Cembre

COSTRUZIONI ELETTROMECCANICHE BRESCIANE

2016 ANNUAL REPORT

Cembre S.p.A.

Head Office: Via Serenissima 9, Brescia, Italy
Share Capital: EUR 8,840,000 (fully paid-up).
Registration no: 00541390175 (Commercial Register of Brescia)

This document contains translations of the draft statutory annual financial statements and consolidated annual financial statements prepared in the Italian language for the purpose of the Italian law and of CONSOB regulations (CONSOB is the public authority responsible for regulating the Italian securities market)

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Report on Operations for Financial Year 2016

Operating Review

Aided by a positive 4th Quarter, the Cembre Group closed 2016 reporting a 1% increase in turnover on 2015, with consolidated sales reaching €122.6 million.

In 2016 domestic sales grew by 1% and accounted for 40% of consolidated sales (unchanged from 2015). Sales in the rest of Europe represented 42% of total Group sales (43% in 2015), down 1.3% on the previous year due primarily to the decline of the British pound against the euro following the Brexit vote. Sales of the British subsidiary increased in fact by 4.9% in sterling terms though declining by 7.1% in euro terms. Had the exchange rate remained stable, sales of the subsidiary for 2016 would in fact have been €1 million higher than the previous year. Exports to the rest of the World grew significantly, up 7.1% on 2015, thus reaching an 18% share of all sales (17% on 2015). Sales were positively affected by the strong performance of the US subsidiary whose dollar turnover grew by 18.2% (18.5% in euro).

Sales by geographical area

(€'000)	**2016**	**2015**	**Change**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Italy	49,029	48,564	*1.0%*	44,100	39,252	41,096	44,834	41,450	30,783	41,100
Rest of Europe	51,516	52,210	*-1.3%*	51,204	47,980	46,837	43,857	40,284	35,694	42,249
Rest of the World	22,060	20,603	*7.1%*	17,601	17,315	15,966	14,337	12,200	9,507	10,939
Total	**122,605**	**121,377**	***1.0%***	**112,905**	**104,547**	**103,899**	**103,028**	**93,934**	**75,984**	**94,288**

With regard to other Group companies, in 2016, the French and German subsidiaries reported a slight increase in turnover, while sales of the Spanish subsidiary declined by 2.2%. Total contribution of subsidiaries to consolidated turnover declined by 0.3% from €55.7 million in 2015 to €55.5% in 2016.

The liquidation of Norwegian subsidiary Cembre AS was concluded at the end of December 2016.

Revenues by Group company (net of intragroup sales)

(€'000)	2016	2015	Change	2014	2013	2012	2011	2010	2009	2008
Parent company	67,134	65,725	*2.1%*	58,554	53,814	54,861	58,834	54,279	40,740	52,422
Cembre Ltd. (UK)	18,143	19,710	*-8.0%*	20,577	19,390	17,535	13,920	11,845	10,626	12,374
Cembre S.a.r.l. (F)	8,976	8,677	*3.4%*	8,354	7,763	7,615	7,606	6,407	6,224	6,477
Cembre España S.L. (E)	7,979	8,200	*-2.7%*	7,016	6,139	6,363	7,151	8,309	7,681	11,518
Cembre GmbH (D)	7,866	7,775	*1.2%*	7,558	7,238	8,201	7,815	6,368	5,264	5,358
Cembre AS (NOR) *Liquidated in 2016*	23	1,080	*n.a.*	960	791	985	859	1,014	713	762
Cembre Inc. (USA)	12,484	10,210	*22.3%*	9,886	9,412	8,339	6,843	5,712	4,736	5,377
Total	**122,605**	**121,377**	***1.0%***	**112,905**	**104,547**	**103,899**	**103,028**	**93,934**	**75,984**	**94,288**

In 2016, Group companies reported the following results, before the consolidation:

	Sales									
(€'000)	**2016**	**2015**	**Change**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Parent company	94,650	92,616	*2.2%*	84,903	78,100	79,487	80,777	72,986	56,546	75,461
Cembre Ltd. (UK)	19,633	21,130	*-7.1%*	22,271	20,914	19,193	16,093	13,356	11,807	13,727
Cembre S.a.r.l. (F)	9,006	8,680	*3.8%*	8,423	7,815	7,623	7,634	6,413	6,255	6,511
Cembre España S.L. (E)	7,980	8,216	*-2.9%*	7,019	6,145	6,727	7,155	8,309	7,683	11,518
Cembre GmbH (D)	7,960	7,889	*0.9%*	7,685	7,388	8,235	7,981	6,390	5,319	5,369
Cembre AS (NOR) *Liquidated in 2016*	198	1,080	*n.a.*	960	798	1,004	893	1,014	713	767
Cembre Inc. (USA)	12,645	10,675	*18.5%*	10,052	9,456	8,389	6,856	5,744	4,810	5,383

	Net profit									
(€'000)	**2016**	**2015**	**Change**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Cembre S.p.A.	15,932	14,438	*10.3%*	12,202	8,676	9,918	10,226	9,870	4,762	9,306
Cembre Ltd. (UK)	1,896	2,346	*-19.2%*	2,603	2,308	1,794	1,266	883	895	632
Cembre S.a.r.l. (F)	160	277	*-42.2%*	194	171	113	100	63	379	289
Cembre España S.L. (E)	(9)	414	*-102.2%*	305	230	(67)	(120)	273	516	770
Cembre GmbH (D)	398	491	*-18.9%*	303	289	664	621	364	255	302
Cembre AS (NOR) *Liquidated in 2016*	(130)	21	*n.a.*	69	11	76	22	157	84	114
Cembre Inc. (USA)	655	357	*83.5%*	561	804	494	320	224	186	337

For a more direct evaluation of the effect of foreign exchange translations, we include below sales figures of companies operating outside the euro area in the respective currency.

	Currency	**Sales**									
(€'000)		**2016**	**2015**	**Change**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Cembre Ltd. (UK)	Gbp	16,089	15,337	*4.9%*	17,953	17,761	15,563	13,967	11,457	10,509	10,931
Cembre AS (NOR) *Liquidated in 2016*	Nok	1,844	9,669	*n.a.*	8,021	6,231	7,508	6,962	8,115	6,226	6,311
Cembre Inc. (USA)	Us$	13,996	11,844	*18.2%*	13,354	12,559	10,778	9,543	7,615	6,709	7,917

	Currency	Net Profit									
(€'000)		**2016**	**2015**	**Change**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Cembre Ltd. (UK)	Gbp	1,554	1,703	*-8,7%*	2,098	1,960	1,455	1,098	758	798	503
Cembre AS (NOR) *Liquidated in 2016*	Nok	(1,207)	186	*n.a.*	576	82	567	169	1,257	734	941
Cembre Inc. (USA)	Us$	725	396	*83,1%*	746	1,067	635	446	297	260	496

To provide a better understanding of the Company's financial performance for 2016, a Reclassified Consolidated Income Statement for the years ended December 31, 2016 and 2015 showing percentage changes is enclosed as Attachment 1.

Gross operating profit for 2016 amounted to €30,025 thousand, representing a 24.5% margin on sales, up 5.2% on 2015 when it amounted to €28,537 thousand, representing a 23.5% margin on sales, thanks in particular to the decline the cost of goods sold as a percentage of total sales from 34.2% to 33.2%. The cost of services as a percentage of sales remained stable while personnel costs as a percentage of sales grew as the average number of employees increased from 626 (including 26 employees on short-term contracts) in 2015 to 672 (including 50 employees on short-term contracts) in 2016. The increase in the average number of employees is due primarily to hiring in the sales department to implement the expansive sales policy of the Group.

Consolidated operating profit for 2016 amounted to €24,095 thousand, representing a 19.7% margin on sales, up 5.5% on €22,836 thousand in 2015, when it represented an 18.8% margin on sales.

Consolidated profit before taxes amounted in 2016 to €24,059 thousand, representing a 19.6% margin on sales, up 5.2% on €22,878 thousand in 2015, when it represented an 18.8% margin on sales.

Consolidated net profit for the year amounted to €16,927 thousand, representing a 13.8% margin on sales, up 6.2% on 2015, when it amounted to €15,933 thousand and represented a 13.1% margin on sales.

The net financial position improved from a surplus of €17.8 million at December 31, 2015 to a surplus of €26.7 million at the end of December 2016. Further detail is provided in the notes.

Capital expenditure

In 2016 capital expenditure, net of depreciation and divestments, amounted to €7.6 million, up from €7.1 million in the previous year, and consisted, among other things, of new machinery acquired by the Parent company for €2.9 million. More detail is provided in the notes under Property, plant and equipment.

Results of the parent company

Results of the parent company for 2016 and 2015 are shown in the table below.

(€'000)	**2016**	**%**	**2015**	**%**	**Change**
Sales	94,650	100	92,616	100	2.2%
Gross operating profit	24,462	25.8	23,257	25.1	5.2%
Operating profit	19,389	20.5	18,497	20.0	4.8%
Pre-tax profit	21,789	23.0	20,164	21.8	8.1%
Net profit	15,932	16.8	14,438	15.6	10.3%

Sales revenues grew by 2.2% from €92,616 thousand in 2015 to €94,650 thousand in 2016. Domestic sales grew by 1%, sales to other European countries posted a 6.3% increase while sales in the rest of the World a 1.4% decrease.

(€'000)	**2016**	**2015**	**Change**
Italy	49,029	48,564	1.0%
Rest of Europe	29,956	28,168	6.3%
Rest of the World	15,665	15,884	(1.4%)
Total	**94,650**	**92,616**	**2.2%**

In 2016 the parent company received €2,349 thousand in dividends from its subsidiaries as compared with €1,729 in the previous year. The parent company also recorded a gain of €60 thousand on the liquidation of Norwegian subsidiary Cembre AS.

Definition of alternative performance indicators

In compliance with Consob Communication DEM/6064293 dated July 28, 2007, below we define alternative performance indicators used in the present document to illustrate the financial and operating performance of the Group.

Gross operating profit (EBITDA): defined as the difference between sales revenues and costs for materials, of services received, and the net balance of operating income and charges. It represents the profit before depreciation, amortization and write-downs, financial flows and taxes.

Operating profit (EBIT): defined as the difference between gross operating profit and the value of depreciation, amortization and write-downs. It represents the profit achieved before financial flows and taxes.

Net financial position: represents the algebraic sum of cash and cash equivalents, financial receivables and current and non-current financial debt.

Reclassified Consolidated Statement of Financial Position

	(€'000)	Dec. 31, 2016	Dec. 31, 2015
	Trade receivables, net	24,885	26,372
	Inventories	38,796	39,191
	Other non-financial assets	1,410	1,337
	Trade payables	(13,306)	(11,653)
	Other non-financial liabilities	(7,593)	(7,636)
A)	**Net current assets (working capital)**	**44,192**	**47,611**
	Property, plant and equipment	67,945	67,150
	Intangible assets	1,350	1,336
	Prepaid taxes	2,502	2,550
	Other non-current assets	54	20
B)	**Net non-current assets**	**71,851**	**71,056**
C)	**Non-current assets available for sale**	**-**	**-**
D)	**Employee termination indemnity**	**2,618**	**2,617**
E)	**Provisions for risks and charges**	**421**	**444**
F)	**Deferred taxes**	**2,043**	**2,235**
G)	**Net capital employed (A+B+C-D-E-F)**	**110,961**	**113,371**
	Sources of funds:		
H)	**Shareholders' Equity**	**137,627**	**131,173**
	Cash and short-term financial receivables	(26,709)	(17,802)
	Financial debt from derivative instruments	43	-
I)	**Net debt/(surplus)**	**(26,666)**	**(17,802)**
J)	**Total sources of funds (H+I)**	**110,961**	**113,371**

Shareholders' Equity

Consolidation adjustments determined the following differences between the Financial Statements of the parent company at December 31, 2016 and the consolidated accounts at the same date:

(€'000)	**Shareholders' Equity**	**Net Profit**
Parent company's financial statements	**114,889**	**15,932**
Book value of consolidated companies	26,525	2,910
Elimination of intra-group profits included in the value of inventories (*)	(3,796)	589
Currency translation differences from elimination of intragroup balances	(1)	(1)
German subsidiary product warranty provision reversal (*)	22	-
Netting of intragroup dividends (**)	-	(2,497)
Netting of intragroup capital gains	(12)	(6)
Consolidated Financial Statements	**137,627**	**16,927**

(*) Net of the related tax effect

(**) Includes currency translation differences amounting to €117 thousand.

Main risks and uncertainties

Risks connected to the economic situation

The economic and financial situation of the Group is influenced by macroeconomic factors such as changes in the Gross Domestic Product, consumer and business confidence, changes in interest rates and the cost of raw materials.

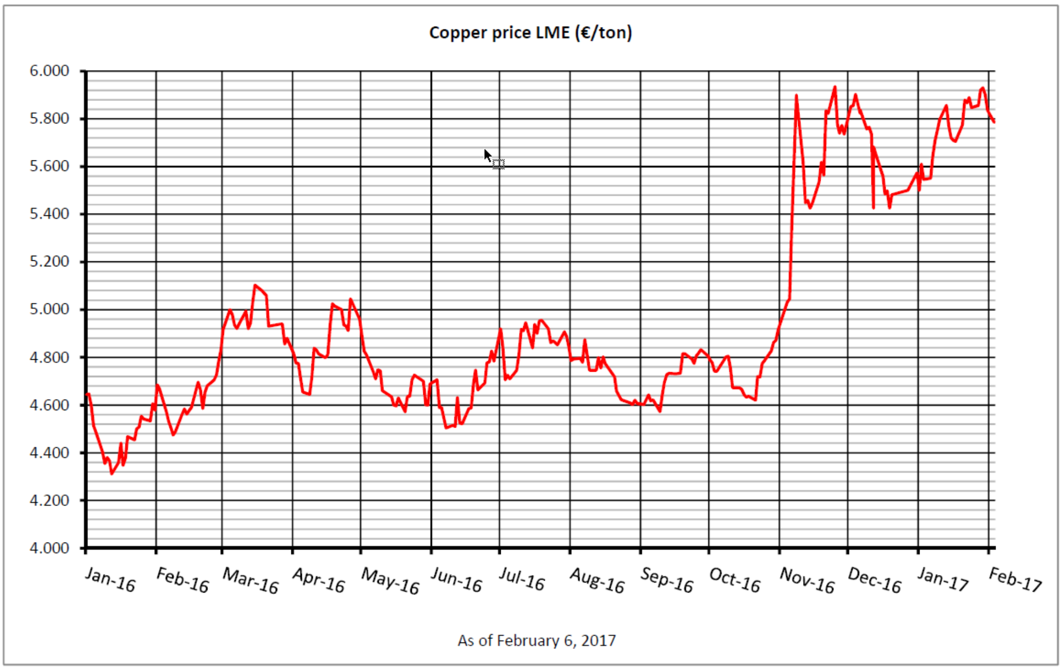
In 2016 the world economy improved slightly though uncertainty remains, particularly as to economic policies that will be pursued by the new American administration. Alongside the positive effect of expansive measures announced lies in fact preoccupation for the repercussions of the possible protectionist measures and restrictions on free trade that may be imposed.

The euro zone continues to show moderate growth while the risk of deflation seems to have been averted thanks primarily to measures taken by the ECB that has extended the purchase of treasury bonds of member states through 2017.

The Italian economy continues to recover slowly, pulled by the rebound of domestic demand, the resumption of investments and growth in household spending. Employment has leveled while salaries have stabilized. The growth of credit to the private sector remains however modest.

Projections of the Bank of Italy for the Italian economy for 2017 point to a GNP growth of 0.9% while for years 2018-2019 growth should reach 1.1% (*Source: Economic Bulletin of the Bank of Italy*).

Copper continues to represent the main raw material used in Cembre's production process and the price of the commodity is thus constantly monitored.



In 2016 the price of copper was initially stable at around 4,700 €/ton, subsequently rising sharply starting in the second half of October, reaching a maximum on November 28. In December the price started to decline again, though remaining above 5,400 €/ton. The Cembre Group, thanks to its strong financial position, good competitive hedge and wide international presence is confident about the future and feels it is in a position to take advantage of opportunities that may arise and to react to possible changes in the economic scenario that may develop in the next months.

Risks connected with the market

The Group protects its market position by pursuing ongoing innovation, the widening of the product range, the launch of lower cost products and by introducing into production processes the most advanced methods and machinery, while implementing focused marketing policies with the help of its foreign subsidiaries.

Credit risk

Cembre and its subsidiaries focused over time on a careful selection of customers, managing prudently sales to those that do not possess an adequate credit standing. The Group has accrued a provision for doubtful accounts and the management doubtful accounts, constantly monitoring overdues and soliciting payment when terms have expired. To further reduce this kind of risk, in February 2016 the parent company stipulated a policy with a primary insurance company against commercial credit losses.

Exposure to credit risk relates exclusively to trade receivables.

Liquidity risk

Thanks to its solid financial position, the Group is not currently subject to particular liquidity risk, even in case the cash flow generated by operations should decline drastically.

Interest rate risk

At December 31, 2016 Cembre had no loans outstanding.

Currency risk

Despite its strong international presence, the Group does not have a significant exposure to currency risk, as it operates almost entirely in the euro area, the currency in which its trade transactions are mainly denominated. Exposure to currency risk is basically limited to sales in US dollars and British pounds, but the size of these transactions is not significant in influencing the overall performance of the Group or its financial position.

In December 2016 the parent company stipulated a currency hedging contract to hedge against fluctuations of the dollar against the euro.

Integrity and reputation risk

Possible illicit behavior of employees, aimed at obtaining benefits for themselves and for the Group, can imply the risk of a loss of reputation and of sanctions against the Group.

To prevent the risk of these occurrences and in line with Legislative Decree 231/2001, the Company adopted an organizational, management and control model that identifies processes that are subject to risk and establishes the conduct that the various persons involved are to keep in carrying out their tasks. The model was illustrated to employees through specific training sessions. The Company constantly integrates and upgrades the model.

Further information on main risks and uncertainties is contained in the notes.

Environmental management

Cembre S.p.A. deemed it fundamental for its development to adopt an environmental management system that covers in an integrated manner every aspect of its activities. Thanks to the setting of behavioral guidelines and of rigorous procedures, the Company obtained in 2008 an Environmental Certification under standard UNI EN ISO 14001:2004 that singles out companies that are more sensitive to environmental protection issues.

Worker safety management

In 2012 Cembre S.p.A. obtained the certification of its worker health and safety management system according to the OHSAS 18001: 2007 standard.

Ratios

To provide a better understanding of results of the Group, we provide below the value of some ratios commonly used in financial statement analysis.

Financial ratios

		Dec. 31, 2016	Dec. 31, 2015
ROE	Return on Equity	0.12	0.12
ROS	Return on Sales	0.20	0.19
ROI	Return on Investment	0.15	0.15

ROE (Return on Equity): is the ratio between net profit and Shareholders' Equity. It is an index of the profitability of capital invested, used to compare the investment in the company with investments of a different nature on a yield basis.

ROS (Return on Sales): is calculated as the ratio between operating profit and net revenues. It indicates profitability as a proportion of revenues, or the ability to generate profit from operations.

ROI (Return on Investment): is the ratio between operating profit and capital employed (total assets net of investments in non-operating assets, which for the Group do not exist). It indicates the ability of the company to generate profits through operating activities.

Liquidity ratios

		Dec. 31, 2016	Dec. 31, 2015
CR	Current Ratio	4.4	4.4
LR	Liquidity Ratio	2.5	2.4

CR: it is computed by dividing current assets by current liabilities. It indicates the ability of the company to face current liabilities with current assets. A value above 2 signals an optimal situation.

LR: it is computed by dividing the sum of current and deferred liquidity by current liabilities, and is used to assess the firm's ability to pay off current liabilities. A value between 1 and 2 signals an ideal liquidity position.

Debt management ratios

		Dec. 31, 2016	Dec. 31, 2015
CI	Equity to fixed assets ratio	1.99	1.92
LEV	Leverage (Gearing)	1.19	1.19
IN	Debt ratio	15.9%	15.8%

CI: it is computed by dividing Shareholders' Equity by Fixed Assets and it indicates the ability of the company's equity to cover its investment needs. A value above 1 signals an optimal situation.

LEV (Leverage): it is computed by dividing capital employed by the Shareholders' Equity and it represents the degree of debt of the company. The higher the ratio, the higher the riskiness of the company. A value between 1 and 2 represents equilibrium in the sources of funds.

IN: it is computed by dividing the sum of current and non-current liabilities by capital employed and it indicates the percentage share of funds provided by third parties in financing the company. A value below 50% indicates an adequate financial structure.

Research & Development

The total cost of activities carried out by the parent company for in-house research and the development of new products amounted in 2016 to €754 thousand, of which €431 thousand relating to research activities and €323 thousand to development.

Costs relating to prototypes and design consulting amounted to €110 thousand.

In 2016 six industrial patent applications were filed together with two EU industrial design protection applications relating to two new products.

Below we include an overview of projects carried out in the year.

Cable terminals

A total of 40 requests for new products were followed up. Each study involved both new connectors and machinery for their manufacturing.

Work on the widening of the range of mechanical locking connectors continued.

Railroad equipment

Tools and accessories for the drilling, cutting and fastening of rails to sleepers were developed.

A new battery operated drill for the drilling of rails entered production. The new drill has dimensions and weight similar to a fuel engine one, but is quieter and does not produce harmful emissions and can therefore be used in closed environments, in addition to providing evident advantages in terms of safety and health of the operator. The tool is also equipped with a led display that helps the operator in the drilling, indicating whether the force applied on the lever is too low, excessive or correct. The drill is covered by an international patent. In addition, the drill spindle is factory set up to operate with Weldon shank broach cutters and ‘quick’ push/turn type, such as CY cutters manufactured by Cembre. The specific configuration of the spindle is covered by a patent.

A version of the battery operated drill that may be employed under pounding rain was developed. The tool is equipped with a protective cover and features that make its use possible even under severe weather conditions. An IP44 protection level was reached during validation tests. This version of the drill is covered by a specific patent.

A machine for the insertion and extraction of Pandrol fast clips used to fasten rails to sleepers came into production. The new machine, made up by a trolley and two different clamp units (according to the type of clip to be mounted), is covered by an industrial patent concerning primarily the automatic regulation of the engine speed in accordance with the power required by the hydraulic pump. The regulating device allows to optimize fuel consumption and to reduce both polluting and noise emissions, with strong advantages for the operator. The fast-clip clamping station has an automatic rail lifting system that allows operation also when the rail is not sitting on the sleeper but hovers over it even by a few centimeters.

Tools

A new compact and light hydraulic pump came into production. The pump includes a keypad with a display that shows information on usage of the tool and allows to set different operating modes. Though extremely compact and light, the new pump has performances comparable to those of pumps made by the competition and features also an elastic material side pocket allowing to store safely the keypad when it is not in use. The pump and the remote with display are covered by a patent.

A version of the pump with further innovations for which patents are being filed, is under study and is expected to come into production in 2017.

A new family of utensils is currently under study and is expected to come into production in 2017. Two patents relating to innovations introduced have already been filed.

Cable marking

A total of 54 requests for new products relating to flat labels for the marking of cables were followed up. Studies included also the related manufacturing tools.

Three projects relating to the widening and updating of the range of thermal transfer printers are currently underway: one entered production in 2016 and the other two will be completed in 2017.

Related parties

Transactions concluded between the parent company and its subsidiaries in 2016 are summarized in the table below:

(€)	Receivables	Payables	Revenues	Purchases
Cembre Ltd.	200	-	8,350	372
Cembre S.a.r.l.	438	-	4,778	27
Cembre España S.L.	428	-	4,470	1
Cembre AS *(liquidated in 2016)*	-	-	1	174
Cembre Inc.	796	-	4,202	62
Cembre GmbH	520	-	6,192	143
TOTAL	**2,382**	**-**	**27,993**	**779**

Revenues include, in addition to the sale of products, revenues from the charging to subsidiaries of the respective shares of costs incurred for the maintenance of the information system and royalties for the use of the Cembre trademark, totaling in 2016 to €427 thousand, in addition to €50 thousand in transport costs.

No loans or financing were extended between Group companies in 2016.

Cembre S.p.A. also leases property for a cumulative annual rent of €528 thousand from Tha Immobiliare S.p.A., with registered office in Brescia, owned by Anna Maria Onofri, Giovanni Rosani and Sara Rosani, Directors of Cembre S.p.A. Invoices issued in the year relating to the above contracts were all paid in full.

Cembre Ltd. leases an industrial building from Borno Ltd., a company controlled by Lysne S.p.A., for an annual rent of £80 thousand (equal to €98 thousand). Such amount is in line with market conditions.

	2016	2015	Change
Rent paid by the parent company to Tha Immobiliare	528	528	-
Rent paid by UK subsidiary to Borno Ltd.	98	56	42
TOTAL	**626**	**584**	**42**

The UK subsidiary owes Borno Ltd. £13 thousand (corresponding to €16 thousand) in unpaid rent for the month of December, not yet settled at the end of the month.

Detail of compensation received by directors and statutory auditors is provided in the notes.

With reference to assets and liabilities relating to subsidiaries shown above, we confirm that transactions with the same and with related parties fall within the scope of normal operating activities.

Absence of control and coordination

Despite the fact that article 2497-*sexies* of the Italian Civil Code states that "it is presumed that, unless otherwise proved, the direction and coordination activities of companies is exercised by the company or entity that is required to consolidate the same in its accounts or that, in any case, controls the former company pursuant to article 2359 (of the Italian Civil Code)", Cembre S.p.A. believes to be operating in full autonomy from its parent Lysne S.p.A.. In particular, as a non-exhaustive example, the Company manages autonomously its own treasury and relationships with its customers and suppliers, and does not make use of any service provided by its parent company.

Relationships with parent company Lysne S.p.A. are limited to the normal exercise of shareholders' rights on the part of the parent.

Companies incorporated under the laws of States that are not part of the European Union

In 2016 Cembre S.p.A. controlled two companies incorporated under the laws of States that are not part of the European Union. These are:

- Cembre Inc., incorporated in the US, and

- Cembre AS, incorporated in Norway (liquidated in 2016).

The company deems the administrative, accounting and reporting systems currently in use to be adequate in supplying regularly its management and the company's independent auditors with the operating and financial information necessary for the preparation of the Consolidated Financial Statements.

The accounts prepared by said foreign subsidiaries and used in the preparation of the consolidated financial statements, are audited and made available to the public, as provided by current regulations.

Cembre S.p.A. is active in ensuring an adequate flow of information from said subsidiaries to its independent auditors and believes the current communication process in place with the independent auditors to be effective.

Cembre S.p.A. already possesses the by-laws, the composition and of powers of company boards and its individual members, and directives ensuring the timely transmission of any information regarding the update of such information have been issued.

Own shares and shares of parent companies

The Shareholders' Meeting of April 21, 2016 resolved the start of a campaign for the acquisition of own shares aimed at providing the Company with strategic investment opportunities. At December 31, 2016, the number of own shares held by Cembre S.p.A. was 65,150, corresponding to 0.38% of the capital stock.

Ownership Structure and Corporate Governance

In compliance with norms contained in article 123-*bis* of Legislative Decree 58, dated February 24, 1998 (*Testo Unico* Consolidated Finance Act), we refer to the Report on Corporate Governance which, in addition to providing a general description of corporate governance, contains information regarding the ownership structure of the Company, the adoption of the Code of Conduct and the observance of the resulting commitments. Said Report is available in the Investor Relations section of the Group's institutional web site (www.cembre.it).

Subsequent events

No other event having significant effects on Cembre's financial or operating performance occurred after December 31, 2016.

Outlook

Despite the difficulty of making forecasts of economic activity due the global uncertain situation, the Group expects its turnover to grow slightly with respect to 2016 both in the domestic and international markets. The Group thus expects to close 2017 achieving an increase in turnover and a consolidated profit.

Proposal for the Allocation of the Company's Net Profit

In order to complete the Company's planned investments and to benefit from self-financed growth, it is advisable that at least a portion of net profit generated be retained. In seeking the approval for our actions by submitting to you the present Financial Statements and Report on Operations, we also invite you, in view of the fact that the legal reserve has already reached 20% of the share capital, to approve our proposed allocation of net profit for 2016, amounting to €15,931,868.42 (rounded off to €15,931,868) as follows:

- €0.70 to be distributed to each of the Company's 16,910,905 shares entitled to dividends (keeping into account of 89,095 treasury shares held), for a total of €11,837,633.5, with May 8, 2017 as the ex-dividend date, May 9, 2017 as the record date pursuant to article 83-terdecies of *TUF* (Finance Act) and May 10, 2017 as the payment date;
- the remainder, amounting to €4,094,234.92, to the extraordinary reserve:
- noting that, keeping into account the program for the acquisition of own shares currently underway, (i) the total amount of the dividend distributed could vary with the number of shares entitled to a dividend at the date of the Shareholder's Meeting resolution, and (ii) additional own shares acquired after the date of the Shareholders' Meeting resolution allocating net profit held by the Company at the record date will not be entitled to the distribution of a dividend and the corresponding share of net profit will be accrued to the extraordinary reserve.

Attachments

The present Report on Operations includes the following attachments:

Attachment 1	Comparative Consolidated Income Statement for the year ended December 31, 2016.
Attachment 2	Corporate Boards.

Brescia, March 10, 2017

THE CHAIRMAN AND MANAGING DIRECTOR
OF CEMBRE S.P.A.

Giovanni Rosani

Attachment 1 - Report on Operations of the Group

Comparative Consolidated Income Statement

(€ '000)	2016	% of sales	2015	% of sales	Change
Revenues from sales and services provided	122.605	100,0%	121.377	100,0%	1,0%
Other revenues	681		665		2,4%
TOTAL REVENUES	**123.286**		**122.042**		1,0%
Cost of goods and merchandise	(40.953)	-33,4%	(41.454)	-34,2%	-1,2%
Change in inventories	235	0,2%	(92)	-0,1%	-355,4%
Cost of services received	(15.453)	-12,6%	(15.245)	-12,6%	1,4%
Lease and rental costs	(1.536)	-1,3%	(1.410)	-1,2%	8,9%
Personnel costs	(35.484)	-28,9%	(34.410)	-28,3%	3,1%
Other operating costs	(1.151)	-0,9%	(1.258)	-1,0%	-8,5%
Increase in assets due to internal construction	1.138	0,9%	852	0,7%	33,6%
Write-down of receivables	(43)	0,0%	(417)	-0,3%	-89,7%
Accruals to provisions for risks and charges	(14)	0,0%	(71)	-0,1%	-80,3%
GROSS OPERATING PROFIT	**30.025**	24,5%	**28.537**	23,5%	5,2%
Property, plant and equipment depreciation	(5.394)	-4,4%	(5.223)	-4,3%	3,3%
Intangible asset amortization	(536)	-0,4%	(478)	-0,4%	12,1%
OPERATING PROFIT	**24.095**	19,7%	**22.836**	18,8%	5,5%
Financial income	24	0,0%	33	0,0%	-27,3%
Financial expenses	(93)	-0,1%	(60)	0,0%	55,0%
Foreign exchange gains (losses)	33	0,0%	69	0,1%	-52,2%
PROFIT BEFORE TAXES	**24.059**	19,6%	**22.878**	18,8%	5,2%
Income taxes	(7.132)	-5,8%	(6.945)	-5,7%	2,7%
NET PROFIT	**16.927**	13,8%	**15.933**	13,1%	6,2%

Attachment 2 – Report on Operations

CORPORATE BOARDS

Board of Directors

Giovanni Rosani	Chairman and Managing Director
Anna Maria Onofri	Vice Chairman
Sara Rosani	Director
Giovanni De Vecchi	Director
Aldo Bottini Bongrani	Director
Fabio Fada	Independent Director
Giancarlo Maccarini	Independent Director
Paolo Giuseppe La Pietra	Independent Director

Board of Statutory Auditors

Fabio Longhi	Chairman
Andrea Boreatti	Permanent Auditor
Rosanna Angela Pilenga	Permanent Auditor
Maria Grazia Lizzini	Substitute Auditor
Gabriele Baschetti	Substitute Auditor

Independent Auditors

PricewaterhouseCoopers S.p.A.

The above list is updated at March 10, 2017.

The Board of Directors and Board of Statutory Auditor's term expires with the approval of the Financial Statements at December 31, 2017.

The Chairman holds by statute (article 18) powers of legal representation of the Company. The Board of Directors conferred to the Chairman and Managing Director Giovanni Rosani all the ordinary management powers not specifically reserved to it by law, including exclusive powers over the organization, management and monitoring of the internal control system.

In case of absence or impediment of the Chairman and Managing Director Giovanni Rosani, Vice Chairman and Managing Director Anna Maria Onofri holds all ordinary management powers not reserved to the Board by law, with the exception of the appointment of professionals. All Managing Directors must keep the Board of Directors informed of all relevant transactions concluded in the context of their mandate. The Board of Directors has approved rules that define which particularly relevant transactions may be concluded exclusively by the same.

Consolidated Financial Statements at December 31, 2016

Consolidated Statement of Financial Position

ASSETS	Note	Dec. 31, 2016		Dec. 31, 2015	
(euro '000)			*of which: related parties*		*of which: related parties*
NON CURRENT ASSETS					
Tangible assets	*1*	66.298		65.435	
Investment property	*2*	1.647		1.715	
Intangible assets	*3*	1.350		1.336	
Other investments		10		10	
Other non-current assets		44		10	
Deferred tax assets	*11*	2.502		2.550	
TOTAL NON-CURRENT ASSETS		**71.851**		**71.056**	
CURRENT ASSETS					
Inventories	*4*	38.796		39.191	
Trade receivables	*5*	24.885		26.372	
Tax receivables	*6*	850		770	
Other receivables	*7*	560		567	
Cash and cash equivalents	*27*	26.709		17.802	
TOTAL CURRENT ASSETS		**91.800**		**84.702**	
NON-CURRENT ASSETS AVAILABLE FOR SALE		**-**		**-**	
TOTAL ASSETS		**163.651**		**155.758**	

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Dec. 31, 2016		Dec. 31, 2015	
(euro '000)			*of which: related parties*		*of which: related parties*
SHAREHOLDERS' EQUITY					
Capital stock	*8*	8.840		8.840	
Reserves	*8*	111.860		106.400	
Net profit		16.927		15.933	
TOTAL SHAREHOLDERS' EQUITY		**137.627**		**131.173**	
NON-CURRENT LIABILITIES					
Non-current financial liabilities		-		-	
Employee termination indemnity and other personnel benefits	*9*	2.618	176	2.617	168
Provisions for risks and charges	*10*	421	150	444	100
Deferred tax liabilities	*11*	2.043		2.235	
TOTAL NON-CURRENT LIABILITIES		**5.082**		**5.296**	
CURRENT LIABILITIES					
Current financial liabilities		-		-	
Liabilities on derivative instruments	*29*	43		-	
Trade payables	*12*	13.306	16	11.653	
Tax payables		921		679	
Other payables	*13*	6.672		6.957	
TOTAL CURRENT LIABILITIES		**20.942**		**19.289**	
LIABILITIES ON ASSETS HELD FOR DISPOSAL		**-**		**-**	
TOTAL LIABILITIES		**26.024**		**24.585**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**163.651**		**155.758**	

Consolidated Financial Statements at December 31, 2016

Statement of Consolidated Comprehensive Income

(euro '000)	Note	2016	*of which: related parties*	2015	*of which: related parties*
Revenues from sales and services provided	*14*	122.605		121.377	
Other revenues	*15*	681		665	
TOTAL REVENUES		**123.286**		**122.042**	
Cost of goods and merchandise		(40.953)		(41.454)	
Change in inventories		235		(92)	
Cost of services received	*16*	(15.453)	(666)	(15.245)	(655)
Lease and rental costs	*17*	(1.536)	(626)	(1.410)	(584)
Personnel costs	*18*	(35.484)	(300)	(34.410)	(300)
Other operating costs	*19*	(1.151)		(1.258)	
Increase in assets due to internal construction		1.138		852	
Write-down of receivables		(43)		(417)	
Accruals to provisions for risks and charges	*20*	(14)		(71)	
GROSS OPERATING PROFIT		**30.025**		**28.537**	
Property, plant and equipment depreciation	*1-2*	(5.394)		(5.223)	
Intangible asset amortization	*3*	(536)		(478)	
OPERATING PROFIT		**24.095**		**22.836**	
Financial income	*21*	24		33	
Financial expenses	*21*	(93)		(60)	
Foreign exchange gains (losses)	*29*	33		69	
PROFIT BEFORE TAXES		**24.059**		**22.878**	
Income taxes	*22*	(7.132)		(6.945)	
NET PROFIT FROM ORDINARY ACTIVITIES		**16.927**		**15.933**	
NET PROFIT FROM ASSETS HELD FOR DISPOSAL		**-**		**-**	
NET PROFIT		**16.927**		**15.933**	
Items that will not be reclassified to profit and loss					
Gains (losses) from discounting of Employees' Termination Indemnity		(95)		(42)	
Income tax relating to items that will not be reclassified		23		7	
Items that may be reclassified subsequently to profit and loss					
Conversion differences included in equity		(1.718)		1.293	
Restatement of deferred tax liability as per new tax rate		-		207	
COMPREHENSIVE INCOME	*23*	**15.137**		**17.398**	
BASIC AND DILUTED EARNINGS PER SHARE	*24*	**1,00**		**0,94**	

Consolidated Financial Statements at December 31, 2016

Consolidated Statement of Cash Flows

	2016	2015
€ '000		
A) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**17.802**	**11.659**
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the period	16.927	15.933
Depreciation, amortization and write-downs	5.930	5.701
(Gains)/Losses on disposal of assets	(25)	9
Net change in Employee Severance Indemnity	1	63
Net change in provisions for risks and charges	(23)	175
Operating profit (loss) before change in working capital	**22.810**	**21.881**
(Increase) Decrease in trade receivables	1.487	(747)
(Increase) Decrease in inventories	395	(900)
(Increase) Decrease in other receivables and deferred tax assets	(25)	(29)
Increase (Decrease) of trade payables	1.022	(1.401)
Increase (Decrease) of other payables, deferred tax liabilities and tax payables	(235)	(709)
Change in working capital	**2.644**	**(3.786)**
NET CASH FLOW (USED IN)/FROM OPERATING ACTIVITIES	**25.454**	**18.095**
C) CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure on fixed assets:		
- intangible	(553)	(601)
- tangible	(7.059)	(6.534)
Proceeds from disposal of tangible, intangible, financial assets		
- intangible	-	9
- tangible	219	327
Increase (Decrease) of trade payables for assets	631	(165)
NET CASH FLOW (USED IN)/FROM INVESTING ACTIVITIES	**(6.762)**	**(6.964)**
D) CASH FLOW FROM FINANCING ACTIVITIES		
(Increase) Decrease in other non current assets	(34)	(1)
Increase (Decrease) in derivative instruments	43	-
Change in reserve for own shares	(863)	-
Dividends distributed	(7.820)	(6.120)
NET CASH FLOW (USED IN)/FROM FINANCING ACTIVITIES	**(8.674)**	**(6.121)**
E) INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (B+C+D)	**10.018**	**5.010**
F) Foreign exchange differences	(1.039)	961
G) Discounting of Employee Termination Indemnity	(72)	(35)
H) Restatement of deferred tax liabilities as per new tax rate	-	207
I) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (A+E+F+G+H)	**26.709**	**17.802**
Assets available for sales included above	-	-
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**26.709**	**17.802**

CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**26.709**	**17.802**
Liabilities on derivative instruments	(43)	-
NET CONSOLIDATED FINANCIAL POSITION	**26.666**	**17.802**

INTERESTS PAID IN THE PERIOD	**-**	**(1)**

BREAKDOWN OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash	44	18
Banks	26.665	17.784
	26.709	**17.802**

Consolidated Financial Statements at December 31, 2016

Statement of Changes in the Consolidated Shareholders' Equity

(€ '000)	Balance at December 31, 2015	Allocation of previous year net profit	Other changes	Comprehensive income of the period	Balance at Dec. 31, 2016
Capital stock	**8.840**				**8.840**
Share premium reserve	**12.245**				**12.245**
Legal reserve	**1.768**				**1.768**
Reserve for own shares	-		(863)		**(863)**
Suspended-tax revaluation reserve	**585**				**585**
Other suspended-tax reserves	**68**				**68**
Other reserves	**20.895**	1.495		(12)	**22.378**
Conversion differences	**1.075**			(1.706)	**(631)**
Extraordinary reserve	**61.576**	6.618			**68.194**
Reserve for FTA	**3.715**				**3.715**
Reserve for discounting of Employee Termination Indemnity	**76**			(72)	**4**
Merger surplus reserve	**4.397**				**4.397**
Retained earnings	-				-
Net profit	**15.933**	(15.933)		16.927	**16.927**
Total Shareholders' Equity	**131.173**	**(7.820)**	**(863)**	**15.137**	**137.627**

(€ '000)	Balance at December 31, 2014	Allocation of previous year net profit	Other changes	Comprehensive income of the period	Balance at December 31, 2015
Capital stock	**8.840**				**8.840**
Share premium reserve	**12.245**				**12.245**
Legal reserve	**1.768**				**1.768**
Suspended-tax revaluation reserve	**585**				**585**
Other suspended-tax reserves	**68**				**68**
Other reserves	**19.586**	1.339		(30)	**20.895**
Conversion differences	**(248)**			1.323	**1.075**
Extraordinary reserve	**55.286**	6.083		207	**61.576**
Reserve for FTA	**3.715**				**3.715**
Reserve for discounting of Employee Termination Indemnity	**111**			(35)	**76**
Merger surplus reserve	**4.397,00**				**4.397**
Retained earnings	-				-
Net profit	**13.542**	(13.542)		15.933	**15.933**
Total Shareholders' Equity	**119.895**	**(6.120)**	**-**	**17.398**	**131.173**

Notes to the Consolidated Financial Statements at December 31, 2016

I. CORPORATE INFORMATION

Cembre S.p.A. is a joint-stock company with registered office in Brescia, Via Serenissima 9. The company is listed in the Italian Market of Shares (MTA) managed by Borsa Italiana S.p.A.

Cembre S.p.A. and its subsidiaries (hereinafter referred to jointly as “the Cembre Group” or “the Group”) are active primarily in the manufacturing and sale of electrical connectors and related tools.

The publication of the Consolidated Financial Statements of Cembre S.p.A. for the year ended December 31, 2016 was authorized by a resolution of the Board of Directors dated March 10, 2017.

Cembre S.p.A. is controlled by Lysne S.p.A., a holding company based in Brescia, that does not direct or coordinate its subsidiary.

II. FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The present Consolidated Financial Statements at December 31, 2016 were prepared under the International Financial Reporting Standards (IFRS) adopted by the European Union and the related implementation regulations issued in application of article 9 of Legislative Decree no. 38/2005.

Principles adopted in the preparation of the Consolidated Financial Statements are those formally approved by the European Union as at December 31, 2016.

The consolidated financial statements were prepared in the expectation of the continuation of the Group’s activities.

With the exception of those items for which international accounting principles provide for a different valuation, the consolidated financial statements were prepared in accordance with the historical cost principle.

Unless otherwise indicated, figures reported in the financial statements and the related notes are expressed in thousands of euro.

The table that follows contains a list of international accounting principles and interpretations approved by the IASB that became effective in 2016, which were taken into account, where applicable, in the preparation of the present Consolidated Financial Statements.

	Effective from
Amendments to IFRS 11 *Joint Arrangements – Acquisition of an interest in a joint operation*	January 1, 2016
Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – *Clarification of Acceptable Methods of Depreciation and Amortization*	January 1, 2016
Amendments to IAS 16 and IAS 41 – Bearer Plants	January 1, 2016
Amendments to IAS 27 *Equity method in separate financial statements*	January 1, 2016
Amendments to IFRS 10, IFRS 12 e IAS 28 *Investment Entities: Applying the Consolidation Exception*	January 1, 2016
Emendamenti all'IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	January 1, 2016
Amendments to IFRS 7 Financial Instruments: Disclosures – Servicing contracts and applicability of the amendments to IFRS 7 to condensed interim financial	January 1, 2016
Amendments to IAS 19 *Amendment to IAS 19 Employee benefits: Discount rate - Regional market issue*	January 1, 2016
Amendments to IAS 34 *Interim Financial Reporting – Content of interim financial reports*	January 1, 2016
Amendments to IAS 1 *Disclosure Initiative*	January 1, 2016

The above changes did not result in relevant changes in the financial statements of the Cembre Group.

Future changes in accounting principles

The following updates of IFRS have been approved by the European Union in 2016 and will become effective in future financial years:

New and revised Principles	**Effective from**
IFRS 15 – *Revenue from Contracts with Customers*	January 1, 2018
IFRS 9 – *Financial Instruments (replacement of IAS 39)*	January 1, 2018

The following updates of IFRS (already approved by the IASB), interpretations and amendments are in the process of being incorporated into European Union regulations:

New and revised Principles	**Effective from**
IFRS 14 – *Regulatory Deferral Accounts*	January 1, 2016
IFRS 9 – *Leases*	January 1, 2019

Changes in Accounting Principles	**Effective from**
Amendments to IAS 12 *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*	January 1, 2017
Amendments to IAS 7 *Statement of Cash Flows - Disclosure*	January 1, 2017
Amendments to IFRS 2 *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*	January 1, 2018
Amendments to IFRS4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	January 1, 2018
Amendments to IAS 40 *Investment Property – Transfers of investment property*	January 1, 2018
Annual improvements 2014-2016	January 1, 2018
IFRIC 22 – *Foreign Currency Transactions*	January 1, 2018
Amendments to IFRS 10 and IAS 28 *Investments in Associates and Joint Ventures*	Postponed

The Cembre Group will evaluate in the next months the possible effects of the adoption of the new principles.

Principles of consolidation

The Consolidated Financial Statements of the Cembre Group include the statutory accounts at December 31 of every year of Cembre S.p.A. and of its subsidiaries. Accounting principles adopted in the preparation of the financial statements of subsidiaries are consistent with those of the parent company.

The financial statements of consolidated subsidiaries are consolidated under the line-by-line method, thus including all items, irrespective of the share held by the Group, of the elimination of intragroup transactions and of unrealized gains on transactions with third parties.

The book value of investments is netted against the related share in the shareholders' equity of consolidated companies, attributing to assets and liabilities the respective current value at the time control was acquired and recording contingent liabilities, where appropriate. Where positive, the residual amount is recorded among non-current assets as goodwill. Negative residual differences are recorded in the income statement.

All subsidiaries are wholly-owned and in no case therefore have minority interests been recorded.

The following companies were consolidated at December 31, 2016:

	% held
Cembre Ltd. (UK)	100%
Cembre S.a.r.l. *(France)	100%
Cembre España SL *(Spain)	100%
Cembre AS (Norway)	liquidated in 2016
Cembre Gmbh*(Germany)	100%
Cembre Inc.**(US)	100%

* 5% share held through Cembre Ltd.

**29% share held through Cembre Ltd.

Norwegian subsidiary Cembre AS discontinued its activities in March 2016 and the procedure for its liquidation was concluded in December 2016.

Translation of financial statements expressed in currencies other than the euro

The functional and reporting currency of the Group is the euro.

Financial statements denominated in functional currencies other than the euro are translated according to the following criteria:

- assets and liabilities are translated at the exchange rate applicable at the date of the financial statements;
- income statement items are translated at the average exchange rate for the year;
- foreign-exchange translation differences are recorded in a specific Shareholders' Equity reserve.

At the time at which a foreign subsidiary is disposed of, accumulated foreign-exchange differences recorded under Shareholders' Equity relating to the same are taken to the Income Statement.

Exchange rates applied in the translation of financial statements of subsidiaries are shown in the table below.

Currency	Exchange rate at Dec. 31, 2016	Average exchange rate for 2016
British pound (£/€)	0,85618	0,81948
US dollar ($/€)	1,05410	1,10690
Norwegian kroner (NOK/€)	9,08630	9,29060

III. CONSOLIDATION PRINCIPLES AND VALUATION CRITERIA

Form of the financial statements

The financial statements are prepared as follows:

- current and non-current assets and liabilities are reported separately in the Consolidated Statement of Financial Position;
- the analysis of costs in the Statement of Consolidated Comprehensive Income is carried out based on the nature of the same;
- the Consolidated Statement of Cash Flows is prepared by applying the indirect method.

Financial Statements forms are unchanged from previous year.

Finally, with reference to CONSOB Regulation no. 15519 dated July 27, 2006, the Financial Statements include a separate reporting of amounts pertaining to related parties, where significant.

Property, plant and equipment

Property, plant and equipment is recorded at the historical cost and reported net of accumulated depreciation and losses in value. Ordinary maintenance and repair costs are not capitalized, and are charged to the income statement in the year in which they are incurred.

Depreciation commences when the asset is available for use and is calculated on a straight line basis over the estimated residual useful life of the asset, taking into account its residual value. Depreciation rates applied reflect the useful life generally attributed to the various classes of assets and are summarized below:

- Buildings and light installations:	2% – 10%
- Plant and machinery:	5% – 25%

- Industrial and commercial equipment: 6% – 25%
- Other assets: 6% – 33%

Land has an undetermined useful life and is therefore not subject to depreciation.

The book value of property, plant and equipment is subjected to an impairment test whenever events or changes occurred indicate that the book value of the same can no longer be retrieved in line with the depreciation schedule originally set. Whenever there exists such an indication, the assets or cash generating units are written down to reflect their expected realizable value.

The residual value of assets, their useful life and methods applied are reviewed annually and adjusted, where necessary, at the end of each year.

Tangible assets are eliminated from the Balance Sheet at the time of their sale or when there no longer exists the expectation of future economic benefits from their use or disposal. Losses and gains (calculated as the difference between net revenues from the disposal and the book value of the asset) are recorded in the Income Statement in the year in which they are disposed of.

Leased assets

Assets held under a financial lease, through which all risks and benefits relating to ownership are transferred to the Group, are recorded under assets at the lower of their current value and the present value of minimum lease payments due according to the contract, including the bullet payment due at the end of the lease to exercise the purchase option.

The liability corresponding to the lease contract is recorded under financial liabilities.

Leased assets are classified under the respective category among property, plant and equipment, and depreciated over the shorter period between the term of the lease and the expected residual useful life of the asset.

Lease contracts in which the lessor holds all risks and enjoys all benefits deriving from the leased asset are classified as operating leases and recorded as costs in the Income Statement over the term of the contract.

Investment property

Assets that cease to be used in the context of the Group's ordinary operations but possess all the characteristics set forth in IFRS 5 to be included among non-current assets available for sale, are classified among Investment property and continue to be amortized as if they were still included among Property, plant and equipment.

Intangible assets

Intangible assets are recorded under assets, as provided by IAS 38 (Intangible assets), whenever it is probable that future economic benefits are generated through use and when the cost of the intangible asset can be determined in a reliable manner.

Intangible assets acquired separately are initially capitalized at cost, while those acquired through mergers are capitalized at their fair value at the time of acquisition.

With the exception of development costs, assets generated internally are not recorded as intangible assets.

After the initial recording, intangible assets are carried in the balance sheet at cost, net of accumulated amortization calculated on a straight-line basis over their expected useful economic life, and of write-downs carried out as a result of durable losses in value. Intangible assets having an indefinite useful life are not amortized and subjected periodically to an impairment test to assess possible loss in value.

The useful life generally attributed to the various classes of assets is the following:

- concessions and licenses:	5 to 10 years
- software licenses	3 to 5 years
- patents	2 years
- development costs:	5 years
- trademarks:	10 to 20 years

Amortization commences when the asset is available for use, that is, when it is in a position and in the necessary condition to operate in the manner intended by management.

The book value of intangible assets is subjected to an impairment test whenever events or changes occurred indicate that the book value of the same can no longer be retrieved in line with the amortization schedule originally set. Whenever there exists such an indication and the book value of the asset exceeds its realizable value, the value of the asset is written-down to its expected realizable value.

Financial assets

Financial assets are initially recorded at cost, inclusive of accessory purchase costs, representing the fair value of the price paid. After the initial recording, financial assets are valued in accordance with their final purpose as described below.

Financial assets valued at fair value, whose change is recorded in the Income Statement

These are financial assets held for trading purposes, acquired for the purpose of obtaining a profit from short-term fluctuations in price. Unless specifically designated as effective hedge, derivatives are classified as financial assets held for trading purposes. Gains and losses on financial assets held for trading purposes are recorded in the income statement.

Financial assets held to maturity

Financial assets other than derivatives that generate fixed financial flows or flows that may be determined and have a set maturity, are classified as Financial assets held to maturity when the Group intends to and is capable of holding them to maturity.

Financial assets that the Group decides to hold for an indefinite period of time do not fall under this category.

After their initial recording, long-term financial investments held to maturity, such as bonds, are accounted for at the amortized cost, using the effective rate of interest method, are discounted to their present value.

The amortized cost is calculated keeping into account discounts and premiums, amortized over the term of the financial asset.

Loans extended and receivables

Loans and receivables are non-derivative financial assets providing for fixed payments or payments that may be determined, not listed on an active market. Such assets are recorded at the amortized cost using the actual discount rate method. Gains and losses are recorded in the Income Statement whenever loans extended and receivables are eliminated from the accounts or they experience losses in value, together with the related amortization.

Financial assets available for sale

Financial assets available for sale include financial assets that do not fall under the above categories. After the initial recording, these are accounted for at fair value, while gains and losses are recorded under a specific Shareholders' Equity reserve until the assets are sold or a loss in value is ascertained. In such case, gains and losses accrued are charged to the income statement.

In the case of securities widely traded on a regulated market, the fair value is determined with reference to the listed price at the closing of trading on the date of the financial statements. In the case of financial assets for which there does not exist an active market, the fair value is determined through valuation techniques based on the price recorded in recent transactions between unrelated parties or on the basis of the current market value of a similar instrument, or on discounted cash flows or option pricing models. Investments in other companies fall in this category.

Loss in value of financial assets

The Group verifies at least yearly the possible loss in value of individual financial assets. These are recorded only at the time when there exists objective evidence, at the occurrence of one or more events, that the asset has experienced a loss of value with respect to its initial recorded value.

Treasury shares

Treasury shares are recorded as a reduction of Shareholders' Equity in a specific reserve.

The purchase, sale, issue or cancellation of treasury shares held does not determine the recording of any gain or loss in the Income Statement.

Inventories

Inventories are valued at the lower of cost and their expected realizable value, represented by their normal sale price, net of completion and selling costs.

The cost of inventories includes the acquisition cost, the transformation cost and other costs incurred to take inventories to their current location and state.

The cost of inventories is determined under the weighted-average method, inclusive of the cost of beginning inventories. Provisions for slow-moving stock are accrued for finished products, materials and other supplies, keeping into account their expected useful life and retrievable value.

Receivables and payables

Receivables are recorded initially at fair value and subsequently carried at the amortized cost, written-down in case of loss in value. Payables are normally valued at the amortized cost, adjusted under exceptional conditions for changes in value.

Cash and cash equivalents

Cash and cash equivalents are recorded at face value.

Loans

Loans are initially recorded at cost, corresponding to the fair value of the amount received, net of accessory costs.

After the initial recording, loans are valued at the amortized cost, using the effective interest method.

Translation of amounts denominated in currencies other than the euro

Transactions denominated in currencies other than the euro are initially accounted for in euro at the exchange rate at the date of the transaction. Currency translation differences arising at the time at which foreign currency receivables are collected and payables are paid out, are recorded in the income statement.

At the date of the financial statements, monetary assets and liabilities denominated in currencies other than the euro – consisting of cash on hand or assets and liabilities to be received or paid out, whose amount is set and may be determined – are translated into euro at the exchange rate at the date of the financial statements, recording in the income statement the currency translation difference.

Non-monetary items denominated in currencies other than the euro are translated into euro at the exchange rate at the time of the transaction, representing the historical exchange rate.

Functional currencies adopted by Group companies correspond to the currencies of the respective county in which subsidiaries are based.

Provisions for risks and charges

Provisions for risks and charges are accrued against known liabilities, whose existence is certain or probable, but whose amount and expiration cannot be determined at the date of the financial statements. Accruals are made when the existence of a current obligation, legal or implicit, deriving from a past event, the fulfillment of which is expected to require the use of resources whose amount can be reliably estimated, is probable.

Provisions are valued at the fair value of liabilities. When the financial effect and the timing of the cash outflow can be estimated in a reliable manner, provisions include the interest component, recorded in the Income Statement among financial income (expense).

Provisions accrued are reviewed at each accounting date and adjusted to bring them into line with the best estimate available to date.

Employee benefits

Under IAS 19, and before the reform introduced by the 2007 Budget Law, the Employee Severance Indemnity was classified among defined benefit plans and was therefore subject to actuarial adjustments.

After the reform, the provisions of which were adopted by the Group from the 2007 Half-year Report, employee termination indemnities accrued up to December 31, 2006, continue to be accounted for as defined benefit plans, while those accrued from January 1, 2007 are accounted for in two different ways:

- where the individual employee has opted for complementary pension funds, employee termination indemnities accrued after January 1, 2007 and until the time at which the choice is made by the employee, are accounted for as a defined benefit plan. Subsequently they are accounted for as a defined contribution plan;
- where the individual employee has opted for accumulation with the treasury fund of the national social security agency (INPS), indemnities accrued after January 1, 2007 are accounted for as a defined contribution plan.

Elimination of financial assets and liabilities

Financial assets are eliminated when the Group ceases to hold rights to receive financial flows deriving from the same or when such rights are transferred to another entity, that is when risks and benefits of the financial instrument cease to have an effect on the financial position and operating performance of the Group.

A financial liability is written-off exclusively when the related obligation is cancelled, fulfilled or expired. Any material change in the contractual terms relating to the liability result in its cancellation and in the recording of a new liability. Any difference between the book value and the amount paid to extinguish the liability is recorded in the Income Statement.

Revenues

Revenues are valued at the current value of the amount received or receivable.

Disposal of assets

The revenue is recognized when the Company has transferred the risks and benefits connected with the ownership of the good, and ceases to exercise the activity associated with ownership and the actual control over the asset sold.

Services rendered

Revenues are recorded based on the stage of completion of the operation at the date of the financial statements. When the result of the service rendered cannot be reliably estimated, revenues are recorded only to the extent of retrievable costs.

The stage of completion is determined by valuing work carried out or by determining the proportion between costs incurred and total estimated costs to completion.

Interest

Interest is recorded in the period in which it accrues, using the effective interest method.

Dividends

Dividends are recorded when the right of shareholders to receive them arises.

Grants

Grants are recorded at fair value when there exists a reasonable certainty that that the same will actually be received and the company meets the conditions for the entitlement to the grant.

Grants linked to cost components (operating grants) are recorded under “other revenues” and amortized over several years so that revenues match the costs they are intended to compensate.

The fair value of grants linked to assets (e.g. grants on the purchase of plant and equipment or grants for capitalized development costs), is suspended under long-term liabilities and released to the income statement under “other revenues” over the useful life of the asset to which it relates, thus in the period over which the depreciation expense relating to the asset is charged to the income statement.

Financial charges

Financial charges are recorded as a cost in the period in which they accrue. In accordance with IAS 23 Revised, financial charges incurred in the acquisition of significant assets (qualifying assets) are capitalized.

Cost of goods purchased and services received

The cost of goods purchased and services received is recorded in the income statement based on the accrual method.

Income taxes (current, prepaid and deferred)

Current taxes are determined based on a realistic estimate of the tax expense for the period in accordance with applicable tax regulations in the respective countries.

The Group records deferred and prepaid taxes arising from temporary differences between the book value of assets and liabilities and the related values reported for tax purposes, in addition to differences in the value of assets and liabilities generated by consolidation adjustments.

Prepaid taxes are recorded only where there exists reasonable certainty of their retrieval through future profits within the term in which tax benefits are enjoyed. Deferred tax assets are recorded also where there exist deductible losses or tax credits, whenever it is deemed probable that sufficient future profits will be generated in the medium-term (3 to 5 years).

Financial derivatives

Derivative financial instruments are valued at market value (*fair value*). A derivative financial instrument can be acquired for trading or hedging purposes.

Gains and losses on financial instruments acquired for trading purposes are charged to the income statement.

Derivatives acquired for hedging purposes may be accounted for under the hedge accounting method – offsetting the recording of the derivative in the income statement with adjustments to the value of assets and liabilities hedged – only when derivatives meet specific criteria.

Hedge derivatives are classified as “fair value hedges” when they are acquired to hedge against the risk of fluctuations in the market value of an underlying asset or liability or the risk of fluctuations in the financial flows deriving from the same, both in the case of existing assets and liabilities or those deriving from a future transaction.

In the case of fair value hedges, gains and losses on the restatement of the market value of a derivative instrument are taken to the income statement.

With regard to the hedging of financial flows, gains and losses on the hedge instrument are recorded under Shareholders’ Equity when they relate to the portion of the hedge considered effective, while the portion not hedged is recorded in the income statement.

Earnings per share

Earnings per share are calculated by dividing consolidated net profit by the weighted average number of shares in circulation for the period.

Fully diluted earnings per share (calculated by subtracting from consolidated net profit the cost of converting all stock options into ordinary shares) are obtained by adjusting the number of shares in circulation assuming the exercise of stock options having a diluting effect.

Use of estimates

In accordance with IAS/IFRS, the Group made use of estimates and assumptions based on prior experience and other factors deemed determinant, but not certain. Actual data could therefore differ from estimates and projections made.

Estimated data is reviewed periodically and adjustments made to the same are taken to the Income Statement for the period in which the review takes place in case the review affect only one period, or, subsequent accounting periods in case it affects also the same.

Below we describe review processes and key assumptions used by management in applying accounting principles.

Provision for inventory depreciation

The provision for inventory depreciation is accrued to bring the book value of inventories into line with their expected realizable value.

Management reviews the composition of inventories with particular reference to slow moving stock to determine the amount to be accrued prudentially to reflect the obsolescence of stocks.

Provision for doubtful accounts

The provision for doubtful accounts reflects management estimates regarding losses on trade receivables.

Losses on trade receivables expected by the Group are based on past experience on similar portfolios of receivables, current overdues vs. historical overdues, losses and collections, the close monitoring of credit risk and credit worthiness of customers, in addition to projections on economic and market conditions.

Retrievable value of non-current assets

Non-current assets include property, plant and equipment, intangible assets, investments and other financial assets.

Whenever circumstances so require, the management reviews periodically the book value of non-current assets held and used by the Group, in addition to assets to be disposed of. Such activity is carried out using estimates of expected cash flows from the sale of the asset and of adequate discount rates used in calculating the present value of the same.

Whenever the book value of a non-current asset experiences a loss in value, the Company records a write-down equal to the difference between the book value of the asset and its retrievable value either through use or disposal of the same.

Post-retirement benefits

In the estimation of post-retirement benefits the Group makes use of traditional actuarial techniques based on stochastic simulations of the "Monte Carlo" type. Assumptions made relate to the discount rate and the annual inflation rate. Actuarial advisors of the Group make also use of demographic projections based on current mortality rates, employee disablement and resignation rates observed in Parent Company Cembre S.p.A..

In 2016, based on past turnover experience, the probability of a Cembre S.p.A.'s employee terminating his or her employment for causes other than death is the following:

Male	6.18%
Female	4.46%

Assumptions regarding the discounting and inflation rates were:

Discounting rate	1.31%
Yearly inflation rate	1.50%
Yearly real increase in retributions	1.00%

Expected advances to be paid out are 5% per year and each advance corresponds to 70% of the accrued indemnity.

Retrievability of deferred tax assets

The Group evaluates the possibility to retrieve deferred tax assets on the basis of profits and expected future market conditions in view of current sale contracts and ability of expected future profits to offset tax credits, in addition to the expected variance of the same.

Potential liabilities

In carrying out its activity, management consults with its legal and tax advisors and experts. The Group ascertains a liability arising from litigation whenever it deems probable that a financial outlay will be made in the future and when the amount of resulting losses can be reasonably estimated. In case a financial outlay becomes possible but its amount cannot be determined, such occurrence is reported in the notes.

IV. SEGMENT INFORMATION

IFRS 8 requires segment information to be supplied using the same elements on which management bases internal reporting.

Cembre adopted as its primary reporting focus information by geographical area based on the location in which the operations of the company are based or the production process takes place. As the Cembre Group operates in a single segment denominated “Electric connectors and related tools”, items based on this element are not usually utilized for the purposes of internal reporting.

2016	Italy	Rest of Europe	Rest of World	Elimination of intragroup	TOTAL
Revenues					
Sales to customers	67,134	42,987	12,484		122,605
Sales to other Group companies	27,516	1,791	161	(29,468)	-
Revenues by sector	94,650	44,778	12,645	(29,468)	122,605
Operating profit by sector	20,146	2,960	989		24,095
Overhead costs not assigned					-
Operating profit					24,095
Financial income (expense)					(36)
Income taxes					(7,132)
Net profit					16,927

2015	Italy	Rest of Europe	Rest of World	Elimination of intragroup	TOTAL
Revenues					
Sales to customers	65,725	45,442	10,210		121,377
Sales to other Group companies	26,891	1,554	464	(28,909)	-
Revenues by sector	92,616	46,996	10,674	(28,909)	121,377
Operating profit by sector	17,729	4,643	464		22,836
Overhead costs not assigned					-
Operating profit					22,836
Financial income (expense)					42
Income taxes					(6,945)
Net profit					15,933

As the distribution of sales by geographical area is different from that of the related Group activities, a breakdown of sales by geographical area of customers is shown below.

	2016	2015
Italy	49,029	48,564
Europe	51,516	52,210
Rest of World	22,060	20,603
	122,605	**121,377**

The breakdown of assets and liabilities is shown below:

Dec. 31, 2016	Italy	Rest of Europe	Rest of World	TOTAL
Assets and Liabilities				
Assets of the sector	124.666	34.636	8.157	167.459
Unassigned assets				(3.808)
Total assets				**163.651**
Liabilities of the sector	22.010	3.633	402	26.045
Unassigned liabilities				(21)
Total liabilities				**26.024**
Other information by sector				
Capital expenditure:				
- Property, plant and equipment	6.707	331	21	7.059
- Intangible assets	545	8	-	553
Total investments				**7.612**
Depreciation and amortization:				
- Property, plant and equipment	(4.559)	(719)	(116)	(5.394)
- Intangible assets	(517)	(19)	-	(536)
Accruals to provision for employee benefits	(858)	(35)	-	**(893)**
Average no. of employees	453	195	24	**672**

Dec. 31, 2015	Italy	Rest of Europe	Rest of World	TOTAL
Assets and Liabilities				
Assets of the sector	114,240	37,924	7,959	160,123
Unassigned assets				(4,365)
Total assets				**155,758**
Liabilities of the sector	20,404	4,151	51	24,606
Unassigned liabilities				(21)
Total liabilities				**24,585**
Other information by sector				
Capital expenditure:				
- Property, plant and equipment	5,631	811	92	6,534
- Intangible assets	599	2	-	601
Total investments				**7,135**
Depreciation and amortization:				
- Property, plant and equipment	(4,310)	(792)	(121)	(5,223)
- Intangible assets	(454)	(24)	-	(478)
Accruals to provision for employee benefits	(821)	(8)	-	**(829)**
Average no. of employees	436	167	23	**626**

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

1. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment	Other assets	Leased assets	Work in progress	Total
Historical cost	42,781	54,765	11,766	8,174	37	1,075	118,598
Revaluation FTA of IFRS	5,921	-	-	-	-	-	5,921
Revaluations for tax purposes	936	50	-	-	-	-	986
Accumulated depreciation	(10,548)	(34,983)	(8,456)	(6,064)	(19)	-	(60,070)
Bal. at Dec. 31, 2016	**39,090**	**19,832**	**3,310**	**2,110**	**18**	**1,075**	**65,435**
Increases	859	3,996	833	410	-	961	7,059
Currency translation differences	(433)	(225)	-	(18)	-	-	(676)
Depreciation	(981)	(3,128)	(561)	(650)	(6)	-	(5,326)
Net divestments	-	(85)	(51)	(58)	-	-	(194)
Reclassifications	-	179	217	4	-	(400)	-
Bal. at Dec. 31, 2015	**38,535**	**20,569**	**3,748**	**1,798**	**12**	**1,636**	**66,298**

	Land and buildings	Plant and machinery	Equipment	Other assets	Leased assets	Work in progress	Total
Historical cost	42,186	51,825	10,478	7,572	37	912	113,010
Revaluation FTA of IFRS	5,921	-	-	-	-	-	5,921
Revaluations for tax purposes	936	53	-	-	-	-	989
Accumulated depreciation	(9,672)	(32,360)	(7,987)	(5,838)	(13)	-	(55,870)
Bal. at Dec. 31, 2014	**39,371**	**19,518**	**2,491**	**1,734**	**24**	**912**	**64,050**
Increases	600	3,088	978	1,050	-	818	6,534
Currency translation differences	185	101	2	41	-	-	329
Depreciation	(960)	(3,013)	(467)	(696)	(6)	-	(5,142)
Net divestments	(208)	(103)	(3)	(22)	-	-	(336)
Reclassifications	102	241	309	3	-	(655)	-
Bal. at Dec. 31, 2015	**39,090**	**19,832**	**3,310**	**2,110**	**18**	**1,075**	**65,435**

Capital expenditure in 2016 amounted to €7,059 thousand and related primarily to investments made by the parent company. Investments in buildings consisted mainly in the renovation and development of the ground and first floor of the historical building of the Brescia complex, with the creation, among other things, of new spaces dedicated to the hosting of visitors, a conference room and a large showroom. Expenditure on equipment reached €950 thousand and is also primarily connected with the renovation work underway (€277 thousand), while investment in production machinery amounted to €2,851 thousand. Expenditure for the manufacturing of dies amounted to €649 thousand. Advances paid for assets to be delivered in 2017 amounted to €609 thousand, while expenditure in dies and equipment under construction by the parent company amounted to €352 thousand.

Investments made by foreign subsidiaries include €88 thousand spent by Cembre Ltd. on plant and equipment, while the Spanish subsidiary invested €87 thousand in the installation of a new automated warehouse.

Item Land and buildings includes the €5,921 thousand revaluation made upon the first-time application of international accounting principles (IAS).

2. INVESTMENT PROPERTY

	Land and buildings	Plant and Machinery	Other assets	Total
Historical cost	2,430	278	5	2,713
Accumulated amortization	(752)	(243)	(3)	(998)
Balance at Dec. 31, 2015	**1,678**	**35**	**2**	**1,715**
Depreciation	(58)	(9)	(1)	(68)
Balance at Dec. 31, 2016	**1,620**	**26**	**1**	**1,647**

Awaiting for a recovery of the real estate market that would improve sale conditions, industrial buildings located in Calcinate (Bergamo) and Coslada (Madrid) together with the related plant and equipment no longer in use, were reclassified among investment property.

3. INTANGIBLE ASSETS

	Development costs	Patents	Software	Other intangible assets	Work in progress	Total
Historical cost	1,263	332	4,427	63	2	6,087
Accumulated amortization	(720)	(279)	(3,738)	(14)	-	(4,751)
Balance at Dec. 31, 2015	**543**	**53**	**689**	**49**	**2**	**1,336**
Increases	323	57	128	15	30	553
Currency translation difference	-	-	(3)	-	-	(3)
Amortization	(219)	(49)	(254)	(14)	-	(536)
Reclassifications	-	-	2	-	(2)	-
Balance at Dec. 31, 2016	**647**	**61**	**562**	**50**	**30**	**1,350**

4. INVENTORIES

	Dec. 31, 2016	Dec. 31, 2015	Change
Raw materials	8,597	8,291	306
Work in progress and semi-finished goods	10,238	9,804	434
Finished goods	19,961	21,096	(1,135)
Total	**38,796**	**39,191**	**(395)**

The value of finished goods inventories is adjusted to its expected realizable value through a provision for slow-moving stock amounting approximately to €2,739 thousand.

Changes in the provision in 2016 are shown in the table that follows:

	2016	2015
Balance at January 1	**2,177**	**2,042**
Accruals	714	424
Uses	(106)	(344)
Currency translation differences	(46)	55
Balance at December 31	**2,739**	**2,177**

Accruals regarded primarily inventories of the US subsidiary (€271 thousand), the Spanish subsidiary (€181 thousand) and the parent company (€180 thousand).

5. TRADE RECEIVABLES

	Dec. 31, 2016	Dec. 31, 2015	Change
Gross trade receivables	26,063	27,750	(1,687)
Provision for doubtful accounts	(1,178)	(1,378)	200
Total	**24,885**	**26,372**	**(1,487)**

Trade receivables by geographical area

	Dec. 31, 2016	Dec. 31, 2015	Change
Italy	14,103	15,529	(1,426)
Europe	9,452	10,190	(738)
North America	1,704	1,299	405
Oceania	152	348	(196)
Middle East	206	35	171
Far East	261	258	3
Africa	185	91	94
Total	**26,063**	**27,750**	**(1,687)**

Average collection time shortened from 75 days in 2015 to 70 days in 2016.

Changes in the provision for doubtful accounts are shown in the table that follows:

	2016	2015
Balance at January 1	**1,378**	**1,185**
Accruals	43	417
Uses	(175)	(227)
Adjustments	(67)	-
Currency translation differences	(1)	3
Balance at December 31	**1,178**	**1,378**

Breakdown of receivables by maturity at December 31, 2016

	Not matured	0-90 days	91-180 days	181-365 days	Over one year	Under litigation	Total
2016	22,273	3,043	100	136	436	75	**26,063**
2015	23,136	3,761	132	143	412	166	**27,750**

6. TAX RECEIVABLES

	Dec. 31, 2016	Dec. 31, 2015	Change
Tax receivables	850	770	80

The amount consists prevalently of receivables of the parent on retroactive IRES deductions of IRAP on personnel expenses for years 2007-2011 on which a refund was applied for.

7. OTHER ASSETS

	Dec. 31, 2016	Dec. 31, 2015	Change
Receivables from employees	28	69	(41)
VAT and other indirect taxes receivable	89	-	89
Advances to suppliers	283	252	31
Other	160	246	(86)
Total	**560**	**567**	**(7)**

8. SHAREHOLDERS' EQUITY

The capital stock of the parent company amounts to €8,840 thousand, and is made up of 17 million ordinary shares of par value €0.52 each, fully underwritten and paid-up.

At December 31, 2016 the Company held 65,150 treasury shares, corresponding to 0.38% of its capital stock. Against these shares the Company recorded €863 thousand in a specific equity reserve under liabilities.

A reconciliation between the Shareholders' Equity and net profit of the parent company and the Consolidated Shareholders' Equity and net profit is provided in the Report on Operations.

Changes in individual components of the Consolidated Shareholders' Equity are shown in the Statement of Changes in the Consolidated Shareholders' Equity included in the Consolidated Financial Statements.

Item Other reserves is made up as follows:

	Dec. 31, 2016	Dec. 31, 2015
Elimination of investments in subsidiaries	24,581	22,774
Elimination of unrealized intra-group profit in stock	(4,384)	(3,623)
German subsidiary product warranty provision reversal	21	21
Dividends from subsidiaries	2,163	1,719
Currency translation differences on intra-group payables and receivables	-	6
Intra Group reconciliation and gains	(3)	(2)
Total	**22,378**	**20,895**

Upon the first-time application of IFRS, the parent company chose to adopt as inventory valuation method the average cost, in line with the rest of the Group. For this reason the consolidated *Reserve for the first-time adoption of IFRS* differs by €336 thousand from the one recorded under equity by the parent company.

9. EMPLOYEE TERMINATION INDEMNITY AND OTHER RETIREMENT BENEFITS

The item includes the Employee Severance Indemnity accrued for employees of Italian companies. Special retirement benefits, due in accordance with French regulations to persons employed in France at the time of retirement, are also included in the provision.

With the reform of employee termination indemnities, starting with January 1, 2007 Cembre S.p.A. is no longer required to accrue retirement benefits in favor of its employees in a provision, but pays out benefits accrued after such date to the INPS treasury account, unless such benefits have been destined to other pension funds by individual employees.

Employee termination indemnities accrued at December 31, 2016 was discounted on the basis of an evaluation made by a registered actuary, in accordance with current regulations.

	2016	2015
Beginning balance	**2,617**	**2,554**
Accruals	893	829
Uses	(485)	(232)
Social security (INPS) treasury account	(550)	(635)
Discounting effect	143	101
Closing balance	**2,618**	**2,617**

Total termination indemnities accrued with INPS' treasury account at the end of the year amount to €5,802 thousand.

10. PROVISIONS FOR RISKS AND CHARGES

Changes in the year are shown in the table below.

	Customer indemnities	Directors' variable compensation	Employee incentives	Other risks	Total
At December 31, 2015	**100**	**100**	**54**	**190**	**444**
Accruals	14	50	103	-	167
Uses	-	-	-	(190)	(190)
At December 31, 2016	**114**	**150**	**157**	**-**	**421**

In line with the remuneration policy of the Company, variable compensation linked to the achievement of medium-long term objectives was introduced in favor of the Chairman and Managing Director. Such compensation could be paid out in 2018 in case targets set for years 2014-2017 by the Board of Directors, upon proposal of the Remuneration Committee, are achieved. The amount of the accrual against the possible compensation of directors is recorded among the cost of services.

The provision for employee benefits includes amounts accrued for sales personnel that will be paid out upon the achievement of performance objectives set in the sales development plan launched by the Company.

The provision for other risks and charges was withdrawn to cover charges on commercial litigation.

11. DEFERRED TAX ASSETS AND LIABILITIES

	Dec. 31, 2016	Dec. 31, 2015
Deferred tax assets		
Elimination of unrealized intra-group profits in stock	1,469	1,697
Write-down of inventories	420	241
Goodwill amortization	3	8
Provision for French personnel costs	88	77
Provision for doubtful accounts of parent company	216	228
Differences on depreciation of parent company	148	132
Other	158	167
Gross deferred tax assets	**2,502**	**2,550**
Deferred tax liabilities		
Average cost valuation of inventories by the parent	(241)	(297)
Accelerated depreciation	(156)	(242)
Elimination of Cembre GmbH product warranty provision	(10)	(10)
Reversal of land depreciation	(24)	(24)
Revaluation of land	(1,652)	(1,652)
Discounting of employee termination indemnity	42	7
Differences on depreciation of Cembre Inc. (US)	-	(15)
Currency translation differences	(2)	(2)
Gross deferred tax liabilities	**(2,043)**	**(2,235)**
Net deferred tax liabilities	**459**	**315**

12. TRADE PAYABLES

	Dec. 31, 2016	Dec. 31, 2015	Change
Payable to suppliers	13,281	11,627	1,654
Advances	25	26	(1)
Total	**13,306**	**11,653**	**1,653**

Trade payables by geographical area

	Dec. 31, 2016	Dec. 31, 2015	Change
Italy	11,515	10,387	1,128
Rest of Europe	1,674	1,228	446
America	21	2	19
Other	71	10	61
Total	**13,281**	**11,627**	**1,654**

13. OTHER PAYABLES

	Dec. 31, 2016	Dec. 31, 2015	Change
Payables to employees	1,694	1,711	(17)
Employee withholding taxes payable	1,097	1,167	(70)
Bonuses owed to customers	365	337	28
VAT and similar foreign taxes payable	670	964	(294)
Commissions payable	269	231	38
Payable to Statutory Auditors	19	19	-
Payable to Directors	7	7	-
Social security payables	2,533	2,535	(2)
Payable on sundry taxes	30	59	(29)
Other	157	182	(25)
Accrued liabilities	(169)	(255)	86
Total	**6,672**	**6,957**	**(285)**

14. REVENUES FROM SALES AND SERVICES PROVIDED

In 2016, revenues grew by 1% on the previous year. A total of 40% of Group sales were represented by Italy (1% more than in 2015), while sales in the rest of Europe represented 42% of total sales, (1.3% less than in the previous year). Sales to the rest of the World grew by 7.1%, representing 18% of total sales. Further detail is provided in the Report on Operations.

15. OTHER REVENUES

Other revenues are made up as follows:

	2016	2015	Change
Capital gains	44	75	(31)
Uses of provisions	64	22	42
Insurance damages	12	20	(8)
Reimbursements	389	391	(2)
Other	101	125	(24)
Grants	71	32	39
Total	**681**	**665**	**16**

Reimbursements relate primarily to transport costs charged to customers.

16. COST OF SERVICES

	2016	2015	Change
Subcontracted work	2,600	3,081	(481)

Electricity, heating and water	1,435	1,499	(64)
Transport of goods sold	1,813	1,789	24
Fuel	376	448	(72)
Travelling expenses	1,197	963	234
Maintenance and repair	1,974	1,835	139
Consulting	1,377	1,314	63
Advertising and promotion	657	583	74
Insurance	825	663	162
Boards' compensation	715	708	7
Postage and telephone	364	309	55
Commissions	531	508	23
Security and cleaning	525	500	25
Bank charges	149	151	(2)
Other	915	894	21
Total	**15,453**	**15,245**	**208**

17. LEASES AND RENTALS

	2016	2015	Change
Rent and related costs	660	757	(97)
Vehicle leasing	876	653	223
Total	**1,536**	**1,410**	**126**

18. PERSONNEL COSTS

	2016	2015	Change
Wages and salaries	26,751	25,938	813
Social security contributions	6,764	6,655	109
Employee termination indemnity	1,176	1,116	60
Retirement benefits	293	252	41
Other costs	500	449	51
Total	**35,484**	**34,410**	**1,074**

Wages and salaries include €1,466 thousand relating to personnel on short-term contracts, of which €910 thousand pertaining to the parent company, €246 thousand to the German subsidiary and €310 thousand to the Spanish subsidiary.

Average number of employees by category

	2016	2015	Change
Managers	16	14	2
Administrative and commercial staff	296	287	9
Workers	310	299	11
Outsourced personnel	50	26	24
Total	**672**	**626**	**46**

Average number of employees by Group company

	Managers	White collars	Blue collars	Short-term personnel	Total 2016	Total 2015	Change
Cembre S.p.A.	6	191	230	26	453	436	17
Cembre Ltd.	3	36	57	2	98	92	6
Cembre Sarl	1	18	6	-	25	24	1
Cembre España SL	1	22	6	17	46	30	16
Cembre AS	-	-	-	-	-	2	(2)
Cembre Inc.	4	15	5	-	24	23	1
Cembre GmbH	1	14	6	5	26	19	7
Total	**16**	**296**	**310**	**50**	**672**	**626**	**46**

19. OTHER OPERATING COSTS

	2016	2015	Change
Sundry taxes	715	712	3
Losses on receivables	20	6	14
Capital losses	29	85	(56)
Donations	30	23	7
Other	357	432	(75)
Total	**1,151**	**1,258**	**(107)**

Item *Other* consists primarily sundry expenses of the parent company.

20. ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES

	2016	2015	Change
Customer indemnities	14	12	2
Other risks and charges	-	59	(59)
Total	**14**	**71**	**(57)**

The customer indemnities provision amounts to €14 thousand and was accrued against possible charges in the case of termination of agency mandates.

21. FINANCIAL INCOME (EXPENSE)

	2016	2015	Change
Interest earned on bank account balances	23	32	(9)
Other financial income	1	1	-
Total financial income	**24**	**33**	**(9)**
Financial charges on derivatives	(43)	-	(43)
Loans and bank overdrafts	-	(1)	1
Financial charges on discounting of Employee Termination Indemnity	(48)	(58)	10
Other financial charges	(2)	(1)	(1)
Total financial expense	**(93)**	**(60)**	**(33)**
Financial income (expense)	**(69)**	**(27)**	**(42)**

22. INCOME TAXES

Income taxes are made up as follows:

	2016	2015	Change
Current taxes	(7,227)	(6,936)	(291)
Deferred taxes	88	320	(232)
Extraordinary items	7	(80)	87
Change in tax rate	-	(249)	249
Total	**(7,132)**	**(6,945)**	**(187)**

The table that follows shows a reconciliation between the theoretical tax expense, calculated at the normal tax rate of the parent company (Corporate (*IRES*) + Regional Tax on Productive Activities (*IRAP*) = 31.4%), and the actual tax expense recorded in the consolidated accounts.

	2016		2015	
	amount	% tax rate	amount	% tax rate
Profit before taxes	24,059		22,878	
Theoretical tax expense	**7,555**	31.40%	**7,184**	31.40%
Effect of non-deductible costs	1,282	5.33%	913	3.99%
Effect of tax-exempt income and deductions	(1,546)	-6.43%	(1,245)	-5.44%
Effect of different IRAP taxable income	40	0.17%	63	0.28%
Other deductions	(13)	-0.05%	(17)	-0.07%
Effect of change in tax rate of UK subsidiary	-	0.00%	249	1.09%
Extraordinary items	(7)	-0.03%	80	0.35%
Effect of different foreign tax rates	(179)	-0.74%	(282)	-1.23%
Actual tax expense recorded	**7,132**	29.64%	**6,945**	30.36%

Item *Change in tax rate* consisted of the adjustment made to deferred tax assets and liabilities in compliance with the change in the IRES tax rate (lowered to 24%) effective in 2017.

At December 31, 2016, there did not exist temporary differences and loss carry-forwards on which no deferred tax assets or liability had been recorded.

Deferred tax assets and liabilities are made up as follows:

	2016	2015
Elimination of unrealized intra-group profits in stock	(228)	251
Provision for doubtful accounts of the parent company	(12)	31
Differences on depreciation of US subsidiary	15	41

Average cost valuation of inventories of parent company	56	(92)
Accelerated depreciation	86	(28)
Write down of inventories	179	(11)
Discounting of employee termination indemnity	12	14
Provision for French personnel costs	11	(1)
Differences on depreciation of parent company	16	17
Amortization of goodwill	(5)	(5)
Other	(42)	103
Deferred tax assets and liabilities for the period	**88**	**320**

23. COMPREHENSIVE INCOME

The Cembre Group chose to adopt IAS 1 Revised providing for the use of a single table to report its comprehensive income. In particular, the economic effects recorded directly under Shareholders' Equity are reported separately and result as an increase or decrease of net profit for the period.

At December 31, 2016, the changes relate only to foreign exchange translation differences arising upon consolidation on the translation into euro of the financial statements of subsidiaries operating outside the euro zone, to the effect of the discounting of Employee Termination Indemnities and to the adjustments made as a result of the introduction of a lower IRES tax rate to deferred tax liabilities generated by the revaluation of land carried out on the first-time adoption of IFRS.

24. EARNINGS PER SHARE (BASIC AND DILUTED)

Earnings per share are calculated by dividing net profit by the weighted average number of shares in circulation for the period, excluding treasury shares held at the end of the year, amounting to 65,150.

	2016	2015
Consolidated net profit (€'000)	16,927	15,933
No. of ordinary shares ('000)	16,935	17,000
Basic and diluted earnings per share	**1.00**	**0.94**

25. DIVIDENDS

On May 18, 2016 the company distributed (with ex-dividend date May 16) a dividend on net profit for the year ended December 31, 2015, amounting to €7,820 thousand, equivalent to €0.46 for each share entitled to dividends.

	2016	2015
Resolved and paid in the year Balance due for 2015 dividend: €0.46 (2014: €0.36)	7,820	6,120
Proposal submitted to the Shareholders' Meeting (not recorded as liability at December 31) Balance due for 2016 dividend: €0.70 (2015: €0.46)	11,838	7,820

Proposed dividends submitted for approval to the Shareholders' Meeting amount to €0.70 per share, for a total of €11,838 thousand. This amount was not recorded as a liability.

26. COMMITMENTS AND RISKS

	Dec. 31, 2016	Dec. 31, 2015	Change
Guarantees granted	684	607	77

Commitments at December 31, 2016 included guarantees granted by the parent Company to the Brescia Municipality amounting to €352 thousand against the construction of development infrastructure in connection with the construction of new parking spaces and entrance at the Brescia main complex, and €53 thousand of guarantees given to Brescia Customs Authorities. The residual guarantees relate to guarantees for supplies granted to electrical and railway companies.

27. NET FINANCIAL POSITION

The net financial position of the Group amounted at the end of 2016 to a surplus of €26,666 thousand, improving on December 31, 2015.

At December 31, 2016, the Group had no outstanding debt involving covenants or negative pledges. Below we include the Net Financial Position of the Group, as provided by Consob in Regulation DEM/6064313 dated July 28, 2006.

		Dec. 31, 2016	Dec. 31, 2015
A	Cash	44	18
B	Bank deposits	26,665	17,784
C	**Cash and cash equivalents (A+B)**	**26,709**	**17,802**
D	**Financial receivables**	**-**	**-**
E	Payable on derivatives	(43)	-
F	**Current financial debt (E)**	**(43)**	**-**
G	**Net current financial position (C+D+F)**	**26,666**	**17,802**
H	**Non-current financial debt**	**-**	**-**
I	**Net financial position (G+H)**	**26,666**	**17,802**

28. RELATED PARTIES

The table that follows shows transactions between the parent company and its subsidiaries at December 31, 2016.

	Payables	Receivables	Revenues	Purchases
Cembre Ltd.	200	-	8,351	372
Cembre S.a.r.l.	438	-	4,778	28
Cembre España S.L.	428	-	4,470	1
Cembre AS (liquidated in 2016)	-	-	1	174
Cembre GmbH	796	-	4,202	62
Cembre Inc.	520	-	6,192	143
Total	**2,382**	**-**	**27,994**	**780**

With reference to assets and liabilities relating to subsidiaries shown above, we confirm that transactions with the same and with related parties fall within the scope of normal operating activities. Revenues include, in addition to those from the sale of products, charges made to subsidiaries for costs relating to services provided in the field of Information Technology and royalties for the use of the *Cembre* trademark, totaling €427 thousand, in addition to €50 thousand of transport costs.

Among assets leased to Cembre by third parties are an industrial building adjacent to the Company's registered office measuring a total of 5,960 square meters on three floors, in addition to the Milan, Padua and Bologna sales offices, all of which are owned by company Tha Immobiliare S.p.A., with registered office in Brescia, controlled by Anna Maria Onofri, Giovanni Rosani and Sara Rosani, directors of Cembre S.p.A. Lease payments for 2016 amounted to €528 thousand. Rent is in line with market conditions. It is in the Company's interest to benefit from the continuity of office space reducing the risk of early termination of leases. At the end of 2016, all amounts due to Tha Immobiliare had been settled.

Cembre Ltd. leased an industrial building from Borno Ltd., a company controlled by Lysne S.p.A., for an annual rent of £80 thousand (equal to €98 thousand); this fee is in line with market conditions.

Rent paid between related parties can be summarized as follow:

	2016	2015	Change
Rent paid by Cembre SpA to Tha Immobiliare	528	528	-
Rent paid by Cembre Ltd to Borno Ltd.	98	56	42
TOTAL	**626**	**584**	**42**

The UK subsidiary owes Borno Ltd. £13 thousand (corresponding to €16 thousand) in unpaid rent for the month of December, not yet settled at the end of the month.

Cembre S.p.A. does not have direct relationships with its parent company Lysne S.p.A. of any other nature than that of the exercise of shareholders' rights on the part of the parent. Lysne S.p.A. does not carry out any management or coordination activity with respect to Cembre S.p.A.

Boards' compensation

In 2016, compensation for the Board of Directors and the Board of Statutory Auditors, net of social security contributions, amounted to:

	Statutory Auditors	Directors
Emoluments as directors and auditors of the parent company	84	494
Retribution as employees	-	223
Accrual for variable compensation	-	50
Non-monetary benefits	-	14

Non-monetary benefits relate to the use of a company car and insurance policies underwritten on their behalf.

In line with the remuneration policy of the Company, variable compensation linked to the achievement of medium-long term objectives was introduced in favor of the Chairman and Managing Director. Such compensation could be paid out in 2018 in case targets set for years 2014-2017 by the Board of Directors, upon proposal of the Remuneration Committee, are achieved. The amount accrued is equal to €50 thousand.

29. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group makes very limited use of derivative instruments to hedge against interest risk and currency exposure.

The short term maturity of a large part of the financial instruments held is such that their carrying value is in line with their fair value of the same.

Risks connected with the market

The Group faces these risks with ongoing innovation, the widening of the product range, high automation and the upgrade of its production process, implementing focused marketing policies also with the help of its foreign subsidiaries.

Interest rate risk

At December 31, 2016 the Group had no loans outstanding.

Currency risk

Despite a strong international presence, the Group does not have a significant exposure to currency risk (on an operating or equity basis), as it operates mainly in the euro area, the currency in which its trade transactions are mainly denominated.

Exposure to currency risk is determined mainly by sales in US dollars, British pounds and Norwegian kroners. The size of these transactions is not significant in influencing the overall performance of the Group.

On December 14, 2016, the parent Company however entered into a currency hedging contract (Currency options usable multiple times with a ceiling) with a notional value of $3 million, an exercise price of €1.0775/$ and expiration date on December 20, 2017. At December 31, 2016 the contract had generated an unrealized loss of €43 thousand.

In addition to currency risk, the Group is also exposed to currency translation risk. As described in the consolidation principles section, in fact, financial statements of consolidated companies prepared in currencies other than the euro are translated into euro at the exchange rate published on the Internet site of the Ufficio Italiano Cambi. In the table that follows we report the economic effect of possible fluctuations in exchange rates for main financial figures of consolidated companies operating outside the euro area.

	Currency	Exchange rate fluctuation	Effect on Shareholders' Equity	Effect on sales	Effect on pre-tax profit
Cembre Ltd.	£	5% / -5%	702/(702)	982/(982)	117/(117)
Cembre Inc.	US$	5% / -5%	362/(362)	632/(632)	49/(49)

At December 31, 2016, the effect of foreign-exchange transactions is positive by €33 thousand.

Liquidity risk

The exposure of the Group to liquidity risk is not material as its financial position is balanced. The collection and payment cycle is also in balance, as shown by the ratio of current assets to current liabilities which is considerably above 2.

Credit risk

Exposure to credit risk relates exclusively to trade receivables. As shown in note 4, none of the areas in which the Group operates poses relevant credit risks.

Operating procedures limit the sale of products or services to customers who do not possess an adequate credit profile or provide secured guarantees. Receivables matured over 12 months and those under litigation are widely covered by the provision for bad debt accrued. To further reduce this type of risk, in February 2016 the parent company stipulated a policy with a primary insurance company against commercial credit losses.

Exposure to credit risk relates exclusively to trade receivables.

30. SUBSEQUENT EVENTS

No event having significant effects on the Group's financial position or operating performance occurred after December 31, 2016.

31. CONSOLIDATED COMPANIES

Companies consolidated line-by-line are:

Company	Registered office	Share capital	Share held at Dec. 31, 2016	Share held at Dec. 31, 2015
Cembre Ltd	Sutton Coldfield (Birmingham - UK)	GBP 1,700,000	100%	100%
Cembre Sarl	Morangis (Paris)	EURO 1,071,000	100% (*)	100% (*)
Cembre España SL	Torrejón de Ardoz (Madrid)	EURO 2,902,000	100% (*)	100% (*)

Cembre AS (liquidated in 2016)	Stokke (Norway)	–	–	100%
Cembre GmbH	Munich (Germany)	EURO 1,812,000	100% (*)	100% (*)
Cembre Inc.	Edison (New Jersey , US)	US $ 1,440,000	100%(**)	100%(**)

* 5% share held through Cembre Ltd.

**29% share held through Cembre Ltd.

Brescia, March 10, 2017

THE CHAIRMAN AND MANAGING DIRECTOR OF CEMBRE S.P.A.

Giovanni Rosani

Sede:
Via Serenissima, 9
25135 Brescia
Tel.: 030 3692.1
Telefax: 030 3365766
www.cembre.com
E-mail: Info@cembre.com

Attestation in respect of the Consolidated financial statements

pursuant to art 154-bis Paragraph 5, of Legislative Decree 58 dated Feb. 24, 1998 “Consolidated Law on financial intermediation regulations” and subsequent integrations and updatings

The undersigned Giovanni Rosani and Claudio Bornati, in their position as Managing Director and Manager responsible for the preparation of financial reports of Cembre S.p.A., respectively, pursuant to Article 154-bis, paragraphs 3 and 4 of Legislative Decree No.58/1998, certify that internal controls over financial reporting in place for the preparation of 2016 consolidated financial statements and during the period covered by the report, were:

• adequate to the Company structure, and

• effectively applied during the process.

The undersigned officers certify that this 2016 consolidated financial statements:

a) corresponds to the Company’s evidence and accounting books and entries, and

b) was prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19 July 2002;

c) provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

The undersigned officers attest, also, that the report on operations includes a reliable operating and financial review of the Company and of the Group as well as a description of the main risks and uncertainties to which they are exposed.

Brescia, March 24, 2017

Chairman and
Managing Director

signed by:
Giovanni Rosani

Manager responsible for the
preparation of financial reports

signed by:
Claudio Bornati

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the shareholders of
Cembre S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Cembre Group, which comprise the statement of financial position as of December 31, 2016, the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of Cembre S.p.A. are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Cembre Group as of December 31, 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Report on compliance with other laws and regulations

Opinion on the consistency with the consolidated financial statements of the report on operations and of certain information set out in the report on corporate governance and ownership structure

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, which are the responsibility of the directors of Cembre S.p.A., with the consolidated financial statements of the Cembre Group as of December 31, 2016. In our opinion, the report on operations and the information in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Cembre Group as of December 31, 2016.

Verona, March 27, 2017

PricewaterhouseCoopers S.p.A.

Signed by

Alessandro Vincenzi
(Partner)

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

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CEMBRE GROUP AT DECEMBER 31, 2016

To our Shareholders:

the Consolidated Financial Statements for the 2016 financial year delivered to the Board of Statutory Auditors within the term provided – consisting of the Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Statement of Changes in the Consolidated Shareholders' Equity and of the Notes to the Consolidated Financial Statements – were prepared under International Financial Reporting Standard (IFRS) adopted by the European Union and in compliance with regulations issued to implement article 9 of Legislative Decree 38/2005, in force at December 31, 2016.

International accounting principles, amendments and interpretations issued by IASB applicable from January 1, 2016 and described in the Notes to the consolidated accounts, were employed in the preparation of the Consolidated Financial Statements. The coming into force of amendments to IFRS 5, 7, 10, 11, 12, and IAS 1, 16, 19, 27, 28, 34, 38 and 41 did not find an application in the Consolidated Accounts of the Cembre Group.

Items in the Financial Statements were recorded at the historical cost with the exception of those items for which accounting principles provide for a different valuation method.

The Consolidated Financial Statements for the 2016 financial year report a consolidated net profit of €16,927 thousand as compared with a consolidated net profit of €15,933 thousand in the previous year.

Checks carried out by Independent Auditors PricewaterhouseCoopers, appointed for the auditing of the accounts, as stated in the Auditing Report, ascertained that:

- in paragraph “Opinion”: “in our opinion the Consolidated Financial Statements of the Cembre Group provide a true and correct representation of the financial condition of the Group at December 31, 2016, of its operating performance and cash flows for the 2016 financial year and are consistent with IFRS adopted by the European Union and regulations issued to implement article 9 of Legislative Decree no. 38/2005”.
- in paragraph “Opinion on the consistency of the Management Report and of some information contained in the Report on Corporate Governance with the Consolidated Financial Statements”: “in our opinion the Report of the Board and information contained in the Report on Corporate Government mentioned above, are consistent with the Consolidated Financial Statements of the Cembre Group for the financial year closed December 31, 2016”.

In compliance with article 41, par. 3 of Legislative Decree no. 127, dated April 9, 1991, with the exception of the issues specified below, the Consolidated Financial Statements, were therefore not audited by the Board of Statutory Auditors.

The Notes to the consolidated accounts provide a detail of Balance Sheet and Income Statement items and illustrate accounting principles, consolidation principles and valuation criteria applied in the preparation of the same, in addition to changes in accounting principles.

The consolidation area, unchanged from the previous year, the choice of consolidation principles in application of the line-by-line method, of subsidiaries to be consolidated and of procedures for the consolidation, are consistent with IFRS.

Information provided in the Report on Operations illustrates adequately the operating and financial situation of the parent company, investments made, alternative performance indicators, Shareholders' Equity, main risks and uncertainties, environmental management, worker safety, performance indicators, research, development and technological innovation activities, relationships with subsidiaries, parent companies and related parties – shown also in financial statements – its operating performance in 2016 and the outlook for 2017 of the parent company and the Group as a whole.

The review performed shows the consistency of the Report on Operations with the Consolidated Financial Statements.

Brescia, March 28, 2017

The Board of Statutory Auditors

The Chairman

Fabio Longhi

Financial Statement at December 31, 2016

Statement of Financial Position

ASSETS	Notes	Dec. 31, 2016		Dec. 31, 2015	
			of which: related parties		*of which: related parties*
NON CURRENT ASSETS					
Tangible assets	*1*	56.051.379		53.983.959	
Investment property	*2*	1.179.073		1.232.614	
Intangible assets	*3*	1.331.101		1.302.697	
Investments in subsidiaries	*4*	9.851.013		10.144.083	
Other investments	*5*	10.333		10.333	
Other non-current assets	*6*	7.791		6.838	
Deferred tax assets	*15*	765.566		728.392	
TOTAL NON-CURRENT ASSETS		**69.196.256**		**67.408.916**	
CURRENT ASSETS					
Inventories	*7*	28.610.236		28.523.940	
Trade receivables	*8*	15.362.022		16.283.580	
Trade receivables from subsidiaries	*9*	2.381.905	2.381.905	3.735.181	3.735.181
Tax receivables	*10*	708.932		669.002	
Other assets	*11*	511.965		425.025	
Cash and cash equivalents	*33*	20.127.391		11.074.009	
TOTAL CURRENT ASSETS		**67.702.451**		**60.710.737**	
NON-CURRENT ASSETS AVAILABLE FOR SALE		-		-	
TOTAL ASSETS		**136.898.707**		**128.119.653**	

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Dec. 31, 2016		Dec. 31, 2015	
			of which: related parties		*of which: related parties*
EQUITY					
Capital stock	*12*	8.840.000		8.840.000	
Reserves	*12*	90.116.691		84.433.132	
Net profit		15.931.868		14.438.346	
TOTAL SHAREHOLDERS' EQUITY		**114.888.559**		**107.711.478**	
NON-CURRENT LIABILITIES					
Non-current financial liabilities		-		-	
Employee Severance Indemnity and other personnel benefits	*13*	2.353.899	175.705	2.387.874	167.665
Provisions for risks and charges	*14*	421.029	150.000	443.855	100.000
Deferred tax liabilities	*15*	1.877.199		1.971.605	
TOTAL NON-CURRENT LIABILITIES		**4.652.127**		**4.803.334**	
CURRENT LIABILITIES					
Current financial liabilities		-		-	
Liabilities on derivative instruments	*28*	43.487		-	
Trade payables	*16*	12.320.651		10.721.910	
Trade payables to subsidiaries	*17*	145	145	4.324	4.324
Tax payables		338.230		188.972	
Other Payables	*18*	4.655.508		4.689.635	
TOTAL CURRENT LIABILITIES		**17.358.021**		**15.604.841**	
LIABILITIES ON ASSETS HELD FOR DISPOSAL		-		-	
TOTAL LIABILITIES		**22.010.148**		**20.408.175**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**136.898.707**		**128.119.653**	

Financial Statement at December 31, 2016

Statement of comprehensive income

	Notes	2016		2015	
			of which: related parties		*of which: related parties*
Revenues from sales and services provided	*19*	94.649.538	27.516.298	92.615.852	26.890.753
Other revenues	*20*	785.692	477.145	754.013	482.473
TOTAL REVENUES		**95.435.230**		**93.369.865**	
Cost of goods and merchandise	*21*	(35.080.007)	(779.015)	(35.996.664)	(707.765)
Change in inventories	*7*	86.296		1.615.010	
Cost of services received	*22*	(10.723.508)	(665.660)	(10.552.282)	(655.295)
Lease and rental costs	*23*	(955.513)	(528.342)	(920.254)	(528.376)
Personnel costs	*24*	(24.642.238)	(300.397)	(23.774.554)	(299.510)
Other operating costs	*25*	(750.563)		(892.730)	
Increase in assets due to internal construction		1.106.158		819.091	
Write-down of receivables		-		(340.343)	
Accruals to provisions for risks and charges	*26*	(14.000)		(70.326)	
GROSS OPERATING PROFIT		**24.461.855**		**23.256.813**	
Tangible asset depreciation	*1-2*	(4.555.464)		(4.306.646)	
Intangible asset amortization	*3*	(517.237)		(453.494)	
OPERATING PROFIT		**19.389.154**		**18.496.673**	
Financial income	*27*	2.422.764	2.408.894	1.750.719	1.728.542
Financial expenses	*27*	(92.038)		(59.072)	
Foreign exchange gains (losses)	*28*	69.359		(24.387)	
PROFIT BEFORE TAXES		**21.789.239**		**20.163.933**	
Income taxes	*29*	(5.857.371)		(5.725.587)	
NET PROFIT FROM ORDINARY ACTIVITIES		**15.931.868**		**14.438.346**	
NET PROFIT FROM ASSETS HELD FOR DISPOSAL		**-**		**-**	
NET PROFIT		**15.931.868**		**14.438.346**	
Items that will not be reclassified to profit and loss					
Gains (losses) from discounting of Employees' Termination Indemnity	*30*	(94.905)		(42.413)	
Income tax relating to items that will not be reclassified	*30*	22.778		6.946	
Items that may be reclassified subsequently to profit and loss					
Restatement of deferred tax liability as per new tax rate		-		207.232	
COMPREHENSIVE INCOME		**15.859.741**		**14.610.111**	
BASIC AND DILUTED EARNINGS PER SHARE		**0,94**		**0,85**	

Financial Statement at December 31, 2016

Statement of Cash Flows

	2016	2015
A) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**11.074.009**	**7.342.623**
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the year	15.931.868	14.438.346
Depreciation, amortization and write-downs	5.072.701	4.760.140
(Gains)/Losses on disposal of assets	(6.441)	42.679
Net change in Employee Severance Indemnity	(33.975)	54.773
Net change in provisions for risks and charges	(22.826)	174.528
Operating profit (loss) before change in working capital	**20.941.327**	**19.470.466**
(Increase) Decrease in trade receivables	2.274.834	(283.349)
(Increase) Decrease in inventories	(86.296)	(1.615.010)
(Increase) Decrease in other receivables and deferred tax assets	(164.044)	186.561
Increase (Decrease) of trade payables	963.376	(1.303.140)
Increase (Decrease) of other payables and deferred tax liabilities	20.725	(666.954)
Change in working capital	**3.008.595**	**(3.681.892)**
NET CASH FLOW (USED IN)/FROM OPERATING ACTIVITIES	**23.949.922**	**15.788.574**
C) CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure on fixed assets:		
- intangible	(545.641)	(599.338)
- tangible	(6.706.294)	(5.631.774)
Proceeds from disposal of tangible, intangible, financial assets		
- intangible	-	9.269,00
- tangible	143.392	278.993
- financial	293.070	-
Increase (Decrease) of trade payables for assets	631.186	(164.823)
NET CASH FLOW (USED IN)/FROM INVESTING ACTIVITIES	**(6.184.287)**	**(6.107.673)**
D) CASH FLOW FROM FINANCING ACTIVITIES		
(Increase) Decrease in other non current assets	(953)	(1.280)
Increase (Decrease) of liabilities from derivative instruments	43.487	-
Change in reserve for own shares	(862.660)	-
Dividends distributed	(7.820.000)	(6.120.000)
NET CASH FLOW (USED IN)/FROM FINANCING ACTIVITIES	**(8.640.126)**	**(6.121.280)**
E) INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (B+C+D)	**9.125.509**	**3.559.621**
F) Discounting of employees' termination indemnities	(72.127)	(35.467)
H) Restatement of deferrd tax liabilities as per new tax rate	-	207.232
G) CASH AND CASH EQUIVALENTS AT END OF YEAR (A+E+F)	**20.127.391**	**11.074.009**

CASH AND CASH EQUIVALENTS AT END OF YEAR	**20.127.391**	**11.074.009**
Liabilities on derivative instruments	(43.487)	-
NET FINANCIAL POSITION	**20.083.904**	**11.074.009**

INTEREST PAID IN THE YEAR	**(21)**	**(325)**

BREAKDOWN OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	5.760	11.608
Banks	20.121.631	11.062.401
	20.127.391	**11.074.009**

Financial Statement at December 31, 2016

Statement of Changes in the Shareholders' Equity

	Balance at December 31, 2015	Allocation of previous year net profit	Other movements	Comprehensive income	Balance at December 31, 2016
Capital stock	**8.840.000**				**8.840.000**
Share premium reserve	**12.244.869**				**12.244.869**
Legal reserve	**1.768.000**				**1.768.000**
Reserve for own shares	**-**		(862.660)		**(862.660)**
Suspended-tax revaluation reserve	**585.159**				**585.159**
Other suspended-tax reserves	**68.412**				**68.412**
Extraordinary reserve	**61.242.405**	6.618.346			**67.860.751**
Reserve for FTA	**4.051.204**				**4.051.204**
Reserve for discounting of Employee Termination Indemnity	**75.945**			(72.127)	**3.818**
Merger surplus reserve	**4.397.138**				**4.397.138**
Retained earnings	**-**				**-**
Net profit	**14.438.346**	(14.438.346)		15.931.868	**15.931.868**
Total Shareholders' Equity	**107.711.478**	**(7.820.000)**	**(862.660)**	**15.859.741**	**114.888.559**

	Balance at December 31, 2014	Allocation of previous year net profit	Other movements	Comprehensive income	Balance at December 31, 2015
Capital stock	**8.840.000**				**8.840.000**
Share premium reserve	**12.244.869**				**12.244.869**
Legal reserve	**1.768.000**				**1.768.000**
Suspended-tax revaluation reserve	**585.159**				**585.159**
Other suspended-tax reserves	**68.412**				**68.412**
Extraordinary reserve	**54.952.822**	6.082.351		207.232	**61.242.405**
Reserve for FTA	**4.051.204**				**4.051.204**
Reserve for discounting of Employee Termination Indemnity	**111.412**			(35.467)	**75.945**
Merger surplus reserve	**4.397.138**				**4.397.138**
Retained earnings	**-**				**-**
Net profit	**12.202.351**	(12.202.351)		14.438.346	**14.438.346**
Total Shareholders' Equity	**99.221.367**	**(6.120.000)**	**-**	**14.610.111**	**107.711.478**

Notes to the Financial Statements of Cembre S.p.A. at December 31, 2016

I. CORPORATE INFORMATION

Cembre S.p.A. is a joint-stock company with registered office in Brescia, via Serenissima 9. The company is listed in the Italian Market of Shares (MTA) managed by Borsa Italiana S.p.A.

Cembre S.p.A. (hereinafter referred to as the "Company") is active primarily in the manufacturing and sale of electrical connectors and related tools.

The publication of the Financial Statements of Cembre S.p.A. for the year ended December 31, 2016 was authorized by a resolution of the Board of Directors dated March 10, 2017.

Cembre S.p.A. is controlled by Lysne S.p.A., a holding company based in Brescia, that does not direct or coordinate its subsidiary.

II. FORM AND CONTENT OF THE FINANCIAL STATEMENTS

The present Financial Statements at December 31, 2016 were prepared under the International Financial Reporting Standards (IFRS) adopted by the European Union and the related implementation regulations issued in application of article 9 of Legislative Decree no. 38/2005.

Principles adopted in the preparation of the Financial Statements are those formally approved by the European Union as of December 31, 2016.

Items in the Balance Sheet were recorded at the historical cost with the exception of those items for which international accounting principles provide for a different measurement.

Unless otherwise indicated, figures reported in the financial statements and the related notes are expressed in thousands of euro.

The Financial Statements at December 31, 2016 were prepared in the expectation of the continuation of the Company's activities.

The table that follows contains a list of international accounting principles and interpretations approved by the IASB that became effective from 2016, which were taken into account, where applicable, in the preparation of the present Financial Statements.

	Effective from
Amendments to IFRS 11 *Joint Arrangements – Acquisition of an interest in a joint operation*	January 1, 2016
Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets *– Clarification of Acceptable Methods of Depreciation and Amortization*	January 1, 2016
Amendments to IAS 16 and IAS 41 – Bearer Plants	January 1, 2016
Amendments to IAS 27 *Equity method in separate financial statements*	January 1, 2016
Amendments to IFRS 10, IFRS 12 e IAS 28 *Investment Entities: Applying the Consolidation Exception*	January 1, 2016
Emendamenti all'IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	January 1, 2016
Amendments to IFRS 7 Financial Instruments: Disclosures – Servicing contracts and applicability of the amendments to IFRS 7 to condensed interim financial	January 1, 2016
Amendments to IAS 19 *Amendment to IAS 19 Employee benefits: Discount rate - Regional market issue*	January 1, 2016
Amendments to IAS 34 *Interim Financial Reporting – Content of interim financial reports*	January 1, 2016
Amendments to IAS 1 *Disclosure Initiative*	January 1, 2016

The above changes did not find an application in the financial statements of Cembre S.p.A.

Future changes in accounting principles

The following updates of IFRS have been approved by the European Union and will become effective in future financial years:

New and revised Principles	**Effective from**
IFRS 15 – *Revenue from Contracts with Customers*	January 1, 2018
IFRS 9 – *Financial Instruments (replacement of IAS 39)*	January 1, 2018

The following updates of IFRS (already approved by the IASB), interpretations and amendments are in the process of being incorporated into European Union regulations:

New and revised Principles	**Effective from**
IFRS 14 – *Regulatory Deferral Accounts*	January 1, 2016
IFRS 9 – *Leases*	January 1, 2019

Changes in Accounting Principles	**Effective from**
Amendments to IAS 12 *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*	January 1, 2017

Amendments to IAS 7 *Statement of Cash Flows - Disclosure*	January 1, 2017
Amendments to IFRS 2 *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*	January 1, 2018
Amendments to IFRS4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	January 1, 2018
Amendments to IAS 40 *Investment Property – Transfers of investment property*	January 1, 2018
Annual improvements 2014-2016	January 1, 2018
IFRIC 22 – *Foreign Currency Transactions*	January 1, 2018
Amendments to IFRS 10 and IAS 28 *Investments in Associates and Joint Ventures*	Postponed

Cembre will evaluate in the next months the possible effects of the adoption of the new principles and amendments.

III. ACCOUNTING PRINCIPLES AND VALUATION CRITERIA

Form of the Financial Statements

The financial statements are prepared as follows:

- current and non-current assets and liabilities are reported separately in the Statement of Financial Position;
- the analysis of costs in the Statement of Comprehensive Income is carried out based on the nature of the same;
- the Statement of Cash Flows is prepared by applying the indirect method.

Financial Statements forms are not changed from previous year.

With reference to Consob Regulation no. 15519 dated July 27, 2006, the Financial Statements include a separate reporting of amounts pertaining to related parties, where significant.

Property, plant and equipment

Property, plant and equipment is recorded at the historical cost and reported net of accumulated depreciation and losses in value.

Ordinary maintenance and repair costs are not capitalized, and are charged to the income statement in the year in which they are incurred, with the exception of those that result in an extension of the useful life of the asset.

Depreciation commences when the asset is available for use and is calculated on a straight line basis over the estimated residual useful life of the asset, taking into account its residual value. Depreciation rates applied reflect the useful life generally attributed to the various classes of assets. Main depreciation rates used are:

- Buildings and light installations:	3% – 10%
- Plant and machinery:	10% – 15%
- Industrial and commercial equipment:	15% – 25%
- Other assets:	12% – 25%

Land has an undetermined useful life and is therefore not subject to depreciation.

The book value of property, plant and equipment is subjected to an impairment test whenever events or changes occurred indicate that the book value of the same can no longer be retrieved in line with the depreciation schedule originally set. Whenever there exists such an indication, the assets or cash generating units are written down to reflect their expected realizable value.

The residual value of assets, their useful life and methods applied are reviewed annually and adjusted, where necessary, at the end of each year.

Tangible assets are eliminated from the Balance Sheet at the time of their sale or when there no longer exists the expectation of future economic benefits from their use or disposal. Losses and gains (calculated as the difference between net revenues from the disposal and the book value of the asset) are recorded in the Income Statement in the year in which they are disposed of.

Leased assets

Assets held under a financial lease, through which all risks and benefits relating to ownership are transferred to the Company, are recorded under assets at the lower of their current value and the present value of minimum lease payments due according to the contract, including the bullet payment due at the end of the lease to exercise the repurchase option.

The liability corresponding to the lease contract is recorded under financial liabilities. Leased asset are classified under the respective category among property, plant and equipment, and depreciated over the shorter period between the term of the lease and the expected residual useful life of the asset.

Lease contracts in which the lessor holds all risks and enjoys all benefits deriving from the leased asset are classified as operating leases and recorded as costs in the Income Statement over the term of the contract.

Investment property

Assets that cease to be used in the context of the Company's ordinary operations but possess all the characteristics set forth in IFRS 5 to be included among non-current assets available for sale, are classified among Investment property and continue to be amortized as if they were still included among Property, plant and equipment.

Intangible assets

Intangible assets are recorded under assets, as provided by IAS 38 (Intangible assets), whenever it is probable that future economic benefits are generated through use and when the cost of the intangible asset can be determined in a reliable manner.

Intangible assets acquired separately are initially capitalized at cost, while those acquired through mergers are capitalized at their fair value at the time of acquisition.

With the exception of development costs, assets generated internally are not recorded as intangible assets.

After the initial recording, intangible assets are carried in the balance sheet at cost, net of accumulated amortization calculated on a straight-line basis over their expected useful economic life, and of write-downs carried out as a result of durable losses in value. Intangible assets having an indefinite useful life are not amortized and subjected periodically to an impairment test to assess possible loss in value.

The useful life generally attributed to the various classes of assets is the following:

- concessions and licenses: 5 to 10 years

- software licenses	3 to 5 years
- patents	2 years
- development costs:	5 years
- trademarks:	10 to 20 years

Amortization commences when the asset is available for use, that is, when it is in a position and in the necessary condition to operate in the manner intended by management.

The book value of intangible assets is subjected to an impairment test whenever events or changes occurred indicate that the book value of the same can no longer be retrieved in line with the amortization schedule originally set. Whenever there exists such an indication and the book value of the asset exceeds its realizable value, the value of the asset is written-down to its expected realizable value.

Investments in subsidiaries

Investments in subsidiaries are recorded at cost, adjusted where necessary for losses in value.

Any positive difference that emerges upon acquisition between the purchase cost and the portion of the Shareholders' Equity acquired is therefore included in the book value of the investment.

Investments in subsidiaries are subjected to an impairment test whenever indicators of a loss in value are detected. Whenever it appears that an investment in a subsidiary has experienced a loss in value, the same is recorded in the Income Statement as a write-down.

Whenever losses of a subsidiary exceed the book value of the investment, the value of the same is written-down to zero and losses exceeding such value are recorded in a specific liability provision. In case the loss is subsequently reversed or reduced, the related amount is written-up in the Income Statement to the original cost of the investment.

Financial assets

Financial assets are initially recorded at cost, inclusive of accessory purchase costs, representing the fair value of the price paid. After the initial recording, financial assets are valued in accordance with their final purpose as described below.

Financial assets valued at fair value, whose change is recorded in the Income Statement

These are financial assets held for trading purposes, acquired for the purpose of obtaining a profit from short-term fluctuations in price. Unless specifically designated as effective hedging instruments, derivatives are classified as financial assets held for trading purposes. Gains and losses on financial assets held for trading purposes are recorded in the income statement.

Financial assets held to maturity

Financial assets other than derivatives that generate fixed financial flows or flows that may be determined and have a set maturity are classified as Financial assets held to maturity when the Company intends to and is capable of holding them to maturity.

Financial assets that the Company decides to hold for an indefinite period of time do not fall under this category.

After their initial recording, long-term financial investments held to maturity, such as bonds, are accounted for at the amortized cost, using the effective rate of interest method, representing the rate at which estimated future payments or collections over the expected useful life of the asset are discounted to their present value.

The amortized cost is calculated keeping into account discounts and premiums, amortized over the term of the financial asset.

Loans extended and receivables

Loans and receivables are non-derivative financial assets providing for fixed payments or payments that may be determined, not listed on an active market. Such assets are recorded at the amortized cost using the actual discount rate method. Gains and losses are recorded in the Income Statement whenever loans extended and receivables are eliminated from the accounts or they experience losses in value, in addition to the amortization process.

Financial assets available for sale

Financial assets available for sale include financial assets that do not fall under the above categories. After the initial recording, these are accounted for at fair value, while gains and losses are recorded under a specific Shareholders' Equity reserve until the assets are sold or a loss in value is ascertained. In such case, gains and losses accrued are charged to the income statement.

In the case of securities widely traded on a regulated market, the fair value is determined with reference to the listed price at the closing of trading on the date of the financial statements. In the case of financial assets for which there does not exist an active market, the fair value is determined through valuation techniques based on the price recorded in recent transactions between unrelated parties or on the basis of the current market value of a similar instrument, or on discounted cash flows or option pricing models. Investments in other companies fall in this category.

Loss in value of financial assets

The Company verifies at least yearly the possible loss in value of individual financial assets. These are recorded only at the time when there exists objective evidence, at the occurrence of one or more events, that the asset has experienced a loss of value with respect to its initial recorded value.

Treasury shares

Treasury shares are recorded as a reduction of Shareholders' Equity in a specific reserve.

The purchase, sale, issue or cancellation of own shares held does not determine the recording of any gain or loss in the Income Statement.

Inventories

Inventories are valued at the lower of cost and their expected realizable value, represented by their normal sale price, net of completion and selling costs.

The cost of inventories includes the acquisition cost, the transformation cost and other costs incurred to take inventories to their current location and state.

The cost of inventories is determined under the weighted-average method, inclusive of the cost of beginning inventories. Provisions for slow-moving stock are accrued for finished products, materials and other supplies, keeping into account their expected useful life and retrievable value.

Payables and receivables

Receivables are recorded initially at fair value and subsequently carried at the amortized cost, written-down in case of loss in value. Payables are normally valued at the amortized cost, adjusted under exceptional conditions for changes in value.

Cash and cash equivalents

Cash and cash equivalents are recorded at face value.

Loans

Loans are initially recorded at cost, corresponding to the fair value of the amount received, net of accessory costs. After the initial recording, loans are valued at the amortized cost, using the effective interest method.

Foreign currency translation

Transactions denominated in currencies other than the euro are initially accounted for in euro at the exchange rate at the date of the transaction. Currency translation differences arising at the time at which foreign currency receivables are collected and payables are paid out, are recorded in the income statement.

At the date of the financial statements, monetary assets and liabilities denominated in currencies other than the euro – consisting of cash on hand or assets and liabilities to be received or paid out, whose amount is set and may be determined – are translated into euro at the exchange rate at the date of the financial statements, recording in the income statement the currency translation difference.

Non-monetary items denominated in currencies other than the euro are translated into euro at the exchange rate at the time of the transaction, representing the historical exchange rate.

Provisions for risks and charges

Provisions for risks and charges are accrued against known liabilities, of certain or probable existence, whose amount and expiration cannot however be determined at the date of the financial statements. Accruals are made when the existence of a current obligation, legal or implicit, deriving from a past event, the fulfillment of which is expected to require the use of resources whose amount can be reliably estimated, is probable.

Provisions are valued at the fair value of liabilities. When the financial effect and the timing of the cash outflow can be estimated in a reliable manner, provisions include the interest component, recorded in the Income Statement among financial income (expense). Provisions accrued are reviewed at each accounting date and adjusted to bring them into line with the best estimate available to date.

Employee retirement benefits

Under IAS 19, and before the reform introduced by the 2007 Budget Law, the Employee Severance Indemnity was classified among defined benefit plans and was therefore subject to actuarial adjustments.

Employee termination indemnities accrued up to December 31, 2006, continue to be accounted for as defined benefit plans, while those accrued from January 1, 2007 are accounted for in two different ways:

- where the individual employee has opted for complementary pension funds, employee termination indemnities accrued after January 1, 2007 and until the time at which the choice is made by the employee, are accounted for as a defined benefit plan. Subsequently they are accounted for as a defined contribution plan;
- where the individual employee has opted for accumulation with the treasury fund of the national social security agency (INPS), indemnities accrued after January 1, 2007 are accounted for as a defined contribution plan.

Elimination of financial assets and liabilities

Financial assets are eliminated when the Company ceases to hold rights to receive financial flows deriving from the same or when such rights are transferred to another entity, that is when risks and benefits of the financial instrument cease to have an effect on the financial position and operating performance of the Company.

A financial liability is written-off when the related obligation is cancelled, fulfilled or expired. Any material change in the contractual terms relating to the liability result in its cancellation and in the recording of a new liability. Any difference between the book value and the amount paid to extinguish the liability is recorded in the Income Statement.

Revenues

Revenues are valued at the current value of the amount received or receivable.

Disposal of assets

The revenue is recognized when the Company has transferred the risks and benefits connected with the ownership of the good, and ceases to exercise the activity associated with ownership and the actual control over the asset sold.

Services rendered

Revenues are recorded based on the stage of completion of the operation at the date of the financial statements. When the result of the service rendered cannot be reliably estimated, revenues are recorded only to the extent of retrievable costs.

The stage of completion is determined by valuing work carried out or by determining the proportion between costs incurred and total estimated costs to completion.

Interest

Interest is recorded in the period in which it accrues, using the effective interest method.

Dividends

Dividends are recorded when the right of shareholders to receive them arises.

Grants

Grants are recorded when there exists a reasonable certainty that that the same will actually be received and the company meets the conditions for the entitlement to the grant.

Grants linked to cost components (operating grants) are recorded under “other revenues” and amortized over several years so that revenues match the costs they are intended to compensate.

The fair value of grants linked to assets (e.g. grants on the purchase of plant and equipment or grants for capitalized Development costs), is suspended under long-term liabilities and released to the income statement under “other revenues” over the useful life of the asset to which it relates, thus in the period over which the depreciation expense relating to the asset is charged to the income statement.

Financial charges

Financial charges are recorded as a cost in the period in which they accrue.

In accordance with IAS 23 Revised, financial charges incurred in the acquisition of significant assets (qualifying assets) are capitalized.

Cost of goods purchased and services received

The cost of goods purchased and services received is recorded in the income statement based on the accrual method.

Income taxes (current, prepaid and deferred)

Current taxes are determined based on a realistic estimate of the tax expense for the period in accordance with applicable tax regulations. The Company records deferred and prepaid taxes arising from temporary differences between the book value of assets and liabilities and the related amounts reported for tax purposes.

Prepaid taxes are recorded only where there exists reasonable certainty of their retrieval through future profits within the term in which tax benefits are enjoyed. Deferred tax assets are recorded also where there exist deductible losses or tax credits, whenever it is deemed probable that sufficient future profits will be generated in the medium-term (3 to 5 years).

Financial derivatives

Derivative financial instruments are valued at market value (*fair value*). A derivative financial instrument can be acquired for trading or hedging purposes.

Gains and losses on financial instruments acquired for trading purposes are charged to the income statement.

Derivatives acquired for hedging purposes may be accounted for under the hedge accounting method – offsetting the recording of the derivative in the income statement with adjustments to the value of assets and liabilities hedged – only when derivatives meet specific criteria.

Hedge derivatives are classified as “fair value hedges” when they are acquired to hedge against the risk of fluctuations in the market value of the underlying asset or liability or fluctuations in the financial flows deriving from the same, both in the case of existing assets and liabilities or those deriving from a future transaction.

In the case of fair value hedges, gains and losses on the restatement of the market value of a derivative instrument are taken to the income statement.

With regard to the hedging of financial flows, gains and losses on the hedge instrument are recorded under Shareholders’ Equity when they relate to the portion of the hedge considered effective, while the portion not hedged is recorded in the income statement.

Use of estimates

In the case of certain items and in accordance with IAS/IFRS, the Company made use of estimates and assumptions based on prior experience and other factors deemed determinant, but not certain. Actual data could therefore differ from estimates and projections made.

Estimated data is reviewed periodically and adjustments made to the same are taken to the Income Statement for the period in which the review takes place in case the review affect only one period, or, subsequent accounting periods in case it affects also the same. Below we describe review processes and key assumptions used by management in applying accounting principles.

Provision for inventory depreciation

The provision for inventory depreciation is accrued to bring the book value of inventories into line with their expected realizable value.

Management reviews the composition of inventories with particular reference to slow moving stock to determine the amount to be accrued prudentially to reflect the obsolescence of stocks.

Provision for doubtful accounts

The provision for doubtful accounts reflects management estimates regarding losses on trade receivables.

Losses on trade receivables expected by the Company are based on past experience on similar portfolios of receivables, current overdues vs. historical overdues, losses and collections, the close monitoring of credit risk and credit worthiness of customers, in addition to projections on economic and market conditions.

Retrievable value of non-current assets

Non-current assets include property, plant and equipment, intangible assets, investments and other financial assets. Whenever circumstances so require, the management reviews periodically the book value of non-current assets held and used by the Company, in addition to assets to be disposed of. Such activity is carried out using estimates of expected cash flows from the sale of the asset and of adequate discount rates used in calculating the present value of the same. Whenever the book value of a non-current asset experiences a loss in value, the Company records a write-down equal to the difference between the book value of the asset and its retrievable value either through use or disposal of the same.

Post-retirement benefits

In the estimation of post-retirement benefits the Company makes use of traditional actuarial techniques based on stochastic simulations of the “Montecarlo” type. Assumptions made relate to the discount rate and the annual inflation rate. Actuarial advisors of the Company make also use of demographic projections based on current mortality rates, employee disablement and resignation rates.

In 2016, based on past turnover experience, the probability of an employee terminating his or her employment for causes other than death is the following:

Male	6.18%
Female	4.46%

Assumptions regarding the discounting and inflation rates were:

Discounting rate	1.31%
Yearly inflation rate	1.50%
Yearly real increase in retributions	1.00%

Expected advances to be paid out are 5% per year and each advance corresponds to 70% of the accrued indemnity.

Retrievability of deferred tax assets

The Company evaluates the possibility to retrieve deferred tax assets on the basis of profits and expected future market conditions in view of current sale contracts and ability of expected future profits to offset tax credits, in addition to the expected variance of the same.

Potential liabilities

In carrying out its activity, management consults with its legal and tax advisors and experts. The Company ascertains a liability arising from litigation whenever it deems probable that a financial outlay will be made in the future and when the amount of resulting losses can be reasonably estimated. In case a financial outlay becomes possible but its amount cannot be determined, such occurrence is reported in the notes.

IV. NOTES TO THE FINANCIAL STATEMENTS OF CEMBRE S.P.A.

1. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment	Other assets	Work in progress	Total
Historical cost	39,233,627	49,421,596	10,362,939	4,300,569	1,075,222	104,393,953
Accumulated depreciation	(8,722,247)	(31,262,103)	(7,468,647)	(2,956,997)	-	(50,409,994)
Bal. at Dec. 31, 2015	**30,511,380**	**18,159,493**	**2,894,292**	**1,343,572**	**1,075,222**	**53,983,959**
Increases	836,055	3,913,854	734,472	261,133	960,780	6,706,294
Depreciation	(812,840)	(2,821,877)	(482,933)	(384,273)	-	(4,501,923)
Net divestments	-	(85,025)	(50,950)	(976)	-	(136,951)
Reclassifications	-	179,243	217,134	4,050	(400,427)	-
Bal. at Dec. 31, 2016	**30,534,595**	**19,345,688**	**3,312,015**	**1,223,506**	**1,635,575**	**56,051,379**

	Land and buildings	Plant and machinery	Equipment	Other assets	Work in progress	Total
Historical cost	38,880,528	47,058,141	9,283,048	3,914,540	912,037	100,048,294
Accumulated depreciation	(8,063,048)	(29,132,847)	(7,077,147)	(2,848,290)	-	(47,121,332)
Bal. at Dec. 31, 2014	**30,817,480**	**17,925,294**	**2,205,901**	**1,066,250**	**912,037**	**52,926,962**
Increases	588,196	2,777,850	778,028	669,336	818,364	5,631,774
Depreciation	(788,261)	(2,680,325)	(398,884)	(385,635)	-	(4,253,105)
Net divestments	(208,498)	(103,547)	-	(9,627)	-	(321,672)
Reclassifications	102,463	240,221	309,247	3,248	(655,179)	-
Bal. at Dec. 31, 2015	**30,511,380**	**18,159,493**	**2,894,292**	**1,343,572**	**1,075,222**	**53,983,959**

Capital investments made by Cembre in 2016 amounted to €6,706 thousand. Investments in buildings consisted primarily of renovation costs for the building hosting administrative and sales offices which amounted to €705 thousand. Equipment for the same building cost an additional 277 thousand. Expenditure on plant and equipment was strong, as customary, and amounted to €2,851 thousand and included an external whirling machine for €460 thousand, a universal bevel gear generator for €384 thousand and the purchase of two machines for cable glands assembling for a total of €391 thousand. Investment in dies amounted instead to €649 thousand. Expenditure on equipment and dies under construction amounted to €352 thousand, while advances paid on plant and equipment to be supplied amount to €609 thousand.

Item "Land and buildings" includes the €5,921 thousand revaluation of land carried out upon the first-time application of international accounting principles (IAS).

A list of property, plant and equipment recorded in the Balance Sheet at December 31, 2016 and revalued in the year is provided below:

(€)	Law 576/75	Law 72/83	Law 413/91	Total
Land and buildings	–	246,245	687,441	933,686
Plant and machinery	227	42,523	–	42,751
Total	**227**	**288,768**	**687,441**	**976,437**

2. INVESTMENT PROPERTY

	Land and buildings	Plant and Machinery	Other assets	Total
Historical cost	1,713,397	277,759	5,322	1,996,478
Accumulated amortization	(517.613)	(243.028)	(3.223)	(763.864)
Balance at Dec. 31, 2015	**1,195,784**	**34,731**	**2,099**	**1,232,614**
Depreciation	(44,400)	(8,502)	(639)	(53,541)
Balance at Dec. 31, 2016	**1,151,384**	**26,229**	**1,460**	**1,179,073**

Awaiting for a recovery of the real estate market that would improve sale conditions, the item includes industrial buildings located in Calcinate (Bergamo) and the related plant and equipment no longer in use.

3. INTANGIBLE ASSETS

	Development costs	Patents	Software	Other intangible assets	Work in progress	Total
Historical cost	1,262,810	332,212	4,181,394	62,745	1,900	5,841,061
Accumulated amortization	(719,427)	(279,155)	(3,525,990)	(13,792)	-	(4,538,364)
Balance at Dec. 31, 2014	**543,383**	**53,057**	**655,404**	**48,953**	**1,900**	**1,302,697**
Increases	322,446	57,449	120,736	14,800	30,210	545,641
Amortization	(219,295)	(49,245)	(235,228)	(13,469)	-	(517,237)
Reclassifications	-	-	1,900	-	(1,900)	-
Balance at Dec. 31, 2015	**646,534**	**61,261**	**542,812**	**50,284**	**30,210**	**1,331,101**

Among software purchases was a quality system software.

4. INVESTMENTS IN SUBSIDIARIES

	Dec. 31, 2015	Changes	Write-downs	Dec. 31, 2016
Cembre Ltd.	3,437,433	-	-	3,437,433
Cembre Sarl	1,048,197	-	-	1,048,197
Cembre España SL	2,760,194	-	-	2,760,194
Cembre AS (liquidated in 2016)	293,070	(293,070)	-	-
Cembre GmbH	1,716,518	-	-	1,716,518
Cembre Inc.	888,671	-	-	888,671
Total	**10,144,083**	**(293,070)**	**-**	**9,851,013**

The table below shows financial highlights of subsidiaries, all of which are directly owned.

	Share Capital	Shareholders' Equity	Net Profit	% held
Cembre Ltd (Sutton Coldfield - Birmingham)	1,985,564	14,043,246	1,896,261	100
Cembre Sarl (Morangis – Paris - France)	1,071,000	3,068,213	148,981	95(a)
Cembre España SL (Torrejon – Madrid - Spain)	2,902,200	7,107,199	(9,414)	95(a)
Cembre AS (Stokke - Norway) Liquidated in 2006	-	-	(129,917)	100
Cembre GmbH (Monaco - Germany)	1,812,000	5,413,489	397,868	95(a)
Cembre Inc. (Edison - New Jersey - USA)	1,366,095	7,235,202	655,137	71(b)

(a) the remaining 5% held through Cembre Ltd.

(b) the remaining 29% held through Cembre Ltd.

Share Capital, Shareholders' Equity and Net Profit figures above relate to the respective Financial Statements at December 31, 2016 approved by the boards of the above subsidiaries. Share Capital and Reserves originally not expressed in euro were translated at the year-end exchange rates, while Net Profit figures were translated into euro at the average exchange rate for the year.

Norwegian subsidiary Cembre AS discontinued its activities in March 2016 and the procedure for its liquidation was concluded in December 2016.

5. OTHER INVESTMENTS

	Dec. 31, 2016	Dec. 31, 2015	Change
Inn.tec. S.r.l.	5,165	5,165	-
Conai	59	59	-
A.Q.M. S.r.l	5,109	5,109	-
Total	**10,333**	**10,333**	**-**

Other investments consist in the equity investments in Consorzio Nazionale Imballaggi and that in Inn.tec. S.r.l., technology innovation consortium, both with registered office at the Brescia Province head office.

6. OTHER NON-CURRENT ASSETS

The item consists exclusively of security deposits.

7. INVENTORIES

	Dec. 31, 2016	Dec. 31, 2015	Change
Raw materials	7,573,715	7,241,335	332,380
Work in progress and semi-finished goods	9,998,361	9,662,760	335,601
Finished goods	11,038,160	11,619,845	(581,685)
Total	**28,610,236**	**28,523,940**	**86,296**

The provision for inventory depreciation amounts to €1,130 thousand. The provision was charged directly to the value of finished products to bring their value into line with their expected realizable value. Changes in the provision in 2016 were as follows:

	2016	2015
Balance at January 1	**950,000**	**950,000**
Accruals	180,000	320,762
Uses	–	(320,762)
Balance at December 31	**1,130,000**	**950,000**

8. TRADE RECEIVABLES

	Dec. 31, 2016	Dec. 31, 2015	Change
Gross trade receivables	16,279,259	17,356,352	(1,077,093)
Provision for doubtful accounts	(917,237)	(1,072,772)	155,535
Total	**15,362,022**	**16,283,580**	**(921,558)**

Trade receivables by geographical area

	Dec. 31, 2016	Dec. 31, 2015	Change
Italy	14,102	15,528	(1,426)
Europe	1,331	1,044	287
North America	41	52	(11)
Oceania	185	348	(163)
Middle East	206	35	171
Far East	262	258	4
Africa	152	91	61
Total	**16,279**	**17,356**	**(1,077)**

The provision for doubtful accounts is reviewed periodically on the basis of the retrievability of the most risky exposures. Whenever bankruptcy procedures are opened, the amount receivable from the related customer is written-off.

Changes in the provision are shown below.

	2016	2015
Balance at January 1	**1,072,772**	**930,908**
Accruals	-	340,343
Uses	(105,351)	(198,479)
Adjustment	(50,184)	-
Balance at December 31	**917,237**	**1,072,772**

Trade receivables by maturity at Dec. 31, 2016

	Not matured	0-90 days	91-180 days	181-365 days	Over one year	Under litigation	Total
2016	15,158	619	98	116	213	75	**16,279**
2015	15,791	939	105	161	293	67	**17,356**

9. TRADE RECEIVABLES FROM SUBSIDIARIES

Subsidiary	Dec. 31, 2016	Dec. 31, 2015	Change
Cembre Ltd. (UK)	199,683	350,569	(150,886)
Cembre S.a.r.l. (F)	438,149	479,422	(41,273)
Cembre España S.L. (S)	427,905	577,057	(149,152)
Cembre AS (N) Liquidated in 2006	-	132,001	(132,001)
Cembre GmbH (D)	796,253	650,210	146,043
Cembre Inc. (US)	519,915	1,545,922	(1,026,007)
Total	**2,381,905**	**3,735,181**	**(1,353,276)**

10. TAX RECEIVABLES

	Dec. 31, 2016	Dec. 31, 2015	Change
IRES refund on IRAP	636,376	636,376	-
Tax credits on R&D contributions	71,416	-	71,416
Reimbursements	1,140	32,626	(31,486)
Total	**708,932**	**669,002**	**39,930**

Pursuant to article 2, comma 1-quater of Law Decree no. 201/2011, Cembre S.p.A. in 2012 applied for a refund of IRES on retroactive deductions of IRAP on personnel expenses. The residual amount to be refunded is €636 thousand.

11. OTHER ASSETS

	Dec. 31, 2016	Dec. 31, 2015	Change
Advances to suppliers	283,008	230,552	52,456
Receivable from employees	24,179	26,788	(2,609)
Indirect taxes receivable	88,634	-	88,634
Other	116,144	167,685	(51,541)
Total	**511,965**	**425,025**	**86,940**

Item “Other” consists mainly of social security (INPS) receivables, while item “Indirect taxes receivable” includes VAT receivables.

12. SHAREHOLDERS’ EQUITY

The capital stock of the parent company amounts to €8,840 thousand, and is made up of 17 million ordinary shares of par value €0.52 each, fully underwritten and paid-up.

The legal reserve amounts to 20% of the share capital.

At December 31, 2016 the Company held 65,150 treasury shares, corresponding to 0.38% of its capital stock. Against these shares the Company recorded €863 thousand in a specific equity reserve under liabilities.

The table that follows shows the origin, possible uses and availability for distribution of equity reserves.

Nature/description	Amount	Uses	Portion available
Share capital	8,840,000		
Equity reserves:			
Share premium reserve	12,244,869	A B C	12,244,869
Suspended revaluation reserve	585,159	A B	---
Other suspended-tax reserves	68,412	B	---
Committed reserves			
Reserve for treasury shares	(862,660)		---
Reserves accrued from earnings:			
Legal reserve	1,768,000	B	---
Reserve for first-time application IAS/IFRS	4,051,204	B	---
Discounting of Employee Termination Indemnities	3,818	B	---
Merger difference	4,397,138	A B C	4,397,138
Extraordinary reserve	67,860,751	A B C	67,860,751
Total	**98,956,691**		**84,502,758**
Portion not available for distribution			683,628
Portion available for distribution			83,819,133

Legend: A= capital increases; B= coverage of losses; C= distribution to Shareholders.

The portion not available for distribution to shareholders is made up by the sum of the unamortized balance of development costs and the residual accelerated depreciation, net of related deferred tax liabilities.

13. EMPLOYEE TERMINATION INDEMNITY AND OTHER PERSONNEL PROVISIONS

Changes in the provision are shown below.

	2016	2015
Balance at January 1	**2,387,874**	**2,333,101**
Accruals	857,612	821,195
Uses	(484,706)	(232,169)
Discounting effect	143,401	100,749
Social Security (INPS) pension fund	(550,282)	(635,002)
Balance at December 31	**2,353,899**	**2,387,874**

With the reform of employee termination indemnities, starting with January 1, 2007, Cembre S.p.A. is no longer required to accrue retirement benefits in favor of its employees in a provision, but pays out benefits accrued after such date to the INPS treasury account, unless such benefits have been destined to other pension funds by individual employees. The amount accrued with INPS at December 31, 2016 amounts to €5,802 thousand.

Employee termination indemnities accrued at December 31, 2016 were discounted on the basis of an evaluation made by a registered actuary, in accordance with current regulations.

A fluctuation in the discounting rate used could have the following effect on the amount of benefits accrued:

Change in discounting rate	Dec. 31, 2016	Dec. 31, 2015
0.5%	2,254,517	2,287,103
-0.5%	2,468,511	2,498,547

14. PROVISIONS FOR RISKS AND CHARGES

	Customer indemnities	Directors' compensation	Employee incentives	Other risks	Total
Balance at Dec. 31, 2015	**99,771**	**100,000**	**54,022**	**190,062**	**443,855**
Accruals	14,000	50,000	103,299	-	167,299
Uses	(63)	-	-	(190,062)	(190,125)
Balance at Dec. 31, 2016	**113,708**	**150,000**	**157,321**	**-**	**421,029**

In line with the remuneration policy of the Company, variable compensation linked to the achievement of medium-long term objectives was introduced in favor of the Chairman and Managing Director. Such compensation could be paid out in 2018 in case targets set for years 2014-2017 by the Board of Directors, upon proposal of the Remuneration Committee, are achieved. The amount of the accrual against the possible compensation of directors is recorded among the cost of services.

The provision for employee benefits includes amounts accrued for sales personnel that will be paid out upon the achievement of performance objectives set in the sales development plan launched by the Company. The amount of the accrual is recorded under personnel costs.

The provision for other risks and charges was withdrawn to cover charges on commercial litigation.

15. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets are recorded prevalently against the provision for inventory depreciation described above, and against the discounting of employee termination indemnities, limited to the portion of the accrual that may not be deducted for tax purposes. Deferred tax liabilities are instead recorded prevalently against the revaluation of land carried out upon the first-time application of IFRS, against the valuation of inventories at the average cost (as for tax purposes these are valued at LIFO), in addition to the discounting of employee termination indemnities. Further detail is provided in the note on Income taxes.

No receivable matures beyond five years.

	Dec. 31, 2016	Dec. 31, 2015	Change
Deferred tax assets			
Write-down of inventories	284,088	240,888	43,200
Amortization of goodwill	2,713	7,696	(4,983)
Provision for bad accounts	216,084	228,129	(12,045)
Differences on depreciation	147,730	131,846	15,884
Risk provision	-	53,027	(53,027)
Other	114,951	66,806	48,145
Gross deferred tax assets	**765,566**	**728,392**	**37,174**
Deferred tax liabilities			
Average cost valuation of inventories	(240,655)	(297,220)	56,565
Accelerated depreciation	-	(2,504)	2,504

Reversal of land depreciation	(24,017)	(24,017)	-
Revaluation of land	(1,651,933)	(1,651,933)	-
Discounting of Employee Termination Indemnities	41,875	7,459	34,416
Foreign exchange differences	(2,469)	(3,390)	921
Gross deferred tax liabilities	**(1,877,199)**	**(1,971,605)**	**94,406**
Net deferred tax liabilities	**(1,111,633)**	**(1,243,213)**	**131,580**

There do not exist other temporary differences or accruals that can generate deferred taxes not accounted for.

16. TRADE PAYABLES TO SUPPLIERS

	Dec. 31, 2016	Dec. 31, 2015	Change
Payable to suppliers	12,295,579	10,695,764	1,599,815
Advances	25,072	26,146	(1,074)
Total	**12,320,651**	**10,721,910**	**1,598,741**

Trade payables to suppliers are recorded net of trade discounts. Cash discounts are instead recorded at the time of payment. The nominal value of trade payables is adjusted for returns and trade discounts (invoicing adjustments) agreed upon with the counterpart.

Trade payables by geographical area

	Dec. 31, 2016	Dec. 31, 2015	Change
Italy	11,515	10,387	1,128
Europe	699	297	402
North America	11	2	9
Other	71	10	61
Total	**12,296**	**10,696**	**1,600**

17. TRADE PAYABLES TO SUBSIDIARIES

	Dec. 31, 2016	Dec. 31, 2015	Change
Cembre GmbH (Germany)	-	4,182	(4,182)
Cembre España (Spain)	145	142	3
Total	**145**	**4,324**	**(4,179)**

18. OTHER PAYABLES

	Dec. 31, 2016	Dec. 31, 2015	Change
Payables to employees	1,445,775	1,417,740	28,035
Employee withholding taxes payable	991,123	1,063,294	(72,171)
Commissions payable	269,555	231,112	38,443
Payable to Statutory Auditors	18,720	18,720	-
Social security payables	2,037,648	1,980,219	57,429

Payable on other taxes and withholding taxes	24,425	14,872	9,553
VAT payable	-	182,860	(182,860)
Other	49,554	21,514	28,040
Accrued liabilities	(181,292)	(240,696)	59,404
Total	**4,655,508**	**4,689,635**	**(34,127)**

19. REVENUES FROM SALES AND SERVICES PROVIDED

Revenues by geographical area

	2016	2015	Change
Italy	49,029,174	48,564,295	464,879
Rest of Europe	29,955,774	28,167,973	1,787,801
Rest of the world	15,664,590	15,883,584	(218,994)
Total	**94,649,538**	**92,615,852**	**2,033,686**

Changes are commented upon in the Management Report.

20. OTHER REVENUES

	2016	2015	Change
Extraordinary gains	27,556	39,797	(12,241)
Insurance damages	6,683	14,388	(7,705)
Other reimbursements	114,115	88,286	25,829
Reimbursement of intragroup transport costs	50,404	22,351	28,053
Intercompany services and royalties	426,740	460,122	(33,382)
Other	88,499	97,035	(8,536)
Grants	71,695	32,034	39,661
Total	**785,692**	**754,013**	**31,679**

Intercompany services include prevalently information technology services, provided by the parent company’s personnel to subsidiaries. The item includes also royalties for the use of the Cembre trademark.

Grants relate almost entirely to subsidies recognized by INPS (Social Security) on the hiring of young employees.

21. COST OF RAW MATERIALS AND GOODS

	2016	2015	Change
Raw materials and goods	31,811,944	32,921,958	(1,110,014)
Consumables and auxiliary materials	2,963,595	2,746,863	216,732
Transport and customs	304,468	327,843	(23,375)
Total	**35,080,007**	**35,996,664**	**(916,657)**

22. COST OF SERVICES

	2016	2015	Change
Subcontracted work	2,598,375	3,080,746	(482,371)
Transport	947,773	863,921	83,852
Maintenance and repair	1,259,378	1,253,440	5,938
Electricity, heating and water	1,221,544	1,260,849	(39,305)
Consulting	892,771	828,526	64,245
Directors’ compensation	627,714	620,386	7,328
Statutory Auditors’ compensation	87,360	87,296	64
Commissions	437,658	407,991	29,667
Postage and telephone	171,205	151,317	19,888
Fuel	208,066	224,771	(16,705)
Travelling expenses	472,691	355,142	117,549
Insurance	354,091	219,091	135,000
Bank expenses	66,570	66,138	432
Personnel training	59,184	61,611	(2,427)
Advertising and promotion	144,755	70,056	74,699
Security and cleaning	432,040	403,605	28,435
Other	742,333	597,396	144,937
Total	**10,723,508**	**10,552,282**	**171,226**

23. LEASES AND RENTALS

	2016	2015	Change
Rent and related costs	557,329	544,112	13,217
Vehicle leasing	398,184	376,142	22,042
Total	**955,513**	**920,254**	**35,259**

Lease and rental costs are made up by rent paid on buildings leased from others and related parties, as described in the Report on Operations, and by motor vehicle lease costs.

24. PERSONNEL COSTS

The item includes the cost of employees, inclusive of paid holidays and accruals made pursuant to current regulations and collective labor contracts. Employee termination indemnities include the accrual for the year inclusive of the revaluation of the provision, the amount accrued by employees terminating employment in the year, and the share borne by employees of contributions to the COMETA integrative pension fund.

	2016	2015	Change
Wages and salaries	17,866,565	17,082,653	783,912
Social security contributions	5,169,580	5,145,726	23,854
Employee termination indemnities	1,161,248	1,109,327	51,921
Retirement benefits	44,342	42,981	1,361
Other costs	400,503	393,867	6,636
Total	**24,642,238**	**23,774,554**	**867,684**

Average number of employees by category

	2016	2015	Change
Managers	6	6	-
Administrative and commercial staff	191	184	7
Workers	230	223	7
Outsourced personnel	26	23	3
Total	**453**	**436**	**17**

In 2016 Cembre S.p.A. employed an average of 26 persons outsourced from others for a total cost of €910 thousand. The amount was classified under wages and salaries.

25. OTHER OPERATING COSTS

	2016	2015	Change
Sundry taxes	406,504	391,648	14,856
Donations	30,067	23,000	7,067
Capital losses	25,444	82,475	(57,031)
Fines	1,817	1,297	520
Other	286,731	394,310	(107,579)
Total	**750,563**	**892,730**	**(142,167)**

26. ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES

	2016	2015	Change
Customer indemnities	14,000	12,049	1,951
Other risks	-	58,277	(58,277)
Total	**14,000**	**70,326**	**(56,326)**

The customer indemnities provision amounts to €14,000 thousand and was accrued against possible charges in the case of the termination of agency mandates.

27. FINANCIAL INCOME (EXPENSE)

	2016	2015	Change
Dividends from subsidiaries	2,349,480	1,728,542	620,938
Capital gains from subsidiaries	59,414	-	59,414
Interest earned on bank account balances	13,735	16,780	(3,045)
Other financial income	135	5,397	(5,262)
Total financial income	**2,422,764**	**1,750,719**	**672,045**
Interest on derivative instruments	(43,487)	-	(43,487)
Financial charges on discounting of Employee Termination Indemnities	(48,496)	(58,336)	9,840
Other financial charges	(55)	(736)	681
Total financial charges	**(92,038)**	**(59,072)**	**(32,966)**
Financial income (expense)	**2,330,726**	**1,691,647**	**639,079**

In 2016, Cembre S.p.A. received dividends from the following:

- French subsidiary Cembre Sarl (€162 thousand);
- UK subsidiary Cembre Ltd (£1,360 thousand, equivalent to €1,757 thousand).
- German subsidiary Cembre GmbH (€233 thousand);
- Spanish subsidiary Cembre España SL (€197 thousand);

Cembre Sarl and Cembre GmbH and Cembre España SL also paid respectively €7 thousand, €10 thousand and €8 thousand in dividends to Cembre Ltd.

28. FOREIGN-EXCHANGE GAINS (LOSSES)

	2016	2015	Change
Realized foreign exchange gains	191,729	405,064	(213,335)
Realized foreign exchange losses	(120,330)	(359,687)	239,357
Gains on foreign exchange translation	8,745	1,256	7,489
Losses on foreign exchange translation	(10,785)	(71,020)	60,235
Total	**69,359**	**(24,387)**	**93,746**

29. INCOME TAXES

	2016	2015	Change
Current corporate (IRES) taxes	(5,082,789)	(4,786,859)	(295,930)
Current taxes on productive activity (IRAP)	(889,905)	(849,243)	(40,662)
Deferred and prepaid tax assets	108,803	26,359	82,444
Extraordinary items	6,520	(80,245)	86,765
Effect of change in the IRES rate	-	(35,599)	35,599
Total	**(5,857,371)**	**(5,725,587)**	**(131,784)**

The accrual to the tax provision is made in accordance with expected taxable income, taking into account adjustments made to income reported in the statutory accounts.

Item *Effect of change in the IRES rate* shows the impact of the recalculation of deferred tax assets and liabilities as a result of the change in the IRES rate introduced by the 2015 Budget Law.

The table that follows shows a reconciliation between the theoretical tax expense, calculated at the nominal tax rate, and the actual tax expense.

	IRES
Profit before taxes	21,789,240
Theoretical tax expense (27.5%)	**5,992,041**
Effect of permanent differences	(1,017,900)
Effect of temporary differences	124,838
Sundry deductions	(16,189)
Actual tax expense recorded	**5,082,789**

	IRAP
Gross taxable income for IRAP purposes	44,112,598
Theoretical tax expense (3.9%)	**1,720,391**
Effect of permanent differences	21,039
Effect of temporary differences	(908)
Deductions for personnel	(850,617)
Actual tax expense recorded	**889,905**

Deferred tax assets and liabilities are made up as follows:

	2016	**2015**	**Change**
Average cost valuation of inventories	56,565	(91,960)	148,525
Accelerated depreciation	2,504	3,461	(957)
Discounting of employee termination indemnity	11,639	14,001	(2,362)
Foreign exchange translation differences	921	19,185	(18,264)
Amortization of goodwill	(4,983)	(4,983)	-
Write down of inventories	43,200	(11,227)	54,427
Differences on depreciation of assets	15,884	17,009	(1,125)
Provision for risks	(53,027)	16,259	(69,286)
Other	36,100	64,614	(28,514)
Total deferred tax assets and liabilities	**108,803**	**26,359**	**82,444**

30. COMPREHENSIVE INCOME

As a result of the adoption of amendments to IAS 19, differences arising from the discounting of Employee Termination Indemnities were recorded directly under equity in a specific reserve. These amounts constitute components of Comprehensive Income and are recorded separately from the related tax effect. The net effect for 2016 is negative and amounts to €72 thousand.

31. DIVIDENDS

On May 18, 2016 the company distributed (with ex-dividend date May 16) a dividend on net profit for the year ended December 31, 2015, amounting to €7,820 thousand, equivalent to €0.46 for each share entitled to dividends.

	2016	**2015**
Resolved and paid in the year Balance due for 2015 dividend: €0.46 (2014: €0.36)	7,820,000	6,120,000
Proposal submitted to the Shareholders' Meeting (not recorded as liability at December 31) Balance due for 2016 dividend: €0.70 (2015: €0.46)	11,837,634	7,820,000

Proposed dividends submitted for approval to the Shareholders' Meeting amount to €0.70 per share, for a total of €11,838 thousand. This amount was not recorded as a liability.

32. COMMITMENTS AND RISKS

At December 31, 2016, guarantees granted by Cembre S.p.A. to third parties amounted to €683,586, as compared with €606,905 at December 31, 2015.

Commitments with third parties include guarantees granted to the Brescia Municipality amounting to €352 thousand against the construction of development infrastructure in connection with the building of new parking spaces and entrance at the Brescia main complex.

The residual part consists of €279 thousand of guarantees for supplies granted to electrical and railway companies, both Italian and foreign, and €53 thousand of guarantees given to Brescia Customs Authorities.

33. NET FINANCIAL POSITION

At December 31, 2016, the net financial position of Cembre S.p.A. amounted to a surplus of €20,084 thousand, improving on December 31, 2015. At year end, the Company did not have outstanding loans containing covenants or negative pledges.

The table that follows provides a detail of the net financial position as provided by CONSOB Regulation DEM/6064313 dated July 28, 2006.

		Dec. 31, 2016	Dec. 31, 2015
A	Cash	5,760	11,608
B	Bank deposits	20,121,631	11,062,401
C	**Cash and equivalents (A+B)**	**20,127,391**	**11,074,009**
D	Current bank debt	-	-
E	Payables on derivative instruments	(43,487)	-
F	**Current financial debt (D+E)**	**(43,487)**	**-**
G	**Net current financial position (C+F)**	**20,083,904**	**11,074,009**
H	**Non-current financial debt**	**-**	**-**
I	**Net financial position (G+H)**	**20,083,904**	**11,074,009**

34. RELATED PARTIES

The table that follows shows transactions between Cembre S.p.A. and its subsidiaries in 2016, limited to sales and purchases. Debit and credit balances are shown in the related paragraphs of the present notes.

Subsidiary	Sales	Purchases
Cembre Ltd.	8,350,756	371,862
Cembre S.a.r.l.	4,777,786	27,566
Cembre España S.L.	4,470,211	527
Cembre AS (liquidated in 2016)	503	174,152
Cembre Inc.	6,192,096	142,586
Cembre GmbH	4,202,090	62,323
TOTAL	**27,993,442**	**779,016**

Revenues include, in addition to the sale of products, revenues from the charging of costs for services provided in the field of Information Technology and royalties for the use of the *Cembre* trademark, totaling €427 thousand, in addition to €50 thousand of transport costs.

With reference to assets and liabilities relating to subsidiaries shown above and of other related parties, we confirm that transactions with the same and with related parties fall within the scope of normal operating activities.

Below we show shares held in subsidiaries at December 31, 2016.

Company	Head Office	Share capital	% held				% voting rights
			directly	indirectly	through	total	
Cembre Ltd	Sutton Coldfield (Birmingham-UK)	£ 1,700,000	100%			100%	100%
Cembre Sarl	Morangis (Paris - France)	Euro 1,071,000	95%	5%	Cembre Ltd	100%	100%
Cembre España SL	Torrejon de Ardoz (Madrid - Spain)	Euro 2,902,200	95%	5%	Cembre Ltd	100%	100%
Cembre AS	Stokke (Norway)	Company liquidated in 2016					
Cembre GmbH	Munich (Germany)	Euro 1,812,000	95%	5%	Cembre Ltd	100%	100%
Cembre Inc.	Edison (NJ- USA)	US$ 1,440,000	71%	29%	Cembre Ltd	100%	100%

All shares shown in the table above are held in full ownership.

Among assets leased to Cembre by third parties are an industrial building adjacent to the Company's registered office measuring a total of 5,960 square meters on three floors, in addition to the Monza, Padua and Bologna sales offices, all of which are owned by company Tha Immobiliare S.p.A., with registered office in Brescia, controlled by Anna Maria Onofri, Giovanni Rosani and Sara Rosani, directors of Cembre S.p.A. Lease payments for 2016 amounted to €528 thousand. Rent is in line with market conditions. It is in the Company's interest to benefit from the continuity of office space reducing the risk of early termination of leases. At the end of 2016, all amounts due to Tha Immobiliare had been settled.

	2016	2015	Change
Rent paid by Cembre SpA to Tha Immobiliare	528.342	528.376	(34)

Cembre S.p.A. does not have direct relationships with its parent company Lysne S.p.A. of any other nature than that of the exercise of shareholders' rights on the part of the parent. Lysne S.p.A. does not carry out any management or coordination activity with respect to Cembre S.p.A.

35. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Due to its minimal exposure, Cembre S.p.A. makes very limited use of derivative instruments to hedge against interest risk and currency exposure.

Risks connected with the market

The Company faces these risks with ongoing innovation, the widening of the product range, high automation and the upgrade of its production process, implementing focused marketing policies also with the help of its foreign subsidiaries.

Interest rate risk

Cembre S.p.A. has negligible exposure to this type of risk and at December 31, 2016 it had no loans outstanding.

Currency risk

Despite a strong international presence, Cembre S.p.A. does not have a significant exposure to currency risk (on an operating or equity basis), as it operates mainly in the euro area, the currency in which its trade transactions are mainly denominated.

On December 14, 2016, the Company however entered into a currency hedging contract (Currency options usable multiple times with a ceiling) with a notional value of $3 million, an exercise price of €1.0775/$ and expiration date on December 20, 2017. At December 31, 2016 the contract had generated an unrealized loss of €43 thousand.

At December 31, 2016, the following foreign exchange positions were held:

	2016		2015	
	Original currency	**€ equivalent**	**Original currency**	**€ equivalent**
Receivables	716,586 US$	679,808 €	1,775,122 US$	1,630,497 €
Payables	53,290 US$	50,555 €	760 US$	698 €
Payables	- GBP	- €	903 GBP	1,231 €
Current account	742 US$	704 €	479 US$	440 €

Amounts were translated into euro at the exchange rate applicable at December 31, 2016. The translation generated a positive €10 thousand difference with respect to the value originally booked, difference which was recorded in the income statement. In the table that follows we report the economic effect of possible fluctuations in exchange rates of the said amounts.

	Exchange rate change	Receivables *(€'000)*	Payables *(€'000)*
2016	5%	(32)	2
	-5%	36	(5)
2015	5%	(78)	-
	-5%	86	-

As illustrated above, the size of these transactions and the resulting balances are not significant in influencing the overall performance of the Company.

Liquidity risk

The exposure of the Company to liquidity risk is not material as its financial position is balanced. The collection and payment cycle is also in balance, as shown by the ratio of current assets to current liabilities which is considerably above 2.

The breakdown of trade receivables by expiration is shown in the table below:

(€'000)		0-30 days	31-60 days	61-90 days	91-120 days	over 120 days	TOTAL
2016	Expired	3,493	291	66	149	80	4,079
	Not expired	1,418	5,938	749	112	-	8,217
2015	Expired	2,757	619	60	5	136	3,577
	Not expired	1,480	4,955	4	641	39	7,119

Credit risk

Exposure to credit risk relates exclusively to trade receivables.

As shown in note 8, none of the areas in which Cembre S.p.A. operates poses relevant credit risks. Average collection time of trade receivables was 75 days, as compared with 81 days in 2015.

Operating procedures limit the sale of products or services to customers who do not possess an adequate credit profile or provide guarantees.

Receivables matured over 12 months and those under litigation are widely covered by the provision for doubtful accounts accrued. In February 2016 the parent Company stipulated a trade insurance policy that has further reduced this type of debt.

36. SUBSEQUENT EVENTS

No event having significant effects on the Company's financial position or operating performance occurred after December 31, 2016.

Attachments

The present document contains the following attachments:

Attachment 1: Comparative Income Statement.

Attachment 2: Summary of last approved financial statements of consolidated subsidiaries.

Attachment 3: Independent Auditors' compensation.

Brescia, March 10, 2017

THE CHAIRMAN AND MANAGING DIRECTOR
OF CEMBRE S.P.A.

Giovanni Rosani

Attachment 1 – Notes to the Financial Statements of Cembre S.p.A.

Comparative Income Statement

	2016	%	2015	%	change
Revenues from sales and services provided	94.649.538	100,0%	92.615.852	100,0%	2,2%
Other revenues	785.692		754.013		4,2%
Total Revenues	**95.435.230**		**93.369.865**		2,2%
Cost of goods and marchandise	(35.080.007)	-37,1%	(35.996.664)	-38,9%	-2,5%
Change in inventories	86.296	0,1%	1.615.010	1,7%	-94,7%
Cost of services received	(10.723.508)	-11,3%	(10.552.282)	-11,4%	1,6%
Lease and rental costs	(955.513)	-1,0%	(920.254)	-1,0%	3,8%
Personnel costs	(24.642.238)	-26,0%	(23.774.554)	-25,7%	3,6%
Other operating costs	(750.563)	-0,8%	(892.730)	-1,0%	-15,9%
Increase in assets due to internal construction	1.106.158	1,2%	819.091	0,9%	35,0%
Write-down of current assets	-	0,0%	(340.343)	-0,4%	-100,0%
Accruals to provisions for risks and charges	(14.000)	0,0%	(70.326)	-0,1%	-80,1%
Gross Operating Profit	**24.461.855**	25,8%	**23.256.813**	25,1%	5,2%
Tangible assets depreciation	(4.555.464)	-4,8%	(4.306.646)	-4,7%	5,8%
Intangible assets amortization	(517.237)	-0,5%	(453.494)	-0,5%	14,1%
Operating Profit	**19.389.154**	20,5%	**18.496.673**	20,0%	4,8%
Financial income	2.422.764	2,6%	1.750.719	1,9%	38,4%
Financial expenses	(92.038)	-0,1%	(59.072)	-0,1%	55,8%
Foreign exchange gains (losses)	69.359	0,1%	(24.387)	0,0%	-384,4%
Profit Before Taxes	**21.789.239**	23,0%	**20.163.933**	21,8%	8,1%
Income taxes	(5.857.371)	-6,2%	(5.725.587)	-6,2%	2,3%
Net Profit	**15.931.868**	16,8%	**14.438.346**	15,6%	10,3%

Attachment 2 – Notes to the Financial Statements of Cembre S.p.A.

Summary financial data of consolidated subsidiaries
(ex article 2429 of the Italian Civil Code)

(amounts in euro)	Non-current assets	Current assets	Total assets	Shareholders' Equity	Total Liabilities	Total Liabilities and Shareholders' Equity
Cembre Ltd	4.515.656	11.497.933	16.013.590	14.043.246	1.970.344	16.013.590
Cembre Sarl	508.827	4.184.879	4.693.706	3.068.213	1.625.494	4.693.706
Cembre España SL	3.291.252	4.747.134	8.038.386	7.107.199	931.187	8.038.386
Cembre AS *Liquidated in 2016*	-	-	-	-	-	-
Cembre GmbH	2.821.034	3.656.699	6.477.733	5.413.489	1.064.244	6.477.733
Cembre Inc.	402.202	7.754.910	8.157.112	7.235.202	921.910	8.157.112

(amounts in euro)	Total revenues	Gross operating profit	Operating profit	Profit before taxes	Income taxes	Net profit (loss)
Cembre Ltd	19.726.511	2.712.306	2.251.507	2.337.968	(441.708)	1.896.261
Cembre Sarl	9.032.663	316.490	237.761	237.537	(88.556)	148.981
Cembre España SL	8.101.650	106.060	(9.531)	(7.234)	(2.179)	(9.414)
Cembre AS *Liquidated in 2016*	203.789	(108.551)	(111.394)	(129.917)	-	(129.917)
Cembre GmbH	8.088.470	671.604	591.918	592.937	(195.069)	397.868
Cembre Inc.	12.753.098	1.105.754	989.439	988.561	(333.423)	655.137

Figures above relate to the respective Financial Statements at December 31, 2016

The translation of amounts expressed in currencies other than the euro was carried out as described in the notes to the Financial Statements at December 31, 2016.

Attachment 3

Notes to the Financial Statements of Cembre S.p.A.

for the year ended December 31, 2016

COMPENSATION FOR AUDITING SERVICES AND SERVICES OTHER THAN AUDITING

pursuant to article 149-*duodecies* of Listed Companies Code (CONSOB)

Service	Independent auditors	Service received by	Compensation *(€'000)*
Auditing	PricewaterhouseCoopers	Cembre S.p.A.	68
Auditing	PricewaterhouseCoopers	Subsidiaries (excluding Cembre Inc.)	74
Auditing	WeiserMazars	Cembre Inc.	22
Tax Advisory	WeiserMazars	Cembre Inc.	11
Other services	PricewaterhouseCoopers	Cembre AS	6

Sede:
Via Serenissima, 9
25135 Brescia
Tel.: 030 3692.1
Telefax: 030 3365766
www.cembre.com
E-mail: Info@cembre.com

Cembre

Attestation in respect of the statutory financial statements

pursuant to art 154-bis Paragraph 5, of Legislative Decree 58 dated Feb. 24, 1998 "Consolidated Law on financial intermediation regulations" and subsequent integrations and updatings

The undersigned Giovanni Rosani and Claudio Bornati, in their position as Managing Director and Manager responsible for the preparation of financial reports of Cembre S.p.A., respectively, pursuant to Article 154-bis, paragraphs 3 and 4 of Legislative Decree No.58/1998, certify that internal controls over financial reporting in place for the preparation of 2016 statutory financial statements and during the period covered by the report, were:

• adequate to the company structure, and

• effectively applied during the process.

The undersigned officers certify that this 2016 statutory financial statements:

a) corresponds to the company's evidence and accounting books and entries, and

b) was prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19 July 2002;

c) provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company.

The undersigned officers attest, also, that the report on operations includes a reliable operating and financial review of the Company as well as a description of the main risks and uncertainties to which it is exposed.

Brescia, March 24, 2017

Chairman and
Managing Director

signed by:
Giovanni Rosani

Manager responsible for the
preparation of financial reports

signed by:
Claudio Bornati

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the shareholders of
Cembre S.p.A.

Report on the financial statements

We have audited the accompanying financial statements of Cembre S.p.A., which comprise the statement of financial position as of December 31, 2016, the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of Cembre S.p.A. are responsible for the preparation of financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Cembre S.p.A. as of December 31, 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Report on compliance with other laws and regulations

Opinion on the consistency with the financial statements of the report on operations and of certain information set out in the report on corporate governance and ownership structure

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, which are the responsibility of the directors of Cembre S.p.A., with the financial statements of Cembre S.p.A. as of December 31, 2016. In our opinion, the report on operations and the information in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Cembre S.p.A. as of December 31, 2016.

Verona, March 27, 2017

PricewaterhouseCoopers S.p.A.

Signed by

Alessandro Vincenzi
(Partner)

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

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS OF CEMBRE S.p.A. AT DECEMBER 31, 2016

Pursuant to Article 153 of Legislative Decree 58/98 of TUF (*Testo Unico della Finanza,* Consolidated Finance Act) and of article 2429 of the Italian Civil Code.

To our Shareholders:

pursuant to article 2429, comma 2 of the Italian Civil Code and article 153 of legislative decree no. 58/98, the Board of Statutory Auditors reports to the Shareholders' Meeting called to approve the 2016 Financial Statements on the monitoring activity carried out and on omissions and censurable facts observed, in addition to expressing a recommendation on the Financial Statements, their approval and other pertinent issues.

The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting of April 23, 2015 pursuant to laws, regulations and by-laws relating also to balance in gender representation. The Board of Statutory Auditors' term will end with the Shareholders' Meeting called to approve the Financial Statements at December 31, 2017.

Members of the Board of Statutory Auditors complied with the limit to the number of appointments that may be held by members set by article 144-*terdecies* of the Code of Conduct of Listed Companies.

The independent auditing firm appointed as per Legislative Decree no 58/98 and Legislative Decree no 39/2010 by the Shareholders' Meeting of April 23, 2015 for financial years 2009-2017 is PricewaterhouseCoopers S.p.a.

In compliance with responsibilities assigned by article 149 of legislative decree no. 58/98, in 2016 the Board of Statutory Auditors:

- attended Shareholders' and Board of Directors' Meetings, obtaining from Directors adequate information on the operations of the Company and their foreseeable development, in addition to main operations, in terms of dimensions and importance, carried out by the Company and its subsidiaries;

- acquired knowledge necessary to verify compliance with the Law, the By-laws, correct management principles and the adequacy of the Company's organizational structure;
- attended, at least through its Chairman, Control and Risk Committee, Remuneration Committee and Monitoring Board's meetings and attended, where necessary, the Independent Directors' Committee;
- monitored the functioning and effectiveness of internal control systems, in addition to the adequacy of the administrative and accounting system, with particular attention to the ability of the latter to portray the operations of the Company;
- carried out the periodical exchange of information with the Company's independent auditors regarding activities carried out pursuant to article 150 of Legislative Decree 58/98, examining work carried out and receiving reports as provided by articles 14 and 19, paragraph 3 of Legislative Decree 39/2010, in addition to the declaration confirming the independence of directors as per article 17, paragraph 9, sub a) of Legislative Decree no. 39/2010;
- monitored the functioning of the control system on subsidiaries and the adequacy of instructions imparted to subsidiaries pursuant to article 114, paragraph 2, of Legislative Decree no. 58/98;
- acknowledged the issue of the Report on Remuneration as per article 123-ter of Legislative Decree 58/98 and article 84-*quarter* of the Consob Regulation 11971/99, without having relevant issues to report;
- monitored the implementation of corporate governance rules adopted by the Company in compliance with the Code of Conduct of Listed Companies promoted by Borsa Italiana S.p.A.;
- monitored the compliance of the internal procedure on dealings with Related Parties with the Regulation approved by CONSOB with Resolution no. 17221 of March 12, 2010 and subsequent amendments, in addition to the compliance – pursuant to article 4, paragraph 6 – of the same Regulation, keeping into account

indications and guidelines provided in Communication no. DEM/10078683 of September 24, 2010;

- monitored on the financial reporting process, verifying the compliance on the part of Directors of norms inherent to the preparation, approval and publication of the accounts of Cembre S.p.A. and the consolidated accounts;
- verified that the Report of the Board of Directors on Operations for the 2016 financial year complied with applicable legislation and was consistent with resolutions adopted by the Board of Directors and events represented in the accounts of Cembre S.p.A. and the consolidated accounts;
- acknowledged the content of the Consolidated Half-year Report, without having exceptions to report, in addition to verifying that the same was published in compliance with currently applicable regulations;
- having acknowledged that the Company, in relation to the Regulation of Organized Markets managed by Borsa Italiana S.p.A. applicable to STAR listed companies and the introduction from 2017 of the new article 82-ter of the Self Conduct Code of Listed Companies resolved to continue to issue an Interim Account for both the 1st and 3rd Quarter of the year within the term set in the former applicable regulation.

Since the coming into force of changes introduced to article 19 of Legislative Decree no. 39/2010 by Legislative Decree no. 135/2016 (effective from the 2017 financial year), the Board of Statutory Auditors, in its capacity as Committee for Internal Control and Audit, has also specific tasks regarding information, monitoring, control and verification as described in the new regulation, fulfilling its duties and carrying out the tasks assigned to it by said regulation.

Based on the information and data acquired during the monitoring activity carried out by the Board of Statutory Auditors as described above, no fact from which to infer the lack of compliance with the law or the Company's By-laws or such as to justify its reporting to the Monitoring Board or worth mentioning in the present Report emerged.

° ° ° °

Below we provide further disclosures required by CONSOB's Communication DEM/1025564 dated April 6, 2001, as subsequently amended:

1. With regard to the financial year that is the object of the present Report, there do not emerge transactions carried out by the Company or its subsidiaries that may be considered significant or having a relevant economic or financial impact.

We note that subsidiary Cembre AS, a company incorporated under the laws of Norway, that had been put in liquidation in the 1st Quarter of 2016, was wound up at the end of the year.

All activities carried out by the Company were reported in detail in the Report on Operations.

In each case the Board of Statutory Auditors monitored and verified that all operations carried out were in compliance with the law, the Company's By-laws and correct management principles, were not manifestly imprudent, constituted a potential conflict of interest, were not in contrast with Shareholders' resolutions taken or were such as to compromise the integrity of the company's assets.

2. The Board of Statutory Auditors did not encounter any atypical or unusual transaction as defined in CONSOB's Communication DEM/6064293 dated July 28, 2006.

We acknowledge that information provided in the Report on Operations regarding events and significant operations that are not repeated frequently or atypical or unusual transactions, including those within Group companies or with related parties, is adequate.

3. Characteristics of transactions with subsidiaries, parent companies and related parties carried out by the Company and its subsidiaries in 2016, entities involved and the related economic effects, are reported in the *Related Parties* section in the Report on Operations, to which we refer.

Operations with Related Parties, defined in accordance with international accounting principles and guidelines issued by CONSOB, are regulated by an internal procedure (the "Procedure"), adopted by the Board of Directors of the Company on November 11, 2010 – in compliance with article 2391*bis* of the Civil Code and the Regulation issued by CONSOB – as last modified on March 11, 2016. The Board of Statutory Auditors examined the Procedure verifying its conformity with regulations issued by CONSOB on related parties' dealings.

4. We acknowledge that Independent Auditors PricewaterhouseCoopers S.p.A. issued on March 27, 2017 an Audit Report pursuant to article 14 and 16 of Legislative Decree no. 39 of January 27, 2010, in which it attested that:

- the Financial Statements of Cembre S.p.A. at December 31, 2016 represent in a true and correct manner the financial position and operating performance the income and cash flows of the Company;
- the Report on Operations and information pursuant to article 123-*bis*, paragraph 4 of Legislative Decree no. 58/98 published in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of the Company.

Said Audit Report does not contain exceptions or raise issues regarding disclosure.

During meetings of the Board of Statutory Auditors with the Independent Auditors no aspect worthy of mention in the present report emerged.

The Board of Statutory Auditors examined the Declaration on the Independence of the Independent Auditor as per article 17, paragraph 9, sub a) of Legislative Decree no. 39/2010, issued by the same on March 27, 2017, and notes that said declaration does not highlight situations that may have compromised the independence or that may have caused incompatibility pursuant to articles 10 and 17 of the same decree and the related implementation rules.

5. In 2016, the Board of Statutory Auditors did not receive any report pursuant to article 2408 of the Italian Civil Code from shareholders or other parties.

6. In 2016, the Board of Statutory Auditors did not receive any report from shareholders or other parties.

7. The Board of Statutory Auditors acknowledges that, based on information provided by the Company, in 2016 no further appointments for audit services were made to Independent Auditors PriceWaterhouseCoopers S.p.A.

8. In 2016, companies belonging to the PriceWaterhouseCoopers network and WeiserMazars provided services other than audit to Cembre and its subsidiaries. The former provided Other Services for a fee of €4 thousand, while advisor WeiserMazars provided tax compliance services for a total fee of €8 thousand.

With regard to these appointments, the Board of Statutory Auditors monitored and verified, also as per article 19 of Legislative Decree no.39/2010, the respect of norms regulating the matter, in addition to the compliance with limits set by the law, acknowledging that, based on information provided by the Company, no appointments were made to persons linked to the Independent Auditors by long-term association relationships pursuant to paragraph 2, sub. 8, of CONSOB's Communication DEM/1025564 of April 6, 2001.

After the closing of financial year 2016 and more precisely at the Board of Directors' Meeting of March 10, 2017, the Company appointed PWC Advisory S.p.A. – a company belonging to the network of Cembre's Independent Auditors – as advisors with the task of preparing the "non-financial statement" pursuant to Legislative Decree no. 254/2016 for a compensation of €19,000. The Board of Statutory Auditors confirmed the compatibility of the appointment with current norms and specifically with the provisions of article 17, paragraph 3 of Legislative Decree 39/2010, as amended by Legislative Decree no. 135/2016 and the restrictions imposed by article 5 of EU Regulation no. 537/2014 to which reference is made in the same. Based on these verifications it expressed its opinion as required by current regulations.

9. In 2016, the Board of Statutory Auditors did not express, other than the opinion described in paragraph 8 above, any other opinion pursuant to laws and regulations applicable.

The Board of Statutory Auditors has however expressed its opinion in all those cases that required its prior opinion.

10. In general, with the end of acquiring information instrumental in carrying out its monitoring activities, in 2016 the Board of Statutory Auditors:

– met six times, in compliance with the periodicity required by law, to carry out periodical checks and adopting resolutions required. Activities carried out in said meetings are documented in the related minutes. All meetings were attended by all members;

- attended all four of Board of Directors' Meetings at which Directors informed the Board of Statutory Auditors on main operations of economic and financial relevance carried out by the Company and its subsidiaries;
- attended the Shareholders' Meeting of April 21, 2016;
- met twice as a Board with the Company's independent auditors, PriceWaterhouseCoopers S.p.A. without being submitted any relevant aspects or circumstance worthy of mention in the present Report;
- attended, through its Chairman, the only meeting of the Remuneration Committee;
- attended the five meetings of the Internal Control and Risk Committee and of the Monitoring Board – of which on three occasions represented solely by its Chairman – ascertaining the adequacy of the company's structure to its size;
- attended, through its Chairman, to the meeting of September 9, 2016 of the Committee of Independent Auditors.

11. The Board of Statutory Auditors monitored on the compliance with the Law and the By-laws and the respect of correct management practices, ensuring that operations resolved and carried out by Directors were consistent with said rules and principles in addition to being inspired by rational economic principles and not manifestly imprudent or excessively risky, in contrast with resolutions taken by the Board or such as to compromise the integrity of the company's assets;

12. The Board of Statutory Auditors acquired direct knowledge and monitored, to the extent required by our task, the adequacy of the organizational structure of the Company in relation to its size, also gathering information from persons in charge of the management of the Company, the Person in charge of Internal Audit, the Control and Risk Committee, the Monitoring Board and the Independent Auditors, with the aim of exchanging data and information.

In light of verifications carried out and the absence of critical situations, the organizational structure of the Company appears adequate to its corporate goal, the characteristics and size of the company.

13. With regard to the adequacy and effectiveness of the internal auditing and risk management system, also at the consolidated level, the Board of Statutory Auditors carried out its task through the exhaustive collection of information, by:

- reviewing the report of the Person in charge of Internal Audit on the adequacy and functioning of internal audit and risk management systems of the Company;
- attending meetings of the Internal Control and Risk Committee and of the Monitoring Board;
- reviewing the report of the Internal Control and Risk Committee on the internal audit system;
- reviewing information on measures taken and procedures adopted pursuant to Legislative Decree 231/2001 and subsequent amendments, on the administrative responsibility of organizations with regard to crimes referred to in the above legislation;
- maintaining the Environmental management system with periodical internal and external audits;
- reviewing information on monitoring activity and the implementation of corrective action devised also by seeking specific independent advice on hygiene, employee safety and the environment in general;
- reviewing the results of work carried out by the Independent auditors;
- reviewing information provided by the management and respective boards of subsidiaries, pursuant to commas 1 and 2 of article 151 of Legislative Decree 58/98;
- attesting the financial statements of the parent company pursuant to article 81-*ter* of Consob Regulation dated May 14, 1999 and subsequent amendments, underwritten by the Managing Director and Manager in charge of drafting the Company's accounts;

- verifying the correct update of the Administrative and Management Control Model to comply with normative changes in the year.

The Board of Statutory Auditors also interfaced with the Person responsible for Internal Audit to evaluate the audit plan and its outcome, both in its introduction phase, and in that of the review of verifications performed and the related follow-up.

Cembre adopted the Organizational Model contemplated by Legislative Decree 231/2001 (the "Model 231") of which the Ethical Code is an integral part. The Model is continually updated to bring it into line with normative changes introduced over time. On November 14, 2016, the Board of Directors resolved, with regard to the provisions of laws 68/2015, 69/2015 and 186/2014, to update the Organizational Model and the Ethical Code in the field of administrative responsibilities of the Company.

With the aim of complying with changes introduced in EU norms with EU Resolution 596/2014 and the publication by ESMA of Guidelines on Market Abuse Regulation that became effective on July 3, 2016, Cembre S.p.A. updated, through a resolution of its Board of Directors of September 9, 2016, the procedure for the compliance with Internal Dealing Rules, that for managing the Register of persons having access to privileged information and those for the Disclosure of privileged information, that are an integral part of Model 231.

In light of the monitoring activity carried out and of the positive opinions regarding the adequacy, effectiveness and functioning of the internal control and risk management system formulated by the Internal Audit and Risk Committee and by the Board of Directors, the Board of Statutory Auditors deems, within the scope of its responsibilities, such system to be adequate.

14. The Board also monitored the ability of the managerial accounting system of the Company to represent correctly the performance of the Company through the gathering of information from the Appointed Manager and competent head of departments, the review of corporate documents and the analysis of results of work carried out by the independent auditors. In particular, the Board reports that in 2016 the Appointed Manager verified, with the help of the Internal Audit Department, the adequacy and actual application of administrative and accounting procedures as per article 154-*bis*, TUF; such activity allowed to attest that the financial statements provide a true and correct representation of the financial situation and economic performance of the Company and its subsidiaries.

In light of the monitoring activity carried out and of the positive opinion on the adequacy of the organizational, administrative and accounting structure of the Company expressed by the Board of Directors at its meeting of November 14, 2016, the Board of Statutory Auditors deems, within the scope of its responsibilities, such system to be adequate and reliable in providing a correct representation of the Company's performance.

15. The Board monitored the adequacy of instructions imparted to subsidiaries pursuant to article 114, paragraph 2, of Legislative Decree no. 58/1998 and subsequent amendments, and on the correct flow of information between them, and deems the Company capable of complying with disclosure requirements set by Law, without exception. With reference to subsidiary Cembre Inc., incorporated in the US and therefore not operating under the laws of the EU, whose accounts are audited, we attest that the administrative, accounting and reporting systems used are adequate in providing a regular flow of operating and financial information to the company's management and Independent auditors.

16. The Board of Statutory Auditors acknowledges that during meetings held with Independent Auditors pursuant to article 150, paragraph 2, of Legislative Decree no. 58/1998 there did not emerge exceptions on any relevant matters.

In compliance with article 150, paragraph 3 of TUF, periodical meetings with the Independent Auditors were carried out to verify the reliability of the management and accounting system of the Company and the internal control system. No aspect requiring further analysis or the existence of censurable facts emerged.

With reference to the functions assumed pursuant to article 19 of Legislative Decree 39/2010, the Board of Statutory Auditors, also in the context of meetings held with the Independent Auditors, took vision of the work plan adopted, received information on accounting principles adopted, the accounting of major operations occurred in the year, the outcome of auditing activities, fundamental issues emerged upon the independent audit relating to financial reporting, from which there did not emerge shortcomings in the internal control system and the financial reporting process.

17. Cembre participates and complies with the Code of Conduct issued by the Committee for Corporate Governance of listed companies promoted by Borsa Italiana S.p.A.. The corporate governance system adopted is reported in detail in the Report on Corporate Governance and Ownership Structure for financial year 2016, approved by the Board of Directors on March 10, 2017.

In accordance with said Code of Conduct, the Board of Statutory Auditors verified during the year the correct application of criteria and procedures for determining the existence of requisites of independence applied by the Board of Directors in evaluating the independence of Non-executive Independent Directors and the respect of requisites in the composition of the Board of Directors.

The Board of Statutory Auditors verified also the existence of the same requisites of independence as for the Board of Directors for its own members and made its recommendation pursuant to the Code of Conduct that prescribes to declare individual or third party interests in specific operations carried out by the Board of Directors. In 2016, no similar situation occurred for any of the members of the Board of Statutory Auditors.

We refer to the Report on Corporate Governance and Ownership Structure for more information on the Company's corporate governance regarding which the Report on Corporate Governance and Ownership Structure has no exception to make.

18. With regard to the overall evaluation of monitoring activities carried out, the Board can attest that:

- information provided by Directors in the Report on Operations are deemed exhaustive, complete and consistent with resolutions adopted by the Board of Directors and facts represented in the Financial Statements;
- the Report on Operations includes, in addition to the Comparative Consolidated Income Statement and a list of Members of Corporate Boards, information on performance indicators, investments made, environmental management, workplace safety, research and development activities, in addition to reporting

detail of main risks and uncertainties connected with the overall economic situation, the market for the Company's products, credit markets, liquidity, interest rates, exchange rates, the integrity and reputation of the Company;

- in the periodical verifications and checks we performed on the Company, we did not encounter any atypical or unusual transaction either with third parties, related parties or between Group companies;
- with regard to transactions between Group companies and those with related parties, the Report on Operations and the Notes to the accounts describe and explain exchanges of goods and services between the Company and its subsidiaries or other related parties, attesting that the same were carried out at market conditions, keeping into account the quality of goods and services exchanged;
- the Report on Remuneration as per article 123-ter Legislative Decree 58/98 and article 84-*quarter* of the Code of Conduct was issued without particular observations to report;
- in the field of risk management and financial instruments, the nature and amount of risks were reported;
- the Audit Report does not contain reference to lack of disclosure or related observations and proposals;
- in compliance with articles 123-*bis* of the Finance Act (Testo Unico), article 89-*bis* of CONSOB's Listed Companies Regulation, we acknowledge that, as it appears in the Report on Corporate Governance and Ownership Structure, the Cembre Group participates and complies with the Code of Conduct issued by the Committee for Corporate Governance of listed companies, as integrated and implemented, through its adoption and compliance with Regulations for STAR segment listed companies;
- the adoption of said Code was verified by the Board of Statutory Auditors and represented the subject, in its various aspects, of the Report on Corporate Governance made available to you and to which we refer.

The Board of Statutory Auditors attests also, pursuant to article 150 of Legislative Decree no. 58/98 and subsequent amendments, that no data or relevant information, omissions, censurable facts, irregularities or in any case significant events worth reporting to relevant Authorities or monitoring boards, or of mention in the present report have emerged.

19. Based on the above, in relation to monitoring activities carried out in the year, the Board of Statutory Auditors has no observation to make or proposal to formulate to the Shareholders' Meeting pursuant to article 153, paragraph 2 of Legislative Decree no. 58/1998.

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The statutory accounts, for which we verified compliance with laws regulating its format and preparation through checks carried out by us, within the limits of our task, as provided by article 149 of Legislative Decree no. 58, February 24, 1998, and subsequent amendments – having ascertained that no waivers pursuant to article 2423 of the Italian Civil Code were exercised – and information provided by the Independent Auditors, report a net income of €15,931,868, as compared with a net income of €14,438,346 in the previous year.

The Board of Statutory Auditors therefore deems the Financial Statements at December 31, 2016 and the proposed allocation of net profit for the year submitted by the Board of Directors to be suitable to receive your approval.

Brescia, March 28, 2017

The Board of Statutory Auditors

The Chairman

Fabio Longhi