INTERPOLIMERI S.P.A.

Headquarters in Limena (PD), via Guido Negri no. 11

Share capital Euro 10.000.000,00, fully paid

Tax code and Padua companies register registration: 01830880280

Administrative Economic Index (EAR) number: 183448

DIRECTORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 2016 FINANCIAL YEAR

Dear Shareholders,

the Board of Directors has prepared the consolidated financial statements at 31 December 2016, which we hereby submit for your attention, made up of the Balance Sheet, Income Statement, Statement of Cash Flows and Explanatory Notes. These financial statements have been prepared in compliance with applicable regulations, provided for by the Italian Civil Code.
The scope of consolidation is as follows:

- **Interpolimeri SpA -** Parent company
- **Interpolimeri Spain S.L. –** Subsidiary
- **IP Portugal S.A.** - Subsidiary

Information about the group

Interpolimeri Spa is the parent company of the Interpolimeri SPA group. The group's main activity is the sale and marketing of plastics.

Interpolimeri S.p.A., the parent company, controls Interpolimeri Spain S.L. with a direct shareholding of 72.5%.

During 2016 the subsidiary SPE increased its share capital by payment from €1,500,000 to €2,000,000, and changed its name to "INTERPOLIMERI SPAIN S.L."; Interpolimeri partially underwrote the share capital increase for €425,501, and consequently held 72.5% of the share capital.

On 26/01/2016, the company IP INTERPOLIMERI PORTUGAL SA was established, a company incorporated under Portuguese law based in Porto. The share capital of the newly-established subsidiary is Euro 50,000, of which Interpolimeri holds a 66% stake.

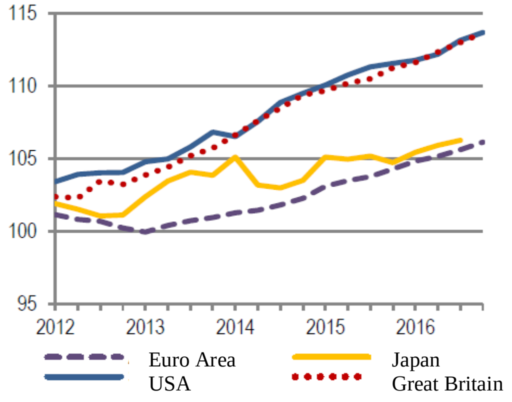
Company performance

General economic performance

International framework

The growth in the USA economy began to slow down towards the end of 2016. The preliminary estimated GDP for the fourth quarter recorded a positive increase on an annual cyclic basis of 1.9%, slower than the 3.5% recorded in the third quarter. Internal demand made a positive contribution to the growth while net exports made a negative contribution.

1. GDP - Euro area, USA, Japan, Great Britain (base 2010=100)



Source: Oecd

European framework

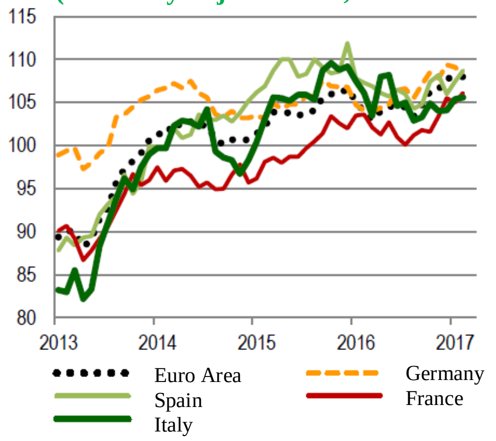
Growth in the Euro area continues at a constant pace: the preliminary estimated GDP for the fourth quarter 2016 recorded the same economic growth as the previous quarter (+0.4%). Of the leading European countries, Spain maintained a constant pace higher than both France and Germany. Overall in 2016 the Euro area grew by 1.7%.

In January the number of unemployed continued to fall, even though the unemployment level was the same as December (9.6%).

Growth prospects for the area remain positive. In February the Economic Sentiment Indicator was stable with respect to the previous month, summarizing an improvement in the climate of trust in the industry, balanced by a reduced trust in the sales sector and customer loyalty.

2. Economic Sentiment Indicator

(seasonally-adjusted data, index 2010=100)



Source: DG ECFII

Italian framework

In the fourth quarter 2016, the GDP, adjusted to account for the calendar and out of season effects, recorded a 0.2% increase, slightly lower than the third quarter (+0.3%). Growth was sustained by domestic demand, net of inventory, which gave a positive contribution (0.4%); net foreign demand gave a zero contribution, with similar cyclic increases for imports and exports (respectively +2.2% and +1.9%).

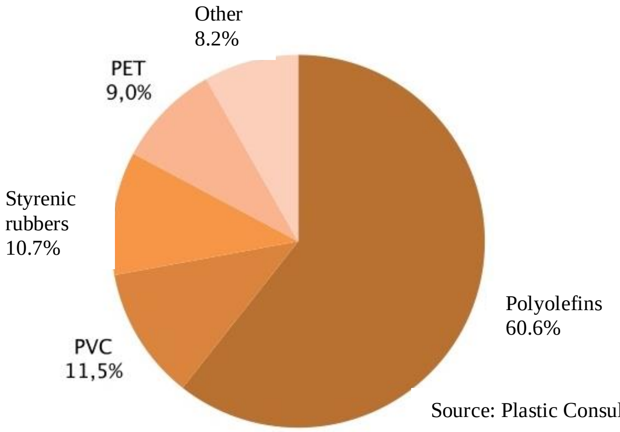
In rough terms the Italian GDP increased by 0.9% with respect to 2015.

Sector performance

According to the latest edition of the Plastic Trend Synthesis multiclient study, developed by Plastic Consult, Italian demand for virgin thermoplastic polymers touched on 5.7 million tons last year with a 1.7% increase over the previous year, “in the second half of the year dimming the pace that had been recorded towards the end of 2015 and first half of 2016” the analysts reveal.
While cars have continued to drive the demand for plastic materials, building and construction remained at minimum levels, and family consumption that all the packaging is tied to fell during the year. This drop in domestic demand was not offset by a growth in exports.

THREE-YEAR RECOVERY. This is the third year of raised consumption, after the collapse of industrial activity after the financial crisis that began in 2008. Three years pursuing a recovery that began with a small increase in demand in 2014 to consolidate at +3% in the following year.
Notwithstanding these positive signs, in absolute terms volumes are still well away from the record levels reached in 2007, when consumption exceeded 7 million tons for the first time in our country.

Total 5.65 ml tons



Source: Plastic Consult

Consolidated assets, liabilities and financial position

In order to better understand the consolidated financial and economic position, reclassifications of the Consolidated Balance Sheet by ‘functional area’ and the financial consolidated balance sheet are provided below:

Reclassified Consolidated Balance Sheet

INVESTMENT	2016	2015
Fixed assets	1,406,194	1,292,659
Business working capital Net	21,723,522	20,127,765
Short-term financial assets	-	-
Liquidity	1,986,089	1,181,268
Total investment	25,115,805	22,601,692

SOURCES	2016	2015
Shareholders' equity	19,972,512	18,765,620
Non-financial consolidated liabilities	551,604	448,937
Financial debt	4,591,689	3,387,135
Total Sources	25,115,805	22,601,692

Balance Sheet by 'functional area'	2016	2015
Intangible fixed assets	777,719	826,416
Tangible fixed assets	612,850	438,898
Inventories	25,791,826	20,838,897
Receivables	54,195,280	48,850,977
Cash and cash equivalents	1,986,089	1,181,268
Accrued income and prepaid expenses	190,598	144,558
CAPITAL INVESTED IN OPERATIONS	83,554,362	72,281,014
Financial fixed assets	15,625	27,345
Short-term financial assets	-	-
NON-OPERATING INVESTMENTS	15,625	27,345
INVESTED CAPITAL	83,569,987	72,308,359
Share capital and Reserves	18,857,121	16,613,672
Profit / (loss) for the year	1,115,391	2,151,948
EQUITY	19,972,512	18,765,620
Financial debt	42,145,417	31,359,299
Accrued income and prepaid expenses Financial management	-	-
DEBT LIABILITIES	42,145,417	31,359,299
Provisions for risks and charges	77,728	49,470
Reserve for Severance Indemnities	473,876	399,467
Payables	20,899,432	21,733,803
Accrued income and prepaid expenses Operating results	1,022	700
OPERATING LIABILITIES	21,452,058	22,183,440
LOAN CAPITAL	83,569,987	72,308,359

Financial Balance Sheet	2016	2015
Intangible fixed assets	777,719	826,416
Tangible fixed assets	612,850	438,898
Financial fixed assets	14,932	11,643
FIXED ASSETS	1,405,501	1,276,957
Inventories	25,791,826	20,838,897
Trade and other receivables	54,386,571	49,011,237
Cash and cash equivalents	1,986,089	1,181,268
CURRENT ASSETS	82,164,486	71,031,402
INVESTED CAPITAL	83,569,987	72,308,359
Share capital and Reserves	18,857,121	16,613,672
Profit / (loss) for the year	1,115,391	2,151,948
EQUITY	19,972,512	18,765,620
Funds	551,604	448,937
Financial debt payable beyond 12m	4,321,689	3,387,135
CONSOLIDATED LIABILITIES	4,873,293	3,836,072
Payables	20,899,432	21,733,803
Financial debt payable within 12m	37,823,728	27,972,164

Accrued income and prepaid expenses Operating results	1,022	700
CURRENT LIABILITIES	58,724,182	49,706,667
LOAN CAPITAL	83,569,987	72,308,359

Commentary on the structure of assets

The structure of invested capital shows a significant part made up of current assets, with goods and finished product inventories valued at Euro 25,791,826; trade receivables for a total of Euro 53,514,722 also need to be added; most of this amount is considered receivable over the course of one financial year.
The bearing of equity on total invested capital reflects a context of general balance sheet stability for the group. Current assets, in fact, exceed current liabilities and equity is much greater than the size of fixed assets (equity minus fixed assets coverage ratio).
The reclassified balance sheet shows the solidity of the group's balance sheet (i.e. its ability to maintain financial equilibrium in the medium-long term).

Commentary on the structure of liabilities

The group's Shareholders' Equity is equal to Euro 19,972,512, of which Euro 585,136 relating to minority interests.
Fixed assets are wholly funded by equity, showing the group's high level of capitalization.

Looking at the sources of financing, it is to be highlighted that the balance sheet presents short term liabilities for an amount equal to Euro 58,724,182, mostly represented by trade payables for Euro 18,731,931 and payables to banks for Euro 42,145,417.
Working capital, given by the difference between current assets and short term liabilities, is equal to Euro 23,440,304 and highlights a balance between short term investments and short term debt. As a guarantee of this stability, the group has a low rate of default and delays in collecting trade receivables.

Main indicators of the consolidated financial and economic position

On the basis of the previous reclassification, the following balance sheet indicators have been calculated:

Fixed asset financing indicators	2016	2015
Fixed asset to equity capital margin	18,567,011	17,488,663
Fixed asset to equity capital ratio	14.21	14.70
Fixed asset to equity capital and medium-long term debt margin	23,440,304	21,324,735
Fixed asset to equity capital and medium-long term debt ratio	17.68	17.70
Structure of financing indicators	**2016**	**2015**
Total debt ratio	318.43%	285.32%
Debt to equity ratio	211.02%	167.11%
Solvency indicators	**2016**	**2015**
Current assets minus current liabilities	23,440,304	21,324,735
Current assets minus current liabilities ratio	1.40	1.43
(Cash and cash equivalents + current receivables) - current liabilities	(2,351,522)	485,838
Cash ratio	0.96	1.01
Other Indicators	**2016**	**2015**
Coverage of fixed assets	1,420.32%	1,451.71%
Ratio of equity to invested capital	23.90%	25.95%
Net working capital	23,440,304	21,324,735

Commentary on sources of funding

Total outstanding loans held by the group amount to Euro 11,584,554. The aim is to draw upon medium-long term debt in order to partially consolidate short term debt. In this regard, it is to be duly noted that, considering its solid balance sheet position, the group certainly has a greater ability to access credit. Favourable conditions and interest rates shall therefore be sought after when negotiating with banks and finance companies.

Consolidated operating results

In order to better understand the group's result from operations, the following Consolidated Income Statement reclassification has been provided.

Consolidated Income statement

INCOME STATEMENT	2016	2015
Sales and services revenues	168,036,467	150,785,274
Changes in inventories of work in progress, semi-finished and finished goods	-	-
Other revenues and income	447,056	341,683
Value of production	168,483,523	151,126,957
Costs for raw, ancillary and consumable materials and goods	(155,081,166)	(142,215,859)
Costs for services	(9,346,003)	(8,016,503)
Cost for third party leased assets	(1,639,399)	(1,495,492)
Personnel costs	(3,171,586)	(2,280,413)
Staff severance indemnity	(123,979)	(114,455)
Changes in inventories of raw and ancillary materials, consumables and goods	3,524,822	7,106,504
Sundry operating expenses	(276,069)	(217,577)
Production costs	(166,113,380)	(147,233,795)
EBITDA	2,370,143	3,893,162
Amortisation of intangible fixed assets	(197,283)	(180,703)
Amortisation of tangible fixed assets	(174,000)	(158,825)
Write-downs of current receivables and cash and cash equivalents	(83,037)	(182,458)
Other provisions	-	-
EBIT	1,915,823	3,371,176
FINANCIAL INCOME AND CHARGES	(229,075)	(190,243)
EXTRAORDINARY INCOME AND CHARGES		-
EBT	1,686,748	3,180,933
Current, deferred and prepaid income taxes for the year	(571,357)	(1,028,985)
EAT	1,115,391	2,151,948

The last financial year closed positively. The group ended the year with a positive EBITDA of Euro 2,370,143 and a pre-tax profit of Euro 1,686,748.

Commentary on revenues

The group's net revenues were equal to Euro 168,036,467.

Commentary on costs

The incidence of raw material costs on the value of production was equal to 92.29%. Personnel costs were equal to Euro 3,295,565 and the incidence of personnel costs on revenues was equal to 1.96%. The incidence of financial charges was contained at 0.14%.

Main consolidated economic indicators

On the basis of the previous reclassification, the following economic indicators have been calculated:

Profitability indicators	2016	2015
NET ROE	0.06	0.11
GROSS ROE	0.08	0.17
ROI	0.03	0.06
ROS	0.01	0.02

ROE shows the profitability of paid-in capital, intended as remuneration to shareholders for each unit of risk capital held.

ROI highlights earnings on capital invested in ordinary operations and measures the company's ability to generate profits by transforming input into output.

ROS shows, as a percentage, how much operating income is obtained from each sale unit and indicates the incidence of the main factors of production (materials, personnel, amortization and depreciation, other costs) on turnover.

Information provided in accordance with art. 2428 of the (Italian) Civil Code

The following represents a more detailed analysis of information as specifically required by article 2428 of the (Italian) Civil Code.

Main risks and uncertainties facing the group

In relation to the information requests made by article 2428, para. 2, no. 6 bis of the (Italian) Civil code and to the use of financial instruments, it is to be duly noted that the group is mainly subject to price, credit, liquidity and interest rate risks: over the course of the financial year, the governing body planned specific controls aimed at checking that exposure to said risks did not go beyond the level required by group activities and the group's financial structure.

Price fluctuation risk
The group is exposed to the risk of fluctuations in the prices of raw materials: a policy has been adopted to cover said risk, where possible, by entering into medium-long term agreements with suppliers and by maintaining an adequate level of warehouse stock.

Credit risk
Most receivables in place at the end of the financial year are client receivables and are mainly trade receivables to be paid in instalments (the largest client in terms of turnover represents around 3.9% of total business volumes).
It is group policy to only sell to clients after checking their credit rating and therefore within predefined credit limits.
Even though credit risk is limited, in consideration of the continuing tight financing conditions from banks and the economic crisis, a bad debt provision is recorded in the financial statements for Euro 931,563.

Liquidity risk
The group makes every attempt to minimize liquidity risk, intended as the risk of not finding financial resources under acceptable conditions, necessary for ordinary operations.
This objective is pursued by maintaining an adequate level of cash and cash equivalents, diversifying the range of financial resources used, obtaining suitable lines of credit and appropriately monitoring perspective liquidity conditions in relation to the planning of group activities.
Lines of credit are suitable and, on average, 50% of the total is used.

Interest rate risk
Interest rate risk arises from the medium-long term loans in place with a variable interest rate. Current company policy is to keep variable rates, monitoring the trends of interest rate curves.

Information on the environment

With regard to the environment, group policy is not only in line with/aimed at respecting current regulations but also has the objective of achieving continuous improvements.
The group actively undertakes to protect the environment and to use natural resources in a rational way. In this regard, environmental performance is controlled and measured by monitoring appropriate indicators and, at the same time, improvement measures are also pursued in relation to:

- management of water resources (withdrawal and waste);
- prevention, control and reduction (where possible) of the production of special waste;
- control of atmospheric pollution (air quality and emissions);
- management of administrative duties linked to company activity.

Information on personnel

The group carries out its activities fully respecting all environmental and hygiene regulations for the workplace. The group currently has a total of 60 employees.

1) Research and development

Traditionally speaking, the group does not carry out any noteworthy, long-standing research and development activities.

2) Dealings with controlled, associated and parent companies

Beyond the companies forming part of the group, there are no dealings to report with associated or parent companies.

3) Treasury shares

In accordance with article 2428, paragraph 1, points 3) and 4) of the (Italian) Civil Code, it is to be noted that the group does not own treasury stock or shares, nor shares in parent companies and nor has it acquired or transferred any such holding through trust companies or a third party over the course of the financial year

4) Significant events after the reporting date

There were no significant events after the close of the financial year that could change the group’s balance sheet or financial position, as per the financial statements submitted to the shareholders’ meeting for approval.

5) Business outlook

The outlook for the current financial year, considering also the results from the first quarter, is characterised by moderate optimism.

Conclusions

The 2016 consolidated financial statements were subject to a voluntary audit carried out by Baker Tilly Revisa S.p.A.; this audit firm was also appointed to carry out the external audit for the Interpolimeri S.p.A. accounts, pursuant to articles 2409-bis and following of the (Italian) Civil Code.

The consolidated financial statements at 31.12.2016 and the explanatory notes were drafted in compliance with the provisions of L.D. 127/91 as amended and give a true and fair representation of the group's consolidated balance sheet and financial position as well as the result for the year.

Limena (PD), 26 May 2017

The Chairman of the Board of Directors
(Claudio Gallo)