



SOCIETA' PER AZIONI - CAPITALE SOCIALE EURO 62.083.556,60  
REGISTRO DELLE IMPRESE DI MANTOVA E CODICE FISCALE N. 00607460201  
SOCIETA' SOGGETTA ALL'ATTIVITA' DI DIREZIONE E COORDINAMENTO DI CIR S.p.A.  
SEDE LEGALE: 46100 MANTOVA, VIA ULISSE BARBIERI, 2 - TEL. 0376.2031  
UFFICI: 78286 GUYANCOURT (FRANCIA), PARC ARIANE IV- 7 AVENUE DU 8 MAI 1945-TEL. 0033 01 61374300  
UFFICI: 20121 MILANO, VIA CIOVASSINO, 1/A - TEL. 02.467501  
SITO INTERNET: [WWW.SOGEFIGROUP.COM](http://WWW.SOGEFIGROUP.COM)



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CONSIGLIO DI AMMINISTRAZIONE  
*BOARD OF DIRECTORS*

Presidente Onorario / *Honorary Chairman*  
CARLO DE BENEDETTI

Presidente / *Chairman*  
MONICA MONDARDINI (1)

Amministratore Delegato e Direttore Generale / *Managing Director and General Manager*  
LAURENT HEBENSTREIT (1)

Consiglieri / *Directors*  
PATRIZIA CANZIANI (3)  
RODOLFO DE BENEDETTI  
ROBERTA DI VIETO (3) - (4)  
GIOVANNI GERMANO (2)  
MAURO MELIS (2)  
RAFFAELLA PALLAVICINI  
PAOLO RICCARDO ROCCA (2) - (3) - (4) - (5)

Segretario del Consiglio / *Secretary to the Board*  
NIVES RODOLFI

COLLEGIO SINDACALE  
*BOARD OF STATUTORY AUDITORS*

Presidente / *Chairman*  
RICCARDO ZINGALES

Sindaci Effettivi / *Acting Auditors*  
GIUSEPPE LEONI  
CLAUDIA STEFANONI

Sindaci Supplenti / *Alternate Auditors*  
ANNA MARIA ALLIEVI  
MAURO GIRELLI  
LUIGI MACCHIORLATTI VIGNAT

SOCIETÀ DI REVISIONE  
*INDEPENDENT AUDITORS*

DELOITTE & TOUCHE S.p.A.

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Segnalazione ai sensi della raccomandazione Consob n. 97001574 del 20 febbraio 1997:

- (1) Poteri come da Corporate Governance.
- (2) Membri del Comitato Nomine e Remunerazione.
- (3) Membri del Comitato Controllo e Rischi e del Comitato per le Operazioni con Parti Correlate.
- (4) Membri dell'Organismo di Vigilanza (D.Lgs. 231/2001).
- (5) *Lead independent director.*

*Details on the exercise of powers (Consob Resolution no. 97001574 of February 20, 1997):*

- (1) *Powers as per Corporate Governance.*
- (2) *Members of the Appointments and Remuneration Committee.*
- (3) *Members of the Control and Risks Committee and of the Related Party Transactions Committee.*
- (4) *Members of the Supervisory Body (Legislative Decree 231/2001).*
- (5) *Lead independent director.*

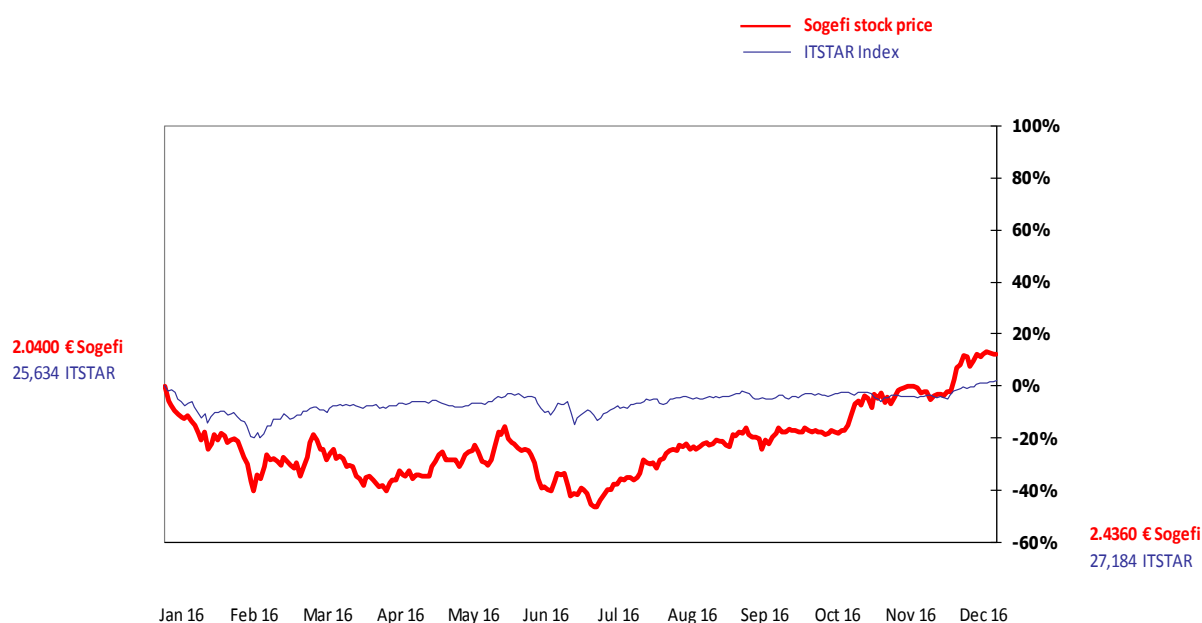
## OVERVIEW OF GROUP RESULTS

| (in millions of Euro)                             | 2013    |        | 2014    |        | 2015    |        | 2016    |        |
|---------------------------------------------------|---------|--------|---------|--------|---------|--------|---------|--------|
|                                                   | Amount  | %      | Amount  | %      | Amount  | %      | Amount  | %      |
| Sales revenues                                    | 1,335.0 | 100.0% | 1,349.4 | 100.0% | 1,499.1 | 100.0% | 1,574.1 | 100.0% |
| EBITDA                                            | 129.5   | 9.7%   | 109.5   | 8.1%   | 115.5   | 7.7%   | 152.7   | 9.7%   |
| Ebit                                              | 69.1    | 5.2%   | 48.3    | 3.6%   | 50.7    | 3.4%   | 74.5    | 4.7%   |
| Result before taxes and non-controlling interests | 40.4    | 3.1%   | 21.5    | 1.6%   | 17.9    | 1.2%   | 46.6    | 2.9%   |
| Net result                                        | 21.1    | 1.6%   | 3.6     | 0.3%   | 1.1     | 0.1%   | 9.3     | 0.6%   |
| Self-financing                                    | 87.9    |        | 67.6    |        | 53.4    |        | 109.1   |        |
| Free cash flow                                    | 10.0    |        | 3.8     |        | (24.8)  |        | 31.2    |        |
| Net financial position                            | (304.6) |        | (304.3) |        | (322.3) |        | (299.0) |        |
| Total shareholders' equity                        | 188.9   |        | 180.8   |        | 190.4   |        | 189.0   |        |
| GEARING                                           | 1.61    |        | 1.68    |        | 1.69    |        | 1.58    |        |
| ROI                                               | 14.0%   |        | 9.9%    |        | 10.2%   |        | 14.9%   |        |
| ROE                                               | 12.1%   |        | 2.2%    |        | 0.7%    |        | 5.4%    |        |
| Number of employees at December 31                | 6,834   |        | 6,668   |        | 6,702   |        | 6,801   |        |
| Dividends per share (Euro)                        | -       |        | -       |        | -       |        | -       | (*)    |
| EPS (Euro)                                        | 0.187   |        | 0.032   |        | 0.010   |        | 0.081   |        |
| Average annual price per share                    | 2.8377  |        | 3.5350  |        | 2.5133  |        | 1.7004  |        |

(\*) As proposed by the Board of Directors to the Shareholders' Meeting

## STOCK PERFORMANCE

The graph below shows the performance of Sogefi stock and of the ITSTAR index in 2016.



## REPORT OF THE BOARD OF DIRECTORS ON PERFORMANCE IN 2016

Dear Shareholders,

during the year 2016, the sales revenues of the Sogefi Group amounted to Euro 1,574.1 million, showing a growth of 5% compared to Euro 1,499.1 million in 2015 (9.8% at constant exchange rates).

With regard to the overall performance of world automotive markets, in 2016 the production of cars and light commercial vehicles increased by 4.8%, with a growth of 13.3% in Asia and a positive evolution in Europe (+3.5%) and North America (+2%). In South America the market remained in recession (-8.7%), although the fourth quarter, with a 7% growth of the production, seems to show an inversion of the trend.

The Air & Cooling sector, which reported a 15.6% sales increase (+18.4% at constant exchange rates) contributed largely to the progress of the group.

The revenues of the other two business units were affected by the evolution of exchange rates: the Suspensions sector reported revenue growth of 0.9% (+6.2% at constant exchange rates) and Filtration reported a 1% increase (+6.7% at constant exchange rates).

The table below shows the performance of the divisions:

| (in millions of Euro)     | 2016          |          | 2015          |          |
|---------------------------|---------------|----------|---------------|----------|
|                           | <i>Amount</i> | <i>%</i> | <i>Amount</i> | <i>%</i> |
| Suspensions               | 562.8         | 35.8     | 558.0         | 37.2     |
| Filtration                | 535.1         | 34.0     | 529.7         | 35.3     |
| Air&Cooling               | 480.2         | 30.5     | 415.3         | 27.7     |
| Intercompany eliminations | (4.0)         | (0.3)    | (3.9)         | (0.2)    |
| TOTAL                     | 1,574.1       | 100.0    | 1,499.1       | 100.0    |

The growth in revenues was driven by significant development in North America (+16.9%) and in Asia (+25.6%) while Europe reported an increase of 1.4%. Revenues in South America, however, declined by 7.1% (+15.8% at constant exchange rates), but grew by 13.9% in the fourth quarter thanks to the first signs of market recovery.

The table below shows a breakdown of sales by key markets.

| (in millions of Euro) | 2016          |          | 2015          |          |
|-----------------------|---------------|----------|---------------|----------|
|                       | <i>Amount</i> | <i>%</i> | <i>Amount</i> | <i>%</i> |
| Europe                | 957.2         | 60.8     | 943.8         | 63.0     |
| Mercosur              | 162.2         | 10.3     | 174.5         | 11.6     |
| NAFTA                 | 308.7         | 19.6     | 264.1         | 17.6     |
| Asia                  | 139.6         | 8.9      | 111.1         | 7.4      |
| Rest of the world     | 6.4           | 0.4      | 5.6           | 0.4      |
| TOTAL                 | 1,574.1       | 100.0    | 1,499.1       | 100.0    |

Sogefi's key customers are Ford, Renault/Nissan, FCA, PSA, GM and Daimler. Together, they account for 64.3% of the Group's sales revenues as compared to the 63.8% in 2015.

| (in millions of Euro)             | 2016          |          | 2015          |          |
|-----------------------------------|---------------|----------|---------------|----------|
|                                   | <i>Amount</i> | <i>%</i> | <i>Amount</i> | <i>%</i> |
| Group                             |               |          |               |          |
| Ford                              | 198.0         | 12.6     | 200.3         | 13.4     |
| Renault/Nissan                    | 180.6         | 11.5     | 175.3         | 11.7     |
| FCA/CNH Industrial                | 177.5         | 11.3     | 179.6         | 12.0     |
| PSA                               | 169.7         | 10.8     | 166.4         | 11.1     |
| GM                                | 157.6         | 10.0     | 116.2         | 7.8      |
| Daimler                           | 127.2         | 8.1      | 116.5         | 7.8      |
| Volkswagen/Audi                   | 47.8          | 3.0      | 51.8          | 3.5      |
| BMW                               | 45.4          | 2.9      | 42.9          | 2.9      |
| Toyota                            | 43.5          | 2.8      | 33.3          | 2.2      |
| Other (including the Aftermarket) | 426.8         | 27.0     | 416.8         | 27.6     |
| TOTAL                             | 1,574.1       | 100.0    | 1,499.1       | 100.0    |

The following table provides comparative figures of the Income statement for 2016 and the previous year.

| (in millions of Euro)                                               | 2016          |          | 2015          |          |
|---------------------------------------------------------------------|---------------|----------|---------------|----------|
|                                                                     | <i>Amount</i> | <i>%</i> | <i>Amount</i> | <i>%</i> |
| Sales revenues                                                      | 1,574.1       | 100.0    | 1,499.1       | 100.0    |
| Variable cost of sales                                              | 1,120.2       | 71.2     | 1,079.1       | 72.0     |
| CONTRIBUTION MARGIN                                                 | 453.9         | 28.8     | 420.0         | 28.0     |
| Manufacturing and R&D overheads                                     | 147.5         | 9.3      | 146.1         | 9.7      |
| Depreciation and amortization                                       | 68.8          | 4.4      | 64.4          | 4.3      |
| Distribution and sales fixed expenses                               | 44.9          | 2.9      | 45.2          | 3.0      |
| Administrative and general expenses                                 | 85.1          | 5.4      | 84.2          | 5.6      |
| Restructuring costs                                                 | 5.3           | 0.3      | 7.3           | 0.5      |
| Losses (gains) on disposal                                          | (0.7)         | -        | (1.6)         | (0.1)    |
| Exchange (gains) losses                                             | 1.8           | 0.1      | 3.6           | 0.2      |
| Other non-operating expenses (income)                               | 26.7          | 1.7      | 20.1          | 1.4      |
| - of which not ordinary                                             | 10.2          |          | 15.7          |          |
| EBIT                                                                | 74.5          | 4.7      | 50.7          | 3.4      |
| Financial expenses (income), net                                    | 31.5          | 2.0      | 32.8          | 2.2      |
| - of which fair value of the embedded derivative (convertible bond) | -             |          | (1.5)         |          |
| - of which other net financial expenses (income)                    | 31.5          |          | 34.3          |          |
| Losses (gains) from equity investments                              | (3.6)         | (0.2)    | -             | -        |
| RESULT BEFORE TAXES AND NON-CONTROLLING INTERESTS                   | 46.6          | 2.9      | 17.9          | 1.2      |
| Income taxes                                                        | 32.6          | 2.1      | 12.9          | 0.9      |
| NET RESULT BEFORE NON-CONTROLLING INTERESTS                         | 14.0          | 0.8      | 5.0           | 0.3      |
| interests                                                           | (4.7)         | (0.2)    | (3.9)         | (0.2)    |
| GROUP NET RESULT                                                    | 9.3           | 0.6      | 1.1           | 0.1      |

EBITDA in 2016 grew by Euro 37.2 million to Euro 152.7 million, representing a +32.2% increase compared to Euro 115.5 million in 2015. The increase benefited from revenue growth and from the improvement in profitability which increased to 9.7% from 7.7% in 2015.

The increase in profitability was due to a slight improvement in the gross margin and to the reduced impact of indirect costs. In particular, the ratio of total labour costs to revenues declined from 22.1% in 2015 to 21.4% in 2016.

Regarding the risks resulting from the claims made against the company Sogefi Air & Refroidissement France S.A.S. (formerly Systèmes Moteurs S.A.S.), in 2016 there were no developments in the “product guarantee” issue that warranted a change in the provision made at December 31 2015.

As for the recovery of damages from Dayco, the vendor of Systèmes Moteurs S.A.S. to Sogefi in 2011, in May the arbitration process ended with Dayco being sentenced to pay Sogefi Euro 9.4 million for the claims already settled. The whole amount was received during the second half of 2016. The arbitration decision, however, reduced the amount expected to be recovered by Sogefi by Euro 4 million, with a negative impact of the same amount on the accounts booked in June 2016.

Sogefi appealed against the decision which stipulated that any payments for claims relating to production that took place after the acquisition will be borne by Sogefi; Dayco appealed against the award for the part which confirmed the validity of the compensation to Sogefi included in the acquisition contract. In this regard, the validity of the compensation has been confirmed both by the arbitration award, and, preliminarily, in a decision by the Milan Court of Appeal which rejected a Dayco request to suspend the enforceability of the award.

EBIT increased by 46.8% to Euro 74.5 million compared to Euro 50.7 million in 2015.

The result before taxes and minority interests was a positive Euro 46.6 million (Euro 17.9 million in 2015), benefiting also from non-recurring financial income of Euro 6 million.

The net result was a positive Euro 9.3 million (Euro 1.1 million in 2015) after tax expense of Euro 32.6 million in 2016 (versus Euro 12.9 million in 2015), as an effect of the higher pre-tax result and non-recurring taxes of Euro 10.2 million.

As at 31 December 2016, the Sogefi Group's workforce was 6,801 (6,702 as at 31 December 2015).

|              | 12.31.2016    |              | 12.31.2015    |              |
|--------------|---------------|--------------|---------------|--------------|
|              | <i>Number</i> | <i>%</i>     | <i>Number</i> | <i>%</i>     |
| Suspensions  | 2,625         | 38.6         | 2,663         | 39.7         |
| Filtration   | 2,735         | 40.2         | 2,629         | 39.3         |
| Air&Cooling  | 1,381         | 20.3         | 1,350         | 20.1         |
| Other        | 59            | 0.9          | 60            | 0.9          |
| <b>TOTAL</b> | <b>6,801</b>  | <b>100.0</b> | <b>6,702</b>  | <b>100.0</b> |

Breakdown by category is provided below:

|                     | 12.31.2016    |              | 12.31.2015    |              |
|---------------------|---------------|--------------|---------------|--------------|
|                     | <i>Number</i> | <i>%</i>     | <i>Number</i> | <i>%</i>     |
| Managers            | 106           | 1.6          | 98            | 1.5          |
| Clerical staff      | 1,874         | 27.5         | 1,866         | 27.8         |
| Blue collar workers | 4,821         | 70.9         | 4,738         | 70.8         |
| <b>TOTAL</b>        | <b>6,801</b>  | <b>100.0</b> | <b>6,702</b>  | <b>100.0</b> |

Net financial debt stood at Euro 299 million at December 31 2016 showing a Euro 23.3 million improvement on December 31 2015 (Euro 322.3 million) and a Euro 15.1 million improvement on September 30 2016 (Euro 314.1 million).

The following table provides a breakdown of indebtedness as at 31 December 2016:

| (in millions of Euro)                                              | 12.31.2016     | 12.31.2015     |
|--------------------------------------------------------------------|----------------|----------------|
| Cash, banks, financial receivables and securities held for trading | 99.6           | 128.2          |
| Medium/long-term financial receivables                             | 15.8           | 13.2           |
| Short-term financial debts (*)                                     | (148.6)        | (92.6)         |
| Medium/long-term financial debts                                   | (265.8)        | (371.1)        |
| <b>NET FINANCIAL POSITION</b>                                      | <b>(299.0)</b> | <b>(322.3)</b> |

(\*) Including current portions of medium and long-term financial debts.

Free Cash Flow in 2016 amounted to a positive Euro 31.2 million, compared to Euro 24.8 million of cash absorption in 2015 which included Euro 20.3 of quality costs (out of which Euro 18 million of payment related to Systèmes Moteurs warranty claims). The improvement came with an increase in tangible asset expenditure to Euro 58.8 million (Euro 51.3 million in 2015).

Without items of non-ordinary nature, Free Cash Flow amounted to Euro 21.9 million in 2016.

The table below shows changes in cash flows during the year:

| (in millions of Euro)                                       | Note(*) | 2016           | 2015           |
|-------------------------------------------------------------|---------|----------------|----------------|
| <b>SELF-FINANCING</b>                                       | (f)     | 109.1          | 53.4           |
| Change in net working capital                               |         | (2.1)          | (4.2)          |
| Other medium/long-term assets/liabilities                   | (g)     | 17.5           | 4.8            |
| <b>CASHFLOW GENERATED BY OPERATIONS</b>                     |         | <b>124.5</b>   | <b>54.0</b>    |
| Sale of equity investments                                  | (h)     | -              | -              |
| Net decrease from sale of fixed assets                      | (i)     | 0.3            | 1.0            |
| <b>TOTAL SOURCES</b>                                        |         | <b>124.8</b>   | <b>55.0</b>    |
| Increase in intangible assets                               |         | 30.3           | 30.4           |
| Purchase of tangible assets                                 |         | 58.8           | 51.3           |
| <b>TOTAL APPLICATION OF FUNDS</b>                           |         | <b>89.1</b>    | <b>81.7</b>    |
| Exchange differences on assets/liabilities and equity       | (l)     | (4.5)          | 1.9            |
| <b>FREE CASH FLOW</b>                                       |         | <b>31.2</b>    | <b>(24.8)</b>  |
| Holding Company increases in capital                        |         | 0.8            | 0.1            |
| Increases in share capital of consolidated subsidiaries     |         | 0.2            | 0.1            |
| Dividends paid by subsidiaries to non-controlling interests |         | (8.2)          | (4.3)          |
| Change in fair value derivative instruments                 |         | (0.7)          | 10.9           |
| <b>CHANGES IN SHAREHOLDERS' EQUITY</b>                      |         | <b>(7.9)</b>   | <b>6.8</b>     |
| <b>Change in net financial position</b>                     | (m)     | <b>23.3</b>    | <b>(18.0)</b>  |
| <b>Opening net financial position</b>                       | (m)     | <b>(322.3)</b> | <b>(304.3)</b> |
| <b>CLOSING NET FINANCIAL POSITION</b>                       | (m)     | <b>(299.0)</b> | <b>(322.3)</b> |

(\*) See the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

At December 31 2016 shareholders' equity excluding minority interests amounted to Euro 172.9 million (compared to Euro 170.8 million as at 31 December 2015), as

illustrated in the table below.

| (in millions of Euro)                                                   | Note(*) | 12.31.2016    |          | 12.31.2015    |          |
|-------------------------------------------------------------------------|---------|---------------|----------|---------------|----------|
|                                                                         |         | <i>Amount</i> | <i>%</i> | <i>Amount</i> | <i>%</i> |
| Short-term operating assets                                             | (a)     | 358.1         |          | 341.8         |          |
| Short-term operating liabilities                                        | (b)     | (356.0)       |          | (341.2)       |          |
| Net working capital                                                     |         | 2.1           | 0.4      | 0.6           | 0.1      |
| Equity investments                                                      | (c)     | -             | -        | 0.4           | 0.1      |
| Intangible, tangible fixed assets and other medium and long-term assets | (d)     | 634.2         | 130.0    | 636.4         | 124.1    |
| CAPITAL INVESTED                                                        |         | 636.3         | 130.4    | 637.4         | 124.3    |
| Other medium and long-term liabilities                                  | (e)     | (148.3)       | (30.4)   | (124.7)       | (24.3)   |
| NET CAPITAL INVESTED                                                    |         | 488.0         | 100.0    | 512.7         | 100.0    |
| Net financial indebtedness                                              |         | 299.0         | 61.3     | 322.3         | 62.9     |
| Non-controlling interests                                               |         | 16.1          | 3.3      | 19.6          | 3.8      |
| Consolidated equity of the Group                                        |         | 172.9         | 35.4     | 170.8         | 33.3     |
| TOTAL                                                                   |         | 488.0         | 100.0    | 512.7         | 100.0    |

(\*) See the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

Outlined below are a few indicators as at 2016 year end:

- **gearing** (net financial position/total equity ratio) amounted to 1.58 at the end of 2016 (1.69 at the end of 2015);
- **ROI** (Return on Investment, calculated as the ratio of EBIT to average net capital invested) increased from 10.2% in 2015 to 14.9% in 2016;
- **ROE** (Return on Equity) was 5.4% at the end of 2016 (0.7% in 2015).

## INVESTMENTS AND RESEARCH & DEVELOPMENT ACTIVITIES

Investment in tangible fixed assets increased from Euro 51.3 million in 2015 to Euro 58.8 million in 2016 and were mainly oriented at building the new plant in Mexico, enhancing production capacity in China, engineering new products, extraordinary maintenance operations, improving industrial processes, and increasing productivity.

Research and development expenses amounted to Euro 38.1 million, slightly up compared to Euro 35.5 million in 2015, and were mostly focused on product's innovation.

## RECONCILIATION BETWEEN THE HOLDING COMPANY'S STATUTORY FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS

The following is a reconciliation of the Group's net result and equity at the end of the year with the equivalent figures for the Holding Company:

### Net result for the year

| (in millions of Euro)                                                                                                                             | 2016   | 2015   |
|---------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------|
| Net result per Sogefi S.p.A. financial statements                                                                                                 | 27.7   | (6.8)  |
| Group share of results of subsidiary companies included in the consolidated financial statements                                                  | 38.8   | 25.0   |
| Elimination of Sogefi S.p.A. dividends                                                                                                            | (39.8) | (17.0) |
| Elimination of unrealized gains deriving from intercompany transactions and other consolidation adjustments, net of the related deferred taxation | (17.4) | (0.1)  |
| NET RESULT PER CONSOLIDATED FINANCIAL STATEMENTS                                                                                                  | 9.3    | 1.1    |

### Shareholders' equity

| (in millions of Euro)                                                                                                                             | 12.31.2016 | 12.31.2015 |
|---------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Shareholders' equity per Sogefi S.p.A. financial statements                                                                                       | 197.9      | 167.5      |
| Group share of excess equity value of investments in consolidated companies over carrying value in Sogefi S.p.A. financial statements             | (29.9)     | (19.2)     |
| Elimination of unrealized gains deriving from intercompany transactions and other consolidation adjustments, net of the related deferred taxation | 4.9        | 22.5       |
| SHAREHOLDERS' EQUITY PER CONSOLIDATED FINANCIAL STATEMENTS                                                                                        | 172.9      | 170.8      |

## PERFORMANCE OF THE HOLDING COMPANY SOGEFI S.p.A.

In the year 2016, the the parent company Sogefi S.p.A. reported net income of Euro 27.7 million, compared to a net loss of Euro 6.8 million in the previous year.

Compared to the previous year, “Financial income/expenses and dividends” include higher dividends from subsidiaries, namely Euro 22.8 million, non-ordinary income in the amount of Euro 6 million from the favourable outcome of a dispute with French tax authorities over the allowance of tax credits on foreign dividends from previous years, as well as higher net financial expenses of Euro 1.5 million.

“Operating costs” decreased over the previous year and reflect less services provided to subsidiaries as per item “Other operating revenues”.

“Other non-operating income (expenses)” include extraordinary income of Euro 2.3 million generated after the expenses incurred in the international arbitration proceedings versus Dayco were allocated to the French subsidiary Sogefi Air & Refroidissement France S.A.S. During the previous year, non-operating expenses amounted to Euro 6.1 million as the Company waived trade receivables from the Argentinian subsidiaries and incurred an expense of Euro 2.2 million for reorganising executive and clerical functions.

| (in millions of Euro)                   | 2016   | 2015   |
|-----------------------------------------|--------|--------|
| Financial income/expenses and dividends | 29.9   | 2.6    |
| Other operating revenues                | 22.5   | 23.5   |
| Operating costs                         | (25.7) | (26.5) |
| Other non-operating income (expenses)   | 0.3    | (10.3) |
| RESULT BEFORE TAXES                     | 27.0   | (10.7) |
| Income taxes                            | (0.7)  | (3.9)  |
| NET RESULT                              | 27.7   | -6.8   |

As regards the **statement of financial position**, the table below shows the main items as at 31 December 2016, compared to the figures recorded at the end of the previous year:

| (in millions of Euro)                  | Note(*) | 12.31.2016 | 12.31.2015 |
|----------------------------------------|---------|------------|------------|
| Short-term assets                      | (n)     | 13.2       | 17.4       |
| Short-term liabilities                 | (o)     | (8.2)      | (10.0)     |
| Net working capital                    |         | 5.0        | 7.4        |
| Equity investments                     | (p)     | 416.7      | 404.0      |
| Other fixed assets                     | (q)     | 56.9       | 62.8       |
| CAPITAL INVESTED                       |         | 478.6      | 474.2      |
| Other medium and long-term liabilities | (r)     | (0.6)      | (0.9)      |
| NET CAPITAL INVESTED                   |         | 478.0      | 473.3      |
| Net financial indebtedness             |         | 280.1      | 305.8      |
| Shareholders' equity                   |         | 197.9      | 167.5      |
| TOTAL                                  |         | 478.0      | 473.3      |

(\*) See the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

The decrease in “Net working capital” is mainly due to higher service revenues from subsidiaries compared to the previous year.

“Equity investments” increased as a result of a capital addition of Euro 19.8 million to subsidiary Sogefi (Suzhou) Auto Parts Co., Ltd and decreased after subsidiary Allevard Sogefi U.S.A. Inc. repaid reserves amounting to Euro 23.1 million (equivalent to USD 25 million), Euro 16.1 million of which were recognised in the Income Statement under “Dividends and other income from equity investments”. In December 2016, the Company funded a capital stock increase approved by the French subsidiary Sogefi Filtration France S.A. by transferring the investments held in subsidiaries Sogefi Filtration Ltd, Sogefi Filtration d.o.o. and Sogefi Filtration Spain S.A. for a total amount of Euro 88.8 million.

“Shareholders' equity” amounted to Euro 197.9 million as at 31 December 2016, as compared to Euro 167.5 as at 31 December 2015. This increase reflects for the most part the result for the year 2016, share capital increase of Euro 0.8 million after employees of the Company and of the Group underwrote Stock Option Plans and an increase (Euro 1.6 million) in the specific reserve for cash flow hedging instruments (measured at fair value).

**Net financial indebtedness** as at 31 December 2016 was Euro 280.1 million, showing a year-over-year improvement of Euro 25.7 million compared to 31 December 2015.

| (in millions of Euro)                                             | 12.31.2016     | 12.31.2015     |
|-------------------------------------------------------------------|----------------|----------------|
| Short-term cash investments                                       | 25.1           | 45.2           |
| Short/medium-term financial receivables to third and subsidiaries | 154.1          | 124.3          |
| Short-term financial debts (*)                                    | (210.0)        | (130.5)        |
| Medium/long-term financial debts                                  | (249.3)        | (344.8)        |
| <b>NET FINANCIAL POSITION</b>                                     | <b>(280.1)</b> | <b>(305.8)</b> |

(\*) Including current portions of medium and long-term financial debts.

The table below illustrates the **cash flow statement** of Sogefi S.p.A.:

| (in millions of Euro)                       | Note(*) | 2016           | 2015           |
|---------------------------------------------|---------|----------------|----------------|
| <b>SELF-FINANCING</b>                       | (s)     | 34.2           | (1.6)          |
| Change in net working capital               | (t)     | 2.4            | (1.9)          |
| Other medium/long term assets/liabilities   | (u)     | 2.6            | 12.2           |
| <b>CASH FLOW GENERATED BY OPERATIONS</b>    |         | <b>39.2</b>    | <b>8.7</b>     |
| Sale of equity investments                  | (v)     | 7.0            | -              |
| <b>TOTAL SOURCES</b>                        |         | <b>46.2</b>    | <b>8.7</b>     |
| Increase in intangible assets               |         | 1.1            | 1.9            |
| Purchase of tangible assets                 |         | 0.1            | 0.3            |
| Purchase of equity investments              |         | 20.0           | 6.6            |
| <b>TOTAL APPLICATION OF FUNDS</b>           |         | <b>21.2</b>    | <b>8.8</b>     |
| <b>FREE CASH FLOW</b>                       |         | <b>25.0</b>    | <b>(0.1)</b>   |
| Holding Company increases in capital        |         | 0.8            | 0.1            |
| Change in fair value derivative instruments |         | (0.1)          | 1.9            |
| Dividends paid by the Holding Company       |         | -              | -              |
| <b>CHANGES IN SHAREHOLDERS' EQUITY</b>      |         | <b>0.7</b>     | <b>2.0</b>     |
| <b>Change in net financial position</b>     | (w)     | <b>25.7</b>    | <b>1.9</b>     |
| <b>Opening net financial position</b>       | (w)     | <b>(305.8)</b> | <b>(307.7)</b> |
| <b>CLOSING NET FINANCIAL POSITION</b>       | (w)     | <b>(280.1)</b> | <b>(305.8)</b> |

(\*) See the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

In 2016, the improved Free cash flow compared to the previous year was generated by the improved profitability of the year, an increase in working capital, repayments of reserves by subsidiaries and lower investments in tangible and intangible fixed assets net of share capital increases in subsidiaries.

## PERFORMANCE BY BUSINESS DIVISION

### FILTRATION BUSINESS UNIT

The following tables show the key results and economic indicators of the Filtration business unit for the year 2016 and the three previous years.

#### KEY ECONOMIC DATA

| (in millions of Euro)      | 2013        | 2014        | 2015        | 2016        | Change '16 vs '15 |
|----------------------------|-------------|-------------|-------------|-------------|-------------------|
| Sales revenues             | 468.6       | 473.7       | 529.7       | 535.1       | 1.0%              |
| EBIT                       | 22.3        | 28.4        | 30.9        | 25.1        | -18.8%            |
| <i>% on sales revenues</i> | <i>4.8%</i> | <i>6.0%</i> | <i>5.8%</i> | <i>4.7%</i> |                   |

#### KEY FINANCIAL DATA

| (in millions of Euro)                   | 2013 | 2014 | 2015  | 2016   | Change '16 vs '15 |
|-----------------------------------------|------|------|-------|--------|-------------------|
| Net Assets                              | 94.5 | 97.5 | 119.7 | 84.4   | -29.5%            |
| Net financial surplus<br>(indebtedness) | 12.1 | 13.5 | 11.1  | (14.9) | -234.2%           |

#### OTHER INDICATORS

|                     | 2013  | 2014  | 2015  | 2016  | Change '16 vs '15 |
|---------------------|-------|-------|-------|-------|-------------------|
| Number of employees | 2,794 | 2,751 | 2,629 | 2,735 | 4.0%              |

In 2016, the sales revenues of the Filtration business unit amounted to Euro 535.1 million, slightly up over 2015 (+1% and +6.7% at constant exchange rates). Excluding South America, the growth stood at 3%. During the period under consideration, the business unit benefited from business growth in China and India, which compensated for the sluggish performance of South American markets.

EBIT amounts to Euro 25.1 million compared to Euro 30.9 million in 2015. It should be noted that in 2016 EBIT includes asset writedowns of Euro 6.3 million (Euro 0.1 million in 2015) and non-ordinary expenses of Euro 6.5 million mainly deriving from South America (compared to an income of Euro 1 million in 2015). Net of which, EBIT would have increased by 26.3% to Euro 37.9 million, and its ratio to sales would have risen to 7.1% from the 5.7% recorded in 2015.

As at 31 December 2016, Net assets amounted to Euro 84.4 million compared to Euro 119.7 million at the end of 2015, whereas net financial indebtedness amounted to Euro 14.9 million (Euro 11.1 million in cash as at 31 December 2015).

The business unit workforce at the end of 2016 increased to 2,735 units from 2,629 units at the end of 2015.

## SUSPENSIONS BUSINESS UNIT

The following tables show the key results and economic indicators of the Suspensions business unit for the year 2016 and the three previous years.

### KEY ECONOMIC DATA

| (in millions of Euro) | 2013  | 2014  | 2015  | 2016  | Change '16 vs '15 |
|-----------------------|-------|-------|-------|-------|-------------------|
| Sales revenues        | 518.6 | 506.6 | 558.0 | 562.8 | 0.9%              |
| EBIT                  | 35.7  | 18.2  | 35.4  | 35.6  | 0.5%              |
| % on sales revenues   | 6.9%  | 3.6%  | 6.3%  | 6.3%  |                   |

### KEY FINANCIAL DATA

| (in millions of Euro)                   | 2013   | 2014   | 2015   | 2016   | Change '16 vs '15 |
|-----------------------------------------|--------|--------|--------|--------|-------------------|
| Net Assets                              | 121.2  | 106.8  | 108.6  | 125.3  | 15.4%             |
| Net financial surplus<br>(indebtedness) | (57.7) | (64.7) | (60.1) | (61.4) | -2.1%             |

### OTHER INDICATORS

|                     | 2013  | 2014  | 2015  | 2016  | Change '16 vs '15 |
|---------------------|-------|-------|-------|-------|-------------------|
| Number of employees | 2,714 | 2,582 | 2,663 | 2,625 | -1.4%             |

In 2016, the revenues of the Suspensions business unit amounted to Euro 562.8 million, slightly up over 2015 (+0.9% and +6.2% at constant exchange rates). Excluding South America, growth ratio was 2.7%.

During the period under consideration, the business unit expanded its business in China and Europe, which compensated the decline in South American markets.

EBIT amounts to Euro 35.6 million, basically in line with the 2015 figure. It should be noted that 2016 EBIT includes asset writedowns of Euro 2.7 million (Euro 0.2 million in 2015) and non-ordinary expenses of Euro 2.8 million recorded for the most part in Europe (compared to an income of Euro 1.5 million in 2015). Net of which, EBIT would have increased by 20.5% to Euro 41.1 million, and its ratio to sales would have risen to 7.3% from the 6.1% recorded in 2015.

Net assets as at 31 December 2016 amounted to Euro 125.3 million (compared to Euro 108.6 million at the end of 2015), whereas net financial position recorded an indebtedness of Euro 61.4 million compared to 60.1 million at the end of 2015.

The business unit workforce at the end of 2016 decreased to 2,625 units from 2,663 units as at 31 December 2015.

## AIR&COOLING BUSINESS UNIT

The following tables show the key results and economic indicators of the Air&Cooling business unit for the year 2016 and the three previous years.

### KEY ECONOMIC DATA

| (in millions of Euro)      | 2013         | 2014         | 2015          | 2016         | Change '16 vs '15 |
|----------------------------|--------------|--------------|---------------|--------------|-------------------|
| Sales revenues             | 351.8        | 374.3        | 415.3         | 480.2        | 15.6%             |
| EBIT                       | 7.7          | 14.2         | (1.2)         | 23.3         | -2038.1%          |
| <i>% on sales revenues</i> | <i>2.2 %</i> | <i>3.8 %</i> | <i>-0.3 %</i> | <i>4.8 %</i> |                   |

### KEY FINANCIAL DATA

| (in millions of Euro)                   | 2013  | 2014  | 2015  | 2016  | Change '16 vs '15 |
|-----------------------------------------|-------|-------|-------|-------|-------------------|
| Net Assets                              | 104.8 | 112.6 | 103.7 | 121.6 | 17.2%             |
| Net financial surplus<br>(indebtedness) | 46.4  | 56.5  | 34.6  | 51.5  | 48.8%             |

### OTHER INDICATORS

|                     | 2013  | 2014  | 2015  | 2016  | Change '16 vs '15 |
|---------------------|-------|-------|-------|-------|-------------------|
| Number of employees | 1,253 | 1,263 | 1,350 | 1,381 | 2.3%              |

In 2016, the revenues of the Air&Cooling business unit grew by 15.6% (+18.4% at constant exchange rates) to Euro 480.2 million compared to 2015. During the period under consideration, the business unit benefited from the positive performance in non-European markets, North America and China for the most part.

EBIT amounts to Euro 23.3 million (compared to a negative Euro 1.2 million in 2015) as it benefited from lower non-ordinary expenses (Euro 1 million in 2016 compared to Euro 13.8 million in 2015) and profitability gains achieved by measures aimed at reducing direct and indirect costs.

Net assets as at 31 December 2016 amounted to Euro 121.6 million (compared to Euro 103.7 million at the end of 2015), whereas net financial position recorded a surplus of Euro 51.5 million compared to Euro 34.6 million at the end of 2015.

The business unit workforce at the end of 2016 increased to 1,381 units from 1,350 units as at 31 December 2015.

## **OUTLOOK FOR OPERATIONS**

In 2017 the global car market is expected to experience a modest increase with limited growth in Europe, a contraction in North America and a slight recovery in South America.

The company is targeting a mid-single digit revenue growth in percentage terms driven by a good performance in China and India and to a lower extent by growth in North and South America.

In this environment, Sogefi expects to continue to improve its profitability.

## MANAGEMENT OF THE MAIN BUSINESS RISKS

In line with international best practice, the Group has initiated a structured, formal “ERM - Enterprise Risk Management” process that involves the joint efforts of management across all operations worldwide under the coordination of the Group's Chief Risk Officer.

Management at worldwide operations will identify and assess both potential and residual risks based on a specific risk model associated with the Group's strategic goals as well as define risk mitigation strategies.

More specifically, the Chief Risk Officer is to first prioritise risk areas within the risk model based on the Group's strategic goals and guidelines (key value drivers) (such as raw materials/commodities, economic situation, exchange rates, technology innovation, customer portfolio balancing, competitor monitoring, etc.), and define reference economic-financial parameters to measure risks and their impact (impact on revenues, EBIT, etc.) where applicable. Managers at a business unit and local level are then required to validate/supplement exposure findings in the identified priority risk areas and submit risk mitigation plans to help complete the overall Sogefi Group ERM Report. This method ensures that the following elements are in place and kept constantly up to date:

- target levels of exposure to priority risks;
- risk management strategies in line with existing risk attitude (transfer, reduce, eliminate, mitigate risk);
- action plans and management approaches to keep exposure levels within target limits.

The findings of the Sogefi Group ERM Report are also used to define the Internal Audit Action Plan adopting a risk-based approach, in line with international best practice. In detail, the Internal Audit Action Plan is defined yearly based directly on the findings of the assessments made as part of the Enterprise Risk Management process, and focusing on highest-risk areas identified by the ERM assessments.

For more details of the risk assessment method and the tasks and functions of the corporate Control and Risk System please read the “Code of Conduct of Sogefi S.p.A.” attached to the “Annual Report on Corporate Governance” for the year 2016 available at [www.sogefigroup.com](http://www.sogefigroup.com).

The following section looks at the main risks and uncertainties that the Group is potentially exposed to in the achievement of its business objectives/operations, together with a description of the ways in which said risks are managed.

To facilitate comprehension, risk factors have been grouped on the basis of their origin into homogeneous risk categories, with distinction between those that arise outside the Group (**external risks**) and those associated with the characteristics and structure of the organisation itself (**internal risks**).

In terms of **external risks**, first of all, the Group adopts a centralised management approach (at Group level or at business unit level) to **financial risk** (which includes

**risks of changes in interest rates and exchange rates, risks of changes in raw materials prices, credit risk and liquidity risk**), described in further detail in the *Explanatory and Supplementary Notes to the Consolidated Financial Statements* which should be referred to<sup>1</sup>.

With regard to **risks relating to competitors**, the Group is one of the leading players in the suspension components, filtration and Air&Cooling sectors at a worldwide level, and benefits from a progressive consolidation of the market and the resulting gradual reduction in the number of competitors.

With regard to the Suspensions sector, the Group benefits from objective barriers to the entry of new competitors, as this sector is structurally capital intensive and a wide technological and qualitative gap puts manufacturers in low-cost countries at a disadvantage. Similarly, the technological and qualitative gap represents a barrier to the entry of new competitors in the original equipment air intake and cooling sectors as well, while in the spare part sector, important barriers to entry are represented by the Group's exhaustive product range and by the lack of notoriety of the brands of manufacturers in *low-cost* countries.

As regards the **risks associated with customer management**, as well as the management of **credit risk** already mentioned within **financial risk**, the Group manages the **risk of the concentration of demand** by appropriately diversifying its customer portfolio, both from a geographic perspective and in terms of distribution channel (the major world manufacturers of cars and industrial vehicles in the original equipment market and leading international customers in the spare parts market).

Over the last few years, the Group has significantly reduced **credit risk** in the independent *aftermarket* (IAM), whereas the credit risk in original equipment (OEM) and original equipment spares (OES) markets is limited because these customers are world-leading auto makers and industrial vehicle manufacturers.

As regards the **risks associated with supplier management**, increased focus on multi-sourcing, especially from non-European suppliers and the ongoing search for alternate suppliers, helps to reduce the **risk of being excessively dependent on key suppliers/single suppliers**.

It should be noted that this multi-sourcing approach, i.e. sourcing each raw material from multiple suppliers based in different world countries helps to reduce the **risk of changes in raw materials prices** mentioned earlier when discussing the management of **financial risk**.

The Group places particular attention on the management of **country risk**, given the considerable geographic diversification of its business activities at world level.

In terms of the **risks associated with technological innovation**, the Group constantly seeks to innovate products and production processes.

Specifically, the Group's pipeline includes certain product/process innovations that are

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<sup>1</sup> For a detailed description of the centralised management of financial risk adopted by the Group, please see the "Explanatory and Supplementary Notes to the Consolidated Financial Statements", Chap. E, Note no. 39.

not available to key competitors, such as new elastic suspension components made from composite materials, a new oil cooling technology that uses aluminium foam and an innovative particulate emission control system.

With regard to the **risks related to health, safety and the environment**, each subsidiary has its own internal function that manages HSE in accordance with local laws and in accordance with Sogefi Group's guidelines. More specifically, the Parent Company Sogefi S.p.A. has approved an Environmental Policy for Health and Safety, which sets out the principles that all operations of subsidiaries should observe for the organisation of the HSE management system. Special emphasis is placed on monitoring the risk of accidents, which is a pillar of the plant operating approach "Kaizen Way" adopted at all production sites across the world and coordinated by a dedicated central management team at Group level.

In correlation with the environmental policy, 18 plants in the Suspensions business unit, 12 in the Filtration business unit and 8 in the Air&Cooling business unit are currently certified as complying with the international standard ISO 14001. With regard to OHSAS 18001, 2 plants in the Filtration business unit, 2 in the Air&Cooling business unit and 1 in the Suspensions business unit have had their health and safety systems certified to this standard.

The Company also took additional environmental mitigation measures in order to reduce energy consumption especially in production processes and at the same increase the use of renewable energy. In addition, the Company launched a programme to reduce the release of gas emissions into the environment, increase material recycling and reuse so as to dramatically reduce waste production (especially in those countries where the Group expect volumes to grow significantly) and – last but not least – to improve depuration plants so as to better treat liquid waste before releasing them into the environment and the sewage system.

Noteworthy are also the Group's measures aimed at enhancing logistics efficiency and significantly reducing environmental impact (for instance, less special transport operations, increased use of returnable containers, standardised pallet sizes, use of warehouses closer to production plants of customers, etc.).

The activities carried out in the plants are monitored by both experienced internal auditors and external auditors. Particular attention is paid to personnel training in order to consolidate and disseminate a safety culture.

As regards **internal risks**, namely risks mostly connected with internal activities and with the characteristics of the organisation itself, one of the major risks identified, monitored and actively managed by the Group is the **risk of product quality/complaints due to non conformity**: in this regard, it is worth drawing attention to the fact that the Sogefi Group considers ongoing quality improvement as a fundamental objective to meet customers' needs. The same focus on quality is placed on the supplier selection and approval process, as well as in the on-going quality control of supplies used in the manufacturing process (raw materials, semi-finished products, etc.), in order to prevent non-conformities in Group products partly or totally due to defective supplies. In correlation with the Group's quality policy, 20 plants in the Suspensions business unit, 15 in the Filtration business unit and 9 in the Air&Cooling business unit are currently certified as complying with the international standard ISO TS 16949. Some plants' systems are certified according to business specifications. Unforeseeable risk is

adequately covered by insurance, as regards both third party product liability and the potential launch of product recall campaigns.

With regard to the **risks associated with adequacy of managerial support (e.g. the effectiveness/efficiency of Group monitoring and reporting, of internal information flows etc.)**, information can be found in the “Annual Report on Corporate Governance”.

In terms of the set of **risks associated with human resource management**, the Group acknowledges the key role played by its human resources and the importance of maintaining clear relationships based on mutual loyalty and trust, as well as on the observance of conduct dictated by its Code of Ethics.

Working relationships are managed and coordinated in full respect of workers’ right and in full acknowledgement of their contribution, with a view to encouraging development and professional growth. Established selection processes, career paths, and incentive schemes are the tools used to make the most of human resources. The Group also uses a system of annual performance appraisals based on a clear definition of shared objectives, which can be measured in numerical, economic, financial, qualitative and individual terms. A variable bonus is paid depending on the degree to which said objectives are achieved. As regards medium-long term incentive schemes, again in 2016 a stock grant plan has been allocated to top management positions.

Lastly, with regard to the risks associated to the management of Information Systems, the Group manages the risks linked to the potential incompleteness/inadequacy of IT infrastructure and the risks related to the physical and logical safety of systems in terms of the protection of confidential data and information by means of specific units at group level. However, the Group places special emphasis on cyber risks, such as online fraud attempts e theft of sensitive data and/or information protected under privacy law. In order to minimise these risks, suitable technical and operational measures are being implemented and/or upgraded to prevent unauthorised fraudulent access to the different information systems of the Group by third parties, preventing financial losses and loss of sensitive data.

## OTHER INFORMATION

### RELATED PARTY TRANSACTIONS

Information on the most important economic transactions and balances with related parties is provided in the explanatory and supplementary notes to the consolidated financial statements, in the section entitled “Related Party Transactions”, as well as in the explanatory and supplementary notes to the statutory financial statements.

Dealings between Group companies are conducted at arm’s length, taking into account the quality and type of services rendered.

We point out that no transactions have been carried out with related parties or with entities or individuals other than related parties that, according to the definition used by Consob, are atypical or unusual, do not relate to the normal business activity or have a significant impact on the Group's results, balance and financial position.

In 2010, in accordance with Consob Resolution no. 17221 of 12 March 2010 as subsequently amended, the Company’s Board of Directors appointed the Related Party Transactions Committee, establishing that the members are to be the same as those of the Control and Risks Committee and approved the Procedure on related party transactions, which had previously received a favourable opinion of the Control and Risks Committee. The purpose of this Procedure is to establish the principles of conduct that the Company is bound to observe to guarantee the correct management of related-party transactions. This Procedure is available on the Company's website at [www.sogefigroup.com](http://www.sogefigroup.com), in the “Investor – Corporate Governance” section.

In accordance with Art. 2497-bis of Italian Civil Code, we point out that Sogefi S.p.A. is subject to management and coordination by its parent company CIR S.p.A.

### CORPORATE GOVERNANCE

Note that the “Annual Report on Corporate Governance” for 2016 was approved at the meeting of the Board of Directors that was called to approve the draft financial statements for the year ended 31 December 2016 and is made available to Shareholders as provided for by the law. The Report will also be available on the Company's website at [www.sogefigroup.com](http://www.sogefigroup.com), in the “Investor – Corporate Governance” section.

The Report also contains the information prescribed by Art. 123-*bis* of Italian Financial Consolidated Law, including information on ownership structures and compliance with the codes of conduct that the Company has adopted. Generally speaking, the Company's Corporate Governance is in line with the recommendations and rules contained in the Code of Conduct.

As regards Italian Legislative Decree no. 231/2001, which brings domestic regulations on administrative liability of legal entities into line with the international conventions signed by Italy, in February 2003 the Board of Directors adopted a Code of Ethics for the Sogefi Group. The Code clearly defines the values that the Group believes in as the

basis on which to achieve its objectives. It lays down rules of conduct which are binding on directors, employees and others who have ongoing relations with the Group.

On 26 February 2004 the Company also adopted an "Organization, Management and Control Model as per Italian Legislative Decree no. 231 of 8 June 2001" following the guidelines of the decree, with a view to ensuring conditions of fairness and transparency in the carrying on of the company's affairs and business activities.

A Supervisory Body was also set up with the task of monitoring the functioning, effectiveness and observance of the Model, as laid down in the decree.

## TREASURY SHARES

As at 31 December 2016, the Holding Company has 2,878,451 treasury shares in its portfolio, corresponding to 2.41% of capital, at an average price of Euro 2.28 each. In 2016, treasury shares decreased after they were assigned to beneficiaries of stock-based compensation plans.

## DECLARATIONS PURSUANT TO ARTICLES 36 AND 37 OF CONSOB REGULATION NO. 16191 OF 29 OCTOBER 2007

In accordance with the obligations set forth in article 2.6.2. of the Regulations of Borsa Italiana [Italian Stock Exchange], and with reference to the requirements referred to in articles 36 and 37 of Consob Resolution no. 16191 of 29 October 2007 as subsequently amended, it is hereby stated that there are no circumstances such as to prevent the listing of Sogefi stock on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. insofar as: Sogefi S.p.A. (the "Company") has obtained the articles of association and the composition and powers of the related control bodies from foreign subsidiaries based in countries that are not part of the European Union and are of material significance to the Company; the same foreign subsidiaries provide the Company's auditor with information necessary to perform annual and interim audits of Sogefi and use an administrative/accounting system appropriate for regular reporting to the Management and to the auditors of the Company of the income statement, balance and financial data necessary for the preparation of the consolidated financial statements. Sogefi S.p.A. will also publish the financial statements of foreign subsidiaries (based in non-European countries and with material significance to the Company), prepared for the purpose of the consolidated financial statements as at 31 December 2016, in accordance with the procedures indicated in the Consob regulation.

In consideration of the fact that Sogefi is subject to policy guidance and coordination by its parent company CIR – Compagnie Industriali Riunite S.p.A., it is also hereby stated that there are no circumstances such as to prevent the listing of Sogefi stock on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. insofar as the Company has fulfilled its publication obligations pursuant to article 2497-*bis* of Italian Civil Code; has independent decision-making powers in relations with customers and suppliers; does not hold a cash pooling system with CIR. The Company has a cash pooling system with subsidiaries that satisfies the interest of the company. This situation enables the Group's finances to be centralised, thus reducing the need to utilise funding from banks, and therefore minimising financial expense.

On 18 April 2000, the Company set up a Control and Risks Committee and an Appointments and Remuneration Committee that at present are fully made up by independent administrators.

Lastly, it is hereby stated that as at 31 December 2016, the Company's Board of Directors comprised 9 members, 5 of which meet the independence criteria, and therefore a sufficient number to guarantee that their contribution has an adequate weight when taking board decisions.

#### **EXEMPTION FROM THE OBLIGATION TO PUBLISH INFORMATION DOCUMENTS UNDER ARTICLE 70, PARAGRAPH 8 AND ARTICLE 71, PARAGRAPH 1-BIS OF THE RULES FOR ISSUERS**

In relation to art. 70, paragraph 8 and art. 71, paragraph 1-bis of Consob Regulation no. 11971/99, as amended by Consob Resolution no. 11971/99, on 23 October 2012, the Board of Directors resolved to make use of the exemption from the obligation to publish the information documents required for significant transactions consisting in mergers, spin-offs, capital increases by means of the conferral of assets in kind, takeovers and transfers.

#### **OTHER**

SOGEFI S.p.A. has its registered office in Via Ulisse Barbieri 2, Mantova (Italy) and its operating offices at Via Ciovassino 1/A, Milan (Italy) and at Parc Ariane IV- 7, Avenue du 8 May 1945, Guyancourt (France).

The Sogefi stock has been listed on the Milan Stock Exchange since 1986 and has been traded on the STAR segment since January 2004.

This report, which relates to the period 1 January to 31 December 2016, was approved by the Board of Directors on 27 February 2017.

#### **MAJOR EVENTS OCCURRED AFTER YEAR-END**

No significant events occurred after the end of the reporting period.

## **PROPOSED ALLOCATION OF NET PROFIT FOR THE YEAR**

The statutory financial statements as at 31 December 2016 that we submit for your approval show a net profit of Euro 27,720,351.72, which we propose to allocate to “Retained earnings”.

Milan, 27 February 2017

THE BOARD OF DIRECTORS

## ANNEX: NOTES RECONCILING THE FINANCIAL STATEMENTS SHOWN IN THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS CONTAINED IN THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND THE HOLDING COMPANY'S STATUTORY FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IAS/IFRS

### Notes relating to the Consolidated Financial Statements

- (a) the heading agrees with "Total working capital" in the Consolidated Statement Of Financial Position;
- (b) the heading agrees with the sum of the line items "Trade and other payables", "Tax payables" and "Other current liabilities" in the Consolidated Statement Of Financial Position;
- (c) the heading agrees with the sum of the line items "Investments in joint ventures" and "Other financial assets available for sale" in the Consolidated Statement Of Financial Position;
- (d) the heading agrees with the sum of the line items "Total fixed assets", "Other receivables", "Non-current trade receivables", "Deferred tax assets" and "Non-current assets held for sale" in the Consolidated Statement Of Financial Position;
- (e) the heading agrees with the line item "Total other long-term liabilities" in the Consolidated Statement Of Financial Position;
- (f) the heading agrees with the sum of the line items "Net result", "Non-controlling interests", "Depreciation, amortisation and writedowns", "Accrued costs for stock-based incentive plans", "Provisions for risks, restructuring and deferred taxes" and "Post-retirement and other employee benefits" in the Consolidated Cash Flow Statement;
- (g) the heading agrees with the sum of the line items of the Consolidated Cash Flow Statement "Exchange differences on private placement", "Recognition in the income statement of the fair value reserve in cash flow hedge" and "Other medium/long term assets/liabilities", excluding movements in Income Statement, of the fair value reserve no longer in hedge accounting;
- (h) the heading corresponds to the line item "Sale of subsidiaries (net of cash and cash equivalents) and associates" in the Consolidated Cash Flow Statement;
- (i) the heading agrees with the sum of the line items "Losses/(gains) on disposal of fixed assets and non-current assets held for sale", "Sale of property, plant and equipment" and "Sale of intangible assets" in the Consolidated Cash Flow Statement;
- (l) the heading agrees with the line items "Exchange differences" in the Consolidated Cash Flow Statement, excluding exchange differences on medium/long-term financial receivables and payables;
- (m) these headings differ from those shown in the Consolidated Cash Flow Statement as they refer to the total net financial position and not just to cash and cash equivalents.

### Notes relating to the Holding Company's Statutory Financial Statements

- (n) (the heading agrees with "Total working capital" ("Totale attivo circolante operativo") in the Holding Company's statutory Statement Of Financial Position;
- (o) the heading agrees with the sum of the line items "Trade and other payables" ("Debiti commerciali e altri debiti"), "Tax payables" ("Debiti per imposte") and "Other current liabilities" ("Altre passività correnti") in the Holding Company's statutory Statement Of Financial Position;
- (p) the heading agrees with the sum of the line items "Equity investments in subsidiaries" ("Partecipazioni in società controllate"), "Equity investments in associates" ("Partecipazioni in società collegate") and "Other financial assets available for sale" ("Altre attività finanziarie disponibili per la vendita") in the Holding Company's statutory Statement Of Financial Position;
- (q) the heading agrees with the sum of the line items "Total fixed assets" ("Totale immobilizzazioni"), "Other receivables" ("Altri crediti") and "Deferred tax assets" ("Imposte anticipate") in the Holding Company's statutory Statement Of Financial Position;
- (r) the heading agrees with the line item "Total other long-term liabilities" ("Totale altre passività a lungo termine") in the Holding Company's statutory Statement Of Financial Position;
- (s) the heading agrees with the sum of the line items "Net profit" ("Utile netto d'esercizio"), "Waiver of receivables from subsidiaries" ("Rinuncia crediti commerciali verso società controllate"), "Difference from passive investments conferred" ("Differenza passiva da conferimento partecipazioni"), "Depreciation and amortisation" ("Ammortamenti immobilizzazioni materiali e immateriali"), "Change in fair value of investment properties" ("Variazione fair value investimenti immobiliari"), "Accrual to Income Statement for fair value of cash flow hedging instruments" ("Stanziamento a conto economico fair value derivati cash flow hedge"), "Accrued costs for stock-based incentive plans" ("Accantonamenti costi per piani di incentivazione basati su azioni"), "Exchange differences on private placement" ("Differenze cambio su private placement"), "Financial expenses (unpaid) on bonds" ("Oneri finanziari (non pagati) su prestiti obbligazionari"), "Adjustment of fair value of call option" ("Adeguamento fair value su opzione call"), "Accrued costs for Phantom stock options" ("Accantonamenti costi per piani Phantom stock option") and "Net change in provision for employment termination indemnities" ("Variazione netta fondo trattamento di fine rapporto") as well as the change of deferred tax assets/liabilities included in the line "Other medium/long-term assets/liabilities" ("Altre attività/passività a medio lungo termine") of the Holding Company's statutory Cash Flow Statement;
- (t) the heading agrees with the sum of the line items "Change in net working capital" ("Variazione del capitale

- circolante netto”) and “Change in tax receivables/payables” (“Variazione dei crediti/debiti per imposte”) of the Holding Company's statutory Cash Flow Statement;
- (u) the heading is included in the line item “Other medium/long-term assets/liabilities” (“Altre attività/passività a medio lungo termine”) in the Holding Company's Statutory Cash Flow Statement, excluding movements relating to financial receivables/payables;
  - (v) the heading agrees with the line “Capital distributions from direct subsidiaries” (“Rimborsi di capitale da società controllate dirette”) of the Holding Company's statutory Cash Flow Statement;
  - (w) these headings differ from those shown in the Holding Company's statutory cash flow statement as they refer to the total net financial position and not just to cash and cash equivalents.

## DEFINITION OF THE PERFORMANCE INDICATORS

In accordance with recommendation CESR/05-178b published on 3 November 2005, the criteria used for constructing the main performance indicators deemed by the management to be useful for the purpose of monitoring Group performance are provided below.

**EBITDA:** EBITDA is calculated as the sum of "EBIT", "Depreciation and Amortisation" and the writedowns of tangible and intangible fixed assets included in the item "Other non-operating expenses (income)".

"Other non-operating expenses (income)" include amounts that do not relate to ordinary business activities such as:

- writedowns of tangible and intangible fixed assets
- imputed cost of stock option and stock grant plans
- accruals to provisions for legal disputes with employees and third parties
- product warranty costs
- strategic consulting services
- other writedowns of non-ordinary balance sheet items

**EBIT before non-ordinary expenses:** it is calculated by summing "EBIT" and the expenses and revenues arising from non-ordinary operations, such as "Restructuring costs", "Losses (gains) on disposal", "Product warranty costs" and "Other writedowns" included in "Other non-operating expenses (income)".

| (in thousands of Euro)            | 2016             |                     |                  |                                     |             |        |
|-----------------------------------|------------------|---------------------|------------------|-------------------------------------|-------------|--------|
|                                   | BU<br>Filtration | BU Air &<br>Cooling | BU<br>Suspension | Sogefi<br>Spa/Sogefi<br>Gestion SAS | Adjustments | Group  |
| Ebit                              | 25,104           | 23,277              | 35,611           | (3,983)                             | (5,502)     | 74,507 |
| Restructuring costs               | 2,195            | 2                   | 2,508            | (23)                                | 575         | 5,258  |
| Losses (gains) on disposal        | (596)            | (200)               | 95               | -                                   | 3           | (698)  |
| Product warranty Costs (*)        | 1,158            | 1,057               | 150              | -                                   | 3,894       | 6,258  |
| Other Writedowns (*)              | 3,947            | -                   | -                | -                                   | -           | 3,947  |
| Other (*)                         | (160)            | 160                 | -                | -                                   | -           | -      |
| EBIT before non-ordinary expenses | 31,649           | 24,296              | 38,363           | (4,006)                             | (1,030)     | 89,272 |

(\*) Amounts included in "Other non-operating expenses (income)"

| (in thousands of Euro)            | 2015             |                     |                  |                                     |             |         |
|-----------------------------------|------------------|---------------------|------------------|-------------------------------------|-------------|---------|
|                                   | BU<br>Filtration | BU Air &<br>Cooling | BU<br>Suspension | Sogefi<br>Spa/Sogefi<br>Gestion SAS | Adjustments | Group   |
| Ebit                              | 30,924           | (1,217)             | 35,441           | (13,100)                            | (1,305)     | 50,742  |
| Restructuring costs               | 2,076            | 1,086               | 1,802            | 2,368                               | -           | 7,332   |
| Losses (gains) on disposal        | (14)             | (75)                | (1,548)          | 40                                  | 0           | (1,597) |
| Product warranty Costs (*)        | 1,861            | 12,747              | 1,119            | -                                   | (1)         | 15,725  |
| Other Writedowns (*)              | -                | -                   | -                | -                                   | -           | -       |
| Other (*)                         | (4,957)          | -                   | (2,906)          | 7,814                               | 49          | 0       |
| EBIT before non-ordinary expenses | 29,889           | 12,541              | 33,907           | (2,877)                             | (1,257)     | 72,202  |

(\*)Amounts included in "Other non-operating expenses (income)". The line "Other" refers to the cancellation of the trade payables for intercompany services to Argentine companies.

"Restructuring costs" include voluntary redundancy incentives for all employee categories (managers, clerical staff, blue collar workers) and costs relating to the

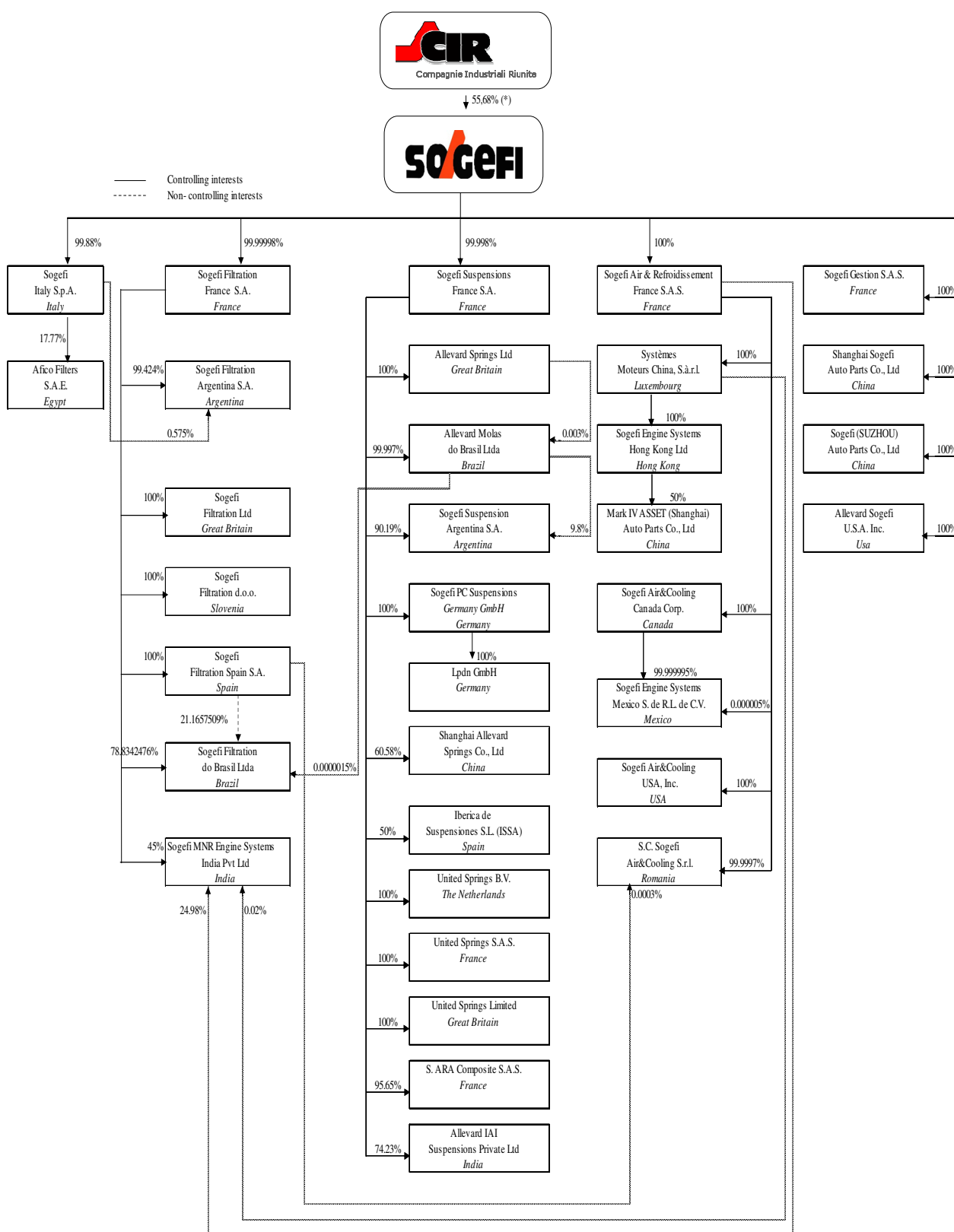
shutdown of a plant or the discontinuation of individual business lines (personnel costs and related costs associated with shutdown).

“Losses (gains) on disposal” include the difference between the net book value of sold assets and selling price.

Please note that as at 31 December 2016 there were no non-recurring expenses as defined in Consob Communication DEM/6064293 of 28 July 2006.

Normalised EBITDA (used to calculate covenants): it is calculated by summing “EBITDA” and the following expenses and revenues arising from non-ordinary operations: “Restructuring costs” and “Losses (gains) on disposal”.

## SOGEFI GROUP STRUCTURE: CONSOLIDATED COMPANIES



(\*) 57.06% of shares outstanding (excluding treasury shares)

**CONSOLIDATED FINANCIAL STATEMENTS**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
(in thousands of Euro)

| ASSETS                                    | Note  | 12.31.2016       | 12.31.2015       |
|-------------------------------------------|-------|------------------|------------------|
| <b>CURRENT ASSETS</b>                     |       |                  |                  |
| Cash and cash equivalents                 | 5     | 93,661           | 121,892          |
| Other financial assets                    | 6     | 5,881            | 6,335            |
| <i>Working capital</i>                    |       |                  |                  |
| Inventories                               | 7     | 164,977          | 159,694          |
| Trade receivables                         | 8     | 158,466          | 143,489          |
| Other receivables                         | 8     | 6,820            | 7,915            |
| Tax receivables                           | 8     | 24,192           | 26,753           |
| Other assets                              | 8     | 3,689            | 3,974            |
| <b>TOTAL WORKING CAPITAL</b>              |       | <b>358,144</b>   | <b>341,825</b>   |
| <b>TOTAL CURRENT ASSETS</b>               |       | <b>457,686</b>   | <b>470,052</b>   |
| <b>NON-CURRENT ASSETS</b>                 |       |                  |                  |
| <b>FIXED ASSETS</b>                       |       |                  |                  |
| Land                                      | 9     | 12,818           | 14,299           |
| Property, plant and equipment             | 9     | 243,263          | 232,610          |
| Other tangible fixed assets               | 9     | 6,401            | 5,343            |
| <i>Of which: leases</i>                   |       | <i>8,105</i>     | <i>6,832</i>     |
| Intangible assets                         | 10    | 281,650          | 284,050          |
| <b>TOTAL FIXED ASSETS</b>                 |       | <b>544,132</b>   | <b>536,302</b>   |
| <b>OTHER NON-CURRENT ASSETS</b>           |       |                  |                  |
| Investments in joint ventures             | 11    | -                | -                |
| Other financial assets available for sale | 12    | 46               | 439              |
| Non-current trade receivables             | 13    | 4                | 4                |
| Financial receivables                     | 13    | 15,770           | 13,156           |
| Other receivables                         | 13    | 29,818           | 34,666           |
| Deferred tax assets                       | 14-20 | 56,810           | 65,301           |
| <b>TOTAL OTHER NON-CURRENT ASSETS</b>     |       | <b>102,448</b>   | <b>113,566</b>   |
| <b>TOTAL NON-CURRENT ASSETS</b>           |       | <b>646,580</b>   | <b>649,868</b>   |
| <b>NON-CURRENT ASSETS HELD FOR SALE</b>   | 15    | 3,418            | -                |
| <b>TOTAL ASSETS</b>                       |       | <b>1,107,684</b> | <b>1,119,920</b> |

| LIABILITIES                                                                       | Note | 12.31.2016 | 12.31.2015 |
|-----------------------------------------------------------------------------------|------|------------|------------|
| <b>CURRENT LIABILITIES</b>                                                        |      |            |            |
| Bank overdrafts and short-term loans                                              | 16   | 11,005     | 17,843     |
| Current portion of medium/long-term financial debts and other loans               | 16   | 137,203    | 74,445     |
| <i>Of which: leases</i>                                                           |      | 1,721      | 1,252      |
| <b>TOTAL SHORT-TERM FINANCIAL DEBTS</b>                                           |      | 148,208    | 92,288     |
| Other short-term liabilities for derivative financial instruments                 | 16   | 400        | 325        |
| <b>TOTAL SHORT-TERM FINANCIAL DEBTS</b>                                           |      |            |            |
| <b>INSTRUMENTS</b>                                                                |      | 148,608    | 92,613     |
| Trade and other payables                                                          | 17   | 339,086    | 325,421    |
| Tax payables                                                                      | 17   | 8,664      | 6,071      |
| Other current liabilities                                                         | 18   | 8,197      | 9,686      |
| <b>TOTAL CURRENT LIABILITIES</b>                                                  |      | 504,555    | 433,791    |
| <b>NON-CURRENT LIABILITIES</b>                                                    |      |            |            |
| <b>AND</b>                                                                        |      |            |            |
| <b>DERIVATIVE FINANCIAL INSTRUMENTS</b>                                           |      |            |            |
| Financial debts to bank                                                           | 16   | 48,291     | 141,080    |
| Other medium/long-term financial debts                                            | 16   | 209,906    | 218,417    |
| <i>Of which: leases</i>                                                           |      | 9,039      | 8,135      |
| <b>DEBTS</b>                                                                      |      | 258,197    | 359,497    |
| Other medium/long-term financial liabilities for derivative financial instruments | 16   | 7,550      | 11,562     |
| <b>DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS</b>                                 |      | 265,747    | 371,059    |
| <b>OTHER LONG-TERM LIABILITIES</b>                                                |      |            |            |
| Long-term provisions                                                              | 19   | 89,317     | 79,215     |
| Other payables                                                                    | 19   | 15,046     | 9,195      |
| Deferred tax liabilities                                                          | 20   | 43,950     | 36,264     |
| <b>TOTAL OTHER LONG-TERM LIABILITIES</b>                                          |      | 148,313    | 124,674    |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                                              |      | 414,060    | 495,733    |
| <b>SHAREHOLDERS' EQUITY</b>                                                       |      |            |            |
| Share capital                                                                     | 21   | 62,065     | 61,681     |
| Reserves and retained earnings (accumulated losses)                               | 21   | 101,537    | 108,042    |
| Group net result for the year                                                     | 21   | 9,336      | 1,120      |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                                 |      |            |            |
| <b>ATTRIBUTABLE TO THE HOLDING COMPANY</b>                                        |      | 172,938    | 170,843    |
| Non-controlling interests                                                         | 21   | 16,131     | 19,553     |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                                 |      | 189,069    | 190,396    |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                               |      | 1,107,684  | 1,119,920  |

## CONSOLIDATED INCOME STATEMENT

(in thousands of Euro)

|                                                                     | Note | 2016      |       | 2015      |       |
|---------------------------------------------------------------------|------|-----------|-------|-----------|-------|
|                                                                     |      | Amount    | %     | Amount    | %     |
| Sales revenues                                                      | 23   | 1,574,091 | 100.0 | 1,499,050 | 100.0 |
| Variable cost of sales                                              | 24   | 1,120,218 | 71.2  | 1,079,129 | 72.0  |
| CONTRIBUTION MARGIN                                                 |      | 453,873   | 28.8  | 419,921   | 28.0  |
| Manufacturing and R&D overheads                                     | 25   | 147,531   | 9.3   | 146,045   | 9.7   |
| Depreciation and amortization                                       | 26   | 68,793    | 4.4   | 64,371    | 4.3   |
| Distribution and sales fixed expenses                               | 27   | 44,886    | 2.9   | 45,198    | 3.0   |
| Administrative and general expenses                                 | 28   | 85,066    | 5.4   | 84,142    | 5.6   |
| Restructuring costs                                                 | 30   | 5,258     | 0.3   | 7,332     | 0.5   |
| Losses (gains) on disposal                                          | 31   | (698)     | -     | (1,597)   | (0.1) |
| Exchange losses (gains)                                             | 32   | 1,806     | 0.1   | 3,590     | 0.2   |
| Other non-operating expenses (income)                               | 33   | 26,724    | 1.7   | 20,098    | 1.4   |
| - of which non-recurring                                            |      | 10,205    |       | 15,725    |       |
| EBIT                                                                |      | 74,507    | 4.7   | 50,742    | 3.4   |
| Financial expenses (income), net                                    | 34   | 31,458    | 2.0   | 32,778    | 2.2   |
| - of which fair value of the embedded derivative (convertible bond) |      | -         |       | (1,450)   |       |
| - of which other net financial expenses (income)                    |      | 31,458    |       | 34,228    |       |
| Losses (gains) from equity investments                              | 35   | (3,583)   | (0.2) | -         | -     |
| RESULT BEFORE TAXES AND NON-CONTROLLING INTERESTS                   |      | 46,632    | 2.9   | 17,964    | 1.2   |
| Income taxes                                                        | 36   | 32,637    | 2.1   | 12,913    | 0.9   |
| NET RESULT BEFORE NON-CONTROLLING INTERESTS                         |      | 13,995    | 0.8   | 5,051     | 0.3   |
| Loss (income) attributable to non-controlling interests             | 21   | (4,659)   | (0.2) | (3,931)   | (0.2) |
| GROUP NET RESULT                                                    |      | 9,336     | 0.6   | 1,120     | 0.1   |
| Earnings per share (EPS) (Euro):                                    | 38   |           |       |           |       |
| Basic                                                               |      | 0.081     |       | 0.010     |       |
| Diluted                                                             |      | 0.069     |       | 0.008     |       |

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME  
(in thousands of Euro)

|                                                                    | <i>Note</i> | <i>2016</i>     | <i>2015</i>    |
|--------------------------------------------------------------------|-------------|-----------------|----------------|
| Net result before non-controlling interests                        |             | 13,995          | 5,051          |
| <i>Other Comprehensive Income</i>                                  |             |                 |                |
| <i>Items that will not be reclassified to profit or loss</i>       |             |                 |                |
| - Actuarial gain (loss)                                            | <i>21</i>   | (12,916)        | 7,527          |
| - Tax on items that will not be reclassified to profit or loss     | <i>21</i>   | 2,059           | (1,852)        |
| <i>Total items that will not be reclassified to profit or loss</i> |             | <i>(10,857)</i> | <i>5,675</i>   |
| <i>Items that may be reclassified to profit or loss</i>            |             |                 |                |
| - Profit (loss) booked to cash flow hedging reserve                | <i>21</i>   | 2,212           | 4,831          |
| - Tax on items that may be reclassified to profit or loss          | <i>21</i>   | (533)           | (1,731)        |
| - Profit (loss) booked to translation reserve                      | <i>21</i>   | 899             | (9,834)        |
| <i>Total items that may be reclassified to profit or loss</i>      |             | <i>2,578</i>    | <i>(6,734)</i> |
| <i>Other Comprehensive Income</i>                                  |             | <i>(8,279)</i>  | <i>(1,059)</i> |
| Total comprehensive result for the period                          |             | 5,716           | 3,992          |
| Attributable to:                                                   |             |                 |                |
| - Shareholders of the Holding Company                              |             | 1,151           | (148)          |
| - Non-controlling interests                                        |             | 4,565           | 4,140          |

## CONSOLIDATED CASH FLOW STATEMENT

(in thousands of Euro)

|                                                                                   | 2016            | 2015            |
|-----------------------------------------------------------------------------------|-----------------|-----------------|
| Cash flows from operating activities                                              |                 |                 |
| Net result                                                                        | 9,336           | 1,120           |
| Adjustments:                                                                      |                 |                 |
| - non-controlling interests                                                       | 4,659           | 3,931           |
| - depreciation, amortization and writedowns                                       | 78,569          | 64,751          |
| - expenses recognised for share-based incentive plans                             | 248             | 642             |
| - expenses recognised for phantom stock option plans                              | -               | 8               |
| - payments of phantom stock options                                               | -               | -               |
| - exchange rate differences on private placement                                  | 3,467           | 10,910          |
| - (not paid) interest expense on bonds                                            | 3,466           | 3,150           |
| - provision in income statement of fair value derivatives in cash flow hedge      | (4,410)         | (10,510)        |
| - change in fair value of the call option (Embedded derivative)                   | -               | (1,450)         |
| - losses/(gains) on disposal of fixed assets and non-current assets held for sale | (698)           | (1,597)         |
| - losses/(gains) on sale of equity investments in associates and joint ventures   | -               | -               |
| - provisions for risks, restructuring and deferred taxes                          | 16,154          | (16,350)        |
| - post-retirement and other employee benefits                                     | 132             | (717)           |
| - change in net working capital                                                   | (2,057)         | (4,199)         |
| - other medium/long-term assets/liabilities                                       | 14,542          | 1,896           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       | <b>123,408</b>  | <b>51,585</b>   |
| INVESTING ACTIVITIES                                                              |                 |                 |
| Purchase of property, plant and equipment                                         | (58,763)        | (51,266)        |
| Purchase of intangible assets                                                     | (30,298)        | (30,377)        |
| Net change in other securities                                                    | 17              | 3,005           |
| Sale of subsidiaries (net of cash and cash equivalents) and associates            | -               | -               |
| Sale of property, plant and equipment                                             | 970             | 1,857           |
| Sale of intangible assets                                                         | 59              | 768             |
| <b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>                                   | <b>(88,015)</b> | <b>(76,013)</b> |
| FINANCING ACTIVITIES                                                              |                 |                 |
| Capital increase in subsidiaries from third parties                               | 173             | 82              |
| Net change in capital                                                             | 766             | 145             |
| Net purchase of treasury shares                                                   | -               | -               |
| Dividends paid to Holding Company shareholders and non-controlling interests      | (8,230)         | (4,341)         |
| New (repayment of) bonds                                                          | -               | -               |
| New (repayment of) long-term loans                                                | (46,638)        | 17,933          |
| New (repayment of) finance leases                                                 | 1,384           | 1,239           |
| <b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>                                   | <b>(52,545)</b> | <b>15,058</b>   |
| <b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                           | <b>(17,152)</b> | <b>(9,370)</b>  |
| Balance at the beginning of the period                                            | 104,050         | 110,606         |
| (Decrease) increase in cash and cash equivalents                                  | (17,152)        | (9,370)         |
| Exchange differences                                                              | (4,242)         | 2,814           |
| <b>BALANCE AT THE END OF THE PERIOD</b>                                           | <b>82,656</b>   | <b>104,050</b>  |
| ADDITIONAL INFORMATION OF CASH FLOW STATEMENT                                     |                 |                 |
| Taxes paid                                                                        | (13,523)        | (14,657)        |
| Financial expenses paid                                                           | (28,969)        | (30,405)        |
| Financial income collected                                                        | 3,852           | 1,806           |

NB: this table shows the elements that bring about the change in cash and cash equivalents, as expressly required by IAS 7 (in particular the net balance between “Cash and cash equivalents” and “Bank overdrafts and short-term loans” included bank overdrafts repayable on demand). The cash flow statement included in the Report of the board of directors on operations shows the various operational components of cash flow, thereby explaining all of the changes in the overall net financial position.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
(in thousands of Euro)

|                                                         | Attributable to the shareholders of the parent company |                                                     |                           |          | Non-controlling interests | Total    |
|---------------------------------------------------------|--------------------------------------------------------|-----------------------------------------------------|---------------------------|----------|---------------------------|----------|
|                                                         | Share capital                                          | Reserves and retained earnings (accumulated losses) | Net result for the period | Total    |                           |          |
| <i>Balance at December 31, 2014</i>                     | 61,631                                                 | 95,948                                              | 3,639                     | 161,218  | 19,568                    | 180,786  |
| Paid share capital increase                             | 50                                                     | 95                                                  | -                         | 145      | 82                        | 227      |
| Allocation of 2014 net profit:                          |                                                        |                                                     |                           |          |                           |          |
| Legal reserve                                           | -                                                      | 300                                                 | (300)                     | -        | -                         | -        |
| Dividends                                               | -                                                      | -                                                   | -                         | -        | (4,341)                   | (4,341)  |
| Retained earnings                                       | -                                                      | 3,339                                               | (3,339)                   | -        | -                         | -        |
| Recognition of share-based incentive plans              | -                                                      | 642                                                 | -                         | 642      | -                         | 642      |
| Fair value embedded derivative (convertible bond)       | -                                                      | 9,090                                               | -                         | 9,090    | -                         | 9,090    |
| Other changes                                           | -                                                      | (104)                                               | -                         | (104)    | 104                       | -        |
| <i>Comprehensive result for the period</i>              |                                                        |                                                     |                           |          |                           |          |
| Fair value measurement of cash flow hedging instruments | -                                                      | 4,831                                               | -                         | 4,831    | -                         | 4,831    |
| Actuarial gain (losses)                                 | -                                                      | 7,527                                               | -                         | 7,527    | -                         | 7,527    |
| Tax on items booked in Other Comprehensive Income       | -                                                      | (3,583)                                             | -                         | (3,583)  | -                         | (3,583)  |
| Currency translation differences                        | -                                                      | (10,043)                                            | -                         | (10,043) | 209                       | (9,834)  |
| Net result for the period                               | -                                                      | -                                                   | 1,120                     | 1,120    | 3,931                     | 5,051    |
| <i>Total comprehensive result for the period</i>        | -                                                      | (1,268)                                             | 1,120                     | (148)    | 4,140                     | 3,992    |
| <i>Balance at December 31, 2015</i>                     | 61,681                                                 | 108,042                                             | 1,120                     | 170,843  | 19,553                    | 190,396  |
| Paid share capital increase                             | 384                                                    | 382                                                 | -                         | 766      | 173                       | 939      |
| Allocation of 2015 net profit:                          |                                                        |                                                     |                           |          |                           |          |
| Legal reserve                                           | -                                                      | -                                                   | -                         | -        | -                         | -        |
| Dividends                                               | -                                                      | -                                                   | -                         | -        | (8,230)                   | (8,230)  |
| Retained earnings                                       | -                                                      | 1,120                                               | (1,120)                   | -        | -                         | -        |
| Recognition of share-based incentive plans              | -                                                      | 248                                                 | -                         | 248      | -                         | 248      |
| Other changes                                           | -                                                      | (70)                                                | -                         | (70)     | 70                        | -        |
| <i>Comprehensive result for the period</i>              |                                                        |                                                     |                           |          |                           |          |
| Fair value measurement of cash flow hedging instruments | -                                                      | 2,212                                               | -                         | 2,212    | -                         | 2,212    |
| Actuarial gain (losses)                                 | -                                                      | (12,916)                                            | -                         | (12,916) | -                         | (12,916) |
| Tax on items booked in Other Comprehensive Income       | -                                                      | 1,526                                               | -                         | 1,526    | -                         | 1,526    |
| Currency translation differences                        | -                                                      | 993                                                 | -                         | 993      | (94)                      | 899      |
| Net result for the period                               | -                                                      | -                                                   | 9,336                     | 9,336    | 4,659                     | 13,995   |
| <i>Total comprehensive result for the period</i>        | -                                                      | (8,185)                                             | 9,336                     | 1,151    | 4,565                     | 5,716    |
| <i>Balance at December 31, 2016</i>                     | 62,065                                                 | 101,537                                             | 9,336                     | 172,938  | 16,131                    | 189,069  |

**EXPLANATORY AND SUPPLEMENTARY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: CONTENTS**

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## **A) GENERAL ASPECTS**

SOGEFI is an Italian Group that is market leader in the field of components for motor vehicles, specializing in engine and cabin filtration systems, air intake and engine cooling systems, and suspension components.

SOGEFI is present in 3 continents and 18 countries, with 54 locations, of which 41 are production sites. It is a multinational group and a *partner* of the world's largest motor vehicle manufacturers.

The Holding Company Sogefi S.p.A. has its registered offices in Via Ulisse Barbieri 2, Mantova (Italy) and its operating offices in Via Ciovassino n. 1/A, Milan (Italy) and in Parc Ariane IV- 7, Avenue du 8 May 1945, Guyancourt (France).

The Sogefi stock has been listed on the Milan Stock Exchange, organised and managed by Borsa Italiana S.p.A. since 1986 and has been traded on the STAR segment since January 2004.

The Holding Company, Sogefi S.p.A., is subject to management and coordination of its parent company CIR – Compagnie Industriali Riunite S.p.A.

### **1. CONTENT AND FORMAT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

These financial statements have been prepared in accordance with Consob resolution no. 11971/1999 as subsequently amended, in particular by resolutions no. 14990 of 14 April 2005 and no. 15519 of 27 July 2006, and include the consolidated accounting schedules and explanatory and supplementary notes of the Group, prepared according to the IFRS international accounting standards issued by the IASB (International Accounting Standards Board) and endorsed by the European Union. IFRS means all the “International Financial Reporting Standards” (IFRS), all the “International Accounting Standards” (IAS) and all the interpretations of the “International Financial Reporting Interpretations Committee” (IFRS IC, formerly IFRIC), previously named the “Standing Interpretations Committee” (SIC).

It is specifically reported that the IFRS have been applied in a consistent manner to all the periods presented in this document.

The financial statements have been prepared on the basis of the conventional historical cost principle, except for the measurement of certain financial assets and liabilities, including derivatives instruments, where the application of the *fair value* principle is mandatory.

The financial statements used for consolidation purposes are those prepared by the Boards of Directors for approval by the shareholders of the individual companies. Said financial statements have been reclassified and adjusted to comply with International Financial Reporting Standards (IAS/IFRS), and Group accounting policies.

The Consolidated Financial Statements as at 31 December 2016 were approved by the Board of Directors of the Holding Company Sogefi S.p.A. on 27 February 2017.

## ***1.1 Format of the consolidated financial statements***

As regards to the format of the consolidated financial statements, the Company has opted to present the following types of accounting statements:

### ***Consolidated Statement of Financial Position***

The Consolidated Statement of Financial Position is presented in two sections, showing assets on one side and liabilities and equity on the other.

Assets and liabilities are in turn shown in the consolidated financial statements on the basis of their classification as current or non-current.

An asset/liability is classified as current when it satisfies one of the following criteria:

- it is expected to be realised/settled or it is expected to be sold or consumed in the normal cycle of operations, or
- it is held primarily for the purpose of trading, or
- it is expected to be realised/settled within twelve months after the reporting period.

If none of the above conditions are met, the assets/liabilities are classified as non-current.

Finally, liabilities are classified as current when the entity does not have unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### ***Consolidated Income Statement***

Costs shown in the Consolidated Income Statement are aggregated by function, while also making a distinction between fixed and variable costs.

The Income Statement also provides the following intermediate aggregates in order to give a clearer understanding of the typical results of normal manufacturing activities, the financial side of the business and the impact of taxation:

- Contribution margin;
- EBIT (earnings before interest and tax);
- Result before taxes and non-controlling interests;
- Net result before non-controlling interests;
- Group net result.

### ***Consolidated Statement of Other Comprehensive Income***

The Consolidated Statement of Other Comprehensive Income includes all the changes occurring in Other comprehensive income of the year, generated by transactions other than those conducted with shareholders and in compliance with specific IAS/IFRS accounting principles. The Group has chosen to present these changes in a separate table to the Consolidated Income Statement.

The changes in Other comprehensive income are shown before the related tax effect with the aggregate amount of the income taxes on said variations being recognised in a single item. Those components that may or may not be reclassified to Consolidated Income Statement at a later time are listed separately in the table.

### *Consolidated Cash Flow Statement*

A Consolidated Cash Flow Statement split by area of formation of the various types of cash flow as indicated in international accounting standards is included.

The Consolidated Cash Flow Statement has been prepared using the indirect method.

Please note that in this cash flow statement, the change in working capital may not coincide with the difference between the opening and closing statement of financial position figures because of exchange differences: in fact, cash flows generated are converted using the average exchange rate for the year, while the difference between the opening and closing consolidated statement of financial position figures in Euro may be influenced by changes in exchange rates at the beginning and end of the year, which have little to do with the generation or absorption of cash flow within working capital. The exchange differences generated by opening and closing statements of financial position are booked to "Exchange differences".

### *Consolidated Statement of Changes in Equity*

A Consolidated Statement of Changes in Equity is included as required by international accounting standards, showing separately the net result for the period and any change that was not charged through the Income Statement, but directly to the consolidated Other comprehensive income on the basis of specific IAS/IFRS, as well as transactions with shareholders in their role as shareholders.

## ***1.2 Content of the consolidated financial statements***

The Consolidated Financial Statements as at 31 December 2016 include the Parent Company Sogefi S.p.A. and the directly or indirectly controlled subsidiaries.

Section H of these notes gives a list of the companies included in the scope of consolidation and the percentages held.

These financial statements are presented in Euro and all figures are rounded up or down to the nearest thousand Euro, unless otherwise indicated.

The consolidated financial statements (prepared on a line-by-line basis) include the financial statements of Sogefi S.p.A., the Holding Company, and of all the Italian and foreign companies under its direct or indirect control, which is normally identified as control over the majority of the voting rights.

During the year the following change occurred in the scope of consolidation:

- subsidiary Sogefi Suspensions France S.A. increased its percentage of ownership in subsidiary S. ARA Composite S.A.S. from 95% to 95.65% through a share capital increase not subscribed by non-controlling interest shareholders that led to an amount of Euro 70 thousand being reclassified between non-controlling interests and Group's shareholders' equity.

No further changes were made to the scope of consolidation during the period.

Please also note that during the year 2016:

- some subsidiaries changed their name. For further details, please refer to note 47 (List of Group companies as at 31 December 2016);

- in order to reorganise the Group's corporate structure, the Parent Company Sogefi S.p.A. transferred the following equity investments to subsidiary Sogefi Filtration France S.A.: Sogefi Filtration Spain S.A., Sogefi Filtration d.o.o. and Sogefi Filtration Ltd; said transfer did not have any impact on the Group's consolidated financial statements.
- in order to reorganise the Group's corporate structure, the subsidiary Sogefi Filtration do Brasil Ltda transferred its investment in Sogefi Filtration Argentina S.A. to Sogefi Filtration France S.A.; said transfer did not have any impact on the Group's consolidated financial statements.

### 1.3 Group composition

As required by IFRS 12, Group composition as at 31 December 2016 and 31 December 2015 was as follows:

| Business Unit         | Region          | Wholly-owned subsidiaries |                   |
|-----------------------|-----------------|---------------------------|-------------------|
|                       |                 | December 31, 2016         | December 31, 2015 |
| Air&Cooling           | Canada          | 1                         | 1                 |
|                       | France          | 1                         | 1                 |
|                       | Messico (*)     | 1                         | 1                 |
|                       | Romania         | 1                         | 1                 |
|                       | China (**)      | 2                         | 2                 |
|                       | Lussemburgo     | 1                         | 1                 |
|                       | USA             | 1                         | 1                 |
|                       | India           | -                         | -                 |
|                       | Hong Kong       | 1                         | 1                 |
| Filtration            | Italy (***)     | 1                         | 1                 |
|                       | France          | 1                         | 1                 |
|                       | Great Britain   | 1                         | 1                 |
|                       | Spain           | 1                         | 1                 |
|                       | Slovenia        | 1                         | 1                 |
|                       | USA (****)      | 1                         | 1                 |
|                       | Brazil          | 1                         | 1                 |
|                       | Argentina       | 1                         | 1                 |
| Suspensions           | France          | 2                         | 2                 |
|                       | Great Britain   | 2                         | 2                 |
|                       | Germany         | 2                         | 2                 |
|                       | The Netherlands | 1                         | 1                 |
|                       | Brazil          | 1                         | 1                 |
|                       | Argentina       | 1                         | 1                 |
| Sofegi Gestion S.A.S. | France          | 1                         | 1                 |
| <b>TOTAL</b>          |                 | <b>27</b>                 | <b>27</b>         |

(\*) This subsidiary works also for Suspensions business unit.

(\*\*) These subsidiaries work also for Filtration and Suspensions business units.

(\*\*\*) This subsidiary works also for Suspensions and Air&Cooling business unit.

(\*\*\*\*) This subsidiary works also for Air&Cooling business unit.

| <i>Business Unit</i> | <i>Region</i> | <i>Non-wholly-owned subsidiaries</i> |                   |
|----------------------|---------------|--------------------------------------|-------------------|
|                      |               | December 31, 2016                    | December 31, 2015 |
| Air&Cooling          | China         | 1                                    | 1                 |
| Filtration           | India (*****) | 1                                    | 1                 |
| Suspensions          | France        | 1                                    | 1                 |
|                      | Spain         | 1                                    | 1                 |
|                      | China         | 1                                    | 1                 |
|                      | India         | 1                                    | 1                 |
| <b>TOTAL</b>         |               | <b>6</b>                             | <b>6</b>          |

(\*\*\*\*\*) This subsidiary works also for Air&Cooling business unit.

## 2. CONSOLIDATION PRINCIPLES AND ACCOUNTING POLICIES

The main accounting principles and standards applied in preparation of the consolidated financial statements and of the Group aggregate financial disclosures are set forth below.

These Consolidated Financial Statements have been prepared in accordance to the going concern assumption, as the Directors have verified the non-existence of financial, performance or other indicators that could give rise to doubts as to the Group's ability to meet its obligations in the foreseeable future. The risks and uncertainties relating to the business are described in the dedicated sections in the Directors' Report. A description of how the Group manages financial risks, including liquidity and capital risk, is provided in note 39.

### 2.1 Consolidation principles

The financial statements as at 31 December 2016 of the companies included in the scope of consolidation, prepared in accordance with Group accounting policies with reference to IFRS, have been used for consolidation purposes.

The scope of consolidation includes subsidiaries, joint ventures and associates.

All the companies over which the Group has the direct or indirect power to determine the relevant activities (i.e., the financial and operating policies) – in other words, those companies that determine the highest exposure to variable returns – are considered subsidiaries. Specifically, 50% owned company Iberica de Suspensiones S.L. is treated as a subsidiary because the Group controls the majority of votes of the Board of Directors, which is the corporate body tasked with deciding on the entity's relevant activities.

The assets, liabilities, costs and revenues of the individual consolidated companies are fully consolidated on a line-by-line basis, regardless of the percentage owned, while the carrying value of consolidated investments held by the Holding Company and other consolidated companies is eliminated against the related share of equity.

All intercompany balances and transactions, including unrealised profits deriving from transactions between consolidated companies, are eliminated. Unrealised losses are eliminated, except when a loss represents an impairment indicator to be recognised in the Income Statement.

The financial statements of the subsidiaries are drawn up using the currency of the primary economic environment in which they operate (“functional currency”). The consolidated financial statements are presented in Euro, the functional currency of the Holding Company and hence the currency of presentation of the consolidated financial statements of the Sogefi Group.

The procedures for translation of the financial statements expressed in foreign currency other than the Euro are the following:

- the items of the Consolidated Statement of Financial Position are translated into Euro at the year-end exchange rates;
- the Income Statement items are translated into Euro using the year’s average exchange rates;
- differences arising from the translation of equity's opening balance with year-end exchange rates are recorded in the translation reserve account, together with any difference between the net result of income statement and statement of financial position;
- whenever a subsidiary with a different functional currency from Euro is disposed of, any exchange differences included in Other comprehensive income is reclassified to the Income Statement;
- dividends paid by companies that use functional currencies other than the Euro are converted at the average exchange rate of the previous year for the company that pays the dividend and at the current exchange rate for the company that receives the dividend; exchange differences between the two amounts are recorded to the translation reserve account.

The following exchange rates have been used for translation purposes:

|                  | 2016           |              | 2015           |              |
|------------------|----------------|--------------|----------------|--------------|
|                  | <i>Average</i> | <i>12.31</i> | <i>Average</i> | <i>12.31</i> |
| US dollar        | 1.1066         | 1.0541       | 1.1091         | 1.0887       |
| Pound sterling   | 0.8189         | 0.8562       | 0.7257         | 0.7340       |
| Brazilian real   | 3.8616         | 3.4305       | 3.6390         | 4.3116       |
| Argentine peso   | 16.3345        | 16.7476      | 10.2114        | 14.0964      |
| Chinese renminbi | 7.3497         | 7.3201       | 6.9691         | 7.0607       |
| Indian rupee     | 74.3494        | 71.5820      | 71.1238        | 72.0461      |
| New romanian Leu | 4.4907         | 4.5391       | 4.4450         | 4.5241       |
| Canadian dollar  | 1.4664         | 1.4188       | 1.4158         | 1.5116       |
| Mexican peso     | 20.6569        | 21.7723      | 17.5623        | 18.9143      |
| Hong Kong dollar | 8.5903         | 8.1753       | 8.5977         | 8.4374       |

A joint venture is an entity for which strategic financial and operating decisions concerning the relevant activities of the company are made with the unanimous approval of the controlling parties.

An associate is an entity in which the Group is able to exert a significant influence, but without being able to control its relevant activities.

Investments in joint ventures and associates are consolidated applying the equity method, which means that the results of operations of associates and any changes in Other comprehensive income of the joint ventures and associates are reflected in the consolidated Income Statement and in Consolidated Statement of Other Comprehensive Income. If the carrying value exceeds the recoverable amount, the carrying value of the

investment in the joint venture or in the associate is adjusted by booking the related loss to the Income Statement.

Company AFICO FILTERS S.A.E. owned at 17.77% as at 31 December 2016 (owned at 22.62% as at 31 December 2015) was not classified as associate due to the significant lack of Group's members in the management bodies of the company (which means the Group does not exert significant influence on the company).

## ***2.2 Business combinations***

Business combinations are recognised under the acquisition method. According to this method, the consideration transferred to a business combination is measured at fair value calculated as the aggregate of the acquisition-date fair value of the assets transferred and liabilities assumed by the Company and of the equity instruments issued in exchange for the control of the acquired entity.

On the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their acquisition-date fair value; the following items represent exception to the above and are valued according to their reference principle:

- deferred tax assets and liabilities;
- assets and liabilities relating to employee benefits;
- liabilities or equity instruments relating to share-based payments of the acquired entity or share-based payments relating to the Group, issued as a replacement of contracts of the acquired entity;
- assets held for sale and discontinued assets and liabilities.

Goodwill is measured as the surplus between the sum of the consideration transferred to the business combination, the value of non-controlling interests and the fair value of previously-held equity interest in the acquiree with respect to the fair value of the net assets transferred and liabilities assumed as at the acquisition-date. If the fair value of the net assets transferred and liabilities assumed as at the acquisition-date exceeds the sum of the consideration transferred, the value of non-controlling interests and the fair value of the previously-held equity interest in the acquiree, said surplus is immediately booked to the Income Statement as gain resulting from said transaction.

The share of non-controlling interests as at the acquisition-date may be measured at fair value or as a proportion of the fair value of net assets in the acquiree. The measurement method adopted is decided on a transaction-by-transaction basis.

## ***2.3 Accounting policies***

The following accounting policies have been applied in the financial statements as at 31 December 2016.

## **Cash and cash equivalents**

Cash and cash equivalents are those held to meet short-term cash needs, rather than for investment or other purposes. For an investment to be considered as cash or cash equivalent, it must be able to be readily converted into a known amount of cash and must be subject to an insignificant risk of change in value.

## **Inventories**

Inventories are stated at the lower of purchase or manufacturing cost, determined on a weighted average cost basis, and realisable value based on market trends, net of variable selling costs.

Manufacturing cost includes raw materials and all direct or indirect production-related expenses. Financial expenses are excluded. Obsolete and slow-moving inventories are written down according to their realisable value.

## **Receivables included in current assets**

Receivables are initially recognised at fair value of the consideration to be received, which usually corresponds to the nominal value shown on the invoice, adjusted (if necessary) to their estimated realisable value by making provision for doubtful accounts. Subsequently, receivables are measured at amortised cost, which generally corresponds to their nominal value.

Receivables assigned through without-recourse *factoring* transactions after which the related risks and benefits are definitively transferred to the assignee are derecognised from the statement of financial position at the time of transfer. Receivables assigned through recourse *factoring* transactions are not derecognised.

## **Tangible fixed assets**

Tangible fixed assets mainly relate to industrial sites. Assets are shown at historical cost, net of accumulated depreciation and accumulated impairment losses.

Cost includes related charges, together with the portion of direct and indirect expenses reasonably attributable to individual assets.

Tangible fixed assets are depreciated each month on a straight-line basis using rates that reflect the technical and economic remaining lives of the related assets.

The depreciable value is the cost of an asset less its residual value, where the residual value of an asset is the estimated value that the entity could receive currently from its disposal, if the asset was already in the condition expected at the end of its useful life net of estimated disposal costs.

Depreciation is calculated from the month that the asset becomes available for use, or when it is potentially able to provide the economic benefits expected of it.

The annual average depreciation rates applied are as follows:

|                                              | %        |
|----------------------------------------------|----------|
| Land                                         | n.a.     |
| Industrial buildings and light constructions | 2.5-12.5 |
| Plant and machinery                          | 7-14     |
| Industrial and commercial equipment          | 10-25    |
| Other assets                                 | 10-33.3  |
| Assets under construction                    | n.a.     |

Land, assets under construction and payments on account are not depreciated.

Ordinary maintenance costs are charged to the Income Statement.

Maintenance costs that increase the value, functions or useful life of fixed assets are recorded directly as the increase in the value of the assets to which they refer and depreciated over their residual useful lives.

Gains or losses on the disposal of assets are calculated as the difference between the sales proceeds and the net book value of the asset and are charged to the Income Statement for the period.

Grants are shown in the Statement of Financial Position as an adjustment of the book value of the asset concerned. Grants are then recognised as income over the useful life of the asset by effectively reducing the depreciation charge each year.

#### *Assets under lease*

There are two types of leases: finance leases and operating leases.

A lease is considered a finance lease when it transfers substantially all risks and benefits incidental to ownership of the asset to the lessee.

As envisaged in IAS 17, a lease is considered a finance lease when the following elements are present, either individually or in combination:

- the contract transfers ownership of the asset to the lessee at the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that it is reasonably certain, at the inception of the lease, that it will be exercised;
- the lease term is for the major part of the useful life of the asset, even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments is equal to at least the fair value of the asset being leased;
- the assets being leased are of such a specialised nature that only the lessee is able to use them without making major modifications.

Assets available to Group companies under contracts that fall into the category of finance leases are accounted for as tangible fixed assets at their fair value at the date of purchase or, if lower, at the present value of the minimum payments due under the lease; the corresponding liabilities to the lessor are shown in the Statement of Financial Position as financial debts. The assets are depreciated over their estimated useful lives.

Lease payments are split between the principal portion, which is booked as a reduction of financial debts, and interest. Financial expenses are charged directly to the Income Statement for the period.

Payments under operating lease contracts, on the other hand, are charged to the Income Statement on a straight-line basis over the life of the contract.

### **Intangible assets**

An intangible asset is only recognised if it is identifiable and verifiable, it is probable that it will generate economic benefits in the future and its cost can be measured reliably.

Intangible assets with a finite life are valued at purchase or production cost, net of amortisation and accumulated impairment losses.

The annual average amortisation rates applied are as follows:

|                                                                                        | %       |
|----------------------------------------------------------------------------------------|---------|
| Development costs                                                                      | 20-33.3 |
| Industrial patents and intellectual property rights, concessions, licences, trademarks | 10-33.3 |
| Customer relation                                                                      | 5       |
| Trade name                                                                             | 5       |
| Software                                                                               | 20-50   |
| Other                                                                                  | 20-33.3 |
| Goodwill                                                                               | n.a.    |
| Assets under construction                                                              | n.a.    |

Amortisation is based on the asset's estimated useful life and begins when it is available for use.

#### *Research and development expenses*

Research expenses are charged to the income statement as incurred in accordance with IAS 38.

Development expenses relating to specific projects are capitalised when their future benefit is considered reasonably certain by virtue of a customer's commitment; they are then amortised over the entire period of future profits expected to be earned by the project in question.

Costs incurred in developing the range of after-market products are capitalised from the time a certain product is recognised to be missing from the product portfolio. Its future benefit is considered reasonably certain because the new product will be added to the product catalogue and made available to customers.

The capitalised value of the various projects is reviewed annually - or more frequently if there are particular reasons for doing so - analysing its recoverable amount to assess if there have been any impairment losses.

#### *Trademarks and licences*

Trademarks and licences are valued at cost, less amortisation and accumulated impairment losses. The cost is amortised over the shorter of the contract term and the finite useful life of the asset.

### *Customer Relations*

Customer relations represent the value of the Systèmes Moteurs Group's customer portfolio at the acquisition date as determined during the Purchase Price Allocation process.

### *Brand name*

Brand name represents the value of the "Systèmes Moteurs" brand name at the acquisition date as determined during the Purchase Price Allocation process.

### *Software*

The costs of software licences, including related charges, are capitalised and shown in the financial statements net of amortisation and any accumulated impairment losses.

It should be pointed out that a multi-year project was launched in 2011 to implement a new integrated IT system across the Group. Relating costs are capitalised by Parent Company Sogefi S.p.A., that will licence the intellectual property rights on the IT system for use by the subsidiaries involved in the implementation process receiving the payment of royalty fees. The useful life of the fixed asset is estimated at 10 years and amortisation begins when implementation at each individual company is completed.

### *Goodwill*

Goodwill resulting from business combinations is initially recognised at cost as at the acquisition-date, as detailed in the paragraph above entitled "Business combinations". Goodwill is not amortised but is tested annually for impairment, or more frequently if specific events or changed circumstances indicate a potential loss in value. Unlike other intangible assets, reversal of an impairment loss is not allowed for goodwill.

For impairment test purposes, goodwill was allocated to each of the Cash Generating Units (CGU) due to benefit from the acquisition.

The Sogefi Group currently encompasses five CGUs: Filtration (previously named "Engine Systems – Fluid Filters"), Air&Cooling (previously named "Engine Systems – Air Intake and Cooling"), Car Suspension, Industrial Vehicles Suspension and Precision Springs.

The goodwill currently on the books only concerns the Filtration, Air&Cooling CGUs and the Car Suspension CGU.

### *Intangible assets with an indefinite useful life*

Intangible assets with an indefinite useful life are not amortised, but are tested annually for impairment, or more frequently if there is an indication that the asset may have suffered a loss in value. As at 31 December 2016, the Group has no intangible assets with an indefinite useful life.

## **Impairment losses of tangible and intangible fixed assets**

If there are indications of possible losses in value, tangible and intangible fixed assets are subjected to impairment test, estimating the asset's recoverable amount and comparing it with its net book value. If the recoverable amount is less than the book value, the latter is reduced accordingly. This reduction constitutes an impairment loss, which is booked to the income statement.

For goodwill and any other intangible fixed assets with indefinite useful life, an impairment test is carried out at least once a year.

With the exception of goodwill, if a previous writedown is no longer justified, a new recoverable amount is estimated, providing it is not higher than what the carrying value would have been if the writedown had never been made. This reversal is also booked to the Income Statement.

### **Equity investments in other companies and other securities**

In accordance with IAS 39, equity investments in entities other than subsidiaries, joint ventures and associates are classified as financial assets available for sale which are measured at fair value, except in situations where the market price or fair value cannot be reliably determined. In this case the cost method is used.

Gains and losses deriving from fair value adjustments are booked to a specific item in Other comprehensive income. In the case of objective evidence that an asset suffered an impairment loss or it is sold, the gains and losses previously recognised under Other Comprehensive Income are reclassified to the Income Statement.

For a more complete discussion of the principles regarding financial assets, reference should be made to the note specifically prepared on this matter (paragraph 3 "Financial assets").

### **Non-current assets held for sale**

Under IFRS 5 "Non-current assets held for sale and discontinued operations", providing the relevant requirements are met, non-current assets whose book value will be recovered principally by selling them rather than by using them on a continuous basis, have to be classified as being held for sale and valued at the lower of book value or fair value net of any selling costs. From the date they are classified as non-current assets held for sale, their depreciation is suspended.

### **Loans**

Loans are initially recognised at cost, represented by the fair value received, net of related loan origination charges.

After initial recognition, loans are measured at amortised cost by applying the effective interest rate method.

The amortised cost is calculated taking account of issuing costs and any discount or premium envisaged at the time of settlement.

### **Derivatives**

For accounting purposes, the treatment of derivative financial instruments depends on whether a derivative is speculative in nature or whether it can be considered a hedging instrument.

All derivatives are initially recognised in the Statement of Financial Position at cost as this represents their fair value. Subsequently, all derivatives are measured at fair value.

Any changes in the fair value of derivatives that are not designated for hedge accounting are booked to the Income Statement (under "Financial expenses (income), net").

Derivatives that can be booked under the hedge accounting are classified as:

- fair value hedges if they are meant to cover the risk of changes in the market value of the underlying assets or liabilities;
- cash flow hedges if they are taken out to hedge the risk of fluctuations in the cash flows deriving from an existing asset or liability, or from a future transaction that is highly probable.

For derivatives classified as fair value hedges, the gains and losses that arise on determining their fair value and the gains and losses that derive from adjusting the underlying hedged items to their fair value are booked to the Income Statement (for the hedged risk).

For those classified as cash flow hedges, used for example, to hedge medium/long-term loans at floating rates, gains and losses that arise from their valuation at fair value are booked directly to Other comprehensive income for the part that effectively hedges the risk for which they were taken out. The portion booked to Other comprehensive income will be reclassified to the Income Statement (under the item “Financial expenses (income), net” in the period) when the hedged assets and liabilities impact the costs and revenues of the period.

When an instrument is determined to be an ineffective hedge, the hedging relationship is discontinued and the following amounts are booked to Income Statement (under the item “Financial expenses (income), net”):

- the change in fair value of the derivative since the date the hedge last proved effective is immediately recognised in the Income Statement;
- the reserve previously booked to Other Comprehensive Income is recognised in the Income Statement over the same period of time as the differentials relating to the underlying item hedged previously (if the hedged item is still booked to the Consolidated Statement of Financial Position of the Group).

Note that the Group has adopted a specific procedure for managing derivative financial instruments as part of an overall risk management policy.

### **Trade and other payables**

Payables are initially recognised at fair value of the consideration to be paid and subsequently at amortised cost, which generally corresponds to their nominal value.

### **Provisions for risks and charges**

Provisions for risks and charges are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

On the other hand, no provision is made in the case of risks for which there is only a possibility that a liability may arise. In this case, the risk is disclosed in the notes on commitments and risks without making any provision.

Provisions relating to corporate reorganizations are only set aside once they have been approved and raised a valid expectation to the parties involved.

### **Post-retirement and similar employee benefits**

Group employees have defined-benefit and/or defined-contribution pension plans, depending on the conditions and local practices of the countries in which the group operates.

The Group's responsibility is to finance the pension funds for the defined-benefit plans (including the employment termination indemnities currently applicable in Italy) and the annual cost recognised in the Income Statement are calculated on the basis of actuarial valuations that use the projected unit credit method.

The liability relating to benefits to be recognised on termination of employment recorded in the Consolidated Statement of Financial Position represents the present value of the defined-benefit obligation, less the fair value of the plan assets. Any net assets determined are recognised at the lowest of their value and the present value of available repayments and reductions of future contribution to the plan.

Pursuant to the amendment to IAS 19 "Employee Benefits" effective as from 1 January 2013, the Group recognises actuarial gains and losses and books them to "Other comprehensive income" immediately, so that the full net amount of the provisions for the defined benefits (net of plan assets) is recognised in the Consolidated Statement of Financial Position. The amendment further requires any changes in the defined benefit provision and plan assets over the previous period to be subdivided into three components: the cost components of work performed during the reporting period must be recognised in the Income Statement as service costs; net interest costs calculated by applying the appropriate discount rate to the opening balance of defined benefit provision net of assets must be booked to Income Statement as net financial expenses and the actuarial gains and losses resulting from the remeasurement of assets and liabilities must be booked to "Other comprehensive income". In addition, the return on assets included in net financial expenses must be calculated using the discount rate applicable to liabilities and no longer the expected return on the assets. The difference between actual return on plan assets and the return calculated as described above is booked to "Other comprehensive income".

In the event of an amendment to the plan that changes the benefits relating to past service or in the event of the application of a new plan relating to past service, the costs relating to past service are booked to the Income Statement (under service costs). In the event of an amendment to the plan that significantly reduces the number of employees involved in the plan or that changes the clauses of the plan in such a way that a significant part of future service due to employees will no longer accrue the same benefits or will accrue them but to a lesser extent, the profit or loss relating to said reduction is immediately booked to the Income Statement (under service costs).

All of the costs and income resulting from the measurement of funds for pension plans are booked to the Income Statement by functional area of destination, with the exception of the financial component relating to non-financed defined-benefit plans, which is included in Financial expenses.

The costs relating to defined-contribution plans are booked to the Income Statement when incurred.

#### *Other long-term benefits*

Other long-term employee benefits relate to the French subsidiaries and include “Jubilee or other long-service benefits” that are not expected to be paid fully within the twelve months following the end of the reporting period during which the employee has rendered service for those benefits.

The valuation of other long-term benefits usually does not present the same degree of uncertainty as post-employment benefits. This is why IAS 19 requires a simplified method of accounting for such benefits. Unlike the accounting method required for post-employment benefits, this method (which requires actuarial valuation) does not require discounting effects to be taken to Other comprehensive income.

#### *Phantom stock options*

With regard to phantom stock option plans, as envisaged by IFRS 2, in the section regarding “Cash-settled share-based payment transactions”, the fair value of the plan at the date of the financial statements is remeasured, with any changes in fair value recognised in the Income Statement with a corresponding entry to a provision.

#### *Stock-based incentive plans*

With regard to “Stock-based incentive plans” (Stock options and Stock grants), as envisaged by IFRS 2, the Group calculates the fair value of the option at the granting date, booking it to the Income Statement as a cost over the vesting period of the benefit. The *ad hoc* equity reserve in the Consolidated Statement of Financial Position has been increased. This imputed cost is measured by specialists with the help of suitable economic and actuarial models.

### **Deferred taxation**

Deferred taxes are calculated on the taxable/deductible temporary differences between the book value of assets and liabilities and their tax bases, and classified under non-current assets and liabilities.

Deferred tax assets are accounted for only to the extent that it is probable that sufficient taxable profits will be available in the future against which they can be utilised.

The carrying amount of the deferred tax assets shown in the financial statements is subject to an annual review.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply in the period when the differences reverse under the law of the countries in which the Group operates, considering current rates and those enacted or substantially enacted at the end of the reporting period.

Deferred tax liabilities are calculated on taxable temporary differences relating to equity investments in subsidiaries, associates and joint ventures, except where the Company can control the reversal of such temporary differences and it is probable that they will not reverse in the foreseeable future.

Current and deferred taxes are recognised in the income statement, except for those relating to items directly charged or credited to Other comprehensive income or other

equity items, in which case tax effect is recognised directly under Other comprehensive income or equity.

### **Participation in CIR's group tax filing system (applicable to Italian companies)**

In the fiscal year 2016, the Parent Company Sogefi S.p.A. and its subsidiary Sogefi Italy S.p.A. confirmed their participation in the CIR group tax filing system for the three-year period 2016-2018.

Each company joining to the group Italian tax filing system transfers its tax profit or loss to the parent company. The parent company recognises a credit corresponding to the IRES (Italian tax on company income) that companies have to pay (debit for the transferor company). On the contrary, for companies that booked tax losses, the parent company recognises a debt corresponding to the IRES for the part of loss actually offset at group level (credit for the transferee company).

In connection with the Group tax filing system, those companies that record non-deductible net financial expenses may use the excess tax benefits available for offset of other Group companies (thus making such expenses deductible) for a consideration. Such consideration, in an amount proportionate to the resulting tax benefit and applicable to excess tax benefits arising in Italy only, has been paid to the parent company CIR and is treated as expense for those companies that obtain the excess tax benefit and as revenue for those that transfer it.

### **Treasury shares**

Treasury shares are deducted from equity. The original cost of treasury shares and the profit/loss resulting from their subsequent sales are recognised as changes in equity.

### **Revenues recognition**

Revenues from the sale of products are recognised at the time ownership passes (time of risks and benefits transfer), which is generally upon shipment to the customer. They are shown net of returns, discounts and allowance.

The proceeds from the sale of *tooling* to customers can be recognised as follows:

- a) the full amount is recognised at the time risks and benefits of the *tooling* are transferred (if said transfer is deferred, margin is booked to "Other current liabilities");
- b) the amount is recognised by means of an increase of the sales price of the products manufactured using the relevant tooling, throughout a variable time frame depending on the number of products sold (in this case the unrealised sales price for the tooling is booked to "Inventory – Contract work in progress and advances").

Revenues from services rendered are recognised at the time the services are provided.

### **Income Statement Overview**

#### *Variable cost of sales*

This represents the cost of goods sold. It includes the cost of raw and ancillary materials and goods for resale, as well as variable manufacturing and distribution costs, including the direct labour cost of production.

#### *Manufacturing and R&D overheads*

This category includes manufacturing overheads such as indirect labour cost of production, maintenance costs, consumable materials, building rents, and industrial equipment involved in production.

Also included are all R&D overheads, net of any development costs that are capitalised because of their future benefits and excluding amortisation which is booked to a separate item in the Consolidated Income Statement.

#### *Distribution and sales fixed expenses*

These are costs that are essentially insensitive to changes in sales volumes, relating to personnel, promotion and advertising, external warehousing, rentals and other sales and distribution activities. This category, therefore, includes all fixed costs identified as being incurred after finished products have been stocked in the warehouse and directly related to their sale and distribution.

#### *Administrative and general expenses*

This category includes fixed labour costs, telephone expenses, legal and tax consulting fees, rents and rentals, cleaning, security and other general expenses.

#### *Restructuring costs and other non-operating expenses/income*

These are figures that do not relate to the Group's normal business activities or refer to non-ordinary activities and are expressly disclosed in the notes if they are of a significant amount.

### **Operating grants**

These are credited to the Consolidated Income Statement when there is a reasonable certainty that the company will meet the conditions for obtaining the grant and that the grants will therefore be received.

### **Dividends**

Dividend income is recorded when the right to receive it arises. This is normally at the time of the shareholders' resolution that approves distribution of the dividends.

Dividends to be distributed are recognised as a payable to shareholders immediately after they have been approved.

### **Current taxes**

Current taxes are booked on the basis of a realistic estimate of taxable income calculated according to current tax legislation in the country concerned, taking account of any exemptions and tax credits that may be due.

## Earnings per share (EPS)

*Basic EPS* is calculated by dividing net result for the period attributable to the ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period, net of treasury shares.

*Diluted EPS* is obtained by adjusting the weighted average number of shares outstanding to take account of all potential ordinary shares that could have a dilutive effect.

## Translation of foreign currency items

### *Functional currency*

Group companies prepare their financial statements in the local currency of the country concerned.

The functional currency of the Parent Company is the Euro and this is the presentation currency in which the consolidated financial statements are prepared and published.

### *Accounting for foreign currency transactions*

Foreign currency transactions are initially translated at the exchange rate ruling on the transaction date.

At the end of the reporting period, monetary assets and liabilities expressed in foreign currency are retranslated at the period-end exchange rate.

Non-monetary foreign currency items valued at historical cost are translated at the exchange rate ruling on the transaction date.

Non-monetary items carried at fair value are translated at the exchange rate ruling on the date this value was determined.

## Critical estimates and assumptions

Various estimates and assumptions regarding the future have to be made when preparing financial statements. They are the best estimates possible at the end of the reporting period. Given their nature, they could lead to a material difference in statement of financial position items in future years. The main items affected by these estimates are as follows:

- goodwill (Euro 126.6 million) – impairment test: for the purpose of determining the value in use of the Cash Generating Units, the Group took into account the trends expected for 2017 as determined based on the budget (approved by the Board of Directors on 23 January 2017) and the forecasts included in the 2018-2020 three-year plan for the following years (adjusted to eliminate any estimated benefits from future projects and reorganisations) approved by the Board of Directors on 13 June 2016 and on 27 February 2017. The impairment test, based on such forecasts, does not indicate a need for devaluation;
- tangible and intangible fixed assets of the subsidiary Sogefi Filtration do Brasil Ltda (Euro 12.7 million) - impairment test: at the end the fiscal year 2016, tangible and intangible fixed assets of the subsidiary were tested for impairment due to its negative economic and financial results and the sluggish performance of the Brazilian car market. To this end, the expected cash flows for 2017 as determined based on the budget and for the following 6 years (i.e. the estimated remaining

useful life of the assets) approved by the Advisory Board of the subsidiary on 24 February 2017 were taken into account. The impairment test, based on such forecasts, lead to a writedown of Euro 3,034 thousand;

- pension plans (Euro 53.2 million): actuaries who offer their consulting services to the Group use different statistic assumptions in order to anticipate future events for the purpose of estimating pension plan expenses, liabilities and assets. Such assumptions concern discount rate, future wage inflation rates, mortality and turnover rates;
- recoverability of deferred tax assets on tax losses (Euro 17.2 million decreased of Euro 5.4 million in comparison with the previous reporting period): as at 31 December 2016, deferred tax assets on tax losses incurred during previous years were accounted for to the extent that it is probable that taxable income will be available in the future against which they can be utilised. Such probability is also determined based on the fact that such losses have originated mainly under extraordinary circumstances that are unlikely to occur again in the future and that the same could be recovered throughout an unlimited or long-term time frame;
- derivatives (Euro 16 million in assets and Euro 7,9 million in liabilities): the estimate of the fair value of derivatives (relating to interest and exchange rates) and the effectiveness test on derivatives held for hedge accounting were performed with the aid of external consultants based on valuation models commonly used in the industry, in line with the requirements of IFRS 13 (calculation of DVA - debit valuation adjustment);
- provision for product warranties (Euro 16.3 million)/Other non-current receivables (Euro 10 million).

- 1) With regard to provision for product warranties, there are claims in progress by two customers relating to a defective component supplied starting from 2010 by the subsidiary Sogefi Air & Refroidissement France S.A.S. (formerly named Systèmes Moteurs S.A.S., "SM") before and after it was purchased by Dayco Europe S.r.l. (during 2011). The Company believes that the defect was caused by a thermostat manufactured by a supplier of SM and in 2012 filed a law suit against that supplier at the French courts seeking indemnity for any damages it might have to pay to its customers.

In the course of the proceedings, the court appointed a technical expert to write an expert witness report, initially for the purpose of determining the causes of product defect. Subsequently, the subsuppliers and the customers, and lastly Dayco took part in the investigation process.

To date, the court's expert is tasked with determining the nature of the defect, the liability of the different parties involved and the amount of damages.

To date, the expert established that the defect was caused by the thermostat manufactured by the supplier of SM.

With regard to the liability of the parties involved, the expert is analysing the different phases of the product approval procedure to allocate liability among

the different parties involved (thermostat supplier, its subsuppliers, SM as first-tier supplier, and the customers).

With regard to the determination of damages, the expert was asked to evaluate whether the damages claimed by the customers are appropriate for the purpose of allocating final damages among the parties involved.

- 2) As regards the amount of damages, the customers claimed Euro 188.5 million in damages, Euro 122.6 million of which mainly relate to past and future campaigns and Euro 65.9 million for damage to reputation and loss of future income. Based on existing proceedings, the Company and its legal counsel deem that there is only a remote possibility that a liability will arise from the latter claim in the amount of Euro 65.9 million.
- 3) With regard to the claim worth Euro 122.6 million (Euro 122.8 million as at 31 December 2015), the Company investigated such claim thoroughly to identify the concerned production periods and – prior to the allocation of liability, if any – according to its estimates Euro 60.2 million (Euro 60.4 million as at 31 December 2015) relate to products manufactured before the SM acquisition, and Euro 62.4 million to post-acquisition periods.

In this regard, in May 2016, the Company obtained an arbitration award in the international arbitration proceedings initiated against Dayco to recover the costs incurred by SM after the acquisition.

In short, the award confirmed that Sogefi has a general right to indemnification for the claims relating to products manufactured before Sogefi purchased SM, and ordered Dayco to pay Euro 9.4 million to Sogefi for the claims already paid (including the amounts paid in connection with the above mentioned defective component). The award amount had been paid at the end of the year 2016.

If appropriate, the Company will claim such general right to indemnification against Dayco in connection with amounts paid to customers for production lots of the defective components before Sogefi purchased SM.

The award stated that Sogefi is responsible for any claims relating to production lots manufactured after the acquisition.

- 4) The Company estimates the claims relating to production lots manufactured after the acquisition in total Euro 62.4 million before this liability is allocated among the different parties involved (thermostat supplier, its subsuppliers, SM, and the customers).  
The Company and its legal counsel believe that the Court's expert may not allow a portion of such amounts.
- 5) SM paid Euro 21 million on a provisional basis for claims received by customers. These amounts were paid under standstill agreements, without any admission of liability. Such amounts will be adjusted or partly refunded as required when the Court decides on the merits of the case or under subsequent settlement agreements.

Please note also that at the end of the year 2015, the Company's provision for product warranties – less the total amount already paid of Euro 21 million – amounted to Euro 16.3 million. This amount was reviewed in the light of the developments of the dispute at the end of the year 2016, and the Company and its legal counsel confirmed that the allocation corresponds to a prudential estimate.

- 6) With regard to the indemnities owed by the seller of SM shares, it is worthwhile pointing out that the Sogefi Group entered an indemnification asset totalling Euro 23.4 million in the Consolidated Financial Statements in 2011, because the seller Dayco had provided contractual guarantees relating to defect liability claims existing at the time of the acquisition, including those noted above.

Based on the outcome of the arbitration proceedings, the Company reduced the amount expected to be recovered from Dayco by Euro 4 million and consequently wrote down the indemnification asset as at 31 December 2016 by the same amount.

The written down indemnification asset less collected awarded amounts totalled Euro 10 million at the end of the year 2016.

Please note that both Sogefi and Dayco appealed parts of the award before the Court of Appeals in Milan. Sogefi appealed the part of the award ordering it to pay the claims concerning the products manufactured after the acquisition; Dayco appealed the part of the award confirming the validity of the indemnities in favour of Sogefi provided for by the acquisition contract. It should be noted that the validity of such indemnities was confirmed by both the award and a preliminary ruling of the Court of Appeals in Milan, that rejected Dayco's petition to stay enforcement of the award and confirmed that the award is enforceable.

It should be noted that these are complex proceedings that involve judgements on technical, juridical and commercial matters, and present uncertainties connected with the outcome of the proceedings before the French courts and the arbitration award. Estimates concerning risks provision and the recovery of booked assets are based on the best information available at the time of preparing the financial statements. They are subject to change as events evolve.

## 2.4 Adoption of new accounting standards

### IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE SINCE 1 JANUARY 2016

The following IFRS accounting standards, amendments and interpretations were first adopted by the Group as from 1 January 2016:

- Amendments to IAS 19 “*Defined Benefit Plans: Employee Contributions*” (issued on 21 November 2013) concerning the recognition of contributions from employees or third parties to defined benefit plans. The adoption of these amendments had no impact on the consolidated financial statements of the Group.
- Amendments to IFRS 11 “*Accounting for acquisitions of interests in joint operations*” (issued on 6 May 2014) concerning the accounting for acquisitions of interests in a joint operation when the operation constitutes a business. The adoption of these amendments had no impact on the consolidated financial statements of the Group.
- Amendments to IAS 16 and IAS 38 “*Clarification of acceptable methods of depreciation and amortisation*” (issued on 12 May 2014) establishing that a depreciation or amortisation method that is based on revenue is not appropriate, because the revenue arising from the operation of a business of which the asset under depreciation or amortisation is part reflects a different pattern from the mere use of the economic benefits arising from the asset, which is a pre-requisite for depreciation or amortisation. The adoption of these amendments had no impact on the consolidated financial statements of the Group.
- Amendments to IAS 1 “*Disclosure Initiative*” (issued on 18 December 2014): the goal of the amendments is to provide some clarifications on disclosures and other elements that may be perceived as hindrance to a clear and intelligible presentation of financial statements. The adoption of these amendments had no impact on the consolidated financial statements of the Group.

As part of its annual improvement process, on 12 December 2013, the IASB published documents “*Annual Improvements to IFRSs: 2010-2012 Cycle*” (including IFRS 2 *Share Based Payments – Definition of vesting condition*, IFRS 3 *Business Combination – Accounting for contingent consideration*, IFRS 8 *Operating segments – Aggregation of operating segments* and *Reconciliation of total of the reportable segments’ assets to the entity’s assets*, IFRS 13 *Fair Value Measurement – Short-term receivables and payables*) and – on 25 September 2014 – document “*Annual Improvements to IFRSs: 2012-2014 Cycle*” (including: IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 – *Financial Instruments: Disclosure* and IAS 19 – *Employee Benefits*) partly amending existing standards. The adoption of these amendments had no impact on the consolidated financial statements of the Group.

*IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPROVED BY THE EUROPEAN UNION BUT NOT YET MANDATORY APPLICABLE AND NOT EARLY ADOPTED BY THE GROUP AS AT 31 DECEMBER 2016*

The Group has not adopted the following new and amended standards, that have been issued but are not mandatory applicable.

- IFRS 15 – *Revenue from Contracts with Customers* (issued on 28 May 2014 and supplemented with additional clarifications on 12 April 2016) bound to replace IAS 18 – *Revenue* and IAS 11 – *Construction Contracts*, as well as the interpretations IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* and SIC 31 – *Revenues-Barter Transactions Involving Advertising Services*. The standard provides for a new revenue recognition model, which will be applicable to all agreements made with customers, with the exception of those falling under the scope of application of other IFRSs, such as leases, insurance contracts and financial instruments. The main steps for revenue recognition according to the new model are:
  - identifying the agreement in place with the customer;
  - identifying the performance obligations under the agreement;
  - defining the transaction price;
  - price allocation to the performance obligations under the agreement;
  - revenue recognition criteria when the entity satisfies each performance obligation.

This standard is applicable as from 1 January 2018, though early adoption is allowed. The amendments to IFRS 15, *Clarifications to IFRS 15 – Revenue from Contracts with Customers*, published by IASB on 12 April 2016, have not yet been endorsed by the European Union. Directors expect that the adoption of IFRS 15 will have an impact on the revenue recognition and the relevant disclosure included in the Group's Consolidated Financial Statements. Still, it will be impossible to provide a reasonable estimate as to the effects until the Group completes a detailed analysis of the agreements in place with the customers.

- Final version of IFRS 9 – *Financial instruments* (issued on 24 July 2014). The standard includes the results of IASB project pending the replacement of IAS 39:
  - it introduces new criteria to classify and measure financial assets and liabilities;
  - with reference to the impairment model, the new standard requires the losses on receivables to be estimated based on the expected losses model (instead of the incurred losses model of IAS 39) using information that can be evidenced, available free of charge or without unreasonable effort and including historic, current and forecast data;
  - a new hedge accounting model is introduced (additional types of transactions can be designated for hedge accounting, different accounting method for forward contracts and options when they are included in a hedge accounting transaction, changes to effectiveness test).

The new standard must be applied to reporting period beginning on 1 January 2018 and thereafter.

Directors expect IFRS 9 to have an impact on the balances and the relevant disclosures in the Consolidated Financial Statements of the Group. Still, it will be impossible to provide a reasonable estimate as to the effects until the Group completes a detailed analysis.

*IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION*

The European Union has not yet completed its endorsement process for the standards and amendments below reported at the date of these Financial Statements.

- IFRS 16 – *Leases* (issued on 13 January 2016) is to replace IAS 17 – *Leases*, as well as IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to differentiate between lease and service agreements according to: asset identification, right to replacement of the asset, right to obtain all economic benefits arising out of use of the asset and right to control the use of the asset underlying the agreement.

The standard introduces a single lessee accounting model for recognising and measuring lease agreements, which provides for the underlying asset – including assets underlying operating leases – to be recognised in the statement of financial position as assets and lease financial liability. Lessees may elect to not recognise agreements for low-value assets or with a term of up to 12 within the scope of this standard. No significant changes are introduced for lessor accounting.

The standard applies for reporting period beginning on or after 1 January 2019. Early application is only allowed for early adopters of IFRS 15 – *Revenue from Contracts with Customers*. Directors expect that the adoption of IFRS 16 will have a significant impact on lease accounting and the relevant disclosures included in the Group's Consolidated Financial Statements. Still, it will be impossible to provide a reasonable estimate as to the effects until the Group completes a detailed analysis of the relevant agreements.

- Amendment to IAS 12 “*Recognition of Deferred Tax Assets for Unrealised Losses*” (published on 19 January 2016). This document provides clarifications on the recognition of deferred tax assets for unrealised losses under certain circumstances and on the estimation of taxable income for future periods. The amendments apply as from 1 January 2017, though early adoption is allowed. The Directors are evaluating the possible effects of applying these amendments to the Group's Consolidated Financial Statements.
- Amendments to IAS 7 “*Disclosure Initiative*” issued on 29 January 2016. The document provides some clarifications to improve information on financial liabilities. Specifically, the amendments require such disclosures as to allow the recipients of the financial statements to understand changes in liabilities generated by financing operations. The amendments apply as from 1 January 2017, though early adoption is allowed. They do not require a presentation of comparative information relating to previous years. The Directors are evaluating the possible effects of applying these amendments to the Group's Consolidated Financial Statements.

- Amendments to IFRS 2 “*Classification and measurement of share-based payment transactions*” (issued on 20 June 2016). This document provides clarifications on how to account for the effects of vesting conditions in cash-settled share-based payments, how to classify share-based payments that include net settlement features and how to account for changes to the terms and conditions of a share-based payment that turn cash-settled share-based payment to equity-settled share-based payment. The amendments apply as from 1 January 2018, though early adoption is allowed. The Directors are evaluating the possible effects of applying these amendments to the Group’s Consolidated Financial Statements.
- Document “*Annual Improvements to IFRSs: 2014-2016 Cycle*”, issued on 8 December 2016 (including IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*, IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice*, IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*) partially supplements existing standards. Directors do not expect any significant effect on the consolidated financial statements of the Group when these amendments are adopted.
- IFRIC 22 “*Foreign Currency Transactions and Advance Consideration*” (issued on 8 December 2016). This interpretation provides guidelines on foreign currency transactions when non-monetary advance consideration paid or received is recognised before recognition of the relating asset, expense or income. This document clarifies how an entity has to determine the date of the transaction and consequently the spot exchange rate to be used for foreign currency transactions whose consideration is paid or received in advance. IFRIC 22 applies as from 1 January 2018, though early adoption is allowed. Directors do not expect any significant effect on the consolidated financial statements of the Group when these amendments are adopted.
- Amendments to IAS 40 “*Transfers of Investment Property*” (issued on 8 December 2016). These amendments provide clarifications on the transfer of properties to, or from, investment properties. Specifically, an entity should only reclassify a property asset to or from investment property when there is evidence of a change in use of that asset. Such change in use must be supported by a specific event occurred in the past. A change in intention by the entity’s management alone is not sufficient. These amendments apply as from 1 January 2018, though early adoption is allowed. Directors do not expect any significant effect on the consolidated financial statements of the Group when these amendments are adopted.
- Amendments to IFRS 10 and IAS 28 “*Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*” (issued on 11 September 2014). The purpose of these amendments was to resolve the conflict between IAS 28 and IFRS 10 concerning the measurement of profit or loss arising from transfers or assignments of a non-monetary asset to a joint venture or associate in return for its shares. The IASB has suspended the application of these amendments for the time being.

### 3. FINANCIAL ASSETS

#### **Classification and initial recognition**

In accordance with IAS 39, financial assets are to be classified in the following four categories:

1. financial assets at fair value through profit or loss;
2. held-to-maturity investments;
3. loans and receivables;
4. available-for-sale financial assets.

The classification depends on the purpose for which assets are bought and held. Management decides on their initial classification at the time of initial recognition, subsequently checking that it still applies at the end of each reporting period.

The main characteristics of the assets mentioned above are as follows:

#### *Financial assets at fair value through profit or loss*

This is made up of two sub-categories:

- financial assets held specifically for trading purposes;
  - financial assets to be measured at fair value under the fair value option designation.
- This category also includes all financial investments, other than equity instruments that do not have a price quoted on an active market, but for which the fair value can be determined.

Derivatives are included in this category, unless they are designated as hedging instruments, and their fair value is booked to the Income Statement.

At the time of initial recognition, financial assets held for trading are recognised at fair value, not including the transaction costs or income associated with the same instruments, which are recognised in the Income Statement.

All of the assets in this category are classified as current if they are held for trading purposes or if they are expected to be sold within 12 months from the end of the reporting period.

Designation of a financial instrument to this category is considered final (IAS 39 envisages some exceptional circumstances in which said financial assets may be reclassified in another category) and can only be done on initial recognition.

#### *Held-to-maturity investments*

These are non-derivative assets with fixed or determinable payments and fixed maturities which the Group intends to hold to maturity (e.g. subscribed bonds).

The intention and ability to hold the security to maturity must be evaluated on initial recognition and confirmed at the end of each reporting period.

In the case of early disposal of securities belonging to this category (for a significant amount and not motivated by particular events), the entire portfolio is reclassified to financial assets available for sale and restated at fair value.

### *Loans and receivables*

These are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and in which the Group does not intend to trade.

They are included in current assets except for the portion falling due beyond 12 months from the end of the reporting period, which is classified as non-current.

### *Available-for-sale financial assets*

This is a residual category represented by non-derivative financial assets that are designated as available for sale and which have not been assigned to one of the previous categories.

“Available-for-sale financial assets” are recorded at their fair value including related purchase costs.

They are classified as non-current assets, unless management intends to dispose of them within 12 months from the end of the reporting period.

## **Subsequent measurement**

Gains and losses on “Financial assets at fair value through profit or loss” (cat. 1) are immediately booked to the Income Statement.

“Available-for-sale financial assets” (cat. 4) are measured at fair value unless a market price or the fair value of equity instruments cannot be reliably determined. In this case the cost method is used.

Gains and losses on “Available-for-sale financial assets” (cat. 4) are booked to a separate item under Other comprehensive income until they have been sold or cease to exist, or until it has been ascertained that they have suffered an impairment loss. When such events take place, all gains or losses recognised and booked to Other comprehensive income up to that moment are recycled to the Income Statement.

Fair value is the amount for which an asset could be exchanged, or that would be paid to transfer a liability (exit price) in an arm’s length transaction between informed and independent parties. Consequently, it is assumed that the holder is a going-concern entity and that none of the parties needs to liquidate their assets in a forced sale at unfavourable conditions.

In the case of securities traded on regulated markets, fair value is determined with reference to the bid price at the close of trading at the end of the reporting period.

In cases where no market valuation is available for an investment, fair value is determined either on the basis of the current market value of another very similar financial instrument or by using appropriate financial techniques (such as discounted cash flow analysis).

Purchases or sales regulated at “market prices” are recognised on the day of trading, which is the day on which the Group takes a commitment to buy or sell the asset.

“Held-to-maturity investments” (cat. 2) and “Loans and receivables” (cat. 3) are measured at their “amortised cost” using the effective interest rate and taking account of any discounts or premiums obtained at the time of acquisition so that they can be recognised over the entire period until their maturity. Gains or losses are booked to the Income Statement either at the time that the investment reaches maturity or when an

impairment arises, in the same way that they are recognised during the normal process of amortisation that is part of the amortised cost method.

Investments in financial assets can only be derecognised once the contractual rights to receive the cash flows deriving from such investments have expired (e.g. final redemption of bonds) or if the Group transfers the financial asset and all of the risks and benefits attached to it.

## B) SEGMENT INFORMATION

### 4. OPERATING SEGMENTS

In compliance with the provisions of IFRS 8, the following information is provided by operating segments (business segments) and performance indicators that play a key role in the Group's strategic decisions.

As the analysis by business segments is given higher priority in the decision-making process, the analysis by geographic areas is not presented.

#### Business segments

With regard to the business segments, disclosures concerning the three business units: Air&Cooling, Suspensions and Filtration are provided below. Figures for the Parent Company Sogefi S.p.A. and the subsidiary Sogefi Gestion S.A.S. are also provided for the purpose of reconciliation with consolidated values.

The tables below provide the Group's income statement and statement of financial position figures for 2015<sup>2</sup> and 2016:

| (in thousands of Euro)                                  | 2015           |                |                |                                             |                  |                               |
|---------------------------------------------------------|----------------|----------------|----------------|---------------------------------------------|------------------|-------------------------------|
|                                                         | Air&Cooling    | Suspensions    | Filtration     | Sogefi S.p.A. /<br>Sogefi Gestion<br>S.A.S. | Adjustments      | Sogefi<br>consolidated<br>f/s |
| <b>REVENUES</b>                                         |                |                |                |                                             |                  |                               |
| Sales to third parties                                  | 413,806        | 556,758        | 528,441        | 45                                          | -                | 1,499,050                     |
| Intersegment sales                                      | 1,458          | 1,257          | 1,229          | 29,689                                      | (33,633)         | -                             |
| <b>TOTAL REVENUES</b>                                   | <b>415,264</b> | <b>558,015</b> | <b>529,670</b> | <b>29,734</b>                               | <b>(33,633)</b>  | <b>1,499,050</b>              |
| <b>RESULTS</b>                                          |                |                |                |                                             |                  |                               |
| EBIT                                                    | (1,217)        | 35,441         | 30,924         | (13,100)                                    | (1,306)          | 50,742                        |
| Financial expenses, net                                 |                |                |                |                                             |                  | (32,778)                      |
| Income from equity investments                          |                |                |                |                                             |                  | -                             |
| Losses from equity investments                          |                |                |                |                                             |                  | -                             |
| Result before taxes                                     |                |                |                |                                             |                  | 17,964                        |
| Income taxes                                            |                |                |                |                                             |                  | (12,913)                      |
| Loss (profit) attributable to non-controlling interests |                |                |                |                                             |                  | (3,931)                       |
| <b>NET RESULT</b>                                       |                |                |                |                                             |                  | <b>1,120</b>                  |
| <b>STATEMENT OF FINANCIAL POSITION</b>                  |                |                |                |                                             |                  |                               |
| <b>ASSETS</b>                                           |                |                |                |                                             |                  |                               |
| Segment assets                                          | 250,068        | 420,642        | 333,112        | 642,567                                     | (692,361)        | 954,028                       |
| Equity investments in associates                        | -              | -              | -              | -                                           | -                | -                             |
| Unallocated assets                                      | -              | -              | -              | -                                           | 165,892          | 165,892                       |
| <b>TOTAL ASSETS</b>                                     | <b>250,068</b> | <b>420,642</b> | <b>333,112</b> | <b>642,567</b>                              | <b>(526,469)</b> | <b>1,119,920</b>              |
| <b>LIABILITIES</b>                                      |                |                |                |                                             |                  |                               |
| Segment liabilities                                     | 163,710        | 292,604        | 213,364        | 489,914                                     | (230,068)        | 929,524                       |
| <b>TOTAL LIABILITIES</b>                                | <b>163,710</b> | <b>292,604</b> | <b>213,364</b> | <b>489,914</b>                              | <b>(230,068)</b> | <b>929,524</b>                |
| <b>OTHER INFORMATION</b>                                |                |                |                |                                             |                  |                               |
| Increase in tangible and intangible fixed assets        | 21,640         | 22,661         | 36,415         | 2,210                                       | (1,283)          | 81,643                        |
| Depreciation, amortisation and writedowns               | 15,423         | 22,621         | 21,553         | 3,615                                       | 1,539            | 64,751                        |

<sup>2</sup> Please note that during the year 2016 the management reviewed the classification of the Filtration and Air&Cooling business segments, shifting the focus from production plant the product. As a result of this review, the classification of balances between business units is different from that used as at 31 December 2015.

| (in thousands of Euro)                                  | 2016           |                |                |                                             |                  |                               |
|---------------------------------------------------------|----------------|----------------|----------------|---------------------------------------------|------------------|-------------------------------|
|                                                         | Air&Cooling    | Suspensions    | Filtration     | Sogefi S.p.A. /<br>Sogefi Gestion<br>S.A.S. | Adjustments      | Sogefi<br>consolidated<br>f/s |
| <b>REVENUES</b>                                         |                |                |                |                                             |                  |                               |
| Sales to third parties                                  | 479,294        | 561,435        | 533,362        | -                                           | -                | 1,574,091                     |
| Intersegment sales                                      | 942            | 1,371          | 1,699          | 25,986                                      | (29,998)         | -                             |
| <b>TOTAL REVENUES</b>                                   | <b>480,236</b> | <b>562,806</b> | <b>535,061</b> | <b>25,986</b>                               | <b>(29,998)</b>  | <b>1,574,091</b>              |
| <b>RESULTS</b>                                          |                |                |                |                                             |                  |                               |
| EBIT                                                    | 23,277         | 35,611         | 25,104         | (3,861)                                     | (5,624)          | 74,507                        |
| Financial expenses, net                                 |                |                |                |                                             |                  | (31,458)                      |
| Income from equity investments                          |                |                |                |                                             |                  | 3,975                         |
| Losses from equity investments                          |                |                |                |                                             |                  | (392)                         |
| Result before taxes                                     |                |                |                |                                             |                  | 46,632                        |
| Income taxes                                            |                |                |                |                                             |                  | (32,637)                      |
| Loss (profit) attributable to non-controlling interests |                |                |                |                                             |                  | (4,659)                       |
| <b>NET RESULT</b>                                       |                |                |                |                                             |                  | <b>9,336</b>                  |
| <b>STATEMENT OF FINANCIAL POSITION</b>                  |                |                |                |                                             |                  |                               |
| <b>ASSETS</b>                                           |                |                |                |                                             |                  |                               |
| Segment assets                                          | 285,077        | 401,200        | 335,370        | 655,127                                     | (720,521)        | 956,253                       |
| Equity investments in associates                        | -              | -              | -              | -                                           | -                | -                             |
| Unallocated assets                                      | -              | -              | -              | -                                           | 151,431          | 151,431                       |
| <b>TOTAL ASSETS</b>                                     | <b>285,077</b> | <b>401,200</b> | <b>335,370</b> | <b>655,127</b>                              | <b>(569,090)</b> | <b>1,107,684</b>              |
| <b>LIABILITIES</b>                                      |                |                |                |                                             |                  |                               |
| Segment liabilities                                     | 182,262        | 259,841        | 250,984        | 472,246                                     | (246,718)        | 918,615                       |
| <b>TOTAL LIABILITIES</b>                                | <b>182,262</b> | <b>259,841</b> | <b>250,984</b> | <b>472,246</b>                              | <b>(246,718)</b> | <b>918,615</b>                |
| <b>OTHER INFORMATION</b>                                |                |                |                |                                             |                  |                               |
| Increase in tangible and intangible fixed assets        | 24,396         | 35,180         | 28,482         | 1,203                                       | (200)            | 89,061                        |
| Depreciation, amortisation and writedowns               | 17,944         | 26,185         | 29,820         | (12,537)                                    | 17,157           | 78,569                        |

Please note that the Air&Cooling business unit figures include the net book value of the Systemes Moteurs Group coming from local financial statements – in other words, not including the fair value adjustment of net assets after the Purchase Price Allocation performed in 2011 – but only the adjustments related to the measurement of product warranty provisions (contingent liabilities booked during the PPA relating to the claims discussed at “Critical estimates and assumptions”); the remaining adjustments arising from the Purchase Price Allocation of the Systemes Moteurs Group are posted in column “Adjustments”.

Adjustments to “Intersegment sales” mainly refer to services provided by the Parent Company Sogefi S.p.A. and by subsidiary Sogefi Gestion S.A.S. to other Group companies (see note 40 for further details on the nature of the services provided). This item also includes intersegment sales between the business units. Intersegment transactions are conducted according to the Group's transfer pricing policy.

The adjustments to “EBIT” refer to depreciation and amortisation linked to the revaluation of assets resulting from the acquisition of 40% of Sogefi Rejna S.p.A. (later merged into Sogefi Italy S.p.A.) and its subsidiaries in the year 2000, and of the Systemes Moteurs Group in the year 2011.

In the Statement of Financial Position, the adjustments to the item “Segment assets” refer to the consolidation entry of investments in subsidiaries and intercompany receivables.

Adjustments to “Unallocated assets” mainly include the goodwill and the fixed assets revaluations resulting from the acquisitions of: the Allevard Ressorts Automobile

Group, 40% of Sogefi Rejna S.p.A. (now included in Sogefi Italy S.p.A.), the Filtrauto Group, 60% of Sogefi M.N.R. Filtration India Private Ltd (now merged into Sogefi-MNR Engine Systems India Pvt Ltd) and Systemes Moteurs Group.

“Depreciation, amortisation and writedowns” include writedowns of tangible (Euro 6,129 thousand) and intangible fixed assets (Euro 3,257 thousand) for the most part relating to European subsidiaries and the subsidiary Sogefi Filtration do Brasil Ltda. These assets were written down based on the recoverable amount of assets at year-end date.

### Information on the main customers

Revenues from sales to third parties as at 31 December 2016 accounting for over 10% of Group revenues are shown in the following table:

| (in thousands of Euro) |               |          | 2016          |              |                |
|------------------------|---------------|----------|---------------|--------------|----------------|
| Group                  | Group         |          | BU Filtration | BU Air&Cool. | BU Suspensions |
|                        | <i>Amount</i> | <i>%</i> |               |              |                |
| Ford                   | 197,999       | 13       | 51,534        | 70,617       | 75,848         |
| Renault/Nissan         | 180,658       | 12       | 52,840        | 41,828       | 85,990         |
| FCA/CNH Industrial     | 177,489       | 11       | 90,532        | 43,368       | 43,589         |
| PSA                    | 169,721       | 11       | 51,269        | 58,004       | 60,448         |

### Information on geographic areas

The breakdown of revenues by geographical area "of destination", in other words with regard to the nationality of the customer, is analysed in the Directors' Report and in the notes to the Income Statement.

The following table shows a breakdown of total assets by geographical area of origin:

| (in thousands of Euro) |           | 2015          |               |         |             |                         |
|------------------------|-----------|---------------|---------------|---------|-------------|-------------------------|
|                        | Europe    | South America | North America | Asia    | Adjustments | Sogefi consolidated f/s |
| TOTAL ASSETS           | 1,439,944 | 92,635        | 138,228       | 136,111 | (686,998)   | 1,119,920               |

| (in thousands of Euro) |           | 2016          |               |         |             |                         |
|------------------------|-----------|---------------|---------------|---------|-------------|-------------------------|
|                        | Europe    | South America | North America | Asia    | Adjustments | Sogefi consolidated f/s |
| TOTAL ASSETS           | 1,470,182 | 102,122       | 130,518       | 142,814 | (737,952)   | 1,107,684               |

## ***C) NOTES ON THE MAIN INCOME STATEMENT ITEMS: STATEMENT OF FINANCIAL POSITION***

### ***C 1) ASSETS***

#### ***5. CASH AND CASH EQUIVALENTS***

Cash and cash equivalents amount to Euro 93,661 thousand versus Euro 121,892 thousand as at 31 December 2015 and break down as follows:

| (in thousands of Euro)      | 12.31.2016    | 12.31.2015     |
|-----------------------------|---------------|----------------|
| Short-term cash investments | 93,607        | 121,835        |
| Cash on hand                | 54            | 57             |
| <b>TOTAL</b>                | <b>93,661</b> | <b>121,892</b> |

“Short-term cash investments” earn interest at a floating rate.

For further details, please refer to the Analysis of the net financial position in note 22 and to the Consolidated Cash Flow Statement included in the financial statements.

As at 31 December 2016, the Group has unused lines of credit for the amount of Euro 298,254 thousand. These funds are available for use on demand, because the conditions required for their availability are met.

Please note that this item includes ARS (Argentine Peso) 18,595 thousand, i.e. the equivalent of Euro 1,110 thousand at the exchange rate in force on 31 December 2016 (ARS 13,619 thousand, the equivalent of Euro 966 thousand at the exchange rate in force on 31 December 2015) held by the Argentinian subsidiaries.

#### ***6. OTHER FINANCIAL ASSETS***

“Other financial assets” can be broken down as follows:

| (in thousands of Euro)                      | 12.31.2016   | 12.31.2015   |
|---------------------------------------------|--------------|--------------|
| Securities held for trading                 | -            | 17           |
| Financial receivables                       | 1,676        | 1,438        |
| Held-to-maturity investments                | 3,950        | 3,949        |
| Assets for derivative financial instruments | 255          | 931          |
| <b>TOTAL</b>                                | <b>5,881</b> | <b>6,335</b> |

“Held-to-maturity investments” are measured at amortised cost and include bank term deposits.

“Assets for derivative financial instruments” amount to Euro 255 thousand and refer to the fair value of forward foreign currency contracts. Further details can be found in the analysis of financial instruments contained in note 39.

## 7. INVENTORIES

The breakdown of inventories is as follows:

| (in thousands of Euro)                      | 12.31.2016     |                    |                | 12.31.2015     |                    |                |
|---------------------------------------------|----------------|--------------------|----------------|----------------|--------------------|----------------|
|                                             | <i>Gross</i>   | <i>Write-downs</i> | <i>Net</i>     | <i>Gross</i>   | <i>Write-downs</i> | <i>Net</i>     |
| Raw, ancillary and consumable materials     | 63,216         | 4,690              | 58,526         | 60,298         | 3,829              | 56,469         |
| Work in progress and semi-finished products | 16,251         | 384                | 15,867         | 14,171         | 283                | 13,888         |
| Contract work in progress and advances      | 41,001         | 54                 | 40,947         | 39,190         | 12                 | 39,178         |
| Finished goods and goods for resale         | 55,955         | 6,318              | 49,637         | 55,633         | 5,474              | 50,159         |
| <b>TOTAL</b>                                | <b>176,423</b> | <b>11,446</b>      | <b>164,977</b> | <b>169,292</b> | <b>9,598</b>       | <b>159,694</b> |

The gross value of inventories increased by Euro 7,131 thousand compared to the previous year (the increase amounts to Euro 5,855 thousand at constant exchange rates), of which Euro 1,811 thousand reflect an increase in tooling for sale to customers included in “Contract work in progress and advances” (mostly relating to the Air and Cooling business unit), whereas the remaining portion originates from increased volumes.

Writedowns consist for the most part of accruals for raw materials that can no longer be used for current production and for obsolete or slow-moving finished goods, goods for resale and ancillary materials. The increase in the provisions – by Euro 1,848 thousand – reflects the allocation of an additional Euro 3,119 thousand, partly offset by products scrapped during the year (Euro 1,252 thousand) and a negative currency exchange effect for Euro 19 thousand.

## 8. TRADE AND OTHER RECEIVABLES

Current receivables break down as follows:

| (in thousands of Euro)        | 12.31.2016     | 12.31.2015     |
|-------------------------------|----------------|----------------|
| Trade receivables             | 157,163        | 142,266        |
| Less: allowance for bad debts | 4,977          | 5,367          |
| Trade receivables, net        | 152,186        | 136,899        |
| Due from Parent Company       | 6,280          | 6,590          |
| Tax receivables               | 24,192         | 26,753         |
| Other receivables             | 6,820          | 7,915          |
| Other assets                  | 3,689          | 3,974          |
| <b>TOTAL</b>                  | <b>193,167</b> | <b>182,131</b> |

“Trade receivables, net” are non-interest bearing and have an average due date of 34 days, against 32 days recorded at the end of the previous year.

It should be noted that as at 31 December 2016, the Group factored trade receivables for Euro 98,937 thousand (Euro 88,972 thousand as at 31 December 2015), including an

amount of Euro 60,804 thousand (Euro 48,487 thousand as at 31 December 2015) which was not notified and for which the Group continues to manage collection services. The risks and benefits related to these receivables have been transferred to the factor; therefore these receivables have been derecognised in the Statement of Financial Position debiting the consideration received from the factoring company.

Excluding the factoring transactions (Euro 98,937 thousand as at 31 December 2016 and Euro 88,972 thousand as at 31 December 2015) and the effect of exchange rates (Euro 744 thousand), net trade receivables increased by Euro 24,508 thousand as a result of the increase in the Group's business activities in the last quarter of the year compared to the same quarter of the previous year, and a slight increase in average collection days.

Further adjustments were booked to "Allowance for bad debts" during the year for a total of Euro 1,578 thousand, against net utilisations of the allowance for the amount of Euro 2,035 thousand (see note 39 for further details). Writedowns, net of provisions not used during the period, were charged to Income Statement under the item "Variable cost of sales – Variable sales and distribution costs".

"Due from Parent Company" as at 31 December 2016 is the amount receivable from the Holding Company CIR S.p.A. arising from the participation in the Group tax filing system on the part of the Italian companies of the Group. Outstanding receivables as at 31 December 2015 (totalling Euro 6,590 thousand) collected in 2016 amounted to Euro 5,683 thousand.

See chapter F for the terms and conditions governing these receivables from CIR S.p.A.

"Tax receivables" as at 31 December 2016 include tax credits due to the Group companies by the tax authorities of the various countries. This item decreased by Euro 2,561 thousand mainly because part of the tax receivables relating to research and development activities of the French subsidiary Sogefi Air & Refroidissement France S.A.S. were reclassified in long-term receivables.

It does not include deferred taxes which are treated separately.

"Other receivables" are made up as follows:

| (in thousands of Euro)                        | 12.31.2016   | 12.31.2015   |
|-----------------------------------------------|--------------|--------------|
| Amounts due from social security institutions | 103          | 204          |
| Amounts due from employees                    | 202          | 320          |
| Advances to suppliers                         | 2,690        | 2,659        |
| Due from others                               | 3,825        | 4,732        |
| <b>TOTAL</b>                                  | <b>6,820</b> | <b>7,915</b> |

The decrease in "Other receivables" refers for the most part to subsidiary Allevard Sogefi U.S.A. Inc. and reflects insurance indemnities received.

The item "Other assets" mainly includes accrued income and prepayments on insurance premiums, rents, indirect taxes relating to buildings and on costs incurred for sales activities.

## 9. TANGIBLE FIXED ASSETS

The net carrying amount of tangible fixed assets as at 31 December 2016 amounted to Euro 262,482 thousand versus Euro 252,252 thousand at the end of the previous year and breaks down as follows:

| (in thousands of Euro)                              | 2016        |                                                                                                |                         |                                                                      |              |
|-----------------------------------------------------|-------------|------------------------------------------------------------------------------------------------|-------------------------|----------------------------------------------------------------------|--------------|
|                                                     | <i>Land</i> | <i>Buildings,<br/>plant and<br/>machinery,<br/>commercial<br/>and industrial<br/>equipment</i> | <i>Other<br/>assets</i> | <i>Assets under<br/>construction<br/>and payments<br/>on account</i> | <i>TOTAL</i> |
| <i>Balance at January 1</i>                         | 14,299      | 201,861                                                                                        | 5,343                   | 30,749                                                               | 252,252      |
| Additions of the period                             | -           | 25,648                                                                                         | 2,634                   | 30,481                                                               | 58,763       |
| Disposals during the period                         | (70)        | (208)                                                                                          | (10)                    | 16                                                                   | (272)        |
| Exchange differences                                | (197)       | 1,702                                                                                          | (73)                    | (415)                                                                | 1,017        |
| Depreciation for the period                         | -           | (37,073)                                                                                       | (2,339)                 | -                                                                    | (39,412)     |
| Write-downs/revaluations during the period          | (56)        | (5,609)                                                                                        | (464)                   | -                                                                    | (6,129)      |
| Reclassification of non-current asset held for sale | (1,158)     | (2,260)                                                                                        | -                       | -                                                                    | (3,418)      |
| Other changes                                       | -           | 25,094                                                                                         | 1,310                   | (26,723)                                                             | (319)        |
| <i>Balance at December 31</i>                       | 12,818      | 209,155                                                                                        | 6,401                   | 34,108                                                               | 262,482      |
| Historical cost                                     | 12,881      | 831,790                                                                                        | 28,639                  | 35,157                                                               | 908,467      |
| <i>of which: leases - gross value</i>               | -           | 16,239                                                                                         | 89                      | 533                                                                  | 16,861       |
| Accumulated depreciation                            | 63          | 622,635                                                                                        | 22,238                  | 1,049                                                                | 645,985      |
| <i>of which: leases - accumulated depreciation</i>  | -           | 8,667                                                                                          | 89                      | -                                                                    | 8,756        |
| Net value                                           | 12,818      | 209,155                                                                                        | 6,401                   | 34,108                                                               | 262,482      |
| <i>Net value - leases</i>                           | -           | 7,572                                                                                          | -                       | 533                                                                  | 8,105        |

| (in thousands of Euro)                                 | 2015        |                                                                                                |                         |                                                                      |              |
|--------------------------------------------------------|-------------|------------------------------------------------------------------------------------------------|-------------------------|----------------------------------------------------------------------|--------------|
|                                                        | <i>Land</i> | <i>Buildings,<br/>plant and<br/>machinery,<br/>commercial<br/>and industrial<br/>equipment</i> | <i>Other<br/>assets</i> | <i>Assets under<br/>construction<br/>and payments<br/>on account</i> | <i>TOTAL</i> |
| <i>Balance at January 1</i>                            | 14,286      | 191,283                                                                                        | 5,348                   | 33,144                                                               | 244,061      |
| Additions of the period                                | -           | 19,418                                                                                         | 1,623                   | 30,225                                                               | 51,266       |
| Disposals during the period                            | (2)         | (203)                                                                                          | (28)                    | (27)                                                                 | (260)        |
| Exchange differences                                   | 15          | (4,939)                                                                                        | (352)                   | (326)                                                                | (5,602)      |
| Depreciation for the period                            | -           | (35,351)                                                                                       | (1,729)                 | (25)                                                                 | (37,105)     |
| Write-downs/revaluations<br>during the period          | -           | (243)                                                                                          | -                       | -                                                                    | (243)        |
| Reclassification of non-current<br>asset held for sale | -           | -                                                                                              | -                       | -                                                                    | -            |
| Other changes                                          | -           | 31,896                                                                                         | 481                     | (32,242)                                                             | 135          |
| <i>Balance at December 31</i>                          | 14,299      | 201,861                                                                                        | 5,343                   | 30,749                                                               | 252,252      |
| Historical cost                                        | 14,299      | 804,801                                                                                        | 26,647                  | 31,477                                                               | 877,224      |
| <i>of which: leases - gross value</i>                  | -           | 13,751                                                                                         | 86                      | 369                                                                  | 14,206       |
| Accumulated depreciation                               | -           | 602,940                                                                                        | 21,304                  | 728                                                                  | 624,972      |
| <i>of which: leases - accumulated<br/>depreciation</i> | -           | 7,288                                                                                          | 86                      | -                                                                    | 7,374        |
| Net value                                              | 14,299      | 201,861                                                                                        | 5,343                   | 30,749                                                               | 252,252      |
| <i>Net value - leases</i>                              | -           | 6,463                                                                                          | -                       | 369                                                                  | 6,832        |

Investments during the year amounted to Euro 58,763 thousand compared to Euro 51,266 thousand in the previous year.

The larger projects regarded the “Assets under construction and payments on account” and “Buildings, plant and machinery, commercial and industrial equipment” categories.

Major investments in the “Assets under construction and payments on account” category reflect investments in the following subsidiaries LPDN GmbH to develop new products and improve production processes; S.C. Sogefi Air & Cooling S.r.l., Sogefi Italy S.p.A. and Allevard Sogefi U.S.A. Inc. to expand production capacity and develop new products; and in the French companies Sogefi Suspensions France S.A. and Sogefi Filtration France S.A. to develop new products and improve production processes.

Among the most significant projects in the “Buildings, plant and machinery, commercial and industrial equipment” category, noteworthy are the investments in subsidiaries Sogefi Engine Systems Mexico S. de R.L. de C.V. for the new Mexican plant in Monterrey dedicated to the Suspensions business unit; ISSA S.A. to expand production capacity and improve production processes; Sogefi (Suzhou) Auto Parts Co., Ltd for the development of new products and extraordinary maintenance operations; Sogefi Suspensions France S.A. and Sogefi Air & Refroidissement France S.A.S. for the development of new products, the improvement of production processes and quality, and the adjustment of the production lines in compliance with health and safety rules and regulations.

During 2016, the S. Père site owned by the subsidiary Sogefi Filtration France S.A. (net book value Euro 113 thousand) was sold for Euro 700 thousand, and the corresponding gain of Euro 587 thousand was recognised in “Losses (gains) on disposal” in the Income statement.

“Depreciation for the period” has been recorded in the appropriate item in the Income Statement.

“Writedowns/revaluations during the period” totals Euro 6,129 thousand, Euro 3,105 thousand of which relate to the subsidiary Sogefi Filtration do Brasil Ltda (please see paragraph Impairment test of Sogefi Filtration do Brasil Ltda below for more details), whereas Euro 3,024 thousand relate to European companies.

Impairment losses less reversals are booked to “Other non-operating expenses (income)”.

“Reclassification of non-current assets held for sale” totals Euro 3,418 thousand and relates to the plot of land and building of the Lieusaint site owned by the subsidiary Sogefi Suspensions France S.A., which were reclassified to “Non-current assets held for sale” as it is considered highly probable that they will be sold during 2017.

“Other changes” refer to the completion of projects that were under way at the end of the previous year and their reclassification under the pertinent items.

The balance of “Assets under construction and payments on account” as at 31 December 2016 includes Euro 269 thousand of advances for investments.

The main inactive assets, with a total net value of Euro 4,436 thousand, included in the item “Tangible fixed assets” mostly refer to investment properties of the Parent Company Sogefi S.p.A. (located in Mantova and San Felice del Benaco, for a total amount of Euro 4,398 thousand). The fair value of these assets as measured by an independent expert report exceeds their net book value. The book value of said assets will be recovered through their sale rather than through their continuous use. As we do not expect to sell them within one year, they are not subject to the accounting treatment envisaged by IFRS 5 and depreciation is continued.

No interest costs were capitalised to “Tangible fixed assets” during the year 2016.

#### *Guarantees*

As at 31 December 2016, tangible fixed assets are encumbered by mortgages or liens totalling Euro 5,580 thousand to guarantee loans from financial institutions, compared to Euro 7,726 thousand as at 31 December 2015. Guarantees existing as at 31 December 2016 refer to subsidiaries Sogefi Air & Cooling Canada Corp., Allevard IAI Suspensions Private Ltd. and Sogefi Filtration do Brasil Ltda.

#### *Purchase commitments*

As at 31 December 2016, there are binding commitments to buy tangible fixed assets for Euro 2,373 thousand (Euro 1,709 thousand as at 31 December 2015) relating to the

subsidiary Sogefi Suspensions France S.A. Said commitments will be settled within 12 months.

#### *Leases*

The carrying value of assets under financial leases as at 31 December 2016 was Euro 16,861 thousand, and the related accumulated depreciation amounted to Euro 8,756 thousand.

Please note that in 2016, subsidiary Allevard Sogefi USA Inc. re-negotiated the financial lease agreement entered into in 2013 after the purchase of additional assets, increasing its value by Euro 2,689 thousand. The new lease agreement presents for the same annual interest rate (3.24%) and term (June 2023) as the original one.

The financial aspects of the lease payments and their due dates are explained in note 16.

### **Impairment test of Sogefi Filtration do Brasil Ltda**

At the end the fiscal year 2016, tangible and intangible fixed assets of the subsidiary Sogefi Filtration do Brasil Ltda were tested for impairment due to the negative economic and financial results of the subsidiary and the sluggish performance of the Brazilian car market. The impairment test was carried out in accordance with the procedure laid down in IAS 36 by comparing the net book value of these assets (totalling Euro 12.7 million, of which Euro 9.7 thousand tangible and Euro 3 million intangible fixed assets) with their value in use, given by the present value of estimated future cash flows that are expected to result from the continuing use of the asset being tested for impairment.

We used Discounted Cash Flow Unlevered model in performing the test. The subsidiary took into account cash flows expected for 2017 as determined based on the budget and for the following 6 years (i.e. the estimated remaining useful life of the assets) approved by the Advisory Board of the Brazilian subsidiary on 24 February 2017.

Budget and plan were prepared taking into account forecasts for the automotive industry in Brazil made by major sources in the industry, based on the expectation that the subsidiary will recover revenues and margins so as to return to pre-crisis profitability levels.

A discount rate of 19.52%, which reflects the weighted average cost of capital, was used.

As regards the average cost of capital, we calculated a weighted average of the cost of debt (taking into consideration the benchmark interest rates plus a spread) and the Company's own cost of capital, based on parameters for a group of firms operating in the European car components sector which are considered by the leading industry analysts to be Sogefi's peers. The values used to calculate the average cost of capital (extrapolated from the main financial sources) are as follows:

- financial structure of the industry: 21.7%
- levered beta of the industry: 1.08
  - risk-free rate: 12.98% (annual average of the Brazilian sovereign debt over 10 years)
- risk premium: 8.2% (weighted average risk premium calculated by an independent source)
- debt cost: 17%

The test based on the present value of the estimated future cash flows turns out a value in use of the assets that is lower than their carrying value; as a result, a writedown of Euro 3,034 thousand has been posted, with Euro 2,640 thousand relating to tangible fixed assets and Euro 394 thousand to intangible assets.

# 10. INTANGIBLE ASSETS

The net balance as at 31 December 2016 was Euro 281,650 thousand versus Euro 284,050 thousand at the end of the previous year, and breaks down as follows:

| (in thousands of Euro)        | 2016                           |                                                                                                                              |                                                                                     |                                  |                                            |                 |              |
|-------------------------------|--------------------------------|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------|-----------------|--------------|
|                               | <i>Develop-<br/>ment costs</i> | <i>Industrial<br/>patents and<br/>intellectual<br/>property<br/>rights,<br/>concessions,<br/>licences and<br/>trademarks</i> | <i>Other, assets<br/>under<br/>construction<br/>and<br/>payments on<br/>account</i> | <i>Customer<br/>Relationship</i> | <i>Trade name<br/>Systemes<br/>Moteurs</i> | <i>Goodwill</i> | <i>TOTAL</i> |
| <i>Balance at January 1</i>   | 79,362                         | 34,505                                                                                                                       | 22,185                                                                              | 14,843                           | 6,516                                      | 126,639         | 284,050      |
| Additions of the period       | 18,653                         | 1,485                                                                                                                        | 10,159                                                                              | -                                | -                                          | -               | 30,298       |
| Disposals during the period   | (59)                           | -                                                                                                                            | -                                                                                   | -                                | -                                          | -               | (59)         |
| Exchange differences          | (1)                            | (40)                                                                                                                         | 136                                                                                 | -                                | -                                          | -               | 95           |
| Amortisation for the period   | (24,021)                       | (3,405)                                                                                                                      | (530)                                                                               | (990)                            | (435)                                      | -               | (29,381)     |
| Writedowns during the period  | (3,257)                        | -                                                                                                                            | -                                                                                   | -                                | -                                          | -               | (3,257)      |
| Other changes                 | 10,713                         | 169                                                                                                                          | (10,978)                                                                            | -                                | -                                          | -               | (96)         |
| <i>Balance at December 31</i> | 81,391                         | 32,714                                                                                                                       | 20,972                                                                              | 13,853                           | 6,081                                      | 126,639         | 281,650      |
| Historical cost               | 211,718                        | 65,031                                                                                                                       | 25,253                                                                              | 19,215                           | 8,437                                      | 149,537         | 479,191      |
| Accumulated amortisation      | 130,327                        | 32,317                                                                                                                       | 4,281                                                                               | 5,362                            | 2,356                                      | 22,898          | 197,541      |
| Net value                     | 81,391                         | 32,714                                                                                                                       | 20,972                                                                              | 13,853                           | 6,081                                      | 126,639         | 281,650      |

| (in thousands of Euro)        | 2015                           |                                                                                                                              |                                                                                     |                                  |                                            |                 |              |
|-------------------------------|--------------------------------|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------|-----------------|--------------|
|                               | <i>Develop-<br/>ment costs</i> | <i>Industrial<br/>patents and<br/>intellectual<br/>property<br/>rights,<br/>concessions,<br/>licences and<br/>trademarks</i> | <i>Other, assets<br/>under<br/>construction<br/>and<br/>payments on<br/>account</i> | <i>Customer<br/>Relationship</i> | <i>Trade name<br/>Systemes<br/>Moteurs</i> | <i>Goodwill</i> | <i>TOTAL</i> |
| <i>Balance at January 1</i>   | 77,773                         | 36,033                                                                                                                       | 19,767                                                                              | 15,833                           | 6,951                                      | 126,639         | 282,996      |
| Additions of the period       | 16,971                         | 2,248                                                                                                                        | 11,158                                                                              | -                                | -                                          | -               | 30,377       |
| Disposals during the period   | (748)                          | -                                                                                                                            | (20)                                                                                | -                                | -                                          | -               | (768)        |
| Exchange differences          | (992)                          | (33)                                                                                                                         | 277                                                                                 | -                                | -                                          | -               | (748)        |
| Amortisation for the period   | (21,129)                       | (4,071)                                                                                                                      | (664)                                                                               | (990)                            | (435)                                      | -               | (27,289)     |
| Writedowns during the period  | -                              | -                                                                                                                            | (114)                                                                               | -                                | -                                          | -               | (114)        |
| Other changes                 | 7,487                          | 328                                                                                                                          | (8,219)                                                                             | -                                | -                                          | -               | (404)        |
| <i>Balance at December 31</i> | 79,362                         | 34,505                                                                                                                       | 22,185                                                                              | 14,843                           | 6,516                                      | 126,639         | 284,050      |
| Historical cost               | 184,219                        | 64,388                                                                                                                       | 25,788                                                                              | 19,215                           | 8,437                                      | 149,537         | 451,584      |
| Accumulated amortisation      | 104,857                        | 29,883                                                                                                                       | 3,603                                                                               | 4,372                            | 1,921                                      | 22,898          | 167,534      |
| Net value                     | 79,362                         | 34,505                                                                                                                       | 22,185                                                                              | 14,843                           | 6,516                                      | 126,639         | 284,050      |

Investments during the year amounted to Euro 30,298 thousand.

The increases in “Development costs” for the amount of Euro 18,653 thousand refer to the capitalisation of costs incurred by Group companies to develop new products in collaboration with leading motor vehicle manufacturers (after obtaining the nomination from the customer). The largest investments refer to the subsidiaries Sogefi Air & Refroidissement France S.A.S., Sogefi Filtration France S.A., Sogefi Air & Cooling Canada Corp., Sogefi Filtration Spain S.A., Allevard Sogefi U.S.A. Inc., and Sogefi Engine Systems Mexico S. de R.L. de C.V.

Increases in “Industrial patents and intellectual property rights, concessions, licences and trademarks” amount to Euro 1,485 thousand and refer mainly to the development and implementation in process of the new information system across the Sogefi Group. This integrated information system is amortised on a ten-year basis, based on its estimated useful life, starting from the date of implementation in each subsidiary.

Increases in “Other, assets under construction and payments on account”, for the amount of Euro 10,159 thousand, refer mainly to a large number of investments in the development and implementation of the new products not yet flowed into production. The highest development costs were recorded at subsidiaries Sogefi Suspensions France S.A., S.C. Sogefi Air & Cooling Srl, Allevard Sogefi U.S.A. Inc. and Sogefi Filtration d.o.o.

“Writedowns”, for the amount of Euro 3,257 thousand, reflect research and development projects of subsidiaries Sogefi Filtration do Brasil Ltda, Sogefi Filtration d.o.o., Sogefi Filtration France S.A., Sogefi Filtration Spain S.A. and Sogefi Air & Refroidissement France S.A.S. that cannot be recovered.

The item does not include advances to suppliers for the purchase of fixed assets.

“Development costs” principally include costs generated internally, whereas “Industrial patents and intellectual property rights, concessions, licences and trademarks” consist of factors that are acquired externally for the most part.

“Other, assets under construction and payments on account” include around Euro 20,807 thousand of costs generated internally.

There are no intangible assets with an indefinite useful life except for goodwill.

### ***Goodwill and impairment test***

Goodwill is not amortised, but subjected each year to impairment test.

The Company identified five Cash Generating Units (CGUs):

- filtration
- air & cooling
- car suspension
- industrial vehicle suspension
- precision springs

For the moment, it is possible to identify goodwill deriving from external acquisitions in three CGUs: Filtration, Air&Cooling and Car Suspension.

The specific goodwill of the CGU “filtration” amounts to Euro 77,030 million, the goodwill of CGU “air&cooling” amounts to Euro 32,560 million, and the goodwill of CGU “car suspension” amounts to Euro 17,049 thousand.

Impairment tests have been carried out in accordance with the procedure laid down in IAS 36 to check whether there have been any losses in the value of this goodwill, by comparing the book value of the individual CGUs with their value in use, given by the present value of estimated future cash flows that are expected to result from the continuing use of the asset being tested for impairment.

We used the Discounted Cash Flow Unlevered model. The Group took into account the cash flows projections expected for 2017 as determined based on the budget (approved by the Board of Directors on 23 January 2017) and the forecasts included in the 2018-2020 plan (adjusted to eliminate any estimated benefits from future projects and reorganisations) approved by the Board of Directors on 13 June 2016 and 27 February 2017. Budget and plan were prepared taking into account forecasts for the automotive segment made by major sources in the industry.

A discount rate of 8.34%, which reflects the weighted average cost of capital, was used. The same discount rate is used for all three CGUs. As a matter of fact, the three CGUs operate in the same sector and deal with the same kind of customers, and it is estimated that they are exposed to the same risks.

The terminal value was calculated using the “perpetual annuity” approach, assuming a growth rate (“g-rate”) of 2% (assumed to be conservative when compared to the forecasts for the automotive segment available from major sources of the industry) and considering an operating cash flow based on the last year of the projection (the year 2020), adjusted to project a stable situation “in perpetuity”, based on the following main assumptions:

- a balance between capital investment and depreciation (according to the rationale of considering the level of investment needed to "maintain" the business);
- change in working capital equal to zero.

As regards the average cost of capital, we calculated a weighted average of the cost of debt (taking into consideration the benchmark interest rates plus a spread) and the Company's own cost of capital, based on parameters for a group of firms operating in the European car components sector which are considered by the leading industry analysts to be Sogefi's peers. The values used to calculate the average cost of capital (extrapolated from the main financial sources) are as follows:

- financial structure of the industry: 21.7%
- levered beta of the industry: 1.08
- risk-free rate: 3.0% (annual average of risk-free rates of 10 year sovereign debt of the key markets in which the Group operates, weighted by revenues)
- risk premium: 6.4% (weighted average risk premium calculated by an independent source for the key markets in which the Group operates, weighted by revenues)
- debt cost spread: 3.4% (estimate based on the 2017 budget)

As far as the sensitivity analysis goes, it should be noted that:

- the impairment test reached the break-even point at the following discounting rates (growth rate of terminal value remaining unchanged at 2% and all other plan assumptions being equal): 16.6% for CGU Filtration; 17.2% for CGU Air&Cooling; and 12.3% for CGU Car Suspension;
- the impairment test reached break-even point with a significant reduction in EBIT during the explicit period covered by the plan that was also applied to terminal value (all other plan assumptions being equal): -56.8% in CGU Filtration; -58.3% in CGU Air&Cooling; and -38.7% in CGU Car Suspension;
- the impairment test reached break-even point at the following decreasing rates of the terminal value “g-rate” (all other plan assumptions being equal): -10.9% in CGU Filtration; -10.7% in CGU Air&Cooling; and -3.4% in CGU Car Suspension.

The test based on the present value of the estimated future cash flows turns out a value in use of the CGUs that exceeds their carrying value, so no writedown has been posted.

### *11. INVESTMENTS IN JOINT VENTURES*

As at 31 December 2016, there were no investments in joint ventures.

### *12. OTHER FINANCIAL ASSETS AVAILABLE FOR SALE*

As at 31 December 2016, these assets totalled Euro 46 thousand (Euro 439 thousand as at 31 December 2015) and break down as follows:

| (in thousands of Euro)                | 12.31.2016 | 12.31.2015 |
|---------------------------------------|------------|------------|
| Equity investments in other companies | 46         | 439        |
| Other securities                      | -          | -          |
| <b>TOTAL</b>                          | <b>46</b>  | <b>439</b> |

The decrease in this item basically reflects a writedown of the full amount of the equity investment in the company AFICO FILTERS S.A.E. (17.77% stake as at 31 December 2016 and 22.62% stake as at 31 December 2015) due to an impairment loss as the company's economic and financial position worsened. The writedown, in the amount of Euro 392 thousand, was booked to “Losses (gains) from equity investments”.

At the end of the previous year, the equity investment had not been classified as associate due to the significant lack of Group's members in the management bodies of the company (which means the Group did not exert significant influence on the company).

### *13. FINANCIAL RECEIVABLES AND OTHER NON-CURRENT RECEIVABLES*

Non-current financial receivables total Euro 15,770 thousand (Euro 13,156 thousand as at 31 December 2015) and refer to the fair value of cross currency swap hedging contracts. For further details, please refer to note 39.

“Other receivables” break down as follows:

| (in thousands of Euro) | 12.31.2016    | 12.31.2015    |
|------------------------|---------------|---------------|
| Pension fund surplus   | 9,955         | 23,368        |
| Other receivables      | 19,863        | 11,298        |
| <b>TOTAL</b>           | <b>29,818</b> | <b>34,666</b> |

“Other receivables” include an indemnification asset of Euro 9,955 thousand (Euro 23,368 thousand as at 31 December 2015) owed by the seller of Sogefi Air & Refroidissement France S.A.S.’s shares – booked upon the PPA of the Systemes Moteurs Group – relating to the recovery of expenses charged by customers following claims on the quality of products sold, based on warranties given by the same seller. For further details, please refer to note 2, paragraph “Consolidation principles and accounting policies – Critical estimates and assumptions”.

The item “Other non-current receivables” also includes tax credits relating to the research and development activities of the French subsidiaries, other tax credits and non-interest bearing guarantee deposits for leased properties.

These receivables will be collected over the coming years. They increased by Euro 8,565 thousand, of which Euro 3,500 thousand reflect tax credits of subsidiary Sogefi Air & Refroidissement S.A.S. reclassified from current “Tax receivables”, Euro 4,179 thousand relate to tax credits originated from research and development activities of the French subsidiaries, and Euro 886 thousand other receivables.

#### *14. DEFERRED TAX ASSETS*

As at 31 December 2016, this item amounts to Euro 56,810 thousand compared to Euro 65,301 thousand as at 31 December 2015.

This amount relates to the expected benefits on deductible temporary differences, booked to the extent that it is probable that it will be recovered. Reference should be made to note 20 for a further discussion of this matter.

#### *15. NON-CURRENT ASSETS HELD FOR SALE*

As at 31 December 2016, non-current assets held for sale total Euro 3,418 thousand and relate to the plot of land and building of the Lieusaint site owned by subsidiary Sogefi Suspensions France S.A., which were reclassified to “Non-current assets held for sale” as it is highly probable that they will be sold during 2017.

## **C 2) LIABILITIES AND EQUITY**

### **16. FINANCIAL DEBTS TO BANKS AND OTHER FINANCING CREDITORS**

These break down as follows:

#### ***Current portion***

| (in thousands of Euro)                                                         | 12.31.2016       | 12.31.2015      |
|--------------------------------------------------------------------------------|------------------|-----------------|
| Bank overdrafts and short-term loans                                           | 11,005           | 17,843          |
| Current portion of medium/long-term financial debts<br><i>of which: leases</i> | 137,203<br>1,721 | 74,445<br>1,252 |
| <b>TOTAL SHORT-TERM FINANCIAL DEBTS</b>                                        | <b>148,208</b>   | <b>92,288</b>   |
| Other short-term liabilities for derivative financial instruments              | 400              | 325             |
| <b>TOTAL SHORT-TERM FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS</b>   | <b>148,608</b>   | <b>92,613</b>   |

#### ***Non-current portion***

| (in thousands of Euro)                                                             | 12.31.2016       | 12.31.2015       |
|------------------------------------------------------------------------------------|------------------|------------------|
| Financial debts to banks                                                           | 48,291           | 141,080          |
| Other medium/long-term financial debts<br><i>of which: leases</i>                  | 209,906<br>9,039 | 218,417<br>8,135 |
| <b>TOTAL MEDIUM/LONG-TERM FINANCIAL DEBTS</b>                                      | <b>258,197</b>   | <b>359,497</b>   |
| Other medium/long-term liabilities for derivative financial instruments            | 7,550            | 11,562           |
| <b>TOTAL MEDIUM/LONG-TERM FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS</b> | <b>265,747</b>   | <b>371,059</b>   |

#### ***Bank overdrafts and short-term loans***

For further details, please refer to the Analysis of the net financial position in note 22 and to the Consolidated Cash Flow Statement included in the financial statements.

#### ***Current and non-current portions of medium/long-term financial debts***

Details are as follows:

Balance as at 31 December 2016 (in thousands of Euro):

| Company                             | Bank/Credit Institute  | Signing date | Due date    | Original amount loan | Interest rate                 | Current portion | Non-current portion | Total amount | Real Guarantees |
|-------------------------------------|------------------------|--------------|-------------|----------------------|-------------------------------|-----------------|---------------------|--------------|-----------------|
| Sogefi S.p.A.                       | BNP Paribas S.A.       | Sep - 2014   | Sep - 2017  | 25,000               | Euribor 3m + 190 bps variable | 24,939          | -                   | 24,939       | N/A             |
| Sogefi S.p.A.                       | ING Bank               | July - 2015  | Sep - 2020  | 30,000               | Euribor 3m + 190 bps variable | -               | 29,879              | 29,879       | N/A             |
| Sogefi S.p.A.                       | Banca Carige S.p.A     | July - 2011  | Sep - 2017  | 25,000               | Euribor 3m + 225 bps variable | 4,026           | -                   | 4,026        | N/A             |
| Sogefi S.p.A.                       | Banco do Brasil S.A.   | Dec - 2012   | Apr - 2017  | 15,000               | Euribor 3m + 315 bps variable | 3,742           | -                   | 3,742        | N/A             |
| Sogefi S.p.A.                       | Mediobanca S.p.A       | July - 2015  | Jan - 2017  | 20,000               | Euribor 3m + 130 bps variable | 19,996          | -                   | 19,996       | N/A             |
| Sogefi S.p.A.                       | Mediobanca S.p.A       | Dec - 2015   | June - 2017 | 20,000               | Euribor 3m + 125 bps variable | 19,983          | -                   | 19,983       | N/A             |
| Sogefi S.p.A.                       | Banco do Brasil S.A.   | Sep - 2015   | Sep - 2018  | 19,000               | Euribor 3m + 130 bps variable | 7,600           | 7,552               | 15,152       | N/A             |
| Sogefi S.p.A.                       | Banca Carige S.p.A     | Nov - 2015   | June - 2019 | 10,000               | Euribor 3m + 130 bps variable | 2,848           | 4,289               | 7,137        | N/A             |
| Sogefi (Suzhou) Auto Parts Co., Ltd | ING Bank               | Mar - 2015   | Jan - 2017  | 9,358                | 160% PBOC 1y                  | 9,358           | -                   | 9,358        | N/A             |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Intesa SanPaolo S.p.A. | Nov - 2016   | May - 2017  | 5,350                | 120% PBOC 3m                  | 5,350           | -                   | 5,350        | N/A             |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Unicredit S.p.A.       | Nov - 2016   | Nov - 2017  | 4,097                | 115% PBOC 3m                  | 4,097           | -                   | 4,097        | N/A             |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Commerz bank           | July - 2016  | June - 2017 | 3,005                | 105% PBOC 6m                  | 3,005           | -                   | 3,005        | N/A             |
| Sogefi Air & Cooling Canada Corp.   | Ge Capital             | Sep - 2015   | Sep - 2019  | 4,229                | 4,207% fixed                  | 1,045           | 1,938               | 2,983        | YES             |
| Sogefi Filtration do Brasil Ltda    | Banco do Brasil        | July - 2014  | Aug - 2017  | 3,322                | 8 % fixed                     | 3,322           | -                   | 3,322        | N/A             |
| Sogefi Filtration do Brasil Ltda    | Banco do Brasil        | Sep - 2015   | Aug - 2018  | 2,915                | 17,96% fixed                  | 1,206           | 804                 | 2,010        | YES             |
| Sogefi Filtration do Brasil Ltda    | Banco Itau             | Mar - 2016   | Mar - 2017  | 2,591                | 6,2% fixed                    | 791             | -                   | 791          | N/A             |
| S.C. Sogefi Air & Cooling S.r.l.    | ING Bank               | May - 2016   | May - 2020  | 4,723                | ROBOR 3m + 2,8%               | 1,090           | 3,633               | 4,723        | N/A             |
| Shanghai Sogefi Auto Parts Co., Ltd | Bank of China          | July - 2016  | Jan - 2017  | 2,049                | 105% PBOC 6m                  | 2,049           | -                   | 2,049        | N/A             |
| Other loans                         |                        |              |             |                      |                               | 22,756          | 196                 | 22,951       |                 |
| TOTAL                               |                        |              |             |                      |                               | 137,203         | 48,291              | 185,494      |                 |

The current portion of line “Other medium/long-term financial debts” includes Euro 15,585 thousand relating to the bond issue of USD 115,000 thousand.

This item also includes other minor loans, as well as financial lease payments in accordance with IAS 17.

Balance as at 31 December 2015 (in thousands of Euro):

| Company                             | Bank/Credit Institute   | Signing date | Due date   | Original amount loan | Interest rate                    | Current portion | Non-current portion | Total amount | Real Guarantees |
|-------------------------------------|-------------------------|--------------|------------|----------------------|----------------------------------|-----------------|---------------------|--------------|-----------------|
| Sogefi S.p.A.                       | Intesa SanPaolo S.p.A.  | Apr - 2011   | Dec - 2016 | 60,000               | Euribor 3m + 260 bps variable    | 7,868           | 0                   | 7,868        | N/A             |
| Sogefi S.p.A.                       | BNP Paribas S.A.        | Sep - 2014   | Sep - 2017 | 25,000               | Euribor 3m + 190 bps variable    | 0               | 24,858              | 24,858       | N/A             |
| Sogefi S.p.A.                       | Mediobanca S.p.A.       | Jul - 2014   | Jan - 2016 | 20,000               | Euribor 3m + 170 bps variable    | 0               | 19,998              | 19,998       | N/A             |
| Sogefi S.p.A.                       | Banca Carige S.p.A.     | Jul - 2011   | Sep - 2017 | 25,000               | Euribor 3m + 225 bps variable    | 5,232           | 3,969               | 9,201        | N/A             |
| Sogefi S.p.A.                       | ING Bank                | Jul - 2015   | Sep - 2020 | 30,000               | Euribor 3m + 190 bps variable    | 0               | 29,846              | 29,846       | N/A             |
| Sogefi S.p.A.                       | Mediobanca S.p.A.       | Jul - 2015   | Jan - 2017 | 20,000               | Euribor 3m + 130 bps variable    | 0               | 19,952              | 19,952       | N/A             |
| Sogefi S.p.A.                       | Banco do Brasil S.A.    | Sep - 2015   | Sep - 2018 | 19,000               | Euribor 3m + 130 bps variable    | 3,800           | 15,124              | 18,924       | N/A             |
| Sogefi S.p.A.                       | Banco do Brasil S.A.    | Dec - 2012   | Apr - 2017 | 15,000               | Euribor 3m + 315 bps variable    | 3,750           | 3,714               | 7,464        | N/A             |
| Sogefi S.p.A.                       | Banca Carige S.p.A.     | Nov - 2015   | Jun - 2019 | 10,000               | Euribor 3m + 130 bps variable    | 2,811           | 7,116               | 9,927        | N/A             |
| Sogefi (Suzhou) Auto Parts Co., Ltd | ING Bank                | Jun - 2014   | Jan - 2017 | 11,415               | 8.80% fixed                      | 5,156           | 6,259               | 11,415       | N/A             |
| Sogefi (Suzhou) Auto Parts Co., Ltd | ING Bank                | Jun - 2015   | Jan - 2017 | 5,235                | 8.01% fixed                      | 1,772           | 3,463               | 5,235        | N/A             |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Unicredit S.p.A.        | Jan - 2015   | Jun - 2016 | 7,876                | 7.28% fixed                      | 7,876           | 0                   | 7,876        | N/A             |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Unicredit S.p.A.        | Nov - 2015   | Nov - 2016 | 6,498                | 6.96% fixed                      | 6,498           | 0                   | 6,498        | N/A             |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Commerzbank AG          | Jan - 2015   | Jun - 2016 | 3,265                | 5.78% fixed                      | 3,265           | 0                   | 3,265        | N/A             |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Intesa SanPaolo S.p.A.  | May - 2015   | Dec - 2016 | 4,466                | 6.72% fixed                      | 4,466           | 0                   | 4,466        | N/A             |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Intesa SanPaolo S.p.A.  | May - 2015   | Dec - 2016 | 2,702                | 5.52% fixed                      | 2,702           | 0                   | 2,702        | N/A             |
| Sogefi Filtration do Brasil Ltda    | Banco Itau BBA Internat | Feb - 2013   | Mar - 2016 | 4,818                | 5.5% fixed                       | 4,818           | 0                   | 4,818        | N/A             |
| Sogefi Filtration do Brasil Ltda    | Banco do Brasil S.A.    | Sep - 2015   | Aug - 2018 | 2,319                | 17.96% fixed                     | 640             | 1,679               | 2,319        | YES             |
| Sogefi Air & Cooling Canada Corp.   | Ge Capital              | Sep - 2015   | Sep - 2019 | 3,969                | 4.207% fixed                     | 941             | 2,799               | 3,740        | YES             |
| Sogefi Filtration Spain S.A.        | Banco Sabadell S.A.     | May - 2011   | May - 2016 | 7,000                | Euribor trim. + 225 bps variable | 700             | 0                   | 700          | N/A             |
| S.C. Sogefi Air & Cooling S.r.l.    | ING Bank                | May - 2013   | May - 2017 | 2,459                | ROBOR 3M +5.5%                   | 820             | 205                 | 1,025        | N/A             |
| Other loans                         |                         |              |            |                      |                                  | 11,330          | 2,098               | 13,428       |                 |
| TOTAL                               |                         |              |            |                      |                                  | 74,445          | 141,080             | 215,525      |                 |

As at 31 December 2016, the “Current portion of medium/long-term financial debts” totals Euro 137,203 thousand, Euro 100 million of which relating to the Parent Company Sogefi S.p.A. and reflects bank loan instalments or bonds underwritten during the previous years repayable by 31 December 2017. With regard to the current portions of financial debts payable within the following year, it should be noted that the Parent Company Sogefi S.p.A. has unused lines of credit for the amount of Euro 170,171 thousand. These funds are available for use on demand, because the conditions required for their availability are met.

In May 2016, the Parent Company chose to use the option provided for by the loan agreement to waive borrowing under the revolving portion (Euro 30 million not drawn at the time of the waiver) of the loan facility granted by Intesa Sanpaolo S.p.A. in April 2011 and expiring on 31 December 2016. With regard to the amortisable portion of the loan granted by Intesa Sanpaolo S.p.A. in April 2011 and expiring on 31 December 2016, the Parent Company paid the remaining instalments (Euro 8 million as at 31 December 2015) and extinguished the loan during the year.

The loan of Euro 20 million obtained from Mediobanca S.p.A. in July 2014, expiring in January 2016, was replaced with a loan for the same amount taken out with the same bank in December 2015, effective from January 2016 and expiring in June 2017, at a floating interest rate linked to the 3-month Euribor plus a spread of 125 basis points.

The existing loans are not secured by the Company's assets. Furthermore, note that, contractually, the spreads relating to the loans of the Company are reviewed every six months on the basis of the computation of the consolidated NFP/normalised consolidated EBITDA ratio. For an analysis of the covenants relating to loans outstanding at the end of the period, please refer to the note below entitled "Analysis of the financial position".

#### ***Other short-term liabilities for derivative financial instruments***

The item includes the short-term portion of the *fair value* of the exchange risk hedging contracts.

Reference should be made to chapter E for a further discussion of this matter.

#### ***Other medium/long-term financial debts***

As at 31 December 2016, details were as follows (in thousands of Euro):

| Company               | Bank/Credit Institute | Signing date | Due date   | Original amount loan | Interest rate        | Total amount at December 31, 2016 | Real guarantees |
|-----------------------|-----------------------|--------------|------------|----------------------|----------------------|-----------------------------------|-----------------|
| Sogefi S.p.A.         | Private placement     | May - 2013   | May - 2023 | USD 115,000          | Fixed coupon 600 bps | 93,228                            | N/A             |
| Sogefi S.p.A.         | Private placement     | May - 2013   | May - 2020 | Euro 25,000          | Fixed coupon 505 bps | 24,953                            | N/A             |
| Sogefi S.p.A.         | Equity linked bond    | May - 2014   | May - 2021 | Euro 100,000         | Fixed coupon 2% year | 82,035                            | N/A             |
| Other financial debts |                       |              |            |                      |                      | 9,689                             |                 |
| <b>TOTAL</b>          |                       |              |            |                      |                      | <b>209,906</b>                    |                 |

Please note that an amount of Euro 15,585 thousand relating to the bond issue of USD 115,000 thousand was classified under "Current portion of medium/long-term financial debts" because redemption will occur during the year 2017.

Line "Other medium/long-term financial debts" includes other minor loans, as well as financial lease payments in accordance with IAS 17.

As at 31 December 2015, details were as follows (in thousands of Euro):

| Company               | Bank/Credit Institute | Signing date | Due date   | Original amount loan<br>(in thousands) | Interest rate        | Total amount at December 31, 2015 (in thousands of Euro) | Real guarantees |
|-----------------------|-----------------------|--------------|------------|----------------------------------------|----------------------|----------------------------------------------------------|-----------------|
| Sogefi S.p.A.         | Private placement     | May - 2013   | May - 2023 | USD 115,000                            | Fixed coupon 600 bps | 105,302                                                  | N/A             |
| Sogefi S.p.A.         | Private placement     | May - 2013   | May - 2020 | Euro 25,000                            | Fixed coupon 505 bps | 24,940                                                   | N/A             |
| Sogefi S.p.A.         | Equity linked bond    | May - 2014   | May - 2021 | Euro 100,000                           | Fixed coupon 2% year | 78,627                                                   | N/A             |
| Other financial debts |                       |              |            |                                        |                      | 9,548                                                    |                 |
| <b>TOTAL</b>          |                       |              |            |                                        |                      | <b>218,417</b>                                           |                 |

The balance in Euro of the bond of USD 115,000 thousand increased as a result of the variation in the Euro-to-USD exchange rate (hedged as detailed in section E).

### ***Other medium/long-term financial liabilities for derivative financial instruments***

This item amounts to Euro 7,550 thousand (Euro 11,562 thousand as at 31 December 2015) and breaks down as follows:

- Euro 731 thousand represent a liability corresponding to the fair value of interest rate swap (Irs) contracts designated in hedge accounting, entered into for a notional amount of Euro 25 million in 2013 and maturing in June 2018, whose purpose is to convert part of the existing medium/long-term loan taken out with Ing Bank N.V. from variable to fixed interest rate (the original purpose of these instruments was to hedge for future indebtedness of the Parent Company Capogruppo Sogefi S.p.A., deemed to be highly probable).
- Euro 6,819 thousand represent a liability corresponding to the fair value of interest rate swap (Irs) contracts previously designated in hedge accounting that were reclassified as financial liabilities at fair value through profit or loss during previous years; contracts for Euro 90 million were entered into in 2011 and Euro 75 million in 2013, maturing in June 2018. The purpose of these contracts was to hedge the risk of fluctuations in future cash flows arising from the expected future long-term indebtedness of the Parent Company Sogefi S.p.A., deemed to be highly probable according to future projections approved by management. These derivatives did not pass the effectiveness test required by IAS 39 in order to apply the hedge accounting rules.

### ***Finance leases***

The Group has finance leases as well as rental and hire contracts for building, plant and machinery that, according to their type, cover almost the entire useful life of the asset concerned. The assets held under these leases, rental and hire contracts are booked in accordance with IAS 17 as though they were fixed assets owned by the company, disclosing their historical cost, depreciation, the financial cost and the residual liability.

Future payments deriving from these contracts can be summarised as follows:

| (in thousands of Euro)                       | Instalments   | Capital       |
|----------------------------------------------|---------------|---------------|
| Within 12 months                             | 2,158         | 1,721         |
| Between 1 and 5 years                        | 7,779         | 6,710         |
| Beyond 5 years                               | 2,411         | 2,329         |
| Total lease payments                         | 12,349        | 10,760        |
| Interests                                    | (1,589)       | -             |
| <b>TOTAL PRESENT VALUE OF LEASE PAYMENTS</b> | <b>10,760</b> | <b>10,760</b> |

The contracts included in this item refer to the following subsidiaries:

- Sogefi Filtration Ltd for a long-term rental contract for the production site in Tredegar. The contract expires in September 2022 and the original total amount of the contract was Euro 3,095 thousand; the future capital payments amount to Euro 1,787 thousand and the annual nominal rate of interest applied by the lessor is 11.59%.

The Group has given sureties for this contract.

This rental contract has been accounted for as financial leases, as required by IAS 17, where the present value of the rent payments amounted approximately with the fair value of the asset at the time the contract was signed.

- Allevard Sogefi USA Inc. has entered into the following lease contracts for the Prichard production site relating to:

a) plants, machinery and improvements to the building for an original amount of Euro 1,518 thousand. The contract expires in May 2019, the future capital payments amount to Euro 409 thousand and the annual interest rate applied by the lessor is equal to 3.92%. The Group has given sureties for this contract;

b) plants, machinery and improvements to the building for an original amount of Euro 2,729 thousand. The contract expires in July 2019, the future capital payments amount to Euro 815 thousand and the annual interest rate applied by the lessor is equal to 3%. The Group has given sureties for this contract.

c) plants, machinery and improvements to the building for an original amount of Euro 5,662 thousand. Please note that in 2016, subsidiary Allevard Sogefi USA Inc. renegotiated the financial lease agreement entered into in 2013 after the purchase of new machinery, increasing its value by Euro 2,154 thousand. The new lease agreement presents for the same annual interest rate (3.24%) and term (June 2023) as the original one. Overall residual principal amount is Euro 7,750 thousand.

The Group has given sureties for this contract.

There are no restrictions of any nature on these leases. Upon expiry of the contracts ownership of the assets is transferred to the lessee without payment of any purchase price. These contracts are therefore accounted for as financial leases, as required by IAS 17.

## *17. TRADE AND OTHER CURRENT PAYABLES*

The amounts shown in the financial statements can be broken down into the following categories:

| (in thousands of Euro)   | 12.31.2016     | 12.31.2015     |
|--------------------------|----------------|----------------|
| Trade and other payables | 339,086        | 325,421        |
| Tax payables             | 8,664          | 6,071          |
| <b>TOTAL</b>             | <b>347,750</b> | <b>331,492</b> |

Details of trade and other payables are as follows:

| (in thousands of Euro)                              | 12.31.2016     | 12.31.2015     |
|-----------------------------------------------------|----------------|----------------|
| Due to suppliers                                    | 262,884        | 255,400        |
| Due to the parent company                           | 3,254          | 2,428          |
| Due to tax authorities for indirect and other taxes | 11,359         | 8,607          |
| Due to social and security institutions             | 20,668         | 21,750         |
| Due to employees                                    | 31,992         | 29,719         |
| Other payables                                      | 8,929          | 7,517          |
| <b>TOTAL</b>                                        | <b>339,086</b> | <b>325,421</b> |

Amounts “Due to suppliers ” are not interest-bearing and are settled on average in 66 days (70 days as at 31 December 2015).

There is no significant concentration of payables due to any one supplier or small group of suppliers.

The amounts “Due to suppliers” increased by Euro 7,484 thousand (by Euro 8,256 thousand at constant exchange rates); this is mainly due to business growth in the last portion of 2016 compared to the same period of the previous year.

Amounts “Due to parent company” reflect the consideration of Euro 1,390 thousand due for the fiscal surplus transferred by companies that have joined the CIR Group tax filing system; Euro 1,750 thousand represent the tax liability of subsidiary Sogefi Italy S.p.A. in connection with the CIR Group tax filing system, and Euro 114 thousand reflect outstanding Directors' remuneration charged back to the parent company Cir S.p.A. For further details, please refer to note 40.

The increase in amounts “Due to tax authorities for indirect and other taxes” mainly refers to VAT debts, outstanding withholding tax payments and other indirect taxes.

Item “Due to social and security institutions” decreased after the French subsidiaries changed contribution payment scheme from quarterly (in 2015) to monthly payments in the year 2016. The increase in “Due to employees” of Euro 2,273 thousand reflects for the most part provisions for vacation accrued and not utilised and for the variable portion of remuneration.

“Tax payables” are taxes accrued in 2016.

## 18. OTHER CURRENT LIABILITIES

“Other current liabilities” for the amount of Euro 8,197 thousand (Euro 9,686 as at 31 December 2015) include adjustments to costs and revenues for the period so as to ensure compliance with the accruals based principle (accrued expenses and deferred income),

deferred margin on tooling sales and advances received from customers for orders still to be delivered.

## 19. LONG-TERM PROVISIONS AND OTHER PAYABLES

These are made up as follows:

Details of the main items are given below.

| (in thousands of Euro)                              | 12.31.2016    | 12.31.2015    |
|-----------------------------------------------------|---------------|---------------|
| Pension funds                                       | 53,198        | 42,575        |
| Provision for employment termination indemnities    | 5,996         | 6,316         |
| Provision for restructuring                         | 2,106         | 5,194         |
| Provision for product warranties                    | 19,081        | 19,716        |
| Provisions for disputes in progress and other risks | 8,936         | 5,414         |
| <b>TOTAL</b>                                        | <b>89,317</b> | <b>79,215</b> |

### *Pension funds*

The amount of Euro 53,198 thousand represents the amount set aside at year end by the various Group foreign companies to cover the liabilities of their various pension funds. Changes in the pension funds occurred during the year are shown below:

| (in thousands of Euro)                       | 12.31.2016    | 12.31.2015    |
|----------------------------------------------|---------------|---------------|
| Opening balance                              | 42,575        | 47,361        |
| Cost of benefits charged to income statement | 3,380         | 3,941         |
| "Other Comprehensive Income"                 | 12,929        | (7,176)       |
| Contributions paid                           | (2,939)       | (2,921)       |
| Exchange differences                         | (2,747)       | 1,370         |
| <b>TOTAL</b>                                 | <b>53,198</b> | <b>42,575</b> |

The following table shows all of the obligations deriving from "Pension funds" and the present value of the plan assets for the year 2016 and the two previous years.

| (in thousands of Euro)                       | 12.31.2016    | 12.31.2015    | 12.31.2014    |
|----------------------------------------------|---------------|---------------|---------------|
| Present value of defined benefit obligations | 221,176       | 221,701       | 222,291       |
| Fair value of plan assets                    | 167,978       | 179,126       | 174,930       |
| <b>Deficit</b>                               | <b>53,198</b> | <b>42,575</b> | <b>47,361</b> |

Changes in the "Present value of defined benefit obligations" for the year 2016 were as follows:

| (in thousands of Euro)                                                               | 12.31.2016 | 12.31.2015 |
|--------------------------------------------------------------------------------------|------------|------------|
| Present value of defined benefit obligations at the beginning of the period          | 221,701    | 222,291    |
| Current service cost                                                                 | 1,638      | 1,647      |
| Financial expenses                                                                   | 7,353      | 8,128      |
| Remeasurement (gains)/losses                                                         |            |            |
| - Actuarial (gains)/losses arising from changes in demographic assumptions           | (6,777)    | (305)      |
| - Actuarial (gains)/losses arising from changes in financial assumptions             | 39,275     | (19,379)   |
| - Actuarial (gains)/losses arising from experience                                   | (5,176)    | 4,978      |
| - Actuarial (gains)/losses arising from "Other long-term benefits" - Jubilee benefit | 332        | 164        |
| Contribution paid by plan participants                                               | 183        | 227        |
| Settlements/Curtailments                                                             | (310)      | -          |
| Exchange differences                                                                 | (28,952)   | 12,163     |
| Benefits paid                                                                        | (8,091)    | (8,213)    |
| Present value of defined benefit obligations at the end of the period                | 221,176    | 221,701    |

“Actuarial (gains)/losses arising from changes in demographic assumptions” are mainly due to revised mortality assumptions in British pension funds.

“Actuarial (gains)/losses arising from changes in financial assumptions” are mainly due to a diminished discount rate in British and French pension funds.

“Actuarial (gains)/losses arising from experience adjustments” reflect the difference between actuarial assumptions and what occurred in practice (for instance, in terms of employee turnover, wage inflation or inflation rate).

“Actuarial (gains)/losses relating to other long-term benefits” mainly relate to the French subsidiaries.

With regard to the balances of companies that use functional currencies other than the Euro, please note that the Income Statement items are translated into Euro using the average exchange rate of the reporting period; the present value of obligations at beginning and end of period was translated at the rate of exchange ruling at the relevant date.

Changes in the fair value of plan assets are illustrated in the table below:

| (in thousands of Euro)                                   | 12.31.2016 | 12.31.2015 |
|----------------------------------------------------------|------------|------------|
| Fair value of plan assets at the beginning of the period | 179,126    | 174,930    |
| Interest income                                          | 6,175      | 6,675      |
| Remeasurement (gains)/losses:                            |            |            |
| Return on plan assets                                    | 14,393     | (7,530)    |
| Non investment expenses                                  | (542)      | (677)      |
| Contributions paid by the company                        | 1,737      | 1,718      |
| Contributions paid by the plan participants              | 183        | 227        |
| Exchange differences                                     | (26,205)   | 10,792     |
| Benefits paid                                            | (6,889)    | (7,009)    |
| Fair value of plan assets at the end of the period       | 167,978    | 179,126    |

With regard to the balances of companies that use functional currencies other than the Euro, please note that the Income Statement items are translated into Euro using the average exchange rate of the reporting period, whereas the fair value of assets at beginning and end of period was translated at the rate of exchange ruling at the relevant date.

Details of the amounts recognised in Other comprehensive income are given below:

| (in thousands of Euro)                                                                                 | 12.31.2016 | 12.31.2015 |
|--------------------------------------------------------------------------------------------------------|------------|------------|
| Return on plan assets (excluding amounts included in net interests expenses on net liability (assets)) | (14,393)   | 7,530      |
| Actuarial (gains)/losses arising from changes in demographic assumptions                               | (6,777)    | (305)      |
| Actuarial (gains)/losses arising from changes in financial assumptions                                 | 39,275     | (19,379)   |
| Actuarial (gains)/losses arising from experience                                                       | (5,176)    | 4,978      |
| Value of the net liability (asset) to be recognised in "Other Comprehensive income"                    | 12,929     | (7,176)    |

The amounts charged to the Income Statement can be summarised as follows:

| (in thousands of Euro)                                                                              | 12.31.2016 | 12.31.2015 |
|-----------------------------------------------------------------------------------------------------|------------|------------|
| Current service cost                                                                                | 1,638      | 1,647      |
| Net interest cost                                                                                   | 1,178      | 1,453      |
| Actuarial (gains)/losses recognised during the year on "Other long-term benefits" - Jubilee benefit | 332        | 164        |
| Non-management costs of plan assets                                                                 | 542        | 677        |
| Settlements/Curtailments                                                                            | (310)      | -          |
| TOTAL                                                                                               | 3,380      | 3,941      |

Items "Current service cost" and "Non-management costs of plan assets" are included in the various "Labour cost" lines of Income Statement items.

Line "Financial expenses, net" is included in "Financial expenses (income), net".

"Actuarial (gains) losses related to jubilee benefits recognized during the year" and "Settlements/Curtailments" are included in "Other non-operating expenses (income)".

Defined-benefit plans expose the Group to the following actuarial risks:

- Investment risk (only applies to British subsidiaries that hold plan assets): the present value of the defined-benefit obligation is calculated at a discount rate determined with reference to returns on AA-rated Eurozone corporate bonds; if the return on plan assets is lower than this rate, the plan will be in deficit. For this reason, and considering the long-term nature of plan liabilities, the British companies' funds diversified their portfolios to include investment in properties, debt instruments and equity instruments.
- Interest risk: a decrease in the discount rate will lead to an increase in plan liability; however, if plan assets are present, such increase will be partially offset by an increase in the return on plan investments.

- Longevity risk: the value of the defined-benefit obligation is calculated taking into account the best possible estimate of the mortality rate of plan beneficiaries; an increase in life expectancy leads to an increase in the resulting obligation.
- Inflation risk/wage inflation risk: the value of the definite-benefit plan with reference to employees in service is calculated taking into account future pay rises and inflation rate: an increase in these elements causes the relevant obligation to increase.

The following table shows the breakdown of “Pension funds” by geographical area of the relevant subsidiaries:

| (in thousands of Euro)                       |               | 12.31.2015 |       |         |  |
|----------------------------------------------|---------------|------------|-------|---------|--|
|                                              | Great Britain | France     | Other | TOTAL   |  |
| Present value of defined benefit obligations | 195,409       | 22,650     | 3,642 | 221,701 |  |
| Fair value of plan assets                    | 179,031       | -          | 95    | 179,126 |  |
| Deficit                                      | 16,378        | 22,650     | 3,547 | 42,575  |  |

| (in thousands of Euro)                       |               | 12.31.2016 |       |         |  |
|----------------------------------------------|---------------|------------|-------|---------|--|
|                                              | Great Britain | France     | Other | TOTAL   |  |
| Present value of defined benefit obligations | 190,788       | 26,734     | 3,654 | 221,176 |  |
| Fair value of plan assets                    | 167,781       | -          | 197   | 167,978 |  |
| Deficit                                      | 23,007        | 26,734     | 3,457 | 53,198  |  |

Growing Deficit reduction in Great Britain and France can be traced back mainly to a diminished discount rate.

Note that the actuarial valuations of the “Pension funds” are carried out in collaboration with external specialists.

The following paragraphs summarise the pension systems in the geographical areas that affect the Group the most: Great Britain and France.

#### *Great Britain*

In Great Britain, pension plans are mainly private, being made with fund management companies and administered independently from the company.

They are classified as defined-benefit plans subject to actuarial valuation that are accounted for according to the corridor approach as provided for by IAS 19.

With regard to plan governance, administrators are representatives of employees, former employees and employer; they are required by law to act in the interest of the fund and of all main stakeholders and are responsible for the investment policies adopted for plan assets.

With regard to the nature of employee benefits, employees are entitled to a post-employment annuity calculated by multiplying a portion of the wage earned at retirement age by the number of years of service until retirement age.

The main assumptions used in the actuarial valuation of these “Pension funds” were as follows:

|                             | 12.31.2016 | 12.31.2015 |
|-----------------------------|------------|------------|
| Discount rate %             | 2.8        | 3.9        |
| Expected annual wage rise % | 2,2-3,7    | 2,2-3,7    |
| Annual inflation rate %     | 2,2-3,2    | 2,2-3,2    |
| Retirement age              | 65         | 65         |

The diminished “Discount rate” versus the previous year reflects the downward trend in returns on AA-rated UK corporate bonds recorded in 2016. The “Discount rate” is calculated based on the returns on AA-rated UK corporate bonds (average duration of 15 years) adjusted for the longer average duration of the bond (19 years).

Changes in the present value of the UK funds obligation for 2016 and 2015 were as follows:

| (in thousands of Euro)                                                      | 12.31.2016 | 12.31.2015 |
|-----------------------------------------------------------------------------|------------|------------|
| Present value of defined benefit obligations at the beginning of the period | 195,409    | 196,097    |
| Current service cost                                                        | 208        | 269        |
| Financial expenses                                                          | 6,704      | 7,481      |
| Remeasurement (gains)/losses:                                               |            |            |
| - Actuarial (gains)/losses arising from changes in demographic assumptions  | (6,845)    | -          |
| - Actuarial (gains)/losses arising from changes in financial assumptions    | 35,911     | (13,825)   |
| - Actuarial (gains)/losses arising from experience                          | (4,941)    | -          |
| Contribution paid by plan participants                                      | 183        | 227        |
| Exchange differences                                                        | (28,956)   | 12,156     |
| Benefits paid                                                               | (6,885)    | (6,996)    |
| Present value of defined benefit obligations at the end of the period       | 190,788    | 195,409    |

Changes in the fair value of UK plan assets are illustrated in the table below:

| (in thousands of Euro)                                   | 12.31.2016 | 12.31.2015 |
|----------------------------------------------------------|------------|------------|
| Fair value of plan assets at the beginning of the period | 179,031    | 174,858    |
| Interest income                                          | 6,168      | 6,668      |
| Remeasurement (gains)/losses:                            |            |            |
| Return on plan assets                                    | 14,391     | (7,530)    |
| Non investment expenses                                  | (542)      | (677)      |
| Contribution paid by the company                         | 1,645      | 1,696      |
| Contribution paid by plan participants                   | 183        | 227        |
| Exchange differences                                     | (26,210)   | 10,785     |
| Benefits paid                                            | (6,885)    | (6,996)    |
| Fair value of plan assets at the end of the period       | 167,781    | 179,031    |

Allocations of the fair value of plan asset based on type of financial instrument were as follows:

|                         | 12.31.2016 | 12.31.2015 |
|-------------------------|------------|------------|
| Debt instruments        | 17.7%      | 23.3%      |
| Equity instruments      | 29.1%      | 32.2%      |
| Real estate investments | 0.3%       | 0.3%       |
| Cash                    | 11.3%      | 13.7%      |
| Derivatives             | 31.2%      | 28.4%      |
| Other assets            | 10.4%      | 2.1%       |
| TOTAL                   | 100.0%     | 100.0%     |

The fair value of these financial instruments was measured based on quoted prices available in active markets.

Asset allocation at the end of the year 2016 shows an increase in derivative instruments and other assets (such as private equity, private debt, hedge funds, commodities). Such increase is due to the fund's dynamic management strategy, which requires asset allocation to be adjusted to present economic conditions and future expectations on one hand. On the other hand, the strategy of one of the plans changed after a review of the Asset Liability Modelling (investment approach that identifies strategic asset allocation based on the nature and duration of a liability) also with a view to enhancing the efficiency of investment strategies, leading to the dismissal of investments classified as debt and equity instruments to invest in derivatives and other assets.

Debt instruments are mostly foreign corporate securities. Equity instruments are mostly foreign securities (emerging country securities constitute a minimal share ).

The Trustee Board periodically reviews the plan's investment strategies and diversifies them by risk and asset profitability. These strategies take into account the nature and duration of liabilities, the fund's financing needs and the employer's ability to meet the fund's commitments. The fund of subsidiary Sogefi Filtration Ltd uses derivative financial instruments to hedge the risk of changes in liability value connected with inflation, exchange and interest rates.

With regard to the impact of the defined-benefit plan of the UK companies on the Group's future cash flows, expected contributions to the plans for the next year total Euro 2,037 thousand.

Average bond duration as at 31 December 2016 is approximately 19 years.

In compliance with the IAS 19, a sensitivity analysis was performed to determine how the present value of the bond changes as the most significant actuarial assumptions change, other actuarial assumptions being equal.

Considering the peculiar operation of UK funds, the following actuarial assumptions are considered significant:

- Discount rate
- Wage inflation rate
- Life expectancy

An overview of the changes in the present value of the obligation triggered by changes in these actuarial assumptions is provided below:

| (in thousands of Euro)  | 12.31.2016 |         |
|-------------------------|------------|---------|
|                         | +1%        | -1%     |
| Discount rate           | (31,512)   | 40,632  |
| Rate of salary increase | 1,507      | (1,630) |

| (in thousands of Euro) | 12.31.2016 |          |
|------------------------|------------|----------|
|                        | + 1 year   | - 1 year |
| Life expectancy        | 5,780      | (6,057)  |

### France

Pensions in France are essentially based on state pension plans and the responsibility of the company is limited to paying the contributions established by law.

In addition to this basic assistance guaranteed by the state, retiring employees are also entitled to other additional amounts under collective labour agreements that are determined based on length of service and salary level, and are only paid if the employee reaches retirement age in the company. An employee leaving the company before retirement age will lose these additional benefits.

These additional benefits are recognised as a liability for the company and, in accordance with IAS 19, they are considered as defined-benefit plans subject to actuarial valuation.

In addition to the retirement indemnity, a collective labour agreement provides for a “*Jubilee benefit*” (which is calculated with a different method at each different French subsidiary) that vests upon reaching 20, 30, 35 and 40 years of service with the company. Under the IAS 19, this “*Jubilee benefit*” falls under the residual category of “Other long-term benefits” and is subject to actuarial valuation; actuarial gains (losses) must be recognised in the Income Statement for that year. Employees will lose the bonus falling due upon the different service jubilee bonuses if they leave the company before reaching the years of service mentioned above.

The main assumptions used in the actuarial valuation of these “Pension funds” were as follows:

|                             | 12.31.2016 | 12.31.2015 |
|-----------------------------|------------|------------|
| Discount rate %             | 1.5        | 2.5        |
| Expected annual wage rise % | 2.5        | 2.5        |
| Annual inflation rate %     | 1.8        | 1.8        |
| Retirement age              | 62-67      | 62-67      |

The “Discount rate” is calculated based on the returns on Eurozone AA-rated corporate bonds (average duration of 16.5 years).

Changes in the “Present value of defined benefit obligations” were as follows:

| (in thousands of Euro)                                                             | 12.31.2016 | 12.31.2015 |
|------------------------------------------------------------------------------------|------------|------------|
| Present value of defined benefit obligations at the beginning of the period        | 22,650     | 22,536     |
| Current service cost                                                               | 1,314      | 1,275      |
| Financial expenses                                                                 | 568        | 541        |
| Remeasurement (gains)/losses:                                                      |            |            |
| - Actuarial (gains)/losses arising from changes in demographic assumptions         | (36)       | (305)      |
| - Actuarial (gains)/losses arising from changes in financial assumptions           | 3,243      | (187)      |
| - Actuarial (gains)/losses arising from experience                                 | (99)       | (460)      |
| - Actuarial (gains)/losses related to "Other long-term benefits" - Jubilee benefit | 332        | 163        |
| Settlements/Curtailments                                                           | (310)      | -          |
| Benefits paid                                                                      | (928)      | (913)      |
| Present value of defined benefit obligations at the end of the period              | 26,734     | 22,650     |

“Actuarial (gains)/losses arising from experience adjustments” reflect the difference between actuarial assumptions and what occurred in practice (for instance, in terms of employee turnover, wage inflation or inflation rate).

The sensitivity analysis of the French funds was performed by varying the following actuarial assumptions:

- Discount rate
- Wage inflation rate

An overview of the changes in the present value of the obligation triggered by changes in these actuarial assumptions is provided below:

| (in thousands of Euro)  | 12.31.2016 |         |
|-------------------------|------------|---------|
|                         | +1%        | -1%     |
| Discount rate           | (3,058)    | 3,528   |
| Rate of salary increase | 3,406      | (3,070) |

### ***Provision for employment termination indemnities***

This aspect only concerns the Group's Italian companies, where pensions are represented by state plans and the company's responsibility is limited to regular payment of social contributions each month.

In addition to state-provided pensions, employees are entitled by law to a termination indemnity that accrues in accordance with length of service and is paid when an employee leaves the company.

The termination indemnity is calculated based on the length of service and taxable remuneration of each employee.

The corresponding liability is put aside in a specific provision and the amounts accrued in previous years are subject to annual revaluation based on the official cost-of-life index and at the legal interest rates; it is not associated with any conditions or accrual periods, nor does it require any financial provision; as a result, there are no assets underlying the provision.

This termination indemnity is considered as a defined-benefit provision, but subject to actuarial valuation for the part relating to the expected future benefits in respect of past service (which is the part subject to annual revaluation).

Further to the amendments to the “Provision for employment termination indemnities” introduced by Law 296 of 27 December 2006 and subsequent decrees and regulations issued in the early part of 2007, for companies with 50 or more employees (Sogefi Italy S.p.A.), the portions of the provision accruing as from 1 January 2007 are transferred - at employee's option - to supplementary pension funds or to the treasury fund held by INPS (the Italian social security authority) or to supplementary pension schemes, and are considered as “defined-contribution plans”. These amounts therefore do not require actuarial valuation and are no longer booked to the “Provision for employment termination indemnities”. The “Provision for employment termination indemnities” accruing up to 31 December 2006 is still a “defined-benefit plan”, consequently requiring actuarial valuation, which however will no longer take account of the component relating to future wage inflation.

In accordance with the IAS 19, for companies with less than 50 employees (Parent Company Sogefi S.p.A.) the provision as at 31 December 2016 is entirely accounted for as a “Definite-benefit plan” and is subject to actuarial valuation.

The assumptions taken into consideration when carrying out the actuarial valuation of the “Provision for employment termination indemnities” were as follows:

- Macroeconomic assumptions:

1. annual discount rate (IBOxx Eurozone Corporate AA Index): 0.86% (1.39% as at 31 December 2015);
2. annual inflation rate: 1.5% (as at 31 December 2015: 1.5% for 2016, 1.8% for 2017, 1.7% for 2018, 1.6% for 2019 and 2% from 2020 onward);
3. annual increase in termination indemnity: 2.625% (as at 31 December 2015: 2.625% for 2016, 2.85% for 2017, 2.775% for 2018, 2.7% for 2019 and 3.0% from 2020 onward).

- Demographic assumptions:

1. rate of voluntary resignations: 3% - 10% of the workforce (same assumptions adopted as at 31 December 2015);
2. retirement age: it was assumed that employees would reach the first of the requirements valid for mandatory general social security (same assumptions adopted as at 31 December 2015);
3. probability of death: the RG48 mortality tables produced by the General State Accounting Body were used (same assumptions adopted as at 31 December 2015);
4. probability of advanced settlement: an annual value of 2% - 3% each year was assumed (same assumptions adopted as at 31 December 2015);
5. INPS' table split by age and gender was used for the probability of disability (same assumptions adopted as at 31 December 2015).

The provision changed as follows during the period:

| (in thousands of Euro)                             | 12.31.2016 | 12.31.2015 |
|----------------------------------------------------|------------|------------|
| Opening balance                                    | 6,316      | 8,405      |
| Accruals for the period                            | 147        | (162)      |
| Amounts recognised in "Other Comprehensive Income" | (13)       | (351)      |
| Contributions paid                                 | (454)      | (1,576)    |
| TOTAL                                              | 5,996      | 6,316      |

The amounts charged to the Income Statement can be summarised as follows:

| (in thousands of Euro) | 2016 | 2015  |
|------------------------|------|-------|
| Current service cost   | 62   | 117   |
| Curtailement           | -    | (345) |
| Financial charges      | 85   | 66    |
| TOTAL                  | 147  | (162) |

Average bond duration as at 31 December 2016 is approximately 8 years.

The sensitivity analysis of the provision for employment termination indemnities is outlined below. The table below shows the changes in the provision triggered by changes in the following actuarial assumptions:

- Discount rate
- Wage inflation

| (in thousands of Euro)  | 12.31.2016 |       |
|-------------------------|------------|-------|
|                         | +0,5%      | -0,5% |
| Discount rate           | (196)      | 206   |
| Rate of salary increase | 5          | (4)   |

### ***Provision for restructuring***

These are amounts set aside for restructuring operations that have been officially announced and communicated to those concerned, as required by IAS/IFRS.

The provision changed as follows during the period:

| (in thousands of Euro)                | 12.31.2016 | 12.31.2015 |
|---------------------------------------|------------|------------|
| Opening balance                       | 5,194      | 19,296     |
| Accruals for the period               | 1,216      | 1,535      |
| Utilisations                          | (3,621)    | (14,438)   |
| Provisions not used during the period | (758)      | (440)      |
| Other changes                         | 25         | (373)      |
| Exchange differences                  | 50         | (386)      |
| TOTAL                                 | 2,106      | 5,194      |

“Utilisations” (booked as reductions of provisions previously accrued provisions) relate nearly entirely to subsidiaries Sogefi Filtration France S.A., Sogefi Suspension France S.A. and Sogefi Air & Refroidissement S.A.S.

Changes in “Accruals for the period” net of the “Provisions not used during the period” (amounts set aside during previous years in excess of amounts actually paid), total Euro 458 thousand; this figure is booked to the Income Statement under “Restructuring costs”.

“Other changes” include reclassifications to other balance sheet items.

### ***Provision for product warranties***

The provision changed as follows during the period:

| (in thousands of Euro)                | 12.31.2016    | 12.31.2015    |
|---------------------------------------|---------------|---------------|
| Opening balance                       | 19,716        | 23,086        |
| Accruals for the period               | 2,279         | 14,623        |
| Utilisations                          | (2,422)       | (18,000)      |
| Provisions not used during the period | (515)         | (2)           |
| Other changes                         | 37            | -             |
| Exchange differences                  | (14)          | 9             |
| <b>TOTAL</b>                          | <b>19,081</b> | <b>19,716</b> |

The item reflects for the most part liabilities connected with product warranty risks of the Systemes Moteurs Group for the amount of Euro 16,300 thousand. For further details, please refer to note 2, paragraph “Consolidation principles and accounting policies – Critical estimates and assumptions”.

The item also includes minor provisions for product warranties by Group companies.

### ***Lawsuits and other risks***

The provision changed as follows during the period:

| (in thousands of Euro)                | 12.31.2016   | 12.31.2015   |
|---------------------------------------|--------------|--------------|
| Opening balance                       | 5,414        | 6,178        |
| Accruals for the period               | 5,188        | 2,853        |
| Utilisations                          | (2,364)      | (2,613)      |
| Provisions not used during the period | (229)        | (817)        |
| Other changes                         | 620          | 373          |
| Exchange differences                  | 307          | (560)        |
| <b>TOTAL</b>                          | <b>8,936</b> | <b>5,414</b> |

The provision includes liabilities toward employees and third parties. Amounts stated in the financial statements represent the best possible estimates of liabilities at year-end date.

The allocation of Euro 5,188 thousand mainly relates to subsidiaries Sogefi Filtration do Brasil Ltda and Sogefi Filtration Ltd for disputes with employees.

With regard to subsidiary Sogefi Filtration Ltd, please note that the company and the pension fund trustees received professional advice from leading consulting companies between 1990 and 2006, to equalise the conditions of the pension funds, as required by amended legislation. In 2007, it turned out that the above equalisation may not have been correctly applied. Sogefi Filtration Ltd therefore submitted a protective claim in

2009 against the consultants to the Birmingham High Court. In 2015, after obtaining an opinion from the Queen's Counsel, the company filed a court claim to have the equalisation corrected. In 2016 the company started to hold consultations with the representative of fund beneficiaries seeking a compromise between the parties to resolve the matter. Such compromise may cover the matter as a whole or may address only certain specific issues and submit remaining issues to the Court's decision. Consultations are still under way.

After the developments in 2016, the company deemed it appropriate to account for a provisions (in the past, the matter had been treated as a potential liability). The provision does not take into account for possible remedy against the consultants.

### ***Other payables***

"Other payables" amount to Euro 15,046 thousand (Euro 9,195 thousand as at 31 December 2015). The increase in the item (Euro 5,851 thousand) is mainly traced back to the following factors: Euro 2,459 thousand reflect advances paid by customers for the most part to subsidiary LPDN GmbH; Euro 966 thousand relate to subsidiary Sogefi Air & Refroidissement France S.A.S. and reflect research and development costs charged back to customers that will be accounted for as revenue over the life of the project starting at the time capitalised R&D costs are depreciated; and Euro 2,115 thousand reflect the fair value adjustment of the put option held by non-controlling shareholders of the Indian subsidiary as outlined below.

The item includes Euro 8,997 thousand (Euro 6,882 thousand as at 31 December 2015) which reflect the fair value of the liability associated with the exercise price of the put option held by non-controlling shareholders of subsidiary Sogefi M.N.R. Engine Systems India Pvt Ltd. on 30% of its share capital. The option may be exercised from the year 2016 onward. The fair value of such liability represents a reasonable estimate of the option exercise price, and was determined using the method that involves discounted cash flows method, based on the cash flows of the 2017 budget and the plan for 2018-2020 of the affected subsidiary. A discount rate of 14.36% was applied and terminal value was calculated using the "perpetual annuity" approach, assuming a growth rate of 7.6%, consistently with the sector performance in the Indian market.

Discount rate was calculated based on weighted average cost of capital and the following parameters (extrapolated from the main financial sources):

- financial structure of the industry: 21.7% (the same as the one used in the impairment test)
- levered beta of the industry: 1.08 (the same as the one used in the impairment test)
- risk-free rate: 7.22% (annual average of risk free rates of 10-year Indian securities)
- risk premium: 8.1%

## ***20. DEFERRED TAX ASSETS AND LIABILITIES***

The following details of deferred tax assets and liabilities are provided in light of the IAS/IFRS disclosure requirements.

| (in thousands of Euro)                                                                           | 12.31.2016                      |               | 12.31.2015                      |               |
|--------------------------------------------------------------------------------------------------|---------------------------------|---------------|---------------------------------|---------------|
|                                                                                                  | Amount of temporary differences | Tax effect    | Amount of temporary differences | Tax effect    |
| <b>Deferred tax assets:</b>                                                                      |                                 |               |                                 |               |
| Allowance for doubtful accounts                                                                  | 2,342                           | 595           | 2,552                           | 721           |
| Fixed assets amortisation/writedowns                                                             | 31,488                          | 7,934         | 31,744                          | 9,212         |
| Inventory writedowns                                                                             | 4,828                           | 1,540         | 4,421                           | 1,466         |
| Provisions for restructuring                                                                     | 732                             | 236           | 882                             | 291           |
| Other provisions - Other payables                                                                | 87,502                          | 21,837        | 78,819                          | 24,454        |
| Fair value derivative financial instruments                                                      | 9,267                           | 2,224         | 11,473                          | 2,754         |
| Other                                                                                            | 16,072                          | 5,280         | 12,371                          | 3,797         |
| Deferred tax assets for tax losses incurred during the year                                      | 454                             | 113           | 5,962                           | 2,009         |
| Deferred tax assets for tax losses incurred during previous years                                | 54,031                          | 17,051        | 66,338                          | 20,597        |
| <b>TOTAL</b>                                                                                     | <b>206,716</b>                  | <b>56,810</b> | <b>214,562</b>                  | <b>65,301</b> |
| <b>Deferred tax liabilities:</b>                                                                 |                                 |               |                                 |               |
| Accelerated/excess depreciation and amortisation                                                 | 87,747                          | 25,238        | 68,490                          | 18,704        |
| Difference in inventory valuation methods                                                        | 557                             | 139           | 622                             | 155           |
| Capitalisation of R&D costs                                                                      | 43,303                          | 13,383        | 44,785                          | 14,968        |
| Other                                                                                            | 42,997                          | 5,190         | 27,044                          | 2,437         |
| <b>TOTAL</b>                                                                                     | <b>174,604</b>                  | <b>43,950</b> | <b>140,941</b>                  | <b>36,264</b> |
| <b>Deferred tax assets (liabilities) net</b>                                                     |                                 | <b>12,860</b> |                                 | <b>29,037</b> |
| <b>Temporary differences excluded from the calculation of deferred tax assets (liabilities):</b> |                                 |               |                                 |               |
| Tax losses carried forward                                                                       | 89,356                          | 28,079        | 100,779                         | 32,532        |

The tax effect has been calculated on the basis of the rates applicable in the various countries, which are in line with those of the previous year, except for the tax rate applicable to UK subsidiaries, which decreased from 19% to 17% for deferred taxes expected to be reversed starting in 2020, and that applicable to French subsidiaries, which decreased from 34.43% to 28% for deferred taxes expected to be reversed starting in 2019. The negative impact of the changed tax rate applicable in France recognised in the Income Statement amounts to Euro 1 million.

The decrease in “Deferred tax assets (liabilities), net” compared to 31 December 2015 amounts to Euro 16,177 thousand and differs by Euro 1,764 thousand from the amount shown in the Income Statement under “Income taxes – Deferred tax liabilities (assets)” (Euro 14,413 thousand) due to:

- movements in Balance sheet items that did not have any effect on the income statement and therefore the related positive tax effect amounting to Euro 1,588 thousand has been accounted for as Other comprehensive income (expenses); negative effect of the fair value of derivatives designated as cash flow hedges was Euro 533 thousand; positive effect of actuarial gains/losses arising from the adoption of the IAS 19 was Euro 2,059 thousand; positive effect of other reclassifications was Euro 62 thousand;
- negative effect on the balance of deferred tax assets of tax losses of previous years reclassified from deferred tax assets to amounts receivable from CIR for Euro 2,322

thousand (without any impact on the Consolidated Income Statement); this amount reflects the share of tax losses for the year 2014 offset by taxable income generated by the CIR Group tax filing system for the year 2016;  
- exchange differences with a negative effect of Euro 1,030 thousand.

The decrease in the tax effect relating to item “Fixed assets amortisations/writedowns” mainly relates to the Parent Company Sogefi S.p.A. It reflects deferred tax assets for IRAP tax recognised in previous years that have been de-recognised because it is no longer believed to be probable that taxable income will be available in the future against which such tax losses can be utilised.

The decrease in the tax effect relating to item “Other provisions - Other payables” – as opposed to the increased “Amount of temporary differences” – mostly originates from the lower tax rate applied by French subsidiaries.

The decrease in the tax effect relating to item “Fair value of derivatives” mainly relates to the Parent Company Sogefi S.p.A. and reflects the change in the fair value of CCS contracts as well as the portion of reserve previously booked to Other comprehensive income relating to IRS contracts no longer designated for hedge accounting recognised in Income Statement.

Item “Other” of deferred tax assets includes various types of items, such as for example costs for which tax deduction is deferred (for example, amounts allocated to remuneration accrued in 2016 not yet paid).

The increased tax effect relating to item “Other” of deferred tax assets and of item “Accelerated/excess depreciation and amortisation” of deferred tax liabilities mainly relates to subsidiary Allevard Sogefi U.S.A. Inc. and reflects the recognition of net deferred tax liabilities not recognised previously. At the same time, deferred tax assets on tax losses were recognised as explained in more detail below in the comment on “Deferred tax assets for tax losses incurred during previous years”.

“Deferred tax assets for tax losses incurred during the year” amount to Euro 113 thousand and relate to subsidiary Sogefi Filtration Spain S.A. These taxes were recognised because it is believed to be probable that taxable income will be available in the future against which such tax losses can be utilised.

“Deferred tax assets for tax losses incurred during previous years” relate to the Parent Company Sogefi S.p.A. (Euro 1,259 thousand, Euro 3,495 thousand as at 31 December 2015) and to subsidiaries Sogefi Italy S.p.A. (Euro 43 thousand; Euro 49 thousand as at 31 December 2015), Allevard Sogefi U.S.A. Inc. (Euro 8,221 thousand; Euro 8,615 thousand as at 31 December 2015; please note that the deferred tax assets utilised in view of the 2016 positive taxable income were partly offset for Euro 5,153 thousand, by the recognition of new deferred tax assets on losses incurred during previous years – previously included in “Temporary differences excluded from the calculation of deferred tax assets (liabilities)”(. as at 31 December 2016, total net deferred tax assets amounted to Euro 1,639 thousand), Sogefi Suspensions France S.A. (Euro 3,651 thousand, Euro 4,243 thousand as at 31 December 2015), Sogefi Filtration Ltd (Euro 807 thousand;

Euro 1,737 thousand as at 31 December 2015), Sogefi Filtration Spain S.A. (Euro 2,197 thousand; Euro 2,196 thousand as at 31 December 2015. United Springs S.A.S. (Euro 493 thousand, Euro 717 thousand as at 31 December 2015) and Sogefi Air & Refroidissement France S.A.S. (Euro 380 thousand, Euro 1,025 thousand as at 31 December 2015). These taxes were recognised because it is believed to be probable that taxable income will be available in the future against which such tax losses can be utilised. Such probability is determined based on the fact that losses have originated under extraordinary circumstances that are unlikely to occur again, such as restructuring plans currently under way or occurred in the past. It should also be noted that the losses incurred by the UK subsidiary can be carried forward indefinitely. The losses of the French and Spanish subsidiaries can be carried forward indefinitely but new law passed in 2012 in France and in 2016 in Spain has maintained a limit for the amount that can be utilised each year, making recovery time longer. The losses of the US subsidiary can be carried forward over a period of up to 20 years since they were incurred. It is probable that the losses of the Parent Company Sogefi S.p.A. and of subsidiary Sogefi Italy S.p.A. will be recovered taking into account that the companies have joined the CIR Group tax filing system in the past.

Note that the deferred tax assets relating to the “Allowance for doubtful accounts” and to the “Inventory writedowns” include amounts that will mainly be reversed in the twelve months following year end.

Column “Amount of temporary differences” of item “Other” of deferred tax liabilities includes:

- Euro 29,724 thousand relating to dividends expected to be paid out by the French, Canadian and Argentinian subsidiaries in the short term, subject to a 3%, 5% and 10% tax rate, respectively;
- Euro 2,311 thousand relating to the taxed portion of dividends expected to be paid to the French subsidiaries and the Parent Company Sogefi S.p.A. in the short term;
- Euro 9,955 thousand relating to the remaining amount due by the seller of Systemes Moteurs shares. Please note that when the arbitration award was paid (see note 2, paragraph “Consolidation principles and accounting policies – Critical estimates and assumptions” for more details), the tax treatment of the amounts payable by Dayco (from price adjustment of equity investments obtained by way of indemnification) was reassessed based on legal doctrine and case law available to date; the amount received was taxed at current tax rates, and an accrual was made for deferred tax liabilities on the outstanding amount payable;
- other minor items for the amount of Euro 1,007 thousand.

As regards the figures shown under “Temporary differences excluded from the calculation of deferred tax assets (liabilities)”, deferred tax assets were not booked as, at year end, there was not a probability that they would be recovered. “Tax losses carried forward” relate to subsidiaries Sogefi Suspensions France S.A. (portion of losses not recognised in deferred tax assets because it can not be recovered in the specific period of the company's long-term plan), Sogefi Suspensions Argentina S.A., Sogefi Filtration do

Brasil Ltda, S. ARA Composite S.A.S., Allevar IAI Suspensions Pvt Ltd and Chinese subsidiaries.

Please note that in 2016 the subsidiary Allevar Sogefi U.S.A. Inc. recognised all deferred tax assets included in this item as at 31 December 2015 and the corresponding net deferred tax liabilities not recognised previously, as mentioned above.

## 21. SHARE CAPITAL AND RESERVES

### *Share capital*

The share capital of the Parent Company Sogefi S.p.A. is fully paid in and amounts to Euro 62,065 thousand as at 31 December 2016 (Euro 61,681 thousand as at 31 December 2015), split into 119,356,455 ordinary shares with a par value of Euro 0.52 each (118,618,055 shares as at 31 December 2015).

No shares are encumbered by rights, liens or limitations relating to dividend distribution.

As at 31 December 2016, the Company has 2,878,451 treasury shares in its portfolio, corresponding to 2.41% of share capital.

Movements in the shares outstanding are as follows:

| (Shares outstanding)                                                                          | 2016        | 2015        |
|-----------------------------------------------------------------------------------------------|-------------|-------------|
| <i>No. shares at start of period</i>                                                          | 118,618,055 | 118,521,055 |
| No. shares issued for subscription of stock options                                           | 738,400     | 97,000      |
| No. of ordinary shares as of December 31                                                      | 119,356,455 | 118,618,055 |
| No. shares issued for subscription of stock options booked to "Other reserves" at December 31 | -           | -           |
| Treasury shares                                                                               | (2,878,451) | (3,252,144) |
| <i>No. of shares outstanding as of December 31</i>                                            | 116,478,004 | 115,365,911 |

The following table shows the changes in the Group's equity:

| (in thousands of Euro)                                                                    | Share capital | Share premium reserve | Reserve for treasury shares | Treasury shares | Translation reserve | Legal reserve | Cash flow hedging reserve | Share-based incentive plans reserve | Actuarial gain/loss reserve | Tax on items booked in Other Comprehensive Income | Other reserves | Retained earnings | Net result for the period | Total    |
|-------------------------------------------------------------------------------------------|---------------|-----------------------|-----------------------------|-----------------|---------------------|---------------|---------------------------|-------------------------------------|-----------------------------|---------------------------------------------------|----------------|-------------------|---------------------------|----------|
| <i>Balance at December 31, 2014</i>                                                       | 61,631        | 14,423                | 7,831                       | (7,831)         | 12,340              | 4,731         | (21,544)                  | (16,598)                            | (36,949)                    | 12,148                                            | 3,111          | 124,286           | 3,639                     | 161,218  |
| Paid share capital increase                                                               | 50            | 95                    | -                           | -               | -                   | -             | -                         | -                                   | -                           | -                                                 | -              | -                 | -                         | 145      |
| Allocation of 2014 net profit:                                                            |               |                       |                             |                 |                     |               |                           |                                     |                             |                                                   |                |                   |                           |          |
| Legal reserve                                                                             | -             | -                     | -                           | -               | 300                 | -             | -                         | -                                   | -                           | -                                                 | -              | (300)             | -                         | -        |
| Dividends                                                                                 | -             | -                     | -                           | -               | -                   | -             | -                         | -                                   | -                           | -                                                 | -              | -                 | -                         | -        |
| Retained earnings                                                                         | -             | -                     | -                           | -               | -                   | -             | -                         | -                                   | -                           | -                                                 | -              | 3,639             | (3,639)                   | -        |
| Recognition of share-based incentive plans                                                | -             | -                     | -                           | -               | -                   | 642           | -                         | -                                   | -                           | -                                                 | -              | -                 | -                         | 642      |
| embedded derivative (conversion option)                                                   | -             | -                     | -                           | -               | -                   | -             | -                         | -                                   | -                           | -                                                 | 9,090          | -                 | -                         | 9,090    |
| Other changes                                                                             | -             | 406                   | (406)                       | 406             | -                   | (712)         | -                         | -                                   | -                           | -                                                 | -              | 202               | -                         | (104)    |
| Fair value measurement of cash flow hedging instruments: share booked to OCI              | -             | -                     | -                           | -               | -                   | -             | -                         | 1,336                               | -                           | -                                                 | -              | -                 | -                         | 1,336    |
| Fair value measurement of cash flow hedging instruments: share booked to income statement | -             | -                     | -                           | -               | -                   | -             | -                         | 3,495                               | -                           | -                                                 | -              | -                 | -                         | 3,495    |
| Actuarial gain/loss                                                                       | -             | -                     | -                           | -               | -                   | -             | -                         | -                                   | 7,527                       | -                                                 | -              | -                 | -                         | 7,527    |
| Tax on items booked in Other Comprehensive Income                                         | -             | -                     | -                           | -               | -                   | -             | -                         | -                                   | -                           | (3,583)                                           | -              | -                 | -                         | (3,583)  |
| Currency translation differences                                                          | -             | -                     | -                           | -               | -                   | -             | (10,043)                  | -                                   | -                           | -                                                 | -              | -                 | -                         | (10,043) |
| Net result for the period                                                                 | -             | -                     | -                           | -               | -                   | -             | -                         | -                                   | -                           | -                                                 | -              | -                 | 1,120                     | 1,120    |
| <i>Balance at December 31, 2015</i>                                                       | 61,681        | 14,924                | 7,425                       | (7,425)         | 12,640              | 4,661         | (31,587)                  | (11,767)                            | (29,422)                    | 8,565                                             | 12,201         | 127,827           | 1,120                     | 170,843  |
| Paid share capital increase                                                               | 384           | 382                   | -                           | -               | -                   | -             | -                         | -                                   | -                           | -                                                 | -              | -                 | -                         | 766      |
| Allocation of 2015 net profit:                                                            |               |                       |                             |                 |                     |               |                           |                                     |                             |                                                   |                |                   |                           |          |
| Legal reserve                                                                             | -             | -                     | -                           | -               | -                   | -             | -                         | -                                   | -                           | -                                                 | -              | -                 | -                         | -        |
| Dividends                                                                                 | -             | -                     | -                           | -               | -                   | -             | -                         | -                                   | -                           | -                                                 | -              | -                 | -                         | -        |
| Retained earnings                                                                         | -             | -                     | -                           | -               | -                   | -             | -                         | -                                   | -                           | -                                                 | -              | 1,120             | (1,120)                   | -        |
| Recognition of share-based incentive plans                                                | -             | -                     | -                           | -               | -                   | 248           | -                         | -                                   | -                           | -                                                 | -              | -                 | -                         | 248      |
| embedded derivative (conversion option)                                                   | -             | -                     | -                           | -               | -                   | -             | -                         | -                                   | -                           | -                                                 | -              | -                 | -                         | -        |
| Other changes                                                                             | -             | 853                   | (853)                       | 853             | -                   | (1,917)       | -                         | -                                   | -                           | -                                                 | -              | 994               | -                         | (70)     |
| Fair value measurement of cash flow hedging instruments: share booked to OCI              | -             | -                     | -                           | -               | -                   | -             | -                         | (625)                               | -                           | -                                                 | -              | -                 | -                         | (625)    |
| Fair value measurement of cash flow hedging instruments: share booked to income statement | -             | -                     | -                           | -               | -                   | -             | -                         | -                                   | -                           | -                                                 | -              | -                 | -                         | -        |
| Actuarial gain/loss                                                                       | -             | -                     | -                           | -               | -                   | -             | -                         | 2,837                               | (12,916)                    | -                                                 | -              | -                 | -                         | 2,837    |
| Tax on items booked in Other Comprehensive Income                                         | -             | -                     | -                           | -               | -                   | -             | -                         | -                                   | -                           | 1,526                                             | -              | -                 | -                         | 1,526    |
| Currency translation differences                                                          | -             | -                     | -                           | -               | -                   | -             | 993                       | -                                   | -                           | -                                                 | -              | -                 | -                         | 993      |
| Net result for the period                                                                 | -             | -                     | -                           | -               | -                   | -             | -                         | -                                   | -                           | -                                                 | -              | -                 | 9,336                     | 9,336    |
| <i>Balance at December 31, 2016</i>                                                       | 62,065        | 16,159                | 6,572                       | (6,572)         | 12,640              | 2,992         | (30,594)                  | (9,555)                             | (42,338)                    | 10,091                                            | 12,201         | 129,941           | 9,336                     | 172,938  |

#### *Share premium reserve*

It amounts to Euro 16,159 thousand compared to Euro 14,924 thousand in the previous year.

The increase by Euro 382 thousand accounts for share subscriptions under stock option plans.

In 2016, the Parent Company Sogefi S.p.A. credited Euro 853 thousand to the Share premium reserve after the free grant of 373,693 treasury shares to 2011, 2012, 2013 and 2014 Stock Grant beneficiaries.

#### *Treasury shares*

Item “Treasury shares” reflects the purchase price of treasury shares. Movements during the year amount to Euro 853 thousand and reflect the free grant of 373,693 treasury shares as reported in the note to “Stock-based incentive plans reserve”.

#### *Translation reserve*

This reserve is used to record the exchange differences arising on the translation of foreign subsidiaries' financial statements.

Changes during the period show an increase of Euro 993 thousand.

#### *Reserve for actuarial gains/losses*

This reserve reflects the net impact of the application of the amendment to IAS 19 “Employee Benefits” on other actuarial gains (losses) as at 1 January 2012. The item also includes actuarial gains and losses accrued after 1 January 2012 and recognised under Other Comprehensive Income.

#### *Stock-based incentive plans reserve*

The reserve refers to credit to equity for stock-based incentive plans, assigned to Directors, employees and co-workers, resolved after 7 November 2002, including the portion relating to the stock grant plan approved in 2016.

In 2016, further to Stock Grant Plan beneficiaries exercising their rights under the 2011, 2012, 2013 and 2014 plans and due to the corresponding free grant of 373,693 treasury shares, the amount of Euro 868 thousand, corresponding to the fair value of those same shares at right (Unit) allocation date, was reclassified from “Stock-based incentive plans reserve” to “Share premium reserve” (which increased by Euro 853 thousand) and to “Retained earnings reserve” (which increased by Euro 15 thousand).

During 2016, the Company reclassified Euro 1,049 thousand to “Retained earnings reserve” after the 2006 Stock Option Plan expired and the 2012 Stock Grant Plan was cancelled because the Performance Units failed to meet market conditions within the term provided for by plan regulation.

While the increase by Euro 248 thousand refers to the cost of accruing plans.

#### *Cash flow hedging reserve*

This reserve has changed as a result of accounting for the cash flows deriving from instruments that for IAS 39 purposes are designated as “cash flow hedging instruments”. Changes during the period show an increase of Euro 2,212 thousand which breaks down as follows:

- decrease of Euro 710 thousand as a consequence of the change after 31 December 2015 in the fair value of the existing effective hedging contracts;
- increase of Euro 2,922 thousand reflecting the portion of reserve relating to contracts no longer in hedge accounting that will be reclassified to the Income Statement over the same period of time as the differentials relating to the underlying hedged item.

#### *Other reserves*

This item amounts to Euro 12,201 thousand (unchanged compared to 31 December 2015).

#### *Retained earnings*

These totalled Euro 129,941 thousand and include amounts of profit that have not been distributed.

The increase of Euro 994 thousand refers to the following events:

- the interest held by subsidiary Sogefi Suspensions France S.A. in S.ARA Composite S.A.S. increased from 95% to 95.65% through a share capital increase not subscribed by non-controlling interests that led to a negative amount of Euro 70 thousand being reclassified between non-controlling interests and Group's shareholders' equity;
- reclassification from the above mentioned "Stock-based incentive plans reserve" as outlined above for a total of Euro 1,064 thousand.

#### *Tax on items booked in Other Comprehensive Income*

The table below shows the amount of income taxes relating to each item of Other Comprehensive Income:

| (in thousands of Euro)                                     | 2016        |       |           | 2015        |         |           |
|------------------------------------------------------------|-------------|-------|-----------|-------------|---------|-----------|
|                                                            | Gross value | Taxes | Net value | Gross value | Taxes   | Net value |
| - Profit (loss) booked to cash flow hedging reserve        | 2,212       | (533) | 1,679     | 4,831       | (1,731) | 3,100     |
| - Actuarial gain (loss)                                    | (12,916)    | 2,059 | (10,857)  | 7,527       | (1,852) | 5,675     |
| - Profit (loss) booked to translation reserve              | 899         | -     | 899       | (9,834)     | -       | (9,834)   |
| - Total Profit (loss) booked in Other Comprehensive Income | (9,805)     | 1,526 | (8,279)   | 2,524       | (3,583) | (1,059)   |

#### *Tax constraints applicable to certain reserves*

The equity of Parent Company Sogefi S.p.A. includes Reserves under tax suspension and its share capital is subject to constraints under tax suspension after revaluation reserves were utilised in the past, for a total amount of Euro 24,164 thousand.

The Parent Company has made no allocations for deferred tax liabilities to such reserves, that, if distributed, would count towards taxable income of the Company, because it is not deemed likely that they will be distributed.

## *Non-controlling interests*

The balance amounts to Euro 16,131 thousand and refers to the portion of shareholders' equity attributable to non-controlling interests.

The reserve increased by Euro 70 thousand during the year (decrease is booked to “Other changes” in the “Consolidated Statement of Changes in Equity”) traced back to the above mentioned changes in the interest held in subsidiary S.ARA Composite S.A.S.

Details of non-controlling interests are given below:

| (in thousands of Euro)                     |        | % owned by third parties |            | Loss (profit) attributable to non-controlling interests |              | Shareholders' equity attributable to non-controlling |               |
|--------------------------------------------|--------|--------------------------|------------|---------------------------------------------------------|--------------|------------------------------------------------------|---------------|
| Subsidiary's name                          | Region | 12.31.2016               | 12.31.2015 | 12.31.2016                                              | 12.31.2015   | 12.31.2016                                           | 12.31.2015    |
| S.ARA Composite S.A.S.                     | France | 4.35%                    | 5.00%      | (207)                                                   | (159)        | 326                                                  | 463           |
| Iberica de Suspensiones S.L.               | Spain  | 50.00%                   | 50.00%     | 4,941                                                   | 4,239        | 12,496                                               | 15,557        |
| Shanghai Allevard Spring Co., Ltd          | China  | 39.42%                   | 39.42%     | 17                                                      | (74)         | 2,695                                                | 3,003         |
| Allevard IAI Suspensions Pvt Ltd           | India  | 25.77%                   | 25.77%     | (96)                                                    | (80)         | 545                                                  | 461           |
| Sogefi M.N.R. Engine Systems India Pvt Ltd | India  | 30.00%                   | 30.00%     | -                                                       | -            | -                                                    | -             |
| Sogefi Italy S.p.A.                        | Italy  | 0.12%                    | 0.12%      | 4                                                       | 5            | 69                                                   | 69            |
| <b>TOTAL</b>                               |        |                          |            | <b>4,659</b>                                            | <b>3,931</b> | <b>16,131</b>                                        | <b>19,553</b> |

As required by IFRS 12, an overview of the key financial indicators of the companies showing significant non-controlling interests:

| Company                                                         | Shanghai Alleward Spring Co., Ltd |            | Iberica de Suspensiones S.L. |            | Sogefi M.N.R. Engine Systems India Pvt Ltd |            |
|-----------------------------------------------------------------|-----------------------------------|------------|------------------------------|------------|--------------------------------------------|------------|
|                                                                 | 12.31.2016                        | 12.31.2015 | 12.31.2016                   | 12.31.2015 | 12.31.2016                                 | 12.31.2015 |
| Current Assets                                                  | 4,982                             | 5,380      | 25,980                       | 35,233     | 25,342                                     | 21,304     |
| Non-current Assets                                              | 3,247                             | 3,667      | 11,097                       | 9,060      | 15,829                                     | 13,211     |
| Current Liabilities                                             | 1,116                             | 1,150      | 11,937                       | 12,302     | 17,747                                     | 15,990     |
| Non-current Liabilities                                         | -                                 | -          | 148                          | 877        | 5,833                                      | 4,315      |
| Shareholders' equity attributable to the Holding Company        | 4,418                             | 4,894      | 12,496                       | 15,557     | 17,591                                     | 14,210     |
| Non-controlling interests                                       | 2,695                             | 3,003      | 12,496                       | 15,557     | -                                          | -          |
| Sales Revenue                                                   | 3,956                             | 4,175      | 74,159                       | 68,685     | 46,015                                     | 37,790     |
| Variable cost of sales                                          | 2,222                             | 2,462      | 43,424                       | 41,223     | 32,146                                     | 26,262     |
| Other variable costs of sales                                   | 267                               | 272        | 4,936                        | 4,706      | 1,295                                      | 1,009      |
| Fixed expenses                                                  | 1,408                             | 1,570      | 11,677                       | 10,693     | 6,577                                      | 5,439      |
| Non-operating expenses (income)                                 | 12                                | 28         | 221                          | 805        | 997                                        | 1,343      |
| Income taxes                                                    | 5                                 | 30         | 4,019                        | 2,780      | 1,732                                      | (2)        |
| Income (loss) for the period                                    | 42                                | (187)      | 9,882                        | 8,478      | 3,268                                      | 3,739      |
| Income (loss) attributable to the Holding Company               | 25                                | (113)      | 4,941                        | 4,239      | 3,268                                      | 3,739      |
| Income (loss) attributable to non-controlling interests         | 17                                | (74)       | 4,941                        | 4,239      | -                                          | -          |
| Income (loss) for the period                                    | 42                                | (187)      | 9,882                        | 8,478      | 3,268                                      | 3,739      |
| OCI attributable to the Holding Company                         | (153)                             | 279        | -                            | -          | 215                                        | 596        |
| OCI attributable to non-controlling interests                   | (99)                              | 181        | -                            | -          | -                                          | -          |
| OCI for the period                                              | (252)                             | 460        | -                            | -          | 215                                        | 596        |
| Total income (losses) attributable to the Holding Company       | (128)                             | 166        | 4,941                        | 4,239      | 3,483                                      | 4,335      |
| Total income (losses) attributable to non-controlling interests | (82)                              | 107        | 4,941                        | 4,239      | -                                          | -          |
| Total income (losses) for the period                            | (210)                             | 273        | 9,882                        | 8,478      | 3,483                                      | 4,335      |
| Dividends paid to non-controlling interests                     | 226                               | 241        | 8,000                        | 4,100      | -                                          | -          |
| Net cash inflow (out flow) from operating activities            | 433                               | 881        | 10,088                       | 11,645     | 4,833                                      | 3,215      |
| Net cash inflow (out flow) from investing activities            | (112)                             | (84)       | (3,715)                      | 1,801      | (3,242)                                    | (2,818)    |
| Net cash inflow (out flow) from financing activities            | (574)                             | (612)      | (16,000)                     | (8,200)    | 28                                         | (221)      |
| Net cash inflow (out flow)                                      | (253)                             | 185        | (9,627)                      | 5,246      | 1,619                                      | 176        |

## 22. ANALYSIS OF THE NET FINANCIAL POSITION

The following table provides details of the net financial position as required by Consob in its communication no. DEM/6064293 of 28 July 2006 with a reconciliation of the net financial position shown in the table included in the Report on operations:

| (in thousands of Euro)                                                                                                                                    | 12.31.2016     | 12.31.2015      |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------|
| A. Cash                                                                                                                                                   | 93,661         | 121,892         |
| B. Other cash at bank and on hand (held to maturity investments)                                                                                          | 3,950          | 3,949           |
| C. Financial instruments held for trading                                                                                                                 | -              | 17              |
| <b>D. Liquid funds (A) + (B) + (C)</b>                                                                                                                    | <b>97,611</b>  | <b>125,858</b>  |
| <b>E. Current financial receivables</b>                                                                                                                   | <b>1,931</b>   | <b>2,369</b>    |
| F. Current payables to banks                                                                                                                              | 11,005         | 17,843          |
| G. Current portion of non-current indebtedness                                                                                                            | 137,203        | 74,445          |
| H. Other current financial debts                                                                                                                          | 400            | 325             |
| <b>I. Current financial indebtedness (F) + (G) + (H)</b>                                                                                                  | <b>148,608</b> | <b>92,613</b>   |
| <b>J. Current financial indebtedness, net (I) - (E) - (D)</b>                                                                                             | <b>49,066</b>  | <b>(35,614)</b> |
| K. Non-current payables to banks                                                                                                                          | 48,291         | 141,080         |
| L. Bonds issued                                                                                                                                           | 200,216        | 208,869         |
| M. Other non-current financial debts                                                                                                                      | 17,240         | 21,110          |
| N. Convertible bond embedded derivative liability                                                                                                         | -              | -               |
| <b>O. Non-current financial indebtedness (K) + (L) + (M) + (N)</b>                                                                                        | <b>265,747</b> | <b>371,059</b>  |
| <b>P. Net indebtedness (J) + (O)</b>                                                                                                                      | <b>314,813</b> | <b>335,445</b>  |
| Non-current financial receivables (derivates in cash flow hedge)                                                                                          | 15,770         | 13,156          |
| <b>Financial indebtedness, net including non-current financial receivables (as per the "Net financial position" included in the Report on operations)</b> | <b>299,043</b> | <b>322,289</b>  |

Details of the covenants applying to loans outstanding at year end are as follows (see note 16 for further details on loans):

- loan of Euro 15,000 thousand from Banco do Brasil S.A.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less than or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;
- loan of Euro 20,000 thousand from Mediobanca S.p.A.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;
- loan of Euro 50,000 thousand from Unicredit S.p.A.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;
- loan of Euro 55,000 thousand from BNP Paribas S.A.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less than or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;
- loan of Euro 30,000 thousand from Société Générale S.A.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less or equal to 3.5; the

ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;

- loan of Euro 20,000 thousand from Mediobanca S.p.A.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;

- loan of Euro 30,000 thousand from Ing Bank N.V.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;

- bond issue of USD 115,000 thousand: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less than or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;

- bond issue of Euro 25,000 thousand: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less than or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4.

As at 31 December 2016, the Company was in compliance with these covenants.

## **D) NOTES ON THE MAIN INCOME STATEMENT ITEMS: INCOME STATEMENT**

### **23. SALES REVENUES**

#### ***Revenues from sales and services***

During the year 2016, the sales revenues of the Sogefi Group amounted to Euro 1,574.1 million, up 5% from Euro 1,499.1 million in 2015 (+9.8% at constant exchange rates) thanks to the positive performance of all geographical areas except for South America.

Revenues from the sale of goods and services are as follows:

| (in thousands of Euro)    | 2016             |              | 2015             |              |
|---------------------------|------------------|--------------|------------------|--------------|
|                           | <i>Amount</i>    | <i>%</i>     | <i>Amount</i>    | <i>%</i>     |
| Suspensions               | 562,806          | 35.8         | 558,015          | 37.2         |
| Filtration                | 535,061          | 34.0         | 529,670          | 35.3         |
| Air&Cooling               | 480,237          | 30.5         | 415,264          | 27.7         |
| Intercompany eliminations | (4,013)          | (0.3)        | (3,899)          | (0.2)        |
| <b>TOTAL</b>              | <b>1,574,091</b> | <b>100.0</b> | <b>1,499,050</b> | <b>100.0</b> |

In 2016 all business units contributed to the growth of Group revenues. Specifically, the Air&Cooling segment recorded an increase of 15.6% (18.4% at constant exchange rates).

The sales revenues of the Suspensions segment recorded a growth of 0.9% (6.2% at constant exchange rates), while the revenues of the Filtration segment grew by 1% (6.7% at constant exchange rates).

By geographical area of "destination":

| (in thousands of Euro) | 2016             |              | 2015             |              |
|------------------------|------------------|--------------|------------------|--------------|
|                        | <i>Amount</i>    | <i>%</i>     | <i>Amount</i>    | <i>%</i>     |
| Europe                 | 957,205          | 60.8         | 943,796          | 63.0         |
| Mercosur               | 162,171          | 10.3         | 174,487          | 11.6         |
| Nafta                  | 308,745          | 19.6         | 264,120          | 17.6         |
| Asia                   | 139,578          | 8.9          | 111,135          | 7.4          |
| Rest of the World      | 6,392            | 0.4          | 5,512            | 0.4          |
| <b>TOTAL</b>           | <b>1,574,091</b> | <b>100.0</b> | <b>1,499,050</b> | <b>100.0</b> |

Growth in revenues was driven by significant development in North America (+16.9%) and Asia (+25.6%), while Europe grew by 1.4%. On the other hand, sales revenues in South America dropped by 7.1% (+15.8% at constant exchange rates), although the market has been showing initial signs of recovery, leading to a 13.9% increase in the fourth quarter of the year.

## 24. VARIABLE COST OF SALES

Details are as follows:

| (in thousands of Euro)                   | 2016      | 2015      |
|------------------------------------------|-----------|-----------|
| Materials                                | 846,907   | 805,668   |
| Direct labour cost                       | 123,237   | 123,118   |
| Energy costs                             | 36,185    | 38,163    |
| Sub-contracted work                      | 40,320    | 37,591    |
| Ancillary materials                      | 20,477    | 20,338    |
| Variable sales and distribution costs    | 48,390    | 50,655    |
| Royalties paid to third parties on sales | 5,648     | 5,223     |
| Other variable costs                     | (946)     | (1,627)   |
| TOTAL                                    | 1,120,218 | 1,079,129 |

The impact of “Variable cost of sales” on sales revenues falls from 72.0% in 2015 to 71.2% in the current year thanks to improved productivity.

“Other variable costs” represent the effect generated by direct labour cost and fixed cost associated with the increase in the inventory of finished goods or semi-finished products.

## 25. MANUFACTURING AND R&D OVERHEADS

These can be broken down as follows:

| (in thousands of Euro)                        | 2016     | 2015     |
|-----------------------------------------------|----------|----------|
| Labour cost                                   | 110,545  | 108,965  |
| Materials, maintenance and repairs            | 31,245   | 31,050   |
| Rental and hire charges                       | 9,838    | 10,189   |
| Personnel services                            | 7,962    | 8,506    |
| Technical consulting                          | 6,988    | 7,157    |
| Sub-contracted work                           | 2,074    | 1,674    |
| Insurance                                     | 2,875    | 2,862    |
| Utilities                                     | 4,527    | 4,779    |
| Capitalization of internal construction costs | (29,277) | (28,596) |
| Other                                         | 754      | (541)    |
| TOTAL                                         | 147,531  | 146,045  |

“Manufacturing and R&D overheads” show an increase of Euro 1,486 thousand (the increase would have been Euro 7,559 thousand at constant exchange rates).

This increase is due for the most part to items “Labour cost” and “Sub-contracted work” reflecting enhanced research and development efforts in Europe and Nafta.

With regard to item “Labour cost”, please note also that an amount of approximately Euro 2 million was reclassified to “Distribution and sales fixed expenses”.

The increase is also due to item “Other”, that includes for the most part contributions for research and development activities, down from 2015, and miscellaneous industrial services.

Item “Capitalization of internal construction costs” mainly reflects product development costs capitalised when their future benefit is deemed to be reasonably certain.

Total costs for Research and Development (not reported in the table) excluding capitalization amount to Euro 38,112 thousand (stable at 2.4% of sales).

## 26. DEPRECIATION AND AMORTISATION

Details are as follows:

| (in thousands of Euro)                       | 2016          | 2015          |
|----------------------------------------------|---------------|---------------|
| Depreciation of tangible fixed assets        | 39,414        | 37,082        |
| <i>of which: assets under finance leases</i> | <i>1,504</i>  | <i>1,200</i>  |
| Amortisation of intangible assets            | 29,379        | 27,289        |
| <b>TOTAL</b>                                 | <b>68,793</b> | <b>64,371</b> |

Item “Depreciation and amortisation” amounts to Euro 68,793 thousand and increased by Euro 4,422 thousand compared to the previous year. Exchange rates being equal, the increment would have been Euro 8,070 thousand.

Depreciation of tangible assets amounts to Euro 39,414 thousand, and shows an increase of Euro 2,332 thousand compared to 2015, for the most part relating to non-European subsidiaries.

Amortisation of intangible assets increased by Euro 2,090 thousand, for the most part relating to European and North American subsidiaries that are the most active in research and development.

## 27. DISTRIBUTION AND SALES FIXED EXPENSES

This item is made up of the following main components:

| (in thousands of Euro)               | 2016          | 2015          |
|--------------------------------------|---------------|---------------|
| Labour cost                          | 29,410        | 27,061        |
| Sub-contracted work                  | 5,486         | 6,505         |
| Advertising, publicity and promotion | 3,809         | 4,269         |
| Personnel services                   | 2,701         | 3,263         |
| Rental and hire charges              | 1,726         | 1,838         |
| Consulting                           | 1,006         | 1,160         |
| Other                                | 748           | 1,102         |
| <b>TOTAL</b>                         | <b>44,886</b> | <b>45,198</b> |

“Distribution and sales fixed expenses” are substantially stable compared to the previous year. Exchange rates being equal, this item would have increased by Euro 1,727 thousand.

“Labour cost” increased by Euro 2,349 compared to 2015, mainly because of a reclassification from the corresponding item of “Manufacturing and R&D overheads”.

“Sub-contracted work” decreased by Euro 1,019 thousand, mainly in subsidiaries Sogefi Air & Refroidissement France S.A.S. and Sogefi Filtration France S.A. thanks to cost savings in outsourced warehousing services.

“Advertising, publicity and promotion” decreased by Euro 460 thousand due to a reduction of marketing and communication efforts in the aftermarket segment.

Lastly, the item “Other” decreased by Euro 354 thousand as subsidiary Sogefi Filtration do Brasil Ltda internalised warehouse management.

## 28. ADMINISTRATIVE AND GENERAL EXPENSES

These can be broken down as follows:

| (in thousands of Euro)                                                        | 2016          | 2015          |
|-------------------------------------------------------------------------------|---------------|---------------|
| Labour cost                                                                   | 37,804        | 38,496        |
| Personnel services                                                            | 4,563         | 4,870         |
| Maintenance and repairs                                                       | 2,331         | 1,427         |
| Cleaning and security                                                         | 1,954         | 1,812         |
| Consulting                                                                    | 6,752         | 5,699         |
| Utilities                                                                     | 3,129         | 3,478         |
| Rental and hire charges                                                       | 3,765         | 3,903         |
| Insurance                                                                     | 1,531         | 1,856         |
| <i>Participation des salaries</i>                                             | 994           | 524           |
| Administrative, financial and tax-related services provided by Parent Company | 500           | 850           |
| Audit fees and related expenses                                               | 1,599         | 1,622         |
| Directors' and statutory auditors' remuneration                               | 778           | 774           |
| Sub-contracted work                                                           | 1,033         | 461           |
| Capitalization of internal construction costs                                 | (1,043)       | (1,867)       |
| Indirect taxes (*)                                                            | 8,869         | 8,435         |
| Other fiscal charges (*)                                                      | 3,728         | 3,423         |
| Other                                                                         | 6,779         | 8,379         |
| <b>TOTAL</b>                                                                  | <b>85,066</b> | <b>84,142</b> |

(\*) As at 31 December 2016, items “Indirect taxes” and “Other fiscal charges”, previously included in “Other non-operating expenses (income)” of the Income Statement, were classified to item “Administrative and general expenses” of the Income Statement for the purpose of better presentation. The corresponding values of the year 2015 were also reclassified to facilitate comparison.

“Administrative and general expenses” increased by Euro 924 thousand compared to 2015, which would have been Euro 4,054 thousand at constant exchange rates.

“Sub-contracted work” decreased by Euro 692 thousand, mainly in Parent Company Sogefi S.p.A. and subsidiary Sogefi Suspensions France S.A. thanks to a lower average number of employees.

The decrease in item “Personnel services” for the amount of Euro 307 thousand mainly reflects lower travel expenses.

“Maintenance and repairs” increased by Euro 904 thousand, mainly due to higher maintenance costs incurred in IT departments.

“Consulting” increased by Euro 1,053 thousand, mainly in subsidiary Sogefi Air & Refroidissement France S.A.S. for consulting services in the HR area, in subsidiary Sogefi Filtration do Brasil Ltda for legal consulting services and in the Parent Company Sogefi S.p.A. for an increased use of legal and tax consulting services compared to 2015.

The growth of item “*Participation des salaries*” is traced back to improved results in subsidiary Sogefi Filtration France S.A.

Services provided by the parent company CIR S.p.A. amounted to Euro 500 thousand (Euro 850 thousand in 2015). As part of its activity, the Parent Company Sogefi S.p.A. makes use of services provided by CIR S.p.A., its Parent Company, in areas such as strategic development, disposals and acquisitions, and services of an administrative, financial, fiscal and corporate nature.

Item “Directors' and statutory auditors' remuneration” remains stable and mostly relates to the Parent Company Sogefi S.p.A. for remuneration of Board members.

Item “Sub-contracted work” increased by Euro 572 thousand due to an increased use of temporary workers, especially in the French subsidiary Sogefi Gestion S.A.S. for IT services and in the French subsidiary Sogefi Suspensions France S.A. for general services.

“Indirect taxes” include tax charges such as property tax, taxes on sales revenues (*taxe organique* of the French companies), non-deductible VAT and taxes on professional training.

“Other fiscal charges” consist of the *cotisation économique territoriale* (previously called *taxe professionnelle*) relating to the French companies, which is calculated on the value of fixed assets and on added value.

Item “Other” decreased by Euro 1,600 thousand, mainly because of a reduction of provisions set aside previously and other minor overheads.

## 29. PERSONNEL COSTS

### *Personnel*

Regardless of their destination, “Personnel costs” as a whole can be broken down as follows:

| (in thousands of Euro)                             | 2016    | 2015    |
|----------------------------------------------------|---------|---------|
| Wages, salaries and contributions                  | 296,913 | 293,194 |
| Pension costs: defined benefit plans               | 2,242   | 2,441   |
| Pension costs: defined contribution plans          | 1,842   | 2,018   |
| <i>Participation des salaries</i>                  | 994     | 524     |
| Imputed cost of stock option and stock grant plans | 248     | 642     |
| Other costs                                        | 212     | 332     |
| TOTAL                                              | 302,451 | 299,151 |

“Personnel costs” increased by Euro 3,300 thousand (+1.1%) compared to the previous period. Exchange rates being equal, “Personnel costs” would have increased by Euro 15,892 thousand (+5.3%).

The impact of “Personnel costs” on sales revenues falls from 19.9% in the previous year to 19.2% in the current year.

“Wages, salaries and contributions”, “Pension costs: defined benefit plans” and “Pension costs: defined contribution plans” are posted in the tables provided above at lines “Labour cost” and “Administrative and general expenses”.

“*Participation des salaries*” is included in “Administrative and general expenses”.

“Other costs” is included in “Administrative and general expenses”.

“Imputed cost of stock option and stock grant plans” is included in “Other non-operating expenses (income)”. The following paragraph “Personnel benefits” provides details of the stock option and stock grant plans.

The average number of Group employees, broken down by category, is shown in the table below:

| (Number of employees) | 2016  | 2015  |
|-----------------------|-------|-------|
| Managers              | 97    | 99    |
| Clerical staff        | 1,705 | 1,849 |
| Blue collar workers   | 4,380 | 4,783 |
| TOTAL                 | 6,182 | 6,731 |

### *Personnel benefits*

Sogefi S.p.A. implements stock-based incentive plans for the employees of the Company and of its subsidiaries that hold important positions of responsibility within

the Group. The purpose is to foster greater loyalty to the Group and to provide an incentive that will raise their commitment to improving business performance and generating value in the long term.

The stock-based incentive plans of Sogefi S.p.A. are first approved by the Shareholders' Meeting.

Except as outlined at the following paragraphs "Stock grant plans", "Stock option plans" and "Phantom stock option plans", the Group has not carried out any other transaction that involves the purchase of goods or services with payments based on shares or any other kind of instrument representing portions of equity. As a result, it is not necessary to disclose the fair value of such goods or services.

In addition to the plan issued in 2016, The Group has issued plans from 2006 to 2015 of which the main details are provided below.

#### *Stock grant plans*

The stock grant plans provide for the free assignment of conditional rights (called units) that cannot be transferred to third parties or other beneficiaries; each of them entitles to the free assignment of one Sogefi S.p.A. share. There are two categories of rights under these plans: Time-based Units, that vest upon the established terms and Performance Units, that vest upon the established terms provided that shares have achieved the target price value established in the regulation.

The regulation provides for a minimum holding period during which the shares held for the plan can not be disposed of.

All shares assigned under these plans will be treasury shares held by Sogefi S.p.A. According to the regulation, a pre-condition for assigning the shares is a continued employer-employee relationship or the continued appointment as a director/executive of the Company or one of its subsidiaries throughout the vesting period of the rights.

On 27 April 2016, the Board of Directors executed the 2016 stock grant plan approved by the Shareholders' Meeting on the same day to assign a maximum of 750,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 500,095 Units (217,036 of which were Time-based Units and 283,059 Performance Units).

Time-based Units will vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 27 July 2018 and ending on 27 April 2020.

Performance Units will vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as defined in the Regulation) at that date.

The fair value of the rights assigned during 2016 has been determined at the time the rights were assigned using the binomial option pricing model (so-called Cox, Ross and Rubinstein model) for US options and amounts to Euro 665 thousand overall.

Input data used for measuring the fair value of the 2016 stock grant plan are provided below:

- curve of EUR/GBP/SEK/CHF-riskless interest rates as at 27 April 2016;

- prices of the underlying (equal to price of Sogefi S.p.A. share as at 27 April 2016, and equal to Euro 1.5) and of the securities included in the benchmark basket, again as at 27 April 2016;
- standard prices of Sogefi S.p.A. share and of the securities included in the benchmark basket during the period starting on 29 March 2016 and ending on 26 April 2016 for the determination of the stock grant Performance Units limit;
- historical volatility rate of stock and exchange rates during 260 days, as at 27 April 2016;
- null dividend yield for stock grant valuation;
- historical series of the logarithmic returns of involved securities and EUR/GBP, EUR/SEK and EUR/CHF exchange rates to calculate the correlation among securities and among the three non-EUR denominated securities and associated exchange rates (to adjust for estimated trends), calculated for the period starting on 27 April 2015 and ending on 27 April 2016.

The main characteristics of the stock grant plans approved during previous years and still under way are outlined below:

- 2011 stock grant plan to assign a maximum of 1,250,000 conditional rights, restricted to the Director who filled the post of Managing Director of the Holding Company at the date of issue of the relevant plan and to employees of the Company and its subsidiaries, who were assigned a total of 757,500 Units (320,400 of which were Time-based Units and 437,100 Performance Units).

Time-based Units were to vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 April 2013 and ending on 20 January 2015.

Performance Units were to vest at the same vesting dates established for Time-based Units, provided that the price value of shares at vesting date would be at least equal to the percentage of the initial value indicated in the regulation.

- 2012 stock grant plan to assign a maximum of 1,600,000 conditional rights, restricted to the Director who filled the post of Managing Director of the Holding Company at the date of issue of the relevant plan and to employees of the Company and its subsidiaries, who were assigned a total of 1,152,436 Units (480,011 of which were Time-based Units and 672,425 Performance Units).

Time-based Units were to vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 April 2014 and ending on 31 January 2016.

Performance Units were to vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date would be higher than the increase of the Sector Index (as provided for by the regulation) at that date. On 31 January 2016, 421,164 Performance Units expired as per regulation.

- 2013 stock grant plan to assign a maximum of 1,700,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 1,041,358 Units (432,434 of which were Time-based Units and 608,924 Performance Units).

Time-based Units will vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 April 2015 and ending on 31 January 2017.

Performance Units will vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) at that date. On 31 January 2017, 175,109 Performance Units expired as per regulation.

- 2014 stock grant plan to assign a maximum of 750,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 378,567 Units (159,371 of which were Time-based Units and 219,196 Performance Units).

Time-based Units will vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 April 2016 and ending on 20 January 2018.

Performance Units will vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) at that date.

- 2015 stock grant plan to assign a maximum of 1,500,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 441,004 Units (190,335 of which were Time-based Units and 250,669 Performance Units).

Time-based Units will vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 October 2017 and ending on 20 July 2019.

Performance Units will vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) at that date.

The imputed cost for 2016 for existing stock grant plans is Euro 248 thousand, and is booked to the Income Statement under “Other non-operating expenses (income)”.

The following table shows the total number of existing rights with reference to the 2011-2016 plans:

|                                                        | 2016      | 2015      |
|--------------------------------------------------------|-----------|-----------|
| Not exercised/not exercisable at the start of the year | 1,877,871 | 2,024,255 |
| Granted during the year                                | 500,095   | 441,004   |
| Cancelled during the year                              | (717,307) | (409,398) |
| Exercised during the year                              | (373,693) | (177,989) |
| Not exercised/not exercisable at the end of the year   | 1,286,966 | 1,877,871 |
| Exercisable at the end of the year                     | 149,724   | 391,558   |

The line “Not exercised/not exercisable at the end of the period” refers to the total number of options, net of those exercised or cancelled during the current and previous years.

The line “Exercisable at the end of the period” refers to the total amount of options matured at the end of the period and not yet subscribed.

#### *Stock option plans*

The stock option plans provide beneficiaries with the opportunity to exercise an option to subscribe to newly-issued Sogefi shares at a set price and within a specific period of time. According to the regulation, a pre-condition for exercising the option is a continued employer-employee relationship with or the continued appointment as a

director/executive of the Company or one of its subsidiaries throughout the vesting period.

The main characteristics of the *stock option* plans approved during previous years and still under way are outlined below:

- 2007 stock option plan restricted to employees of the foreign subsidiaries for a maximum of 715,000 shares (0.6% of the share capital as at 31 December 2016) with an initial subscription price of Euro 6.96, to be exercised between 30 September 2007 and 30 September 2017. On 22 April 2008, the Board of Directors, under the authority vested in it by the Shareholders' Meeting, adjusted the exercise price from Euro 6.96 to Euro 5.78 to take into account the extraordinary portion of the dividend distributed by the Shareholders' Meeting on the same date;
- 2008 stock option plan restricted to employees of the foreign subsidiaries for a maximum of 875,000 shares (0.73% of the share capital as at 31 December 2016) with a subscription price of Euro 2.1045, to be exercised between 30 September 2008 and 30 September 2018;
- 2009 stock option plan restricted to employees of the Company and its subsidiaries for a maximum of 2,335,000 shares (1.96% of the share capital as at 31 December 2016) with a subscription price of Euro 1.0371, to be exercised between 30 September 2009 and 30 September 2019;
- 2009 extraordinary stock option plan restricted to beneficiaries of 2007 and 2008 phantom stock option plans, still employed by the Company or by its subsidiaries, after having waived their rights under the above-mentioned phantom stock option plans, for a maximum of 1,015,000 shares (0.85% of share capital as at 31 December 2016) of which 475,000 (first Tranche options) with a subscription price of Euro 5.9054, to be exercised between 30 June 2009 and 30 September 2017 and 540,000 (second Tranche options) with a subscription price of Euro 2.1045, to be exercised between 30 June 2009 and 30 September 2018;
- 2010 stock option plan restricted to the Director who filled the post of Managing Director of the Holding Company at the date of issue of the relevant plan and to employees of the Company and its subsidiaries for a maximum of 2,440,000 shares (2.04% of the share capital as at 31 December 2016) with a subscription price of Euro 2.3012, to be exercised between 30 September 2010 and 30 September 2020.

Please note that the 2006 stock option plan restricted to employees of the Company and its subsidiaries expired on 30 September 2016 as per relevant regulation.

The following table shows the total number of existing options with reference to the 2006-2010 plans and their average exercise price:

|                                                        | 12.31.2016 |                           | 12.31.2015 |                           |
|--------------------------------------------------------|------------|---------------------------|------------|---------------------------|
|                                                        | Number     | Average price of the year | Number     | Average price of the year |
| Not exercised/not exercisable at the start of the year | 4,190,737  | 3.16                      | 4,863,937  | 3.26                      |
| Granted during the year                                | -          | -                         | -          | -                         |
| Cancelled during the year                              | (306,800)  | 3.26                      | (230,600)  | 5.00                      |
| Exercised during the year                              | (738,400)  | 1.04                      | (97,000)   | 1.49                      |
| Expired during the year                                | (890,800)  | 5.87                      | (345,600)  | 3.87                      |
| Not exercised/not exercisable at the end of the year   | 2,254,737  | 2.77                      | 4,190,737  | 3.16                      |
| Exercisable at the end of the year                     | 2,254,737  | 2.77                      | 4,190,737  | 3.16                      |

The line “Not exercised/not exercisable at the end of the period” refers to the total number of options, net of those exercised or cancelled during the current and previous years.

The line “Exercisable at the end of the period” refers to the total amount of options matured at the end of the period and not yet subscribed.

With reference to the options exercised during 2016, the average weighted price of the Sogefi share at the exercise dates is Euro 1.76.

Details of the number of options exercisable as at 31 December 2016 are given below:

|                                                              | Total     |
|--------------------------------------------------------------|-----------|
| Number of exercisable options remaining at December 31, 2015 | 4,190,737 |
| Options matured during the year                              | -         |
| Options cancelled during the year                            | (306,800) |
| Options exercised during the year                            | (738,400) |
| Options expired during the year                              | (890,800) |
| Number of exercisable options remaining at December 31, 2016 | 2,254,737 |

### *Phantom stock option plans*

Unlike traditional stock option plans, phantom stock option plans do not envisage the granting of a right to subscribe or to purchase a share, but entail paying the beneficiaries an extraordinary variable cash amount corresponding to the difference between the Sogefi share price in the option exercise period and the Sogefi share price at the time the option was awarded.

In 2009, as shown in the paragraph entitled “Stock option plans”, the Holding Company gave the beneficiaries of the 2007 and 2008 phantom stock option plans the opportunity to waive the options of the above-mentioned plans and to join the 2009 extraordinary stock option plan.

The main characteristics of existing plan under way as at 31 December 2016 are as follows:

- 2007 phantom stock option plan restricted to the Director who filled the post of Managing Director of the Holding Company at the date of issue of the relevant plan, managers and project workers of the Holding Company and to managers of Italian subsidiaries, for a maximum of 1,760,000 options at the initial grant price of Euro

7.0854, adjusted to Euro 5.9054 in 2008, to be exercised between 30 September 2007 and 30 September 2017. Following subscription to the 2009 extraordinary stock option plan, 475,000 options were waived.

Details of the number of phantom stock options as at 31 December 2016 are given below:

|                                                        | 12.31.2016 |
|--------------------------------------------------------|------------|
| Not exercised/not exercisable at the start of the year | 840,000    |
| Granted during the year                                | -          |
| Cancelled during the year                              | -          |
| Exercised during the year                              | -          |
| Not exercised/not exercisable at the end of the year   | 840,000    |
| Exercisable at the end of the year                     | 840,000    |

The fair value as at 31 December 2016 of the rights awarded was calculated using the Black-Scholes method and equals zero, versus Euro 8 thousand at the end of 2015.

### *30. RESTRUCTURING COSTS*

Restructuring costs amount to Euro 5,258 thousand (compared to Euro 7,332 thousand the previous year) and mainly relate to the European and South American subsidiaries for reorganising clerical employees and industrial workers.

“Restructuring costs” mainly include personnel costs and are made up of the accruals to the “Provision for restructuring” (Euro 458 thousand, net of provisions made during the previous years and not utilised) and for the remaining part (Euro 4,800 thousand) of costs incurred and paid during the year.

### *31. LOSSES (GAINS) ON DISPOSAL*

Net gains amount to Euro 698 thousand (net gains for Euro 1,597 thousand as at 31 December 2015), Euro 587 thousand of which relate to the sale of the S. Père site of subsidiary Sogefi Filtration France S.A.

### *32. EXCHANGE (GAINS) LOSSES*

Net exchange losses as at 31 December 2016 amounted to Euro 1,806 thousand (Euro 3,590 thousand as at 31 December 2015). Such differences mainly relate to the Mexican subsidiaries and reflect the depreciation of the Mexican Peso.

### *33. OTHER NON-OPERATING EXPENSES (INCOME)*

These amount to Euro 26,724 thousand compared to Euro 20,098 thousand the previous year. The following table shows the main elements:

| (in thousands of Euro)                                 | 2016          | 2015          |
|--------------------------------------------------------|---------------|---------------|
| <i>of which ordinary</i>                               |               |               |
| Write-downs of tangible and intangible fixed assets    | 9,386         | 357           |
| Imputed cost of stock options and stock grant          | 248           | 642           |
| Other ordinary expenses                                | 6,885         | 3,374         |
| <i>Total expenses (income) ordinary</i>                | <i>16,519</i> | <i>4,373</i>  |
| <i>of which not ordinary</i>                           |               |               |
| Product warranty costs                                 | 6,258         | 15,725        |
| Write-downs of assets                                  | 3,947         | -             |
| <i>Total expenses (income) not ordinary</i>            | <i>10,205</i> | <i>15,725</i> |
| <b>TOTAL OTHER NON-OPERATING EXPENSES (INCOME) (*)</b> | <b>26,724</b> | <b>20,098</b> |

(\*) As at 31 December 2016, sub-items “Indirect taxes” and “Other fiscal charges”, previously included in “Other non-operating expenses (income)” of the Income Statement, were classified to item “Administrative and general expenses” of the Income Statement. The corresponding values of the year 2015 were also reclassified to facilitate comparison.

Item “Writedowns of tangible and intangible fixed assets” amounts to Euro 9,386 thousand and relates to European subsidiaries for Euro 4,586 thousand (Euro 1,562 thousand of which for research and development projects that can no longer be recovered and Euro 3,024 thousand for plant and machinery that can no longer be used) and to subsidiary Sogefi Filtration do Brasil Ltda for Euro 4,800 thousand (Euro 3,034 thousand of which originate from the impairment test carried out at the end of 2016).

“Other ordinary expenses” amount to Euro 6,885 thousand and break down as follows:

- allocations to provisions for legal disputes with employees and third parties totalling Euro 3,800 thousand;
- strategic consulting fees for the amount of Euro 1,140 thousand;
- actuarial losses in the amount of Euro 332 thousand relating to “Other long-term benefits – Jubilee benefit” in the French subsidiaries;
- allocation to provisions for credit risks in subsidiaries Sogefi Italy S.p.A. and Allevard Sogefi USA Inc. totalling Euro 1,018 thousand;
- other ordinary expenses for the amount of Euro 595 thousand.

“Product warranty costs” include the writedown of Euro 4,000 thousand of the indemnification asset owed by the seller of Sogefi Air & Refroidissement France S.A.S. shares.

“Write-downs of assets” relate to the subsidiary Sogefi Filtration do Brasil Ltda.

### 34. FINANCIAL EXPENSES (INCOME), NET

Financial expenses are detailed as follows:

| (in thousands of Euro)                                           | 2016          | 2015          |
|------------------------------------------------------------------|---------------|---------------|
| Interests on bonds                                               | 13,076        | 12,823        |
| Interest on amounts due to banks                                 | 6,352         | 9,080         |
| Financial charges under lease contracts                          | 585           | 663           |
| Financial component of pension funds and termination indemnities | 1,195         | 1,431         |
| Loss on interest-bearing hedging instruments                     | 4,984         | 4,279         |
| Net loss on fair value derivatives not in cash flow hedge        | -             | 400           |
| Adjustment fair value put option                                 | 2,115         | 117           |
| Other interest and commissions                                   | 7,950         | 7,242         |
| <b>TOTAL FINANCIAL EXPENSES</b>                                  | <b>36,257</b> | <b>36,035</b> |

Financial income is detailed as follows:

| (in thousands of Euro)                                    | 2016          | 2015          |
|-----------------------------------------------------------|---------------|---------------|
| Gain on Cross currency swap in cash flow hedge            | 1,200         | 1,184         |
| Net gain on fair value derivatives not in cash flow hedge | 947           | -             |
| Interest on amounts given to banks                        | 494           | 411           |
| Fair value of the embedded derivative                     | -             | 1,450         |
| Moratory interests on <i>Avoir Fiscal</i>                 | 2,072         | -             |
| Other interest and commissions                            | 86            | 212           |
| <b>TOTAL FINANCIAL INCOME</b>                             | <b>4,799</b>  | <b>3,257</b>  |
| <b>TOTAL FINANCIAL EXPENSES (INCOME), NET</b>             | <b>31,458</b> | <b>32,778</b> |

Net financial expenses show a decrease of Euro 1,320 thousand.

Item “Moratory interests on *Avoir Fiscal*” represents late payment interests in connection with the favourable outcome of a dispute with French tax authorities over the allowance of tax credits on foreign dividends from previous years, as outlined in the comment on item “Losses (gains) from equity investments”.

Item “Adjustment fair value put option” reflects the change in the fair value of the liability generated when the non-controlling shareholders of subsidiary Sogefi M.N.R. Engine Systems India Pvt Ltd. exercised their put option on 30% of its share capital. For further details, please refer to note 19.

Please note that item “Net gain on fair value derivatives not in cash flow hedge” is comprised of:

- a financial expense of Euro 2,922 thousand reflecting the portion of the reserve previously booked to Other Comprehensive Income that will be reclassified to Income Statement over the same period of time expected for the differentials relating to the former underlying hedged item;

- a financial income of Euro 3,869 thousand reflecting the change in the fair value of these derivatives compared to 31 December 2015.

### 35. LOSSES (GAINS) FROM EQUITY INVESTMENTS

“Losses (gains) from equity investments” amount to Euro 3,583 thousand (they equalled zero as at 31 December 2015) and break down as follows:

- gain of Euro 3,975 thousand for tax credits on foreign dividends of previous years recovered by the Parent Company Sogefi S.p.A. after the approval of French tax authorities. In this regard, please note that in 2005 the Parent Company Sogefi S.p.A. had requested an opinion of the Administrative Tribunal of Paris on a tax recoupment (*avoir fiscal*), net of 5% withholding tax, on dividends paid by the French subsidiaries in 2004, after amendments to French tax regulations had cancelled the right to tax credit starting from the year 2005. This Court of first instance and the Administrative Court of Appeals of Paris in the second instance rejected the allegations of Sogefi S.p.A.; the Company filed an appeal with the State Council who reversed those decisions and submitted the matter to the same Administrative Court.

On 2 June 2016, the Administrative Court of Appeals of Paris notified its decision to Sogefi S.p.A., allowing the Company’s requests. In September 2016, Sogefi S.p.A. received a total amount of Euro 6 million (of which Euro 4 million tax credit and Euro 2 million interest earned). This decision is final and can not be appealed.

- loss of Euro 392 thousand relating to the writedown of the full amount of the equity investment in Afico Filters S.A.E. (classified to “Equity investments in other companies” under “Other financial assets available for sale”) due to an impairment loss as the company’s standing and financial position worsened during the year 2016.

### 36. INCOME TAXES

| (in thousands of Euro)                                 | 2016          | 2015          |
|--------------------------------------------------------|---------------|---------------|
| Current taxes                                          | 17,247        | 11,366        |
| Deferred tax liabilities (assets)                      | 14,413        | 305           |
| Gain (loss) from participation to fiscal consolidation | 977           | 1,242         |
| <b>TOTAL</b>                                           | <b>32,637</b> | <b>12,913</b> |

The year 2016 recorded a tax rate of 70% compared to 71.9% in the previous year.

A reconciliation between the standard tax rate (that of the Holding Company Sogefi S.p.A.) and the effective tax rate for 2016 and 2015 is shown in the table below. Taxes have been calculated at the domestic rates applicable in the various countries. The differences between the rates applied in the various countries and the standard Italian tax rate are included in the line “Other permanent differences and tax rate differentials”.

| (in thousands of Euro)                                                                | 2016    |            | 2015    |            |
|---------------------------------------------------------------------------------------|---------|------------|---------|------------|
|                                                                                       |         | Tax rate % |         | Tax rate % |
| Result before taxes                                                                   | 46,632  | 27.5%      | 17,964  | 27.5%      |
| Theoretical income taxes                                                              | 12,824  |            | 4,940   |            |
| <i>Effect of increases (decreases) with respect to the standard rate:</i>             |         |            |         |            |
| Statutory amortisation of goodwill                                                    | (166)   | -0.4%      | -       | 0.0%       |
| Non-deductible costs, net                                                             | (946)   | -2.0%      | 2,583   | 14.4%      |
| Use of deferred tax assets not recognised in previous years                           | (2,699) | -5.8%      | (6,421) | -35.7%     |
| Deferred tax assets on losses for the year not recognised in the financial statements | 6,667   | 14.3%      | 5,943   | 33.0%      |
| Taxed portion of dividends                                                            | 2,552   | 5.5%       | 200     | 1.1%       |
| Other permanent differences and tax rate differentials                                | 14,405  | 30.9%      | 5,668   | 31.6%      |
| Income taxes in the consolidated income statement                                     | 32,637  | 70.0%      | 12,913  | 71.9%      |

Item “Use of deferred tax assets not recognised in previous years” mainly relates to subsidiaries Shanghai Sogefi Auto Parts Co., Ltd, Sogefi Filtration Ltd and Sogefi (Suzhou) Auto Parts Co., Ltd; use of past losses for which no deferred tax assets had been recognised in previous years resulted in no taxes being posted on the positive results of these companies.

“Deferred tax assets on losses for the year not recognised in the financial statements” are mainly attributable to subsidiary Sogefi Filtration do Brasil Ltda, for which there was no probability at the end of the year that such losses would be recovered.

The “Taxed portion of dividends” refers to the portion of dividends received from Group companies that is not tax-exempt and to the taxes on dividends paid by the French subsidiaries. In 2016 the items also includes foreign withholding taxes in connection with the repayment of capital reserves by subsidiary Allevard Sogefi U.S.A. Inc. to the Parent Company Sogefi S.p.A.

Item “Other permanent differences and tax rate differentials” mainly includes:

- Euro 1 million for the net liability arisen when the CIR Group transferred its tax surplus;
- Euro 0.9 million for the reversal of deferred tax assets for IRAP tax recognised in previous years by the Parent Company Sogefi S.p.A. that have been de-recognised because it is no longer believed to be probable that taxable income will be available in the future against which such tax losses can be utilised;
- Euro 1.1 million for the negative impact on net deferred tax assets of the French subsidiaries in view of a tax rate reduction from 34.43% to 28% that will be introduced in 2019;
- Euro 2.4 million originating from the tax rate differential in subsidiary Allevard Sogefi U.S.A. Inc. that applies tax rate of 40% approximately starting in 2016;
- Euro 1.7 million relating to costs (Euro 6 million approximately, Euro 2 million of which relate to the change in the fair value of the put option held by non-controlling shareholders of subsidiary Sogefi M.N.R. Engine Systems India Pvt Ltd. and Euro 4 million to the writedown of the liability owed by company Dayco, the seller of Sogefi Air & Refroidissement France S.A.S.) for which no tax benefit was calculated;

- Euro 6.7 million relating to the Systemes Moteurs claims (see note 2, paragraph “Consolidation principles and accounting policies – Critical estimates and assumptions” for more details). As a matter of fact, when the arbitration award was paid, the tax treatment of the amounts payable by Dayco (from price adjustment of equity investments obtained by way of indemnification) was reassessed based on legal doctrine and case law available to date; the amount received was taxed at current tax rates, and an accrual was made for deferred tax liabilities on the outstanding amount payable.

### 37. DIVIDENDS PAID

No dividends were paid to the Parent Company shareholders during the year 2016. Dividends paid to non-controlling interests amounted to Euro 8,230 thousand. The Parent Company Sogefi S.p.A. did not issue any shares other than ordinary shares; treasury shares are always excluded from the dividend.

### 38. EARNINGS PER SHARE (EPS)

#### Basic EPS

|                                                                             | 2016         | 2015         |
|-----------------------------------------------------------------------------|--------------|--------------|
| Net result attributable to the ordinary shareholders (in thousands of Euro) | 9,336        | 1,120        |
| Weighted average number of shares outstanding during the year (thousands)   | 115,877      | 115,264      |
| <i>Basic EPS (Euro)</i>                                                     | <i>0.081</i> | <i>0.010</i> |

#### Diluted EPS

The Company only has one category of potential ordinary shares, namely those deriving from the potential conversion of the *stock options* granted to Group employees.

|                                                                                        | 2016         | 2015         |
|----------------------------------------------------------------------------------------|--------------|--------------|
| Net result attributable to the ordinary shareholders (in thousands of Euro)            | 9,336        | 1,120        |
| Average number of shares outstanding during the year (thousands)                       | 115,877      | 115,264      |
| Weighted average number of shares potentially under option during the year (thousands) | 684          | 2,868        |
| Number of shares that could have been issued at fair value (thousands)                 | (417)        | (2,136)      |
| Shares arising from the potential conversion of the convertible loan                   | 18,572       | 18,572       |
| Adjusted weighted average number of shares outstanding during the year (thousands)     | 134,716      | 134,568      |
| <i>Diluted EPS (Euro)</i>                                                              | <i>0.069</i> | <i>0.008</i> |

The “Weighted average number of shares potentially under option during the year” represents the average number of shares that are potentially outstanding under stock option plans (only for potentially dilutive options, i.e. with an exercise price lower than the average annual *fair value* of the ordinary shares of Sogefi S.p.A.), for which the

subscription right has vested but has not yet been exercised at the end of reporting period. These shares have a potentially dilutive effect on basic EPS and are therefore taken into consideration in the calculation of diluted EPS.

The “Number of shares that could have been issued at fair value” represents the normalisation factor, being the number of shares that would have been issued dividing the proceeds that would have been received from subscription of the stock options by the average annual fair value of the Sogefi S.p.A. ordinary shares, which amounted to Euro 1.7004 in 2016, compared to Euro 2.5133 in 2015.

Please note that 2,316,209 shares that could dilute basic EPS in the future were not included in the calculation of diluted EPS for 2016 because their exercise price is higher than the average annual *fair value* of the ordinary shares of Sogefi S.p.A. in 2016.

## ***E) 39. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT***

### ***Financial instruments***

The following table shows a comparison between the book value of the Group's financial instruments and their fair value.

An analysis of the table shows that the fair value is different from the book value only in the case of short-term and long-term fixed-rate financial debts. This difference, corresponding to Euro 29,696 thousand, is generated by a recalculation of these loans at year-end date at current market rates.

The spreads of floating-rate loans are in line with standard market conditions.

The fair value of fixed-rate financial debts is classified as Level 2 in the fair value hierarchy (see paragraph “Categories of financial assets and liabilities stated in the financial statements and fair value hierarchy”) and was measured using generally accepted discounted cash flow models and a free-risk discount rate.

The fair value of the convertible bond amounts to Euro 94,482 thousand (Euro 91,397 thousand as at 31 December 2015) and is classified as Level 1 in the fair value hierarchy, because the financial instrument is quoted on an active market.

| (in thousands of Euro)                                                  | Book value |            | Fair value |            |
|-------------------------------------------------------------------------|------------|------------|------------|------------|
|                                                                         | 12.31.2016 | 12.31.2015 | 12.31.2016 | 12.31.2015 |
| <b>Financial assets</b>                                                 |            |            |            |            |
| Cash and cash equivalents                                               | 93,661     | 121,892    | 93,661     | 121,892    |
| Securities held for trading                                             | -          | 17         | -          | 17         |
| Held-to-maturity investments                                            | 3,950      | 3,949      | 3,950      | 3,949      |
| Assets for derivative financial instruments                             | 255        | 931        | 255        | 931        |
| Current financial receivables                                           | 1,676      | 1,438      | 1,676      | 1,438      |
| Trade receivables                                                       | 158,466    | 143,489    | 158,466    | 143,489    |
| Other receivables                                                       | 6,820      | 7,915      | 6,820      | 7,915      |
| Other assets                                                            | 3,689      | 3,974      | 3,689      | 3,974      |
| Other financial assets available for sale                               | 46         | 439        | 46         | 439        |
| Non-current trade receivables                                           | 4          | 4          | 4          | 4          |
| Non-current financial receivables                                       | 15,770     | 13,156     | 15,770     | 13,156     |
| Other non-current receivables                                           | 29,818     | 34,666     | 29,818     | 34,666     |
| <b>Financial liabilities</b>                                            |            |            |            |            |
| Short-term fixed rate financial debts                                   | 25,313     | 15,323     | 25,871     | 15,164     |
| Other floating rate short-term financial debts                          | 122,895    | 76,965     | 122,895    | 76,965     |
| Other short-term liabilities for derivative financial instruments       | 400        | 325        | 400        | 325        |
| Trade and other payables                                                | 339,086    | 325,421    | 339,086    | 325,421    |
| Other current liabilities                                               | 8,197      | 9,686      | 8,197      | 9,686      |
| Other non-current liabilities                                           | 15,046     | 9,195      | 15,046     | 9,195      |
| Other fixed rate medium/long-term financial debts                       | 130,634    | 151,210    | 147,326    | 159,426    |
| Equity linked bond included embedded derivative                         | 82,035     | 78,627     | 94,482     | 91,397     |
| Other floating rate medium/long-term financial debts                    | 45,528     | 129,660    | 45,528     | 129,660    |
| Other medium/long-term liabilities for derivative financial instruments | 7,550      | 11,562     | 7,550      | 11,562     |

### ***Financial risk management***

Given that the Group operates on world markets, its activity is exposed to various kinds of financial risks, including fluctuations, up or down, of interest and exchange rates, and cash flow risks (for cash flows generated outside of the Eurozone). In order to minimise these risks, the Group uses derivatives as part of its risk management activities, whereas it does not use or hold derivatives or similar instruments purely for trading purposes.

The Group also has available a variety of financial instruments other than derivatives, such as bank loans, financial leases, rentals, sight deposits, payables and receivables deriving from normal operating activities.

The Group handles its main hedging operations centrally. Precise instructions have also been issued, laying down guidelines on risk management, while procedures have been introduced to control all transactions in derivatives.

### ***Interest risk***

The interest risk to which the Group is exposed mainly arises from long-term debts.

These debts may be fixed or floating rate.

Floating rate debts, which represent 41% of the net book value of Group loans, expose the Group to a risk arising from interest rate volatility (cash flow risk).

With regard to this risk, for the purposes of the related hedging, the Group may use derivative contracts which limit the impacts on the Income Statement of changes in the interest rate. At present, the net book value of the Group's floating-rate debts is entirely covered by hedging transactions made during the previous years (such hedges do not always meet the requirements of IAS 39 for treatment under hedge accounting).

The following table gives a breakdown, by maturity, of the book value of the Group's financial assets and liabilities instruments, which are exposed to interest rate risk as at 31 December 2016, split according to whether they are contractually at a fixed or floating rate (for further details see the table shown in the analysis of "Liquidity risk"):

| (in thousands of Euro)           | within 12 months | between 1 and 2 years | between 2 and 3 years | between 3 and 4 years | between 4 and 5 years | beyond 5 years | Total     |
|----------------------------------|------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------|-----------|
| TOTAL FIXED RATE                 | (25,312)         | (19,609)              | (18,386)              | (42,146)              | (99,251)              | (33,278)       | (237,983) |
| TOTAL FLOATINGRATE - ASSET       | 99,542           | -                     | -                     | -                     | -                     | -              | 99,542    |
| TOTAL FLOATINGRATE - LIABILITIES | (122,895)        | (29,531)              | (12,982)              | (10,484)              | (20)                  | (61)           | (175,973) |

Financial instruments booked to "Total floating rate – Asset" refer to "Cash and cash equivalents" and "Other financial assets" (Securities held for trading, Held-to-maturity investments, Assets for derivative financial instruments).

Below there is a sensitivity analysis which shows the impact on the Income Statement, net of tax, and on Equity of a change in interest rates that is considered reasonably possible.

An increase or decrease in interest rates of 100 basis points, applied to floating-rate financial assets and liabilities in existence as at 31 December 2016, including interest-rate hedges, would have the following effects:

| (in thousands of Euro) | 12.31.2016 |         | 12.31.2015 |         |
|------------------------|------------|---------|------------|---------|
| Sensitivity Analysis   | Net profit | Equity  | Net profit | Equity  |
| + 100 basis points     | 2,441      | 2,681   | 3,548      | 3,906   |
| - 100 basis points     | (2,488)    | (2,734) | (3,650)    | (4,023) |

The effect on Equity differs from the effect on the Income Statement by Euro 240 thousand (in the event of an increase in interest rates), and by Euro -246 thousand (in the event of a decrease in interest rates), which reflects the change in the fair value of the instruments hedging the interest rate risk.

### **Foreign currency risk**

As it operates at an international level, the Group is exposed to the risk that changes in exchange rates could have an impact on the fair value of some of its assets or liabilities.

Moreover, as can be seen from the segment information given in note 4, the Group produces and sells mainly in countries of the Eurozone, but it is potentially exposed to currency risk, above all in respect of the British Pound, Brazilian Real, US Dollar, Argentine Peso, Chinese Renminbi and Canadian Dollar.

Generally speaking, the Group is not particularly exposed to exchange risk, which is mainly related to the translation of foreign subsidiaries' financial statements, as the currencies in which the foreign operating companies bill and those in which they are invoiced tend to be much the same.

As regards borrowings, there are also policies stating that any funds raised from third parties have to be in the same currency as the functional currency of the company obtaining the loan. If any exception is made to this principle, then the risk is hedged through forward currency purchases.

More specifically, the Parent Company Sogefi S.p.A. made one private placement of bonds for the amount of USD 115 million in 2013. The exchange risk on this financing was hedged through cross currency swap contracts (please see paragraph "Hedging – Exchange risk hedges" for more details).

A sensitivity analysis is provided below, which shows the impact on the Income Statement, especially on "Exchange (gains) losses", net of tax, and on Equity of a change that is considered reasonably possible in exchange rates of the main foreign currencies. Note that the exchange effect of translating the financial statements of foreign subsidiaries into Euro has not been taken into consideration here.

What has been taken into consideration are the financial assets and liabilities outstanding as at 31 December 2016 denominated in a currency other than the functional currency of the individual subsidiaries. This analysis also takes into account any changes in the fair value of the financial instruments used to hedge exchange risk.

As at 31 December 2016, exchange risk was concentrated mainly in transactions with the Euro.

A 5% appreciation or depreciation of the Euro against the other main currencies would have the following effects:

| (in thousands of Euro) | 12.31.2016 |        | 12.31.2015 |        |
|------------------------|------------|--------|------------|--------|
| Sensitivity Analysis   | Net profit | Equity | Net profit | Equity |
| + 5%                   | (487)      | (487)  | (663)      | (663)  |
| - 5%                   | 491        | 491    | 364        | 364    |

These effects are mainly due to the following exchange rates:

- EUR/GBP due to the net exposure for the trade payables and financial debt in Euro of UK companies and for the net financial debt in GBP of the Parent Company Sogefi S.p.A.;
- EUR/USD due to the net exposure for the trade payables and financial debt in Euro of the US subsidiaries and for the net financial debt in USD of the Parent Company Sogefi S.p.A.;
- EUR/BRL due to the net exposure for the trade payables in Euro of the Brazilian subsidiaries;

-EUR/RON due to the net exposure for the trade payables in Euro of the Romanian subsidiary S.C. Sogefi Air & Cooling S.r.l.

Please note also that a sensitivity analysis of the MEX/CAD exchange rate showed that a 5% appreciation/depreciation of the Peso would cause Group's net profit and equity to decrease/increase by Euro 432 thousand. This effect is due to the exposure for the trade payables and financial debt in CAD of the Mexican subsidiary.

With regard to the United Kingdom's exit from the Euro area, the Group does not expect any significant impacts. Outlined below is a sensitivity analysis on the net assets of the UK subsidiaries: a 5% appreciation of the Euro against GBP would cause the net assets of UK subsidiaries to fall by Euro 958 thousand; a 5% depreciation of the Euro against GBP would cause the net assets of UK subsidiaries to increase by Euro 1,059 thousand.

### ***Price risk***

The Group is partially exposed to price risk as it makes purchases of various raw materials such as steel, plastics, aluminium, cellulose products.

The risk is handled in the best way possible thanks to centralised purchasing (or at business unit level) and a policy of having various suppliers for each kind of raw material, operating in different parts of the world.

We would also point out that price risk is generally mitigated by the Group's ability to pass on part of the variation in raw material costs to selling prices.

The price risk on Group investments classified as "Securities held for trading" and "Other financial assets available for sale" is not significant.

### ***Credit risk***

This is the risk that one of the parties signing a contract of a financial nature defaults on an obligation, thereby provoking a financial loss. This risk can derive from strictly commercial aspects (granting and concentration of credits), as well as from purely financial aspects (choice of counterparties used in financial transactions).

From a commercial point of view, the Group does not have excessive concentrations of credit risk as it operates on distribution channels, both Original Equipment and the Aftermarket, that make it possible not to depend too much on individual customers. For example, Original Equipment sales are largely to car and industrial vehicle manufacturers.

As regards the Aftermarket, on the other hand, the Group's main customers are important international purchasing groups.

In order to minimise credit risk, however, procedures have in any case been implemented to limit the impact of any customer insolvencies.

As regards counterparties for the management of financial resources, the Group only has recourse to partners that have a safe profile and a high international standing.

The Group's maximum exposure to credit risk as at 31 December 2016 is represented by the book value of the financial assets shown in the financial statements (Euro 314,155 thousand), as well as by the nominal value of the guarantees given in favour of third parties, as mentioned in note 43 (Euro 9,836 thousand).

The exposure to credit risk is essentially linked to trade receivables which amounted to Euro 157,163 thousand as at 31 December 2016 (Euro 142,266 thousand as at 31 December 2015), written down by Euro 4,977 thousand (Euro 5,367 thousand as at 31 December 2015).

Receivables are backed by mainly insurance guarantees for Euro 4,345 thousand (Euro 5,327 thousand as at 31 December 2015). The Group does not have any other guarantees covering trade receivables.

The following table shows the changes in the allowance for doubtful accounts:

| (in thousands of Euro)                | 12.31.2016   | 12.31.2015   |
|---------------------------------------|--------------|--------------|
| Opening balance                       | 5,367        | 5,170        |
| Change to the scope of consolidation  | -            | -            |
| Accruals for the period               | 1,578        | 1,554        |
| Utilisations                          | (1,741)      | (1,124)      |
| Provisions not used during the period | (294)        | (56)         |
| Other changes                         | -            | -            |
| Exchange differences                  | 67           | (177)        |
| <b>TOTAL</b>                          | <b>4,977</b> | <b>5,367</b> |

The following is an ageing analysis of gross receivables and the related allowance for doubtful accounts to help evaluate credit risk:

| (in thousands of Euro)              | 12.31.2015     |                                 |                |
|-------------------------------------|----------------|---------------------------------|----------------|
|                                     | Gross value    | Allowance for doubtful accounts | Net value      |
| Receivables past due:               |                |                                 |                |
| 0-30 days                           | 7,765          | (403)                           | 7,362          |
| 30-60 days                          | 2,967          | (82)                            | 2,885          |
| 60-90 days                          | 404            | (140)                           | 265            |
| over 90 days                        | 7,463          | (4,592)                         | 2,871          |
| Total receivables past due          | 18,599         | (5,217)                         | 13,382         |
| Total receivables still to fall due | 123,667        | (150)                           | 123,517        |
| <b>TOTAL</b>                        | <b>142,266</b> | <b>(5,367)</b>                  | <b>136,899</b> |

| (in thousands of Euro)              | 12.31.2016     |                                 |                |
|-------------------------------------|----------------|---------------------------------|----------------|
|                                     | Gross value    | Allowance for doubtful accounts | Net value      |
| Receivables past due:               |                |                                 |                |
| 0-30 days                           | 11,108         | (442)                           | 10,666         |
| 30-60 days                          | 1,689          | (82)                            | 1,607          |
| 60-90 days                          | 594            | (26)                            | 568            |
| over 90 days                        | 6,820          | (4,246)                         | 2,574          |
| Total receivables past due          | 20,211         | (4,796)                         | 15,415         |
| Total receivables still to fall due | 136,952        | (181)                           | 136,771        |
| <b>TOTAL</b>                        | <b>157,163</b> | <b>(4,977)</b>                  | <b>152,186</b> |

As at 31 December 2016, gross receivables past due had decreased by Euro 1,612 thousand compared to the previous year. The increase affects the 0-30 days bracket and mainly relates to the European subsidiaries due to delayed collection of amounts recovered in the early days of 2017.

The impact of gross receivables past due on total receivables stands at 12.9%, slightly down when compared to 13.1% in the previous year.

Past due receivables have been written down by 23.7% of the total (28.1% as at 31 December 2015) and 62.3% (61.5% as at 31 December 2015) considering only the “over 90 days” bracket. Writedowns refer mainly to disputed amounts or receivables that have been due for a significant period of time and can no longer be collected.

Net receivables past due account for 10.1% of total net receivables, compared to 9.8% in the previous year.

The item “Total receivables still to fall due” does not contain significant positions that have been renegotiated.

Considering the nature of the Sogefi Group's customers (cars and industrial vehicles manufacturers and important international purchasing groups), a Credit risk analysis by type of customer is not considered meaningful.

### ***Liquidity risk***

The Group is subject to a minimum amount of liquidity risk, namely having to handle a situation where it is not able to raise sufficient funds to meet its liabilities.

The Group has always taken an extremely prudent approach to its financial structure, using mainly medium/long-term funding, whereas forms of short-term financing are generally used only to cope with moments of peak requirement.

Its solid capital structure makes it relatively easy for the Group to find additional sources of financing.

It should also be mentioned that the Group has implemented a cash pooling system for all of the main European subsidiaries, which makes it possible to optimise liquidity and cash flow management at a supranational level.

The following table shows an analysis of the Group's financial assets and liabilities instruments by maturity, including the amount of future interests to be paid and trade receivables and payables:

| (in thousands of Euro)                                                        | within 12 months | between 1 and 2 years | between 2 and 3 years | between 3 and 4 years | between 4 and 5 years | beyond 5 years  | Total            |
|-------------------------------------------------------------------------------|------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------|------------------|
| <b>Fixed rate</b>                                                             |                  |                       |                       |                       |                       |                 |                  |
| Finance lease Sogefi Filtration Ltd                                           | (222)            | (250)                 | (277)                 | (311)                 | (345)                 | (383)           | (1,788)          |
| Finance lease Allevard Sogefi U.S.A. Inc.                                     | (1,499)          | (1,635)               | (1,441)               | (1,206)               | (1,246)               | (1,947)         | (8,974)          |
| Private Placement USD 115 million Sogefi S.p.A.                               | (15,585)         | (15,585)              | (15,585)              | (15,585)              | (15,585)              | (30,887)        | (108,812)        |
| Private Placement EUR 25 million Sogefi S.p.A.                                | -                | -                     | -                     | (24,953)              | -                     | -               | (24,953)         |
| Equity linked bond EUR 100 million Sogefi S.p.A.                              | -                | -                     | -                     | -                     | (82,035)              | -               | (82,035)         |
| Sogefi Air & Cooling Canada Corp. loan                                        | (1,045)          | (1,090)               | (848)                 | -                     | -                     | -               | (2,983)          |
| Sogefi Filtration do Brasil Ltda loan                                         | (5,319)          | (804)                 | -                     | -                     | -                     | -               | (6,123)          |
| Government financing                                                          | (518)            | (239)                 | (229)                 | (85)                  | (37)                  | (61)            | (1,169)          |
| Other fixed rate loans                                                        | (1,125)          | (6)                   | (6)                   | (6)                   | (3)                   | -               | (1,146)          |
| Future interests                                                              | (10,076)         | (8,852)               | (7,781)               | (5,951)               | (3,192)               | (1,796)         | (37,648)         |
| Future financial income on derivative instruments - interest risk hedging *   | 1,384            | 1,168                 | 953                   | 936                   | 664                   | 395             | 5,500            |
| <b>TOTAL FIXED RATE</b>                                                       | <b>(34,005)</b>  | <b>(27,293)</b>       | <b>(25,214)</b>       | <b>(47,161)</b>       | <b>(101,779)</b>      | <b>(34,679)</b> | <b>(270,131)</b> |
| <b>Floating rate</b>                                                          |                  |                       |                       |                       |                       |                 |                  |
| Cash and cash equivalents                                                     | 93,661           | -                     | -                     | -                     | -                     | -               | 93,661           |
| Financial assets                                                              | 3,950            | -                     | -                     | -                     | -                     | -               | 3,950            |
| Assets for derivative financial instruments                                   | 255              | -                     | -                     | -                     | -                     | -               | 255              |
| Current financial receivables                                                 | 1,676            | -                     | -                     | -                     | -                     | -               | 1,676            |
| Non-current financial receivables                                             | -                | -                     | -                     | -                     | -                     | -               | -                |
| Bank overdrafts and other short-term loans                                    | (11,005)         | -                     | -                     | -                     | -                     | -               | (11,005)         |
| Sogefi S.p.A. loans                                                           | (83,134)         | (20,437)              | (11,404)              | (9,737)               | -                     | -               | (124,712)        |
| Shanghai Sogefi Auto Parts Co., Ltd loans                                     | (2,049)          | -                     | -                     | -                     | -                     | -               | (2,049)          |
| S.C. Sogefi Air & Cooling S.r.l. loan                                         | (1,090)          | (1,453)               | (1,453)               | (727)                 | -                     | -               | (4,723)          |
| Sogefi (Shouzu) Auto Parts Co., Ltd loan                                      | (21,810)         | -                     | -                     | -                     | -                     | -               | (21,810)         |
| Other floating rate loans                                                     | (3,807)          | (91)                  | (125)                 | (20)                  | (20)                  | (61)            | (4,124)          |
| Future interests                                                              | (1,658)          | (616)                 | (314)                 | (95)                  | (4)                   | (5)             | (2,692)          |
| Liabilities for derivative financial instruments - exchange risk hedging      | (400)            | -                     | -                     | -                     | -                     | -               | (400)            |
| Future financial expenses on derivative instruments - interest risk hedging * | (5,091)          | (2,121)               | -                     | -                     | -                     | -               | (7,212)          |
| <b>TOTAL FLOATING RATE</b>                                                    | <b>(30,502)</b>  | <b>(24,718)</b>       | <b>(13,296)</b>       | <b>(10,579)</b>       | <b>(24)</b>           | <b>(66)</b>     | <b>(79,185)</b>  |
| Trade receivables                                                             | 158,466          | -                     | -                     | -                     | -                     | -               | 158,466          |
| Trade and other payables                                                      | (339,086)        | (15,046)              | -                     | -                     | -                     | -               | (354,132)        |
| <b>TOTAL FINANCIAL INSTRUMENT - ASSET</b>                                     | <b>258,008</b>   | <b>-</b>              | <b>-</b>              | <b>-</b>              | <b>-</b>              | <b>-</b>        | <b>258,008</b>   |
| <b>TOTAL FINANCIAL INSTRUMENT - LIABILITIES</b>                               | <b>(503,134)</b> | <b>(67,057)</b>       | <b>(38,511)</b>       | <b>(57,740)</b>       | <b>(101,803)</b>      | <b>(34,745)</b> | <b>(802,990)</b> |

\* The amount is different from “Net financial assets for derivatives – hedging of interest rate” (equal to a total of Euro 9,932 thousand) because it represents the non-discounted cash flows.

## Hedging

### a) Exchange risk hedges – not designated in hedge accounting

The Sogefi Group has entered the following contracts to hedge the exchange risk on financial and commercial balances. Note that even though the Group considers these instruments as exchange risk hedges from a risk management point of view, it has chosen not to adopt hedge accounting, as this treatment is not considered suitable for the Group's operating requirements. It therefore measures such contracts at fair value, posting the differences to “Exchange (gains) losses” in the Income Statement (this difference is offset within Income Statement by the fair value change of the asset/liability denominated in a certain currency).

The fair value of these instruments was calculated using the forward curve of exchange rates as at 31 December 2016.

As at 31 December 2016, the following forward purchase/sale contracts were maintained to hedge the exchange risk on intercompany financial positions and on commercial positions:

| Company                                                  |   | Forward purchase /<br>Forward sale | Date<br>opened | Currency<br>exchange | Spot<br>price | Date<br>closed | Forward<br>price | Fair value<br>at<br>12.31.2016 |
|----------------------------------------------------------|---|------------------------------------|----------------|----------------------|---------------|----------------|------------------|--------------------------------|
| Sogefi S.p.A                                             | P | GBP 2,000,000                      | 12/21/2016     | €/currency           | 0.84155       | 02/21/2017     | 0.84280          | (40)                           |
| Sogefi S.p.A                                             | P | GBP 3,000,000                      | 12/14/2016     | €/currency           | 0.83905       | 02/14/2017     | 0.84025          | (70)                           |
| Sogefi S.p.A                                             | P | GBP 3,000,000                      | 12/16/2016     | €/currency           | 0.83690       | 01/20/2017     | 0.83753          | (80)                           |
| Sogefi S.p.A                                             | S | USD 4,000,000                      | 11/28/2016     | €/currency           | 1.05480       | 01/30/2017     | 1.05850          | (9)                            |
| Sogefi S.p.A                                             | S | USD 7,500,000                      | 12/01/2016     | €/currency           | 1.06270       | 01/30/2017     | 1.06600          | (69)                           |
| Sogefi S.p.A                                             | S | USD 7,500,000                      | 12/21/2016     | €/currency           | 1.04250       | 01/23/2017     | 1.04480          | 74                             |
| Sogefi Filtration<br>Ltd                                 | S | EUR 600,000                        | 11/30/2016     | GBP/currency         | 0.85400       | 01/25/2017     | 0.85510          | (1)                            |
| Sogefi<br>Suspension<br>Argentina S.A.                   | P | USD 1,000,000                      | 12/01/2016     | ARS/currency         | 15.91000      | 02/24/2017     | 16.83000         | (19)                           |
| Sogefi<br>Suspension<br>Argentina S.A.                   | P | USD 1,000,000                      | 11/16/2016     | ARS/currency         | 15.51000      | 01/31/2017     | 16.42000         | (9)                            |
| Allevard Molas<br>do Brasil Ltda                         | P | EUR 200,000                        | 11/24/2016     | BRL/currency         | 3.58250       | 01/23/2017     | 3.66600          | (14)                           |
| Allevard Molas<br>do Brasil Ltda                         | S | USD 500,000                        | 12/02/2016     | BRL/currency         | 3.46450       | 02/22/2017     | 3.54000          | 35                             |
| Allevard Molas<br>do Brasil Ltda                         | P | EUR 150,000                        | 12/02/2016     | BRL/currency         | 3.69820       | 02/22/2017     | 3.80950          | (14)                           |
| Allevard Molas<br>do Brasil Ltda                         | S | USD 350,000                        | 12/15/2016     | BRL/currency         | 3.38880       | 02/22/2017     | 3.44800          | 15                             |
| Allevard Molas<br>do Brasil Ltda                         | S | USD 350,000                        | 12/23/2016     | BRL/currency         | 3.27150       | 01/18/2017     | 3.28930          | 2                              |
| Allevard Molas<br>do Brasil Ltda                         | S | USD 400,000                        | 12/23/2016     | BRL/currency         | 3.27150       | 02/15/2017     | 3.31300          | 2                              |
| Sogefi MNR<br>Engine systems<br>India Private<br>Limited | P | EUR 2,000,000                      | 10/28/2016     | INR/currency         | 72.88000      | 01/31/2017     | 74.34000         | (64)                           |
| Allevard IAI<br>Suspensions<br>Private Ltd               | P | EUR 350,000                        | 12/01/2016     | INR/currency         | 72.52000      | 03/01/2017     | 76.48000         | (11)                           |

(\*) Positive fair value was recognised in “Other financial assets – Assets for derivative financial instruments”, whereas negative fair value was recognised in “Other short-term liabilities for derivative financial instruments”.

#### *b) Interest risk hedges – in hedge accounting*

During 2013, the Parent Company Sogefi S.p.A. entered into the following Interest Rate Swap contracts and the relating cash flows started to be exchanged in June 2016. These contracts were originally aimed at hedging for the future indebtedness of the Parent Company Sogefi S.p.A., which was deemed to be highly probable; in the year 2015 they were associated to the new loan granted by Ing Bank N.V. for a total amount of Euro 30 million and passed the effectiveness test under IAS 39 carried out as at 31 December 2016:

| Description of IRS                                     | Date opened | Contract maturity | Notional | Fixed rate | Fair value at 12.31.2016 | Fair value at 12.31.2015 |
|--------------------------------------------------------|-------------|-------------------|----------|------------|--------------------------|--------------------------|
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/21/2013  | 06/01/2018        | 10,000   | 1.660%     | (293)                    | (349)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/19/2013  | 06/01/2018        | 10,000   | 1.650%     | (291)                    | (347)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/21/2013  | 06/01/2018        | 5,000    | 1.660%     | (147)                    | (175)                    |
| TOTAL                                                  |             |                   | 25,000   |            | (731)                    | (871)                    |

These financial instruments envisage payment by the Group of an agreed fixed rate and payment by the counterparty of the floating rate that is the basis of the underlying loan.

*c) Exchange risk hedges – in hedge accounting*

During 2013 the Parent Company Sogefi S.p.A. entered into three cross currency swap (Ccs) contracts maturing in June 2023, designated in hedge accounting, in order to hedge interest and exchange rate risk relating to the private placement of USD 115 million bonds. Under these contracts, a fixed interest receivable of 600 basis points on subscribed notional USD amount is collected by the Parent Company on a quarterly basis against payment of a fixed interest payable on a notional amount in EUR corresponding to the USD notional amount converted at the fixed exchange rate of 1.3055 (totalling Euro 88,089 thousand).

Details of these contracts are as follows:

| Description of CCSwap                                                              | Date opened | Contract maturity | Notional (in thousands of Usd) | Fixed rate                                   | Fair value at 12.31.2016 | Fair value at 12.31.2015 |
|------------------------------------------------------------------------------------|-------------|-------------------|--------------------------------|----------------------------------------------|--------------------------|--------------------------|
| Private placement USD 115 million (05/03/2013 maturity 06/01/2023), coupon 600 bps | 04/30/2013  | 06/01/2023        | 55,000                         | 6.0% USD receivable<br>5.6775% Euro payables | 7,646                    | 6,349                    |
| Private placement USD 115 million (05/03/2013 maturity 06/01/2023), coupon 600 bps | 04/30/2013  | 06/01/2023        | 40,000                         | 6.0% USD receivable<br>5.74% Euro payables   | 5,396                    | 4,529                    |
| Private placement USD 115 million (05/03/2013 maturity 06/01/2023), coupon 600 bps | 04/30/2013  | 06/01/2023        | 20,000                         | 6.0% USD receivable<br>5.78% Euro payables   | 2,728                    | 2,278                    |
| TOTAL                                                                              |             |                   | 115,000                        |                                              | 15,770                   | 13,156                   |

*d) derivatives no longer in hedge accounting*

As at 31 December 2016, the Parent Company Sogefi S.p.A. holds the following interest rate swap contracts that, based on the effectiveness tests carried out on 30 June 2014 (for the first two tables reported below), and on 31 December 2014 (for the third table reported below) have become ineffective (the purpose of these derivative instruments was to hedge the risk of fluctuations in the cash flows arising from expected future indebtedness of the Parent Company Sogefi S.p.A.) and so that the hedging relationship was discontinued and the derivative contracts were reclassified as fair value through

profit or loss instruments. The change in fair value compared to the last effectiveness test is recognised immediately in the income statement, whereas the reserve booked to Other Comprehensive Income (if any) is reclassified in the income statement over the same period of time as the differentials relating to the underlying hedged item.

Details are as follows:

| Description of IRS                                     | Date opened | Contract maturity | Notional | Fixed rate | Fair value at 12.31.2016 | Fair value at 12.31.2015 |
|--------------------------------------------------------|-------------|-------------------|----------|------------|--------------------------|--------------------------|
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/10/2011  | 06/01/2018        | 10,000   | 3.679%     | (575)                    | (909)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/23/2011  | 06/01/2018        | 10,000   | 3.500%     | (570)                    | (897)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 03/11/2011  | 06/01/2018        | 10,000   | 3.545%     | (577)                    | (908)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 03/23/2011  | 06/01/2018        | 10,000   | 3.560%     | (578)                    | (910)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 03/28/2011  | 06/01/2018        | 10,000   | 3.670%     | (596)                    | (939)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 05/13/2011  | 06/01/2018        | 10,000   | 3.460%     | (564)                    | (887)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 06/24/2011  | 06/01/2018        | 10,000   | 3.250%     | (533)                    | (834)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 06/28/2011  | 06/01/2018        | 10,000   | 3.250%     | (533)                    | (834)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 11/28/2011  | 06/01/2018        | 10,000   | 2.578%     | (431)                    | (668)                    |
| TOTAL                                                  |             |                   | 90,000   |            | (4,957)                  | (7,786)                  |

| Description of IRS                                     | Date opened | Contract maturity | Notional | Fixed rate | Fair value at 12.31.2016 | Fair value at 12.31.2015 |
|--------------------------------------------------------|-------------|-------------------|----------|------------|--------------------------|--------------------------|
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/11/2013  | 06/01/2018        | 5,000    | 1.225%     | (114)                    | (166)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/01/2013  | 06/01/2018        | 10,000   | 1.310%     | (240)                    | (353)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/06/2013  | 06/01/2018        | 10,000   | 1.281%     | (236)                    | (346)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/11/2013  | 06/01/2018        | 5,000    | 1.220%     | (129)                    | (190)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/12/2013  | 06/01/2018        | 5,000    | 1.240%     | (115)                    | (168)                    |
| TOTAL                                                  |             |                   | 35,000   |            | (834)                    | (1,223)                  |

| Description of IRS                                     | Date opened | Contract maturity | Notional      | Fixed rate | Fair value at 12.31.2016 | Fair value at 12.31.2015 |
|--------------------------------------------------------|-------------|-------------------|---------------|------------|--------------------------|--------------------------|
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/07/2013  | 06/01/2018        | 15,000        | 1.445%     | (391)                    | (580)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/11/2013  | 06/01/2018        | 5,000         | 1.425%     | (129)                    | (191)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/19/2013  | 06/01/2018        | 10,000        | 1.440%     | (260)                    | (385)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/11/2013  | 06/01/2018        | 5,000         | 1.420%     | (113)                    | (165)                    |
| Hedging of Sogefi S.p.A. future financial indebtedness | 02/13/2013  | 06/01/2018        | 5,000         | 1.500%     | (135)                    | (200)                    |
| <b>TOTAL</b>                                           |             |                   | <b>40,000</b> |            | <b>(1,028)</b>           | <b>(1,521)</b>           |

The discontinuation of hedge accounting had the following impact on the financial statements as at 31 December 2016:

- a financial income of Euro 3,869 thousand reflecting the change in fair value compared to 31 December 2015 was immediately recognised in the income statement;
- a financial expense of Euro 2,922 thousand was recognised in the income statement; this amount reflects the portion of the reserve previously booked to “Other Comprehensive Income” that will be recognised in the income statement over the same period of time as the differentials relating to the former underlying hedged item. As at 31 December 2016, an amount of Euro 3,589 thousand remains to be recycled to the income statement in the years 2017 and 2018.

#### *e) fair value of derivatives*

The fair value of all derivatives was calculated using the forward curves of exchange and interest rates as at 31 December 2016, also taking into account a credit valuation adjustment/debit valuation adjustment. The fair value amounts of derivatives are classified as Level 2 in fair value hierarchy, based on the significance of the inputs used in fair value measurements.

#### ***Equity management***

The main objectives pursued by the Group through its equity risk management are the creation of value for shareholders and the safeguarding of business continuity. The Group also sets itself the objective of maintaining an optimal equity structure so as to reduce the cost of indebtedness and meet the covenants established by the loan agreements.

The Group monitors equity on the basis of the net financial position/total equity ratio (gearing ratio). For the purposes of determination of the net financial position reference is made to note 22. Total equity is analysed in note 21.

As at 31 December 2016, gearing stands at 1.58 (1.69 as at 31 December 2015).

***Categories of financial assets and liabilities stated in the financial statements and fair value hierarchy***

In compliance with the requirements of IFRS 7, the table below provides the information on the categories of financial assets and liabilities held by the Group as at 31 December 2016.

For the financial instruments measured at fair value in the statement of financial position the IFRS 7 requires a classification by hierarchy determined by reference to the source of inputs used to derive the fair value. This classification uses the following three levels:

- level 1: if the financial instrument is quoted in an active market;
- level 2: if the fair value is determined using valuation techniques and the inputs used for the valuation (other than quoted prices of financial instruments) are observable in the market. Specifically, fair value was calculated using the forward curves of exchange and interest rates;
- level 3: if the fair value is determined using valuation techniques and the inputs used for the valuation are non-observable in the market.

The following table therefore shows the fair value level of financial assets and liabilities measured at fair value, as at 31 December 2016:

| (in thousands of Euro)                                                     | Note | Book value<br>2016 | Receivables<br>and financial<br>assets | Financial<br>assets<br>available for<br>sale | Held-to-<br>maturity<br>investments | Financial<br>liabilities | Fair Value with changes<br>booked in the Income |                         |
|----------------------------------------------------------------------------|------|--------------------|----------------------------------------|----------------------------------------------|-------------------------------------|--------------------------|-------------------------------------------------|-------------------------|
|                                                                            |      |                    |                                        |                                              |                                     |                          | Amount                                          | Fair value<br>hierarchy |
| <b>Current assets</b>                                                      |      |                    |                                        |                                              |                                     |                          |                                                 |                         |
| Cash and cash equivalents                                                  | 5    | 93,661             | 93,661                                 | -                                            | -                                   | -                        | -                                               |                         |
| Securities held for trading                                                | 6    | -                  | -                                      | -                                            | -                                   | -                        | -                                               |                         |
| Held-to-maturity investments                                               | 6    | 3,950              | -                                      | -                                            | 3,950                               | -                        | -                                               |                         |
| Assets for derivative financial<br>instruments                             | 6    | 255                | -                                      | -                                            | -                                   | -                        | 255                                             | 2                       |
| Trade receivables                                                          | 8    | 158,466            | 158,466                                | -                                            | -                                   | -                        | -                                               |                         |
| Other receivables                                                          | 8    | 6,820              | 6,820                                  | -                                            | -                                   | -                        | -                                               |                         |
| Other assets                                                               | 8    | 3,689              | 3,689                                  | -                                            | -                                   | -                        | -                                               |                         |
| <b>Non-current assets</b>                                                  |      |                    |                                        |                                              |                                     |                          |                                                 |                         |
| Other financial assets available for<br>sale                               | 12   | 46                 | -                                      | 46 *                                         | -                                   | -                        | -                                               |                         |
| Non-current trade receivables                                              | 13   | 4                  | 4                                      | -                                            | -                                   | -                        | -                                               |                         |
| Non-current assets for derivative<br>financial instruments                 | 13   | 15,770             | -                                      | -                                            | -                                   | -                        | 15,770                                          | 2                       |
| Other non-current receivables                                              | 13   | 29,818             | 29,818                                 | -                                            | -                                   | -                        | -                                               |                         |
| <b>Current liabilities</b>                                                 |      |                    |                                        |                                              |                                     |                          |                                                 |                         |
| Short-term fixed rate financial debts                                      | 16   | 25,313             | -                                      | -                                            | -                                   | 25,313                   | -                                               |                         |
| Short-term variable rate financial<br>debts                                | 16   | 122,895            | -                                      | -                                            | -                                   | 122,895                  | -                                               |                         |
| Other short-term liabilities for<br>derivative financial instruments       | 16   | 400                | -                                      | -                                            | -                                   | -                        | 400                                             | 2                       |
| Trade and other payable                                                    | 17   | 339,086            | -                                      | -                                            | -                                   | 339,086                  | -                                               |                         |
| Other current liabilities                                                  | 18   | 8,197              | -                                      | -                                            | -                                   | 8,197                    | -                                               |                         |
| <b>Non-current liabilities</b>                                             |      |                    |                                        |                                              |                                     |                          |                                                 |                         |
| Medium/long-term fixed rate<br>financial debts                             | 16   | 130,634            | -                                      | -                                            | -                                   | 130,634                  | -                                               |                         |
| Equity linked bond included<br>embedded derivative                         | 16   | 82,035             | -                                      | -                                            | -                                   | 82,035                   | -                                               |                         |
| Medium/long-term variable rate<br>financial debts                          | 16   | 45,528             | -                                      | -                                            | -                                   | 45,528                   | -                                               |                         |
| Other medium/long-term liabilities<br>for derivative financial instruments | 16   | 7,550              | -                                      | -                                            | -                                   | -                        | 7,550 **                                        | 2                       |

\* relating to financial assets valued at cost, as permitted by IAS 39, insofar as a reliable fair value is not available.

\*\* of which Euro 731 thousand relating to hedge instruments accounted according to the cash flow hedge method.

The following table shows the fair value level of financial assets and liabilities measured at fair value, as at 31 December 2015:

| (in thousands of Euro)                                                     | Note | Book value<br>2015 | Receivables<br>and financial<br>assets | Financial<br>assets<br>available for<br>sale | Held-to-<br>maturity<br>investments | Financial<br>liabilities | Fair Value with changes<br>booked in the income |                         |
|----------------------------------------------------------------------------|------|--------------------|----------------------------------------|----------------------------------------------|-------------------------------------|--------------------------|-------------------------------------------------|-------------------------|
|                                                                            |      |                    |                                        |                                              |                                     |                          | Amount                                          | Fair value<br>hierarchy |
| <b>Current assets</b>                                                      |      |                    |                                        |                                              |                                     |                          |                                                 |                         |
| Cash and cash equivalents                                                  | 5    | 121,892            | 121,892                                | -                                            | -                                   | -                        | -                                               |                         |
| Securities held for trading                                                | 6    | 17                 | -                                      | -                                            | -                                   | -                        | 17                                              | 1                       |
| Held-to-maturity investments                                               | 6    | 3,949              | -                                      | -                                            | 3,949                               | -                        | -                                               |                         |
| Assets for derivative financial<br>instruments                             | 6    | 931                | -                                      | -                                            | -                                   | -                        | 931                                             | 2                       |
| Trade receivables                                                          | 8    | 143,489            | 143,489                                | -                                            | -                                   | -                        | -                                               |                         |
| Other receivables                                                          | 8    | 7,915              | 7,915                                  | -                                            | -                                   | -                        | -                                               |                         |
| Other assets                                                               | 8    | 3,974              | 3,974                                  | -                                            | -                                   | -                        | -                                               |                         |
| <b>Non-current assets</b>                                                  |      |                    |                                        |                                              |                                     |                          |                                                 |                         |
| Other financial assets available for<br>sale                               | 12   | 439                | -                                      | 439 *                                        | -                                   | -                        | -                                               |                         |
| Non-current trade receivables                                              | 13   | 4                  | 4                                      | -                                            | -                                   | -                        | -                                               |                         |
| Non-current assets for derivative<br>financial instruments                 | 13   | 13,156             | -                                      | -                                            | -                                   | -                        | 13,156                                          | 2                       |
| Other non-current receivables                                              | 13   | 34,666             | 34,666                                 | -                                            | -                                   | -                        | -                                               |                         |
| <b>Current liabilities</b>                                                 |      |                    |                                        |                                              |                                     |                          |                                                 |                         |
| Short-term fixed rate financial debts                                      | 16   | 15,323             | -                                      | -                                            | -                                   | 15,323                   | -                                               |                         |
| Short-term variable rate financial<br>debts                                | 16   | 76,965             | -                                      | -                                            | -                                   | 76,965                   | -                                               |                         |
| Other short-term liabilities for<br>derivative financial instruments       | 16   | 325                | -                                      | -                                            | -                                   | -                        | 325                                             | 2                       |
| Trade and other payables                                                   | 17   | 325,421            | -                                      | -                                            | -                                   | 325,421                  | -                                               |                         |
| Other current liabilities                                                  | 18   | 9,686              | -                                      | -                                            | -                                   | 9,686                    | -                                               |                         |
| <b>Non-current liabilities</b>                                             |      |                    |                                        |                                              |                                     |                          |                                                 |                         |
| Medium/long-term fixed rate<br>financial debts                             | 16   | 151,210            | -                                      | -                                            | -                                   | 151,210                  | -                                               |                         |
| Equity linked bond included<br>embedded derivative                         | 16   | 78,627             | -                                      | -                                            | -                                   | 78,627                   | -                                               |                         |
| Medium/long-term variable rate<br>financial debts                          | 16   | 129,660            | -                                      | -                                            | -                                   | 129,660                  | -                                               |                         |
| Other medium/long-term liabilities<br>for derivative financial instruments | 16   | 11,562             | -                                      | -                                            | -                                   | -                        | 11,562 **                                       | 2                       |

\* relating to financial assets valued at cost, as permitted by IAS 39, insofar as a reliable fair value is not available.

\*\* of which Euro 871 thousand relating to hedge instruments accounted according to the cash flow hedge method.

## ***F) 40. RELATED PARTY TRANSACTIONS***

See IAS 24 and the related communications from Consob for the definition of related party transactions.

The Group is controlled by the Holding Company CIR S.p.A. (which in turn is controlled by the ultimate Holding Company F.lli De Benedetti S.p.A.), which as at 31 December 2016 held 55.68% of the share capital (57.06% of outstanding shares, excluding treasury shares). Sogefi S.p.A.'s shares are listed on the STAR segment of Mercato Telematico Azionario managed by Borsa Italiana S.p.A.

The Group's consolidated financial statements include the financial statements of the consolidated companies, listed in chapter H along with the stake held in the same by the Group.

Dealings between Group companies are conducted at arm's length, taking into account the quality and nature of services rendered. During the year 2016, the Parent Company Sogefi S.p.A. – in its capacity as the holding company of the Group – provided administrative, financial and management support services directly to the three French operating sub-holding companies Sogefi Filtration France S.A., Sogefi Suspensions France S.A. and Sogefi Air et Refroidissement France S.A. with a view to strengthening their role with respect to the operating companies that are part of the relating business units. The three sub-holding companies, for their part, redistribute the services rendered by the Holding Company to the companies operating in the relating business units, and also provide them with additional operating/business support and assistance services. The Holding Company also debits and credits interest at a market spread to those subsidiaries that have joined the Group's cash pooling system.

The Holding Company is also charging royalty fees on the Group "SAP" information system to those subsidiaries at which implementation has been completed, as well as a consideration for the Group centralised data communication service through a single provider.

During 2016, most purchasing functions that were previously concentrated in subsidiary Sogefi Purchasing S.A.S. (now named Sogefi Gestion S.A.S.) were re-assigned to the individual business units. As from 2016, subsidiary Sogefi Gestion S.A.S. also carries out centralised functions and charges Group companies for administrative, financial, legal, industrial and IT services.

As part of its activity, the Parent Company Sogefi S.p.A. makes use of the services provided by CIR S.p.A., its Parent Company, in areas such as strategic development and of an administrative, financial, fiscal and corporate nature. This relationship is regulated by contracts at arm's-length conditions and the cost is commensurate to the effective value of such services to the Sogefi Group in terms of the resources devoted to them and the specific economic advantages obtained as a result.

In 2016, the Parent Company Sogefi S.p.A. used the services of CIR S.p.A., paying Euro 500 thousand for them (Euro 850 thousand in the previous year).

As at 31 December 2016, the Italian companies of the Sogefi Group had receivables for the amount of Euro 5,867 thousand owed by CIR S.p.A. in connection with their participation in the group tax filing system, and payables for the amount of Euro

1,750 thousand. As at 31 December 2015, receivables amounted to Euro 6,378 thousand (Euro 5,683 thousand were collected during the course of 2016) and payables amounted to Euro 898 thousand.

At the end of 2016, the subsidiary Sogefi Italy S.p.A. recorded an income of Euro 413 thousand (Euro 212 thousand in the previous year) following the transfer of fiscal surplus to companies that have joined the CIR Group tax filing system in order to have an interest deduction. The Parent Company Sogefi S.p.A. recorded an expense of Euro 1,390 thousand (Euro 1,454 thousand in the previous year) due to the payment for the fiscal surplus received from the companies that have joined the CIR Group tax filing system.

As regards economic transactions with the Board of Directors, Statutory Auditors, Chief Executive Officer and the Manager with strategic responsibility in 2016, please refer to the attached table.

Apart from those mentioned above and shown in the table below, at the date of these financial statements, we are not aware of any other related party transactions.

The following table summarises related party transactions:

| (in thousands of Euro)                                                                                                             | 2016  | 2015  |
|------------------------------------------------------------------------------------------------------------------------------------|-------|-------|
| <b>Receivables</b>                                                                                                                 |       |       |
| - for the Group tax filing from CIR S.p.A.                                                                                         | 5,867 | 6,378 |
| - for income following the transfer of fiscal surplus to the CIR Group                                                             | 413   | 212   |
| <b>Payables</b>                                                                                                                    |       |       |
| - for purchases of energy/gas from Sorgenia S.p.A.                                                                                 | 8     | 8     |
| - for expense due to fiscal surplus received from the CIR Group                                                                    | 1,390 | 1,454 |
| - for Director's remuneration                                                                                                      | 114   | 76    |
| - for services from other related companies                                                                                        | -     | 31    |
| - for the Group tax filing from CIR S.p.A.                                                                                         | 1,750 | 898   |
| <b>Costs</b>                                                                                                                       |       |       |
| - for services received from CIR S.p.A.                                                                                            | 500   | 850   |
| - for expense due to fiscal surplus received from the CIR Group                                                                    | 1,390 | 1,454 |
| - for services from other related companies                                                                                        | 33    | 123   |
| <b>Revenues</b>                                                                                                                    |       |       |
| - for income following the transfer of fiscal surplus to the CIR Group                                                             | 413   | 212   |
| <b>Compensation of directors and statutory auditors</b>                                                                            |       |       |
| - directors (*)                                                                                                                    | 625   | 690   |
| - statutory auditors                                                                                                               | 155   | 160   |
| <b>Compensation and related contributions to the ex General Manager of the Holding Company (**)</b>                                | 841   | 610   |
| <b>Compensation and related contributions to Manager with strategic responsibilities ex Consob resolution no. 17221/2010 (***)</b> | 453   | 1,132 |

(\*) the item includes the imputed income from phantom stock option plans of Euro 8 thousand (imputed cost of Euro 8 thousand in 2015) recognised in item "Administrative and general expenses", as well as the imputed cost of stock grant plans of Euro 2 thousand (Euro 76 thousand in 2015) recognised in item "Other non-operating expenses (income)"

(\*\*) in office since 8 June 2015. The item includes the imputed cost of stock grant plans of Euro 99 thousand in 2016 (Euro 13 thousand in 2015) recognised in item "Other non-operating expenses (income)"

(\*\*\*) the cost of the year 2015 includes indemnities for Euro 682 thousand associated with the termination of employment occurred in 2015. The item includes the net imputed income of stock grant plans of Euro 30 thousand in 2016 (imputed income of Euro 102 thousand in 2015) recognised in item "Other non-operating expenses (income)"

## **G) COMMITMENTS AND RISKS**

### **41. OPERATING LEASES**

For accounting purposes, *leases* and rental contracts are classified as operating when:

- a significant part of the risks and benefits associated with ownership are retained by the lessor;
- there are no purchase options at prices that do not represent the presumable market value of the asset being leased at the end of the period;
- the lease term is not for the major part of the useful life of the asset leased or rented.

Operating lease instalment payments are booked to the Income Statement in line with the underlying contracts.

The main operating leases existing as at 31 December 2016 regard the following companies:

- Sogefi Filtration do Brasil Ltda for the rental of three production plant in Jarinu, under a contract that will expire in August 2034.  
As at 31 December 2016, remaining payments amount to Euro 30,820 thousand, Euro 1,651 thousand of which due by the end of the year. For this contract, the company provided a bank guarantee of Euro 1,978 thousand.
- Sogefi (Suzhou) Auto Parts Co., Ltd. for the rental of the production plant in Wujiang, under a contract that will expire in September 2033.  
As at 31 December 2016, total remaining payments amount to Euro 14,871 thousand, Euro 746 thousand of which due by the end of the year. The Group has not given any guarantees whatsoever for this contract;
- Sogefi Filtration France S.A. for the rental of the offices in Guyancourt. The two contracts will expire in March 2020 and May 2021, respectively. As at 31 December 2016, remaining payments amount to Euro 3,284 thousand, Euro 778 thousand of which due by the end of the year.  
The Group has not given any guarantees for this contract;
- Sogefi PC Suspensions Germany GmbH for the rental of the production plant in Völklingen. The contract expires in September 2020. As at 31 December 2016, remaining payments amount to Euro 1,441 thousand, Euro 384 thousand of which due by the end of the year.  
The Group has not given any guarantees for this contract;
- Sogefi Air & Cooling Canada Corp. for the rental of the production plant in Montreal. The contract expires in December 2021. As at 31 December 2016, remaining payments amount to Euro 4,695 thousand, Euro 1,099 thousand of which due by the end of the year.  
For this contract Sogefi S.p.A. provided a guarantee equal to 100% of the residual instalments still to fall due;

- Sogefi Engine Systems Mexico S. de R.L. de C.V. for the rental of the production plant in Monterrey. The contract expires in June 2031. As at 31 December 2016, remaining payments amount to Euro 21,303 thousand, Euro 1,468 thousand of which due by the end of the year.  
For this contract Sogefi S.p.A. provided a guarantee equal to 100% of the residual instalments still to fall due;
- Alleward Sogefi U.S.A. Inc. for the rental of the production plant in Prichard (West Virginia). The contract expires in May 2019, and the remaining payments as at 31 December 2016, amount to Euro 912 thousand, of which Euro 379 thousand due by the end of the year.  
For this contract Sogefi S.p.A. provided a guarantee equal to 76% of the residual instalments still to fall due. The guarantee is renewed at the end of each year according to the residual amount.  
There are no restrictions of any kind on this type of lease and at the end of the contract the US company will be able to purchase the building at its market value.

Future lease payments under operating leases outstanding as at 31 December 2016 are as follows:

| (in thousands of Euro) | 2016          | 2015          |
|------------------------|---------------|---------------|
| Within 12 months       | 11,307        | 10,420        |
| Between 1 and 5 years  | 37,222        | 37,831        |
| Beyond 5 years         | 43,918        | 42,750        |
| <b>TOTAL</b>           | <b>92,447</b> | <b>91,001</b> |

#### 42. INVESTMENT COMMITMENTS

As at 31 December 2016, Group companies have binding commitments for investments relating to the purchase of property, plant and equipment for Euro 2,373 thousand (Euro 1,709 thousand at the end of the previous year), as already disclosed in the explanatory notes regarding tangible fixed assets.

#### 43. GUARANTEES GIVEN

Details of guarantees are as follows:

| (in thousands of Euro)                                   | 12.31.2016   | 12.31.2015   |
|----------------------------------------------------------|--------------|--------------|
| <b>PERSONAL GUARANTEES GIVEN</b>                         |              |              |
| a) Sureties to third parties                             | 7,373        | 5,366        |
| b) Other personal guarantees in favour of third parties  | 2,463        | 2,463        |
| <b>TOTAL PERSONAL GUARANTEES GIVEN</b>                   | <b>9,836</b> | <b>7,829</b> |
| <b>REAL GUARANTEES GIVEN</b>                             |              |              |
| a) Against liabilities shown in the financial statements | 7,433        | 8,422        |
| <b>TOTAL REAL GUARANTEES GIVEN</b>                       | <b>7,433</b> | <b>8,422</b> |

The guarantees given in favour of third parties relate to guarantees given to certain customers by subsidiary Sogefi Italy S.p.A, to the provider of the lease contract by subsidiary Sogefi Filtration do Brasil Ltda, to Inland Revenue for VAT and other indirect taxes by the Parent Company Sogefi S.p.A. and subsidiary Sogefi Filtration Ltd; guarantees are shown at a value equal to the outstanding commitment at the reporting period. These accounts indicate risks, commitments and guarantees provided by Group companies to third parties.

The "Other personal guarantees in favour of third parties" relate to the commitment of the subsidiary LPDN GmbH to the employee pension fund for the two business lines at the time it was acquired in 1996; this commitment is covered by the contractual obligations of the seller, who is a leading German operator.

"Real guarantees given" refer to subsidiaries Sogefi Air & Cooling Canada Corp., Allevard IAI Suspensions Private Ltd, Sogefi Filtration do Brasil Ltda and Sogefi M.N.R. Engine Systems India Private Ltd, which pledged tangible fixed assets and trade receivables as real guarantees to secure loans obtained from financial institutions.

#### *44. OTHER RISKS*

As at 31 December 2016, the Group had third-party goods and materials held at Group companies worth Euro 12,719 thousand (Euro 10,200 thousand as at 31 December 2015).

#### *45. POTENTIAL LIABILITIES*

Sogefi Group is managing environmental issues in some production plants. No relevant costs are expected.

In January 2014, the Parent Company Sogefi S.p.A. received two notices of assessment relating to fiscal period 2009 under which tax authorities disallowed deduction of the costs for services performed by the Parent Company CIR S.p.A. during the year 2009 for a taxable amount Euro 1.8 million from IRES tax base and consequently their eligibility for VAT tax deduction.

This is to report that said assessments were already processed by the Provincial Tax Committee with a favourable outcome.

The tax authorities appealed before the Regional Tax Committee against the outcome and the Company entered an appearance according to standard procedure.

In October 2016, the Parent Company Sogefi S.p.A. received four notices of assessment relating to fiscal periods 2011 and 2012, as a result of a tax audit carried out during the first half year 2016, with two irregularities: i) undue deduction of Euro 0.6 million of VAT paid on purchases of goods and services, ii) non-deductibility from IRES tax (and relating non-deductibility for VAT of Euro 0.2 million) of the expense for services performed by parent company CIR S.p.A. (same irregularity found in the notices relating to the year 2009) for a total taxable amount of Euro 1.3 million.

In December 2016, the Parent Company Sogefi S.p.A. appealed the notices before the Regional Tax Committee and entered an appearance in January 2017.

Based on the tax advisor's opinion, with regard to all notices of assessment, Directors believe said arguments to be groundless and inconsistent with the applicable tax regulation in force and, for the moment, the risk of losing to be possible but not likely. This is why the Company did not set aside any amount for tax risks in financial statements as at 31 December 2016.

#### *46. ATYPICAL OR UNUSUAL TRANSACTIONS*

Pursuant to Consob Communication dated 28 July 2006, it is specified that the Group did not implement any atypical and/or unusual transactions during 2016.

#### *47. SUBSEQUENT EVENTS*

No significant events occurred after 31 December 2016.

## H) GROUP COMPANIES

### 47. LIST OF GROUP COMPANIES AS AT 31 DECEMBER 2016

#### SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS

| Direct equity investments                                                | Currency | Share capital | Number of shares | % held   | Par value per share | Par value of the interest held |
|--------------------------------------------------------------------------|----------|---------------|------------------|----------|---------------------|--------------------------------|
| SOGEFI ITALY S.p.A. *<br>Sant'Antonino di Susa (Italy)                   | Euro     | 21,978,316    | 21,950,990       | 99.88    | 1                   | 21,950,990                     |
| SOGEFI FILTRATION FRANCE S.A. **<br>Guyancourt (France)                  | Euro     | 94,522,280    | 4,726,113        | 99.99998 | 20                  | 94,522,260                     |
| SOGEFI SUSPENSIONS FRANCE S.A. ***<br>Guyancourt (France)                | Euro     | 34,000,000    | 1,999,964        | 99.998   | 17                  | 33,999,388                     |
| ALLEVARD SOGEFI U.S.A., Inc.<br>Prichard (U.S.A.)                        | USD      | 20,055,000    | 191              | 100      |                     | 20,055,000                     |
| SOGEFI GESTION S.A.S. ****<br>Guyancourt (France)                        | Euro     | 100,000       | 10,000           | 100      | 10                  | 100,000                        |
| SHANGHAI SOGEFI AUTO PARTS Co., Ltd<br>Shanghai (China)                  | USD      | 13,000,000    |                  | 100      |                     | 13,000,000                     |
| SOGEFI AIR & REFRROIDISSEMENT FRANCE S.A.S. *****<br>Guyancourt (France) | Euro     | 54,938,125    | 36,025           | 100      | 1,525               | 54,938,125                     |
| SOGEFI (SUZHOU) AUTO PARTS CO., Ltd<br>Wujiang (China)                   | USD      | 37,400,000    |                  | 100      |                     | 37,400,000                     |

\* The company changed name from Sogefi Rejna S.p.A. to Sogefi Italy S.p.A. on 2 August 2016.

\*\* The company changed name from Filtrauto S.A. to Sogefi Filtration France S.A. on 1 January 2016. Effective as from 1 January 2017, the company changed name from Sogefi Filtration France S.A. to Sogefi Filtration S.A.

\*\*\* The company changed name from Allevard Rejna Autosuspensions S.A. to Sogefi Suspensions France S.A. on 1 January 2016. Effective as from 1 January 2017, the company changed name from Sogefi Suspensions France S.A. to Sogefi Suspensions S.A.

\*\*\*\* The company changed name from Sogefi Purchasing S.A.S. to Sogefi Gestion S.A.S. on 1 April 2016.

\*\*\*\*\* The company changed name from Systèmes Moteurs S.A.S. to Sogefi Air & Refroidissement France S.A.S. on 1 January 2016. Effective as from 1 January 2017, the company changed name from Sogefi Air & Refroidissement France S.A.S. to Sogefi Air & Cooling S.A.S.

| Indirect equity investments                                                                                                                                                                                                     | Currency | Share capital | Number of shares | % held | Par value per share | Par value of the interest held |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------------|------------------|--------|---------------------|--------------------------------|
| <b>FILTRATION BUSINESS UNIT</b>                                                                                                                                                                                                 |          |               |                  |        |                     |                                |
| SOGEFI FILTRATION Ltd<br>Tredegar (Great Britain)<br>Held by Sogefi Filtration France S.A.                                                                                                                                      | GBP      | 5,126,737     | 5,126,737        | 100    | 1                   | 5,126,737                      |
| SOGEFI FILTRATION SPAIN S.A. *<br>Cerdanyola (Spain)<br>Held by Sogefi Filtration France S.A.                                                                                                                                   | Euro     | 14,249,084.96 | 2,370,896        | 100    | 6.01                | 14,249,084.96                  |
| SOGEFI FILTRATION d.o.o.<br>Medvode (Slovenia)<br>Held by Sogefi Filtration France S.A.                                                                                                                                         | Euro     | 10,291,798    |                  | 100    |                     | 10,291,798                     |
| SOGEFI-MNR Engine Systems<br>India Pvt Ltd<br>Bangalore (India)<br>45% held by Sogefi Filtration France S.A.<br>24,98% held by Sogefi Air & Refroidissement France S.A.S.<br>0,02% held by Systemes Moteurs China, S.à.r.l.     | INR      | 21,254,640    | 1,487,825        | 70     | 10                  | 14,878,250                     |
| SOGEFI FILTRATION DO BRASIL Ltda<br>São Bernardo do Campo (Brazil)<br>78,8342476% held by Sogefi Filtration France S.A.<br>21,1657509% held by Sogefi Filtration Spain S.A.<br>0,0000015% held by Allevard Molas do Brasil Ltda | BRL      | 68,069,274    | 68,069,274       | 100    | 1                   | 68,069,274                     |
| SOGEFI FILTRATION ARGENTINA S.A.<br>Buenos Aires (Argentina)<br>99,424% held by Sogefi Filtration France S.A.<br>0,575% held by Sogefi Italy S.p.A.                                                                             | ARP      | 57,235,407    | 57,235,405       | 99.999 | 1                   | 57,235,405                     |

\* The company changed name from Sogefi Filtration S.A. to Sogefi Filtration Spain S.A. on 17 June 2016.

| Indirect equity investments                                                                                                                                                                 | Currency | Share capital | Number of shares | % held | Par value per share      | Par value of the interest held |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------------|------------------|--------|--------------------------|--------------------------------|
| <b>AIR&amp;COOLING BUSINESS UNIT</b>                                                                                                                                                        |          |               |                  |        |                          |                                |
| SOGEFI AIR & COOLING CANADA CORP.*<br>Nova Scotia (Canada)<br>Held by Sogefi Air & Refroidissement France S.A.S.                                                                            | CAD      | 9,393,000     | 2,283            | 100    |                          | 9,393,000                      |
| SOGEFI AIR & COOLING USA, Inc. **<br>Wilmington (U.S.A.)<br>Held by Sogefi Air & Refroidissement France S.A.S.                                                                              | USD      | 100           | 1,000            | 100    | 0.10                     | 100                            |
| SYSTEMES MOTEURS CHINA, S.à.r.l.<br>Luxembourg (Luxembourg)<br>Held by Sogefi Air & Refroidissement France S.A.S.                                                                           | Euro     | 12,500        | 125              | 100    | 100                      | 12,500                         |
| S.C. SOGEFI AIR & COOLING S.r.l.***<br>Titesti (Romania)<br>99,9997% held by Sogefi Air & Refroidissement France S.A.S.<br>0,0003% held by Sogefi Filtration Spain S.A.                     | RON      | 7,087,610     | 708,761          | 100    | 10                       | 7,087,610                      |
| SOGEFI ENGINE SYSTEMS MEXICO S. de R.L. de C.V.<br>Apodaca (Mexico)<br>0,000005% held by Sogefi Air & Refroidissement France S.A.S.<br>99,999995% held by Sogefi Air & Cooling Canada Corp. | MXN      | 20,003,000    | 1<br>1<br>1      | 100    | 1<br>2,999<br>20,000,000 | 20,003,000                     |
| SOGEFI ENGINE SYSTEMS HONG KONG Ltd<br>Hong Kong (Hong Kong)<br>Held by Systemes Moteurs China, S.à.r.l.                                                                                    | HKD      | 1,000         | 1,000            | 100    | 1                        | 1,000                          |

\* The company changed name from Sogefi Engine Systems Canada Corp. to Sogefi Air & Cooling Canada Corp. on 3 May 2016.

\*\* The company changed name from Sogefi Engine Systemes USA, Inc to Sogefi Air & Cooling USA, Inc. on 1 June 2016.

\*\*\* The company changed name from S.C. Systèmes Moteurs S.r.l. to S.C. Sogefi Air & Cooling S.r.l. on 23 March 2016.

| Indirect equity investments                                                                                                                                     | Currency | Share capital | Number of shares | % held | Par value per share | Par value of the interest held |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------------|------------------|--------|---------------------|--------------------------------|
| <b>SUSPENSIONS BUSINESS UNIT</b>                                                                                                                                |          |               |                  |        |                     |                                |
| ALLEVARD SPRINGS Ltd<br>Clydach (Great Britain)<br>Held by Sogefi Suspensions France S.A.                                                                       | GBP      | 4,000,002     | 4,000,002        | 100    | 1                   | 4,000,002                      |
| SOGEFI PC SUSPENSIONS GERMANY GmbH *<br>Volklingen (Germany)<br>Held by Sogefi Suspensions France S.A.                                                          | Euro     | 50,000        | 1                | 100    | 50,000              | 50,000                         |
| SOGEFI SUSPENSION ARGENTINA S.A. **<br>Buenos Aires (Argentina)<br>90,19% held by Sogefi Suspensions France S.A.<br>9,80% held by Allevard Molas do Brasil Ltda | ARP      | 48,858,410    | 48,853,430       | 99.99  | 1                   | 48,853,430                     |
| IBERICA DE SUSPENSIONES S.L. (ISSA)<br>Alsasua (Spain)<br>Held by Sogefi Suspensions France S.A.                                                                | Euro     | 10,529,668    | 5,264,834        | 50     | 1                   | 5,264,834                      |
| ALLEVARD MOLAS DO BRASIL Ltda ***<br>São Paulo (Brazil)<br>99,997% held by Sogefi Suspensions France S.A.<br>0,003% held by Allevard Springs Ltd                | BRL      | 37,161,683    | 37,161,683       | 100    | 1                   | 37,161,683                     |
| UNITED SPRINGS Limited<br>Rochdale (Great Britain)<br>Held by Sogefi Suspensions France S.A.                                                                    | GBP      | 4,500,000     | 4,500,000        | 100    | 1                   | 4,500,000                      |
| UNITED SPRINGS B.V.<br>Hengelo (Netherlands)<br>Held by Sogefi Suspensions France S.A.                                                                          | Euro     | 254,979       | 254,979          | 100    | 1                   | 254,979                        |
| SHANGHAI ALLEVARD SPRINGS Co., Ltd<br>Shanghai (China)<br>Held by Sogefi Suspensions France S.A.                                                                | Euro     | 5,335,308     | 1                | 60.58  |                     | 3,231,919                      |
| UNITED SPRINGS S.A.S.<br>Guyancourt (France)<br>Held by Sogefi Suspensions France S.A.                                                                          | Euro     | 5,109,000     | 2,043,600        | 100    | 2.5                 | 5,109,000                      |
| S.ARA COMPOSITE S.A.S.<br>Guyancourt (France)<br>Held by Sogefi Suspensions France S.A.                                                                         | Euro     | 11,500,000    | 22,000,000       | 95.65  | 0.5                 | 11,000,000                     |
| ALLEVARD IAI SUSPENSIONS Pvt Ltd<br>Pune (India)<br>Held by Sogefi Suspensions France S.A.                                                                      | INR      | 352,000,000   | 26,128,606       | 74.23  | 10                  | 261,286,060                    |
| LUHN & PULVERMACHER - DITTMANN & NEUHAUS GmbH<br>Hagen (Germany)<br>Held by Sogefi PC Suspensions Germany GmbH                                                  | Euro     | 50,000        |                  | 100    | 50,000              | 50,000                         |

\* The company changed name from Sogefi Federn GmbH to Sogefi PC Suspensions Germany GmbH (on 1 October 2016, it had already changed name from Allevard Federn GmbH to Sogefi Federn GmbH) on 13 December 2016.

\*\* The company changed name from Allevard Rejna Argentina SA to Sogefi Suspension Argentina S.A. on 9 June 2016.

\*\*\* Effective as from 15 January 2017, the company changed name from Allevard Molas do Brasil Ltda to Sogefi Suspension Brasil Ltda.

## EQUITY INVESTMENTS IN SUBSIDIARIES CONSOLIDATED USING THE EQUITY METHOD

| <b>Indirect equity investments</b>                                                                                        | Currency | Share capital | Number of shares | % held | Par value per share | Par value of the interest held |
|---------------------------------------------------------------------------------------------------------------------------|----------|---------------|------------------|--------|---------------------|--------------------------------|
| MARK IV ASSET (Shanghai)<br>AUTO PARTS Co., Ltd<br>Shanghai (China)<br>Held by Sogefi Engine Systems<br>Hong Kong Limited | RMB      | 10,000,000    | 1                | 50     |                     | 5,000,000                      |

## EQUITY INVESTMENTS IN OTHER COMPANIES CARRIED AT COST

| <b>Indirect equity investments</b>                                      | Currency | Share capital | Number of shares | % held | Par value per share | Par value of the interest held |
|-------------------------------------------------------------------------|----------|---------------|------------------|--------|---------------------|--------------------------------|
| AFICO FILTERS S.A.E.<br>Il Cairo (Egypt)<br>Held by Sogefi Italy S.p.A. | EGP      | 14,000,000    | 24,880           | 17.77  | 100                 | 2,488,000                      |

***CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT  
ART. 81-TER OF CONSOB RESOLUTION No. 11971 OF MAY 14, 1999  
AND SUBSEQUENT MODIFICATIONS AND INTEGRATIONS***

**1. The undersigned:**

Laurent Hebenstreit – Chief Executive Officer of Sogefi S.p.A.

Yann Albrand – Manager responsible for preparing Sogefi S.p.A.’s financial reports hereby certify having also taken into consideration the provisions of Article 154-bis, paragraph 3 and 4, of Italian Legislative Decree n. 58 of February 24, 1998, that:

- are adequate with respect to the company structure and
- have been effectively applied the administrative and accounting procedures for the preparation of the consolidated financial statements for the 2016 fiscal year.

**2. No relevant aspects are to be reported on this subject.**

**3. It is also certified that:**

**3.1 the consolidated financial statements at December 31, 2016:**

- have been prepared in accordance with international accounting standards as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and of the Council of July 19, 2002;
- correspond to the books and accounting records;
- provide a true and fair representation of the financial position, result of operations and cash flow of the issuer and the companies included in the scope of consolidation.

**3.2 The report on operations includes a reliable analysis of the performance and result of operations and also the position of the issuer and the companies included in the scope of consolidation together with all principle risks and uncertainties that the Group is exposed.**

Milan, February 27, 2017

Signed by  
Chief Executive Officer  
  
Laurent Hebenstreit

Signed by  
Manager responsible for preparing  
financial report  
Yann Albrand

## **SOGEFI S.p.A.**

*Company subject to management and coordination of Cir S.p.A.*

### **REPORT OF THE BOARD OF STATUTORY AUDITORS PURSUANT TO ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE NO. 58/1998**

To the Shareholders' Meeting of SOGEFI S.p.A.

During the financial year closed at 31 December 2016, we carried out our supervisory activity as required by law and the Articles of Association, in accordance with the Rules of Conduct for the Board of Statutory Auditors recommended by the Italian Council of Accountants and the Corporate Governance Code issued by the Corporate Governance Committee of Borsa Italiana S.p.A., and hereby report on such activity. This report was drawn up following the recommendations set out in Consob Communication no. 1025564 of 6 April 2001 as amended.

As regards the methods employed to perform our duties during the period under consideration, we report as follows:

- we attended the Shareholders' Meetings and Board of Directors meetings held during the period under consideration and obtained timely and adequate information on operations and their outlook, as well as on significant operational, financial and equity-related operations conducted by the Company and subsidiaries within the Group, as required by Italian law and the Articles of Association; all meetings of the Control and Risk Committee and of the Appointment and Remuneration Committee were attended by one or more members of the Board of Statutory Auditors;
- we obtained the necessary information to perform our tasks and determine compliance with Italian law and the Articles of Association, proper governance principles, adequacy of the Company's organisational structure, internal control system and of the administration-accounting system, by direct investigation, collection of information from the heads of the involved departments and sharing of data and significant information with the appointed Independent Auditors;
- under art. 19 of Italian Legislative Decree no. 39/2010, our activities in our capacity as Internal Control and Audit Committee addressed the following issues: a) financial reporting process; b) effectiveness of internal control and of risk and internal audit management systems; c) statutory audits of annual and consolidated accounts; and d) independence of the Independent Auditors; these activities were conducted by direct investigation, collection of information from the heads of the involved departments, and analysis of the results of the Independent Auditors' work;
- we examined the results of the quarterly audits of accounts as to ensure proper accounting by the Independent Auditors;
- we obtained the Reports provided for by art. 14 and art. 19, sub-paragraph 3 of Italian Legislative Decree no. 39/2010 from the Independent Auditors; specifically, we discussed the content of the Report provided for by art. 19, sub-paragraph 3, and no material aspects emerged;
- pursuant to art. 17, sub-par. 9, letter a) of Italian Legislative Decree no. 39/2010, the Independent Auditors submitted their annual Statement of Independence, a disclosure of any additional, non-audit services provided to SOGEFI S.p.A. and the Group by the Independent Auditors or its affiliates for our examination;

- pursuant to art. 17, sub-par. 9, letter b) of Italian Legislative Decree no. 39/2010, we analysed the risk associated with the independence of the Independent Auditors and the measures they take to reduce such risk;
- we monitored the performance of the system used to control subsidiaries and the adequacy of the directions given to them, also under art. 114, sub-paragraph 2 of Italian Legislative Decree no. 58/1998;
- we monitored the actual methods used to implement the corporate governance rules set out in the Corporate Governance Code issued by Borsa Italiana S.p.A., as adopted by the Company;
- we determined whether the Organization, Management and Control Model as per Italian Legislative Decree no. 231/2001 as amended had been updated to comply with the expanded scope of the aforementioned Decree;
- pursuant to art. 4, sub-par. 6 of the Regulation approved by Consob Resolution no. 17221 of 12 March 2010, we monitored compliance with the Discipline for related-party transactions approved by the Board of Directors;
- we ensured that no significant issues existed that the controlling bodies of SOGEFI S.p.A.'s subsidiaries should have disclosed;
- we determined compliance with law provisions and regulations concerning the preparation, layout and statements of the statutory and consolidated financial statements as well as their accompanying documents. We also determined that the Report on Operations complied with the law and regulations in force and was consistent with the resolutions of the Board of Directors;
- we ascertained the adequacy, in terms of method, of the impairment test process implemented to identify the presence of any impairment loss on assets entered to the financial statements subject to impairment test;
- we determined that the Board of Directors had properly implemented the verification criteria and procedures to assess the independence of its members, based on the statements made by the Directors and the opinions issued by the Board of Directors.

After completing our audit and monitoring activities as outlined above, we did not identify any significant events which should have been reported to the Supervisory Authorities, nor any proposals concerning the financial statements, their approval or any other issue within our area of responsibility.

\* \* \*

Outlined below is the information specifically required by the aforementioned Consob Communication of 6 April 2001 as amended.

- We collected adequate information on significant operational, financial and equity-related operations conducted by SOGEFI S.p.A. and its subsidiaries and established their compliance with Italian law and the Articles of Association; the Directors provided adequate disclosure on such transactions in the Report on Operations; we also obtained information on and assurance that the transactions resolved and carried out were not manifestly imprudent, risky, in conflict with Shareholders' Meeting resolutions or in potential conflict of interest with them or, in any case, of such a nature as to jeopardise integrity of corporate assets.

- We obtained adequate information on intercompany and related party transactions. Based on obtained information, we determined that such transactions complied with Italian law and the Articles of Association, satisfied the interest of the company and raised no doubts as to their accurate, exhaustive disclosure in the financial statements, the existence of any conflict-of-interest situations, the protection of corporate assets and of non-controlling shareholders; periodic audits and inspections carried out at the Company's premises did not identify any atypical and/or unusual transactions.
- The Directors provided adequate disclosures on key transactions, as well as on the dealings between SOGEFI S.p.A., Group companies and/or related parties in the Report on Operations and in the Notes, and stated that such dealings had been conducted at arm's length, taking into account the quality and type of services rendered; such dealings mainly consisted in the provision of administrative and financial services, including the management of the Group's centralised treasury and interest debiting and crediting, as well as management support and communication services and use of the Group's information system SAP; in addition, SOGEFI S.P.A. made use of administrative, financial, fiscal and corporate services provided by the Parent Company CIR S.p.A. and joined the Group tax filing system; appropriate financial details were provided and the impact on the statement of financial position was adequately described in the documents accompanying the 2016 statutory financial statements.
- The Independent Auditors Deloitte & Touche S.p.A. issued their Audit Reports under art. 14 of Italian Legislative Decree no. 39/2010 on the statutory and consolidated financial statements as at 31 December 2016. These reports included the auditors' opinion on consistency as provided for by art. 14, sub-par. 2, letter e) of Italian Legislative Decree no. 39/2010 and art. 123 *bis* of Italian Legislative Decree no. 58/1998, without any disclosure observations or statements.
- During the year, a complaint was lodged with the Board of Statutory Auditors under paragraph 1 of art. 2408 of Italian Civil Code concerning a petition filed with Consob by a shareholder. The Board investigated the matter and found that the complaint was ungrounded.
- During the year 2016, SOGEFI S.p.A. engaged the Independent Auditors to perform certain certifications after due inspection - in addition to its auditing services - for a consideration of Euro 1.000. During the same period, the subsidiaries of SOGEFI S.p.A. engaged entities affiliated with the Independent Auditors to perform other services for a consideration of Euro 45.000.  
The amounts paid were found to be adequate consideration for the scope and complexity of the services rendered and were not deemed liable to affect the independence and discretion of the auditors in performing their auditing tasks.
- During the year under consideration, we gave advice pursuant to article 2389 of Italian Civil Code.
- The following meetings were held during the year 2016: 8 Board of Directors meetings, 6 Control and Risk Committee meetings, 2 Appointment and Remuneration Committee meetings; and 8 Statutory Board of Directors meetings.
- Proper governance principles seemed to have been implemented consistently, and the organizational structure was found to be adequate to meet the requirements for operations management and control.
- The internal control system seemed to be adequate to the size and management style of the Company, as was confirmed during the meetings of the Control and Risk Committee, which were attended by the Chairman of the Statutory Board of Auditors

(or by a Statutory Auditor appointed by the Chairman) as provided for by corporate governance rules. In addition, the Group's Chief Internal Auditing Officer and Internal Control Officer under the Corporate Governance Code issued by the Corporate Governance Committee for listed companies acted as a liaison and provided the necessary information on the methods adopted to perform his duties and the results of his audits, among other things by attending some meetings of the Statutory Board of Auditors.

- There are no observations to be made as to the adequacy of the administrative/accounting system and its ability to provide a reliable view of operations; with regard to the disclosures in the statutory and consolidated financial statements as at 31 December 2016, the Managing Director and the Manager responsible for preparing the Company's financial reports under art. 154-*bis*, subparagraph 5 of Italian Legislative Decree 58/1998 and art. 81-*ter* of Consob Regulation no. 11971 of 14 May 1999, as subsequently amended, issued their relevant statements.
- There are no observations to be made on the adequacy of information flows from subsidiaries to the Holding Company aimed at ensuring timely compliance with disclosure obligations under Italian law.
- During the periodic exchange of data and information between the Board of Statutory Auditors and the Auditors, among other things under art. 150, subparagraph 3 of Italian Legislative Decree no. 58/1998, no issues were found that would need to be disclosed in this report.
- The Company substantially followed the recommendations contained in the Corporate Governance Code drafted by the Corporate Governance Committee for listed companies and described its corporate governance model in the relevant Report, which was prepared among other things under art. 123-*bis* of Italian Legislative Decree no. 58/1998. Within the limits of our responsibility, we monitored the actual methods used to implement the corporate governance rules set out in the above mentioned Corporate Governance Code, as adopted by the Company, and ensured that the findings of the Board's periodic assessment of Statutory Auditors' compliance with the independence requirements according to the same criteria applicable to Independent Directors under the aforementioned Corporate Governance Code had been included in the Corporate Governance Report of SOGEFI S.p.A.. In compliance with Italian Legislative Decree no. 231/2001, the Company adopted, implemented and maintained up-to-date an "Organizational Model" that governs its behavior and business conduct and set up a Supervisory Body as provided for by the Decree. The Company also adopted a Code of Ethics.
- Our auditing and monitoring activities took place during the year 2016 in the normal course of business and identified no material omissions, reprehensible facts and/or anomalies to be reported.
- After the appointment of the new Independent Auditor, we drafted our Proposal separately on 31 January 2017 and the Directors called the Shareholders' Meeting to resolve on it, also pursuant to art. 19 sect. 1 letter f) of the amended Italian Legislative Decree no. 39/2010.

After completing our audit and monitoring activities, we have no proposals concerning the statutory financial statements as at 31 December 2016, their approval or any other issue within our area of responsibility pursuant to article 153, paragraph 2 of Italian Legislative Decree 58/1998, nor any remarks on the proposed allocation of the profit for the year submitted by the Board of Directors for approval.

We thank you for your trust.

Milan, 29 March 2017

**The Board of Statutory Auditors**

Riccardo Zingales (Chairman of the Board of Statutory Auditors)

Giuseppe Leoni (Acting Auditor)

Claudia Stefanoni (Acting Auditor)

## INDEPENDENT AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

### To the Shareholders of SOGEFI S.p.A.

#### Report on the Consolidated Financial Statements

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

#### *Management's Responsibility for the Consolidated Financial Statements*

The Directors are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/05.

#### *Auditor's 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) issued pursuant to art. 11 of Italian Legislative Decree 39/10. 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 procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 that give a true and fair view of consolidated financial statements 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 Sogefi Group as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/05.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Verona

Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.

Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239 | Partita IVA: IT 03049560166

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## Report on Other Legal and Regulatory Requirements

*Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the consolidated financial statements*

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of Sogefi S.p.A., with the consolidated financial statements of the Sogefi Group as at December 31, 2016. In our opinion the report on operations and the information included in the report on corporate governance referred to above are consistent with the consolidated financial statements of the Sogefi Group as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by  
**Massimiliano Semprini**  
Partner

Milan, Italy  
March 29, 2017

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