | Total |
|---|---|---|---|---|---|---|
| *Historical cost* | 307,504 | 972,198 | 53,188 | 13,709 | 23,326 | 1,369,925 |
| *Allocation of difference* | 57,550 | 36,114 | --- | --- | --- | 93,664 |
| *Accumulated depreciation* | (203,040) | (820,741) | (39,707) | (10,235) | --- | (1,073,723) |
| *Impairment provisions* | (9,060) | (3,573) | (80) | (1,055) | (9,534) | (23,302) |
| *Balance as at December 31st, 2017* | 152,953 | 183,998 | 13,401 | 2,419 | 13,792 | 366,564 |
| Additions | 2,088 | 19,072 | 2,840 | 1,031 | 23,645 | 48,676 |
| Disposals and other changes, net | (9,621) | (376) | --- | --- | --- | (9,997) |
| Classification to asset for initial operation / reclass. | 863 | 9,945 | 135 | 214 | (11,162) | (5) |
| Uses/allocations to allowance for bad debt | 1,386 | (1,635) | --- | --- | 1,208 | 959 |
| Translation differences | 950 | 2,711 | 234 | --- | 131 | 4,025 |
| Depreciation | (6,203) | (24,041) | (3,445) | (415) | --- | (34,104) |
| *Historical cost* | 306,906 | 1,013,062 | 56,409 | 14,951 | 35,940 | 1,427,268 |
| *Allocation of difference* | 51,352 | 36,021 | --- | --- | --- | 87,373 |
| *Accumulated depreciation* | (207,886) | (854,844) | (43,164) | (10,647) | --- | (1,116,541) |
| *Impairment provisions* | (7,956) | (4,565) | (80) | (1,055) | (8,326) | (21,982) |
| *Balance as at December 31st, 2018* | 142,416 | 189,674 | 13,165 | 3,249 | 27,614 | 376,118 |
| Additions | 5,293 | 19,723 | 5,148 | 412 | 11,875 | 42,451 |
| Disposals and other changes, net | --- | (10) | --- | (13) | --- | (23) |
| Classification to asset for initial operation / reclass. | 1,663 | 8,899 | 2,447 | 538 | (13,529) | 18 |
| Uses/allocations to allowance for bad debt | --- | (24) | --- | --- | (157) | (181) |
| Translation differences | 664 | 2,303 | 238 | (3) | 37 | 3,239 |
| Depreciation | (6,107) | (25,727) | (3,819) | (581) | --- | (36,234) |
| *Historical cost* | 317,368 | 1,045,611 | 63,606 | 15,705 | 34,320 | 1,476,610 |
| *Allocation of difference* | 51,352 | 36,007 | --- | --- | --- | 87,359 |
| *Accumulated depreciation* | (216,836) | (883,065) | (46,349) | (11,048) | --- | (1,157,298) |
| *Impairment provisions* | (7,955) | (3,713) | (80) | (1,055) | (8,480) | (21,283) |
| *Balance as at December 31st, 2019* | 143,929 | 194,840 | 17,177 | 3,602 | 25,840 | 385,388 |

The net book value of buildings, plants, machinery and equipment of the sites whose operations were halted or forecast to be halted and are, therefore, held for sale, totalled Euro 14.4 million, of which Euro 10.3 million referred to property.

Tangible fixed assets included assets under construction that, at December 31, 2019, were equal to Euro 25,840 thousand (Euro 27,614 thousand in 2018). These assets are classified in their pertinent categories when they start operating.

The 2019 additions in tangible fixed assets (including the assets which were not already operational by the year end) amount to Euro 42,451 thousand (Euro 48,676 thousand in 2018). The additions were carried out specifically to:

— assure the efficiency and safety of the production plants and of the production sites;
— expand the product range through the purchase of equipment and spare parts.

The increase of Euro 3,239 thousand, recorded under item Translation differences for the year, results from:

— the revaluation of the Swiss Franc (functional currency of the subsidiary Stahl Gerlafingen AG) against the Euro, equal to Euro 4,105 thousand, recorded during the year.

— the depreciation recorded during the year in the exchange rate between the RON (functional currency of the subsidiary Donalam S.r.l.) and the Euro, amounting to Euro 866 thousand.

The book values of property, plant and production equipment were tested for impairment.
The recoverable amount was determined comparing the net book value of the assets with either the higher fair value derived from appraisals carried out by third party experts and valuations made by internal experts, and their values in use calculated according to the Discounted Cash Flow (DCF) method on the basis of the cash flows forecast for the period from 2020 to 2022.
Hereafter the growth rate applied to the terminal value is shown, together with discount rates used. The discount rates (Wacc – weighted average cost of capital) vary depending on the country where the subsidiary is located; the range is provided below:

| | 2019 | 2018 |
|---|---|---|
| Terminal value growth rate | 1.00% | 1.13% - 1.52% |
| Discount rate | 5.03% - 6.41% | 6.22% - 7.90% |

Please note that the cash flows used in the impairment test do not reflect possible evolutions linked to the current national and international scenario characterised by the spread of the Covid-19 virus, as this event, as set forth in the reference accounting principles, is considered a "non-adjusting event" and as such entails no adjustments to the balances in the 2019 financial statements.
These circumstances, which emerged in the initial months of 2020 and are extraordinary in terms of nature as well as extent, will have direct and indirect repercussions on economic activity and have created a context of general uncertainty, the evolutions and relative effects of which cannot be predicted.
However, considering the factors of uncertainty linked to this phenomenon, sensitivity analyses have been prepared particularly with reference to:

— the analytical cash flows estimated in the explicit period of the plans, assuming that the possible deterioration in the macroeconomic framework may be reflected during that period;
— certain variables, such as the return on government securities and the market risk premium, used to determine the WACC discount rate.

These sensitivity analyses showed that:
— assuming a present value of analytical cash flows estimated over the explicit period of the plans equal to zero, the results of the impairment test remain positive;
— the WACC discount rate which causes

the results of the impairment test to be equal to zero is 6.53% - 9.74%.

Write-downs on tangible fixed assets amounted to Euro 21,283 thousand.

In the 2019 financial statements the book value of the land is higher than the fiscal value by Euro 47,446 thousand (Euro 52,303 thousand in 2018) because of the allocation to the category of merger deficits deriving from transactions carried out by companies merged into the Parent Company in 2003 and 2004. The decrease in the difference between the book values and the fiscal value was due to the payment of substitute taxes made in 2017 to realign the value of land pertaining to the site in Marghera. The transaction was recognised following the maintenance of ownership of the land for a three-year period.

The tangible fixed assets' carrying amounts, which include the allocation of the merger differences completed in previous financial years, higher acquisition costs compared to the carrying amount shown in the acquiring companies' balance sheet, adjusted as a result of allocations when deemed necessary, do not exceed their market value and/or their recoverable amount.

## 4.3 Financial Assets

The carrying value of investments, of Euro 5,648 thousand (unchanged compared to the previous year), is mainly due to:

**Metal Interconnector S.c.p.A. – entry value Euro 5,632 thousand.**

Metal Interconnector is a joint-stock Consortium Company, established by companies in the steelmaking segment and in other energy-intensive sectors of the Italian industry, such as the non-ferrous metallurgy, also including companies in other segments (wood, paper, chemistry, concrete and glass). This consortium was established in 2014. Metal Interconnector represents energy-intensive companies with a high impact of electricity consumption on their production. It includes little less than 70% of companies that took part in the Terna bids, as envisaged by art. 32 "Fostering the creation of a single energy market through the interconnector development and the involvement of energy-intensive end customers" of Law no. 99 of 2009.

The consortium is intended to be an instrument to fund the electric interconnection lines between Italy and other Countries, which will permit other shareholder companies involved to use the same lines, as soon as operational and in proportion to the level of investment made. Two initiatives assigned to the investees are currently in the realisation/ design phase:

- **Interconnector Italia.** A direct current "Italy-France" interconnection between the Piossasco and Grande Ile nodes. The project will make the electricity border with France the most important one for our country, increasing the cross-border interconnection capacity by 1200 MW from the currently roughly 3 GW to more than 4 GW, of which 350 MW already available under the exemption right to the Selected Parties. On July 26, 2019, on mandate of the

Selected Parties, a request for exemption for additional capacity of 250 MW on the border with France was submitted to the Ministry of Economic Development.

— **Interconnector Energy Italia.** This project calls for the creation of a direct current 500 kV interconnection line between the stations of Villanova (IT) and Lastva (ME) with a route, part in undersea cable and part in underground cable, of roughly 445 kilometres. The entry into operation of the first interconnection module will permit an interconnection capacity of 600 MW already at the end of 2019. Of the 600 MW associated with the first module, 200 MW will be available under the exemption right to the Selected Parties.

The recoverability of those values and the receivables commented on below, is subject to the success of the initiative as well as the repurchase of the plants, at a price determined by Terna S.p.A. at the end of the period set forth in the contract.

Moreover, the Parent Company holds interests, with a cancelled carrying value, in the following companies:

**Laminados Industriales S.A. – book value zeroed out during 2016.**

The company, with registered office in Santa Fe (Argentina), operates in the steelmaking sector. Production, started in 2012, was repeatedly slowed and shut down because of the company's financial hardship, of the weakness of Argentine domestic consumption and, more in general, of the country as a whole. The situation described above led the company to apply for a "concurso preventivo", i.e. bankruptcy protection procedure, as allowed by the Argentine law 24,522. The procedure started on February 10, 2014. On this basis, the Directors, in previous years, had deemed that the investee had suffered an impairment loss and adjusted the carrying amount of the equity investment to zero.

**Ferriera Sider Scal S.r.l. – in liquidation, book value zeroed out in 2018.**

The company owns a production plant in Villadossola (VB) which, in 2008, ceased definitely its production. The rolling mill was definitively dismantled and sold in 2017.

The production site, active since the end of the 19th century, was purchased by the company in October 2001. Previously, for the time interval that goes from March 2000 to October 2001, it was operated by another subsidiary of the Parent Company.

Currently, the company is engaged in the management of two environmental issues. The first one is related to the presence of contaminated materials located at the production site for which the company is waiting for the service conference to be called for the approval of additions made to the reclamation project.

The second issue is related to areas outside the plant, in particular to the course of a canal which crosses the site and to lands located downstream of the site, where contaminated materials were found.

With reference to this second issue, in 2017, the company was served an ordinance of the Verbania Cusio Ossola provincial government, also served to the Parent Company, ordering:

— to submit the characterisation plan to the Villadossola municipality;

— to implement the procedure for the

clean-up and the subsequent restoration of the condition of the locations in relation to the territory containing the network of canals relating to the steelmaking plant.

The Company and the Parent Company filed an appeal against this ordinance with the Piedmont TAR (Regional Administrative Court). The defensive arguments presented by the company are directed at challenging the liability, taking into account that the contaminations being charged are for the most part due to third parties' activities which, since the late 19th Century, succeeded each other not only in the plant itself but throughout the Villadossola area and, with regard to the Parent Company, the direct operation of the plant in question is limited to the time interval from March 2000 to October 2001. The survey plan for site characterisation was approved, calling for surveys to be carried out on properties owned by third parties. One of those third-party owners challenged the resolution of the service conference which approved the survey plan, the completion timing of which cannot currently be estimated, given that the proceedings lodged by the third party are pending and despite the fact that a subsequent service conference confirmed the survey plan.

It is the opinion of the company and of its advisors that these defences are grounded on regulatory principles that have already been recognised in the jurisprudence and from whose application results a delimitation of liability that is circumscribed to the individual contributions of the alleged event. The defensive elements collected seem adequate to deem it likely that the appeal will be successful.

The other receivables included within the financial fixed assets, which amount to Euro 9,865 thousand (Euro 4,474 thousand in 2018) include:

— a non-interest bearing loan of Euro 4,917 thousand disbursed by the Parent Company, which may be used, all or in part, according to decisions made by the Board of Directors, to subscribe, to an extent in proportion with the equity investment held, the share capital increase of the investee Metal Interconnector S.c.p.A., in order to participate in the share capital increase being approved of its investee Metal Interconnector S.c.p.A. and/or for the disbursement to that company of a non-interest bearing shareholder loan;

— guarantee fund paid by the Parent Company against the commitment to finance the construction of electricity transport works for Euro 3,046 thousand (Euro 2,301 thousand in 2018). The work will be performed through the investee Metal Interconnector S.c.p.A.;

— receivables from public bodies for residential construction and security deposits of the subsidiary LME S.A. of Euro 1,306 thousand (Euro 1,257 thousand in 2018);

— security deposit of Euro 332 thousand established by the subsidiary Stahl Gerlafingen AG in a Swiss bank in relation to customs operations (Euro 319 thousand in 2018);

— other security deposits paid mainly by the subsidiary LME for an early retirement program, totalling Euro 95 thousand (Euro 374 thousand in the prior financial year).

The receivables are deemed to be entirely collectable.

## 4.4 Inventories

Inventories consist of the following:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Finished products | 128,228 | 141,281 |
| Semi-finished products | 43,259 | 48,896 |
| Raw materials | 17,039 | 28,988 |
| Consumable materials | 30,778 | 28,444 |
| Ancillary materials | 3,971 | 3,849 |
| Plants and machineries held for sale | 232 | 232 |
| Total | 223,507 | 251,690 |

Change in inventories are analysed below with reference to the main categories:

- finished products were basically unchanged in terms of quantity, while unit values decreased by 9% (increased by 10% in quantity terms and substantially unchanged in unit value terms compared to the previous year);
- semi-finished products decreased by 4% in terms of quantity and decreased by 8% in unit value terms (increased by 15% in terms of quantity and by 23% in unit value terms in the previous year);
- raw materials quantities decreased by 31% in terms of quantity and by 15% in unit value terms (increased by 8% in quantity and by 3% in unit value in the previous year).

The adjustment of the manufacturing cost to the market value (replacement cost for raw materials and net realisable value for finished goods and semi-finished products) generated a write-down by Euro 9,428 thousand (Euro 11,848 thousand in 2018).

Inventories of semi-finished products and finished goods were pledged as collateral for short-term credit lines by the subsidiary Donalam S.r.l., for a value of Euro 5,692 thousand, against total credit lines of Euro 4,697 thousand (Euro 5,636 thousand and Euro 4,697 thousand, respectively, in the previous year). At the end of the year in question, a total of Euro 1,527 thousand of these credit lines had been used.

## 4.5 Trade Receivables

Trade receivables, net of allowance for doubtful accounts, changed from Euro 73,616 thousand in the previous financial year to Euro 47,528 thousand in 2019. The amount level of trade receivables is influenced by the trends in deliveries recorded in the last quarter and by their geographic distribution.

Trade receivables from customers include the amounts related to trade relations of the Parent Company with:

- the investee Consorzio Valbel, Euro 2,154 thousand (Euro 2,179 thousand in 2018);
- the investee Laminados Industriales S.A., Euro 386 thousand (unchanged compared to the prior financial year).

Trade receivables have been aligned to their realisable value, through a provision for bad debt whose changes are shown below:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Opening balance | 3,833 | 3,789 |
| Allocations during the year | 490 | 719 |
| Amounts recovered from bankruptcy and other minor proceedings | --- | 14 |
| Translation differences | 21 | 40 |
| Utilisations during the year | (927) | (729) |
| Closing balance | 3,417 | 3,833 |

The adjustment of receivables includes a write-down related to the receivables from Laminados Industriales S.A., recorded to take account of payments collection estimates.

The receivables due within the next financial year, of which approximately 80% (94% in 2018) are from customers within the European Union, following the write-downs applied are substantially aligned with their estimated realisation value.

Receivables for Euro 3 thousand of the Parent Company are against the related party Idroelettriche Riunite S.p.A., and are due to administration services provided (Euro 5 thousand in 2018).

## 4.6 Receivables from Unconsolidated Associates and Subsidiaries

The amount of Euro 858 thousand (Euro 562 thousand in 2018) refers to values recorded in the financial statements of the Parent Company for relations occurred with the subsidiary Ferriera Sider Scal S.r.l. – in liquidation for:

- loans amounting to Euro 847 thousand (Euro 552 thousand in 2018);
- trade receivables amounting to Euro 11 thousand (Euro 10 thousand in 2018).

## 4.7 Receivables from Ultimate Parent Company

Receivables from the ultimate parent company, all payable within 2020, amounted to Euro 20 thousand (Euro 490 thousand in 2018) and refer entirely to administrative services (in the previous year, part also referred to interest on loans).

## 4.8 Tax Receivables

Tax receivables amount to Euro 14,471 thousand (Euro 12,708 thousand in 2018). The most significant amounts refer:

— to contributions and tax relief provided to the subsidiaries Stahl Gerlafingen AG and LME S.A. in relation to energy consumption, amounting to Euro 3,704 thousand (Euro 1,966 thousand in 2018 to the subsidiary LME S.A.);

— to advances paid in the year against income taxes by the Parent Company and the subsidiary LME S.A., higher than the actual total calculation of Euro 3,012 thousand. The receivables will be utilised in the course of 2020 against advances due for the same taxes;

— VAT amounting to Euro 3,195 thousand (Euro 6,017 thousand in 2018);

— tax receivables for competition and employment recognised by the subsidiary LME S.A., amounting to Euro 2,340 thousand (Euro 3,101 thousand in the previous year);

— refund of IRES for claims filed by the Parent Company in accordance with Italian Law Decree no. 185 of November 29, 2008 and Italian Law Decree no. 201 of December 6, 2011 for the partial recognition of the deductibility of IRAP paid in previous financial years, amounting to Euro 1,573 thousand (unchanged from the previous year).

## 4.9 Deferred Tax Assets

Deferred tax assets, recorded at Euro 13,007 thousand (Euro 14,797 thousand in 2018), derived from temporary differences on taxable income and tax losses. The breakdown is analysed in the following table.

| (in thousands of Euro) | 2018 Deferred tax assets | 2019 Increases | 2019 Reabsorptions | 2019 Deferred tax assets |
|---|---|---|---|---|
| Non-deducted adjustments to assets | 6,060 | 50 | (244) | 5,866 |
| Valuation of the tax loss | 3,797 | --- | --- | 3,797 |
| Allocations to provisions for risks and charges | 2,139 | 396 | (729) | 1,806 |
| Adjustments to value of inventories | 1,021 | 79 | (446) | 654 |
| Change in valuation of derivative financial instruments | 764 | --- | (256) | 508 |
| Non-deducted write-downs of receivables | 353 | 70 | (219) | 204 |
| Others | 663 | 67 | (558) | 172 |
| | 14,797 | 662 | (2,452) | 13,007 |

# 4

Deferred tax assets are accounted for in compliance with the principle of prudence and with the reasonable certainty of sufficient future taxable income that would allow their recovery.
Deferred tax assets, deriving from the accounting of tax losses, only for the portion that is estimated as recoverable in the following five years, are booked in the financial statements of the subsidiary LME S.A.. With regard to the subsidiaries Stahl Gerlafingen AG and Donalam S.r.l., recognition was postponed until the conditions for the certainty of the recovery are fully achieved.

## 4.10 Other Receivables

Other receivables include the following:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Refunds to be received on energy consumption | 5,506 | 5,354 |
| Insurance claims to be liquidated | 645 | --- |
| Receivables from social security and employees | 370 | 135 |
| Advances to suppliers | 201 | 259 |
| Guarantees on unsettled litigation | --- | 39 |
| Advance on manufacturing taxes | 12 | 12 |
| Others | 217 | 147 |
| Total | 6,951 | 5,946 |

Refunds to be received on energy consumption are recorded in the financial statements of the Parent Company and of the subsidiary Stahl Gerlafingen AG, in relation to the amounts pertaining to the years 2017, 2018 and 2019, and are recognised in the form of refunds of structural charges in the first case and refunds of excise duties in the second case.

## 4.11 Liquid Funds

The balance of Euro 50,440 thousand, (Euro 72,026 thousand in 2018) is mostly made up of funds in current account, and cash at hand with and cash accounts of the companies as at December 31, 2019.
The amounts shown can be converted promptly into cash and are not subject to significant risk of changes in value.

## 4.12 Prepayments and Accrued Income

The amount listed of Euro 4,706 thousand (Euro 4,611 thousand in 2018), principally refers to:

- Euro 3,312 thousand (Euro 3,303 thousand in the previous financial year) for greenhouse emission quotas;
- Euro 773 thousand, comprising

commissions, services and costs related to the obtaining of bank credit linespaid by the Parent Company in the year 2019 and amortised by the same for Euro 42 thousand. The amount of Euro 574 thousand present in last year's financial statements, in relation to the full repayment of the loans previously recognised, was fully charged to the income statement of the financial statements under review;

— Euro 239 thousand (Euro 283 thousand in 2018) for software fees paid, to be accrued in the following year;

— Euro 128 thousand (Euro 166 thousand in 2018) for interest to the Parent Company's customers who paid in advance, compared to the original due date which was after the reporting date.

## 4.13 Shareholders' Equity

The underwritten and paid-in capital of the Parent Company amounts to Euro 113,190,480 and it is represented by 217,674 ordinary shares with a nominal value of Euro 520 each.
In the financial year of interest or in the prior one no equity reserves are "not distributable" in accordance with art. 2426 point 5) of the Italian Civil Code or related to unrealised income from foreign exchange translation.
Reserves under tax suspension regime previously shown in the shareholders' equity of subsidiaries merged by the Parent Company for Euro 1,082 thousand (unchanged compared to the previous financial year) were reformed by binding the share premium reserve and part of the extraordinary reserve.
In 2017, following the option related to the tax redemption of the production site in Marghera and the payment of the "substitute" tax, the Parent Company provided for restricted reserves of profits for the amount of Euro 10,053 thousand. If these reserves are distributed, they would be subjected to the payment of an adjustment surplus. In 2018, in relation to the sale of a portion of land before the three-year period in which the sale was forbidden, reserves were released for the amount of Euro 5,195 thousand.
In 2019, following the option for tax redemption on excess amortisation recognised in observance of the provisions of Italian Law 244/2007, the available reserves of the Parent Company were used for Euro 1,411 thousand to:

— establish a taxable reserve for Euro 1,242 thousand. If this reserve is distributed, it would be subjected to the payment of a further tax amount;

— recognise the tax payable of Euro 169 thousand against the expense relating to the substitute tax necessary for the completion of the transaction.

The changes in shareholders' equity are set out in detail in the table that follows.

| (in thousands of Euro) | Share capital | Share premium reserve | Legal reserve | Other reserves | Reserve for cash flow hedging | Group profit (loss) | Consolida-ted Sha-reholders' Equity | Minority interest | Sharehol-ders' equity as at Decem-ber 31 |
|---|---|---|---|---|---|---|---|---|---|
| Balance as at December 31, 2017 | 113,190 | 4,015 | 14,610 | 102,319 | (1,999) | 28,435 | 260,570 | 18,028 | 278,598 |
| Allocation of the profit for the year | | | | | | | | | |
| To reserve | — | — | 1,254 | 16,805 | — | (18,059) | — | — | — |
| To shareholders | — | | | | | (10,376) | (10,376 | (119) | (10,495) |
| Purchase of minority interest | — | — | — | — | — | — | — | (800) | (800) |
| Use of reserves for allocation of derivatives | — | — | — | — | (421) | — | (421) | — | (421) |
| Translation difference and others | — | — | — | 2,625 | — | — | 2,625 | — | 2,625 |
| Profit (loss) for the year | — | — | — | — | — | 48,417 | 48,417 | 1,229 | 49,646 |
| Balance as at December 31, 2018 | 113,190 | 4,015 | 15,864 | 121,749 | (2,420) | 48,417 | 300,815 | 18,354 | 319,169 |
| Allocation of the profit for the year | | | | | | | | | |
| To reserve | — | — | 1,451 | 30,976 | — | (32,427) | — | — | — |
| To shareholders | — | | | | | (15,990) | (15,990) | (75) | (16,065) |
| Tax redemption on excess amortisation of the Parent Company | — | — | — | (169) | — | — | (169) | — | (169) |
| Use of reserves for allocation of derivatives | — | — | — | — | 813 | — | 813 | — | 813 |
| Translation difference and others | — | — | — | 2,112 | — | — | 2,112 | 18 | 2,130 |
| Profit (loss) for the year | — | — | — | — | — | 13,793 | 13,793 | 806 | 14,599 |
| Balance as at December 31, 2019 | 113,190 | 4,015 | 17,315 | 154,668 | (1,607) | 13,793 | 301,374 | 19,103 | 320,477 |

# 4

### 4.14 Deferred Tax Liabilities

Deferred tax liabilities amounted to Euro 12,132 thousand (Euro 12,880 thousand in the previous financial year) and they mainly refer to the Parent Company which made allocations in view of:

- the higher values, i.e. Euro 47,446 thousand (Euro 52,303 thousand in 2018) attributed to lands during the allocation of the merger difference in the financial years 2002 and 2003, for Euro 11,387 thousand (in the previous financial year for Euro 11,347 thousand);
- instalments of capital gains on tangible assets disposed of for Euro 727 thousand (Euro 1,155 thousand in the previous financial year).

The decrease in deferred tax liabilities on excess amortisation derives from the realignment, carried out according to the provisions of Italian Law 160/2019, of the statutory and tax values on excess amortisation recognised by the Parent Company in light of Italian Law 244/2007.

The breakdown is analysed in the following table.

| (in thousands of Euro) | 2018 Deferred tax liabilities | 2019 Increases | 2019 Reab-sorptions | 2019 Deferred tax liabilities |
|---|---|---|---|---|
| Taxes on allocation of unredeemed merger differences | 11,347 | 40 | --- | 11,387 |
| Taxes on capital gains in instalments | 1,155 | 30 | (458) | 727 |
| Deferred taxes on accelerated / excess depreciation and amortisation | 361 | --- | (351) | 10 |
| Others | 17 | | (9) | 8 |
| | 12,880 | 70 | (818) | 12,132 |

The utilisation, by the Parent Company, of taxes on allocation of unredeemed merger differences is described at the previous point 4.2.

## 4.15 Other Provisions

The breakdown of this item is as follows:

| (in thousands of Euro) | 2018 | Allocations | Utilisations | Trans. Diff. | 2019 |
|---|---|---|---|---|---|
| Provision for environmental charges | 7,485 | 920 | (3,038) | 87 | 5,454 |
| Provision for risks and future charges | 5,874 | 787 | (1,838) | --- | 4,823 |
| Derivative liabilities | 3,184 | --- | (1,069) | --- | 2,115 |
| Provision for restructuring | 1,625 | 1,030 | (1,030) | --- | 1,625 |
| Provision for tax litigation | 800 | --- | --- | --- | 800 |
| Retirement provision | 662 | 18 | (117) | --- | 563 |
| Provision for adj. of interests value | 560 | --- | --- | --- | 560 |
| Total | 20,190 | 2,755 | (7,092) | 87 | 15,940 |

Provision for environmental charges was recorded by the Parent Company and the subsidiaries Stahl Gerlafingen AG and Laminoirs du Ruau S.A. to take into account liabilities the companies may incur. With regard to the Parent Company the allocation is primarily referred to the charge estimated for the treatment of by-products from the production process of the Vicenza site.

Provision for risks and future charges was accounted for due to liabilities that could emerge from the unfavourable evolution of issues currently being reviewed relating to both actual and potential litigation, mainly of labour and trade (bankruptcy claw back, disputes and other).

Provision for risks and charges includes an allocation for the expenses that Laminoirs du Ruau S.A. will have to incur during the liquidation period.

Derivative financial instruments are allocated to hedge the risk of change in the fair value of hedge contracts related to interest rate risks, as described in the following item 4.17.

Provision for restructuring was allocated to take into account the expenses that the company LME and its subsidiary Laminoirs du Ruau S.A. will have to incur for interventions mainly aimed at the shut down of the Ruau production site.

The provision for tax litigation was allocated in previous years by the Parent Company to take into account liabilities that may emerge during a tax audit. Point 4.22 below provides a brief description of the tax position of the Parent Company and of the main consolidated companies.

The Retirement provision was allocated by the Parent Company and it is related to the allowance due to the agents who collaborate with the company, in compliance with the "Accordo Economico Collettivo" (general labour agreement).

The provision for the adjustments to the carrying value of equity investments was allocated by the Parent Company during the previous year to take account of a negative value occurred in the shareholders' equity of the subsidiary Ferriera Sider Scal S.r.l. – in liquidation. The negative value of shareholders' equity derives from the allocation of provisions for the decontamination of the site owned by the investee and to take into account the low amount of structural expenses envisaged over the period for these initiatives.

4

## 4.16 Personnel and Severance Indemnity

The breakdown of the changes in the severance indemnity is detailed as follows:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Opening balance | 16,733 | 17,275 |
| Allocations during the year | 528 | 595 |
| Translation differences | 35 | 37 |
| Deconsolidation and other minor changes | --- | --- |
| Utilisations during the year | (1,170) | (1,174) |
| Closing balance | 16,126 | 16,733 |

The item includes the severance indemnity of the Parent Company and the pension funds of the foreign entities of the Group, updated, if necessary, with actuarial calculations and monetary revaluations in compliance with the appropriate legal requirements.

The provisions for severance indemnity include:

— Euro 5,653 thousand related to the Parent Company (Euro 6,476 thousand in 2018);

— Euro 9,397 thousand related to the subsidiary LME S.A. (Euro 8,992 thousand in 2018);

— Euro 967 thousand related to the subsidiary Stahl Gerlafingen A.G. (Euro 968 thousand in 2018);

— Euro 109 thousand related to the subsidiary Ruau S.A. (Euro 297 thousand in 2018).

With regard to the subsidiary LME S.A., the most significant amounts refer to the IRUS fund of Euro 5,225 thousand (Euro 5,208 thousand in the previous year) relating to employees as at December 31, 1989, who benefit, upon retirement, from a supplement to the pension paid to other retirees, and to a fund for category employee severance indemnity, amounting to Euro 3,043 thousand (Euro 2,827 thousand in the previous year).

The numbers of employees of the Group companies at the end of the financial year and at the end of the prior financial year are provided below, along with the average number:

| | Factory Staff | Office Staff | Managers |
|---|---|---|---|
| December 31, 2018 | 1,330 | 620 | 62 |
| 2019 average number | 1,328 | 631 | 60 |
| December 31, 2019 | 1,351 | 635 | 60 |

## 4.17 Payables to Banks

Payables to banks total Euro 121,456 thousand (Euro 146,102 thousand in 2018) and include the use of the following technical loan forms:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Bank overdraft facilities, having effect on the single portfolio and short-term financing account | 1,526 | --- |
| Medium and long-term loans – due within the following financial year | 14,208 | 18,481 |
| Total short-term payables to banks | 15,734 | 18,481 |
| Medium and long-term loans – due beyond the following financial year | 105,722 | 127,621 |
| Total payables to banks | 121,456 | 146,102 |

Medium and long-term loans, including the short-term part, amount to Euro 119,930 thousand (Euro 146,102 thousand in 2018).
In September 2019 the Parent Company executed an agreement with banks which entailed the repayment of the medium and long-term loans existing at that date and obtaining a new loan, the main features of which are listed below:

— an amortising line for Euro 70 million; repayment is required in 10 six-monthly instalments with the first instalment due six months after the stipulation date;
— a bullet line for Euro 50 million;

repayment is required after a five-year pre-amortisation period with the payment of two six-monthly instalments, one of Euro 7 million 66 months after the stipulation date and one instalment at maturity of Euro 43 million;

— RCF line for Euro 30 million; the duration is three years from the stipulation date with the possibility of extension for an additional two years and bullet repayment on maturity;

— CAPEX line for Euro 50 million, earmarked for investments; the period of availability is 24 months from the stipulation date and repayment is required in eight equal six-monthly instalments with the first instalment due 30 months after the stipulation date.

As stated in point 4.4 above, the subsidiary Donalam S.r.l., against some short-term bank credit lines, used a portion of the semi-finished and finished product inventories in its warehouses to secure the loans.

With regard to medium and long-term loans, the following table shows the comparison between amounts (recognised according to the amortised cost method) and maturity terms in place for the financial statements under evaluation and that of the previous year.

| (in thousands of Euro) | Balance as at December 31, 2019 | Balance as at December 31, 2018 | Change in cash flows |
|---|---|---|---|
| Disbursement date | 2013 - 2019 | 2013 - 2017 | |
| Original amount | ------- | 193,142 | |
| Interest rate | variable amount | variable amount | |
| Payment of interest | half-year | half-year | |
| 2018 residual loans | 146,102 | 146,102 | |
| 2019 loans | 116,936 | | 116,936 |
| 2019 residual loans | 119,929 | | |
| 2019 Reimbursements | 143,108 | 18,481 | (124,627) |
| 2020 Reimbursements | 14,207 | 17,743 | 3,536 |
| 2021 Reimbursements | 14,081 | 17,557 | 3,476 |
| 2022 Reimbursements | 13,884 | 20,040 | 6,156 |
| 2023 Reimbursements | 13,651 | 21,134 | 7,483 |
| 2024 Reimbursements | 13,801 | 51,147 | 37,346 |
| 2025 Reimbursements and beyond | 50,305 | --- | (50,305) |

Loan agreements envisage that some financial covenants be fulfilled for the entire duration of the agreement. These covenants are calculated as indexes on the data of the consolidated financial statements, connected to the income performances and at indebtedness and capitalisation level and negative pledges, which are widely fulfilled as at December 31, 2019.

As regards credit lines granted in 2019, the Parent Company signed the following interest rate risk hedging contracts (Interest Rate Swaps):

| Effective date | Maturity date | Original notional | Notional as at December 31, 2019 | Market value estimate (Euro/1000) |
|---|---|---|---|---|
| 30/09/2019 | 27/09/2024 | 26,250 | 26,250 | (401) |
| 30/09/2019 | 27/09/2025 | 18,750 | 18,750 | (535) |
| 30/09/2019 | 27/09/2024 | 26,250 | 26,250 | (397) |
| 30/09/2019 | 27/09/2025 | 18,750 | 18,750 | (524) |
| 30/09/2017 | 09/03/2024 | 5,107 | 3,536 | (81) |
| 29/09/2017 | 11/03/2024 | 1,520 | 1,520 | (53) |
| 29/09/2017 | 11/03/2024 | 2,071 | 1,433 | (27) |
| 29/03/2018 | 11/03/2024 | 8,571 | 6,429 | (98) |
| Total amounts | | 107,269 | 102,918 | (2,116) |

The estimated market values are shown between parentheses as they are negative.

## 4.18 Payables to other Lenders

The amount of Euro 3,355 thousand (Euro 2,657 thousand in 2018) refers to:

- Euro 2,025 thousand to residual payments due to the acquisition of fixed tangible assets carried out by the subsidiary Stahl Gerlafingen AG and Donalam S.r.l. through financial leasing agreements and accounted for using the financial method (Euro 2,471 thousand in 2018);
- Euro 1,284 thousand from advances granted by the minority shareholder Sipro Siderprodukte AG to the subsidiary Donalam Siderprodukte AG;
- Euro 46 thousand (Euro 186 thousand in the previous year) due to amounts disbursed by factoring lenders to the subsidiary LME S.A. for trade receivables factored without recourse.

## 4.19 Advances

Advance payments for Euro 1,184 thousand referring are entirely referred to the Parent Company. The amounts have been received in connection with shipments foreseen in the first few month of 2020 with sales prices already fixed (Euro 20 thousand in the previous year referring to the subsidiary Stahl Gerlafingen AG).

## 4.20 Trade Payables

Trade payables amount to Euro 250,183 thousand (Euro 272,547 thousand in 2018) and are entirely due in 2020. The contraction was primarily due to the decreased unit cost of raw materials. The amount includes payables for Euro 6 thousand (Euro 5 thousand in the previous year) to the investee Consorzio Valbel. The item included trade payables of Euro 40,450 thousand (Euro 38,919 thousand in 2018) towards suppliers not located within the European Union. Most of the amount refers to the trade payables recognised in the financial statements of the subsidiary Stahl Gerlafingen AG.

# 4

## 4.21 Payables to Subsidiaries

In the year under review, payables to subsidiaries amounted to one thousand Euro (zero in the previous year). The amount refers to interest accrued on deferred tax assets allocated by the subsidiary Ferriera Sider Scal S.r.l. in liquidation within the National Taxation Consolidation Scheme.

## 4.22 Tax Payables and Tax Exposure

The breakdown of this item is as follows:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Withholdings on employees and self-employed contractors | 1,677 | 2,240 |
| Tax on properties | 437 | --- |
| Income taxes | 401 | 6,291 |
| Value Added Tax (VAT) | 302 | 1,269 |
| Substitute tax | 169 | --- |
| Tax on salaries | 77 | 409 |
| IRAP tax | --- | 242 |
| Others | 344 | 22 |
| Total | 3,407 | 10,473 |

Payables related to income taxes refer to the disbursement expected for 2019 taxable amounts, taking account of tax liabilities related to previous years, prepaid taxes, withholding taxes and effects resulting from the adhesion in the Group tax consolidation.
Payables due to the Inland Revenue Office for VAT, amounting to Euro 302 thousand, related to the Parent Company and the subsidiary Donalam, results from the liquidation related to the month of December 2019.
The payable for amounts withheld on employee wages refers mostly to the Parent Company and the subsidiary LME. Taxes on salaries are allocated by the subsidiary LME S.A. and, bearing on all French companies, they are allocated for the training of employees.

At the preparation date of these explanatory notes, tax audits are in progress on the consolidated companies LME S.A. and Donalam S.r.l. No significant findings are currently expected.

The Parent Company's direct and indirect taxes are closed for tax review up to the financial year 2014.
For the other main companies, direct taxes are settled as follows:

- Laminés Marchands Européens S.A. up to financial year 2016;
- Stahl Gerlafingen AG up to the financial year 2017 for indirect taxes and 2018 for direct taxes;
- Donalam S.r.l. up to financial year 2012.

## 4.23 Social Security Payables

Social security payables increased from Euro 6,334 thousand to Euro 5,628 thousand. The amounts reported include receivables that the Group companies hold against the respective Social Security Institutes for advances paid to employees.

## 4.24 Other Payables

The item "other payables", all due within the next financial year, consists of the following:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Due to employees, Directors and withholdings for the supplementary severance fund for employees | 12,179 | 13,816 |
| Insurance premium balance | 175 | 172 |
| Payment due as cash contribution for energy and environmental services | --- | 403 |
| Others | 134 | 108 |
| Total | 12,488 | 14,499 |

The amount, recorded against payables accrued to employees, is principally related to December wages and to the allocation made for holidays accrued, but not yet taken and compensation tied to the performance of individual companies or of the Group as a whole.
The contribution to the Energy and Environmental Services Fund, allocated by the Parent Company, was established in 2018 to finance general expenses of the national electrical system. No payable is recognised during the year in question as the amount due for 2019 was paid in two payments during the year.

## 4.25 Accrued Expenses and Deferred Income

Accrued expenses and deferred income consist of the following:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Deferred income on grants for capital expenditure | 2,332 | 2,701 |
| Accrued interest on financing | 720 | 1,336 |
| Other | 5 | 13 |
| Total | 3,057 | 4,050 |

Grants on capital expenditure are accounted for by the subsidiaries LME S.A., Stahl Gerlafingen AG and Donalam S.r.l.. For Donalam S.r.l. the grant is part of the Regional European Development fund called "Strengthening Economic Competitiveness (POS EEC) 2007-2013".

## 5 Comments on the Principal Items of the Income Statement

Comments on the economic environment and Beltrame Group operations as well as comparison between the current financial year figures against the previous one are made in the "Report on Operations".

### 5.1 Revenues From Sales And Services

The apportionment of revenues is summarised in the table below:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Merchant bars | 714,290 | 770,778 |
| Ribbed round bars for construction industries | 296,036 | 307,399 |
| Special steel rods | 80,033 | 97,805 |
| Semi-finished products | 2,490 | 51,914 |
| Raw materials | --- | 723 |
| Other | 2,660 | 3,507 |
| Total | 1,095,509 | 1,232,126 |

The Report on Operations provides broader disclosure on the reference market.
The approximately 2% change in product sales revenues is due to a decrease in volumes compared to sales recorded in the previous financial year.
Revenues from the sale of semi-finished products derived mainly from sales made by the Parent Company whose production is aimed at increasing the production level of the steel-making unit of Vicenza.
It should be highlighted that in the 2019 financial year, 66% of revenues were generated from sales in EU countries (73% in the previous year).

### 5.2 Changes in Semi-Finished and Finished Goods Inventories

The decrease in the value of the inventories during the financial year was equal to Euro 18,378 thousand (increase by Euro 18,906 thousand in 2018). The analysis of the change is illustrated in point 4.4 above.

# 5

### 5.3 Increases in Internally Manufactured Fixed Assets

The recorded amount, equal to Euro 3,859 thousand (Euro 2,410 thousand in 2018), refers to the capitalisation of personnel, materials and ancillary costs incurred to carry out the capital expenditure plans described in point 4.2 above.

### 5.4 Other Revenues and Income

Other revenues and income include:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Current year grants | 3,009 | 1,636 |
| Capital gains on tangible assets disposal | 872 | 1,693 |
| Utilisation of provisions | 824 | 646 |
| Cash flow hedging | --- | 424 |
| Compensation and various reimbursements | 700 | 407 |
| Non-recurring income | 735 | 758 |
| Rent | 312 | 233 |
| Services rendered by employees | 227 | 69 |
| Compensation for the delayed reimbursement of VAT receivables | --- | 2,119 |
| Others | 231 | 192 |
| Total | 6,910 | 8,177 |

Current year grants amounted to Euro 3,009 thousand (Euro 1,636 thousand in 2018), with Euro 2,380 thousand referred to contributions granted to the subsidiary LME S.A. in relation to greenhouse gas emissions (Euro 1,048 thousand in the previous year).

Capital gains on tangible assets disposal are mainly attributable to the subsidiary Donalam S.r.l. which, in the period under evaluation, demolished and subsequently sold assets that were no longer used in production.

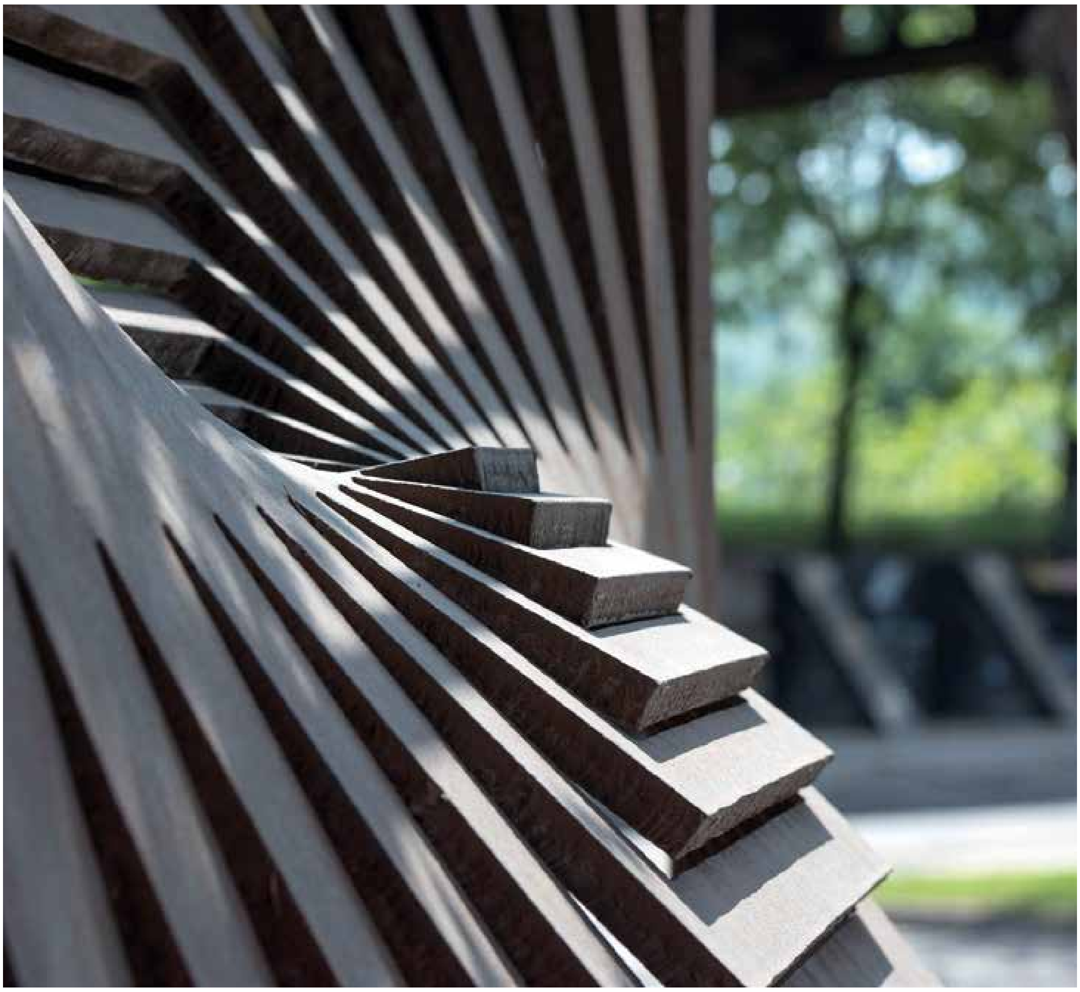
In the previous year, the subsidiary Donalam recognised, under item other revenues, revenue of Euro 2,119 thousand as compensation for the delayed reimbursement of VAT receivables relative to the 2008 and 2009 periods.

## 5.5 Costs for Raw, Ancillary and Consumable Materials and Products

The breakdown of these costs can be summarised as follows:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Raw materials | 508,441 | 637,327 |
| Ancillary materials | 78,987 | 86,081 |
| Semi-finished products | 59,740 | 75,532 |
| Consumables and maintenance materials | 17,067 | 19,634 |
| Products | 1,920 | 6,643 |
| Packaging | 605 | 730 |
| Total | 666,760 | 825,947 |

Purchases of raw materials were lower than last year by approximately 2%.



5

## 5.6 Services

Details of the principal items are listed below:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Electricity and methane | 89,376 | 69,595 |
| Logistics | 43,983 | 45,022 |
| Maintenance charges | 26,137 | 27,422 |
| Charges for the disposal of production by-products and other environmental costs | 8,764 | 11,598 |
| Legal, technical and administrative charges | 5,769 | 6,600 |
| Sales and purchase commissions | 3,392 | 3,683 |
| Insurance | 2,972 | 2,800 |
| Production outsourcing | 1,939 | 2,423 |
| Directors and Statutory Auditors compensation | 1,712 | 4,544 |
| Bank charges | 1,650 | 1,901 |
| Security | 1,650 | 1,705 |
| Employee training costs | 1,416 | 1,466 |
| Travel expenses | 1,326 | 1,471 |
| Canteen | 899 | 864 |
| Advertising | 831 | 323 |
| Phone and post expenses | 759 | 792 |
| Cleaning expenses | 480 | 500 |
| Warehouse handling services | 373 | 412 |
| Auditing | 262 | 210 |
| Others | 3,966 | 4,284 |
| Total | 197,656 | 187,615 |

In accordance with the resolution of the Authority for Electricity and Gas, directed at creating a single energy market for the whole of the European Union, the Parent Company was selected, amongst other entities, to finance the planning and development of facilities to strengthen infrastructure to connect the electricity grid with others abroad. In view of the outlay, the Parent Company will be entitled to use the infrastructure, as soon as operational, in proportion to the level of investment made.

During the planning and development phase, the Parent Company was entitled to purchase definitive quantities of electricity from abroad, therefore sourcing energy from both the national grid as well as importing it and thus making considerable savings.

Electricity costs, recognised over the year, remarkably increased compared to those reported in the previous year due to the increase in the price of petroleum products recorded during the year.

Logistic costs refer mostly to the sale of finished and semi-finished products. The other logistic costs refer to movements of materials

among the various production sites of the Parent Company and other minor sites.
Maintenance activity is derived from planned systematic checks for ensuring the maintenance of efficiency levels of structures, plants and machinery present at the Group's production sites. The activity is generally carried out through preventive maintenance work, based on predetermined schedules.

Charges for the disposal of production by-products are incurred mainly in steel production sites. During the melting process, some waste materials are reusable (only the iron part after a mechanical screening process can be sent for melting once again) and others are moved to authorised landfills. Other environmental costs are mainly connected to activities which allow for the reutilisation of by-products.

## 5.7 Leases and Rental

Lease and rental costs totalling Euro 5,475 thousand (Euro 5,148 thousand in 2018), refer mostly to the lease of buildings and machinery by the Parent Company and the subsidiaries Stahl Gerlafingen AG and LME S.A..

## 5.8 Personnel

Personnel costs in the financial year under review totalled Euro 130,634 thousand (Euro 127,723 thousand in 2018). The increase is mostly due to the revaluation of the Swiss Franc (functional currency of the subsidiary Stahl Gerlafingen S.A.) against the Euro.

## 5.9 Amortisation, Depreciation and Write-Offs

*Amortisation of intangible fixed assets.*
The amount accounted for in the financial year came to Euro 989 thousand (Euro 1,013 thousand in 2018).
*Depreciation of tangible fixed assets.*
The amount is equal to Euro 36,234 thousand (Euro 34,104 thousand in 2018). The charge of the depreciation of tangible fixed assets to the income statement is affected by what was previously described in point 4.2 above.
*Other write-downs of fixed assets.*
During the year under review, following the test on the recoverability of the value of fixed assets, the Parent Company applied write-downs amounting to Euro 181 thousand (Euro 658 thousand in the previous year), primarily referable to assets that are no longer used for production.
In the previous year, the subsidiaries Donalam S.r.l. and LME S.A. recognised write-downs of the same nature for Euro 304 thousand and Euro 5 thousand, respectively.
*Write-down of current trade receivables.*
The write-down of current trade receivables totalled Euro 239 thousand, relating to the Parent Company for Euro 200 thousand and to the subsidiaries LME S.A. and Stahl Gerlafingen AG for the remainder. The amount of Euro 719 thousand recorded in the financial statements of the previous year referred to the subsidiaries Stahl Gerlafingen AG and Donalam S.r.l.

## 5.10 Changes in Raw Materials, Ancillary and Consumable Materials Inventories

The decrease in the value of the inventories during the financial year was equal to Euro 10,084 thousand (increase by Euro 6,295 thousand in 2018). The analysis of the change is illustrated in point 4.4 above.

## 5.11 Allocations for Risks

As in the previous year, the allocation of Euro 1,185 thousand (Euro 2,426 thousand in 2018) refers mainly to the estimated future outlays tied to environmental matters, to employees and to the site of the subsidiary Laminoirs du Ruau.

## 5.12 Other Provisions

The amount disclosed in item "other provisions", equal to Euro 544 thousand (Euro 2,344 thousand in the previous year), is attributable to disputes that are being settled and costs that the Parent Company might have to pay in relation to a production organisation efficiency programme, as well as costs that are not covered by social security.

## 5.13 Other Operating Expenses

The item "other operating expenses" consists of the following:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Property tax | 2,046 | 2,191 |
| Territorial economic contribution | 1,593 | 1,918 |
| Various taxes calculated on personnel costs | 1,074 | 1,230 |
| Other taxes | 697 | 433 |
| Non-recurring loss on operating activities | 476 | 278 |
| Association fees | 298 | 321 |
| Bad debt | 256 | --- |
| Capital loss derived from fixed assets disposal | 110 | 13 |
| Other | 314 | 381 |
| Total | 6,864 | 6,765 |

Property tax and the Territorial economic contribution refer mainly to the Parent Company, Laminés Marchands Européens S.A. and Donalam S.r.l..

Various taxes calculated on personnel costs are reported by Laminés Marchands Européens S.A..

## 5.14 Financial Income

Financial income comprises:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Interest on tax to be refunded | 101 | --- |
| Interest on loans granted to subsidiaries, unconsolidated companies and ultimate parent company | 26 | 34 |
| Bank interest | 12 | 21 |
| Interest on loans granted to related parties | --- | 85 |
| Other | --- | 8 |
| Total | 139 | 148 |

Interest on loans granted to related parties refers to transactions carried out by the subsidiary Donalam Siderprodukte AG (in the previous financial statements also Sipro Beltrame AG) with its minority shareholder and by the Parent Company with its unconsolidated subsidiary Ferriera Sider Scal S.r.l. – in liquidation.

Bank interest is mainly related to temporary liquidity.

## 5.15 Interest and other Financial Charges

Interest and other financial charges are classified as follows:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Interest charges on medium and long-term loan | 3,152 | 4,242 |
| Charges on interest rate hedging instruments | 3,048 | 1,690 |
| Interest to customers for advance payments | 1,816 | 2,049 |
| Interest on receivables transferred without recourse | 767 | 721 |
| Financial charges on short-term bank loans | 306 | 360 |
| Other financial charges | 258 | 279 |
| Total | 9,347 | 9,341 |

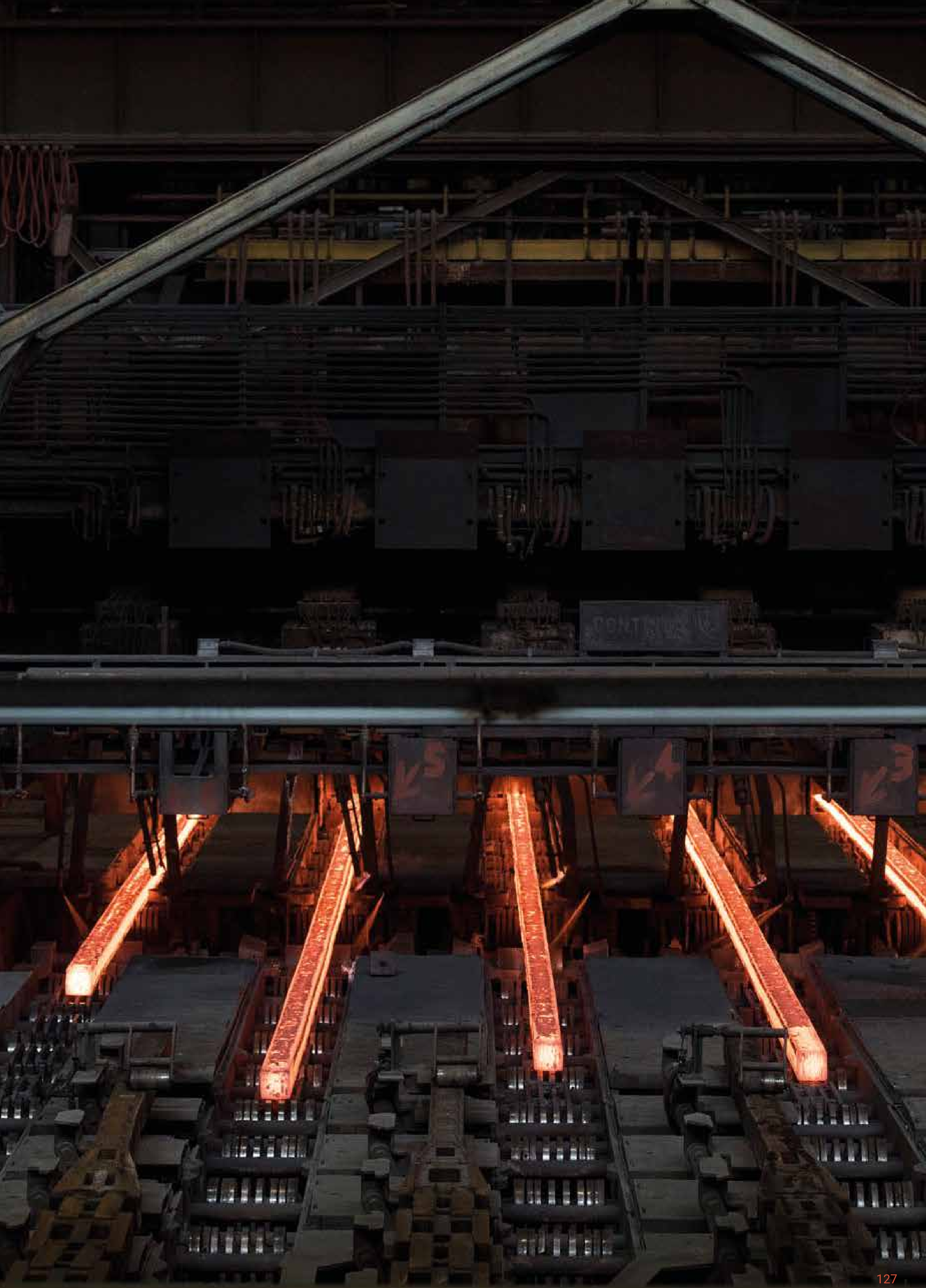
Interest on medium and long-term loans declined due to the decrease in average debt recorded during the year and the decline in the interest rates applied on the new loan compared to those applied on the loans repaid during the year (the refinancing transaction concluded by the Parent Company is described in point 4.17 above).
Charges on interest rate hedging instruments include Euro 1,902 thousand charged to the income statement of the Parent Company for the early repayment of contracts entered into in previous years in relation to loans repaid early.

## 5.16 Gains and Losses on Exchange Rates

Gains and losses on exchange rates amounted to Euro 1,746 thousand and Euro 2,182 thousand, respectively (Euro 2,319 thousand and Euro 1,281 thousand in 2018). The most significant amounts relate to the subsidiaries Stahl Gerlafingen A.G. and Donalam S.r.l., whose functional currencies (the Swiss franc and the RON, respectively) recorded an appreciation and a depreciation, respectively, during the year.

## 5.17 Adjustments to the Financial Assets

No amount was recognised in the income statement of the year under review. In the previous year, the write-downs to equity investments, entirely referred to the subsidiary Ferriera Sider Scal S.r.l. – in liquidation, were recognised for a total amount of Euro 1,859 thousand. The allocation resulted for the Parent Company in the elimination of the book value of the equity investment and the recognition of a specific amount in provisions for risks and charges to take into account the charges that the subsidiary incurred during the year in question and will incur until 2023. These expenses are primarily linked to costs for the demolition of buildings, environmental charges, impairment of goods and structural expenses in relation to the owned industrial site.


5
4
3

## 5.18 Income Taxes

Current taxes, debited to the income statement, amounted to Euro 6,634 thousand (Euro 14,509 thousand in 2018) and refer mainly to IRES and IRAP taxes, accounted for in the financial statements of the Parent Company in the amount of Euro 4,547 thousand and Euro 1,345 thousand, respectively (Euro 11,592 thousand and Euro 2,123 thousand in 2018), and of the subsidiary LME in the amount of Euro 552 thousand (Euro 736 thousand in the previous year).

Deferred taxes, credited in the amount of Euro 1,355 thousand (credited in the amount of Euro 725 thousand in the previous year), refer to the Parent Company. The description of the allocations and of the utilisations for deferred taxes is described in detail in the table shown in point 4.14 above.

Deferred tax assets, debited for Euro 1,533 thousand (credited for Euro 301 thousand in the previous year), derive mainly from utilisations, recognised by the Parent Company, referred mainly to non deducted provisions.

The nature of the allocations and of the utilisations for deferred tax assets is described in detail in the table shown in point 4.9 above.

## 5.19 Directors and Statutory Auditors Compensation

The amounts debited to the consolidated income statement for the remuneration due to the Directors and Statutory Auditors of the Ultimate Parent Company for carrying out their responsibilities, as well as in the companies included within the area of consolidation, are detailed below:

| (in thousands of Euro) | 2019 | 2018 |
|---|---|---|
| Board of directors | 1,548 | 4,099 |
| Statutory Auditors | 87 | 87 |
| Audit company for services provided to the Parent Company | 121 | 110 |
| Audit company for the services provided to the companies within the consolidation area | 94 | 82 |
| Total | 1,850 | 4,378 |

In this financial year, as in the previous one, no additional compensation has been assigned to Directors on the destination of the annual result. Expenses related to activities carried out by external auditors different from the ones used by the Parent Company are not included here.

## 5.20 Commitments not Reported in the Balance Sheet

While subscribing shares, in years 2012, 2016 and 2017, the Parent Company signed, with the minority shareholder of the subsidiary Donalam S.r.l., a put and call options agreement to acquire the minority interest. The exercise price of the option is connected to the market value of the investment at the same date; the agreement provides an indication of the cap and floor value. The estimate of the minimum exercise price at the reporting date was Euro 6,756 thousand, of which Euro 1,440 thousand due by April 30, 2020 (contribution year of 2012 principal), Euro 2,668 thousand due by July 31, 2021 (contribution year of 2016 principal) and Euro 2,648 thousand due by July 31, 2021 (contribution year of 2017 principal).
Moreover, we highlight the amount of Euro 4,850 thousand (Euro 5,430 thousand in 2018) of third party goods, mainly comprising various types of equipment used by Group companies.

## 5.21 Transactions with Associates, Affiliates, the Parent Company and Companies Controlled by Them.

Transactions with the ultimate parent company, carried out at arm's length conditions, are connected with the receivables described in point 4.7.

Related party transactions, identified in compliance with the international accounting standard IAS 24, are essentially related to the rendering of services, exchanging of goods and providing disbursement or reimbursement of loans within subsidiaries and affiliates. All of these transactions are within the normal business activities, and are carried out at arm's length.

All transactions are carried out in the best interest of the companies.
In accordance with art. 2427 of the Italian Civil Code, we specify that there are no receivables and payables with a duration exceeding five years, except as specified in 4.17.

Further information on Group operations and significant post balance sheet events has been provided in the Report on Operations.

## 5.22 Transparency on Public Funds

With reference to the provision as per article 3 quater, par. 2, of Law Decree no. 135 of December 14, 2018, the Parent Company states that it received grants to be recorded in the National Registry of Government Grants. These obligations were fulfilled by C.S.E.A. and AVEPA with indication of the name of the Company and related measurement classification.

## 5.23 Significant Events after the Reporting Date

At the end of 2019, the main international experts forecasted a progressive improvement in 2020 in the recovery of economic activities in the steel user sectors; in particular in the automotive and mechanical engineering sectors, mostly in the second part of the year.
Overall, forecasts point to growth expectations in 2020 and 2021 of 0.6% and 1.4%, respectively.

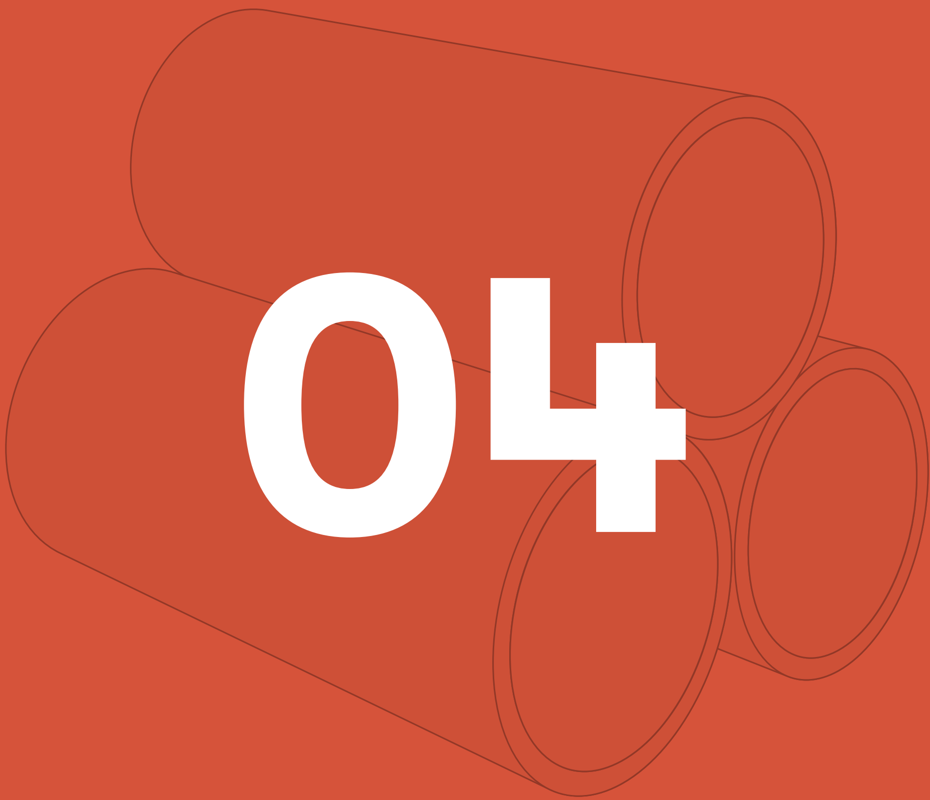
| User sectors | Share of consumption | Q1 20 | Q2 20 | Q3 20 | Q4 20 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|---|---|
| Constructions | 35.0% | 0.5% | 0.9% | 1.0% | 0.9% | 0.8% | 0.8% |
| Automotive | 18.0% | -1.6% | 0.6% | 2.7% | 2.6% | 1.0% | 2.8% |
| Mechanical engineering | 14.0% | -1.1% | 0.6% | 1.4% | 1.6% | 0.6% | 1.5% |
| Metal articles | 14.0% | -2.1% | -0.3% | 0.9% | 1.1% | -0.1% | 1.5% |
| Oil & Gas | 13.0% | -1.3% | 1.2% | 1.2% | 0.9% | 0.5% | 0.8% |
| Appliances | 3.0% | -1.2% | 0.0% | 0.4% | 0.4% | -0.1% | 1.3% |
| Other transports | 2.0% | 0.3% | 1.4% | 2.2% | 3.9% | 1.9% | 1.7% |
| Other | 2.0% | -1.7% | -0.4% | 0.0% | 1.4% | -0.2% | 1.2% |
| Total | **100.0%** | **-0.9%** | **0.5%** | **1.3%** | **1.4%** | **0.6%** | **1.4%** |

Source: Eurofer January 2020

The real outlooks for sector development in 2020 in Europe are now highly influenced by the spread of the COVID-19 virus. When the measures adopted by governments to limit the epidemic begin to bear fruit, the path of growth will be able to continue with increasing intensity.
For further information, please refer to what is described in detail in the Report on Operations.The Board of Directors of the Parent Company, while pointing out that the Group’s profitability is closely tied to this risk, deems that the solid financial position with which the Group is about to face the new scenario is a valid factor for assuming that it will overcome it.

**The Chairman of the Board of Directors**
**Mr.Antonio Beltrame**


9




# Independent Auditors' Report

Deloitte & Touche S.p.A.
Via N. Tommaseo, 78/C int. 3
35131 Padova
Italia

Tel: +39 049 7927911
Fax: +39 049 7927979
www deloitte it

# INDEPENDENT AUDITOR'S REPORT
# PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

**To the Shareholders of**
**AFV Acciaierie Beltrame S.p.A.**

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Opinion

We have audited the consolidated financial statements of AFV Acciaierie Beltrame Group (the Group), which comprise the consolidated balance sheet as at December 31, 2019, the consolidated statement of income and statement of cash flows for the year then ended and the explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Italian law governing financial statements.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of AFV Acciaierie Beltrame S.p.A.  (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established 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 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 these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate 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 identify during our audit.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

**Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10**

The Directors of AFV Acciaierie Beltrame S.p.A. are responsible for the preparation of the report on operations of AFV Acciaierie Beltrame Group as at December 31, 2019, including its consistency with the related consolidated financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of AFV Acciaierie Beltrame Group as at December 31, 2019 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the report on operations is consistent with the consolidated financial statements of AFV Acciaierie Beltrame Group as at December 31, 2019 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
**Cristiano Nacchi**
Partner

Padua, Italy
April 21, 2020

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

www.gruppobeltrame.com