

**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 salaires</i>	994	524
Imputed cost of stock option and stock grant plans	248	642
Other costs	212	332
<b>TOTAL</b>	<b>302,451</b>	<b>299,151</b>

“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 salaires*” 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
<b>TOTAL</b>	<b>6,182</b>	<b>6,731</b>

### *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.