GEFRAN GROUP

ANNUAL FINANCIAL REPORT

AT 31 DECEMBER 2016

GEFRAN

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TABLE OF CONTENTS

NOTICE OF ORDINARY SHAREHOLDERS' MEETING

GEFRAN S.p.A.
Share capital 14,400,000 fully paid-up
Registered offices in Via Statale Sebina 74, Provaglio d'Iseo (BS), Italy
Tax code and Brescia Trade Register No. 03032420170

NOTICE OF ANNUAL GENERAL MEETING

The Ordinary Shareholders' Meeting will be held at the registered office of GEFRAN S.p.A., in Via Statale Sebina 74, Provaglio d'Iseo (BS), at 5 p.m. on 20 April 2017 (first call), and if necessary, at the same time and place on 21 April 2017 (second call), to discuss and resolve on the following

AGENDA

1. Annual financial statements for the year ending 31 December 2016.

1.1. Approval of the annual financial statements for the year ending 31 December 2016; reports of the Board of Directors, Board of Statutory Auditors and External Auditors.

1.2. Approval of the distribution of dividends.

2. Appointment of the Board of Directors.

2.1 determination of the number of members of the Board of Directors;
2.2 appointment of the directors;
2.3 determination of the duration of the office;
2.4 determination of the annual fee of the members of the Board of Directors.

3. General Group Remuneration Policy. Consultation on the first section of the Remuneration Report pursuant to subsection 6, art. 123-ter, of Legislative Decree no. 58/1998.

4. Revoking of the previous authorisation to buy and sell own shares and release of new authorisation.

5. Completion of the Board of Statutory Auditors following the resignation of a Standing Auditor.

On behalf of the Board of Directors
The Chairman **Ennio Franceschetti**

ANNUAL FINANCIAL REPORT AT 31 DECEMBER 2016

GEFRAN

1. CORPORATE BODIES

Board of Directors

Chairman and Chief Executive Officer	Ennio Franceschetti
Chief Executive Officer	Maria Chiara Franceschetti
Deputy Chairman	Romano Gallus
Director	Marco Mario Agliati (*)
Director	Andrea Franceschetti
Director	Giovanna Franceschetti
Director	Daniele Piccolo (*)
Director	Monica Vecchiati (*)
Director	Cesare Giovanni Vecchio (*)

Board of Statutory Auditors

Chairman	Marco Gregorini
Standing Auditor	Primo Ceppellini
Standing Auditor	Maria Alessandra Zunino de Pignier
Deputy Auditor	Guido Ballerio
Deputy Auditor	Rossella Rinaldi

Internal Control Committee

- Cesare Giovanni Vecchio
- Marco Mario Agliati
- Monica Vecchiati

Remuneration Committee

- Romano Gallus
- Daniele Piccolo
- Cesare Giovanni Vecchio

External auditor

PricewaterhouseCoopers S.p.A.

On 21 April 2016, the ordinary shareholders' meeting of Gefran S.p.A. engaged auditing firm PricewaterhouseCoopers S.p.A. to audit the separate annual financial statements of Gefran S.p.A., as well as the consolidated annual and interim financial statements of the Gefran Group for a period of nine years until the approval of the financial statements for 2024, in accordance with Italian Legislative Decree 39/2010.

(*) Independent directors pursuant to the Consolidated Law on Finance (TUF) and the Code of Conduct

The Board of Directors in office comprises nine members, in accordance with the resolution of the Ordinary Shareholders' Meeting of 29 April 2014, which also appointed the members of the Company's management body, described at the beginning of this section. The entire Board will remain in office until the approval of the 2016 financial statements.

Pursuant to Article 19 of the Articles of Association, the Board of Directors is vested with the widest powers for the ordinary and extraordinary management of the Company, without limitation and therefore with the power to carry out all acts considered necessary to implement and achieve the corporate purpose, excluding only those strictly reserved by law to the Shareholders' Meeting. In particular, the Board is exclusively responsible for, among other things, examining and approving strategic, business and financial plans, and the Group's structure; the Board also oversees operating performance, and pays particular attention to possible conflicts of interest.

The Chairman of the Board of Directors is the legal representative of the Company, pursuant to Article 21 of the Articles of Association. In its meeting of 29 April 2014, the Board of Directors granted Chairman Ennio Franceschetti powers of ordinary and extraordinary management of the Company, excluding those reserved to the Board of Directors, that is those assigned elsewhere by law or by the Articles of Association, with the recommendation that the entire Board should be involved from the outset in decisions of particular importance, and also that sufficient information should be provided on any other operations undertaken. The Board also conferred powers of legal representation and broad powers on Chief Executive Officer Maria Chiara Franceschetti.

The Board of Directors met 6 times in 2016.

Control and Risks Committee

The Committee is tasked with supporting, by conducting the appropriate preliminary work, the assessments and decisions of the Board of Directors in relation to the internal control and risk management system, as well as those relating to the approval of interim and annual financial reports. In its meeting of 29 April 2014, the Board of Directors appointed the members of the committee, as set out above.

The Committee met five times in 2016.

Remuneration Committee

The Committee submits proposals or expresses opinions to the Board of Directors on the remuneration of executive directors, other directors with special duties and managers with strategic responsibilities, and sets performance objectives associated with the variable component of their remuneration; it also monitors the application of the decisions adopted by the Board, checking in particular that the performance objectives are actually achieved. In its meeting of 29 April 2014, the Board of Directors appointed new members of the committee, as set out on page 10.

Board of Statutory Auditors

Pursuant to Article 28 of the Articles of Association, the Board of Statutory Auditors comprises three standing auditors and two deputy auditors, who shall remain in office for three years and may be re-elected. The current Board of Statutory Auditors was appointed by the Shareholders' Meeting of 29 April 2015 for three years, until the approval of the 2017 annual financial statements.

The Board of Statutory Auditors is tasked with monitoring compliance with the law and the memorandum of association, proper management of the Company and the appropriateness of the internal control system. It also attends Board of Directors' meetings and Shareholders' Meetings.

The Board of Statutory Auditors met thirteen times in 2016.

Management and coordination activities

Gefran S.p.A. is not subject to management and coordination pursuant to Article 2497 et seq. of the Civil Code, since the following indicators that the Company may be subject to the management and control of others are non-existent:

- the preparation of Group business, strategic and financial plans and budgets by the parent company;
- the issuing of directives pertaining to finance and credit policy;
- the centralisation of functions such as treasury, administration, finance and control;
- the defining of Group growth strategies, the strategic and market positioning of the Group and individual companies, especially if the policy guidelines are likely to influence and determine their actual implementation by Company management.

2. ALTERNATIVE PERFORMANCE INDICATORS

In addition to the conventional financial tables and indicators required under IFRS, this document includes restated tables and alternative performance indicators. These are intended to allow a better assessment of the Group's economic and financial management. However, these tables and indicators must not be considered as a substitute for those required under the IFRS.

Specifically, the alternative indicators used in the notes to the income statement are:

- **Added value**: the direct margin resulting from revenues, including only direct material, gross of other production costs, such as personnel costs, services and other sundry costs;
- **EBITDA**: operating result before depreciation, amortisation and write-downs. The purpose of this indicator is to present the Group's operating profitability before the main non-monetary items;
- **EBIT**: operating result before financial operations and taxes. The purpose of this indicator is to present the Group's operating profitability.

Alternative indicators used in the notes to the statement of financial position are:

- **Net fixed assets**: the algebraic sum of the following items in the statement of financial position:

  - Goodwill
  - Intangible assets
  - Property, plant, machinery and tools
  - Equity investments valued at equity
  - Equity investments in other companies
  - Receivables and other non-current assets
  - Deferred tax assets
- **Operating capital**: the algebraic sum of the following items in the statement of financial position:
  - Inventories
  - Trade receivables
  - Trade payables
  - Other assets
  - Tax receivables
  - Current provisions
  - Tax payables
  - Other liabilities
- **Net invested capital**: the algebraic sum of fixed assets, operating capital and provisions;
- **Net debt**: the algebraic sum of the following items:
  - Medium-to-long-term financial payables
  - Short-term financial payables
  - Financial liabilities for derivatives
  - Financial assets for derivatives
  - Cash and cash equivalents and short-term financial receivables

3. GEFRAN GROUP ACTIVITIES

The Gefran Group operates in three main business areas: industrial sensors, automation components and drives for the electronic control of electric motors.

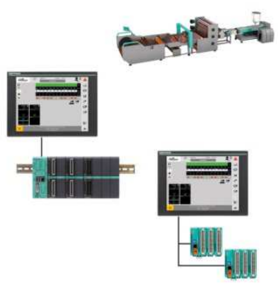
The Group offers a complete range of products and tailored turnkey solutions in numerous automation sectors. 71% of its revenues are generated abroad.

Sensors

The Sensors business offers a complete range of products for measuring four physical parameters of position, pressure, force and temperature - which are used in many industrial sectors.

Gefran stands out for its technological leadership. It produces primary components internally and boasts a comprehensive product range that is unique worldwide. In certain product families, Gefran is world leader. The sensors business generates two thirds of its revenues abroad.

Automation components



The electronic automation components business is divided along three product lines: instrumentation, power controllers and automation platforms (operator interfaces, PLCs and I/O modules). These components are widely used in the control of industrial processes. As well as supplying products, Gefran offers its customers the possibility of designing and supplying tailored turnkey automation solutions through a close strategic partnership during the design and production stages.

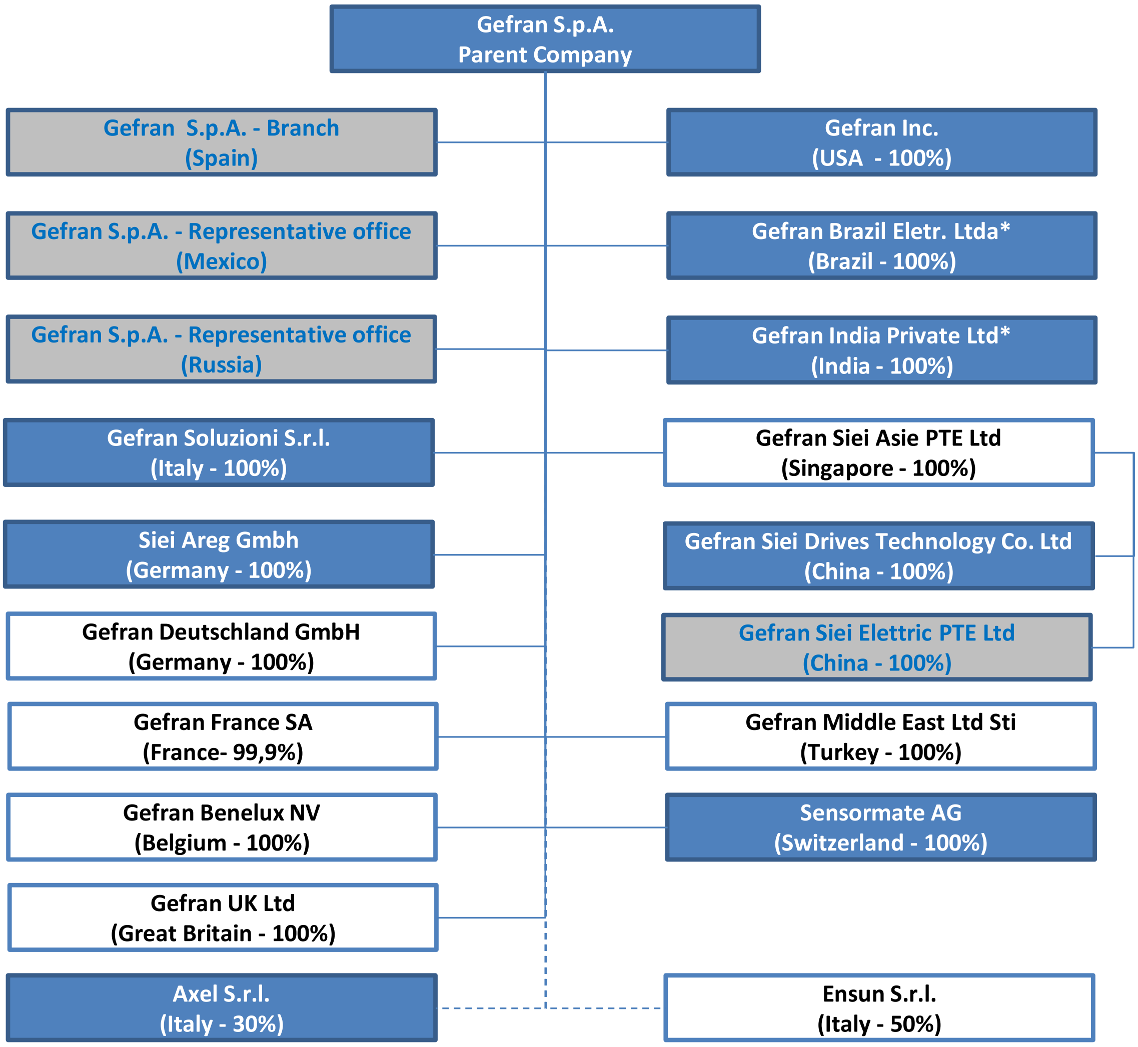
Gefran sets itself apart with its expertise in hardware and software acquired in over thirty years of experience. Gefran is one of the main Italian manufacturers in these product lines, and generates around half of its sales through exports.

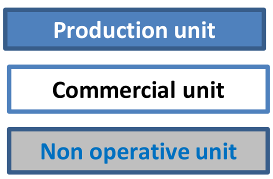
Drives

The drives business develops products and solutions to regulate speed and control AC, DC and brushless electric motors. Products (inverters, armature converters and servodrives) guarantee maximum performance in terms of system precision and dynamics. These products are used in a variety of applications, including lift control, cranes, metal rolling lines, and in paper, plastics, glass and metal processing.

Through the integration of advanced capabilities and flexible hardware and software configurations, Gefran provides advantageous solutions for customers and target markets, optimising both technology and costs. The drives business generates 72% of its revenues abroad.

4. STRUCTURE OF THE GEFRAN GROUP





(*) Gefran India e Gefran Brazil indirectly through Gefran UK

5. BREAKDOWN OF THE MAIN ACTIVITIES AMONG GROUP COMPANIES

Company	Production of sensors	Production of automation components	Production of drives	Central services	Sales
Gefran S.p.A.	×	×	×	×	×
Gefran Soluzioni S.r.l.		×			×
Gefran Inc	×				×
Gefran France SA					×
Gefran Deutschland GmbH					×
Gefran Brasil Eletr. Ltda		×			×
Gefran UK Ltd					×
Gefran Benelux NV					×
Gefran Siei Asia PTE Ltd				×	×
Gefran Siei Drives Technology Co Ltd	×		×		×
Gefran Siei Electric PTE Ltd					×
Gefran India Private Ltd			×		×
Siei Areg GmbH			×		×
Gefran Middle East Ltd Sti					×
Sensormate AG	×				×
Ensun S.r.l.				×	×
Axel S.r.l.		×			×

A brief description of Gefran S.p.A. and Gefran Group subsidiaries included in the scope of consolidation, with their main characteristics as of 31 December 2016, is provided below.

The Parent Company **Gefran S.p.A.** with registered offices in Provaglio di Iseo (BS), Italy. Three divisions are placed within Gefran S.p.A.: sensors, automation components and drives, the sales division for the whole Group and central support functions, such as purchasing, logistics, administration, finance, control, legal, public relations, IT systems and human resources.

Gefran Soluzioni S.r.l., with registered offices in Provaglio d'Iseo (BS), is a 100% direct subsidiary of the Parent Company; it was established in April 2015 by the spin-off of the company branch of Gefran S.p.A., and is involved in the design and production of systems and panels for industrial automation. During 2016, Gefran Solutions saw its scope increase thanks to the transfer of the activities relating to programmable automation from the Parent Company Gefran S.p.A..

Gefran Inc., with registered office in Charlotte (NC), USA, is a 100% direct subsidiary of the Parent Company; it operates a manufacturing site in Winchester (MA), where the melt sensors are manufactured. Gefran Inc. is the second largest producer of melt sensors in the US. It directly sells its own products in North America, along with the products of the sensors and automation components businesses of the Gefran Group.

Gefran France S.A., based in Lyon, France, is a 99.9%-owned direct subsidiary of the Parent Company. It sells the products of the sensors and automation components businesses of the Gefran Group in France.

Gefran Brasil Eletroelectronica Ltda, based on Sao Paulo, Brazil, is 99.9% owned by the Parent Company, with the remaining 0.1% controlled indirectly through Gefran UK. Gefran Brasil sells the sensor and automation component products, and produces regulators and solid state relays for the local market.

Gefran Deutschland GmbH, based in Seligenstadt, Germany, is a 100%-owned subsidiary of the Parent Company. Gefran Deutschland is dedicated to selling automation sensors and components in Germany, Europe's largest market for equipment manufacturers.

Gefran Benelux NV, with registered offices in Geel, Belgium, is a 100%-owned direct subsidiary of the Parent Company. In addition to the Gefran sensors and components, it also sells dedicated systems for the oil installations sector.

Sensormate AG, with registered offices in Aadorf, Switzerland, is a 100%-owned direct subsidiary of the Parent Company; it took on its current form in 2014, after incorporating Gefran Suisse S.A. It produces strategically important load cells and sensors, which complete the Group's offer in the business. It sells the entire Gefran product range in Switzerland.

Gefran UK Ltd., with registered offices in Uxbridge, UK, is a 100%-owned direct subsidiary of the Parent Company. Gefran UK focuses on the sale of sensors and components for automation in the United Kingdom.

Siei Areg GmbH, based in Pleidelsheim, Germany, is 100% owned by the Parent Company. The company produces and sells small-scale electric motors with integrated drives. It also sells drives business products in Germany and Northern European countries.

Gefran Siei Asia Pte Ltd, based in Singapore, is 100% owned by the Parent Company and sees to the distribution of Gefran products in South-East Asia.

Gefran Siei Drives Technology Co Ltd, based in Shanghai (China), is 100% owned by Gefran Siei Asia, and indirectly by Gefran S.p.A.. It has assembled low-powered drives since 2004 for the lift market, and since 2009, it has produced a line of sensors, mainly for the local market.

Gefran Siei Electric Pte Ltd, based in Shanghai (China), is 100% owned by Gefran Siei Asia, and indirectly by Gefran S.p.A.. The company has been in liquidation since the beginning of 2009.

Gefran India Private Ltd, based in Pune (India), is 95% owned directly by the Parent Company, with the remaining 5% controlled indirectly through Gefran UK. The company distributes Gefran products in India. It has carried out the assembly of drive business products for the Indian lifting market since 2016.

Gefran Middle East elektrik ve elektronik san. Ve Tic. Ltd. Şti, based in Istanbul (Turkey) and 100% owned by the Parent Company, was established in October 2013 to sell the full range of Gefran products in Turkey.

The main associates as of 31 December 2016 are as follows:

Ensun S.r.l., based in Brescia, is 50% owned by Gefran S.p.A.. The company operates in the renewable energy sector, particularly in the photovoltaic systems management business.

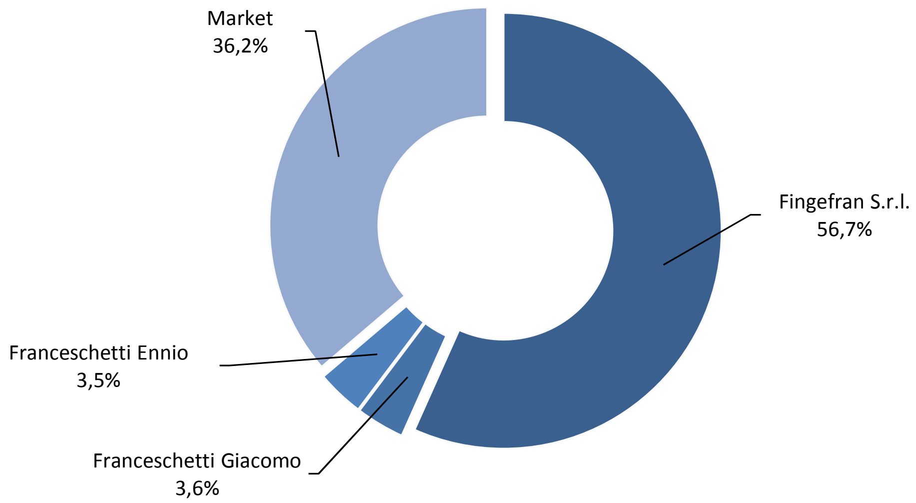
Axel S.r.l., based in Dandolo (VA), produces and sells application software for industrial automation, of which Gefran acquired a 30% stake in 2013.

6. SHAREHOLDERS AND STOCK PERFORMANCE

On 31 December 2016, the subscribed and paid-up share capital was EUR 14,400,000.00, divided into 14,400,000 ordinary shares, with a nominal value of EUR 1.00 per share. No further financial instruments have been issued.

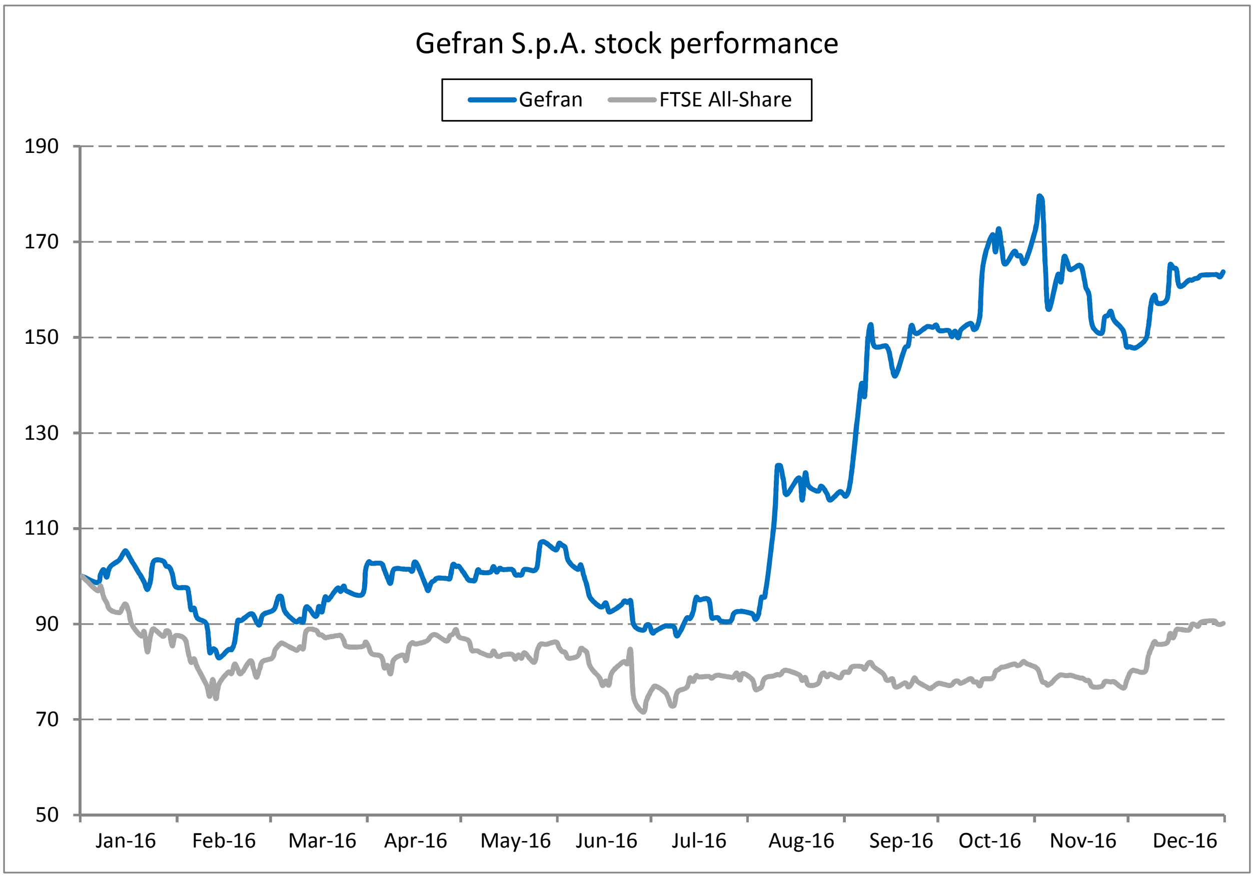
STRUCTURE OF SHARE CAPITAL				
Type of shares	No. of shares	% of share capital	Listed	Rights and obligations
Ordinary shares	14,400,000	100	STAR	ordinary

Gefran S.p.A. shareholder structure

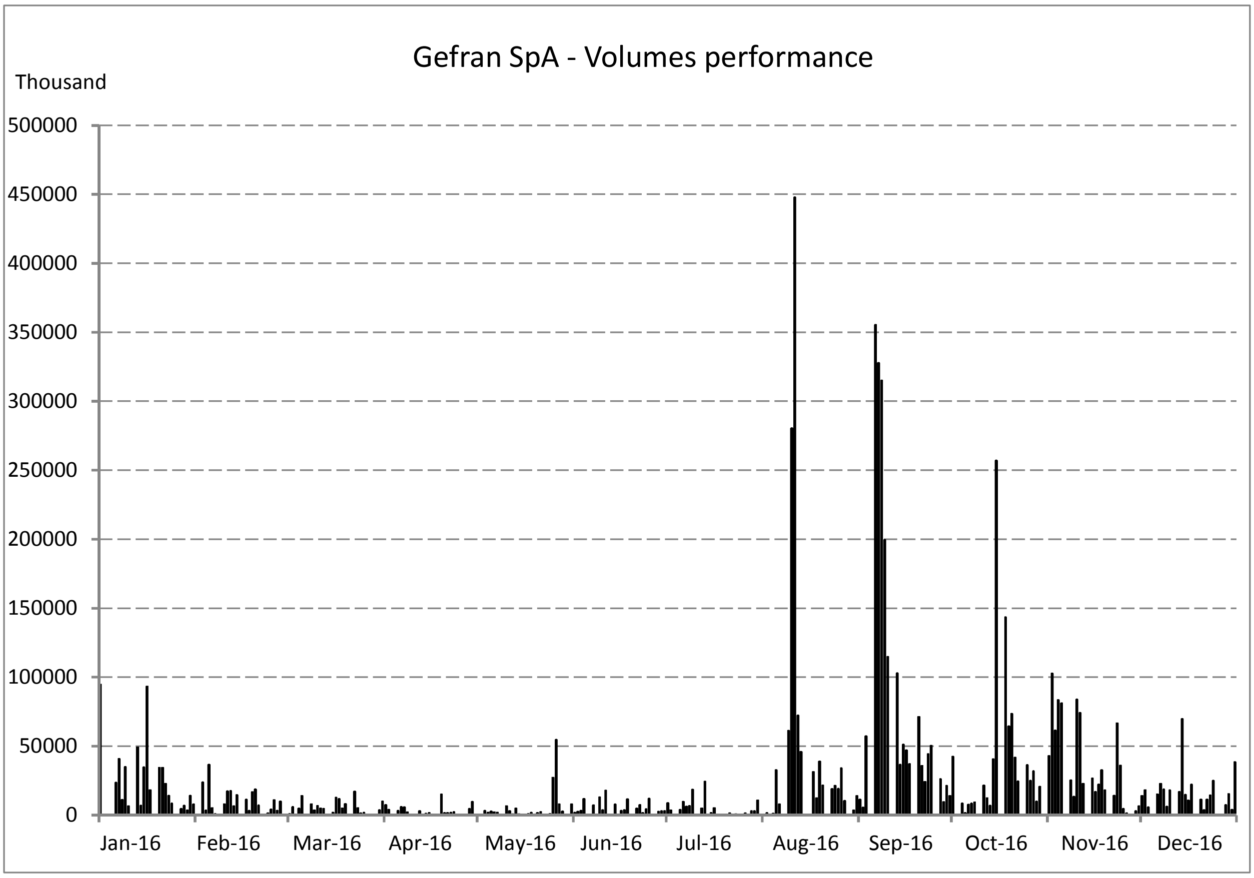


Gefran S.p.A. has been listed on the Italian Stock Exchange since 9 June 1998, and since 2001, it has been part of the FTSE Italia STAR segment, dedicated to companies with small and medium-sized capitalisations that meet specific requirements relating to transparency, liquidity and corporate governance.

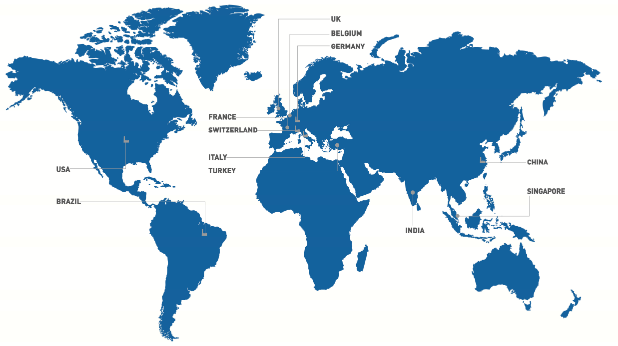
The Gefran stock registered a positive performance compared with both 2015 and with respect to the reference index, with a year-on-year increase in its value of 63.71% to EUR 2.824 per share (drop of 42.69% in 2015).



Minimum value (12 February): Euro 1.430 – Max value (12 March): Euro 3.098 – Average price: Euro 2.037



7. SUMMARY OF GROUP PERFORMANCE



2016 closed for the Gefran Group with revenues of EUR 119,330 thousand, up 3.4% compared with the previous year. The trend in revenues by geographic area saw positive results in all the strategic areas for the Group, with particular mention for Italy (+3.9% equal to EUR 1,319 thousand) and the European Union (+6.3% equal to EUR 1,965 thousand).

Growth from a business standpoint was also satisfactory: +6.6% for automation components, +5.1% sensors and +0.2% for drives.

New orders during the year came to EUR 120,819 thousand, an improvement of 3.2% compared to the figure in 2015, while the backlog was EUR 17,155 thousand and exceeds the 31 December 2015 figure by more than 11 percentage points.

The plan for the reorganisation of the internal processes concluded during 2016, making the structure more efficient, and leading to a decrease in the number of employees and the related cost, as well as a minor use of resources under the form of services and operating costs.

In February, a mobility procedure was formally opened in Gefran S.p.A. for a total of 55 employees. The reorganisation was completed in December 2016, with the identification of all the redundancies who did not oppose their laying off. In order to support the plan, the welfare support system of the "extraordinary unemployment benefits fund" was activated, for the period between April and December 2016.

The EBITDA stood at 9.5% of revenues and the EBIT at 4.3%; both ratios were negatively influenced by the impact of the non-recurring components, for EUR 1,189 thousand, and without which they would have been 10.5% and 5.3% of revenues respectively.

Net financial debt amounted to EUR 12,918 thousand, an improvement of EUR 11,960 thousand compared to the figure at 31 December 2015, thanks to the return to profitability of the Group as well as the reduction of the working capital, also as an percentage incidence on revenues.

On 21 March 2016, negotiations were completed on the sale of the company branch involved in the distribution of automation sensors and components in Spain/Portugal, sold to a Spanish distributor who had been a former customer of Gefran, for a gross payment of EUR 650 thousand.

On 5 August 2016, Gefran signed the final agreement for the sale of the activities of the photovoltaic sector to an Indian company. According to the terms of the agreement, the know-how for producing and selling string inverters, the leading Gefran product for the photovoltaic sector was transferred, via licence agreement, for a fee of EUR 400 thousand plus royalties for each product sold. A purchase option is also envisaged for the other products which make up the Gefran range in the photovoltaic sector at an additional price of EUR 800 thousand, to be exercised within 4 months of the receipt of the materials forming the subject matter of the agreement in India.

8. KEY CONSOLIDATED INCOME STATEMENT AND STATEMENT OF FINANCIAL POSITION FIGURES

The amounts shown below only refer to continuing operations, unless otherwise specified.

Group income statement highlights

(EUR /000)	31 December 2016		31 December 2015		4Q 2016		4Q 2015	
Revenues	119,330	100.0%	115,352	100.0%	30,763	100.0%	28,728	100.0%
Gross operating margin (EBITDA)	11,324	9.5%	5,681	4.9%	3,727	12.1%	2,421	8.4%
Earnings before interest and taxes (EBIT)	5,115	4.3%	(630)	-0.5%	2,192	7.1%	838	2.9%
Profit (loss) before tax	4,297	3.6%	(1,634)	-1.4%	2,359	7.7%	971	3.4%
Result from operating activities	3,462	2.9%	(4,582)	-4.0%	2,947	9.6%	(641)	-2.2%
Profit (loss) from assets held for sale	486	0.4%	(187)	-0.2%	0	0.0%	0	0.0%
Group net profit (loss)	3,948	3.3%	(4,769)	-4.1%	2,947	9.6%	(641)	-2.2%

Group income statement highlights, excluding non-recurring components

(EUR /000)	31 December 2016		31 December 2015		4Q 2016		4Q 2015	
Revenues	118,655	100.0%	115,352	100.0%	30,609	100.0%	28,728	100.0%
Gross operating margin (EBITDA)	12,513	10.5%	5,681	4.9%	3,398	11.1%	2,421	8.4%
Earnings before interest and taxes (EBIT)	6,304	5.3%	(630)	-0.5%	1,863	6.1%	838	2.9%
Profit (loss) before tax	5,486	4.6%	(1,634)	-1.4%	2,030	6.6%	971	3.4%
Result from operating activities	4,651	3.9%	(4,582)	-4.0%	2,618	8.6%	(641)	-2.2%
Profit (loss) from assets held for sale	486	0.4%	(187)	-0.2%	0	0.0%	0	0.0%
Group net profit (loss)	5,137	4.3%	(4,769)	-4.1%	2,618	8.6%	(641)	-2.2%

Group statement of financial position highlights

(EUR /000)	31 December 2016	31 December 2015
Invested capital from operations	78,612	86,508
Net working capital	35,754	40,166
Shareholders' equity	66,908	62,984
Net financial position	(12,918)	(24,878)
Operating cash flow	15,449	7,285
Investments	2,965	4,733

9. GROUP BUSINESS PERFORMANCE IN THE FOURTH QUARTER OF 2016

	(EUR /000)	4Q 2016 Excl. non rec.	4Q 2016 Comp. non rec.	4Q 2016 Final	4Q 2015 Excl. non rec.	4Q 2015 Comp. non rec.	4Q 2015 Final	Change 2016-2015 Value Excl. non rec.	Change 2016-2015 %
a	Revenues	30,609	(154)	30,763	28,728		28,728	1,881	6.5%
b	Increases for internal work	240		240	390		390	(150)	38.5%
c	Consumption of materials and products	11,245		11,245	10,475		10,475	770	7.4%
d	Added Value (a+b-c)	19,604	(154)	19,758	18,643		18,643	961	5.2%
e	Other operating costs	5,173		5,173	5,887		5,887	(714)	12.1%
f	Personnel costs	11,033	175	10,858	10,335		10,335	698	6.8%
g	Gross operating margin - EBITDA (d-e-f)	3,398	(329)	3,727	2,421		2,421	977	40.4%
h	Depreciation, amortisation and impairments	1,535		1,535	1,583		1,583	(48)	3.0%
i	EBIT (g-h)	1,863	(329)	2,192	838		838	1,025	122.3%
l	Gains (losses) from financial assets/liabilities	177		177	140		140	37	26.4%
m	Gains (losses) from shareholdings valued at equity	(10)		(10)	(7)		(7)	(3)	42.9%
n	Profit (loss) before tax (i±l±m)	2,030	(329)	2,359	971		971	1,059	109.1%
o	Taxes	588		588	(1,612)		(1,612)	2,200	136.5%
p	Result from operating activities (n±o)	2,618	(329)	2,947	(641)		(641)	3,259	508.4%
q	Profit (loss) from assets held for sale	0		0	0		0	0	
r	Group net profit (loss) (p±q)	2,618	(329)	2,947	(641)		(641)	3,259	508.4%

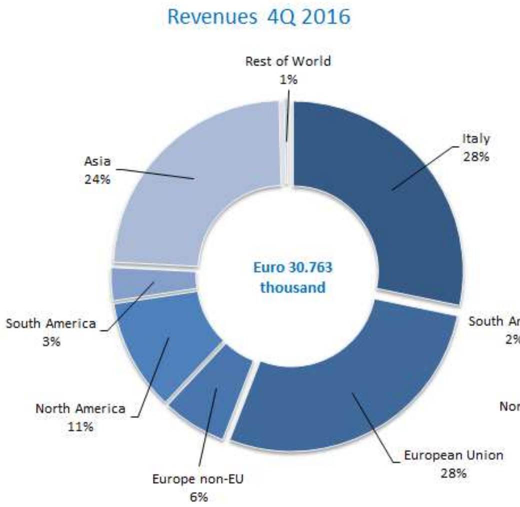
For the fourth quarter of 2016, **revenues** were EUR 30,763 thousand, an increase of EUR 2,035 thousand or 7.1% on the same period in 2015, thanks to the positive results registered in all the geographic areas the Group operates in, with the exception of the decreases reported in the Rest of the World. Revenues for the fourth quarter of 2015 included government grants recorded by the Chinese branch, equal to EUR 154 thousand, relating to incentives for research and development granted to technology companies; net of these grants, the growth in the quarter came to 6.5% compared with the fourth quarter in 2015.

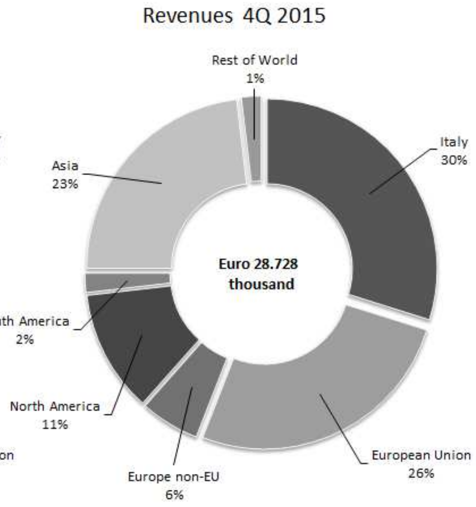
New orders in the fourth quarter rose by around 10% compared with the orders in the fourth quarter of 2015.

The table below shows a breakdown of revenues by geographic region:

(EUR /000)	4Q 2016 value	4Q 2016 %	4Q 2015 value	4Q 2015 %	Change 2016-2015 value	Change 2016-2015 %
Italy	8,689	28.2%	8,572	29.8%	117	1.4%
European Union	8,506	27.7%	7,499	26.1%	1,007	13.4%
Non-EU Europe	1,884	6.1%	1,615	5.6%	269	16.7%
North America	3,266	10.6%	3,338	11.6%	(72)	-2.2%
South America	969	3.1%	524	1.8%	445	84.9%
Asia	7,332	23.8%	6,639	23.1%	693	10.4%
Rest of the World	117	0.4%	541	1.9%	(424)	-78.4%
Total	**30,763**	**100.0%**	**28,728**	**100.0%**	**2,035**	**7.1%**

The breakdown **by geographic region** shows significant growth in the European Union (+13.4% compared with the fourth quarter of 2015), non-EU Europe (+16.7%), South America (+84.9%) and Asia (10.4%); Italy was also positive, with an increase of 1.4% compared with the same period in 2015, while North America and the rest of the World were down.





The table below summarises the results by business area in the fourth quarter of 2016 and shows a comparison with the same period in the previous year:

(EUR /000)	4Q 2016					4Q 2015				
	Revenues	EBITDA	% of revenues	EBIT	% of revenues	Revenues	EBITDA	% of revenues	EBIT	% of revenues
Sensors	13,011	3,473	26.7%	2,908	22.4%	11,428	3,213	28.1%	2,671	23.4%
Automation components	8,301	985	11.9%	543	6.5%	7,625	334	4.4%	(157)	-2.1%
Drives	10,306	(731)	-7.1%	(1,259)	-12.2%	10,256	(1,126)	-11.0%	(1,676)	-16.3%
Eliminations	(855)					(581)				
Total	30,763	3,727	12.1%	2,192	7.1%	28,728	2,421	8.4%	838	2.9%

The breakdown of the **revenues by business area**, as in the third quarter of the year, discloses growth with respect to the same period in 2015 which affected all the businesses, amounting respectively to EUR 1,583 thousand (+13.9%) for sensors, EUR 676 thousand (+8.9%) for automation components and EUR 50 thousand (+0.5%) for drives.

The **added value** in the fourth quarter discloses an incidence of 64.2% on revenues, down by 0.7 percent with respect to the fourth quarter of 2015, as a result of the decrease in the capitalisations of costs for research and development and the simultaneous growth in provisions for inventory write-down. Net of this, the margin achieved on sales came to 67.2%, an improvement of 2.9% on the fourth quarter of 2015. In absolute terms, the added value discloses growth of EUR 1,115 thousand compared to the same period last year, guided by the growth in volumes which generated added value for EUR 1,397 thousand and by the improvements in the margins which have a positive effect for Euro 843 thousand, partly offset by the inventory write-downs, greater for EUR 945 thousand, and by the capitalisations, lower for EUR 150 thousand.

Added value in the fourth quarter of 2015 included the non-recurring income from government incentives granted to the Chinese branch; stripping out this income, added value was EUR 19,604 thousand (64.0% of revenues).

Other **operating costs** came in at EUR 5,173 thousand in the fourth quarter of 2016 (EUR 5,887 thousand in the same period of 2015), a decrease of EUR 714 thousand (12.1%) compared with the fourth quarter of 2015. This saving was obtained thanks to the greater efficiency further to the reorganisation of the Group’s processes. As a percentage of revenues, these costs in fact fell from 20.5% in the fourth quarter of 2015 to the current 16.8%.

Personnel **costs** in the fourth quarter of 2016 amounted to Euro 10,858 thousand and represented 35.3% of revenues, an improvement with respect to the same period in 2015 of 0.7 percentage points.

Personnel costs in the fourth quarter of 2016 include non-recurrent components relating to reorganisation transactions positive overall for EUR 175 thousand, made up of charges for the reorganisation in the French branch, EUR 96 thousand, and the release of the reserve linked to the closure of the Parent Company reorganisation procedure, EUR 272 thousand. Excluding these components, labour costs for the fourth quarter of 2016 came to EUR 11,033 thousand.

EBITDA in the fourth quarter was EUR 3,727 thousand (EUR 2,421 thousand in the fourth quarter of 2015) and was equal to 12.1% of revenues (8.4% in 2015), up therefore by EUR 1,306 thousand compared with the fourth quarter of 2015, mainly due to the increase in revenues and savings achieved on the operating costs.

Excluding the non-recurring components, EBITDA for the fourth quarter of 2016 was EUR 3,398 thousand (equivalent to 11.1% of revenues).

EBIT was positive at EUR 2,192 thousand in the fourth quarter of 2016, compared with EUR 838 thousand in the same period of 2015.

EBIT for the fourth quarter of 2016, excluding the aforementioned positive non-recurring components of EUR 329 thousand, amounted to EUR 1,863 thousand.

The net financial income totalled EUR 177 thousand in the fourth quarter of 2016, compared with net financial income of EUR 140 thousand in the same period of 2015. It includes financial charges relating to Group debt of EUR 178 thousand, financial income of EUR 168 thousand and the positive balance of EUR 187 thousand resulting from differences deriving from foreign currency transactions (this was again a positive amount of EUR 396 thousand in the fourth quarter of 2015).

Losses from investments **valued at equity were EUR 10 thousand** (EUR 7 thousand in the fourth quarter of 2015), and mainly relate to the negative pro-rata result of the Ensun S.r.l. Group.

Taxes were positive for EUR 588 thousand in the fourth quarter of 2016, compared with a negative figure of EUR 1,612 thousand in the same period of the previous year. They comprise negative current taxes of EUR 513 thousand (EUR 666 thousand in the fourth quarter of 2015), attributable mainly to the Parent Company, and positive deferred taxes amounting to EUR 1,101 thousand (negative for EUR 946 thousand in the fourth quarter of 2015), originating mainly from the recording of deferred tax assets on previous tax losses pertaining to the Parent Company Gefran S.p.A., further to the up-dating of the estimates on recoverability of the same based on the new three-year plan.

The result from operating activities in the fourth quarter of 2016 was positive for EUR 2,947 thousand, compared with a negative figure of EUR 641 thousand in the fourth quarter of 2015.

Excluding all non-recurring components, the result from operating activities was positive for EUR 2,618 thousand in the fourth quarter of 2016.

Group net profit was EUR 2,947 thousand, compared with a loss of EUR 641 thousand in the same period of 2015.

Excluding the non-recurring components, the result for the fourth quarter of 2016 was positive for EUR 2,618 thousand.

10. GROUP PERFORMANCE TO 31 DECEMBER 2016

The main income statement items and comments are shown below.

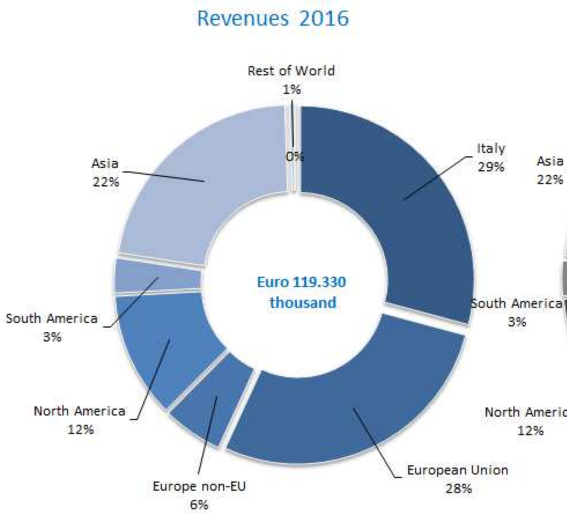
	(EUR /000)	31 December 2016			31 December 2015			Change 2016-2015	
		Excl. non rec.	Comp. non rec.	Final	Excl. non rec.	Comp. non rec.	Final	Value Excl. non rec.	%
a	Revenues	118,655	(675)	119,330	115,352		115,352	3,303	2.9%
b	Increases for internal work	1,119		1,119	1,749		1,749	(630)	36.0%
c	Consumption of materials and products	41,726		41,726	39,306		39,306	2,420	6.2%
d	Added Value (a+b-c)	78,048	(675)	78,723	77,795		77,795	253	0.3%
e	Other operating costs	22,052		22,052	25,801		25,801	(3,749)	14.5%
f	Personnel costs	43,483	(1,864)	45,347	46,313		46,313	(2,830)	6.1%
g	Gross operating margin - EBITDA (d-e-f)	12,513	1,189	11,324	5,681		5,681	6,832	120.3%
h	Depreciation, amortisation and impairments	6,209		6,209	6,311		6,311	(102)	1.6%
i	EBIT (g-h)	6,304	1,189	5,115	(630)		(630)	6,934	1100.6%
l	Gains (losses) from financial assets/liabilities	(823)		(823)	(1,123)		(1,123)	300	26.7%
m	Gains (losses) from shareholdings valued at equity	5		5	119		119	(114)	95.8%
n	Profit (loss) before tax (i±l±m)	5,486	1,189	4,297	(1,634)		(1,634)	7,120	435.7%
o	Taxes	(835)		(835)	(2,948)		(2,948)	2,113	71.7%
p	Result from operating activities (n±o)	4,651	1,189	3,462	(4,582)		(4,582)	9,233	201.5%
q	Profit (loss) from assets held for sale	486		486	(187)		(187)	673	359.9%
r	Group net profit (loss) (p±q)	5,137	1,189	3,948	(4,769)		(4,769)	9,906	207.7%

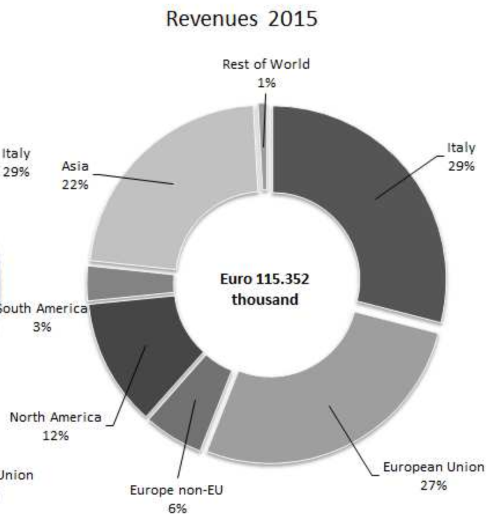
Revenues at 31 December 2016 came to EUR 119,330 thousand, compared with EUR 115,352 thousand in 2015. Revenues in 2016 included EUR 675 thousand for non-recurring amounts resulting from government grants awarded to the Chinese subsidiary and relating to incentives for research and development granted to technology companies. Excluding these components, the growth in revenues came to EUR 3,303 thousand and was more significant in the European area, Italy included.

New orders during the year rose by around 6% from the figure in the same period of 2015, and the order book also rose by around 25% compared with the end of December 2015.

The table below shows a breakdown of revenues by geographic region:

(EUR /000)	31 December 2016		31 December 2015		Change 2016-2015	
	value	%	value	%	value	%
Italy	34,794	29.2%	33,475	29.0%	1,319	3.9%
European Union	33,065	27.7%	31,100	27.0%	1,965	6.3%
Non-EU Europe	6,672	5.6%	6,412	5.6%	260	4.1%
North America	13,929	11.7%	13,679	11.9%	250	1.8%
South America	3,883	3.3%	3,755	3.3%	128	3.4%
Asia	26,377	22.1%	25,960	22.5%	417	1.6%
Rest of the World	610	0.5%	971	0.8%	(361)	-37.2%
Total	**119,330**	**100.0%**	**115,352**	**100.0%**	**3,978**	**3.4%**





The breakdown of revenues by **geographic region** shows widespread growth in all the areas strategic for the Group: those seen in Italy were significant (+3.9%), as were those in the European Union (+6.3%) and non-EU Europe (+4.1%). The area of South America was also satisfactory (+3.4%), up despite the continuation of the crisis in Brazil and the unfavourable performance of the Brazilian Real compared with the Euro.

Growth was seen in revenues in Asia equal to 1.6% compared with 2015, thanks to a very positive fourth quarter of the year (+10.4% compared with the fourth quarter of 2015). This took place despite the sales being influenced negatively by the dynamics of the exchange rate of the Chinese Renminbi compared with the Euro, which had an overall influence for Euro 756 thousand on revenues for the year and net of which the recovery would have been even more significant.

Results by business area to 31 December 2016 and a comparison with the previous year are shown below.

(EUR /000)	31 December 2016					31 December 2015				
	Revenues	EBITDA	% of revenues	EBIT	% of revenues	Revenues	EBITDA	% of revenues	EBIT	% of revenues
Sensors	50,069	13,390	26.7%	11,152	22.3%	47,630	11,949	25.1%	9,837	20.7%
Automation components	32,435	2,401	7.4%	577	1.8%	30,432	388	1.3%	(1,632)	-5.4%
Drives	40,217	(4,467)	-11.1%	(6,614)	-16.4%	40,134	(6,656)	-16.6%	(8,835)	-22.0%
Eliminations	(3,391)					(2,844)				
Total	119,330	11,324	9.5%	5,115	4.3%	115,352	5,681	4.9%	(630)	-0.5%

The breakdown of **revenues by business area** shows growth in all Group businesses. The sensors business saw growth in revenues of EUR 2,439 thousand (+5.1%) compared with 2015, thanks to the positive performances of the families of contactless transducers, force transducers and potentiometers. Automation components disclosed revenues on the up for EUR 2,003 thousand (+6.6% compared with 2015), reporting significant growth in particular in the power control categories. Revenues for the drives business were essentially in line with the previous year (+0.2%) and include the government grants mentioned above for EUR 675 thousand.

Increases due to internal work at 31 December 2016 came to EUR 1,119 thousand, compared with EUR 1,749 thousand at 31 December 2015. The item mainly relates to the portion of development costs incurred in the period and capitalised, in accordance with IFRS standards.

Added value was EUR 78,723 thousand at 31 December 2016 (EUR 77,795 thousand at 31 December 2015), equivalent to 66.0% of revenues (67.4% in 2015). Growth of EUR 928 thousand in added value compared with the previous year was obtained thanks to the rise in volumes for EUR 2,665 and the improvement in the margins achieved on sales for EUR 609 thousand, partly offset by a significant increase in the write-down of the inventory for EUR 1,716 thousand and the reduction in the capitalisations for research and development for EUR 630 thousand.

Stripping out non-recurring components, which were overall positive for EUR 675 thousand at 31 December 2016, added value was EUR 78,048 thousand (65.8% of revenues), compared with EUR 77,795 thousand at in 2015.

Other operating costs totalled EUR 22,052 thousand at 31 December 2016 (EUR 25,801 thousand at 31 December 2015), a decrease of EUR 3,749 thousand (-14.5%) compared with 2015. This saving was generated by the efficiency obtained further to the reorganisation of the Group’s processes and in particular that of Gefran S.p.A.. The incidence of operating costs on revenues fell from 22.4% in 2015 to 18.5% in the current year.

Personnel costs were EUR 45,347 thousand at 31 December 2016 (38.0% of revenues), compared with EUR 46,313 thousand as at 31 December 2015 (40.1% of revenues); the reduction in the period of EUR 966 thousand reflects the positive effect of the significant reorganisation of the Group subsidiaries and the same Gefran S.p.A.. The benefits of the transaction in as early as 2016 exceed the non-recurring restructuring costs, borne by Gefran S.p.A. for winding-up the Spanish branch (EUR 192 thousand), the opening of a procedure for redundancies of 55 employees in the Italian factories (EUR 1,428 thousand) and the German, Chinese and French branches (EUR 244 thousand).

Not including these non-recurring components, amounting to a total negative amount of EUR 1,864 thousand, personnel costs amounted to EUR 43,483 thousand (36.6% of revenues), down EUR 2,830 thousand compared to 2015.

EBITDA presented a positive balance of EUR 11,324 thousand in 2016 (EUR 5,681 thousand at 31 December 2015), and represented 9.5% of revenues (4.9% in 2015), up with respect to 2015 by EUR 5,643 thousand in absolute value and 4.6 percentage points. The rise is attributable to the combined effect of a reduction in operating costs (EUR 3,749 thousand), the decrease in personnel costs (EUR 966 thousand) and the improvement in the added value, linked as described above to the increase in volumes and margins (EUR 928 thousand).

Excluding the afore-mentioned non-recurring components, negative overall and amounting to EUR 1,189 thousand, EBITDA amounted to EUR 12,513 thousand (10.5% of revenues), up compared to the 2015 figure of EUR 6,832 thousand in absolute value and 5.6% of revenues.

The item amortisation, depreciation and write-downs as at 31 December 2016 comes to EUR 6,209 thousand, compared with EUR 6,311 thousand at 31 December 2015.

EBIT was positive at EUR 5,115 thousand as of 31 December 2016 (4.3% of revenues), compared with a negative EBIT of EUR 630 thousand in December 2015.

Excluding the non-recurring components, negative and amounting to EUR 1,189 thousand, the operating result for 2016 amounted to EUR 6,304 thousand (5.3% of revenues), up compared to the 2015 figure of EUR 6,934 thousand. The EBIT performance mirrored the dynamics of the EBITDA performance.

Charges **from financial assets/liabilities** at 31 December 2016 were EUR 823 thousand (EUR 1,123 thousand at 31 December 2015) and include:

- financial income of EUR 239 thousand (EUR 162 thousand at 31 December 2015);

- financial charges, mainly relating to Group debt of EUR 829 thousand (EUR 1,319 thousand in 2015), down thanks to the downsizing of medium-/long-term debt;
- differences on foreign currency transactions were a negative EUR 234 thousand, compared with a positive figure of EUR 152 thousand in 2015.

Gains from investments valued at equity were EUR 5 thousand, a decrease of EUR 119 thousand compared with the figure in 2015. This increase mainly relates to the pro-rata result of the Ensun S.r.l. Group.

Current and deferred tax assets and liabilities were negative for a total of EUR 835 thousand at 31 December 2016, compared with a negative figure of EUR 2,948 thousand in 2015. They comprise negative current taxes for EUR 2,080 thousand, up EUR 399 thousand compared with 2015, attributable mainly to the recognition of Ires and Irap taxable amounts in the Parent Company, and positive deferred taxes amounting to EUR 1,245 thousand originating mainly with regard to Gefran S.p.A. for the recognition of deferred tax assets calculated on previous tax losses, further to the up-dating of the estimates on recoverability of the same based on the three-year plan for the period 2017-2019.

The **result from operating activities** as at 31 December 2016 was positive and amounted to EUR 3,462 thousand, compared with a negative figure of EUR 4,582 thousand in 2015.

Excluding all non-recurring components, the result from operating activities was positive and amounted to EUR 4,651 thousand, an improvement of EUR 9,233 thousand compared with 2015 and with an incidence on revenues of 3.9%.

The **loss from assets held for sale** was EUR 486 thousand at 31 December 2016. This includes the result from the sale of the business segment relating to the distribution of sensors and components in Spain/Portugal to a Spanish distributor for EUR 486 thousand and the net effect of the stipulation of the sales agreement for the licence for the production and sale of string inverters to an Indian group. Specifically, this income, deriving from the transfer of the licence, amounts to EUR 400 thousand but is recorded net of the costs incurred by Gefran for the transfer, which at 31 December 2016 were estimated as EUR 400 thousand: the net effect is therefore nil. The figure compares with the negative result of EUR 187 thousand in 2015, which by contrast includes the net operating result of the photovoltaic business.

The **Group net profit** was EUR 3,948 thousand in 2016, compared with a net loss of EUR 4,769 thousand in 2015, disclosing an improvement of EUR 8,717 thousand.

Excluding the impact of the non-recurring components, the Group net result was a profit of EUR 5,137 thousand, disclosing an improvement on 2015 of EUR 9,906 thousand.

11. RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

The reclassified consolidated statement of financial position of the Gefran Group at 31 December 2016 is shown below.

GEFRAN GROUP	31 December 2016		31 December 2015	
(EUR /000)	value	%	value	%
Intangible assets	14,353	18.0	15,126	17.2
Tangible assets	36,931	46.3	39,389	44.8
Financial assets	10,176	12.7	8,611	9.8
Net fixed assets	61,460	77.0	63,126	71.8
Inventories	21,589	27.0	22,674	25.8
Trade receivables	30,745	38.5	34,023	38.7
Trade payables	(16,580)	(20.8)	(16,531)	(18.8)
Other assets/liabilities	(9,925)	(12.4)	(8,655)	(9.9)
Working capital	25,829	32.4	31,511	35.9
Provisions for risks and future liabilities	(2,460)	(3.1)	(1,856)	(2.1)
Deferred tax provisions	(1,005)	(1.3)	(868)	(1.0)
Employee benefits	(5,212)	(6.5)	(5,405)	(6.2)
Invested capital from operations	78,612	98.5	86,508	98.5
Invested capital from assets held for sale	1,214	1.5	1,354	1.5
Net invested capital	**79,826**	**100.0**	**87,862**	**100.0**
Shareholders' equity	66,908	83.8	62,984	71.7
Non-current financial payables	16,045	20.1	10,879	12.4
Current financial payables	17,134	21.5	38,352	43.7
Financial liabilities for derivatives	220	0.3	274	0.3
Financial assets for derivatives	(4)	(0.0)	(25)	(0.0)
Cash on hand and current financial receivables	(20,477)	(25.7)	(24,602)	(28.0)
Net debt relating to operations	12,918	16.2	24,878	28.3
Total sources of financing	**79,826**	**100.0**	**87,862**	**100.0**

Net **non-current assets** at 31 December 2016 were EUR 61,460 thousand, compared with EUR 63,126 thousand at 31 December 2015. The main changes were as follows:

- intangible assets registered an overall decrease of EUR 773 thousand. This includes increases for new investments (EUR 351 thousand), the capitalisation of development costs (EUR 1,048 thousand), as well as decreases due to amortisation for the period (EUR 2,344 thousand) and positive exchange rate effects on goodwill and other intangible assets (EUR 172 thousand);
- tangible assets decreased by EUR 2,458 thousand compared with 31 December 2015. Depreciation totalled EUR 3,865 thousand, in addition to which there were net decreases for disposals (EUR 101 thousand) and negative exchange rate differences (EUR 58 thousand), partly offset by investments for the period (EUR 1,566 thousand);
- long-term financial assets totalled EUR 10,176 thousand at 31 December 2016 (EUR 8,611 thousand at 31 December 2015), an increase of EUR 1,565 thousand. This change is essentially attributable to the increase in deferred tax assets for EUR 1,371 thousand, of which EUR 1,469 thousand for the recognition of tax losses whose recovery is envisaged within the next three years. Equity investments in other companies and those valued at equity registered minor increases for EUR 194 thousand in total.

Operating **capital** was EUR 25,829 thousand at 31 December 2016, compared with EUR 31,511 thousand at 31 December 2015, disclosing an overall decrease of EUR 5,682 thousand. The main changes were as follows:

- inventories fell from EUR 22,674 thousand at 31 December 2015 to EUR 21,589 thousand at 31 December 2016. The decrease of EUR 1,085 thousand is mainly attributable to the significant amounts set aside during the year to the obsolete and slow-moving inventories provision, essentially recorded to adjust the stock of raw materials for the drive business for EUR 988 thousand;
- trade receivables totalled EUR 30,745 thousand, a decrease of EUR 3,278 thousand compared to 31 December 2015, mainly owing to the reduction in the average collection days from customers, together with a decrease in the incidence of the payment delays compared with the contractual conditions;
- trade payables came to EUR 16,580 thousand and were more or less in line with the EUR 16,531 thousand at 31 December 2015.
- other net assets and liabilities, negative for EUR 9,925 thousand at 31 December 2016, were up with regard to liabilities by EUR 1,270 thousand compared to the previous year (EUR 8,655 thousand at 31 December 2015), mainly due to the incentives and the other amounts due being disbursed to the employees of the Parent Company who terminated their employment relationship with the company in December, in accordance with the reorganisation agreement agreed on with the trade union delegations.

Provisions for risks and future liabilities were EUR 2,460 thousand, an increase of EUR 604 thousand with respect to 31 December 2015. These include provisions for legal disputes in progress and miscellaneous risks. The change is due to the use of provisions made in the previous year, particularly by the Parent Company.

Shareholders' equity at 31 December 2016 came to EUR 66,908 thousand, compared with EUR 62,984 thousand at 31 December 2015. The increase was generated by the positive result of EUR 3,948 thousand in the year, though this was partially absorbed by the change in other capital reserves.

The table below shows a reconciliation between the Parent Company's shareholders' equity and operating result and those of the consolidated financial statements:

(EUR /000)	31 December 2016		31 December 2015	
	Shareholders' equity	Result for the year	Shareholders' equity	Result for the year
Parent Company shareholders' equity and operating result	**55,059**	**8,196**	**46,698**	**(1,346)**
Shareholders' equity and operating result of the consolidated companies	37,634	605	43,029	7,226
Elimination of the book value of consolidated investments	(27,887)	1,252	(29,143)	152
Goodwill	3,779	0	3,265	0
Elimination of the effects of transactions carried out between consolidated companies	(1,677)	(6,105)	(865)	(10,801)
Group share of shareholders' equity and operating result	**66,908**	**3,948**	**62,984**	**(4,769)**
Minorities' share of shareholders' equity and operating result				
Shareholders' equity and operating result	**66,908**	**3,948**	**62,984**	**(4,769)**

Net debt at 31 December 2016 amounted to EUR 12,918 thousand, disclosing an improvement of EUR 11,960 thousand compared with 31 December 2015. The composition is as follows:

(EUR /000)	**31 December 2016**	**31 December 2015**	**Changes**
Cash on hand and current financial receivables	20,477	24,602	(4,125)
Current financial payables	(17,134)	(38,352)	21,218
Financial liabilities for derivatives	(220)	(274)	54
Financial assets for derivatives	4	25	(21)
(Debt)/short-term cash and cash equivalents	**3,127**	**(13,999)**	**17,126**
Non-current financial payables	(16,045)	(10,879)	(5,166)
(Debt)/medium-/long-term cash and cash equivalents	**(16,045)**	**(10,879)**	**(5,166)**
Net financial position	**(12,918)**	**(24,878)**	**11,960**

Net debt comprises short-term financial funds of EUR 3,127 thousand and medium-/long-term debt of EUR 16,045 thousand.

With reference to short-term financial funds, the terms of the financial covenant relating to the ratio between net debt and EBITDA established in certain loan contracts had not been complied with at 31 December 2015; accordingly, the medium/long term debt relating to loans that did not comply with the terms of the above-mentioned covenant was reclassified under short term debt at 31 December 2015. The reclassified debt as at 31 December 2015 amounted to EUR 15,032 thousand.

During the second half of 2016, Gefran however formalised the waiver letters with all the banks involved, by means of which the latter had communicated the waiver of requesting early repayment. The up-dated checks on the contractual restrictions at the time of closing this Annual financial report at 31 December 2016 disclose that the ratios of all the financial covenants have been fully observed and accordingly the non-current financial payables are recorded in the financial statements according to their contractual maturity.

The change in net debt was mainly due to positive cash flows from ordinary operations (EUR 15,449 thousand), partly mitigated by the technical investments (EUR 2,984 thousand).

In detail, the 2016 short-term debt decreased with respect to 2015 by EUR 17,126 thousand; net of the short-term reclassification at the end of 2015 described above and amounting to EUR 15,032 thousand, the short-term payables improved by EUR 2,094 thousand.

Likewise, the 2016 medium/long-term debt was greater than in the previous year by EUR 5,166 thousand; net of the short-term reclassification at the end of 2015 and amounting to EUR 15,032 thousand, an improvement of EUR 9,899 thousand was reported.

12. CONSOLIDATED CASH FLOW STATEMENT

The Gefran Group's consolidated cash flow statement at 31 December 2016 shows a negative net change in cash on hand of EUR 4,125 thousand, compared with a positive change of EUR 3,870 thousand in 2015. The change was as follows:

(EUR /000)	31 December 2016	31 December 2015
A) Cash and cash equivalents at the start of the period	24,602	20,732
B) Cash flow generated by (used in) operations in the period:	15,449	7,285
C) Cash flow generated by (used in) investment activities	(2,984)	(4,636)
D) Free Cash Flow (B+C)	12,465	2,649
E) Cash flow generated by (used in) financing activities	(16,970)	765
F) Cash flow from continuing operations (D+E)	(4,505)	3,414
G) Cash flow from assets held for sale	626	0
H) Currency translation differences on cash at hand	(246)	456
I) Net change in cash at hand (F+G+H)	(4,125)	3,870
J) Cash and cash equivalents at the end of the period (A+I)	20,477	24,602

The cash flow from operations in the period came to a positive balance of EUR 15,449 thousand; specifically, operations in 2016, net of the inflow of provisions, amortisation and depreciation and financial items, generated cash of EUR 11,037 thousand, while the decrease in working capital in the same period generated a positive cash flow of EUR 4,412 thousand, mainly due to the effect of the reduction in trade receivables for EUR 3,278 thousand.

The technical investments amounted to EUR 2,965 thousand, a drop of EUR 1,768 thousand compared with the balance of EUR 4,733 thousand at 31 December 2015.

Free cash flow (operating cash flow excluding investment activities) was positive at EUR 12,465 thousand, compared with an again positive figure of EUR 2,649 thousand in 2015, an improvement therefore of EUR 9,816 thousand mainly owing to the additional flows generated by operations during the period.

The loans absorbed EUR 16,970 thousand in cash, mainly for repayment of the loan instalments falling due (EUR 11,853 thousand) and the reduction in current financial liabilities (EUR 4,199 thousand). By contrast, in 2015, lending activities contributed resources for a total of EUR 765 thousand, thanks to the taking out of new loans for EUR 18,000 thousand, net of the repayment during the period of EUR 17,791 thousand, and the increase in the short-term financing for EUR 1,002 thousand.

The cash flow from assets held for sale was a positive amount of EUR 626 thousand, due to the sale of the company branch involved in the distribution of sensors and components in Spain/Portugal, finalised on 21 March 2016.

13. INVESTMENTS

Gross **technical investments** made in 2016 amounted to EUR 2,965 thousand (EUR 4,733 thousand at 31 December 2015) and related to:

- investment in production plant and equipment for EUR 1,048 thousand in the Group's Italian plants, EUR 113 thousand and EUR 84 thousand respectively in the plants for the Brazilian and Indian subsidiaries and EUR 158 thousand in the Group's other subsidiaries;
- investments to upgrade the industrial buildings of the Parent Company, which totalled approximately EUR 163 thousand;
- the capitalisation of costs incurred in the period for new product development, totalling EUR 1,048 thousand;
- other investments in intangible assets, relating to management software licences and the development of ERP SAP, for EUR 351 thousand.

The investments are summarised below by type:

(EUR /000)	**at 31 December 2016**	**at 31 December 2015**
Intangible assets	1,399	2,463
Tangible assets	1,566	2,270
Total	2,965	4,733

Investments are summarised by individual business area below:

(EUR /000)	**Sensors**	**Components**	**Drives**	**Total**
Intangible assets	398	659	342	1,399
Tangible assets	920	389	257	1,566
Total	1,318	1,048	599	2,965

14. OPERATING ASSETS HELD FOR SALE

The operating assets held for sale include the assets related to the photovoltaic business know-how.

The economic impacts specifically attributable to the photovoltaic business in 2016 relate to the agreement for the transfer of the licence for the production and sale of string inverters to an Indian group, which led to revenues for Euro 400 thousand and costs incurred to support the sale for the same amount, with a net result equal to EUR 0 thousand. The agreement royalties have not been valorised, since tangible elements which permit pertinent valuations are not available. The impact was negative for EUR 187 thousand at 31 December 2015.

The company branch relating to the distribution of the sensors and automation components in Spain/Portugal, stated at EUR 140 thousand under assets held for sale as at 31 December 2015, was sold to a Spanish distributor on 21 March 2016, as part of the sales contract of the Group's assets in Spain/Portugal, implementing the decision by the Board of Directors to sell the aforementioned branch and the consequent winding-up of the Spanish branch.

The net result from the sale of the company branch involved in the distribution of sensors and automation components in Spain/Portugal was a positive amount of EUR 486 thousand.

15. RESULTS BY BUSINESS AREA

The following sections comment on the performance of the individual business areas.

To ensure a correct interpretation of figures relating to individual activities, it should be noted that:

- the business represents the sum of revenues and related costs both of the Parent Company Gefran S.p.A. and Group subsidiaries;
- the figures for each business are provided gross of internal trade between different businesses;
- central division costs, which pertain to Gefran S.p.A., are fully allocated to the businesses, where possible, and quantified according to actual use; otherwise, they are allocated according to economic-technical criteria.

15.1) SENSORS

Strategy

The business in 2017 will mainly be focused on growing volumes, and therefore the development of sales, with the aim of increasing market shares in traditional sectors (machines used in manufacturing plastics) and increasing presence in areas of industrial application where it has not historically been present.

The cornerstones of the growth strategy for the sensors business are:

- technological leadership to allow it to grow in mature markets;
- knowledge of industrial processes to grow in emerging markets, supported by local producers to guarantee sufficient customer service levels;
- extended range of products to tackle applications related to applications in the plastics industry;
- checking production processes and continued research on constructive solutions to obtain greater effectiveness and innovative efficiency.

Over the year, the product range was extended with the introduction of sensors dedicated to the mobile hydraulics sector. Gefran markets itself as a supplier of a complete package of sensors for those applications. More specifically, the following was developed:

- a new family of rotation sensors;
- a new family of inclination measurement sensors;
- a new family of “unravel” position sensors.

In terms of industrial processes, activity was focused on:

- completion of the introduction of proprietary thick film technology to the whole range of industrial pressure transducers;
- extension of proprietary thick film technology to the melt pressure sensors;
- optimisation of “Onda” magnetostrictive technology.

Key events

2016 was characterised by the launch of a new series of sensors for applications on the mobile hydraulics market. Pressure and linear position sensors using magnetostrictive technology were joined by rotation, inclination and unravel position sensors.

The new ranges were launched during the Bauma Munich trade fair, the leading European event in the sector.

Summary results

The key economic figures are summarised in the table below.

(EUR /000)	**31 December 2016**	**31 December 2015**	**Change 2016 Change 2015**		**4Q 2016**	**4Q 2015**	**Change 2016 Change 2015**	
			value	**%**			**value**	**%**
Revenues	**50,069**	**47,630**	2,439	5.1%	**13,011**	**11,428**	1,583	13.9%
Gross operating margin (EBITDA)	**13,390**	**11,949**	1,441	12.1%	**3,473**	**3,213**	260	8.1%
% of revenues	*26.7%*	*25.1%*			*26.7%*	*28.1%*		
Earnings before interest and taxes (EBIT)	**11,152**	**9,837**	1,315	13.4%	**2,908**	**2,671**	237	8.9%
% of revenues	*22.3%*	*20.7%*			*22.4%*	*23.4%*		

The breakdown of sensor business revenues by geographical region is as follows:

	Italy	**Europe**	**America**	**Asia**	**Rest of World**
Revenues *(€/000,000)*	10.0	18.2	9.2	12.4	0.2
% of total	20%	36%	18%	25%	0%

Business performance

The business revenues at 31 December 2016 were EUR 50,069 thousand, an increase of EUR 2,439 thousand compared with 31 December 2015. These revenues were affected by the exchange rate trend with respect to 31 December 2015, which had a negative impact of EUR 521 thousand, without which the revenues would have been greater than in 2015 by 6.2%.

Revenues by product line disclose significant growth in contactless transducers (+13.6%) and Industrial Pressure transducers (+13.2%) compared with the same period in 2015.

At 31 December 2016, there was an increase in sales in Asia (+21.5%) and in the European Union (+4.7%), while there was a significant reduction in sales in South America (-4.8%), mainly linked to the negative effect due to the exchange rate trend between the Brazilian Real and the Euro, which weighed in for 4.4%.

In the fourth quarter, sales amounted to EUR 13,011 thousand, up 13.9% compared with the same period in 2015, when it came to EUR 11,428 thousand.

EBITDA at 31 December 2016 was EUR 13,390 thousand, an increase of EUR 1,441 thousand (+12.1%) on 2015, when it was EUR 11,949 thousand. Non-recurring items were reported in 2016, linked to costs and provisions for staff restructuring, amounting to EUR 348 thousand; if these components are not considered, EBITDA was up by EUR 1,789 thousand with an increase in the margin due to the increase in the volumes and above all else the reduction in the operating management costs, obtained thanks to the reorganisation of the processes and the structure.

EBIT at 31 December 2016 was EUR 11,152 thousand, equal to 22.3% of revenues, compared to EBIT of EUR 9,387 thousand in the same period of 2015 (20.7% of revenues), with a positive change of EUR 1,315 thousand. Not including the non-recurring items recorded in 2016, EBIT improved by EUR 1,663 thousand compared with the same period in 2015.

Comparing the figures by quarter, EBIT relating to the fourth quarter of 2016 came to EUR 2,908 thousand and corresponds to 22.4% of sales, compared with EBIT of EUR 2,671 thousand in 2015.

New orders at 31 December 2016 were positive, up with respect to the same period in 2015 by EUR 4,483 thousand (of which 2,561 relating to the increases in orders in the fourth quarter), as was the backlog, also up by EUR 2,133 thousand.

Investments

The Group invested EUR 1,318 thousand in the Sensors business at 31 December 2016, which breaks down as EUR 398 thousand for investments in intangible assets, and EUR 920 thousand for investments in tangible assets.

Investments in intangible assets mainly relate to research and development into new products.

The bulk of investments in tangible assets were made in the Parent Company (EUR 734 thousand) to overhaul workshop equipment, adapt production lines in order to improve the production processes, enhance lines for the new range of products recently launched on the market and for maintenance work on the building.

15.2) AUTOMATION COMPONENTS

Strategy

The automation component business planned to launch the range of GFW 400 / 600 controllers in 2017 for high powered heat treatment applications. These activities, within the sphere of the product line known as "power control" products, forms part of the strategic framework of the business that considers heat treatment to be one of the *core* applications; with a view to this, the commercial development action concentrated on the European and North American markets continued.

Also with respect to instrumentation, there will also be the launch of a new series of 850/1650/1850 and 2850T/3850T process controllers in 2017, aimed at heat treatment applications, which will replace the previous ranges of products which are now dated, extending the characteristics with respect to regulation, programming and flexibility in the configuration and archiving.

With regard to the automation platforms, the strategy envisaged consolidation of the model already in place, where Gefran Soluzioni S.r.l. will be the vehicle for putting the platforms on the market. By joining the sales staff and technical support resources, penetration into the vertical plastic and heat treatment sectors will become more efficient thanks to the synergies between the product families. With regard to the products, 2017 will see the customisation of the PC Panels for OEM customers.

Key events

The advanced control functions for kilns and heat processes made available by the new product lines were presented in advance during the leading European automation trade fairs during 2016 (SPS/IPC/Drives in Parma and Nuremberg, HK in Cologne). All of which with the aim of increasingly satisfying the connectivity needs and those for the sharing of digital information, from an Industry 4.0 standpoint.

Summary results

The key economic figures are summarised in the table below.

(EUR /000)	**31 December 2016**	**31 December 2015**	**Change 2016-2015 value**	**%**	**4Q 2016**	**4Q 2015**	**Change 2016 Change 2015 value**	**%**
Revenues	**32,435**	**30,432**	2,003	6.6%	**8,301**	**7,625**	676	8.9%
Gross operating margin (EBITDA)	**2,401**	**388**	2,013	n.s.	**985**	**334**	651	n.s.
% of revenues	*7.4%*	*1.3%*			*11.9%*	*4.4%*		
Earnings before interest and taxes (EBIT)	**577**	**(1,632)**	2,209	n.s.	**543**	**(157)**	700	n.s.
% of revenues	*1.8%*	*-5.4%*			*6.5%*	*-2.1%*		

The breakdown of component business revenues by geographic region is as follows:

	Italy	Europe	America	Asia	Rest of World
Revenues *(€/000,000)*	16.1	8.9	4.0	3.3	0.2
% of total	50%	27%	12%	10%	0%

Business performance

Revenues totalled EUR 32,435 thousand at 31 December 2016, up by 6.6% compared with the same period in 2015. More especially, there was a positive performance in the power control family, up 29% compared to the same period of the previous year.

With regard to the breakdown by geographic area, sales on the North American market were up 30%.

The results for 2016 include non-recurring items for staff restructuring provisions of EUR 698 thousand.

EBITDA at 31 December 2016 was positive for EUR 2,401 thousand (7.4% of revenues), an improvement of EUR 2,013 thousand compared with 31 December 2015; net of the non-recurring item indicated above, 2016 EBITDA was positive for EUR 3,099 thousand (9.5% of revenues), up EUR 2,711 thousand compared to the same period last year. The improved result is attributable to both the improved added valued (growth of EUR 1,042 thousand), and the containment of the operating costs (decrease of EUR 971 thousand).

The EBIT presented a positive balance of EUR 577 thousand, an improvement with respect to the previous year of EUR 2,209 thousand; net of the already illustrated non-recurring items, EBIT was positive for EUR 1,275 thousand (1.8% of revenues) and improved EUR 2,907 thousand with respect to the same period in 2015.

In the fourth quarter of 2016, revenues were EUR 8,301 thousand, up 8.9% versus the same period of 2015. EBITDA amounted to EUR 985 thousand (11.9% of revenues) and EBIT came to EUR 543 thousand (6.5% of revenues). EBIT was positively affected by a decrease in the labour costs and the operating costs with respect to the previous quarters.

New orders at 31 December 2016 were higher than the same period last year by EUR 1,204 thousand; the backlog at 31 December 2016 came to EUR 3,447 thousand and was up EUR 511 thousand compared with the EUR 2,936 thousand in the same period in 2015.

Investments

Investment in 2016 totalled EUR 1,048 thousand and includes intangible assets (EUR 659 thousand) and tangible assets (EUR 389 thousand).

As regards investments in intangible assets, capitalised development costs totalled EUR 536 thousand in the period, and related to the new regulator and power control ranges.

Investments in tangible assets for the business were mainly made for the Italian facilities and allocated to equipment to be used for the new range of regulators and solid state relays and for building upgrading work.

15.3) DRIVES

Strategy

The drives business breaks down into three product families: drives for industrial applications, for the lifts industry and for custom applications.

The market strategies for the Gefran drives are mainly based on:

- focus on the core industrial segments;
- expansion of the market in the lifts industry.

In the industrial sector, the boost on proposals for technical/commercial solutions with high technological and application content continues. The positive results will see the growth of these solutions mainly based on high-powered inverters and regenerative power supplies.

In the non-industrial lifts sector, the strategy involves force with targeted commercial action into the European and Middle East areas and maintaining the position gained in China, where - although the estimates envisage a decrease due to the stagnation of the construction market - the market involved in revamping and replacement could provide satisfaction.

In the industrial sector, the focus on plastic is at the basis of the *corporate* solutions for “full electric” injection machines (PLC + AXV300), which will see their development particularly in the Asiatic area.

In conclusion, the strategic outlook of the business sees the metals sector as one of the core applications, and therefore a wide range of inverters is available with different power ratings and technologies dedicated to the same.

The growth achieved in 2016 in particular concerns the requests for control solutions in the sectors of Water Treatment and Industrial Ventilation (HVAC), with technical needs based essentially on again high-power energy savings configurations.

Key events

2016 saw the completion of the projects undertaken as from the end of 2015 relating to the optimisation of the costs and the improvement of the production efficiency, thus for all the products lines. These activities, besides an improvement in the margins, also permitted an increase in productivity.

Summary results

The key economic figures are summarised in the table below.

(EUR /000)	**31 December 2016**	**31 December 2015**	**Change 2016-2015 value**	**%**	**4Q 2016**	**4Q 2015**	**Change 2016 Change 2015 value**	**%**
Revenues	**40,217**	**40,134**	83	0.2%	**10,306**	**10,256**	50	0.5%
Gross operating margin (EBITDA)	**(4,467)**	**(6,656)**	2,189	n.s.	**(731)**	**(1,126)**	395	n.s.
% of revenues	*-11.1%*	*-16.6%*			*-7.1%*	*-11.0%*		
Earnings before interest and taxes (EBIT)	**(6,614)**	**(8,835)**	2,221	n.s.	**(1,259)**	**(1,676)**	417	n.s.
% of revenues	*-16.4%*	*-22.0%*			*-12.2%*	*-16.3%*		

The breakdown of revenues by geographical region is as follows:

	Italy	**Europe**	**America**	**Asia**	**Rest of World**
Revenues *(€/000,000)*	11.7	12.8	4.7	10.7	0.2
% of total	29%	32%	12%	27%	1%

Business performance

Revenues totalled EUR 40,217 thousand at 31 December 2016, in line with the 2015 figure. Revenues in the period included non-recurring components for EUR 675 thousand relating to government grants awarded to the Chinese subsidiary, by way of incentive for research and development granted to technology companies. Excluding the non-recurring item, revenues fell by EUR 592 thousand (-1.5%). This reduction is almost entirely attributable to sales dynamics of Lift family products for lift applications, in the Asian subsidiaries. The trend in new generation industrial inverters (+12.0%) and Brushless inverters (+28.5%) was by contrast positive, albeit at less significant absolute values.

Revenues for the last quarter of 2016 were in line with the last quarter of 2015 and confirm the positive trend of the last three quarters.

With regard to revenues by geographic area, at 31 December 2016 a positive trend was seen in Europe (+13.5%) and Italy (+3.6%); at the end of 2016, growth in these two areas offset the negative trend seen in Asia. Within the European market, the trend for 2016 was confirmed by the result for the fourth quarter of the year, still undergoing growth (+20.1%) with respect to the same period in 2015, joined by the optimum performance of the North American market (+8.6%).

EBITDA in 2016 was EUR 4,467 thousand (11.1% of revenues), an improvement of EUR 2,189 thousand (+32.9%) compared with the same period in 2015, when the result was negative and came to EUR 6,656 thousand. 2016 includes non-recurring components negative overall for EUR 143 thousand, made up of the afore-mentioned incentives for research and development (EUR 675 thousand) and costs for reorganisation of staff for EUR 818 thousand, mainly referring to the Parent Company Gefran S.p.A..

Net of the non-recurring items, the EBITDA improved by EUR 2,332 thousand compared with 31 December 2015, above all else thanks to the reduction in the personnel costs and the service costs, further to the reorganisation and improvement of the internal processes.

The EBIT at 31 December 2016 presented a negative balance of EUR 6,614 thousand, compared with a negative balance of EUR 8,835 thousand again in the same period of 2015. Not including the afore-mentioned non-recurring items, EBIT presented a negative balance of EUR 6,471 thousand and improved by EUR 2,364 thousand compared with the end of 2015.

New orders in 2016 decreased by 4.8% when compared with 31 December 2015.

Investments

Investments for 2016 amounted to EUR 599 thousand.

Technical investments amounted to EUR 257 thousand and were mainly dedicated to the creation of new production equipment for the Gerenzano plant and the start up of the new production line in Gefran India.

The increases in intangible assets chiefly amounted to EUR 342 thousand and mainly concerned the capitalisation of development costs for EUR 219 thousand, referring to new products for the industrial sector and Lift sector.

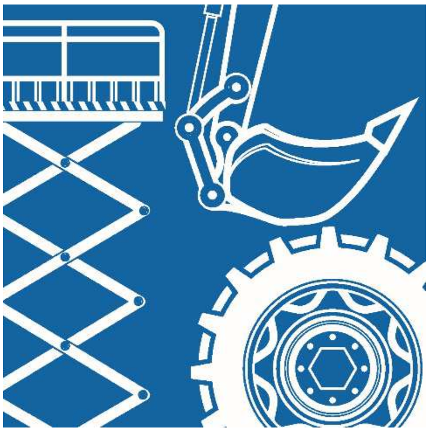
16. RESEARCH AND DEVELOPMENT

The Gefran Group invests significant financial and human resources in product research and development. About 6% of sales were invested in these activities in 2016, considered to be strategic to maintain high technological and innovative levels in the products, and to ensure the competitiveness required by the market.

Research and development is concentrated in Italy, in the laboratories in Provaglio d'Iseo and Gerenzano. It is carried out within the design department, with a separation between research and development concerning new products and production engineering targeting the improvement and innovation of existing products.

The cost of technical personnel involved in the activities, consultancy and materials used is fully charged to the income statement, except for costs capitalised for the year that meet the requirements of IAS 38. Costs identified for capitalisation according to the above requirements are indirectly suspended by a revenue entry under a specific income statement item: *"Increases for internal work"*.

In the **sensors** business, research focused on the following products:



- rotation sensors: a new family of rotation sensors has been developed with *hall* effect for applications in the mobile hydraulics market. The range includes manifold versions for safety applications. European "E1" certification was obtained, permitting the application of the products also in applications with strictly *automotive* requirements;
- inclination sensors: using sensitive *MEMS* elements, a range of inclination sensors was developed for applications in the mobile hydraulics sector, including those for earth-moving machines and aerial platforms. The range includes analogue and digital outputs and manifold versions for safety applications;
- unravel position sensors: the development of a family of position sensors has been completed, based on the unravelling of a loop of wire, used mainly even though not exclusively in vehicles that belong to the mobile hydraulic sector;
- magnetostrictive position and industrial pressure sensors with *Can Open* output: the sensors of the RK5 and KH families, already developed to meet market requirements in the mobile hydraulics sector, were completed, adding those with digital electric outputs based on the *Can Open* field bus to the possible configurations and with *CAN SAE J1939* output: the specific field bus for *automotive* applications.

In the area of **automation systems and components,** research & development activities focused on

For the instruments range:

- the development of the news series of 850, 1650 and 1850 medium-high band temperature controllers for thermal treatment applications;
- the development of the 2850T, 3850T graphic controllers with particularly advanced features and in line with the application requirements of furnaces, autoclaves, climate chambers, thermal treatments and sterilisation.

For the power controller range:

- certification was obtained for the resistance to the SCCR 100 kA short circuits required by the US market for the GTF and GFW series;
- the new ranges of GFW power controllers with current levels 400A and 600A are currently being developed to extend their use to high-power applications.

With regard to the automation platforms, the development of the Panel PC eView series was completed, which renews the range of Panel PCs.

The development activities in the **drives area** focused on *general purpose* industrial products, servodrives, wellness, Medium Voltage high power ratings and residential lifts. Specifically:

- the servodrives were improved further with regard to their main SW functions, so as to satisfy the requests for greater performances in the field of FEM plastic moulding (*full electric machine*) and textile machines. The line was presented at the K- Dusseldorf trade fair in October 2016;
- in the wellness field (*treadmills*) projects continued, dedicated at professional and home training, with a focus on energy saving;
- the development of the control of IPM motors was the focus for the *general purpose* industrial products;
- in the residential lift sector, the products were completed with the adaptations to the new mandatory safety regulations and optimisations were developed on the regenerative product specifically dedicated to the US and Canadian markets.

17. ENVIRONMENT, HEALTH AND SAFETY

"Gefran promotes sustainable growth geared towards respect for the environment and public health, developing management systems that comply with the laws in force and pursuing continuous improvement in environmental performance".

(from the Gefran Group "Code of Ethics and Conduct").

In 2016, Gefran S.p.A. continued with its commitment to promote initiatives and activities to protect the environment as a primary asset and the health and safety of all staff.

With regard to the Provaglio d'Iseo production sites, in the Via Sebina and Via Cave plants steps have been taken to define the project dedicated to the system for monitoring and optimisation of the energy consumption.

The activities subject to this monitoring include the analysis of the data relating to the main energy cost centres, the identification of any problematic aspects or malfunctioning and the proposal of possible opportunities for improvement, in particular by means of:

- a quarterly analysis of the consumption data detected by the monitoring system;
- a processing of the analysed data and identification of any problematic aspects, inefficiencies and opportunities for improvement;
- a measurement and the quantification of the savings obtained further to the technological or operational measures carried out;
- economic-financial feasibility analysis on the energy efficiency measures proposed, for the purpose of assessing projects by means of Energy Performance Contract (EPC), funding via third parties (FFT) or operational lease;
- technical-economic feasibility analysis with regard to the concessions applicable to the proposed measures.

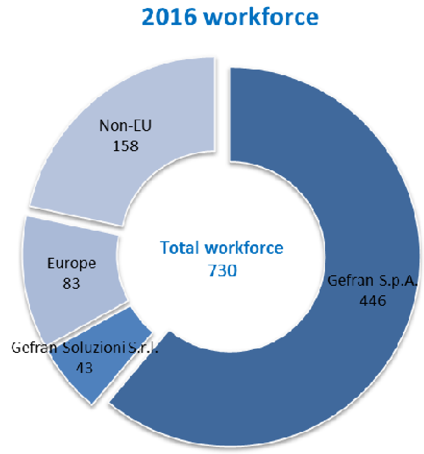
During 2016, the initiative to promote health in the workplace called "Why your heart counts" was completed, sponsored by Gefran in collaboration with the company health professional.

The commitment to carry out separate waste collection at the Group's various sites was confirmed. In Italy, once again this year the information regarding the disposal of waste and its complete independence from the services provided led to recovery of the variable portion of the solid urban waste disposal taxes.

With reference to the management and handling of hazardous waste and goods subject to A.D.R. legislation, during 2016 steps were taken to file the Appointment of the Gefran S.p.A Consultant care of the Department of Infrastructures and Transport, as well as the training of the staff involved in the handling of hazardous goods (A.D.R. procedures, handling forms, control check list).

18. HUMAN RESOURCES

Workforce

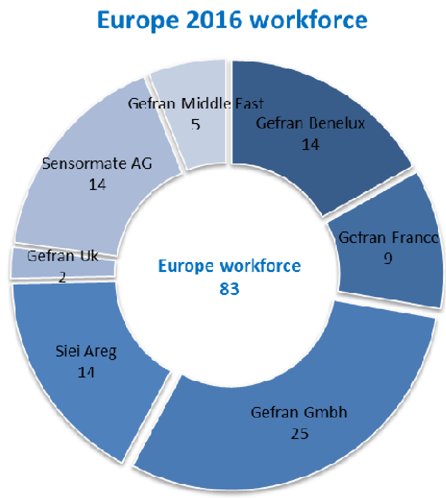


At 31 December 2016, the Group headcount was 730, 79 less compared with the previous year and 118 compared with 2014.

The change in headcount over the year was marked by an overall turnover rate within the Group of 24.5%, which breaks down as follows:

- 55 people joined the Group, including 13 manual workers, 40 clerical staff and two managers/ executives;
- 134 people left the Group, including 25 manual workers, 106 clerical staff and 3 managers/executives.

The overall turnover rate in Italy was 12.2%.

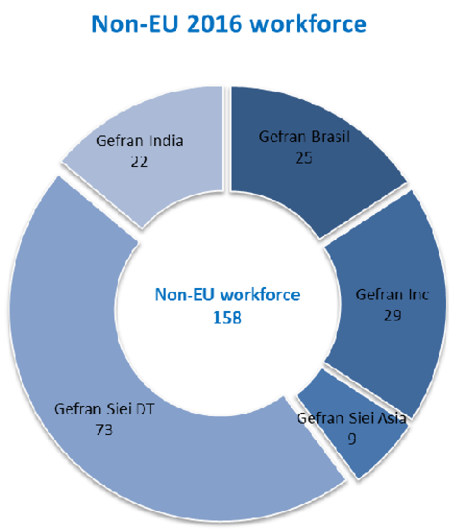


The plan for the restructuring and reorganisation of Gefran S.p.A. and the foreign subsidiaries implemented as from the second quarter of 2016 had a considerable impact on this figure.

With regard to the foreign subsidiaries, there were significant changes at Gefran Siei Asia, Gefran France, Gefran India and Sensormate, companies care of which important restructuring has been carried out, as well as care of the Spanish branch, whose activities ceased in the first half of the year.

In the other Group subsidiaries, changes in staff numbers were due to normal staff turnover as well as organisational changes made to develop skills. In particular, the traditional turnover of the staff of the production workforces of Gefran Siei Drives Technology remained significant, due to the migration of the employees who at the time of the Chinese New Year return to their families and, and in many cases, decide to remain.

Organisation



At the end of 2015, a complex reorganisation process at international level was resolved, with the purpose of reducing costs, recovering competitiveness and sustainability and providing the organisation with an efficient, streamlined structure focused in the relaunch of the business.

This process implemented, amongst other aspects, a profound reconsideration of the entire sales structure. The sales and direct support activities for the market (with reference to the Italian market and the market of the foreign countries in which Gefran branches are not present), before transversal and functional for all the business areas, were therefore integrated in the Business Units with a view to focus and streamlining of the decision-making chain, further specialisation linked to the awareness of the product, and reconsideration of the sales processes.

An in-depth analysis of the customers, markets and sales processes revealed that the two operational business areas care of the Provaglio d'Iseo premises, or rather the "Sensors" division and the "Automation Components" division, presented many similarities. Therefore, the decision was made to keep the sales structure together, and to separate the commercial activities linked to the "Drives" business areas, with headquarters care of the Gerenzano plant.

The drives business, the most significant part of which is care of the Gerenzano plant, has been subject to a profound reorganisation of the processes, necessary for increasing effectiveness and efficiency, both production and commercial related.

The action described above revealed a redundancy of functions and an surplus of 55 resources in the three Italian plants, mainly in the indirect departments with respect to production and sales.

At the Provaglio d'Iseo sensors production plant, Gefran resorted to staff leasing for the last few months of the year, to handle the peak in orders.

The plan for the reduction of the indirect staff was also implemented care of the foreign subsidiaries.

Industrial relations

The downsizing of the workforces was also implemented thanks to the co-operation between the company and the trade union in the realisation of an agreed mobility plan. On 12 February 2016, Gefran S.p.A. formally initiated the mobility procedure which concluded on 29 February 2016 with an agreement which envisaged recourse to the welfare support of the lay-off fund between April and December and a redundancy incentive plan for 55 individuals in excess of a structural nature, in the presence of the express declared wish not oppose the lay-off provision.

Training and development

The fundamental interaction with the various company divisions for the definition of the training requirements was maintained, aimed at the development and internal growth of the talent, as well as the engagement of the individuals. In the presence of extremely positive results in previous years, work was continued drawing up individual courses, aimed at enhancing the managerial and leadership skills, which included an assessment centre, classroom training, coaching and on-the-job training.

For the purpose of preparing its individuals for the challenge of on-going innovations and Industria 4.0, Gefran sponsored the "MA.X.E. Manager per l'eccellenza" Masters course, organised by CSMT (Centro Servizi Multisettoriale e Tecnologico) and the University of Brescia. Gefran enrolled five young co-workers on said Master Course who at the end of the 2016 commenced the training course which will lead then to deal with aspects ranging from Lean Thinking to Six Sigma, the Theory of the Restrictions to Risk Management, Sustainability and Development of Individuals.

The Marketing and R&D divisions were involved in training courses care of MIP, Milan Polytechnic, specifically on aspects of innovation and Industry 4.0.

MBO System

As in previous years, Human Resources continued to improve the *Management By Objectives* (MBO) incentive system, making it more effective and the management processes more effective.

This focus on the company workforce is a fundamental instrument for Gefran, in order to achieve strategic results, and obtain maximum involvement and *accountability* by the staff with respect to their responsibilities. The process begins with the definition of the Company's strategic objectives, which are translated into business and/or company area operating objectives, down to individual objectives. It is managed organically in order to guarantee consistency between the objectives assigned to the different areas.

The "S.M.A.R.T." (an acronym of the English *Specific*, *Measurable*, *Achievable*, *Rilevant*, *Time-related*) principle was chosen as the golden rule in the assignment of the objectives to the individual employees. Each employee has shared objectives with their managers, that are:

- specific;
- measurable;
- achievable (challenging but realistic);
- relevant, from an organisational viewpoint, i.e. consistent with the company mission.

19. STRATEGY

The year just ended was - for the Gefran Group - very positive due to various aspects: the revenues grew in all the strategic geographic areas and all the business lines performed well. Thanks to the precise application of the guidelines of the plan, the margins were recovered and the performances of the group were once again positive.

During 2017, the plan envisaged the consolidation of the results achieved in 2016 by means of a number of fundamental guidelines: the growth of the revenues will be the common denominator for all the business lines with an optimised operating structure.

The focus of the sensors business will be the development of sales, with the aim of increasing market shares in traditional sectors and increasing its presence in industrial applications where it has not historically been present, while in the automation components business the European and the North American markets will be the centre of action aimed at development of the core application "Heat Treatment".

With the drives business, which in the last two quarters saw its performances improve considerably, Gefran will implement a plan which envisages the corporate reorganisation of the structures which underlie this business so as to share the product and process optimisations which have been achieved in the last 18 months. The strategy is to maintain the position within the non-industrial lift market with focus on China and the Middle East and to concentrate action in Europe and North America with customised products in the core industrial sectors.

It should be mentioned that the satisfactory results obtained by the direct action on the market of the Gefran Soluzioni S.r.l. structure – a company created in 2015 – created the conditions for establishing a more than sustainable development strategy also for the programmable Automation products line: 2017 will see the customisation of a number of series of Panel PCs for OEM customers.

During the last few months of 2016, numerous innovation and optimisation projects were launched for the production lines: the investments underlying these projects, indispensable for supporting the growth of the volumes, will be particularly significant in 2017 at the Provaglio d'Iseo plants where the sensor lines and the automation component lines are produced. Research & Development for the drives business will by contrast be subject to investments dedicated to workshop equipment for tests, inspections and simulations, indispensable for keeping the technological skills and the innovative capacity high.

The Chinese company will be subject to investments for the implementation of the magnetostrictive production line (position sensors without contact): the project is dedicated to the local market to guarantee a high level of customer service.

Gefran will keep attention on the costs structure high, pursuing the line of organisational set ups and strategies compatible with the business volumes in the last few years: the plan in fact envisages growth via internal routes which is based on the strong points which the group has been in a position to express and which have contributed to the return to profitability.

The technological leadership will make it possible to increase the market shares in the known applications sectors, the awareness of the industrial processes and the ability to provide customised solutions, together with a guaranteed and particularly efficient level of service, will be the lines by means of which the emerging markets, core applications and custom solutions will develop.

Projects supporting the development and growth of the group via internal lines are not subject to attention at present, but should not be excluded, if consistent with the strategic guidelines and compatible with the organisational structure.

20. MAIN RISKS AND UNCERTAINTIES TO WHICH THE GEFRAN GROUP IS EXPOSED

In the normal course of its business, the Gefran Group is exposed to various financial and non-financial risk factors, which, should they materialise, could have a significant impact on its economic and financial situation. The Group adopts specific procedures to manage the risk factors that could influence its results.

To this end, on 13 February 2008, the Board of Directors voted to adopt an Organisation, Management and Control model (the "Organisational Model") to prevent the offences under Legislative Decree 231/01 from being committed.

This model was subsequently updated in light of changes to the law mentioned above. By means of Board resolution dated 11 August 2016, the Company adopted the Organisational Model, prepared in accordance with Confindustria guidelines, and which meets the need to constantly update the Company's corporate governance system. The Company's corporate governance structure is based in turn on the recommendations and regulations set out in the "Code of Conduct for Listed Companies" promoted by Borsa Italiana S.p.A., with which the Company complies.

Based on the economic and financial results achieved in the last few years, the Group considers that there are currently no significant uncertainties of an extent to raise significant doubts as to its ability to continue to operate as a going concern.

Risk factors are analysed below, divided by external and internal risk.

20.1) EXTERNAL RISKS

Market risks

Risks associated with the general economic conditions and market trends

The conditions of the economy have improved, even if factors of uncertainty for the future exist. On the one hand, in fact, the definition of the economic policies by the new US administration is awaited, which could also significantly influence the growth of the emerging economies.

The macro-economic prospects for 2017 for Italy envisage growth estimated at around 0.9%, mainly drawn along by internal demand.

Overall, the risks for the expansion of the global economy mainly derive from the continuation of the uncertainty of the financial conditions in some areas and the manifestation and spread of protectionist stimulus, as well as from the possible turbulence in emerging economies.

The Gefran Group operates through subsidiaries in international markets; this widespread geographic presence enables the Group to mitigate the effects of any recessionary phases. Diversification of the markets where the Group operates and the products it offers reduces exposure to the cyclical trends of some markets. However, the possibility that these trends may have a significant impact on the Group's operations and economic and financial situation, which at present can not be gauged, cannot be ruled out.

Risks associated with the market structure and competitive pressure

Gefran operates on open, unregulated markets that are not protected by any tariff barriers, regulated regime or public concession. The markets are highly competitive in terms of product quality, innovation, price competitiveness, product reliability and customer service to machinery manufacturers.

The Group competes with extremely stiff competition: operators which are large groups that may have greater resources and better cost positions, both in terms of economies of scale and factor costs, enabling them to implement aggressive pricing policies.

The success of the Gefran Group's activities derives from its capacity to focus its efforts on specific industrial sectors, concentrating on resolving technological problems and on customer service, thereby providing greater value to customers in the niche markets in which it competes.

Should the Group prove unable to develop and offer innovative and competitive products and solutions that match those supplied by its main competitors in terms of price, quality, functionality, or should there be delays in such developments, sales volumes could decline, with a negative impact on the Group's economic and financial results.

Although the Gefran Group believes that it can adapt its cost structure to a reduction in sales volumes, the risk is that said reduction in the cost structures will not be sufficiently ample, quick or consistent with a possible fall in prices, thereby negatively affecting its economic and financial situation.

Contextual risks

Exchange rate risk

As a global operator, the Gefran Group is exposed to market risks stemming from exchange rate fluctuations in the currency of the various countries in which it operates.

Exposure to exchange rate risk is linked to the presence of production activities concentrated in Italy and commercial activities in numerous geographical regions outside the Euro Zone. This organisational structure generates export flows in currencies other than the currency in the place of production, mainly the US dollar, the Chinese renminbi, the Brazilian real, the Indian rupee, the Turkish lira and the UK pound; production areas in the US and China mainly serve the local markets, with flows in the same currency.

The exchange risk arises when future transactions or assets and liabilities already recorded in the statement of financial position are denominated in a currency other than the functional currency of the company conducting the operation. In order to manage the exchange risk resulting from future commercial transactions and the recording of assets and liabilities in foreign currencies, the Group first and foremost exploits the so-called natural hedging, seeking to level out the incoming and outgoing flows on all the currencies other than the Group's reporting currency; furthermore, Gefran evaluates and possibly establishes hedging transactions on the main currencies, by means of entering into futures contracts stipulated by the Parent Company. However, since the Company prepares its consolidated financial statements in euro, fluctuations in the exchange rates used to translate subsidiaries' accounting figures, originally expressed in local currency, may affect the Group's results and financial position.

Interest rate risk

Changes in interest rates affect the market value of the Group's financial assets and liabilities, as well as net financial charges. The long-term interest rate to which the Group is exposed mainly originates from long-term loans. The Group is exposed almost exclusively to fluctuations in the euro rate, since bank loans have been taken out by the Parent Company Gefran S.p.A., which supports the subsidiaries' financial requirements, also through cash pooling.

These variable-rate loans expose the Company to a risk associated with interest rate volatility, known as the cash flow risk. To limit exposure to this risk, the Parent Company puts in place derivative hedging contracts, specifically Interest Rate Swaps (IRS), which convert the variable rate to a fixed rate, or Interest Rate Caps, which set the maximum interest rate, thereby reducing the risk originating from interest rate volatility.
The potential rise in interest rates, from the lows reached at present, is a possible risk factor for the next few quarters, although this is limited by hedging contracts.

Risks associated with fluctuations in commodity prices

Since the Group's production processes are mainly mechanical, electronic and assembly-based, exposure to fluctuations in energy prices is very limited.

The Group is exposed to changes in basic commodity prices (e.g. oil, minerals, etc.) to a small extent, given the product cost component related to these materials is very limited.

Risks associated with changes in the regulatory framework

Since the Group makes and distributes electronic components used in electrical applications, it is subject to numerous legal and regulatory requirements in the various countries in which it operates, and to the national and international technical standards applicable to companies operating in the same industry and to the products made and sold by the Group.
Any changes in legislation or regulations could entail substantial costs relating to adapting the product characteristics or even temporary suspensions of the sale of some products, which would affect revenues.
The Group places great importance on the protection of the environment and safety.
Its activities do not include the manufacture or processing of materials or components to an extent that would generate a significant risk of pollution or environmental damage.
The Group has introduced a series of controls and monitoring to detect and prevent any potential increase in this risk. Furthermore, it has taken out an insurance policy to cover potential liabilities arising from environmental damage to third parties.
It is however possible that there are still some residual environmental risks that have not been adequately identified and hedged.

The enactment of other regulations that apply to the Group or its products, or changes in the regulations currently in force in the sectors in which the Group operates, also internationally, could force the Group to adopt more rigorous standards or limit its freedom of action in its areas of operation. These factors could entail costs relating to adapting the production facilities or product characteristics.

Strategic risks

Risks associated with the implementation of the Group's strategy

The Gefran Group's ability to improve profitability and achieve its targeted margins depends, among other things, on its success in implementing its strategy. Group strategy is based on sustainable growth, which can be achieved through investments and projects for products, applications and geographical markets, that lead to growth in profitability.

The Company plans to implement its strategy by concentrating available resources on growing its core industrial business, favouring growth in strategic products that guarantee volumes, and in which the Group is technological and market leader. Gefran is making changes to its organisational structure, work processes and staff know-how to increase specialisation in research, marketing and sales by product and by application.

Given the uncertainty regarding the future macroeconomic environment, the operations described could take longer to implement than expected, or may not prove fully satisfactory for the Group.

Country risk

A significant portion of the Group's production and sales activities is carried out outside the European Union, particularly in Asia, the US, Brazil and Turkey. The Group is exposed to risks relating to the global scale of its operations, including those relating to:

- exposure to local economic and political conditions;
- the implementation of policies restricting imports and/or exports;
- operating in multiple tax regimes;
- the introduction of policies limiting or restricting foreign investment and/or trade.

Unfavourable political and economic developments in the countries in which the Group operates could have a negative impact – the extent of which would vary by country – on the Group's prospects and operations, and its results.

20.2) INTERNAL RISKS

Operating risks

Risks associated with relations with suppliers

The Group purchases raw materials and components from a large number of suppliers, and depends on services and products supplied by other companies outside the Group.

The bulk of these raw materials consists of mechanical and electromechanical parts that are easily sourced on the market. The Group does therefore not rely on very large or strategic suppliers that would represent an operating risk if these supplier companies were to encounter problems (whether owing to internal or external factors), or in the event of a dispute.

Conversely, electronic components, particularly microprocessors, power semi-conductors and memory chips, are purchased from leading global producers. Although these suppliers are reliable, it cannot be ruled out that problems they could encounter - in terms of quality, availability or delivery times - would have a detrimental effect on the Group's operations and results, at least in the short term, until such time as the supplier can be replaced or the product modified.

Risks associated with product development, management and quality

The Group's value chain covers all activities, including R&D, production, marketing, sales and technical support. Defects or errors in these processes may cause product quality problems that could potentially affect the Group's results and financial position.

In line with the practices of many operators in the sector, the Company has taken out insurance policies that it considers sufficient to protect itself from the risks resulting from this liability. Furthermore, it has set up a specific product guarantee provision to meet these risks, in line with the volume of activities and the historical occurrence of these phenomena.

However, in the event that the insurance cover and risk provisions prove inadequate, the Group's results could be negatively affected. In addition, the Group's involvement in this type of dispute and any ruling against it therein could expose the Group to reputational damage, which also has potential consequences for the Group's results and financial position.

Risks associated with operations at industrial facilities

Gefran is an industrial group, so it is potentially exposed to the risk of stoppage in production at one or more of its plants, due, for example, to machinery breakdowns, revocation or disputes regarding permits or licences from public authorities (e.g. following changes in the law), strikes or manpower shortages, natural disasters, major disruptions to the supply of raw materials or energy, sabotage or attack.

There have been no significant interruptions of activity in recent years. However, future interruption cannot be ruled out, and if it occurs for lengthy periods, the Group's results and financial position could be negatively affected if the damage exceeds the amount currently covered by insurance policies.

Gefran has also implemented a *disaster recovery* system designed to restore the systems, data and infrastructures necessary for the Company's operations in the event of a serious emergency, in order to mitigate its possible impact.

Risks associated with human resources

Relations with employees are governed by law, collective contracts and supplementary company contracts, particularly in Italy.

The Group's success largely depends on the ability of its executive directors and other members of the management to manage the Group and the individual businesses effectively, as well as the quality, technical and management capabilities and motivation of its human resources.

Financial risks

Risks associated with funding requirements

The Gefran Group's financial situation is subject to risks associated with the general economic environment, the achievement of objectives and trends in the sectors in which the Group operates.

Gefran's capital structure is strong; it has own funds of EUR 66.9 million versus overall liabilities of EUR 79.8 million. In 2016, the Parent Company did not enter into new medium/long-term loan agreements. With regard to the outstanding agreements, they are all characterised by floating rate debt, determined by the Euribor plus a fixed spread which in the last two years has not however been greater than 200 bps. Some of these outstanding loan agreements, whose remaining value as of 31 December 2016 was EUR 19.0 million, contain clauses which involve the observance of financial/economic requirements (covenants). At 31 December 2016, these clauses had been observed.

Liquidity risk

The Group expects to be able to continue to provide the financial resources necessary for its investment programmes and business management. The credit lines and cash available are sufficient in relation to the Group's operations and growth forecasts. Loans granted by banks were subject to an annual review in the second half of the year, leading to the essential confirmation of the terms and conditions, and amounts.

Credit risk

The Group has business relations with a large number of customers. Customer concentration is not high, since no customer accounts for more than 10% of overall sales. Supply agreements are normally long-term, in that Gefran products form part of the customer's product design, as they are incorporated in the end product and have a significant influence on its performance. In accordance with IFRS 7.3.6a, all amounts presented in the financial statements represent the maximum exposure to the credit risk.

The Group grants its customers deferred payment conditions, which vary according to the market practices in individual countries. All customers' solvency is constantly monitored and any risks are periodically covered by appropriate provisions. Despite these precautions, under current market conditions, it cannot be ruled out that some customers may not be able to generate sufficient cash flow or may lack access to sufficient sources of funding, resulting in payment delays or a failure to honour obligations.

Legal compliance risks

Ethical risks

The Gefran Group has always been committed to applying and observing rigorous ethical and moral principles when conducting its internal and external activities, in full compliance with the laws in force and market regulations. The adoption of the Code of Ethics, the internal procedures put in place to comply with this code and the controls adopted guarantee a healthy, safe and efficient working environment for employees, and an approach intended to ensure complete respect of external stakeholders. The Group believes that ethics in business management must be pursued alongside financial growth, and the Code is therefore an explicit point of reference for everyone working with the Company.

Gefran also effectively adopted the Organisation and Management Model pursuant to Italian Legislative Decree No. 231/2001. The Group believes that this is not only a regulatory obligation but also a source of growth and wealth generation, and has therefore fully restructured its activities and internal procedures in order to prevent the offences set out in this regulation from being committed. The Supervisory Board established by the Board of Directors performs its duties regularly and professionally, guaranteed by the presence of an internal company officer and two external professionals, one an expert in business and international law and the other with an excellent knowledge of administration and control systems.

The Group conducts the bulk of its business with private customers that do not directly or indirectly belong to government organisations or public agencies, and rarely takes part in public tenders or subsidised projects. This further limits the risks of reputational or economic damage resulting from unacceptable ethical conduct.

Legal risks and product liability

Within the scope of Gefran’s core business, the manufacture and sale of products may give rise to issues linked to defects and consequent liability in respect of its customers or third parties. Like other operators in the industry, the Group is therefore exposed to the risk of product liability litigation in the countries in which it operates.

In line with the practices of many operators in the sector, the Company has taken out insurance policies that it considers sufficient to protect itself from the risks resulting from this liability. It has also set up a specific provision against these risks.

However, in the event that the insurance cover and risk provisions prove inadequate, the Group’s results could be negatively affected. In addition, the Group’s involvement in this type of dispute and any ruling against it therein could expose the Group to reputational damage, which also has potential consequences for the Group’s results and financial position.

Risks associated with intellectual property rights

Although the Group considers it has adopted an appropriate system to protect its intellectual property rights, it cannot be ruled out that it may encounter difficulties defending these rights.

Furthermore, the intellectual property rights of third parties could inhibit or limit the Group's capacity to introduce new products onto the market. These events could have a negative impact on the development of activities and the Group's results and financial position.

21. SIGNIFICANT EVENTS DURING THE YEAR

- On 13 January 2016, Gefran announced that it had reached a framework agreement for the sale to a leading Indian group involved in the design and production of measurement and control instruments, of all the rights relating to the photovoltaic product technology.
- On 12 February 2016, Gefran notified the trade union organisations of the Parent Company, pursuant to and for the purposes of Articles 4 and 24 of Italian Law No. 223 of 23 July 1991, of the commencement of a mobility process for a total of 55 employees.
- On 7 March 2016, the subsidiary, Gefran Siei Asia, completed the activities inherent to the closure of the representative office in Taiwan.
- On 21 March 2016, Gefran finalised the sale of the company branch involved in the distribution of sensors and automation components in Spain/Portugal to a Spanish distributor. Payment for the transaction, paid at the same time as the signing of the contract, amounted to EUR 650 thousand.
- On 21 April 2016, the ordinary shareholders' meeting of Gefran S.p.A. voted to:
    - approve the 2015 financial statements and cover the loss for the year of EUR 1,346 thousand through the use of available reserves;
    - engage the Independent auditors, PricewaterhouseCoopers S.p.A., to carry out the official audit of the accounts for the years 2016-2024;
    - authorise the Board of Directors to purchase up to a maximum of 1,440,000 own shares for a period of 18 months from the date of the shareholders' meeting.

  The shareholders also expressed a favourable opinion of the general Group remuneration policy adopted by Gefran, pursuant to Article 123 ter of the TUF (finance consolidation act).

22. SIGNIFICANT EVENTS AFTER YEAR END

- On 30 January 2017, the cancellation of the subsidiary Gefran South Africa (Pty) Ltd., already in liquidation, became effective.

23. OUTLOOK

The economic cycle surveys showed a pick-up on the global economy in the third and fourth quarter of 2016. With the election of the new president of the United States of America, expectations have been created for an expansive fiscal policy, strengthening the forecasts for an acceleration in US economic growth. The Euro Zone continues along its path of moderate expansion, which should extend also to 2017.

The end of 2016 saw the confirmation of moderate growth also for Italy, with the confidence indicators of the businesses positioned on high values: the macro-economic prospects for 2017 for the domestic market envisage growth estimated at around 0.9%, mainly drawn along by internal demand.

Overall, the risks for the expansion of the global economy mainly derive from the continuation of the uncertainty of the financial conditions in some areas and the manifestation and spread of protectionist stimulus, as well as from the possible turbulence in the emerging economies. In Brazil, the recession continues to be austere and the economic scenario remains uncertain, also due to the confused political situation.

In this context, Gefran is registering encouraging signs and reports a satisfactory number of new orders taken on all the business lines, in particular for sensors which benefit from the positive trend of the plastics sector.

2017 started with a backlog which suggests positive results both in terms of sales revenues and margins from as early as the first quarter and the factories are sustaining the growth in volumes without difficulty. The investments which are being implemented will reveal the first benefits, in terms of improvement of the lead times and production efficiency, as from the second quarter of the year; in the meantime, the endeavours of the operating structures currently existing remain, in order to keep the level of customer service high.

From the standpoint of the businesses, the Gefran portfolio will see the portion of revenues generated with the sensors and with the automation components grow during the year while the percentage weight of the drive business products will decrease despite, also the latter, having an order book greater than in the same period last year. Mention should be made of the improvement currently underway with regard to the margins of the drive business which is pointing towards a breakeven.

The Asiatic scenario is at present particularly favourable specifically thanks to the positive trend of the plastics market; the same which is driving the best performances of the Brazilian branch. Europe and the Italian market are also satisfactory overall.

In view of the above, in the absence of unforeseeable events, the Gefran Group is confident that revenues will continue to grow at a rate of around 6%, increasing profit margins compared with 2016: Ebit around 6% and EBITDA margin approximately 12%.

24. OWN SHARES

In 2016, Parent Company Gefran S.p.A. continued to purchase own shares following the guidelines set out in the plan approved by the Shareholders' Meeting of 21 April 2016, which authorised the purchase and sale of own shares up to the maximum legal limit of 10% of issued shares, for a period of 18 months from the date of the Shareholders' Meeting.

Gefran S.p.A. purchased 7,659 shares at an average price of EUR 1.4975 per share during the year. At 31 December 2016, Gefran S.p.A. held 227,394 shares (1.58% of the total) with an average book value of EUR 3.5819 per share. As of the date of this report the situation was unchanged.

Brokerage on Gefran's shares by the specialist Intermonte takes place regularly.

25. DEALINGS WITH RELATED PARTIES

During its meeting on 12 November 2010, the Gefran Board of Directors approved the "*Regulation for transactions with related parties*" in application of Consob resolution No. 17221 dated 12 March 2010. This regulation is published in the "*Investor Relation*" section of the website www.gefran.com.

<u>The regulation is based on the following general principles:</u>

- ensuring the essential and procedural transparency and probity of transactions with related parties;
- providing directors and statutory auditors with an appropriate assessment, decision-making and control tool regarding transactions with related parties.

<u>The regulation is structured as follows:</u>

- **First section**: definitions (related parties, significant and insignificant transactions, intercompany, ordinary, of negligible amount, etc.).
- **Second section**: procedures to approve significant and insignificant transactions, exemptions.
- **Third section**: disclosure obligations.

See note 42 of the Notes to the Consolidated Financial Statements for details on transactions with related parties. The procedure in question was updated in 2012 in order to improve some of the definitions contained therein.

26. DISCLOSURE SIMPLIFICATION

On 1 October 2012, the Gefran S.p.A. Board of Directors voted to avail itself of the disclosure simplification faculty pursuant to Article 70.8, and Article 71.1 bis, of Consob Regulation No. 11971/1999 as amended.

27. PROVISIONS UNDER ARTICLES 36 AND 39 OF THE CONSOB REGULATION ON MARKETS

With reference to the “conditions for listing of shares of parent companies of companies established and regulated by laws of countries not belonging to the European Union” as set out in Articles 36 and 39 of the Consob Regulation on Markets, note that the following subsidiaries fall under Article 36: Gefran Siei Asia PTE Ltd (Singapore), Gefran Siei Drives Technology Co Ltd. (China), Gefran Deutschland GmbH and Siei Areg GmbH (Germany), Gefran Inc. (U.S.A.), Gefran France S.A. (Francia) and Gefran Soluzioni S.r.l. (Italia).

The Group also made the adjustments necessary to meet the conditions set out under paragraph 1 of the aforementioned Article 36, and there are procedural provisions in place designed to ensure they are maintained.

Provaglio d’Iseo, Italy, 9 March 2017

On behalf of the Board of Directors

The Chairman	Chief Executive Officer
Ennio Franceschetti	**Maria Chiara Franceschetti**

CONSOLIDATED FINANCIAL STATEMENTS

28. STATEMENT OF PROFIT/(LOSS) FOR THE YEAR

(EUR /000)	Notes	progressive at 31 December 2016	2015
Revenues from product sales	29	118,066	114,851
of which: related parties:		*165*	*120*
Other revenues and income	30	1,264	501
of which: non-recurring:		*675*	*0*
Increases for internal work		1,119	1,749
TOTAL REVENUES		**120,449**	**117,101**
Change in inventories		(1,040)	1,281
Costs of raw materials and accessories	31	(40,686)	(40,587)
Service costs	32	(19,635)	(23,055)
of which: related parties:		*(330)*	*(181)*
Other operating expense	34	(1,726)	(1,098)
Other operating income	34	89	78
Personnel costs	33	(45,347)	(46,313)
of which: non-recurring:		*(1,864)*	*0*
Write-down of trade and other receivables	19	(780)	(1,726)
Amortisation	35	(2,344)	(2,114)
Depreciation	35	(3,865)	(4,197)
EBIT		**5,115**	**(630)**
of which: non-recurring:		*(1,189)*	*0*
Gains from financial assets	36	1,699	3,154
Losses from financial liabilities	36	(2,522)	(4,277)
(Losses) gains from investments held at equity	37	5	119
PROFIT (LOSS) BEFORE TAX		**4,297**	**(1,634)**
of which: non-recurring:		*(1,189)*	*0*
Current taxes	38	(2,080)	(1,681)
Deferred taxes	38	1,245	(1,267)
TOTAL TAXES		**(835)**	**(2,948)**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**3,462**	**(4,582)**
of which: non-recurring:		*(1,189)*	*0*
Net profit (loss) from assets held for sale	22	486	(187)
of which: non-recurring:		*0*	*0*
NET PROFIT (LOSS) FOR THE YEAR		**3,948**	**(4,769)**
of which: non-recurring:		*(1,189)*	*0*
Attributable to:			
Group		3,948	(4,769)
Minority interests		0	0

Earnings per share (Euro)	note	progressive at 31 December 2016	2015
Basic earnings per ordinary share		0.28	(0.34)
Diluted earnings per ordinary share		0.28	(0.34)

29. STATEMENT OF PROFIT/(LOSS) FOR THE YEAR AND OTHER ITEMS OF COMPREHENSIVE INCOME

(EUR /000)	*note*	progressive at 31 December 2016	2015
NET PROFIT (LOSS) FOR THE YEAR		**3,948**	**(4,769)**
Items that will not subsequently be reclassified in the profit and loss statement for the year			
- revaluation of employee benefits: IAS 19	*26*	(33)	(144)
- overall tax effect	*26*	17	49
Items that will or could subsequently be reclassified in the profit and loss statement for the year			
- conversion of foreign companies' financial statements	*24*	(262)	2,346
- corrections of prior year errors		0	(319)
- equity investments in other companies	*24*	161	23
- fair value of cash flow hedging derivatives	*24*	33	68
Total changes, net of tax effect		**(84)**	**2,023**
Comprehensive result for the period		**3,864**	**(2,746)**
Attributable to:			
Group		3,864	(2,746)
Minority interests		0	0

30. STATEMENT OF FINANCIAL POSITION

(EUR /000)	*Notes*	31 December 2016	31 December 2015
NON-CURRENT ASSETS			
Goodwill	13	6,093	5,904
Intangible assets	14	8,260	9,222
of which: related parties:		*39*	*30*
Property, plant, machinery and tools	15	36,931	39,389
of which: related parties:		*105*	*227*
Equity investments valued at equity	16	1,051	1,046
Equity investments in other companies	17	1,956	1,800
Receivables and other non-current assets	18	148	115
Deferred tax assets	38	7,021	5,650
TOTAL NON-CURRENT ASSETS		**61,460**	**63,126**
CURRENT ASSETS			
Inventories	19	21,589	22,674
Trade receivables	19	30,745	34,023
of which: related parties:		*114*	*4*
Other receivables and assets	20	3,512	3,160
Current tax receivables	21	734	348
Cash and cash equivalents	23	20,477	24,602
Financial assets for derivatives	23	4	25
TOTAL CURRENT ASSETS		**77,061**	**84,832**
ASSETS HELD FOR SALE	22	**1,214**	**1,354**
TOTAL ASSETS		**139,735**	**149,312**
SHAREHOLDERS' EQUITY			
Share capital	24	14,400	14,400
Reserves	24	48,560	53,353
Profit/(loss) for the year	24	3,948	(4,769)
Total Group Shareholders' Equity	**24**	**66,908**	**62,984**
Shareholders' equity pertaining to minority interests	24	-	-
TOTAL SHAREHOLDERS' EQUITY		**66,908**	**62,984**
NON-CURRENT LIABILITIES			
Non-current financial payables	23	16,045	10,879
Employee benefits	26	5,212	5,405
Non-current provisions	27	1,317	555
Deferred tax provisions	38	1,005	868
TOTAL NON-CURRENT LIABILITIES		**23,579**	**17,707**
CURRENT LIABILITIES			
Current financial payables	23	17,134	38,352
Trade payables	19	16,580	16,531
of which: related parties:		*46*	*52*
Financial liabilities for derivatives	23	220	274
Current provisions	27	1,143	1,301
Current tax payables	21	1,348	335
Other payables and liabilities	28	12,823	11,828
TOTAL CURRENT LIABILITIES		**49,248**	**68,621**
TOTAL LIABILITIES		**72,827**	**86,328**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**139,735**	**149,312**

31. CONSOLIDATED CASH FLOW STATEMENT

(EUR /000)	*note*	31 December 2016	31 December 2015
A) CASH AND CASH EQUIVALENTS AT THE START OF THE PERIOD		**24,602**	**20,732**
B) CASH FLOW GENERATED BY (USED IN) OPERATIONS IN THE PERIOD:			
Net profit (loss) for the year		3,948	(4,769)
Depreciation/amortisation	*35*	6,209	6,311
Capital (gains) losses on the sale of *Non-current assets*	*14, 15*	101	(4)
Capital (gains) losses on the sale of *Assets held for sale*	*22*	(486)	0
Net result from financial operations	*36*	818	1,004
Change in provisions for risks and future liabilities	*27*	411	(417)
Change in other assets and liabilities	*20, 28*	1,270	(1,239)
Change in deferred taxes	*38*	(1,234)	1,171
Change in trade receivables	*19*	3,278	8,209
of which: related parties:		*(110)*	*2*
Change in inventories	*19*	1,085	(1,670)
Change in trade payables	*19*	49	(1,311)
of which: related parties:		*(6)*	*(76)*
TOTAL		**15,449**	**7,285**
C) CASH FLOW GENERATED BY (USED IN) INVESTMENT ACTIVITIES			
Investments in:			
- Property, plant & equipment and intangible assets	*14, 15*	(2,965)	(4,733)
of which: related parties:		*(144)*	*(257)*
- Equity investments and securities	*16*	5	0
- Acquisitions net of acquired cash		0	0
- Financial receivables	*18*	(33)	0
Disposal of non-current assets	*14, 15*	9	97
TOTAL		**(2,984)**	**(4,636)**
D) FREE CASH FLOW (B+C)		**12,465**	**2,649**
E) CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES			
New financial payables		0	18,000
Repayment of financial payables	*23*	(11,853)	(17,791)
Increase (decrease) in current financial payables	*23*	(4,199)	1,002
Interest (paid)	*36*	(898)	(1,311)
Change in shareholders' equity reserves	*24*	(20)	865
Dividends paid	*24*	0	0
TOTAL		**(16,970)**	**765**
F) CASH FLOW FROM CONTINUING OPERATIONS (D+E)		**(4,505)**	**3,414**
G) CASH FLOW FROM OPERATING ASSETS HELD FOR SALE	*22*	**626**	**-**
H) Currency translation differences on cash at hand		(246)	456
I) NET CHANGE IN CASH AT HAND (F+G+H)		**(4,125)**	**3,870**
J) CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+I)		**20,477**	**24,602**

32. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

							overall EC reserves						
(EUR/000)	*Note*	Share capital	Capital reserves	Consolidation reserve	Other reserves	Retained profit /(loss)	Fair value measurement reserve	Currency translation reserve	Other reserves	Profit/(Loss) for the year	Group Total shareholders' equity	pertaining to minority interests	Total shareholders' equity
Balances at 1 January 2015		14,400	21,926	14,767	9,649	3,369	(350)	2,990	(548)	(224)	65,980	0	65,980
Allocation of 2014 profit													
- Other reserves and provisions	*24*					(224)				224	0		0
- Dividends											0		0
Income/(expenses) recognised at equity	*24, 26*			(319)			91		(95)		(323)		(323)
Change in translation reserve	*24*							2,346			2,346		2,346
Other changes	*24*			(75)	(82)	(93)					(250)		(250)
2015 profit	*24*									(4,769)	(4,769)		(4,769)
Balance at 31 December 2015		14,400	21,926	14,373	9,567	3,052	(259)	5,336	(643)	(4,769)	62,984	0	62,984
Allocation of 2015 profit													
- Other reserves and provisions	*24*			(3,423)	0	(1,346)				4,769	0		0
- Dividends											0		0
Income/(expense) recognised at equity	*24, 26*			72			194		(16)		250		250
Change in translation reserve	*24*			0				(260)	(2)		(262)		(262)
Other changes	*24*			0	(12)						(12)		(12)
2016 profit	*24*									3,948	3,948		3,948
Balance at 31 December 2016		14,400	21,926	11,022	9,555	1,706	(65)	5,076	(661)	3,948	66,908	0	66,908

SPECIFIC EXPLANATORY NOTES TO THE ACCOUNTS

1. GENERAL INFORMATION

Gefran S.p.A. is incorporated and located at Via Sebina 74, Provaglio d'Iseo (BS), Italy.

On 9 March 2017, the consolidated financial statements of the Gefran Group for the year ending 31 December 2016 were approved by the Board of Directors, which authorised their publication.

The Group's main activities are described in the Report on Operations.

2. FORM AND CONTENT

The consolidated financial statements of the Gefran Group were prepared in accordance with the International Financial Reporting Standards adopted by the European Union.

They comprise the financial statements of Gefran S.p.A., of its subsidiaries and of the direct and indirect affiliates, which have been approved by their respective Boards of Directors. The consolidated companies have adopted international accounting standards, with the exception of some minor Italian and foreign companies, whose financial statements have been restated for the consolidated financial statements of the Group to bring them into line with IAS/IFRS standards.

The official audit of the consolidated financial statements was carried out by PricewaterhouseCoopers S.p.A..

These consolidated financial statements are presented in euro, the reporting currency of most of the Group companies. Unless otherwise stated, all amounts are expressed in thousands of euro.

3. ACCOUNTING SCHEDULES

The Gefran Group has adopted:

- a statement of financial position, according to which assets and liabilities are separated into current and non-current categories;
- a statement of profit (loss) for the year, in which costs are classified by nature;
- a statement of profit (loss) for the year and other items of comprehensive income, which shows income and charges posted directly to shareholders' equity, net of tax effects;
- a cash flow statement prepared using the indirect method, through which pre-tax profit is shown net of the effects of non-monetary transactions, any deferral or provision of previous or future operating collections or payments, and revenue or cost items relating to cash flows resulting from investments or financial activities.

With reference to Consob resolution No. 15519 of 27 July 2006, amounts referring to transactions with related parties and non-recurring items are shown separately from the relevant items in the statement of financial position and income statement.

4. CONSOLIDATION PRINCIPLES

Subsidiaries are consolidated on a line-by-line basis when the Group has control over them. It only has control if all the following three conditions are met:

- it has power over an investee company (whether this power is actually exercised or not);
- it has exposure or a right to variable returns from the investee company;
- it is able to use its power over the investee company to influence the returns generated thereby.

The results of subsidiaries acquired or sold over the year are included in the consolidated income statement as from the actual acquisition date or until the date they are sold.

Companies controlled jointly with other partners and associated companies, or in any event subject to significant influence are carried at equity.

The main principles adopted are the same for all companies in the scope of consolidation, and the related income statements and statements of financial position were all drawn up as of 31 December 2016; in addition, all financial statements have been approved by the respective Boards of Directors.

The main criteria adopted in line-by-line consolidation are listed below.

Gains from transactions between subsidiaries not yet realised in respect of third parties, as well as receivables, payables, costs and income between consolidated companies, are eliminated.

The dividends paid by consolidated companies are eliminated from the income statement and added to earnings from previous years, if and to the extent that they are taken from them.

The portions of shareholders' equity and profits (losses) pertaining to minority interests are shown respectively in a specific item under shareholders' equity, separately from Group shareholders' equity, and in a specific item in the income statement.

Assets held for sale, the sale of which is highly likely in the next 12 months, are classified in accordance with IFRS 5, provided that the other conditions set out therein are met; therefore, once consolidated on a line-by-line basis, the related assets are classified in a single item, *"Assets held for sale"*, the related liabilities are recorded under liabilities in a single line of the statement of financial position, and the related margin is shown under *"Net profit (loss) from assets held for sale"* in the income statement.

Profits and losses from intercompany transactions valued at equity are eliminated in proportion to the Group's percentage interest in the associate, except in cases where unrealised losses are evidence of a loss in value of the transferred asset.

Changes in equity interests that do not involve a loss of control or relate to investee companies already subject to control are treated as equity transactions (according to the entity control method) and therefore classified under shareholders' equity.

5. CHANGE IN THE SCOPE OF CONSOLIDATION

The scope of consolidation at 31 December 2016 changed with respect to that at 31 December 2015 because Ensun S.r.l., 50% owned and carried at equity, in April 2016 increased its investment in BS Energia 2 S.r.l. from 60% to 100%.

6. ACCOUNTING STANDARDS

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) as approved by the European Union.

With reference to Consob Communication DEM/11070007 of 5 August 2011, it is also noted that the Group does not hold in its portfolio any bonds issued by central or local governments or government agencies, and is therefore not exposed to risks generated by market fluctuations. The consolidated financial statements were prepared using the general historic cost criterion, adjusted as required for the valuation of certain financial instruments.

With reference to Consob Communication No. 0003907 of 19 January 2015, note 13 “Goodwill and intangible assets with an indefinite life” includes the required information, and specifically the references to the external information and the sensitivity analysis.

With reference to Consob Communication No. 0007780 of 28 January 2016, we note that the impacts of the market conditions on the balance sheet disclosure were included in the Directors’ Report on Operations. It is furthermore noted that the application of IFRS 13 “Fair Value Measurement” does not involve any significant changes in the financial statement items for Gefran and currently an assessment is being carried out of the impacts on the financial statements reporting of application of IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from contracts with customers” both of the latter coming into force as from 1 January 2018.

With reference to Consob Communication No. 0092543 dated 3 December 2015, it is hereby revealed that in the Report on operations the guidelines of the ESMA (ESMA/2015/1415) were followed with regard to the information aimed at ensuring the comparability, reliability and comprehensibility of the Alternative Performance Indicators.

The most significant accounting standards adopted by the Gefran Group are summarised in this section.

Segment reporting

The primary segment reporting format chosen by the Gefran Group is by line of business. The accounting standards used for reporting segment information in the notes are consistent with those used for preparing the Annual financial report. The information provided in the primary segment reporting format relates to revenues, EBITDA and EBIT, and the assets and liabilities of each business line.

The secondary segment reporting format, as required by IFRS 8, is by geographic region; this format shows revenues based on the location of activities for each business line. In the Gefran Group, the location of activities broadly coincides with location by customer.

Revenues

Revenues are recognised to the extent to which it is likely that the Group will obtain economic benefits and the related amount can be reliably determined. The following specific criteria for recognition of revenues must always be complied with before recognition in the income statement.

Sale of goods

The revenue is recognised when the business has transferred the significant risks and benefits associated with ownership of the asset and the amount of revenue can be reliably measured.

Service revenues

Revenues from services (technical assistance, repairs and other services rendered) are recognised according to the state of advancement of these activities. The state of advancement is measured as a percentage, using the hours worked as a proportion of the total estimated hours for each contract.

When the result of the contract cannot be reliably measured, the revenue is recognised only to the extent that the costs sustained are recoverable.

Interest income

This is recorded as financial income for interest income accrued during the year, using the effective interest rate method, which is the rate that discounts back expected future cash flows according to the expected life of the financial instrument, added to the net value of the financial assets reported in the financial statements.

Dividends

Dividends are recognised when the shareholders’ right to receive payment arises, i.e. at the date of the Shareholders’ Meeting resolution.

Government grants

Government grants are recorded at fair value when there is a reasonable expectation that they will be received and that all the conditions relating thereto have been met.

When funding is related to cost components (e.g. contributions to expenditure), it is recognised as revenues but broken down systemically over several accounting periods so that the revenues match the costs they are meant to offset. When funding is related to an asset (e.g. grants for plants and equipment), the fair value is temporarily recorded under long-term liabilities, and gradually released to the income statement on a straight-line basis over the expected useful life of the asset concerned.

Costs

Costs for the period are recorded on an accruals basis and recognised net of returns, discounts and allowances.

Financial charges

Financial charges are recorded in the income statement when they are incurred, in accordance with the reference accounting treatment set forth in IAS 23.

Income tax

Income tax for the period was calculated using an estimate of taxable income. The amount owed to the tax authorities is recorded under tax payables. Taxes paid in excess of the amount due are posted to tax assets.

Current income taxes relating to items posted directly to shareholders' equity are reported directly in shareholders' equity and not in the income statement.

Deferred tax assets and liabilities are determined in relation to timing differences between the consolidated values of the asset and the liability and those recognised for tax purposes in the annual financial statements of the consolidated companies. Deferred tax assets are recognised when it is probable that sufficient taxable income is available to allow these assets to be used. Deferred tax liabilities are recognised for all taxable timing differences.

Earnings per share

Basic earnings per ordinary share are calculated by dividing the Group's profit (loss) attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the period, excluding own shares.

For the purposes of calculating the diluted earnings (loss) per ordinary share, the weighted average of outstanding shares is adjusted in line with the assumption that all potential shares resulting from the conversion of bonds or the assignment of options will be subscribed. The Group's net profit is also adjusted to take into account the impact of these operations, net of taxes.

Tangible assets

Tangible assets are recognised at purchase cost, including accessory costs. The cost of tangible assets is adjusted for depreciation on the basis of a systematic plan, taking into account the remaining possibility of economic use of the assets and also considering their physical wear and tear. Tangible assets are depreciated on a monthly basis from the time of entry into operation until they are sold or derecognised in the financial statements. If significant parts of tangible assets in use have different useful lives, the components identified are recognised and depreciated separately.

At the time of sale or when no future economic benefits are expected from the use of an asset, it is derecognised in the financial statements, and any gain or loss (calculated as the difference between the selling price and the book value) is recognised in the income statement in the year of derecognition.

Costs for maintenance and ordinary repairs are charged to the income statement in the year in which they are incurred. Extraordinary maintenance costs that entail significant and tangible improvements to plant production capacity or safety or their economically useful lives are capitalised.

Leases

Finance leases, which essentially transfer all of the risks and benefits associated with ownership of the leased asset to the Group, are capitalised as tangible assets on the date on which the lease begins at the fair value of the leased asset or, if lower, the current value of the lease payments. A payable is recognised under liabilities for the same amount, which is then gradually reduced according to the repayment plan for the principal amounts included in the contractually agreed payments. Lease payments are apportioned between principal and interest so as to achieve a constant rate of interest on the remaining balance of the debt (principal). Financial charges are charged to the income statement.

Leased assets are depreciated using the same criteria as for other tangible assets.

Leases where the lessor essentially retains all the typical risks and rewards of ownership are classified as operating leases. The initial negotiation costs incurred for operating leases are regarded as increasing the cost of the leased asset and are recognised over the term of the lease so as to be netted against the revenues generated by the lease.

Operating lease payments are charged to the income statement on a straight-line basis throughout the term of the lease agreement.

Research and development costs

Research costs are charged to the income statement at the time that they are incurred. Development costs incurred for a specific project are capitalised when all the following conditions are met:

- technical feasibility;
- intention to complete, use or sell the asset;
- ability to use or sell the asset;
- probable future economic benefits;
- availability of sufficient resources;
- ability to reliably measure the cost attributable to the intangible asset.

Capitalised development costs are amortised on a systematic basis from the start of production and throughout the estimated life of the product. The book value of development costs is reviewed so as to carry out a fairness analysis (so-called "*impairment test*") for the purpose of detecting any loss in value when an indicator raises doubts regarding the possibility of recovering the book value. All other development costs are recognised in the income statement when they are incurred.

Business combinations and goodwill

Business combinations are reported using the *acquisition method*, based on which the identifiable assets, liabilities and contingent liabilities of the acquired company that meet the reporting conditions under IFRS 3, are recognised at their current values on the acquisition date. Deferred taxes are then allocated on the adjustments made to the previous book values to align them with the present value. Given its complexity, the application of the acquisition method involves an initial provisional phase in which the current values of the assets, liabilities and contingent liabilities acquired are determined, in order to allow the transaction to be recorded in the consolidated financial statements for the year in which the combination occurred. This initial recognition is completed and adjusted within twelve months of the acquisition date. Changes to the initial consideration due to events or circumstances occurring after the acquisition date are recognised in the statement of profit (loss) for the year.

Goodwill is recognised as the difference between:

- the sum of the consideration transferred, the amount of minority interests (valued combination by combination, or at fair value or in proportion to the amount of identifiable net assets attributable to minorities), the fair value of previously held interests in the acquiree, recognising any resulting gain or loss in the statement of profit (loss) for the year;

- the net value of the identifiable acquired assets and the identifiable assumed liabilities.

The costs connected to the combination are not included in the consideration transferred and are therefore recognised in the statement of profit (loss) for the year. If, when the process of determining the present value of the assets, liabilities and contingent liabilities has been completed, this amount exceeds the acquisition cost, the excess is immediately credited to the income statement.

Goodwill is periodically reviewed to check the prerequisites for recoverability, through a comparison with the fair value or with future cash flows from the underlying investment. For the purposes of the comparative analysis, goodwill acquired in a business combination is allocated, at the acquisition date, to the Group's individual cash-generating units, or to the groups of cash-generating units expected to benefit from the synergies of combination, regardless of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which goodwill is allocated:

- represents the smallest identifiable group of assets generating cash inflows that are largely independent of the cash inflows from other assets or groups of assets;
- is no bigger than the operating sectors identified based on IFRS 8.

When goodwill is part of a cash-generating unit (group of cash-generating units) and a part of the assets within the unit is sold, the goodwill associated with the asset disposed of is included in the book value of the activity to determine the gain or loss on the disposal. Goodwill transferred under these circumstances is measured according to the relative values of the asset disposed of and the retained portion of the unit. When the disposal relates to a subsidiary, the difference between the sale price and the net assets, together with cumulative translation differences and residual goodwill, is posted to the income statement.

Asset impairment

IAS 36 requires the impairment testing of tangible and intangible assets and equity investments if there are indicators suggesting that such a problem might exist. In the case of goodwill, this test is carried out at least once a year, while intangible assets are tested whenever there are indications of impairment. The recoverability of the asset is assessed by comparing the book value recognised in the financial statements with the greater between the net selling price, if an active market exists, or the value in use of the asset.

Value in use is the discounted value of the expected cash flows from use of the asset, or an combination of assets (cash-generating unit), as well as the value expected from disposal at the end of its useful life. The cash generating units have been identified in line with the organisational structure and the Group's business, as homogenous combinations that generate independent cash flows through the continued use of the assets allocated to them.

Other intangible assets

Other intangible assets acquired or produced internally are recognised as assets in accordance with the provisions of "IAS 38 - Intangible assets", when it is probable that the asset will generate future economic benefits and when the cost of the asset can be reliably determined. Development costs are only recognised under assets if all the following conditions are met:

- technical feasibility;
- intention to complete, use or sell the asset;
- ability to use or sell the asset;
- probable future economic benefits;
- availability of sufficient resources;

- ability to reliably measure the cost attributable to the intangible asset.

The useful life of an intangible asset may be qualified as definite or indefinite. Intangible assets with definite useful lives are amortised on a straight-line basis for the duration of the expected future sales deriving from the related project (usually 5 years). The useful life is reviewed annually and any changes are applied prospectively.

Non-current assets held for sale

Non-current assets classified as held for sale are measured in accordance with IFRS 5 at the lower of their book value and their fair value minus selling costs.

Investments in associated companies and joint ventures

Investments in associated companies and joint ventures are valued at equity, according to which the associated company or joint venture is recognised at cost as of the acquisition date; this is subsequently adjusted by the portion pertaining to changes in its shareholders' equity. The losses of associated companies or joint ventures exceeding the interest held by the Group, including medium to long-term receivables, which effectively are part of the Group's net investment in the associated company, are not recognised, unless the Group has taken on the obligation to cover these losses.

The portions of profit (loss) resulting from the application of this consolidation method are recognised in the income statement under *"Gains (losses) from the valuation of equity investments at equity"*.

The surplus acquisition cost compared with the percentage pertaining to the Group of the current value of the associated company's identifiable assets, liabilities and contingent liabilities as of the acquisition date represents the goodwill, and continues to be included in the investment's book value. The minor value of the acquisition cost compared with the percentage pertaining to the Group of the fair value of the associated company's identifiable assets, liabilities and contingent liabilities as of the acquisition date is posted to the income statement for the year when the application process of the acquisition method is completed, or within 12 months of the acquisition.

If an associated company or joint venture recognises adjustments directly attributable to shareholders' equity and/or in the statement of comprehensive income, the Group in turn records the related portion under shareholders' equity, and where applicable, includes it in the statement of changes in shareholders' equity and/or the statement of other items of comprehensive income.

Any loss due to impairment recognised pursuant to IAS 36 is not attributable to goodwill or any asset contributing to the book value of the equity investment in the associated company, but to the value of the equity investment overall. Any reversal of value is therefore recognised fully to the extent that the recoverable value of the investment subsequently increases based on the result of the impairment test.

Inventories

Inventories are valued at acquisition or production cost and the market value, whichever is the lower. Accessory costs are included in the acquisition cost. The following cost configuration is used:

- raw materials, supplies, products sold: weighted average cost;
- work in progress: production cost;
- finished and semi-finished products: production cost.

Production cost includes the cost of raw materials, materials, labour and all other direct production expenses, including depreciation and amortisation. Production cost does not include distribution costs.

Obsolete or slow-moving inventories are written down according to the possibility of using or realising them.

Trade receivables and payables and other receivables/payables

Receivables are recognised in the financial statements at their estimated realisable value, which comprises the nominal value, adjusted if necessary by specific write-down provisions. Trade receivables have due dates that fall within normal contractual periods (30 to 120 days), and are therefore not discounted. An estimate of the risk of non-collectability is made when collection of the full amount is no longer probable. Uncollectable receivables are written down when they are identified.

The discounting of receivables from customers through factoring operations (with recourse) is booked by recognising:

- the factored receivable at its nominal value under *"Trade receivables"*;
- the payable for advances received under *"Current financial payables"*.

Receivables factored without recourse are removed from the financial statements when all the risks associated with the sale of the receivable are borne by the factoring company.

Payables are recognised at nominal value. Trade payables have due dates that fall within normal contractual periods (60 to 120 days), and are therefore not discounted.

Financial derivatives

Derivatives are classified as "Hedging derivatives" if the conditions exist for the application of hedge accounting; otherwise, even if undertaken with the intention of managing risk exposure, they are recorded as "Financial assets held for trading". In line with IAS 39, financial derivatives may be recognised using the methods established for hedge accounting only when the relationship between the derivative and the hedged item is formally documented and the hedge effectiveness is high (effectiveness test). The effectiveness of hedge transactions is documented both at the start of the transaction and periodically (at least at each reporting date of the financial statements or interim statements) and measured by comparing changes in the fair value of the hedging instrument with those of the hedged item.

When derivatives hedge the risk of changes in the fair value of hedged instruments (fair value hedges), the derivatives are recognised at fair value and the effects are charged to the income statement. The Gefran Group does not hold derivatives of this kind.

When derivatives hedge the risk of changes in the cash flows of the hedged instruments (cash flow hedges), changes in the fair value of the derivatives are initially recorded under other components of comprehensive income and are then reclassified from shareholders' equity to profit (loss) for the year as a reclassification adjustment, in line with the economic effects of the hedged transaction. The change in fair value relating to the ineffective portion is recognised immediately in the income statement for the period. If the derivative is sold or no longer qualifies as an effective hedge against the risk for which it was initiated, or the occurrence of the underlying transaction is no longer regarded as highly probable, the portion of the cash flow hedge reserve relating thereto is immediately reversed to the income statement

The Gefran Group uses financial derivatives such as interest rate swaps (IRS), interest rate caps (CAP) and forward exchange rate sale transactions to hedge the risk of changes in interest rates and exchange rates. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the income statement. Regardless of classification, all derivatives are measured at fair value using valuation techniques based on market data (such as, inter alia, discounted cash flow, the forward exchange rate method and the Black-Scholes formula and its developments).

Cash and cash equivalents

Cash and cash equivalents includes cash on hand and demand and short-term bank deposits, which are highly liquid and subject to an insignificant risk of changes in value. They are recognised at nominal value.

Financial liabilities

Payables and financial liabilities are initially recorded at fair value, which essentially coincides with the amount to be paid, net of transaction costs. Purchases and sales of financial liabilities are recognised on the trading date, i.e. the date on which the Group has committed to purchase/sell the liabilities.

Management determines the classification of financial liabilities in the categories set out in IAS 39 and IFRS 7 at the time of their initial recognition. After initial recognition, financial liabilities are valued in relation to their classification within one of the categories defined by IAS 39. In detail it is highlighted that:

- the valuation of "Financial liabilities at fair value through profit or loss" is carried out using the market value at the close of the reporting period; in the case of unlisted instruments (e.g. financial derivatives) it is carried out using financial valuation techniques based on market data. Gains or losses arising from fair value measurement relating to assets and liabilities held for trading are recognised in the income statement.
- the valuation of "Financial liabilities valued at amortised cost", carried out at amortised cost, in the case of instruments maturing within 12 months uses the nominal value as an approximation of amortised cost.

Payables denominated in foreign currencies are adjusted to year-end exchange rates and gains or losses resulting from the adjustment are recognised in the income statement.

Own shares

Own shares are reported as a reduction in respect of shareholders' equity. The original cost of the own shares and the income generated by any subsequent sales are reported as changes in shareholders' equity.

Provisions for risks and future liabilities

Allocations to provisions for risks and future liabilities take place when the Group has a current obligation (legal or implicit) arising from a past event, it is probable that a financial outlay will take place to meet the obligation and a reliable estimate can be made of the obligation.

Allocations to provisions for risks and future liabilities exceeding one year are discounted only if the effect of discounting is material, at a pre-tax discount rate that reflects current market assessments of the value of money in relation to time and, if appropriate, the specific risks associated with the liability. When discounting back takes place, the increase in the provision due to the passage of time is recognised as a financial charge.

Employee benefits

The post-employment benefit reserve, which is mandatory for Italian companies pursuant to Italian Law No. 297/1982, is considered a defined benefit plan and is based, inter alia, on the working lives of employees and the remuneration earned by the employee over a predetermined period of service. The post-employment benefit reserve is calculated by independent actuaries using the "*Traditional unit credit*" method. The Company has opted to recognise all cumulative actuarial gains and losses both on first-time adoption of IFRS and subsequently.

Translation of foreign companies' financial statements

The financial statements of subsidiaries, affiliates and joint ventures are prepared using the functional currency of the individual entity. The consolidated financial statements are denominated in Euro, the functional currency of the parent company Gefran S.p.A..
The rules for the conversion of the companies' financial statements denominated in currencies other than the Euro are as follows:

- assets and liabilities are translated at the exchange rates at the reporting date;
- costs and revenues are converted at the average exchange rates in the period;
- the *"Currency translation reserve"* includes both the exchange rate differences resulting from the translation of economic parameters at an exchange rate other than that at closing, and those generated by translating the opening shareholders' equity at an exchange rate other than that at the close of the reporting period.

Translation of foreign currency items

Foreign currency transactions are implemented by each entity at the conversion rate prevailing at the accounting date. Subsequently, at the time of payment or collection, the exchange rate difference arising from the time difference between the two moments is recorded and posted to the income statement.

From an equity point of view, at the close of the reporting period, receivables and liabilities arising from transactions in currencies other than the functional currency are reassessed in the company's currency, taking as benchmark the exchange rate prevailing at the reporting date. Also in this case, the exchange rate difference is posted to the income statement.

Non-monetary items denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the transaction date, i.e. at the historical exchange rate.

7. ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE FROM 1 JANUARY 2016

As from 1 January 2016, a number of amendments introduced by the international accounting standards and interpretations were applied, none of which have led to a significant effect on the Group's financial statements. The main changes are illustrated below:

- IAS 16 e IAS 38 "*Clarification of Acceptable Methods of Depreciation and Amortisation*": the amendments consider the adoption of an amortisation/depreciation method based on revenues to be inappropriate. Limited to intangible assets, this indication is considered to be a relative presumption which can be surpassed only on occurrence of one of the following circumstances: (i) the right to use an intangible asset is linked to the achievement of a pre-established threshold

of revenues to be produced; or (ii) when it can be demonstrated that the accomplishment of the revenues and the use of the economic benefits of the asset are highly correlated;
- IAS 19 "Defined-benefit plans – employee contributions": the amendments published on 21 November 2013 relate to the recognition in the financial statements of the contributions made by the employees or by third parties to defined-benefit plans;
- IFRS 11 "Joint Arrangements: Recognition of the acquisition of interests in joint operations": the amendments provide clarifications on how to account for acquisitions of interests in joint operations that constitute a business;
- IAS 27 Revised "Separate financial statements": the amendment applicable as from 1 January 2016 makes it possible for an entity to use the equity method to recognise investments in subsidiaries, joint ventures and associated companies in the separate financial statements;
- within the sphere of the annual improvement process for the standards, the IASB has published the Annual amendments to the IFRS 2010-2012 and the Annual amendments to the IFRS 2012-2014. This amendments supplement and partially change the existing standards and concern:
    (i) IFRS 2 "Share-based payments";
    (ii) IFRS 3 "Business combinations";
    (iii) IFRS 5 "Non-current assets held for sale and discontinued operations";
    (iv) IFRS 7 "Financial instruments: disclosures";
    (v) IFRS 8 "Operating segments";
    (vi) IFRS 13 "Fair value measurement";
    (vii) IAS 19 "Employee benefits";
    (viii) IAS 34 "Interim financial reporting".
- IAS 1 "Presentation of financial statements": the amendment to the standard in question intends to provide clarifications with regard to the aggregation or separation of financial statement items if their amount is significant or "material". In detail, the amendment of the standard requires that steps are not taken to aggregate the financial statement items with different characteristics or separate the financial statement items which make the disclosure and the interpretation of said financial statements difficult. Furthermore, the amendment indicates the need to present headings, partial results and additional items, also separating the items listed in section 54 (statement of financial positions) and 82 (income statement) of IAS 1, when this presentation is significant for the purposes of the comprehension of the statement of financial position and the economic-financial result of the entity;
- The IASB has amended IFRS 10 "Consolidated financial statements", IFRS 12 "Disclosure of interests in other entities" and IAS 28 "Investments in associates and joint ventures". The aim is to clarify the accounting method for investment companies and in particular the exemption from presentation of the consolidated financial statements for a parent company that in turn is controlled by an investment company, when the latter measures its subsidiaries at fair value. With regard to IAS 28, this standard had been amended with regard to equity investments held in associated companies or joint ventures which are "investment entities": these equity investments can be valued using the equity method or at fair value.

8. ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE OR NOT YET IN FORCE

At the date of these financial statements, furthermore, the following standards are not yet applicable or not yet in force:

- In May 2014, the IASB and the FASB jointly published the standard IFRS 15 "Revenues from contracts with customers". This standard proposes to improve the disclosure on revenues and their comparability between the various sets of financial statements. The new standard is applicable retrospectively, for the annual accounting periods beginning on or after 1 January 2018. Gefran has not opted for early application, although permitted;

- On 24 July 2014, the IASB finalised the project for the review of the accounting standard regarding financial instruments with the release of the complete version of IFRS 9 "Financial instruments". In detail, the new provisions of IFRS 9: (i) change the classification and measurement model for the financial assets; (ii) introduce a new way of writing down the financial assets, which takes into account the expected losses (so-called expected credit losses); (iii) change the provisions concerning hedge accounting. The provisions of IFRS 9 are effective as from the accounting periods beginning on or after 1 February 2018. Gefran has not opted for early application, although permitted;
- In February 2016, the IASB issued an amendment to IAS 12 "Income taxes". These amendments clarify how to recognise deferred tax assets relating to debt instruments valued at fair value. Said amendments will be applicable as from 1 January 2017;
- In February 2016, the IASB issued an amendment to IAS 7 "Income taxes". These amendments to IAS 7 introduce additional disclosure which will permit the users of the financial statements to assess the changes in the liabilities deriving from lending activities. Said amendments will be applicable as from 1 January 2017;
- In June 2016, the IASB issued an amendment to IFRS 2 "Share-based payments". These amendments clarify how to recognise certain share-based payments. Said amendments will be applicable as from 1 January 2018;
- In September 2016, the IASB issued an amendment to IFRS 4 "Insurance contracts" relating to the application of IFRS 9 "Financial instruments" in relation to the subject of insurance agreements. Said amendments will be applicable as from 1 January 2018;
- In December 2016, the IASB issued IFRIC 22 "Foreign currency transactions and advance consideration". The standard defines the exchange rate to be used to report foreign currency transactions for which payment or collection is made in advance, and will be applicable as from 1 January 2018;
- In December 2016, the IABS issued amendments to IAS 40 "Investment property", with the aim of regulating transfers to and from investment property. Particular consideration is given to whether a property under construction or development can be transferred from inventory to investment property, when there has been an evident change in use. This standard is applicable as from 1 January 2018;
- within the sphere of the annual improvement process for the standards, the IASB has published the Annual amendments to the IFRS 2014-2016. This amendments supplement and partially change the existing standards and concern:
  (i) IFRS 12 "Disclosure of interests in other entities";
  (ii) IFRS 1 "First-time adoption of International Financial Reporting Standards";
  (iii) IAS 28 "Investments in affiliates and joint ventures".

In addition, the approval process for the following principles that are not yet applicable has not yet been completed:

- In January 2016, the IASB published IFRS 16 "Leasing". This new standard will replace the current IAS 17. The main change concerns the recognition in the accounts by the lessees which, on the basis of IAS 17, were obliged to make a distinction between a financial lease (on balance sheet) and an operating lease (off balance sheet). By means of IFRS 16, the accounting treatment of the operating lease will be placed on the same footing as a financial lease. The IASB envisaged the optional exemption for certain lease agreements with a low value and which are short-term. This principle has not yet been approved by the competent bodies of the European Union, and will be applicable as from 1 January 2019. Early application will be possible if IFRS 15 "Revenues from contracts with customers" is adopted at the same time.
- In January 2014, the IASB published IFRS 14 "Regulatory deferral accounts", which entered into force on 1 January 2016. This principle allows only first-time adopters of IFRS to continue to account for amounts relating to rate regulation using the previous accounting standards adopted. In order to improve comparison with entities that already apply IFRS and that do not recognise these amounts, the standard requires that the effect of the rate regulation must be

presented separately from other items. The European Commission, however, has decided to suspend the approval process, pending the new accounting standard on “rate-regulated activities”;

- In September 2014, the IASB issued amendments to IFRS 10 “Consolidated financial statements” and IAS 28 “Investments in associates and joint ventures”. The aim is to clarify the method for reporting results relating to the sale of assets between the companies of a group and associated companies and joint ventures. The approval process, however, has been suspended, and the relating application period has been postponed until further notice.

The Group will adopt these new standards, amendments and interpretations on the basis of the envisaged date of application, and will assess the potential impacts.

9. MAIN DECISIONS IN THE APPLICATION OF ACCOUNTING STANDARDS AND UNCERTAINTIES IN MAKING ESTIMATES

In drafting the financial statements and the explanatory notes to the accounts, in accordance with the IAS/IFRS principles, the Group makes use of estimates and assumptions to assess certain items. These are not based on historical experience and uncertain assumptions, but on realistic data, assessed regularly and, if necessary, updated, with effect on the income statement for the period and for future periods. The uncertainty inherent in these assessment estimates may lead to misalignment between the estimates made and the actual effects of the estimated events on the financial statements.
Below are the processes that require management to perform assessment estimates, and with regard to which a change in the underlying conditions could have a significant impact on the consolidated financial data:

Provision for inventory write-down

Inventories are stated as the lower between the cost of purchase (measured using the weighted average cost method) and the net realisable value. The provision for inventory write-down is necessary in order to adjust the value of inventories to the estimated realisable value: inventory composition is analysed for slow-moving stocks, with the aim of assessing a prudent provision that reflects any obsolescence of same.

Provision for doubtful receivables

The provision for doubtful receivables reflects management’s estimates regarding the recoverability of receivables from customers. Management’s assessment is based on experience and on an analysis of situations with a known or probable risk of non-collection.

Goodwill and intangible assets with a definite life

These are periodically subject to evaluation through the impairment test, with the aim of determining their present value and accounting for any differences in value; for details, see the specific sections of the notes to the financial statements.

Employee benefits

The provision for the post-employment benefit reserve is posted to the financial statements and annually reviewed by external actuaries, taking into account assumptions regarding the discount rate, inflation and demographic assumptions; for details, see the specific section of the notes to the financial statements.

Deferred tax assets

The recoverability of deferred tax assets is periodically evaluated, based on the results achieved and on the business plans prepared by management.

Current and non-current provisions

Provisions are made for risks of a legal and fiscal nature to represent the risk of a negative outcome. The amount of the provisions posted to the financial statements in relation to these risks represents management's best estimate at that time. This estimate entails the adoption of assumptions that depend on factors that may change over time and that could, therefore, have a significant effect on the current estimates made by management in preparing the Group's consolidated financial statements.

10. FINANCIAL INSTRUMENTS: SUPPLEMENTARY DISCLOSURE PURSUANT TO IFRS 7

The Group's activities are exposed to different types of risk: market risk (including exchange rate risks, interest rate risks and price risks), credit risk and liquidity risk. The Group's risk management strategy focuses on the markets' unpredictability and is intended to minimise the potential negative effects on the Group's results. Certain types of risk are mitigated through the use of derivatives. Coordination and monitoring of the main financial risks are centralised in the Group's Finance and Administration Department, as well as the Purchasing function as regards the price risk, in close partnership with the Group's operating units. Risk management policies are approved by the Group's Administration, Finance and Control Department, which provides written guidelines for the management of the risks listed above and the use of derivative and non-derivative financial instruments. As part of the sensitivity analyses described below, the effect on the net profit figure and on shareholders' equity is determined gross of the tax effect.

Exchange rate risks

The Group is exposed to the risk of fluctuations in exchange rates in relation to commercial transactions and the cash held in currencies other than the euro, the Group's functional currency. Around 26% of sales are denominated in a different currency. Specifically, the Group is most exposed to the following exchange rates:

- EUR/USD to the tune of 12%, mainly related to the commercial transactions of Parent Company Gefran S.p.A. and the subsidiary Gefran Inc.;
- EUR /RMB to the tune of 11%, mainly related to the Chinese operating company Gefran Siei Drives Technology;
- the remainder is divided between EUR/BRL, EUR/GBP, EUR/CHF, EUR/INR, EUR/ZAR and EUR/TRL.

The Group hedges some of its foreign currency transactions by trading exchange rate derivatives (currency forward purchase and sale), the due dates of which coincide with that of the hedged transaction, in order to maximise its effectiveness. The main currency risk hedging activity is conducted through *forward* exchange rate option sale and purchase transactions.

The sensitivity to a hypothetical and unexpected change of the exchange rates of 5% and 10% in the fair value of the balance sheet assets and liabilities is shown below:

Description	**31 December 2016**		**31 December 2015**	
(EUR /000)	-5%	+5%	-5%	+5%
Chinese renminbi	30	(27)	(5)	5
US dollar	35	(31)	25	(23)
Total	65	(59)	20	(18)

Description	31 December 2016		31 December 2015	
(EUR /000)	-10%	+10%	-10%	+10%
Chinese renminbi	64	(52)	(11)	9
US dollar	73	(60)	54	(44)
Total	137	(112)	43	(35)

The sensitivity to a hypothetical and unexpected change of the most significant exchange rates of 5% and 10% in the fair value of the net profit for the year is shown below:

Description	31 December 2016		31 December 2015	
(EUR /000)	-5%	+5%	-5%	+5%
Chinese renminbi	(76)	68	(51)	46
US dollar	63	(58)	55	(49)
Total	(13)	10	4	(3)

Description	31 December 2016		31 December 2015	
(EUR /000)	-10%	+10%	-10%	+10%
Chinese renminbi	(160)	131	(108)	88
US dollar	134	(111)	115	(94)
Total	(26)	20	8	(6)

The sensitivity to a hypothetical and unexpected change of the most significant exchange rates of 5% and 10% in the fair value of the shareholders' equity is shown below:

Description	31 December 2016		31 December 2015	
(EUR /000)	-5%	+5%	-5%	+5%
Chinese renminbi	763	(691)	868	(787)
US dollar	354	(321)	337	(304)
Total	1,118	(1,012)	1,205	(1,091)

Description	31 December 2016		31 December 2015	
(EUR /000)	-10%	+10%	-10%	+10%
Chinese renminbi	1,612	(1,319)	1,834	(1,502)
US dollar	748	(613)	710	(581)
Total	2,360	(1,932)	2,544	(2,083)

Interest rate risk

The long-term interest rate to which the Group is exposed mainly originates from long-term loans. These are floating-rate loans. Floating-rate loans expose the Group to a risk associated with interest rate volatility (the cash flow risk). The Group uses derivatives to hedge its exposure to interest rate risk, stipulating Interest Rate Swap (IRS) and Interest Rate CAP contracts.

The Group's Administration and Finance Department monitors exposure to the interest rate risk and proposes appropriate hedging strategies to contain exposure within the limits defined and agreed in the Group's policies, using derivatives when necessary.

The table below shows a sensitivity analysis of the impact that an interest rate increase/decrease of 100 basis points would have on the consolidated net profit/(loss), comparing interest rates at 31 December 2016 and 31 December 2015, while keeping other variables unchanged.

(EUR /000)	2016		2015	
	-100	100	-100	100
EUR	7	(44)	(188)	52
Total	**7**	**(44)**	**(188)**	**52**

The potential impacts shown above are calculated with reference to the net liabilities that account for the most significant portion of the Group's debt on the reporting date of this interim financial report, and measuring, on this amount, the effect on net financial liability charges resulting from the change in interest rates on an annual basis.

The net liabilities considered in this analysis include floating-rate financial assets and liabilities, cash and cash equivalents and derivative financial instruments, the value of which is affected by interest rate fluctuations.

The table below shows the book value at 31 December 2016, broken down by maturity, of the Group's financial instruments exposed to the interest rate risk:

Floating rate	**<1 year**	**1-5 years**	**>5 years**	**Total**
(EUR /000)				
Loans due	9,857	16,045	-	25,902
Other accounts payable	51	-	-	51
Account overdrafts	7,226	-	-	7,226
Cash pooling current account overdrafts	-	-	-	-
Leases	-	-	-	-
Total liabilities	**17,134**	**16,045**	**-**	**33,179**
Cash in current accounts	20,388	-	-	20,388
Other cash	3			3
Cash in cash pooling current accounts	-	-	-	-
Total assets	**20,391**	**-**	**-**	**20,391**
Total floating rate	**3,257**	**(16,045)**	**-**	**(12,788)**

Unlike net debt figures, the amounts shown in the table above do not include the fair value of derivatives (negative for EUR 216 thousand) or cash on hand (positive for EUR 86 thousand).

Liquidity risk

Prudent management of the liquidity risk arising from the Group's normal operations requires an appropriate level of cash on hand and short-term securities to be maintained, as well as the availability of funds obtainable through an appropriate amount of committed credit lines.

The Group's Administration and Finance Department monitors forecasts on the use of the Group's liquidity reserves based on expected cash flows. The table below shows the amount of liquidity reserves available on the reference dates:

Description	**2016**	**2015**	**changes**
(EUR /000)			
Cash and cash equivalents	86	69	17
Cash in bank deposits	20,388	24,533	(4,145)
Term deposits – less than 3 months	3	-	3
Total liquidity	**20,477**	**24,602**	**(4,125)**

Multiple mixed credit lines	15,000	13,541	1,459
Cash flexibility credit lines	8,785	8,785	-
Invoice factoring credit lines	12,934	10,708	2,226
Total credit lines available	**36,719**	**33,034**	**3,685**
Total liquidity available	**57,196**	**57,636**	**(440)**

To complete disclosure on financial risks, the table below shows a reconciliation of financial asset and liability classes, as identified in the Group's statement of financial position, and the types of financial assets and liabilities identified on the basis of IFRS 7 requirements:

	Level 1	Level 2	Level 3	Total
(EUR /000)				
Available-for-sale assets valued at fair value:				
Shareholdings valued at fair value with a balancing item in other overall	513	-	1,443	1,956
Hedging transactions	-	4	-	4
Total assets	**513**	**4**	**1,443**	**1,960**
Hedging transactions	-	(215)	-	(215)
Foreign exchange forward transactions	-	(5)	-	(5)
Total liabilities	**-**	**(220)**	**-**	**(220)**

Level 1: Fair values represented by the prices - listed in active markets (unadjusted) - of financial instruments identical to those being valued that may be accessed at the measurement date. These prices are defined as mark-to-market inputs as they provide a fair value measurement based directly on official market prices, therefore without the need for any modification or adjustment.

Level 2: Fair values determined using evaluation techniques based on variables that may be observed in active markets, which in this case include the evaluation of interest rate hedging and of foreign exchange hedging. As with the Level 1 inputs, the reference value is mark-to-market, i.e. the evaluation method whereby the value of a financial instrument or contract is systematically adjusted according to the current market prices.

Level 3: Fair values determined using evaluation techniques based on variables that may not be observed, and in particular the values of equity investments in other companies that are not listed on international markets whose overall value has not suffered overall changes compared to 31 December 2015.

Below is a reconciliation of financial asset and liability classes, as identified in the Group's statement of financial position, and the types of financial assets and liabilities identified on the basis of IFRS 7 requirements, for the year 2015:

	Level 1	Level 2	Level 3	Total
(EUR /000)				
Available-for-sale assets valued at fair value:				
Shareholdings valued at fair value with a balancing item in other overall profit/(loss)	352	-	1,448	1,800
Foreign exchange forward transactions	-	-	-	-
Hedging transactions	-	25	-	25
Total assets	**352**	**25**	**1,448**	**1,825**
Hedging transactions	-	274	-	274
Total liabilities	**-**	**274**	**-**	**274**

Credit risk

The Gefran Group deals mainly with known and reliable customers. The Group's credit policy is to subject customers who require extended payment terms and new customers to credit checks. In addition, receivables are monitored over the year to reduce late payments and prevent significant losses.

The Group has adopted a policy of monitoring outstanding receivables, a measure made necessary given the possible deterioration of certain receivables, the decline in credit rating reliability and the lack of liquidity on the market. The process of devaluation, carried out in accordance with the Group's procedures, establishes that credit positions are devalued in percentage terms based on the overdue period of time; individual trade positions for which there is objective evidence of insolvency are also impaired.

The Gefran Group has established formal procedures for customer credit and credit collection through the legal department and in partnership with leading external law offices. All the procedures put in place are intended to reduce credit risk. Exposure to other forms of credit, such as financial receivables, is constantly monitored and reviewed monthly or at least quarterly, in order to determine any losses or recovery-associated risks.

The Gefran Group has assigned a portion of its trade receivables to a leading factoring company by transferring the insolvency risk.

At 31 December 2016, gross trade receivables totalled EUR 35,129 thousand (EUR 37,835 thousand at 31 December 2015), and included EUR 2,632 thousand (EUR 2,226 thousand at 31 December 2015) related to receivables subject to individual impairment; of the remaining amount, the sum overdue by less than two months was EUR 2,238 thousand (EUR 4,136 thousand at 31 December 2015), while that overdue by more than two months was EUR 6,569 thousand (EUR 11,541 thousand at 31 December 2015).

Risk of change in raw material prices

The Group's exposure to price risk is minimal. Purchases of materials and components subject to fluctuations in raw material prices are not significant. The purchase costs of the main components are usually set with counterparties for the full year, and reflected in the budget. The Group has in place structured and formalised governance systems that it uses to regularly analyse its margins. Commercial operations are coordinated by business area, so as to monitor sales and manage discounts.

Fair value of financial instruments

All the Group's financial instruments are recorded in the financial statements at fair value. The amount of financial liabilities valued at amortised cost is considered close to the fair value on the reporting date.

The table below summarises the Group's net debt, comparing fair value and book value:

	book value		fair value	
(EUR /000)	**2016**	**2015**	**2016**	**2015**
Financial investments				
Cash and cash equivalents	86	69	86	69
Cash in bank deposits	20,388	24,533	20,388	24,533
Securities held for trading	3	-	3	-
Financial assets for derivatives	4	25	4	25
Total financial assets	**20,481**	**24,627**	**20,481**	**24,627**

Financial liabilities				
Current portion of long-term debt	(9,857)	(26,876)	(9,857)	(26,876)
Short-term bank debt	(7,226)	(11,187)	(7,226)	(11,187)
Financial liabilities for derivatives	(220)	(274)	(220)	(274)
Factoring	(43)	(265)	(43)	(265)
Leasing	-	(16)	-	(16)
Other financial payables	(8)	(8)	(8)	(8)
Non-current financial debt	(16,045)	(10,879)	(16,045)	(10,879)
Total financial liabilities	**(33,399)**	**(49,505)**	**(33,399)**	**(49,505)**
Total net debt	**(12,918)**	**(24,878)**	**(12,918)**	**(24,878)**

11. NON-RECURRING INCOME (CHARGES)

(EUR /000)	**Other revenues and income**	**Personnel costs**	**Total**
Non-recurring income	675		675
Non-recurring charges		(1,864)	(1,864)
Total non-recurring income (charges)	**675**	**(1,864)**	**(1,189)**
Financial statement total	**1,264**	**(45,347)**	
Incidence	53.40%	4.11%	

Revenues include non-recurring income of EUR 675 thousand, of which EUR 154 thousand recorded in the fourth quarter of 2016, relating to government grants awarded to the Chinese subsidiary in respect of incentives for research and development granted to technology companies.

Non-recurring personnel costs relate to provisions for restructuring costs made by the Parent Company Gefran S.p.A. for EUR 1,428 thousand, while the remaining EUR 436 thousand is divided among the subsidiaries Gefran Deutschland, Gefran France, Gefran Siei Drive Technology and the Spanish branch.

With regard to Gefran S.p.A., the non-recurring restructuring costs were down during the fourth quarter of 2016 by EUR 272 thousand compared with the EUR 1,700 thousand registered at 30 September 2016, because due to the conclusion of the restructuring procedure the provisions exceeding the effective use were reversed to the income statement.

There were no non-recurring components present in the financial statements at 31 December 2015.

12. INFORMATION BY BUSINESS AREA

Primary segment – sector of activity

The organisational structure of the Gefran Group is divided into three areas of activity: sensors, automation components and drives. The economic trends and the main investments are covered in the Report on Operations.

Figures by business area

(EUR /000)	31 December 2016 Revenues	EBITDA	% of revenues	EBIT	% of revenues	31 December 2015 Revenues	EBITDA	% of revenues	EBIT	% of revenues
Sensors	50,069	13,390	26.7%	11,152	22.3%	47,630	11,949	25.1%	9,837	20.7%
Automation components	32,435	2,401	7.4%	577	1.8%	30,432	388	1.3%	(1,632)	-5.4%
Drives	40,217	(4,467)	-11.1%	(6,614)	-16.4%	40,134	(6,656)	-16.6%	(8,835)	-22.0%
Eliminations	(3,391)	0		0		(2,844)				
Total	**119,330**	**11,324**	**9.5%**	**5,115**	**4.3%**	**115,352**	**5,681**	**4.9%**	**(630)**	**-0.5%**

Intersegment sales are booked at transfer prices, which are broadly in line with market prices.

Statement of financial position figures by business area

(EUR /000)	31/12/2016	Sensors	Components	Drives	Not divided	Total
Intangible assets	14,353	8,472	2,901	2,980		14,353
Tangible assets	36,931	10,196	10,282	16,453		36,931
Financial assets	10,176				10,176	10,176
Net fixed assets	**61,460**	**18,668**	**13,183**	**19,433**	**10,176**	**61,460**
Inventories	21,589	4,565	3,543	13,481		21,589
Trade receivables	30,745	9,279	7,652	13,814		30,745
Trade payables	(16,580)	(5,193)	(4,449)	(6,938)		(16,580)
Other assets/liabilities	(9,925)	(3,467)	(2,593)	(2,496)	(1,369)	(9,925)
Working capital	**25,829**	**5,184**	**4,153**	**17,861**	**(1,369)**	**25,829**
Provisions for risks and future liabilities	(2,460)	(637)	(61)	(651)	(1,111)	(2,460)
Deferred tax provisions	(1,005)				(1,005)	(1,005)
Employee benefits	(5,212)	(1,556)	(2,230)	(1,426)		(5,212)
Invested capital from operations	78,612	**21,659**	**15,045**	**35,217**	**6,691**	**78,612**
Invested capital from assets held for sale	**1,214**	-	-	-	**1,214**	**1,214**
Net invested capital	**79,826**	**21,659**	**15,045**	**35,217**	**7,905**	**79,826**
Shareholders' equity	**66,908**				**66,908**	**66,908**
Non-current financial payables	16,045				16,045	16,045
Current financial payables	17,134				17,134	17,134
Financial liabilities for derivatives	220				220	220
Financial assets for derivatives	(4)				(4)	(4)
Cash on hand and current financial receivables	(20,477)				(20,477)	(20,477)
Net debt relating to operations	**12,918**	-	-	-	**12,918**	**12,918**
Total sources of financing	**79,826**	-	-	-	**79,826**	**79,826**

(EUR /000)	**31/12/2015**	**Sensors**	**Components**	**Drives**	**Not divided**	**Total**
Intangible assets	15,126	8,631	3,116	3,379		15,126
Tangible assets	39,389	10,692	10,913	17,784		39,389
Financial assets	8,202				8,202	8,202
Net fixed assets	62,717	19,323	14,029	21,163	8,202	62,717
Inventories	22,674	4,130	3,630	14,914		22,674
Trade receivables	34,023	9,932	6,514	17,577		34,023
Trade payables	(16,531)	(4,781)	(4,157)	(7,593)		(16,531)
Other assets/liabilities	(8,246)	(2,373)	(2,122)	(2,295)	(1,456)	(8,246)
Working capital	31,920	6,908	3,865	22,603	(1,456)	31,920
Provisions for risks and future liabilities	(1,856)	(316)	(47)	(903)	(591)	(1,856)
Deferred tax provisions	(868)			-	(868)	(868)
Employee benefits	(5,405)	(1,655)	(2,168)	(1,582)		(5,405)
Invested capital from operations	86,508	24,260	15,679	41,281	5,287	86,508
Invested capital from assets held for sale	1,354	-	-	-	1,354	1,354
Net invested capital	87,862	24,260	15,679	41,281	6,641	87,862
Shareholders' equity	62,984				62,984	62,984
Medium to long-term financial payables	10,879				10,879	10,879
Short-term financial payables	38,352				38,352	38,352
Financial liabilities for derivatives	274				274	274
Financial assets for derivatives	(25)				(25)	(25)
Cash and cash equivalents and short-term financial receivables	(24,602)				(24,602)	(24,602)
Net debt relating to operations	24,878	-	-	-	24,878	24,878
Total sources of financing	87,862	-	-	-	87,862	87,862

Secondary segment - revenues by geographic region

Geographic region	**31 December 2016**	**31 December 2015**	**Change**	**%**
(EUR /000)				
Italy	34,365	33,173	1,192	3.6%
European Union	32,923	30,977	1,946	6.3%
Non-EU Europe	6,662	6,393	269	4.2%
North America	13,929	13,679	250	1.8%
South America	3,883	3,755	128	3.4%
Asia	25,694	25,903	(209)	-0.8%
Rest of the World	610	971	(361)	-37.2%
Total	**118,066**	**114,851**	**3,215**	**3%**

Secondary segment - investments by geographic region

Geographic region	31 December 2016		31 December 2015	
	tangible assets	intangible assets and goodwill	tangible assets	intangible assets and goodwill
(EUR/000)				
Italy	1,217	1,398	1,838	2,275
European Union	26	0	100	10
Non-EU Europe	38	1	22	1
North America	16	0	25	6
South America	113	0	32	53
Asia	154	0	253	118
Rest of the World	2	0	0	0
Total	1,566	1,399	2,270	2,463

Secondary segment - non-current assets by geographic region

Geographic region	31 December 2016	31 December 2015	Change	%
(EUR /000)				
Italy	46,547	46,930	(383)	-0.8%
European Union	2,118	2,228	(110)	-4.9%
Non-EU Europe	2,703	2,895	(192)	-6.6%
North America	4,410	4,938	(528)	-10.7%
South America	364	305	59	19.3%
Asia	5,318	5,748	(430)	-7.5%
Rest of the World	0	82	(82)	-100.0%
Total	**61,460**	**63,126**	**(1,666)**	**-3%**

13. GOODWILL AND OTHER INTANGIBLE ASSETS WITH AN INDEFINITE LIFE

"Goodwill" totalled EUR 6,093 thousand at 31 December 2016, an increase of EUR 189 thousand compared with 31 December 2015, and breaks down as follows:

(EUR /000)	31 December 2015	Increases	Decreases	Exchange rate differences	31 December 2016
Gefran France SA	1,310	-	-	-	1,310
Gefran India	44	-	-	-	44
Gefran Inc.	2,596	-	-	189	2,785
Sensormate AG	1,954	-	-	-	1,954
	5,904	-	-	189	6,093

The goodwill acquired following business combinations was allocated to specific CGUs for the purpose of impairment testing.

The book value of goodwill is shown below.

Description	Year	Goodwill France	Goodwill India	Goodwill USA	Goodwill Switzerland	Total
(EUR /000)						
Sensors	2016	1,310	-	2,785	1,954	6,049
	2015	1,310	-	2,596	1,954	5,860
Drives	2016	-	44	-		44
	2015	-	44	-		44
Total	**2016**	**1,310**	**44**	**2,785**	**1,954**	**6,093**
	2015	**1,310**	**44**	**2,596**	**1,954**	**5,904**

When examining the possible impairment indicators and developing its assessments, management also took into consideration the relationship between stock market capitalisation and book value of the Group’s shareholders’ equity, among other things. At 31 December 2016, the market capitalisation was less than the Group’s shareholders’ equity: this situation indicates a potential loss in value. However, it is believed that the market capitalisation, also in light of current financial market trends and the related macroeconomic context, does not fully reflect the potential of certain distinctive elements of the Group, such as patents, know-how and research activities.

Within the sphere of the analysis on the recoverability of the values of the goodwill, in agreement with the main dictates in IAS 36, the *values in use* of the Group and the CGUs mentioned above have been determined, to which the assets subject to verification have been allocated. This exercise was based on the forecast cash flows discounted back, produced by the CGUs subject to analysis, appropriately discounted back by means of the rates which reflect the risk.

Goodwill relating to the France, USA and Switzerland CGUs has been assigned to the sensors business unit, that relating to the India CGU to the drive business unit. For impairment testing purposes, all goodwill is examined on the basis of data from the specific CGUs, which corresponds to the subsidiary companies operating in the aforesaid geographic regions.

The main assumptions used in conducting the impairment tests are set out in the table below.

Description	Net invested capital 31/12/2016	Net invested capital 31/12/2015	Explicit forecast	WACC (%)	Value in use 31/12/2016	Risk free (%)	Risk premium (%)	Theoretical tax rate (%)
(EUR /000)								
Consolidated	85,038	87,862	2017 - 2019	9.0%	159,157	2.1%	7.1%	31.0%

Description	Carrying value 31/12/2016	Carrying value 31/12/2015	Explicit forecast	WACC (%)	Value in use 31/12/2016	Risk free (%)	Risk premium (%)	Theoretical tax rate (%)
(EUR /000)								
France	1,310	1,310	2017 - 2019	6.2%	2,929	0.5%	6.8%	34.4%
India	44	44	2017 - 2019	11.2%	2,454	7.2%	8.8%	31.0%
USA	2,785	2,596	2017 - 2019	6.1%	57,291	1.9%	5.7%	39.5%
Switzerland	1,954	1,954	2017 - 2019	5.5%	5,362	-0.4%	6.8%	16.4%
Total	**6,093**	**5,904**						

When determining the value in use, the specific cash flows relating to the period 2017 - 2019 were considered, deriving from the Group Plan, along with the terminal value, which represents the ability to generate cash flows beyond the explicit forecast timescale.

The main assumptions used by management to calculate value in use concern the discount rate (WACC) and the long-term growth rate (g), owing to the hypotheses reflected in the change in sales prices and volumes and the trend of the costs envisaged in the Group Plan.

The rate used for discounting back the future cash flows is the weighted average cost of the capital (Weighted Average Cost of Capital or also WACC), which is calculated as the weighted average of the cost of own capital and the cost of third party capital, net of the tax effects.

When calculating the same, market parameters are used such as the Beta, a factor which expresses the risk which characterises the particular business with respect to the financial market in general, and the related financial structure taken from calculations developed by Professor Damodaran, one of the leading experts in business valuations globally.

The return from risk-free assets has been parameterised to the yield of the government securities of the countries in which the Group and the various CGUs operate.

The premium for the market risk represents the additional return required by an investor against the risk, compared with the return which can be obtained from risk-free assets: it is attributable to the difference between the long-term formalised return of the share market and the risk-free assets rate.

In order to establish the terminal value, the long-term growth rate of the cash flows adopted has been defined in relation to the expected levels of inflation in the various geographic areas in which the Group operates, making reference to estimates of international bodies.

An impairment test sensitivity analysis shows that the break-even WACC, i.e. the discount rate that would bring the *value in use* into line with the book value, is 14.5%, significantly higher than the current discount rate.

The recoverable amount of goodwill was determined according to the calculation of the value in use, which used projections of the three-year cash flow based on the 2017 - 2019 Plan, approved by management. The impairment test of the above assets did not reveal any lasting loss of value.

The following is a sensitivity analysis showing the "*g*" and "WACC" break even rates in a "steady case" scenario:

Description	**"g" rate %**	**WACC %**	**A**	**B**
(EUR /000)				
Goodwill - *STEADY CASE*				
France	1.7%	6.2%	-4.5%	11.5%
India	4.8%	11.2%	-12.9%	24.9%
USA	2.3%	6.1%	-62.4%	42.0%
Switzerland	1.0%	5.5%	-5.0%	10.5%

A = *g rate* % break-even point with unchanged WACC

B = WACC % of break-even point with stable *g rate*

Having taken into account that the realisation of the Plan implies a number of elements of uncertainty, even if the impairment tests would make it possible to deem both the value of the Group's consolidated figures and the book value of the goodwill recorded in the financial statements reasonable, with a good degree of confidence, steps were taken to carry out stress test activities.

In this scenario a "*worst case*" version was drawn up, in which the flows of the new products in the 2017 - 2019 Plan were completely excluded, a deterioration in the added value of 3% on the products existing in the same period was hypothesised, and the growth rate was zero set in nominal terms (negative in real terms in the presence of inflation), both for the Consolidated figures and for the goodwill.

In the event of impairment test on the Group Consolidated figures, the break-even WACC would be equal to 11% and always higher than the discount rate used. Also in the “*worst case*” impairment activities of the four sets of goodwill, the break-even WACCs would be higher than the respective discount rates, and specifically France 8%, India 12%, USA 36% and Switzerland 7%.

The above analyses show that, both under stable conditions and in situations worse than those forecast, the recoverable amount of goodwill is not critical, also considering the change in the discount rate and the growth rate.

However, the directors will systematically monitor final income statement and statement of financial position data of the CGUs to assess the need to adjust forecasts and promptly reflect any further write-downs.

14. INTANGIBLE ASSETS

“Intangible assets” exclusively comprises assets with a definite life, and decreased from EUR 9,222 thousand at 31 December 2015 to EUR 8,260 thousand at 31 December 2016. The movements during the period are shown below.

Historical cost	**31 December 2015**	**Increases**	**Decreases**	**Reclassifications**	**Exchange rate effect**	**31 December 2016**
(EUR /000)						
Development costs	14,675	771	-	1,291	(21)	16,716
Intellectual property rights	5,617	95	(4,070)	37	(10)	1,669
Assets in progress and payments on account	1,973	426	-	(1,562)	(1)	836
Other assets	7,124	107	(46)	236	(17)	7,404
Total	29,389	1,399	(4,116)	2	(49)	26,625

Accumulated amortisation	**31 December 2015**	**Increases**	**Decreases**	**Reclassifications**	**Exchange rate effect**	**31 December 2016**
(EUR /000)						
Development costs	10,434	1,556	-	-	(9)	11,981
Intellectual property rights	4,474	340	(4,061)	-	(17)	736
Other assets	5,259	449	(46)	-	(14)	5,648
Total	20,167	2,345	(4,107)	-	(40)	18,365

Net value	**31 December 2015**	**31 December 2016**	**Changes**
(EUR /000)			
Development costs	4,241	4,735	494
Intellectual property rights	1,143	933	(210)
Assets in progress and payments on account	1,973	836	(1,137)
Other assets	1,865	1,756	(109)
Total	9,222	8,260	(962)

The table of changes relating to 2015 follows:

Historical cost	31 December 2014	Increases	Decreases	Reclassifications	Exchange rate effect	31 December 2015
(EUR /000)						
Development costs	13,307	658	-	711	-	14,676
Intellectual property rights	5,155	341	-	129	(8)	5,617
Assets in progress and payments on account	2,309	958	(10)	(1,286)	1	1,972
Other assets	6,153	506	(8)	437	36	7,124
Total	26,924	2,463	(18)	(9)	29	29,389

Accumulated amortisation	31 December 2014	Increases	Decreases	Reclassifications	Exchange rate effect	31 December 2015
(EUR /000)						
Development costs	9,074	1,360	-	-	-	10,434
Intellectual property rights	4,145	328	-	-	1	4,474
Other assets	4,829	431	(8)	-	7	5,259
Total	18,048	2,119	(8)	-	8	20,167

Net value	31 December 2014	31 December 2015	Changes
(EUR /000)			
Development costs	4,233	4,242	9
Intellectual property rights	1,010	1,143	133
Assets in progress and payments on account	2,309	1,972	(337)
Other assets	1,324	1,865	541
Total	8,876	9,222	346

Development costs include the capitalisation of costs incurred for the following activities:

- EUR 1,326 thousand relating to new lines for mobile hydraulics, melt sensors, pressure transducers (KS) and contactless linear position transducers (MK–IK and RK);
- EUR 1,974 thousand to component lines for the new range of regulators, GF Project VX, G Cube Performa and G Cube Fit;
- EUR 1,448 thousand relating to the new range of ADV 200 drives, lift and power supplies.

These assets are considered to have a useful life of 5 years.

Intellectual property rights exclusively comprises the costs incurred to purchase the company IT system management programmes and the use of licences for third-party software. These assets have a useful life of three years.

Assets in progress and payments on account includes payments on account made to suppliers to purchase software programmes and licences expected to be delivered during the next year. It also includes EUR 565 thousand in development costs, the benefits of which will be recognised in the income statement from the following year, as a result of which they have not been amortised. They relate to sensors (EUR 66 thousand), components (EUR 254 thousand) and drives (EUR 245 thousand).

Other assets includes almost all the costs incurred by Parent Company Gefran S.p.A. to implement ERP SAP/R3, Business Intelligence (BW), Customer Relationship Management (CRM) and management software in previous years and in the current year. These assets have a useful life of five years.

The increases in historical value of the *"Intangible assets"*, amounting to EUR 1,399 thousand in 2016, include EUR 1,107 thousand linked to the capitalisation of internal costs.

15. PROPERTY, PLANT, MACHINERY AND TOOLS

"*Property, plant, equipment and tools*" fell from EUR 39,389 thousand at 31 December 2015 to EUR 36,931 thousand at 31 December 2016. The changes are shown in the table below:

Historical cost	31 December 2015	Increases	Decreases	Reclassifications	Exchange rate effect	31 December 2016
(EUR /000)						
Land	4,526	-	-	-	9	4,535
Industrial buildings	39,669	135	(4)	-	26	39,826
Plant and machinery	38,799	388	(2,169)	440	(122)	37,336
Industrial and commercial equipment	21,951	496	(2,990)	61	(30)	19,488
Other assets	11,519	182	(3,431)	(123)	24	8,171
Assets in progress and payments on account	546	365	(1)	(380)	1	531
Total	117,010	1,566	(8,595)	(2)	(92)	109,887

Accumulated amortisation	31 December 2015	Increases	Decreases	Reclassifications	Exchange rate effect	31 December 2016
(EUR /000)						
Industrial buildings	15,324	931	(2)	-	60	16,313
Plant and machinery	32,132	1,588	(2,161)	51	(92)	31,518
Industrial and commercial equipment	19,946	907	(2,921)	-	(26)	17,906
Other assets	10,219	437	(3,410)	(51)	24	7,219
Total	77,621	3,863	(8,494)	-	(34)	72,956

Net value	31/12/2015	31/12/2016	Changes
(EUR /000)			
Land	4,526	4,535	9
Industrial buildings	24,345	23,513	(832)
Plant and machinery	6,667	5,818	(849)
Industrial and commercial equipment	2,005	1,582	(423)
Other assets	1,300	952	(348)
Assets in progress and payments on account	546	531	(15)
Total	39,389	36,931	(2,458)

By contrast, the table of changes relating to 2015 follows:

Historical cost	31 December 2014	Increases	Decreases	Reclassifications	Exchange rate effect	31 December 2015
(EUR /000)						
Land	4,500	-	-	-	26	4,526
Industrial buildings	39,267	137	-	5	260	39,669
Plant and machinery	37,641	530	(178)	383	423	38,799
Industrial and commercial equipment	21,108	746	(60)	115	42	21,951
Other assets	11,382	249	(180)	32	36	11,519
Assets in progress and payments on account	479	608	-	(545)	4	546
Total	114,377	2,270	(418)	(10)	791	117,010

Accumulated amortisation	31 December 2014	Increases	Decreases	Reclassifications	Exchange rate effect	31 December 2015
(EUR /000)						
Industrial buildings	14,347	935	-	-	42	15,324
Plant and machinery	30,095	1,695	(138)	218	262	32,132
Industrial and commercial equipment	19,157	1,009	(55)	(218)	53	19,946
Other assets	9,781	558	(142)	(18)	40	10,219
Total	73,380	4,197	(335)	(18)	397	77,621

Net value	31 December 2014	31 December 2015	Changes
(EUR /000)			
Land	4,500	4,526	26
Industrial buildings	24,920	24,345	(575)
Plant and machinery	7,546	6,667	(879)
Industrial and commercial equipment	1,951	2,005	54
Other assets	1,601	1,300	(301)
Assets in progress and payments on account	479	546	67
Total	40,997	39,389	(1,608)

These assets were not subject to any impairment in 2016, while fluctuations in exchange rates had a negative impact of approximately EUR 2 thousand.

The biggest changes during the year related to:

- investments in plant and production equipment for EUR 1,048 thousand in Italian plants and EUR 355 thousand in the Group's other subsidiaries;
- investments to upgrade the industrial buildings of the Parent Company, which totalled approximately EUR 163 thousand.

Mortgages on owned buildings amounted to around EUR 36 million, for bank loans relating to property in Provaglio d'Iseo.

The increases in historical value of the *"Property, plant, machinery and tools"*, amounting to EUR 1,566 thousand in total in 2016, include EUR 12 thousand linked to the capitalisation of internal costs.

16. EQUITY INVESTMENTS VALUED AT EQUITY

Description		31 December 2016	31 December 2015	changes during the period
(EUR /000)				
Ensun S.r.l.	*Shareholding*	*50.00%*	*50.00%*	
Via Stacca, 1	Investment value	1,451	1,451	0
Rodengo Saiano (BS)	Adjustment provision	(670)	(675)	5
	Net value	781	776	5
Axel S.r.l.	*Shareholding*	*30.00%*	*30.00%*	
Via Dandolo, 5	Investment value	273	273	0
Varese (VA)	Adjustment provision	(3)	(3)	0
	Net value	270	270	0
Total		1,051	1,046	

The adjustment provision registered at 31 December 2016 decreased during the year due to the valuation of the equity investment in Ensun S.r.l., thanks to the positive results achieved by its subsidiaries Elettropiemme S.r.l. and BS Energia 2 S.r.l., both wholly-owned.

17. EQUITY INVESTMENTS IN OTHER COMPANIES

"*Equity investments in other companies*" totalled EUR 1,956 thousand, disclosing an increase of EUR 156 thousand compared with the figure at 31 December 2015. The balance breaks down as follows:

(EUR /000)	Shareholding	31 December 2016	31 December 2015	change
Colombera S.p.A.	16.56%	1,416	1,416	0
Woojin Plaimm Co Ltd	2.00%	159	159	0
Inn. Tec.Srl	n.a.	0	0	0
UBI Banca S.p.A.	n.s.	203	204	(1)
Other	-	27	32	(5)
Adjustment provision	-	151	(11)	162
Total		1,956	1,800	156

Equity investments are classed as held for sale and are recognised at fair value, deriving from the stock market quotation, for Woojin Machinery Co. Ltd. (Seoul Stock Exchange) and for Ubi Banca S.p.A. (Borsa italiana). The adjustment provision is due to the fair value adjustment of:

- Woojin Machinery, listed in Seoul (positive adjustment of EUR 312 thousand);
- Ubi Banca (negative adjustment of EUR 161 thousand).

18. RECEIVABLES AND OTHER NON-CURRENT ASSETS

"*Receivables and other non-current assets*" are made up of guarantee deposits paid over by Group companies and show a balance of EUR 148 thousand, compared with EUR 115 thousand last year.

Description	**31 December 2016**	**31 December 2015**	**change**
(EUR /000)			
Guarantee deposits	148	115	33
Total	**148**	**115**	**33**

19. NET WORKING CAPITAL

Net working capital totalled EUR 35,754 thousand, compared with EUR 40,166 thousand at 31 December 2015, and breaks down as follows:

(EUR /000)	31 December 2016	31 December 2015	changes
Inventories	21,589	22,674	(1,085)
Trade receivables	30,745	34,023	(3,278)
Trade payables	(16,580)	(16,531)	(49)
Net amount	**35,754**	**40,166**	**(4,412)**

Please see the Report on Operations for more details on net working capital.

The value of the "inventories" at 31 December 2016 is equal to EUR 21,589 thousand, down by EUR 1,085 thousand with respect to 31 December 2015. The balance breaks down as follows:

(EUR /000)	**31 December 2016**	**31 December 2015**	**changes**
Raw materials, consumables and supplies	13,734	14,362	(628)
provision for write-down of raw materials	*(4,660)*	*(3,229)*	(1,431)
Work in progress and semi-finished products	6,678	5,967	711
provision for write-down of work in progress	*(1,040)*	*(882)*	(158)
Finished products and goods for resale	9,845	8,847	998
provision for write-down of finished products	*(2,968)*	*(2,391)*	(577)
Total	**21,589**	**22,674**	**(1,085)**

The decrease in the inventories is mainly attributable to the significant amounts set aside during the year to the obsolete and slow-moving inventories provision, essentially recorded to adjust the stock of raw materials for the drive business.

The provision for obsolete and slow-moving inventories was in fact adjusted for requirements through specific allocations amounting to EUR 1,931 thousand in 2016 (EUR 760 thousand in 2015).

"*Trade receivables*" totalled EUR 30,745 thousand, a decrease of EUR 3,278 thousand compared to 31 December 2015, thanks to the reduction in the average collection days for receivables at Group level and the decrease in the incidence of the payment delays compared with the contractual conditions; they are made up as follows:

(EUR /000)	**31 December 2016**	**31 December 2015**	**changes**
Receivables from customers due within 12 months	35,129	37,835	(2,706)
Provision for doubtful receivables	*(4,384)*	*(3,812)*	(572)
Net amount	**30,745**	**34,023**	**(3,278)**

This includes receivables subject to recourse factoring transferred to a leading factoring company, by the Parent Company, for a total amount of EUR 44 thousand (EUR 55 thousand at 31 December 2015). In addition, during the year, a total of EUR 5,053 thousand in receivables was assigned without recourse to factoring companies, of which nil in the last quarter of the year (EUR 2,158 thousand in December 2015).

Receivables were adjusted to their estimated realisable value through the provision of a specific allowance calculated on the basis of an examination of individual debtor positions. The provision at 31 December 2016 represents a prudential estimate of the current risk, and registered the following changes:

(EUR /000)	**31 December 2015**	**Provisions**	**Use**	**Release**	**Exchange rate effect**	**31 December 2016**
Provision for doubtful receivables	**3,812**	**911**	**(182)**	**(131)**	**(26)**	**4,384**

Changes in the provision at 31 December 2015 were by contrast as follows:

(EUR /000)	**31 December 2014**	**Provisions**	**Use**	**Release**	**Exchange rate effect**	**31 December 2015**
Provision for doubtful receivables	**3,919**	**1,726**	**(1,858)**	**0**	**25**	**3,812**

Decreases include the use of the provision to cover losses on unrecoverable receivables. The Group monitors the situation with regard to the riskiest receivables and also takes appropriate legal action. The book value of trade receivables is considered to approximate to their fair value.

There is no significant concentration of sales to individual customers: this phenomenon remains below 10% of Group revenues.

"*Trade payables*" came to EUR 16,580 thousand and were more or less in line with the EUR 16,531 thousand at 31 December 2015. The composition is as follows:

(EUR /000)	31 December 2016	31 December 2015	changes
Payables to suppliers	12,531	8,350	4,181
Payables to suppliers for invoices to be received	3,912	7,902	(3,990)
Payments on account received from customers	137	279	(142)
Total	**16,580**	**16,531**	**49**

20. OTHER ASSETS

"*Other assets*" totalled EUR 3,305 thousand, compared with EUR 3,160 thousand at 31 December 2015. The item breaks down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Insurance	40	38	2
Rents and leasing	23	33	(10)
Services and maintenance	434	297	137
Receivables from employees	49	55	(6)
Advance payments to suppliers	147	88	59
Bank transaction fees	237	377	(140)
VAT reimbursements on vehicles LD 258/2006	128	128	0
IRES receivable IRAP non-deductibility	56	56	0
Other tax receivables	1,261	907	354
Other	930	1,181	(251)
Total	**3,305**	**3,160**	**145**

The carrying value of other current assets is believed to approximate their fair value.

21. CURRENT TAX RECEIVABLES AND PAYABLES

"*Current tax receivables*" fell from EUR 757 thousand at 31 December 2015 to EUR 734 thousand at 31 December 2016. The balance breaks down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
IRES (corporate income tax)	0	0	0
IRAP	0	250	(250)
Foreign tax receivables	734	507	227
Total	**734**	**757**	**(23)**

The decrease due to the use of the IRAP credit pertaining to Gefran S.p.A at 31 December 2015 was almost entirely offset by the increase in the credit on current taxes accrued by the foreign branches.

"*Current tax payables*" totalled EUR 1,348 thousand at 31 December 2016, up EUR 1,013 thousand compared with 31 December 2015, and break down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
IRES (corporate income tax)	406	46	360
IRAP	277	6	271
Foreign tax payables	665	283	382
Total	**1,348**	**335**	**1,013**

The items IRAP (regional business tax) and IRES (corporate income tax) increased due to the taxable income generated by Gefran S.p.A., for which the prior tax losses can only be partly used, in accordance with current legislation.

22. OPERATING ASSETS HELD FOR SALE

The "*Operating assets held for sale"* include the assets related to the photovoltaic business know-how, in relation to which the terms of the sale are currently being established.

The economic impacts specifically attributable to the photovoltaic business for 2016 are equal to EUR 0. In detail, this income, deriving from the transfer of the licence for the production and sale of string inverters to an Indian group, amounts to EUR 400 thousand and is recorded net of the costs incurred by Gefran for the transfer, which at 31 December 2016 were estimated as EUR 400 thousand; the effect on cash flow, therefore, is null. The economic impact at 31 December 2015 was by contrast negative for EUR 187 thousand.

The company branch relating to the distribution of the sensors and automation components in Spain/Portugal, stated at EUR 140 thousand under assets held for sale as at 31 December 2015, was sold to a Spanish distributor on 21 March 2016, as part of the sales contract of the Group's assets in Spain/Portugal, implementing the decision by the Board of Directors to sell the aforementioned branch and the consequent winding-up of the Spanish branch.

The profit from the sale of the company branch relating to the distribution of sensors and automation components in Spain/Portugal was positive and amounted to EUR 486 thousand, resulting from sale revenues of EUR 650 thousand, from sale costs of EUR 24 thousand and from the transfer of goodwill of EUR 140 thousand. The net effect on cash flow amounted to EUR 626 thousand.

23. NET FINANCIAL POSITION

The table below shows a breakdown of the net debt:

(EUR /000)	31 December 2016	31 December 2015	Changes
Cash on hand and current financial receivables	20,477	24,602	(4,125)
Financial assets for derivatives	4	25	(21)
Non-current financial payables	(16,045)	(10,879)	(5,166)
Current financial payables	(17,134)	(38,352)	21,218
Financial liabilities for derivatives	(220)	(274)	54
Total	**(12,918)**	**(24,878)**	**11,960**

The following table breaks down the net debt by maturity:

(EUR /000)	31 December 2016	31 December 2015	Changes
A. Cash on hand	24	29	(5)
B. Cash in bank deposits	20,450	24,573	(4,123)
Term deposits – less than 3 months	3	-	3
C. Securities held for trading	3	-	3
D. Cash And cash equivalents (A) + (B) + (C)	**20,477**	**24,602**	**(4,125)**
Financial liabilities for derivatives	(220)	(274)	54
Financial assets for derivatives	4	25	(21)
E. Fair value hedging derivatives	(216)	(249)	33
F. Current portion of long-term debt	(9,857)	(26,876)	17,019
G. Other current financial payables	(7,277)	(11,476)	4,199
H. Total current financial payables (F) + (G)	**(17,134)**	**(38,352)**	**21,218**
I. Total current payables (E) + (H)	**(17,350)**	**(38,601)**	**21,251**
J. Net current financial debt (I) + (D)	**3,127**	**(13,999)**	**17,126**
L. Non-current financial debt	**(16,045)**	**(10,879)**	**(5,166)**
M. Net financial debt (J) + (L)	**(12,918)**	**(24,878)**	**11,960**
Of which to minorities:	*(12,918)*	*(24,878)*	*11,960*

The net debt at 31 December 2016 is negative by EUR 12,918 thousand, an improvement over 31 December 2015 of EUR 11,960 thousand.

The change in net debt was mainly due to positive cash flows from ordinary operations (EUR 15,935 thousand), partially mitigated by technical investments (EUR 3,470 thousand) and by changes in shareholders' equity (EUR 505 thousand).

Please see the Report on Operations for further details on changes in financial operations during the year.

The free cash flow is positive by EUR 12,465 thousand compared with a positive flow of EUR 2,649 thousand in 2015, and thus it has improved by EUR 9,816 thousand, mainly due to the additional flows generated by operations during the year, the dynamics of which were illustrated above.

Cash and cash equivalents amounted to EUR 20,477 thousand at 31 December 2016, compared with a balance of EUR 24,602 thousand at 31 December 2015. The composition is as follows:

(EUR /000)	31 December 2016	31 December 2015	changes
Cash in bank deposits	20,388	24,533	(4,145)
Cash	24	29	(5)
Term deposits – less than 3 months	3	-	3
Other cash	62	40	22
Total	**20,477**	**24,602**	**(4,125)**

The technical forms used at 31 December 2016 are shown below:

- maturities: payable on presentation;
- counterparty risk: deposits are made care of leading banks;
- country risk: deposits are held in countries in which Group companies have their registered offices.

Current financial payables decreased by EUR 21,218 thousand at 31 December 2016 versus the same period of 2015, and break down as follows:

(EUR /000)	31 December 2016	31 December 2015	changes
Current portion of debt	9,857	26,876	(17,019)
Current overdrafts	7,226	11,187	(3,961)
Factoring	43	265	(222)
Leasing	-	16	(16)
Other payables	8	8	-
Total	**17,134**	**38,352**	**(21,218)**

The current portion of debt decreased by EUR 21,218 thousand compared to December 2015, when, due to the failure to observe the financial covenant relating to the ratio of shareholders' equity to EBITDA, an total amount of EUR 15,032 thousand was reclassified from *"Non-current financial payables"* to *"Current financial payables"*.

Net of this reclassification, the overall decrease in current financial payables came to EUR 6,186 thousand, of which EUR 11,853 thousand in relation to the reimbursements envisaged by the repayment plans of the individual loans, while the balance increased by EUR 5,719 thousand due to the recognitions of the portions of loans whose maturity is envisaged in the next 12 months under short-term.

At 31 December 2016, the financial covenants were checked and have been fully observed.

The "factoring" item, which decreased by EUR 222 thousand, comprises payables to factoring companies, for the payment extension period from the original maturity of the payable with certain suppliers, for which the Parent Company has accepted non-recourse assignment.

Bank overdrafts at 31 December 2016 totalled EUR 7,226 thousand, compared with a balance at 31 December 2015 of EUR 11,187 thousand. The item relates almost entirely to Gefran S.p.A. and has the following characteristics:

- for use of credit lines payable on demand, the overall annual interest rate is in the 2.5%-5.7% range;
- for use of credit facilities on trade receivables, repayable on the maturity of these receivables, the overall annual interest rate is in the 0.5%-1.0% range;

Non-current financial payables break down as follows:

Bank	31 December 2016	31 December 2015	changes
Centrobanca	1,456	2,927	(1,471)
Deutsche Bank	-	150	(150)
Banco di Brescia	657	1,930	(1,273)
Cred. Bergamasco	-	404	(404)
Unicredit SACE	750	1,750	(1,000)
Banco di Brescia	702	-	702
BNL	1,333	2,000	(667)
Banca Pop. Sondrio	964	1,718	(754)
Unicredit	900	-	900
Unicredit	2,000	-	2,000
Banca Pop. Emilia Romagna	2,283	-	2,283
Mediocredito	5,000	-	5,000
Total	**16,045**	**10,879**	**5,166**

The main changes relate to the reclassification from current to non-current of loans which at 31 December 2015 did not observe the financial covenant of the ratio of net debt to EBITDA, amounting to EUR 15,032 thousand, and the transfer of the portions of loans whose maturity is envisaged in the next 12 months from *"Non-current financial payables"* to *"Current financial payables"* for EUR 5,719 thousand.

The loans listed in the table are all floating-rate contracts stipulated by Gefran S.p.A., and have the following characteristics:

Bank	Amount disbursed (€/000)	Signing date	Balance at 31 December 2016	Of which within 12 months	Of which over 12 months	Interest rate	Maturity	Repayment method
Centrobanca	EUR 10,976	04/09/2008	2,928	1,472	1,456	Euribor 6m + 0.85%	01/10/2018	half-yearly
Deutsche Bank	EUR 3,000	09/03/2012	150	150	-	Euribor 3m + 3.60%	31/03/2017	quarterly
Banco di Brescia	EUR 6,000	31/05/2013	1,930	1,273	657	Euribor 3m + 3.90%	31/05/2018	quarterly
Cred. Bergamasco	EUR 3,000	18/06/2013	403	403	-	Euribor 3m + 4.20%	30/06/2017	monthly
Unicredit SACE	EUR 5,000	27/09/2013	1,750	1,000	750	Euribor 3m + 2.60%	30/09/2018	quarterly
Banco di Brescia	EUR 3,000	28/11/2014	1,458	756	702	Euribor 3m + 1.75%	30/11/2018	monthly
BNL	EUR 3,000	19/12/2014	2,000	667	1,333	Euribor 6m + 1.35%	18/12/2019	half-yearly
Banca Pop. Sondrio	EUR 3,000	23/12/2014	1,718	754	964	Euribor 3m + 2.00%	22/12/2018	quarterly
Unicredit	EUR 2,000	19/02/2015	1,300	400	900	Euribor 3m + 2.10%	29/02/2020	quarterly
Unicredit	EUR 2,000	19/02/2015	2,000	-	2,000	Euribor 3m + 2.50%	28/02/2019	bullet
Banca Pop. Emilia Romagna	EUR 4,000	06/08/2015	3,265	982	2,283	Euribor 3m + 1.25%	03/02/2020	quarterly
Mediocredito	EUR 10,000	07/08/2015	7,000	2,000	5,000	Euribor 3m + 1.35%	30/06/2020	quarterly
Total			**25,902**	**9,857**	**16,045**			

The loan granted by Centrobanca is guaranteed by a EUR 36 million mortgage on properties in Provaglio d'Iseo.

Seven of the loans listed above are governed by covenants, specifically:

a) the EUR 6,000 thousand UBI-Banco di Brescia loan taken out on 31 May 2013, is subject to the following covenant:

   - consolidated debt to equity ratio of ≤ 0.7.

   Termination clauses are triggered in the event that this value is exceeded.

b) the EUR 3,000 UBI-Banco di Brescia loan, taken out on 28 November 2014, is subject to two financial covenants:

   - consolidated debt to equity ratio of ≤ 0.7.
   - consolidated debt to EBITDA ratio of ≤ 3.5.

   If the ratios are exceeded, the lending bank will have the right to request early repayment.

c) the EUR 3,000 thousand BNL loan, taken out on 19 December 2014, is subject to two financial covenants:

   - consolidated debt to equity ratio of ≤ 0.7.
   - Equity and Total consolidated assets > 30%.

   If both ratios are exceeded, the lending bank will have the right to request early repayment.

d) The two Unicredit loans, taken out on 19 February 2015 for a total of EUR 4,000 thousand, are subject to two financial covenants:

   - consolidated debt to equity ratio of ≤ 0.7.
   - consolidated debt to EBITDA ratio of ≤ 3.0.

   If the ratios are exceeded, the lending bank will have the right to request early repayment.

e) the EUR 4,000 thousand Banca Popolare Emilia Romagna loan taken out on 6 August 2015, is subject to the following covenant:

   - consolidated debt to EBITDA ratio of ≤ 3.5.

   If the ratio is exceeded, the lending bank will have the right to request early repayment.

f) the EUR 10,000 thousand Mediocredito loan taken out on 7 August 2015, is subject to the following covenants:

   - consolidated debt to equity ratio of ≤ 0.7.
   - consolidated debt to EBITDA ratio of ≤ 3.5.

A number of outstanding loan contracts include other covenants, in line with market practices, that place limits on the possibility of issuing new real guarantees and conducting extraordinary transactions.

The Administration, Finance and Control Department is responsible for checking these contractual restrictions every quarter: the ratios calculated on the data at 31 December 2016 are fully observed and the loans have been distributed in the table of the maturities according to the forms originally envisaged by the agreements.

The management considers that the credit lines currently available, as well as the cash flow generated by current operations, will enable Gefran to meet its financial requirements resulting from investment activities, working capital management and repayment of debt at its natural maturity.

The **financial assets for derivatives totalled** EUR 4 thousand at 31 December 2016, and consist of the positive fair value recorded at the end of the financial year of certain CAP contracts entered into by the Parent Company to hedge interest rate risks. **Financial liabilities for derivatives by contrast** totalled EUR 220 thousand, owing to the negative fair value of certain IRS contracts, also entered into by the Parent Company to hedge interest rate risks and a forward transaction entered into to hedge the exchange rate risk of a transaction in Japanese Yen.

To mitigate the financial risk associated with floating-rate loans, which could arise in the event of an increase in the Euribor, the Group decided to hedge its variable rate loans through *Interest Rate Cap* contracts, as set out below:

Bank *(EUR /000)*	Notional principal	Signing date	Notional at 31 Dec. 2016	Derivative	Fair Value at 31 Dec. 2016	Long position rate	Short position rate
Unicredit	EUR 6,000	04/06/2013	1,930	CAP	0	Strike Price 0.75%	Euribor 6m
Credito Bergamasco	EUR 3,000	20/06/2013	403	CAP	0	Strike Price 0.75%	Euribor 3m
Unicredit	EUR 5,000	15/10/2013	1,750	CAP	0	Strike Price 0.60%	Euribor 3m
Banco di Brescia	EUR 3,000	28/11/2014	1,458	CAP	0	Strike Price 0.10%	Euribor 3m
BNL	EUR 3,000	19/12/2014	2,000	CAP	1	Strike Price 0.20%	Euribor 6m
Unicredit	EUR 2,000	19/02/2015	1,718	CAP	1	Strike Price 0.10%	Euribor 3m
Unicredit Bullet	EUR 2,000	19/02/2015	1,300	CAP	2	Strike Price 0.10%	Euribor 3m
Total financial assets for derivatives – interest rate risk					**4**		

The Group has also taken out IRS (*Interest Rate Swap)* contracts, as set out in the table below:

Bank *(EUR /000)*	Notional principal	Signing date	Notional at 31 December 2016	Derivative	Fair Value at 31 Dec. 2016	Long position rate	Short position rate
Centrobanca	EUR 9,550	31/03/2010	2,928	IRS	(98)	Fixed 3.11%	Euribor 6m
Deutsche Bank	EUR 3,000	09/03/2012	150	IRS	(1)	Fixed 1.34%	Euribor 3m
Banca Pop. Emilia Romagna	EUR 4,000	01/10/2015	3,265	IRS	(36)	Fixed 0.15%	Euribor 3m
Intesa	EUR 10,000	05/10/2015	7,000	IRS	(80)	Fixed 0.16%	Euribor 3m
Total financial liabilities for derivatives – interest rate risk					**(215)**		

The breakdown of the derivatives undertaken to hedge the exchange rate risk is shown below:

Bank	Category	Underlying element	Maturity	Strike Price	Fair Value at 31 Dec. 2016
(EUR /000)					
Banco di Brescia	Currency Swap	Purchase JPY 79,788	07/06/2017	122.35 and 122.60	(5)
Total financial liabilities for derivatives – exchange rate risk					**(5)**

All the contracts described above are booked at fair value:

(EUR/000)	at 31 December 2016		at 31 December 2015	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Exchange rate risk	0	(5)	0	0
Interest rate risk	4	(215)	25	(274)
Total cash flow hedge	**4**	**(220)**	**25**	**(274)**

All derivatives were tested for effectiveness, with positive outcomes.

In order to support its operations, the Group has various credit lines granted by banks and other financial institutions available, mainly in the form of loans for advances on invoices, cash flexibility and mixed loans for a total of EUR 43,864 thousand. Overall use of these lines at 31 December 2016 totalled EUR 7,145 thousand, with a residual available amount of EUR 36,719 thousand.

No fees are due in the event that these lines are not used.

24. SHAREHOLDERS' EQUITY

Consolidated *"shareholders' equity"* breaks down as follows:

(EUR /000)	31 December 2016	31 December 2015	changes
Portion pertaining to the Group	66,908	62,984	3,924
Portion pertaining to minority interests	-	-	-
Net amount	**66,908**	**62,984**	**3,924**

Group shareholders' equity increased compared with 31 December 2015 by EUR 3,924 thousand, mainly due to the profit for the year of EUR 3,948 thousand, which was partially mitigated by the decrease in the other equity reserves.

The Board of Directors proposed, for the approval of the shareholders' meeting, in consideration of the result for the year, to distribute a dividend of EUR 0.25 per unrestricted share.

Share capital was EUR 14,400 thousand, divided into 14,400,000 ordinary shares, with a par value of EUR 1 each.

At 31 December 2016, Gefran S.p.A, held 227,394 shares or 1.58% of the total, while at 31 December 2015, the own shares were 219,735, or 1.53% of the share capital.

The Company did not issue convertible bonds.

The type and purpose of the equity reserves can be summarised as follows:

- the share premium reserve, amounting to EUR 19,046 thousand, which is a capital reserve that includes the amounts received by the Company for the issue of shares at a price higher than their nominal value;
- the legal reserve, amounting to EUR 2,880 thousand, which is populated by the mandatory allocation of an amount not less than one-twentieth of annual net profits, until an amount equal to one-fifth of the share capital has been reached (which has already occurred);
- the cash flow hedge reserve, which includes effects recognised directly under equity as deriving from the measurement at fair value of derivative financial instruments to hedge cash flows from changes in interest rates and exchange rates, and amounts to EUR 216 thousand;
- the extraordinary reserve (EUR 9,255 thousand), which is recognised under "other reserves";
- own shares, which are deducted from the Company's shareholders' equity (EUR 694 thousand) and are classed under "other reserves";
- the merger surplus reserve (EUR 858 thousand), which was created in 2006 after the merger by incorporation of Siei S.p.A. and Sensori S.r.l. and is included under "other reserves";
- the reserve for conversion to IAS/IFRS (EUR 137 thousand), which is included under "other reserves";
- the employee benefit valuation reserve pursuant to IAS 19 (EUR 661 thousand), which is included under "other reserves".

For details on the movements in equity reserves during the year, see the table showing Changes in shareholders' equity.

Changes in the *"Reserve for the measurement of securities at fair value"* are shown in the table below:

(EUR /000)	**31 December 2016**	**31 December 2015**	**changes**
Balance at 1 January	(10)	(33)	23
UBI Banca S.p.A. shares	(57)	4	(61)
Woojin Plaimm Co Ltd shares	218	19	199
Net amount	**151**	**(10)**	**161**

Changes in the *"Reserve for the measurement of derivatives at fair value"* are shown in the table below.

(EUR /000)	**31 December 2016**	**31 December 2015**	**changes**
Balance at 1 January	(249)	(317)	68
Change in fair value of derivatives	33	68	(35)
Net amount	**(216)**	**(249)**	**33**

25. EARNINGS PER SHARE

Basic and diluted earnings per share are shown in the table below:

	2016	2015
Basic earnings per share		
- Profit (loss) for the period pertaining to the Group *(EUR /000)*	3,948	(4,769)
- Average No. of ordinary shares *(No./000,000)*	14.17	14.20
- Basic earnings per ordinary share	0.279	(0.336)
Diluted earnings per share		
- Profit (loss) for the period pertaining to the Group *(EUR /000)*	3,948	(4,769)
- Average No. of ordinary shares *(No./000,000)*	14.17	14.20
- Basic earnings per ordinary share	0.279	(0.336)
Average number of ordinary shares	**14,173,583**	**14,195,865**

26. EMPLOYEE BENEFITS

Liabilities relating to *"Employee benefits"* decreased by EUR 193 thousand and changed as follows:

Description	31 December 2015	Increases	Decreases	Discounting	Other changes	Exchange rate effect	31 December 2016
(EUR /000)							
Post-employment benefits	5,405	70	(333)	102	(32)	0	5,212

Changes relating to 2015 were as follows:

Description	31 December 2014	Increases	Decreases	Discounting	Other changes	Exchange rate effect	31 December 2015
(EUR /000)							
Post-employment benefits	5,611	70	(534)	257	1	-	5,405

This item mainly comprises the post-employment benefit reserve for the employees of the Parent Company Gefran S.p.A. and Gefran Soluzioni S.r.l.. The change during the year was due to an increase of EUR 70 thousand, resulting from disbursements to employees of EUR 333 thousand and from the revaluation of the payable existing at 31 December 2016 pursuant to IAS, equal to EUR 102 thousand (interest costs for EUR 48 thousand and actuarial losses for EUR 54 thousand).

Pursuant to IAS 19, the post-employment benefit reserve was valued using the "traditional unit credit" method, which breaks down into the following steps:

- any future benefits that might be paid out to each employee registered with the scheme in the event of retirement, death, disability, resignations etc. are projected using a series of financial assumptions. The estimate of future benefits does not include any increases for further service

periods accrued or any presumed increase in pay at the valuation date, as any future increases in the post-employment benefit reserve are fully transferred to supplementary pension funds;
- at the valuation date, based on the annual interest rate used and the probability that every benefit has to be effectively paid, the *average current value of future benefits* is calculated;
- the liability for the Company is defined by identifying, in proportion the length of service accrued, the portion of the *average current value of future benefits* that relates to the service already accrued by the employee at the valuation date;
- based on the liability calculated as per the previous point and the reserve created in the financial statements for Italian statutory purposes, the reserve recognised as valid for IAS purposes is identified.

More specifically, the following assumptions were used:

Demographic assumptions	**Managers**	**Non-managers**
Probability of death	ISTAT 2014 Mortality tables	ISTAT 2014 Mortality tables
Probability of disability	Unisex tables drawn up by the CNR (National Research Council) reduced by 80%	Unisex tables drawn up by the CNR (National Research Council) reduced by 80%
Probability of resignation		
- up to 50 years of age	2.0% in each year	4.0% in each year
- subsequently	Nil	Nil
Probability of retirement	Calculated according to the rules set forth in the Monti-Fornero law.	Calculated according to the rules set forth in the Monti-Fornero law.
Probability of a person of working age of:		
- receiving an early pay-out of the post-employment benefit reserve allocated of 70%	3.0% in each year	3.0% in each year

Financial assumptions	**Managers**	**Non-managers**
Increase in the cost of living	1.5 % annually	1.5 % annually
Discount rate	1.5 % annually	1.5 % annually
Pay increase		
- equal to or less than 40 years of age	n/a	n/a
- over 40, but equal to or less than 55 years of age	n/a	n/a
- over 55 years of age	n/a	n/a

According to the sensitivity analysis performed on the financial assumptions used, the effect of a change of half a percentage point in the discount rate would result in an actuarial gain of EUR 260 thousand in the event of increase in the interest rate, and would, conversely, result in an actuarial loss of EUR 276 thousand in the event of a decrease in the interest rate. By contrast, a change of one percentage point in the discount rate would result in an actuarial gain of EUR 506 thousand in the event of increase in the interest rate, and would, conversely, result in an actuarial loss of EUR 568 thousand in the event of a decrease in the interest rate.

27. CURRENT AND NON-CURRENT PROVISIONS

"*Non-current provisions*" rose by EUR 762 thousand compared with 31 December 2015, and break down as follows:

(EUR /000)	31 December 2015	Provisions	Use	Release	Exchange rate effect	31 December 2016
Gefran S.p.A. risk provisions						
- for restructuring	-	1,700	(1,428)	(272)	-	-
- for legal disputes	374	850	(194)	-	-	1,030
- other provisions	85	-	-	-	-	85
Gefran Brasil risk provisions						
- for legal disputes	3	-	-	-	-	3
Gefran France risk provisions						
- for restructuring	-	96	-	-	-	96
- for legal disputes	7	-	(7)		-	(0)
Gefran Gmbh risk provisions						
- for restructuring	-	103	-	-	-	103
Gefran Siei Drives Technology risk provisions						
- for restructuring	86	26	(109)	-	(3)	(0)
Total	**555**	**2,774**	**(1,738)**	**(272)**	**(3)**	**1,317**

The item *"Legal disputes"* includes the provisions made for liabilities related to the settlement of pending disputes regarding claims from customers, some employees and distributors.

"*Current provisions*" totalled EUR 1,143 thousand at 31 December 2016, down by EUR 158 thousand compared with 31 December 2015, and break down as follows:

(EUR /000)	31 December 2015	Provisions	Use	Release	Exchange rate effect	31 December 2016
FISC	163	-	(39)	-	-	124
Product warranty	1,135	488	(404)	(191)	(8)	1,019
Other provisions	3	-	(3)		-	-
Total	**1,301**	**488**	**(446)**	**(191)**	**(8)**	**1,143**

The item relating to repair charges for products under warranty mainly decreased owing to the adjustment of the provision during the year; at the end of the year, a check was carried out to ensure that the provision was appropriate, with a positive outcome.

The *"FISC"* item mainly includes contractual treatments existing at the Gefran Deutschland GmbH branch.

28. OTHER LIABILITIES

"*Other liabilities*" at 31 December 2016 came to EUR 12,823 thousand, compared with EUR 11,828 thousand at 31 December 2015. The composition is as follows:

(EUR /000)	**31 December 2016**	**31 December 2015**	**changes**
Payables to personnel	6,303	4,456	1,847
Social security payables	2,977	2,688	289
Accrued interest on loans	60	130	(70)
Payables to directors and statutory auditors	180	122	58
Other accruals	745	915	(170)
Other payables for taxes	2,223	2,784	(561)
Other current liabilities	335	733	(398)
Total	**12,823**	**11,828**	**995**

"*Payables to personnel*" were up with respect to the previous year mainly due to the incentives and the other amounts due being disbursed to the employees of Gefran S.p.A. who terminated their employment relationship with the company in December, in accordance with the reorganisation agreement agreed on with the trade union delegations.

"Other current liabilities" decreased EUR 398 thousand with respect to 31 December 2015, mainly due to the payment of the second portion for the acquisition of the subsidiary Sensormate AG, as envisaged by the agreement between the parties signed on 4 July 2013 (equal to EUR 462 thousand). The third and last payment is envisaged for 2018.

29. REVENUES FROM PRODUCT SALES

"Revenues from product sales" totalled EUR 118,066 thousand in 2016, an increase of EUR 3,215 thousand on 2015. The following table provides a breakdown of sales and service revenues by business:

Sector	**31 December 2016**	**31 December 2015**	**Change**	**%**
(EUR /000)				
Sensors	49,332	46,909	2,423	5.2%
Automation components	29,643	28,266	1,377	4.9%
Drives	39,091	39,676	(585)	-1.5%
Total	**118,066**	**114,851**	**3,215**	**3%**

The amount shown under total revenues includes service revenues of EUR 2,949 thousand (EUR 3,277 thousand in 2015); see the Report on Operations for comments on the performance of the various businesses and geographic regions.

30. OTHER OPERATING REVENUES AND INCOME

"Other operating revenues and income" total EUR 1,264 thousand and compared with revenues of EUR 501 thousand in 2015, as shown in the following table:

Description	31 December 2016	31 December 2015	Change	%
(EUR /000)				
Recovery of company canteen expenses	39	40	(1)	-2.5%
Insurance reimbursements	71	37	34	91.9%
Fees	0	7	(7)	n.s.
Government grants	684	59	625	n.s.
Other income	470	358	112	31.3%
Total	**1,264**	**501**	**763**	**152%**

The main change refers to government grants to the Chinese affiliated company, which increased from EUR 59 thousand in 2015 to the current EUR 684 thousand.

31. COSTS OF RAW MATERIALS AND ACCESSORIES

"Costs of raw materials and accessories" came to EUR 40,686 thousand and were more or less in line with the EUR 40,587 thousand at 31 December 2015. They comprise:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Raw materials and accessories	40,686	40,587	99

32. SERVICE COSTS

"Service costs" amounted to EUR 19,635 thousand, a decrease of EUR 3,420 thousand compared with the figure of EUR 23,055 thousand for 2015, and break down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Services	17,559	20,878	(3,319)
Use of third-party assets	2,076	2,177	(101)
Total	**19,635**	**23,055**	**(3,420)**

The savings achieved was generated by the greater efficiency obtained further to the reorganisation of the Group's processes and in particular those of Gefran S.p.A..

33. PERSONNEL COSTS

"Personnel costs" totalled EUR 45,347 thousand, down EUR 966 thousand from 2015, and break down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Salaries and wages	32,540	34,260	(1,720)
Social security contributions	8,881	9,378	(497)
Post-employment benefit reserve	1,960	2,086	(126)
Other costs	1,966	589	1,377
Total	**45,347**	**46,313**	**(966)**

The decrease in the period reflects the positive effect of the significant reorganisation of the Group subsidiaries and of Gefran S.p.A.. The benefits of the transaction in as early as 2016 exceed the non-recurring restructuring costs, borne by Gefran S.p.A. for winding-up the Spanish branch (EUR 192 thousand), the opening of a procedure for redundancies of 55 employees in the Italian factories (EUR 1,428 thousand) and the German, Chinese and French branches (EUR 244 thousand); these restructuring charges are included in the item *"Other costs"*.

"Social security contributions" include costs for defined contribution benefit plans for management (Previndai pension plan) of EUR 76 thousand (EUR 76 thousand at 31 December 2015).

The average number of Group employees in 2016 is shown below:

	2016	2015	changes
Managers	19	18	1
Clerical staff	504	546	(42)
Manual workers	247	265	(18)
Total	**770**	**829**	**(59)**

The average number of employees fell by 59 compared with 2015; the precise number at the end of 2016 was 730, a decrease of 79 from 31 December 2015. For more information, see the "Human Resources" section of the Report on Operations.

34. OTHER OPERATING EXPENSE AND INCOME

"Other operating expense" came to EUR 1,726 thousand, compared with EUR 1,098 thousand in 2015. The breakdown is as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Capital losses on the sale of assets	(119)	(39)	(80)
Losses on other receivables	(1)	(81)	80
Other taxes and duties	(505)	(671)	166
Membership fees	(186)	(210)	24
Miscellaneous	(915)	(97)	(818)
Total	(1,726)	(1,098)	(628)

The item *"Miscellaneous"* includes provisions for risks made for a total of EUR 850 thousand.

"Other operating income" amounted to EUR 89 thousand, compared with EUR 78 thousand in 2015. The composition is as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Capital gains on the sale of activities	-	-	-
Capital gains on the sale of assets	18	43	(25)
Collection of doubtful receivables	12	34	(22)
Miscellaneous	59	1	58
Total	89	78	11

35. DEPRECIATION/AMORTISATION

This item amounts to EUR 6,209 thousand, essentially unchanged from the previous year.

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Amortisation	2,344	2,114	230
Depreciation	3,865	4,197	(332)
Total	6,209	6,311	(102)

The breakdown of depreciation and amortisation by business is summarised in the table below:

(EUR /000)	31 December 2016	31 December 2015	changes
Sensors	2,238	2,112	126
Automation components	1,824	2,020	(196)
Drives	2,147	2,179	(32)
Total	6,209	6,311	(102)

36. GAINS AND LOSSES FROM FINANCIAL ASSETS/LIABILITIES

"Gains from financial assets" totalled EUR 1,699 thousand, versus EUR 3,154 thousand in 2015, and break down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Income from cash management	40	55	(15)
Other financial income	199	107	92
Exchange gains	871	2,264	(1,393)
Exchange valuation differences	588	728	(140)
Gains from disposal of financial assets	1	-	1
Total	**1,699**	**3,154**	**(1,455)**

"Losses from financial liabilities" totalled EUR 2,522 thousand, down from EUR 4,277 thousand on 2015, and break down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Medium/long-term interest	(742)	(1,100)	358
Short-term interest	(36)	(101)	65
Factoring interest and fees	(8)	(71)	63
Other financial charges	(43)	(47)	4
Exchange losses	(1,505)	(2,148)	643
Exchange valuation differences	(188)	(692)	504
Write-down of financial assets	-	(118)	118
Total	**(2,522)**	**(4,277)**	**1,755**

The reduction in the financial interest expense registered in 2016 is mainly attributable to the downsizing of the medium/long-term debt, which at the end of 2015 amounted to EUR 37,755 thousand compared with the current EUR 25,902 thousand.

The balance of the difference on the currency transactions has a negative value of EUR 234 thousand, compared with a positive value of EUR 152 thousand in 2015. The negative result for 2016 was mainly due to the appreciation of the Euro against the major currencies affecting the Group, with the exception of the Brazilian Real. Currency operations in 2016 compare with a positive result in 2015, generated essentially by the dynamics of the RMB/USD exchange rate of the subsidiary in Singapore.

37. GAINS (LOSSES) FROM THE VALUATION OF EQUITY INVESTMENTS AT EQUITY

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Result of companies valued at equity	5	119	(114)
Total	**5**	**119**	**(114)**

Gains from investments valued at equity were EUR 5 thousand, a decrease of EUR 119 thousand compared with the figure in 2015. This increase mainly relates to the pro-rata result of the Ensun S.r.l. Group.

38. INCOME TAXES, DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The item "Taxes" was negative at EUR 835 thousand; this compares with a negative balance of EUR 2,948 thousand in 2015, and breaks down as follows:

(EUR /000)	31 December 2016	31 December 2015
Current taxes		
IRES (corporate income tax)	(438)	(46)
IRAP (regional business tax)	(282)	(6)
Foreign taxes	(1,360)	(1,629)
Total current taxes	**(2,080)**	**(1,681)**
Deferred taxes		
Deferred tax liabilities	(108)	(21)
Deferred tax assets	1,353	(1,246)
Total deferred taxes	**1,245**	**(1,267)**
Total taxes	**(835)**	**(2,948)**

The current taxes were up by EUR 399 thousand compared with 2015 mainly due to the recognition of the IRES and RAP taxable amounts in the Parent Company, which can be offset only in part by prior tax losses, in accordance with current legislation.

The positive deferred taxes are by contrast mainly originated with regard to Gefran S.p.A. for the recognition of deferred tax assets calculated on previous tax losses, further to the up-dating of the estimates on recoverability of the same based on the three-year plan for the period 2017-2019.

See the Report on Operations for more details on deferred tax assets and liabilities.

The table below shows the reconciliation between recognised income taxes and theoretical taxes resulting from the application of the IRES tax rate in force during the year to pre-tax profit:

(EUR /000)	31 December 2016	31 December 2015
Profit (loss) before tax	4,783	(1,821)
Theoretical income tax	(1,315)	501
Effect from use of losses carried forward	1,142	-
Rate effect for affiliates	(351)	(440)
Net effect of permanent differences	(877)	(1,499)
Net effect of permanent differences for affiliates	(510)	(450)
Net effect of temporary deductible and taxable differences	114	213
Current taxes	**(1,798)**	**(1,675)**
Income tax – deferred tax assets/liabilities	1,253	(1,269)
Recognised income taxes (excluding current and deferred IRAP)	**(544)**	**(2,944)**
IRAP - current taxes	(282)	(6)
IRAP – deferred tax assets/liabilities	(8)	2
Recognised income taxes (current and deferred)	**(835)**	**(2,948)**

For a greater understanding of the difference between tax charges recorded in the financial statements and the theoretical tax charge, it should be noted that the theoretical tax charge does not take IRAP into account, since this tax has a different taxable base than pre-tax profit, and would therefore generate discrepancies from one year to the next. Theoretical taxes were, therefore, calculated solely by applying the current tax rate in Italy (IRES at 27.5% for both 2016 and 2015) to the pre-tax result.

The table below shows a breakdown of deferred tax assets and deferred tax liabilities for the year 2016:

(EUR /000)	31 December 2015	Posted to the income statement	Recognised under shareholders' equity	Exchange rate differences	31 December 2016
Deferred tax assets					
Write-down of inventories	1,114	244		-	1,358
Write-down of trade receivables	292	70		-	362
Deductible losses to be brought forward	2,746	871		-	3,617
Exchange rate balance	15	(7)		-	8
Elimination of unrealised margins on inventories	648	(114)		-	534
Provision for product warranty risk	202	2		-	204
Provision for sundry risks	633	287	16	2	938
Total deferred tax assets	5,650	1,353	16	2	7,021
Deferred tax liabilities					
Exchange valuation differences	(28)	28		-	-
Other deferred tax liabilities	(840)	(136)		(29)	(1,005)
Total deferred taxes	(868)	(108)	-	(29)	(1,005)
Net total	4,782	1,245	16	(27)	6,016

The table below shows a breakdown of deferred tax assets and deferred tax liabilities for the year 2015:

(EUR /000)	31 December 2014	Posted to the income statement	Recognised under shareholders' equity	Exchange rate differences	31 December 2015
Deferred tax assets					
Write-down of inventories	1,219	(105)		-	1,114
Write-down of trade receivables	666	(374)		-	292
Deductible losses to be brought forward	3,128	(504)		122	2,746
Exchange rate balance	22	(7)		-	15
Elimination of unrealised margins on inventories	789	(141)		-	648
Provision for product warranty risk	205	(3)		-	202
Provision for sundry risks	275	(112)	49	12	224
Total deferred tax assets	6,304	(1,246)	49	134	5,241
Deferred tax liabilities					
Exchange valuation differences	(5)	(23)		-	(28)
Other deferred tax liabilities	(755)	2		(87)	(840)
Total deferred taxes	(760)	(21)	-	(87)	(868)
Net total	5,544	(1,267)	49	47	4,373

39. GUARANTEES GRANTED, COMMITMENTS AND OTHER CONTINGENT LIABILITIES

Guarantees granted

At 31 December 2015, the Group had granted guarantees on payables or commitments of third parties or subsidiaries for EUR 10,560 thousand, up EUR 2,685 thousand on the figure for 31 December 2015, as shown in the table below:

(EUR /000)	2016	2015
Ubi Leasing	5,918	5,918
BNL	2	2
Banca Intesa	1,100	1,100
Banca Passadore	2,750	2,750
Banco di Brescia	790	880
Total	10,560	10,650

A guarantee in favour of UBI Leasing was issued for a total of EUR 5,918 thousand, expiring in 2029, to guarantee financial requirements for the construction of photovoltaic plants by BS Energia 2 S.r.l.. The residual liability at 31 December 2016 guaranteed by this surety amounts to EUR 2,907 thousand (EUR 3,143 thousand at 31 December 2015).

The guarantees issued to Banca Passadore and Banco di Brescia both cover the credit facilities of Ensun S.r.l.

The amount of EUR 1,100 thousand in favour of Banca Intesa relates to a simple letter of patronage issued to guarantee the credit facilities of Elettropiemme S.r.l..

Legal proceedings and disputes

The Parent Company and certain subsidiaries are involved in various legal proceedings and disputes. It is however considered unlikely that the resolution of these disputes will generate significant liabilities for which provisions have not already been made.

Commitments

The main operating lease contracts relate to property rentals, electronic equipment and company vehicles. As at the reporting date, the payments still owed by the Group for irrevocable operating leases amounted to EUR 2,835 thousand; of this amount, EUR 2,100 thousand falls due within the next five years, and the remaining EUR 134 thousand after five years.

40. DEALINGS WITH RELATED PARTIES

In accordance with IAS 24, information relating to dealings with related parties for 2016 and the previous year is provided below.

Transactions with related parties are part of normal operations and the typical business of each entity involved, and are carried out under normal market conditions. The Group did not carry out any unusual and/or abnormal transactions that may have a significant impact on its economic, equity and financial situation.

On 12 November 2010, the Board of Directors of Gefran S.p.A. adopted the regulations governing transactions with related parties, published in the "Corporate Governance" section of the Company's website www.gefran.com.

Transactions with related parties are part of the Group's normal business management and typical activity. Dealings with other related parties are as follows:

- Elettropiemme S.r.l., a subsidiary of Ensun S.r.l.: a company in which Ennio Franceschetti (Chairman and Chief Executive Officer of Gefran S.p.A.) is Chairman and Marco Giacometti (general manager of the Gefran S.p.A. drives business units) is general manager;
- Climat S.r.l.: a company in which the director and shareholder is a relative of Maria Chiara Franceschetti (CEO of Gefran S.p.A.);
- Axel S.r.l.: a company in which Adriano Chinello (director with strategic responsibilities) is a member of the Board of Directors;
- Francesco Franceschetti elastomeri S.r.l.: a company in which Ennio Franceschetti (Chairman and Chief Executive Officer of Gefran S.p.A.) is a member of the Board of Directors;
- Ensun S.r.l.: a company in which Ennio Franceschetti (Chairman and Chief Executive Officer of Gefran S.p.A.) is Chairman and Giovanna Franceschetti (Executive director of Gefran S.p.A.) is appointed director.

These dealings, summarised below, have no material impact on the Group's economic and financial structure.

(EUR /000)	Elettropiemme S.r.l.	Climat S.r.l.	Ensun S.r.l.	Axel S.r.l.	Francesco Franceschetti elastomeri S.r.l.	Total
Revenues from product sales						
2015	33	0	0	10	77	120
2016	55	0	52	4	54	165
Service costs						
2015	-17	-115	0	-49	0	-181
2016	-106	-151	0	-73	0	-330

(EUR /000)	Elettropiemme S.r.l.	Climat S.r.l.	Ensun S.r.l.	Axel S.r.l.	Francesco Franceschetti elastomeri S.r.l.	Total
Intangible assets						
2015	0	0	0	30	0	30
2016	0	0	0	39	0	39
Property, plant, machinery and tools						
2015	0	227	0	0	0	227
2016	0	105	0	0	0	105
Trade receivables						
2015	0	0	0	4	0	4
2016	13	0	50	0	51	114
Trade payables						
2015	19	26	0	7	0	52
2016	0	38	0	8	0	46

In accordance with internal regulations, transactions with related parties of an amount below EUR 50 thousand are not reported, since this amount was determined as the threshold for identifying significant transactions.

With regard to dealings with subsidiaries, Parent Company Gefran S.p.A. provided technical, administrative and management services as well as royalties to Group operating subsidiaries amounting to around EUR 2.3 million, governed by specific contracts.

The Gefran Group provides a Group cash pooling service, partly through a “Zero Balance” service, which involves all the European subsidiaries.

None of the subsidiaries holds shares of the Parent Company or held them during the period.

In 2016, the Parent Company Gefran S.p.A. recognised dividends from subsidiaries amounting to EUR 5,742 thousand (EUR 5,984 thousand in 2015).

Members of the Board of Directors and the Board of Statutory Auditors and managers with strategic responsibilities were paid the following aggregate remuneration: EUR 1,121 thousand included in personnel costs and EUR 620 thousand included in service costs.

The key people were identified as the members of the executive Board of Directors, the two General Managers of the business units and the managers with key responsibilities, who are represented by the

CFO/Authorised Manager, the General Manager of the Chinese subsidiary Gefran Siei Drives Technology Co. Ltd. and the Marketing and R&D Manager of a Business Unit.

41. INFORMATION PURSUANT TO ARTICLE 149 DUODECIES OF THE CONSOB ISSUERS' REGULATION

The following table shows fees for 2016 for auditing services and services other than auditing provided by the same auditing company and entities within its network.

Description	Party that provided the service	Recipient	Fees for 2016
(EUR/000)			
Accounts audit	PwC S.p.A.	Parent Company Gefran S.p.A.	85
	PwC network	Subsidiaries	199
	BDO network	Subsidiaries	6
Certification services	PwC S.p.A.	Parent Company Gefran S.p.A.	8
	PwC S.p.A.	Subsidiaries	2
Total			300

42. EVENTS AFTER 31 DECEMBER 2016

For information on operational performance in early 2017, please see the "Outlook" section.

No other significant events took place after year-end.

43. OTHER INFORMATION

Pursuant to Article 70.8 and Article 71.1 bis of Consob's Issuers' Regulation, the Board of Directors decided to take advantage of the option to depart from the obligations to publish the disclosure documents prescribed in relation to significant mergers, spin-offs, capital increases through contribution in kind, acquisitions and disposals.

Provaglio d'Iseo, Italy, 9 March 2017

On behalf of the Board of Directors

The Chairman

Ennio Franceschetti

Chief Executive Officer

Maria Chiara Franceschetti

CONSOLIDATED INCOME STATEMENT ANALYSIS BY QUARTER

Consolidated income statement by quarter

	(EUR /000)	Q1 2015	Q2 2015	Q3 2015	Q4 2015	TOTAL 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	TOTAL 2016
a	Revenues	30,309	29,556	26,759	28,728	**115,352**	29,524	30,138	28,905	30,763	**119,330**
b	Increases for internal work	503	480	376	390	**1,749**	408	292	179	240	**1,119**
c	Consumption of materials and products	9,810	9,995	9,026	10,475	**39,306**	9,539	10,526	10,416	11,245	**41,726**
d	Added Value (a+b-c)	21,002	20,041	18,109	18,643	**77,795**	20,393	19,904	18,668	19,758	**78,723**
e	Other operating costs	6,395	6,673	6,846	5,887	**25,801**	5,563	5,628	5,688	5,173	**22,052**
f	Personnel costs	12,753	12,485	10,740	10,335	**46,313**	13,116	11,364	10,009	10,858	**45,347**
g	Gross operating margin - EBITDA (d-e-f)	1,854	883	523	2,421	**5,681**	1,714	2,912	2,971	3,727	**11,324**
h	Depreciation, amortisation and impairments	1,601	1,596	1,531	1,583	**6,311**	1,557	1,557	1,560	1,535	**6,209**
i	EBIT (g-h)	253	(713)	(1,008)	838	**(630)**	157	1,355	1,411	2,192	**5,115**
l	Gains (losses) from financial assets/liabilities	1,175	(1,095)	(1,343)	140	**(1,123)**	(761)	139	(378)	177	**(823)**
m	Gains (losses) from shareholdings valued at equity	6	69	51	(7)	**119**	(78)	34	59	(10)	**5**
n	Profit (loss) before tax (i±l±m)	1,434	(1,739)	(2,300)	971	**(1,634)**	(682)	1,528	1,092	2,359	**4,297**
o	Taxes	(229)	(700)	(407)	(1,612)	**(2,948)**	(516)	(275)	(632)	588	**(835)**
p	Result from operating activities (n±o)	1,205	(2,439)	(2,707)	(641)	**(4,582)**	(1,198)	1,253	460	2,947	**3,462**
q	Profit (loss) from assets held for sale	(141)	(46)	0	0	**(187)**	486	0	0	0	**486**
r	Group net profit (loss) (p±q)	1,064	(2,485)	(2,707)	(641)	**(4,769)**	(712)	1,253	460	2,947	**3,948**

Consolidated income statement by quarter – excluding non-recurring items

	(EUR /000)	Q1 2015	Q2 2015	Q3 2015	Q4 2015	TOTAL 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	TOTAL 2016
a	Revenues	30,309	29,556	26,759	28,728	**115,352**	29,003	30,138	28,905	30,609	**118,655**
b	Increases for internal work	503	480	376	390	**1,749**	408	292	179	240	**1,119**
c	Consumption of materials and products	9,810	9,995	9,026	10,475	**39,306**	9,539	10,526	10,416	11,245	**41,726**
d	Added Value (a+b-c)	21,002	20,041	18,109	18,643	**77,795**	19,872	19,904	18,668	19,604	**78,048**
e	Other operating costs	6,395	6,673	6,846	5,887	**25,801**	5,563	5,628	5,688	5,173	**22,052**
f	Personnel costs	12,753	12,485	10,740	10,335	**46,313**	11,224	11,217	10,009	11,033	**43,483**
g	Gross operating margin - EBITDA (d-e-f)	1,854	883	523	2,421	**5,681**	3,085	3,059	2,971	3,398	**12,513**
h	Depreciation, amortisation and impairments	1,601	1,596	1,531	1,583	**6,311**	1,557	1,557	1,560	1,535	**6,209**
i	EBIT (g-h)	253	(713)	(1,008)	838	**(630)**	1,528	1,502	1,411	1,863	**6,304**
l	Gains (losses) from financial assets/liabilities	1,175	(1,095)	(1,343)	140	**(1,123)**	(761)	139	(378)	177	**(823)**
m	Gains (losses) from shareholdings valued at equity	6	69	51	(7)	**119**	(78)	34	59	(10)	**5**
n	Profit (loss) before tax (i±l±m)	1,434	(1,739)	(2,300)	971	**(1,634)**	689	1,675	1,092	2,030	**5,486**
o	Taxes	(229)	(700)	(407)	(1,612)	**(2,948)**	(516)	(275)	(632)	588	**(835)**
p	Result from operating activities (n±o)	1,205	(2,439)	(2,707)	(641)	**(4,582)**	173	1,400	460	2,618	**4,651**
q	Profit (loss) from assets held for sale	(141)	(46)	0	0	**(187)**	486	0	0	0	**486**
r	Group net profit (loss) (p±q)	1,064	(2,485)	(2,707)	(641)	**(4,769)**	659	1,400	460	2,618	**5,137**

ANNEXES

a) Exchange rates used to convert the financial statements of foreign companies

End-of-period exchange rates

Currency	31 December 2016	31 December 2015
Swiss franc	1.0739	1.0835
Pound sterling	0.8562	0.7340
US dollar	1.0541	1.0887
Brazilian real	3.4305	4.3117
Chinese renminbi	7.3202	7.0608
Indian rupee	71.5935	72.0215
South African rand	14.4570	16.9530
Turkish lira	3.7072	3.1765

Average exchange rates in the period

Currency	2016	2015	4Q 2016	4Q 2015
Swiss franc	1.0902	1.0676	1.0798	1.0847
Pound sterling	0.8189	0.7260	0.8691	0.7218
US dollar	1.1066	1.1096	1.0789	1.0949
Brazilian real	3.8616	3.6916	3.5540	4.2115
Chinese renminbi	7.3496	6.9730	7.3688	6.9979
Indian rupee	74.3553	71.1752	72.7238	72.1791
South African rand	16.2772	14.1528	15.0029	15.5511
Turkish lira	3.3427	3.0219	3.5443	3.1845

b) List of companies included in the scope of consolidation

Name	Registered offices	Country	Currency	Share capital	Parent Company	% of direct ownership
Gefran UK Ltd	Uxbridge	UK	GBP	4,096,000	Gefran S.p.A.	100.00
Gefran Deutschland Gmbh	Seligenstadt	Germany	EUR	365,000	Gefran S.p.A.	100.00
Siei Areg Gmbh	Pleidelsheim	Germany	EUR	150,000	Gefran S.p.A.	100.00
Gefran France S.A.	Lyon	France	EUR	800,000	Gefran S.p.A.	99.99
Gefran Benelux Nv	Geel	Belgium	EUR	344,000	Gefran S.p.A.	100.00
Gefran Inc	Winchester	US	USD	1,900,070	Gefran S.p.A.	100.00
Gefran Brasil Elettroel. Ltda	Sao Paolo	Brazil	REAL	450,000	Gefran S.p.A.	99.90
					Gefran UK	0.10
Gefran India Private Ltd	Pune	India	INR	100,000,000	Gefran S.p.A.	95.00
					Gefran UK	5.00
Gefran Siei Asia Pte Ltd	Singapore	Singapore	EUR	3,359,369	Gefran S.p.A.	100.00
Gefran Siei Drives Tech. Pte Ltd	Shanghai	China (People's Rep.)	RMB	28,940,000	Gefran Siei Asia	100.00
Gefran Siei Electric Pte Ltd	Shanghai	China (People's Rep.)	RMB	1,005,625	Gefran Siei Asia	100.00
Gefran South Africa (Pty) Ltd	Milnerton City	Rep. of South Africa	ZAR	2,000,100	Gefran S.p.A.	100.00
Sensormate AG	Aadorf	Switzerland	CHF	100,000	Gefran S.p.A.	100.00
Gefran Middle East Ltd Sti	Istanbul	Turkey	TRY	1.030,000	Gefran S.p.A.	100.00
Gefran Soluzioni S.r.l.	Provaglio d'Iseo	Italy	EUR	100,000	Gefran S.p.A.	100.00

c) List of companies carried at equity

Name	Registered offices	Country	Currency	Share capital	Parent Company	% of direct ownership
Ensun S.r.l.	Brescia	Italy	EUR	30,000	Gefran S.p.A.	50
Bs Energia 2 S.r.l.	Rodengo Saiano	Italy	EUR	1,000,000	Ensun S.r.l.	50
Elettropiemme S.r.l.	Trento	Italy	EUR	70,000	Ensun S.r.l.	50
Axel S.r.l.	Dandolo	Italy	EUR	26,008	Gefran S.p.A.	30

d) List of other investee companies

Name	Registered offices	Country	Currency	Share capital	Parent Company	% of direct ownership
Colombera S.p.A.	Iseo	Italy	EUR	8,098,958	Gefran S.p.A.	16.56
Woojin Machinery Co Ltd	Seoul	South Korea	WON	3,200,000,000	Gefran S.p.A.	2.00
UBI Banca S.c.p.A.	Bergamo	Italy	EUR	2,254,368,000	Gefran S.p.A.	n/s

34. CERTIFICATION OF CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-ter OF CONSOB REGULATION NO. 11971 DATED 14 MAY 1999, AS SUBSEQUENTLY AMENDED AND ADDED TO

The undersigned **Maria Chiara Franceschetti**, in her capacity as Chief Executive Officer, and Fausta Coffano, **in her capacity as Director in charge of preparing the company accounting statements of Gefran S.p.A. hereby certify, with due regard for the provisions of Article 154 bis, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998:**

- the adequacy, with respect to the Company's characteristics,

  and

- the effective application of the administrative and accounting procedures applied in the preparation of the consolidated financial statements in 2016.

There are no significant events to report in this regard.

They further certify that:

1. the consolidated financial statements:

- were prepared in accordance with applicable international accounting standards recognised in the European Union pursuant to EC Parliament and Council Regulation 1606/2002 of 19 July 2002;
- correspond to entries made in accounting ledgers and records;
- provide a true and accurate representation of the financial situation of the issuer and all companies included in the scope of consolidation.

2. The Report on Operations contains a reliable analysis of operating performance and results and of the condition of the issuer and all companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Provaglio d'Iseo, Italy, 9 March 2017

Chief Executive Officer	The Director responsible for preparing the accounting and corporate documents
Maria Chiara Franceschetti	***Fausta Coffano***

GEFRAN S.p.A.

SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

GEFRAN

1. ALTERNATIVE PERFORMANCE INDICATORS

In addition to the conventional financial tables and indicators required under IFRS, this document includes restated tables and alternative performance indicators. These are intended to allow a better assessment of the Group's economic and financial management. However, these tables and indicators must not be considered as a substitute for those required under the IFRS.

Specifically, the alternative indicators used in the notes to the income statement are:

- **Added value**: the direct margin resulting from revenues, including only direct material, gross of other production costs, such as personnel costs, services and other sundry costs;
- **EBITDA**: operating result before depreciation, amortisation and write-downs. The purpose of this indicator is to present the Group's operating profitability before the main non-monetary items;
- **EBIT**: operating income before financial operations and taxes. The purpose of this indicator is to present the Group's operating profitability.

Alternative indicators used in the notes to the statement of financial position are:

- **Net fixed assets**: the algebraic sum of the following items in the statement of financial position:
    - Goodwill
    - Intangible assets
    - Property, plant, machinery and tools
    - Equity investments valued at equity
    - Equity investments in other companies
    - Receivables and other non-current assets
    - Deferred tax assets
- **Operating capital**: the algebraic sum of the following items in the statement of financial position:
    - Inventories
    - Trade receivables
    - Trade payables
    - Other assets
    - Tax receivables
    - Current provisions
    - Tax payables
    - Other liabilities
- **Net invested capital**: the algebraic sum of fixed assets, operating capital and provisions;
- **Net debt**: the algebraic sum of the following items:
    - Medium-to-long-term financial payables
    - Short-term financial payables
    - Financial liabilities for derivatives
    - Financial assets for derivatives
    - Cash and cash equivalents and short-term financial receivables

2. KEY ECONOMIC, FINANCIAL, EQUITY AND OPERATING FIGURES

Gefran S.p.A. income statement highlights

(EUR /000)	31 December 2016		31 December 2015	
Revenues	78,020	100.0%	74,771	100.0%
Gross operating margin (EBITDA)	7,500	9.6%	1,332	1.8%
Earnings before interest and taxes (EBIT)	2,410	3.1%	(3,735)	-5.0%
Profit (loss) before tax	6,336	8.1%	(412)	-0.6%
Result from operating activities	7,710	9.9%	(1,170)	-1.6%
Profit (loss) from assets held for sale	486	0.6%	(175)	-0.2%
Net profit (loss)	8,196	10.5%	(1,346)	-1.8%

Gefran S.p.A. income statement highlights, excluding non-recurring components

(EUR /000)	31 December 2016		31 December 2015	
Revenues	78,020	100.0%	74,771	100.0%
Gross operating margin (EBITDA)	9,120	11.7%	1,332	1.8%
Earnings before interest and taxes (EBIT)	4,030	5.2%	(3,735)	-5.0%
Profit (loss) before tax	7,956	10.2%	(412)	-0.6%
Result from operating activities	9,330	12.0%	(1,170)	-1.6%
Profit (loss) from assets held for sale	486	0.6%	(175)	-0.2%
Net profit (loss)	9,816	12.6%	(1,346)	-1.8%

Gefran S.p.A. statement of financial position highlights

(EUR /000)	31 December 2016	31 December 2015
Invested capital from operations	79,946	81,881
Working capital	21,966	20,320
Shareholders’ equity	55,059	46,698
Net financial position	(26,094)	(36,531)
Operating cash flow	12,964	9,846
Investments	2,599	4,123

3. DIRECTORS' REPORT ON OPERATIONS

The Group closed 2016 with revenues of EUR 78,020 thousand, up 4.3% from 2015.

With the revenues, the margins also rose during the year, so as to lead the added value to grow EUR 2,092 thousand compared with 2015 (+4.3%).

EBITDA was 9.6% of revenues, while EBIT margin was 3.1%. Both the figures were negatively influenced by the presence on non-recurring charges, linked to the restructuring of the staff and equal in total to EUR 1,620 thousand, net of which the EBITDA and EBIT margins would have been 11.7% and 5.2%, respectively.

The reorganisation of the internal processes made the structure more efficient, leading to a decrease in the number of employees and the related cost, as well as a minor use of resources under the form of services and operating costs.

In February, a mobility procedure was formally initiated in Gefran S.p.A. for a total of 55 employees, in relation to which restructuring costs were incurred for a total of EUR 1,458 thousand. The reorganisation was completed by the end of the year, with the identification of all the redundancies who did not oppose their laying off, formalised in December 2016. In order to support the plan, the welfare support system of the "extraordinary unemployment benefits fund" was activated, for the period between April and December 2016.

The following table shows the operating results for the year, restated and compared with those of the previous period:

	(EUR /000)	31 December 2016			31 December 2015			Change 2016-2015	
		Excl. non rec.	Comp. non rec.	Final	Excl. non rec.	Comp. non rec.	Final	Value Excl. non rec.	%
a	Revenues	78,020		78,020	74,771		74,771	3,249	4.3%
b	Increases for internal work	1,114		1,114	1,748		1,748	(634)	36.3%
c	Consumption of materials and products	27,829		27,829	27,307		27,307	522	1.9%
d	Added Value (a+b-c)	51,305		51,305	49,212		49,212	2,093	4.3%
e	Other operating costs	13,767		13,767	17,340		17,340	(3,573)	20.6%
f	Personnel costs	28,418	(1,620)	30,038	30,541		30,541	(2,123)	7.0%
g	Gross operating margin - EBITDA (d-e-f)	9,120	1,620	7,500	1,332		1,332	7,788	584.7%
h	Depreciation, amortisation and impairments	5,090		5,090	5,067		5,067	23	0.5%
i	EBIT (g-h)	4,030	1,620	2,410	(3,735)		(3,735)	7,765	207.9%
l	Gains (losses) from financial assets/liabilities	3,926		3,926	3,324		3,324	602	18.1%
n	Profit (loss) before tax (i±l)	7,956	1,620	6,336	(412)		(412)	8,368	2031.1%
o	Taxes	1,374		1,374	(759)		(759)	2,133	281.0%
p	Result from operating activities (n±o)	9,330	1,620	7,710	(1,170)		(1,170)	10,500	897.4%
q	Profit (loss) from assets held for sale	486		486	(175)		(175)	661	377.7%
r	Net profit (loss) (p±q)	9,816	1,620	8,196	(1,346)		(1,346)	11,162	829.3%

Revenues for the year came to EUR 78,020 thousand, up by EUR 3,249 thousand compared with the previous year, mainly due to the increase in sales in Italy (EUR 1,309 thousand, +4.3%), in the EU area (EUR 1,571 thousand, +9.2%) and America (EUR 778 thousand, +11%). With regard to the business areas, sensors and drives were up, respectively EUR 2,789 thousand (+9.8%) and EUR 1,090 thousand (+4.4%).

Added value was EUR 51,305 thousand, representing 65.8% of revenues, in line in terms of incidence on revenues but up in absolute value with respect to the added value in 2015. In detail, the growth in sales volumes generated value for EUR 2,125 thousand while the greater margin realised led to an additional EUR 1,166 thousand; these positive effects are partly countered by the reduction of the capitalisations of development costs for new products, down EUR 634 thousand with respect to 2015, and by the increase in the inventory write-down provision, for EUR 564 thousand.

Other operating costs totalled EUR 13,767 thousand at 31 December 2016 (EUR 17,340 thousand at 31 December 2015), a decrease of EUR 3,573 thousand compared with 2015. This saving is generated by the greater efficiency obtained further to the reorganisation of the Company processes: the incidence of operating costs on revenues fell from 23.2% in the previous year to 17.6% in the current year.

Personnel costs were EUR 30,038 thousand at 31 December 2016 (38.5% of revenues), compared with EUR 30,541 thousand as at 31 December 2015 (40.8% of revenues); the reduction in the period of EUR 503 thousand reflects the positive effect of the significant reorganisation of Gefran S.p.A.. The benefits of the transaction in as early as 2016 exceed the non-recurring restructuring costs, borne by Gefran S.p.A. for winding-up the Spanish branch (EUR 192 thousand), and for the opening of a procedure for redundancies of 55 employees in the Italian factories (EUR 1,428 thousand).

Not including these non-recurring components, amounting to a total negative amount of EUR 1,620 thousand, personnel costs amounted to EUR 28,418 thousand (36.4% of revenues), down EUR 2,123 thousand compared to 2015.

EBIT was positive at EUR 2,410 thousand in 2016 (3.1% of revenues), compared with a negative EBIT of EUR 3,735 thousand in December 2015.

Excluding the non-recurring components, negative and amounting to EUR 1,620 thousand, the operating result for 2016 amounted to EUR 4,030 thousand (5.2% of revenues), up compared to the 2015 figure of EUR 7,765 thousand.

Financial income was EUR 3,926 thousand, up by EUR 602 thousand on the previous year. This includes dividends from equity investments amounting to EUR 5,742 thousand, compared with EUR 5,984 thousand in dividends in 2015, and the write-down of the equity investment in the subsidiary Gefran Brasil Elettroel. Ltda for EUR 1,252 thousand.

Financial income in 2015 included the negative effects of the placement in liquidation of the South African subsidiary; more specifically, the cost, equal to EUR 152 thousand, for the write-down of the equity interest in Gefran South Africa and the financial charge of EUR 1,111 thousand from waiver of the right to be paid back the loan granted to it.

Current and deferred **tax** assets and liabilities were positive for a total of EUR 1,374 thousand at 31 December 2016, compared with a negative figure of EUR 759 thousand in 2015. They comprise negative current taxes for EUR 537 thousand, attributable to the recognition of Ires and Irap taxable amounts not present in 2015 due to the loss for the year, and positive deferred taxes amounting to EUR 1,911 thousand for the recognition of deferred tax assets calculated on previous tax losses, further to the up-dating of the estimate on recoverability of the same, based on the three-year plan for the period 2017-2019.

The **result from operating activities** as at 31 December 2016 was positive and amounted to of EUR 7,710 thousand, compared with a negative figure of EUR 1,170 thousand in 2015.

Excluding all non-recurring components, the result from operating activities was positive and amounted to EUR 9,330 thousand, an improvement of EUR 10,500 thousand compared with 2015 and with an incidence on revenues of 12%.

The loss from assets held for sale was EUR 486 thousand at 31 December 2016. This includes the result from the sale of the business segment relating to the distribution of sensors and components in Spain/Portugal to a Spanish distributor for EUR 486 thousand and the net effect of the stipulation of the sales agreement for the licence for the production and sale of string inverters to an Indian group, equal to EUR 0. In detail, this income, deriving from the transfer of the licence amounts to EUR 400 thousand and is recorded net of the costs incurred by Gefran for the transfer, which at 31 December 2016 were estimated as EUR 400 thousand. The figure compares with the negative result of EUR 175 thousand in 2015, which by contrast includes the net operating result of the photovoltaic business.

The **net profit** (loss) at 31 December 2016 was positive for EUR 8,196 thousand, compared with a negative figure of EUR 1,346 thousand in 2015.

Excluding the impact of the non-recurring components, the net result for the year was a profit of EUR 9,816 thousand, disclosing an improvement on 2015 of EUR 11,162 thousand.

Research and development costs, which are particularly substantial for Gefran S.p.A. due to the type of business it conducts, at nearly 9% of revenues, are recognised in the income statement. More specifically, the cost of technical personnel involved in the activities, consultancy and materials used is fully charged to the income statement, except for costs capitalised for the year that meet the requirements of IAS 38. Costs identified for capitalisation according to the above requirements are indirectly suspended by a revenue entry under a specific income statement item: *"Increases for internal work"*.

EUR 1,114 thousand was capitalised during 2016, in relation to projects meeting the requirements of IFRS.

The intangible assets with a definite life and equity investments in subsidiaries, for which indicators of impairment were present, were subject to impairment tests, which disclosed the need to write-down the investment in the subsidiary Gefran Brasil Elettroel. Ltda for EUR 1,252 thousand. Besides this, no more impairment losses have emerged.

The main items in the statement of financial position are summarised in the following table:

GEFRAN SPA	31 December 2016		31 December 2015	
(EUR /000)	value	%	value	%
Intangible assets	7,043	8.7	7,771	9.3
Tangible assets	30,847	38.0	32,616	39.2
Financial assets	33,824	41.7	33,020	39.7
Net fixed assets	71,714	88.4	73,407	88.2
Inventories	11,221	13.8	11,222	13.5
Trade receivables	25,035	30.8	23,029	27.7
Trade payables	(14,290)	(17.6)	(13,931)	(16.7)
Other assets/liabilities	(7,390)	(9.1)	(5,789)	(7.0)
Working capital	14,576	18.0	14,531	17.5
Provisions for risks and future liabilities	(1,831)	(2.3)	(1,148)	(1.4)
Deferred tax provisions	-	-	(28)	(0.0)
Employee benefits	(4,513)	(5.6)	(4,880)	(5.9)
Invested capital from operations	79,946	98.5	81,882	98.4
Invested capital from assets held for sale	1,207	1.5	1,347	1.6
Net invested capital	**81,153**	**100.0**	**83,229**	**100.0**
Shareholders' equity	55,059	67.8	46,698	56.1
Non-current financial payables	16,045	19.8	10,879	13.1
Current financial payables	23,357	28.8	44,328	53.3
Financial liabilities for derivatives	220	0.3	275	0.3
Financial assets for derivatives	(4)	(0.0)	(25)	(0.0)
Cash on hand and current financial receivables	(13,524)	(16.7)	(18,926)	(22.7)
Net debt relating to operations	26,094	32.2	36,531	43.9
Total sources of financing	**81,153**	**100.0**	**83,229**	**100.0**

Net **fixed assets decreased** by EUR 1,693 thousand compared with 31 December 2015 and disclosed the following trends:

- the tangible and intangible fixed assets include increases for new investments amounting to EUR 2,600 thousand and amortisation/depreciation for Euro 5,090;
- long-term financial assets disclose an overall change of EUR 804 thousand, deriving from the additional credits for deferred tax assets (EUR 1,900 thousand), the write-down of the investment in Gefran Brasil (EUR 1,252 thousand) and the positive adjustment of the value of the other equity investments (EUR 156 thousand).

Working **capital amounted** to EUR 14,576 thousand, essentially in line with 31 December 2015; the changes in the individual items concerned:

- the inventories totalling EUR 11,221 thousand at 31 December 2016, unchanged with respect to the same period in 2015.
- trade receivables totalled EUR 25,035 thousand, an increase of EUR 2,006 thousand compared to 31 December 2015, further to the increase in revenues;

- trade payables amounted to EUR 14,290 thousand, compared with EUR 13,931 thousand at 31 December 2015, up EUR 359 thousand;
- other net assets and liabilities, negative for EUR 7,390 thousand at 31 December 2016, compared with EUR 5,789 thousand at 31 December 2015; the increase of EUR 1,601 thousand is mainly due to the increase in payables to employees due to the incentives and the other amounts due being disbursed to the employees who terminated their employment relationship with the company in December.

Provisions for risks and future liabilities were EUR 1,831 thousand, an increase of EUR 683 thousand with respect to 31 December 2015; they include provisions for legal disputes underway and for sundry risks.

Shareholders' equity amounted to EUR 8,361 thousand at 31 December 2015, mainly due to the recognition of the positive result for the year (EUR 8,196 thousand).

Net debt at 31 December 2016 is equal to EUR 26,094 thousand, an improvement of EUR 10,437 thousand with respect to 31 December 2015. This change was essentially originated by the positive cash flows from normal operations (EUR 12,946 thousand) mitigated by the negative flows of the technical investments (EUR 2,593 thousand).

With reference to current financial payables, the terms of the financial covenant relating to the ratio between net debt and EBITDA established in certain loan contracts had not been complied with at 31 December 2015; accordingly, the medium/long term debt relating to loans that did not comply with the terms of the above-mentioned covenant was reclassified under short term debt at 31 December 2015. The reclassified debt as at 31 December 2015 amounted to EUR 15,032 thousand. Net of this reclassification, the short-term debt improved EUR 5,939 thousand.

The up-dated checks on the contractual restrictions at the time of closing this Annual financial report at 31 December 2016 disclose that the ratios of all the financial covenants have been observed and accordingly the non-current financial payables are recorded in the financial statements according to their contractual maturity.

(EUR /000)	31 December 2016	31 December 2015
A) Cash and cash equivalents at the start of the period	17,549	10,803
B) Cash flow generated by (used in) operations in the period:	12,964	9,846
C) Cash flow generated by (used in) investment activities	(2,593)	(4,798)
D) Free Cash Flow (B+C)	10,370	5,048
E) Cash flow generated by (used in) financing activities	(17,705)	1,698
F) Cash flow from continuing operations (D+E)	(7,335)	6,746
G) Cash flow from assets held for sale	626	0
I) Net change in cash at hand (F+G+H)	(6,709)	6,746
J) Cash and cash equivalents at the end of the period (A+I)	10,840	17,549

The cash flow from operations in the period came to a positive balance of EUR 12,964 thousand; specifically, operations in 2016, net of the inflow of provisions, amortisation and depreciation and financial items, generated cash of EUR 14,611 thousand, while the decrease in working capital in the same period generated a negative cash flow of EUR 1,647 thousand.

Technical and financial investments, net of disposals, absorbed resources of EUR 2,593 thousand compared with investments of EUR 4,798 thousand in 2015.

Free cash flow (operating cash flow excluding investment activities) was positive at EUR 10,370 thousand, compared with an again positive figure of EUR 5,048 thousand in 2015, an improvement of EUR 5,322 thousand mainly owing to the additional flows generated by operations during the period.

The loans absorbed EUR 17,705 thousand in cash, for repayment of the loan instalments falling due (EUR 11,853 thousand) and the reduction in current financial liabilities (EUR 5,017 thousand).

The cash flow from assets held for sale was a positive amount of EUR 626 thousand, due to the sale of the company branch involved in the distribution of sensors and components in Spain/Portugal, finalised on 21 March 2016.

4. SIGNIFICANT EVENTS DURING THE YEAR

- On 13 January 2016, Gefran announced that it had reached a framework agreement for the sale - to a leading Indian group involved in the design and production of measurement and control instruments - of all the rights relating to the photovoltaic product technology.
- On 12 February 2016, Gefran notified the trade union organisations of the Parent Company, pursuant to and for the purposes of Articles 4 and 24 of Italian Law No. 223 of 23 July 1991, of the commencement of a mobility process for a total of 55 employees.
- On 21 March 2016, Gefran finalised the sale of the company branch involved in the distribution of sensors and automation components in Spain/Portugal to a Spanish distributor. Payment for the transaction, paid at the same time as the signing of the contract, amounted to EUR 650 thousand.
- On 21 April 2016, the ordinary shareholders' meeting of Gefran S.p.A. voted to:
    - approve the 2015 financial statements and cover the loss for the year of EUR 1,346 thousand through the use of available reserves;
    - engage the Independent auditors, PricewaterhouseCoopers S.p.A., to carry out the official audit of the accounts for the years 2016-2024;
    - authorise the Board of Directors to purchase up to a maximum of 1,440,000 own shares for a period of 18 months from the date of the shareholders' meeting.

  The shareholders also expressed a favourable opinion of the general Group remuneration policy adopted by Gefran, pursuant to Article 123 ter of the TUF (finance consolidation act).

5. SIGNIFICANT EVENTS AFTER YEAR END

- On 30 January 2017, the cancellation of the subsidiary Gefran South Africa (Pty) Ltd., already in liquidation, became effective.

6. OUTLOOK

The economic cycle surveys showed a pick-up on the global economy in the third and fourth quarter of 2016. With the election of the new president of the United States of America, expectations have been created for an expansive fiscal policy, strengthening the forecasts for an acceleration in US economic growth. The Euro Zone continues along its path of moderate expansion, which should extend also to 2017.

The end of 2016 saw the confirmation of moderate growth also for Italy, with the confidence indicators of the businesses positioned on high values: the macro-economic prospects for 2017 for the domestic market envisage growth estimated at around 0.9%, mainly drawn along by internal demand.

Overall, the risks for the expansion of the global economy mainly derive from the continuation of the uncertainty of the financial conditions in some areas and the manifestation and spread of protectionist stimulus, as well as from the possible turbulence in the emerging economies. In Brazil, the recession continues to be austere and the economic scenario remains uncertain, also due to the confused political situation.

In this context, Gefran is registering encouraging signs and reports a satisfactory number of new orders taken on all the business lines, in particular for sensors which benefit from the positive trend of the plastics sector.

2017 started with a backlog which suggests positive results both in terms of sales revenues and margins from as early as the first quarter and the factories are sustaining the growth in volumes without difficulty. The investments which are being implemented will reveal the first benefits, in terms of improvement of the lead times and production efficiency, as from the second quarter of the year; in the meantime, the endeavours of the operating structures currently existing remain, in order to keep the level of customer service high.

From the standpoint of the businesses, the Gefran portfolio will see the portion of revenues generated with the sensors and with the automation components grow during the year while the percentage weight of the drive business products will decrease despite, also the latter, having an order book greater than in the same period last year. Mention should be made of the improvement currently underway with regard to the margins of the drive business which is pointing towards a breakeven.

7. OWN SHARES

In 2016, Gefran S.p.A. continued to purchase own shares following the guidelines set out in the plan approved by the Shareholders' Meeting of 21 April 2016, which authorised the purchase and sale of own shares up to the maximum legal limit of 10% of issued shares, for a period of 18 months from the date of the Shareholders' Meeting.

Gefran S.p.A. purchased 7,659 shares at an average price of EUR 1.4975 per share during the year. At 31 December 2016, Gefran S.p.A. held 227,394 shares (1.58% of the total) with an average book value of EUR 3.5819 per share. As at the date of this report, Gefran S.p.A. owns 227,394 shares, equivalent to 1.58% of the capital, at an average book value of EUR 3.5819 per share.

Brokerage on Gefran's shares by the specialist Intermonte takes place regularly.

8. DEALINGS WITH RELATED PARTIES

During its meeting on 12 November 2010, the Gefran Board of Directors approved the “Regulation for transactions with related parties” in application of Consob resolution No. 17221 dated 12 March 2010. This regulation is published in the “Investor Relations” section of the website www.gefran.com, and was updated in 2012 to improve some of the definitions contained therein. It is also provided in the Report on Corporate Governance and Ownership Structure.

See note 35 of these explanatory notes to the accounts for details on transactions with related parties.

9. ENVIRONMENT, HEALTH AND SAFETY

In 2016, Gefran S.p.A. continued with its commitment to promote initiatives and activities to protect the environment as a primary asset and the health and safety of all staff.

With regard to the Provaglio production sites, more precisely the Via Sebina and Via Cave plants, in collaboration with ESCo (Energy Service Company), steps have been taken to define a project for the system for monitoring energy consumption and identify the functional areas, divisions and single utilities to be monitored.

This project will be achieved during the first few months of 2017 and will represent a data collation network which will be used to check consumption, optimise the same and plan technological investments aimed at reducing energy consumption significantly.

10. HUMAN RESOURCES

With the purpose of reducing costs, recovering competitiveness and sustainability and providing the organisation with an efficient, streamlined structure focused on the relaunch of the business, at the end of November 2015 a complex reorganisation process at international level was resolved.

In Italy, the plan led to a profound reconsideration of the entire sales structure, functional for sales. The sales and direct support activities for the market (at least with reference to the Italian market and the market of the foreign countries in which Gefran branches are not present), before transversal and functional for all the business areas, were absorbed in the business units with a view to combination and streamlining of the decision-making chain, further specialisation linked to the awareness of the product, with a reconsideration of the sales processes.

An in-depth analysis of the customers, markets and sales processes revealed that the two operational business areas care of the Provaglio d’Iseo premises, or rather the “Sensors” division and the “Automation Components” division, presented many similarities. Therefore, the decision was made to keep the sales structure together, and to separate the commercial activities linked to the “Drives” business areas, with headquarters care of the Gerenzano plant.

The drives business, the most significant part of which is care of the Gerenzano plant, has been subject to a profound reorganisation of the processes, necessary for increasing effectiveness and efficiency, both production and commercial related.

The action described above revealed a redundancy of functions and an surplus of 55 resources in the three Italian plants, mainly in the indirect departments with respect to production and sales.

At the Provaglio d'Iseo sensors production plant, Gefran resorted to staff leasing for the last few months of the year, to handle the peak in orders.

The fundamental interaction with the various company divisions for the definition of the training requirements was maintained, aimed at the development and internal growth of the talent, as well as the engagement of the individuals. In the presence of extremely positive results in previous years, work was continued drawing up individual courses, aimed at enhancing the managerial and leadership skills, which included an *assessment centre*, classroom training, *coaching* and *on-the-job training*.

For the purpose of preparing its individuals for the challenge of on-going innovations and Industria 4.0, Gefran sponsored the "MA.X.E. Manager per l'eccellenza" Masters course, organised by CSMT (Centro Servizi Multisettoriale e Tecnologico) and the University of Brescia. Gefran enrolled five young co-workers on said Master Course who at the end of the 2016 commenced the training course which will lead then to deal with aspects ranging from Lean Thinking to Six Sigma, the Theory of the Restrictions to Risk Management, Sustainability and Development of Individuals.

The Marketing and R&D divisions were involved in training courses care of MIP, Milan Polytechnic, specifically on aspects of innovation and Industry 4.0.

11. MAIN RISKS AND UNCERTAINTIES

For information on the main risks and uncertainties faced by the Company, please see the section "Main risks and uncertainties to which the Gefran Group is exposed" in the consolidated financial statements.
With regard to risk management objectives and policies, including the hedging policy and the exposure of Gefran S.p.A. to credit, price, liquidity, interest rate and exchange rate risks, please see the full description in the comments on the financial statement items. With regard to "financial risk management", please see note 10 of the specific explanatory notes.

12. DISCLOSURE SIMPLIFICATION

On 1 October 2012, the Gefran S.p.A. Board of Directors voted to avail itself of the disclosure simplification faculty pursuant to Article 70.8, and Article 71.1 bis, of Consob Regulation No. 11971/1999 as amended.

13. PROPOSED RESOLUTION

Dear Shareholders,
We hereby submit for your approval the annual financial statements for the year ending 31 December 2016, which show a net profit for the year of EUR 8,195,662.

Note that the legal reserve reached the limit set by the Italian Civil Code some time ago, and that the available reserves amply cover the development costs recorded under non-current assets.

We therefore submit for your approval the following resolution:

"The Ordinary Shareholders' Meeting of Gefran S.p.A., having taken note of the Board of Statutory Auditors' Report and the External Auditors' Report, votes:

1. *to approve the Board of Directors' Report on Operations and the annual financial statements for the year ending 31 December 2016, which show a profit of EUR 8,195,662, as presented by the Board of Directors;*

2. *to distribute to the shareholders, by way of dividend, gross of the legal withholdings, EUR 0.25 for each of the shares in circulation (net of the own shares), by means of the use, for the necessary amount, of the net profit for the year;*

3. *to allocate to Retained earnings, the amount corresponding to the portion of the net profit for the year which remains net of the distribution as per point 2. "*

The dividend, in compliance with the provisions of the "Regulation of the markets organised and managed by Borsa Italiana S.p.A.", will be paid as follows: ex-dividend date 2 May 2017, in payment as from 4 May 2017.

The amount of the dividend is fully covered by the profit for the year and sufficient financial funds are already available for the payment.

Provaglio d'Iseo, Italy, 9 March 2017

On behalf of the Board of Directors

The Chairman

Ennio Franceschetti

Chief Executive Officer

Maria Chiara Franceschetti

GEFRAN S.p.A.

ANNUAL FINANCIAL STATEMENTS

14. STATEMENT OF PROFIT/(LOSS) FOR THE YEAR

(Euro)		*Notes*	progressive at 31 December 2016	2015
Revenues from product sales		25	75,049,687	71,945,481
	of which: related parties:		*33,968,278*	*32,758,892*
Other revenues and income		26	2,969,664	2,825,224
	of which: related parties:		*2,504,285*	*2,523,631*
Increases for internal work			1,114,059	1,748,446
TOTAL REVENUES			**79,133,410**	**76,519,151**
Change in inventories		17	(530)	(270,291)
Costs of raw materials and accessories		27	(27,827,146)	(27,036,423)
	of which: related parties:		*(1,570,999)*	*(1,380,818)*
Service costs		28	(12,112,253)	(14,730,005)
	of which: related parties:		*(263,669)*	*(305,279)*
Other operating expense		30	(1,363,071)	(2,136,998)
Other operating income		30	11,994	79,911
Personnel costs		29	(30,037,547)	(30,541,036)
	of which: non-recurring:		*(1,620,149)*	*0*
Write-down of trade and other receivables		17	(304,274)	(552,783)
Amortisation		31	(2,115,696)	(1,903,124)
Depreciation		31	(2,974,447)	(3,163,553)
EBIT			**2,410,440**	**(3,735,151)**
	of which: non-recurring:		*(1,620,149)*	*0*
Gains from financial assets		32	6,328,397	6,745,160
	of which: related parties:		*5,745,289*	*5,984,258*
Losses from financial liabilities		32	(1,150,659)	(3,152,047)
	of which: related parties:		*(389)*	*(787)*
Value adjustments on non-current assets		32	(1,252,000)	(269,514)
PROFIT (LOSS) BEFORE TAX			**6,336,178**	**(411,552)**
	of which: non-recurring:		*(1,620,149)*	*0*
Current taxes		33	(536,601)	0
Deferred taxes		33	1,910,535	(758,716)
TOTAL TAXES			**1,373,934**	**(758,716)**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS			**7,710,112**	**(1,170,268)**
	of which: non-recurring:		*(1,620,149)*	*0*
Net profit (loss) from assets held for sale		9	485,550	(175,492)
	of which: non-recurring:		*0*	*0*
NET PROFIT (LOSS) FOR THE YEAR			**8,195,662**	**(1,345,760)**
	of which: non-recurring:		*(1,620,149)*	*0*

15. STATEMENT OF PROFIT/(LOSS) FOR THE YEAR AND OTHER ITEMS OF COMPREHENSIVE INCOME

	note	progressive at 31 December 2016	2015
NET PROFIT (LOSS) FOR THE YEAR		**8,195,662**	**(1,345,760)**
Items that will not subsequently be reclassified in the profit and loss statement for the year			
- revaluation of employee benefits: IAS 19	*22*	(33,480)	(144,197)
- overall tax effect	*22*	17,066	49,304
Items that will or could subsequently be reclassified in the profit and loss statement for the year			
- equity investments in other companies	*21*	160,579	22,989
- fair value of cash flow hedging derivatives	*21*	33,201	68,142
Total changes, net of tax effect		**177,366**	**(3,762)**
Comprehensive result for the period		**8,373,028**	**(1,349,522)**

16. STATEMENT OF FINANCIAL POSITION

(Euro)	*Notes*	31 December 2016	31 December 2015
NON-CURRENT ASSETS			
Intangible assets	*11*	7,043,859	7,771,389
of which: related parties:		*39,000*	*30,410*
Property, plant, machinery and tools	*12*	30,847,118	32,616,200
of which: related parties:		*102,860*	*227,420*
Equity investments in subsidiaries	*13*	24,639,625	25,891,625
Shareholdings valued at purchase cost	*14*	1,723,705	1,723,705
Equity investments in other companies	*15*	1,956,072	1,800,494
Receivables and other non-current assets	*16*	58,197	58,197
Deferred tax assets	*33*	5,445,569	3,546,027
TOTAL NON-CURRENT ASSETS		**71,714,145**	**73,407,637**
CURRENT ASSETS			
Inventories	*17*	11,221,174	11,221,704
Trade receivables	*17*	13,605,931	11,306,623
of which: related parties:		*62,797*	*4,480*
Trade receivables from subsidiaries	*17*	11,429,804	11,722,367
Other receivables and assets	*18*	1,611,596	1,485,070
Current tax receivables	*19*	338,717	249,910
Cash and cash equivalents	*20*	10,839,912	17,549,048
Financial assets for derivatives	*20*	3,941	25,319
Financial receivables from subsidiaries	*20*	2,684,156	1,376,598
TOTAL CURRENT ASSETS		**51,735,231**	**54,936,639**
ASSETS HELD FOR SALE		**1,207,020**	**1,347,020**
TOTAL ASSETS		**124,656,396**	**129,691,296**
SHAREHOLDERS’ EQUITY			
Share capital	*21*	14,400,000	14,400,000
Reserves	*21*	32,463,493	33,643,357
Profit/(loss) for the year	*21*	8,195,662	(1,345,760)
Total Group Shareholders’ Equity	***21***	**55,059,155**	**46,697,597**
Shareholders’ equity pertaining to minority interests	*21*	-	-
TOTAL SHAREHOLDERS’ EQUITY		**55,059,155**	**46,697,597**
NON-CURRENT LIABILITIES			
Non-current financial payables	*20*	16,045,160	10,878,940
Employee benefits	*22*	4,512,499	4,879,961
Non-current provisions	*23*	1,115,000	459,000
Deferred tax provisions	*33*	-	28,059
TOTAL NON-CURRENT LIABILITIES		**21,672,659**	**16,245,960**
CURRENT LIABILITIES			
Current financial payables	*20*	16,010,747	37,219,958
Financial payables to subsidiaries	*20*	7,346,107	7,108,276
Trade payables	*17*	13,272,364	13,437,471
of which: related parties:		*46,390*	*45,767*
Trade payables to subsidiaries	*17*	1,017,630	493,576
Financial liabilities for derivatives	*20*	220,089	274,668
Current provisions	*23*	715,961	689,104
Current tax payables	*33*	539,289	-
Other payables and liabilities	*24*	8,802,395	7,524,686
TOTAL CURRENT LIABILITIES		**47,924,582**	**66,747,739**
TOTAL LIABILITIES		**69,597,241**	**82,993,699**
TOTAL SHAREHOLDERS’ EQUITY AND LIABILITIES		**124,656,396**	**129,691,296**

17. CASH FLOW STATEMENT

(EUR /000)	*note*	31 December 2016	31 December 2015
A) CASH AND CASH EQUIVALENTS AT THE START OF THE PERIOD		**17,549**	**10,803**
B) CASH FLOW GENERATED BY (USED IN) OPERATIONS IN THE PERIOD:			
Net profit (loss) for the year		8,196	(1,346)
Depreciation/amortisation	*31*	5,090	5,067
Capital (gains) losses on the sale of non-current assets		5	(44)
Capital (gains) losses on the sale of assets held for sale	*9*	(486)	0
Net result from financial operations	*32*	(3,926)	(3,324)
Dividends received	*32*	5,742	5,984
Change in provisions for risks and future liabilities	*23*	315	(508)
Change in other assets and liabilities	*18, 24*	1,602	(1,025)
Change in deferred taxes	*33*	(1,928)	709
Change in trade receivables	*17*	(2,007)	5,582
of which: related parties:		*(58)*	*2*
Change in inventories	*17*	1	446
Change in trade payables	*17*	359	(1,696)
of which: related parties:		*1*	*(81)*
TOTAL		**12,964**	**9,846**
C) CASH FLOW GENERATED BY (USED IN) INVESTMENT ACTIVITIES			
Investments in:			
- Property, plant & equipment and intangible assets	*11, 12*	(2,600)	(4,122)
of which: related parties:		*(142)*	*(258)*
- Equity investments and securities	*15*	5	(1,060)
- Acquisitions net of acquired cash		0	0
- Financial receivables		0	252
Disposal of non-current assets	*11, 12*	1	132
TOTAL		**(2,593)**	**(4,798)**
D) FREE CASH FLOW (B+C)		**10,370**	**5,048**
E) CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES			
New financial payables	*20*	0	18,000
Repayment of financial payables	*20*	(11,853)	(17,791)
Increase (decrease) in current financial payables	*20*	(5,017)	3,928
Interest (paid)	*32*	(835)	(2,353)
Change in shareholders' equity reserves	*21*	(0)	(85)
Dividends paid	*21*	0	0
TOTAL		**(17,705)**	**1,698**
F) CASH FLOW FROM CONTINUING OPERATIONS (D+E)		**(7,335)**	**6,746**
G) CASH FLOW FROM OPERATING ASSETS HELD FOR SALE	*9*	**626**	**-**
I) NET CHANGE IN CASH AT HAND (F+G)		**(6,709)**	**6,746**
J) CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+I)		**10,840**	**17,549**

18. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

					overall EC reserves				
(EUR/000)	*Note*	**Share capital**	**Capital reserves**	**Other reserves**	**Fair value measurement reserve**	**Other reserves**	**Retained profit /(loss)**	**Profit/(Loss) for the year**	**Total shareholders' equity**
Balances at 1 January 2015		14,400	21,926	9,651	(351)	(550)	3,370	(318)	48,128
Allocation of 2015 profit									
- Other reserves and provisions	*21*						(318)	318	0
- Dividends									0
Income/(expenses) recognised at equity	*21, 22*				92	(95)			(3)
Change in translation reserve	*21*								0
Other changes	*21*			(81)					(81)
2015 profit	*21*							(1,346)	(1,346)
Balance at 31 December 2015		14,400	21,926	9,570	(259)	(645)	3,052	(1,346)	46,698
Allocation of 2016 profit									
- Other reserves and provisions	*21*			0			(1,346)	1,346	0
- Dividends									0
Income/(expenses) recognised at equity	*21, 22*			(2)	194	(16)			176
Change in translation reserve	*21*								0
Other changes	*21*			(11)					(11)
2016 profit	*21*							8,196	8,196
Balance at 31 December 2016		14,400	21,926	9,557	(65)	(661)	1,706	8,196	55,059

SPECIFIC EXPLANATORY NOTES TO THE ACCOUNTS

1. COMPANY INFORMATION

Gefran S.p.A. is incorporated and located at Via Sebina 74, Provaglio d'Iseo (BS), Italy.

Publication of the financial statements of Gefran S.p.A. for the year ended 31 December 2016 was authorised by resolution of the Board of Directors on 9 March 2017, and they were made available to the public on the company website www.gefran.com on 29 March 2017.

Please note that the information required pursuant to Article 123 bis of Italian Legislative Decree No. 58/1998 is contained in a separate document, the "Report on Corporate Governance and Ownership Structure", which refers for some information to the "Remuneration Report", prepared pursuant to article 123 ter of Italian Legislative Decree No. 58/1998. Both of these reports have been published in the investor relations/corporate governance section of the Company's website.

2. FORM AND CONTENT

The 2016 financial statements were prepared in accordance with the International Financial Reporting Standards adopted by the European Union.

The external audit of the financial statements was carried out by PricewaterhouseCoopers S.p.A..

These financial statements are presented in euro, which is also the functional currency used for the Group consolidated financial statements. Unless otherwise indicated, all the amounts included in the explanatory notes are expressed in euro.

3. ACCOUNTING SCHEDULES

Gefran S.p.A. has used:

- a statement of financial position, according to which assets and liabilities are separated into current and non-current categories;
- a statement of profit (loss) for the year, in which costs are categorised by nature;
- a statement of profit (loss) for the year and other items of comprehensive income, which includes charges and income recognised directly in shareholders' equity, net of tax charges;
- a cash flow statement according to the indirect method, whereby the operating result is adjusted for the effects of non-monetary transactions, any deferrals or accruals of past or future operating receipts or payments, and items of revenues or costs associated with the cash flows from investing or financing activities.

It should be noted that, with regard to Consob resolution No. 15519 of 27 July 2006, in the statement of financial position and the income statement, amounts for positions with related parties are shown separately from the items in question.

4. ACCOUNTING STANDARDS

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

With reference to Consob Communication DEM/11070007 of 5 August 2011, it is also noted that Gefran S.p.A. does not hold in its portfolio any bonds issued by central or local governments or government agencies, and is therefore not exposed to risks generated by market fluctuations. The financial statements were prepared using the general historical cost criterion, adjusted as required for the measurement of some financial instruments.

With reference to Consob Communication No. 0003907 of 19 January 2015, note 13 “Equity investments in subsidiaries” includes the required information, and specifically the references to the external information and the sensitivity analysis.

With reference to Consob Communication No. 0007780 of 28 January 2016, we note that the impacts of the market conditions on the balance sheet disclosure were included in the Directors’ Report on Operations. It is furthermore noted that the application of IFRS 13 “Fair Value Measurement” does not involve any significant changes in the financial statement items for Gefran and currently an assessment is being carried out of the impacts on the financial statements reporting of application of IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from contracts with customers” both of the latter coming into force as from 1 January 2018.

This section summarises the most significant measurement criteria used by the Company.

<u>Revenues</u>

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the relative amount can be reliably measured. The following specific criteria for recognition of revenues must always be complied with before recognition in the income statement.

<u>Sale of goods</u>

The revenue is recognised when the business has transferred the significant risks and benefits associated with ownership of the asset and the amount of revenue can be reliably measured.

<u>Provision of services</u>

Revenues from services (technical assistance, repairs and other services rendered) are recognised according to the state of advancement of these activities. The state of advancement is measured as a percentage, using the hours worked as a proportion of the total estimated hours for each contract.

When the result of the contract cannot be reliably measured, the revenue is recognised only to the extent that the costs sustained are recoverable.

<u>Interest</u>

This is recorded as financial income for interest income accrued during the year, using the effective interest rate method, which is the rate that discounts back expected future cash flows according to the expected life of the financial instrument, added to the net value of the financial assets reported in the financial statements.

Dividends

Dividends are recognised when the shareholders' right to receive payment arises, i.e. at the date of the Shareholders' Meeting resolution.

Costs

Costs for the period are recorded on an accruals basis and recognised net of returns, discounts and allowances.

Financial charges

Financial charges are recorded in the income statement when they are incurred, in accordance with the reference accounting treatment set forth in IAS 23.

Income tax

Income tax for the period was calculated using an estimate of taxable income. The amount owed to the tax authorities is recorded under tax payables. Taxes paid in excess of the amount due are posted to tax assets.

Current income taxes relating to items posted directly to shareholders' equity are reported directly in shareholders' equity and not in the income statement.

Deferred tax assets and liabilities are determined in relation to timing differences between the values of assets and liabilities in the financial statements and those recognised for tax purposes. Deferred tax assets are recognised when it is probable that sufficient taxable income is available to allow these assets to be used. Deferred tax liabilities are recognised for all taxable timing differences.

Tangible assets

Tangible assets are recognised at purchase cost, including accessory costs. The cost of tangible assets is adjusted for depreciation on the basis of a systematic plan, taking into account the remaining possibility of economic use of the assets and also considering their physical wear and tear. Tangible assets are depreciated on a monthly basis from the time of entry into operation until they are sold or derecognised in the financial statements.

If significant parts of tangible assets in use have different useful lives, the components identified are recognised and depreciated separately.

At the time of sale or when no future economic benefits are expected from the use of an asset, it is derecognised in the financial statements, and any gain or loss (calculated as the difference between the selling price and the book value) is recognised in the income statement in the year of derecognition.

Costs for maintenance and ordinary repairs are charged to the income statement in the year in which they are incurred.

Extraordinary maintenance costs that entail significant and tangible improvements to plant production capacity or safety or their economically useful lives are capitalised.

Leases

Finance leases, which transfer to the Company substantially all the risks and rewards of ownership of the leased item, are capitalised as tangible assets from the date of inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments. A payable is recognised under liabilities for the same amount, which is then gradually reduced according to the repayment plan for the principal amounts included in the contractually agreed payments. Lease payments are apportioned between principal and interest so as to achieve a constant rate of interest on the remaining balance of the debt (principal). Financial charges are charged to the income statement.

Leased assets are depreciated using the same criteria as for other tangible assets.

Leases where the lessor essentially retains all the typical risks and rewards of ownership are classified as operating leases. The initial negotiation costs incurred for operating leases are regarded as increasing the cost of the leased asset and are recognised over the term of the lease so as to be netted against the revenues generated by the lease. Operating lease payments are charged to the income statement on a straight-line basis throughout the term of the lease agreement.

Research and development costs

Research costs are charged to the income statement at the time that they are incurred. Development costs incurred for a specific project are capitalised when all the following conditions are met:

- the costs can be reliably determined;
- the technical feasibility of the product can be demonstrated;
- the anticipated volumes and prices indicate that the costs incurred in the development phase will generate future economic benefits;
- adequate technical and financial resources are available to complete the development of the project.

Capitalised development costs are amortised on a systematic basis from the start of production and throughout the estimated life of the product. All other development costs are recognised in the income statement when they are incurred.

Business combinations and goodwill

Business combinations are reported using the *acquisition method*, based on which the identifiable assets, liabilities and contingent liabilities of the acquired company that meet the reporting conditions under IFRS 3, are recognised at their current values on the acquisition date. Deferred taxes are then allocated on the adjustments made to the previous book values to align them with the present value.

Because of its complexity, application of the acquisition method includes an initial provisional calculation of the value of the assets, liabilities and contingent liabilities acquired, to allow for a first recognition of the transaction in the financial statements for the financial year in which the business combination was carried out. This initial recognition is completed and adjusted within twelve months of the acquisition date.

Changes to the initial consideration due to events or circumstances occurring after the acquisition date are recognised in the statement of profit (loss) for the year.

Goodwill is recognised as the difference between:

- the sum of the consideration transferred, the amount of minority interests (valued combination by combination, or at fair value or in proportion to the amount of identifiable net assets attributable to minorities), the fair value of previously held interests in the acquiree, recognising any resulting gain or loss in the statement of profit (loss) for the year;
- the net value of the identifiable acquired assets and the identifiable assumed liabilities.

The costs connected to the combination are not included in the consideration transferred and are therefore recognised in the statement of profit (loss) for the year. If, when the process of determining the present value of the assets, liabilities and contingent liabilities has been completed, this amount exceeds the acquisition cost, the excess is immediately credited to the income statement.

Goodwill is periodically reviewed to check the prerequisites for recoverability, through a comparison with the fair value or with future cash flows from the underlying investment. For the purposes of the comparative analysis, goodwill acquired in a business combination is allocated, at the acquisition date, to the Group's individual cash-generating units, or to the groups of cash-generating units expected to benefit from the synergies of combination, regardless of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which goodwill is allocated:

- represents the smallest identifiable group of assets generating cash inflows that are largely independent of the cash inflows from other assets or groups of assets;
- is no bigger than the operating sectors identified based on IFRS 8.

When goodwill is part of a cash-generating unit (group of cash-generating units) and a part of the assets within the unit is sold, the goodwill associated with the asset disposed of is included in the book value of the asset to determine the gain or loss on the disposal. Goodwill transferred under these circumstances is measured according to the relative values of the asset disposed of and the retained portion of the unit. When the disposal relates to a subsidiary, the difference between the sale price and the net assets, together with cumulative translation differences and residual goodwill, is posted to the income statement.

Other intangible assets

Other intangible assets acquired or produced internally are recognised as assets in accordance with the provisions of "IAS 38 - Intangible assets", when it is probable that the asset will generate future economic benefits and when the cost of the asset can be reliably determined.

The useful life of an intangible asset may be qualified as definite or indefinite. Intangible assets with definite useful lives are amortised on a straight-line basis for the duration of the expected future sales deriving from the related project (usually 5 years). The useful life is reviewed annually and any changes are applied prospectively.

Non-current assets held for sale

Non-current assets classified as held for sale are measured in accordance with IFRS 5 at the lower of their book value and their fair value minus selling costs.

Equity investments in subsidiaries and associated companies

Investments in subsidiaries, associated companies and joint ventures are accounted for using the cost method.

Asset impairment

IAS 36 requires the impairment testing of tangible and intangible assets and equity investments if there are indicators suggesting that such a problem might exist. In the case of goodwill, this testing takes place at least once a year. The recoverability of the asset is assessed by comparing the book value recognised in the financial statements with the greater between the net selling price, if an active market exists, or the value in use of the asset.

Value in use is the discounted value of the expected cash flows from use of the asset, or an combination of assets (cash-generating unit), as well as the value expected from disposal at the end of its useful life. The cash generating units have been identified in line with the organisational structure and the Group's business, as homogenous combinations that generate independent cash flows through the continued use of the assets allocated to them.

Inventories

Inventories are valued at acquisition or production cost and the market value, whichever is the lower. Accessory costs are included in the acquisition cost.

The following cost configuration is used:

- raw materials, supplies, products sold: weighted average cost;
- work in progress: production cost;
- finished and semi-finished products: production cost.

Production cost includes the cost of raw materials, materials, labour and all other direct production expenses, including depreciation and amortisation. Production cost does not include distribution costs. Obsolete or slow-moving inventories are written down according to the possibility of using or realising them.

Trade receivables and payables and other receivables/payables

Receivables are recognised in the financial statements at their estimated realisable value, which comprises the nominal value, adjusted if necessary by specific write-down provisions. Trade receivables have due dates that fall within normal contractual periods (60 to 120 days), and are therefore not discounted. An estimate of the risk of non-collectability is made when collection of the full amount is no longer probable. Uncollectable receivables are written down when they are identified.

The discounting of receivables from customers through factoring operations (with recourse) is booked by recognising:

- the factored receivable at its nominal value under *"Trade receivables"*;
- the payable for advances received under *"Current financial payables"*.

Receivables factored without recourse are removed from the financial statements when all the risks associated with the sale of the receivable are borne by the factoring company.

Payables are recognised at nominal value. Trade payables have due dates that fall within normal contractual periods (30 to 120 days), and are therefore not discounted.

Financial derivatives

Derivatives are classified as "Hedging derivatives" if the conditions exist for the application of hedge accounting; otherwise, even if undertaken with the intention of managing risk exposure, they are recorded as "Financial assets held for trading". In line with IAS 39, financial derivatives may be recognised using the methods established for hedge accounting only when the relationship between the derivative and the hedged item is formally documented and the hedge effectiveness is high (effectiveness test). The effectiveness of hedge transactions is documented both at the start of the transaction and periodically (at least at each reporting date of the financial statements or interim statements) and measured by comparing changes in the fair value of the hedging instrument with those of the hedged item.

When derivatives hedge the risk of changes in the fair value of hedged instruments (fair value hedges), the derivatives are recognised at fair value and the effects are charged to the income statement. The Gefran Group does not hold derivatives of this kind.

When derivatives hedge the risk of changes in the cash flows of the hedged instruments (cash flow hedges), changes in the fair value of the derivatives are initially recorded under other components of comprehensive income and are then reclassified from shareholders' equity to profit (loss) for the year as a reclassification adjustment, in line with the economic effects of the hedged transaction. The change in fair value relating to the ineffective portion is recognised immediately in the income statement for the period. If the derivative is sold or no longer qualifies as an effective hedge against the risk for which it was initiated, or the occurrence of the underlying transaction is no longer regarded as highly probable, the portion of the cash flow hedge reserve relating thereto is immediately reversed to the income statement

The Gefran Group uses financial derivatives such as interest rate swaps (IRS), interest rate caps (CAP) and forward exchange rate sale transactions to hedge the risk of changes in interest rates and exchange rates. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the income statement. Regardless of classification, all derivatives are measured at fair value using valuation techniques based on market data (such as, inter alia, discounted cash flow, the forward exchange rate method and the Black-Scholes formula and its developments).

Cash and cash equivalents

Cash and cash equivalents includes cash on hand and demand and short-term bank deposits, which are highly liquid and subject to an insignificant risk of changes in value. They are recognised at nominal value.

Financial liabilities

Payables and financial liabilities are initially recorded at fair value, which essentially coincides with the amount to be paid, net of transaction costs. Purchases and sales of financial liabilities are recognised on the trading date, i.e. the date on which the Group has committed to purchase/sell the liabilities.

Management determines the classification of financial liabilities in the categories set out in IAS 39 and IFRS 7 at the time of their initial recognition. After initial recognition, financial liabilities are valued in relation to their classification within one of the categories defined by IAS 39. In detail it is highlighted that:

- the valuation of "Financial liabilities at fair value through profit or loss" is carried out using the market value at the close of the reporting period; in the case of unlisted instruments (e.g. financial derivatives) it is carried out using financial valuation techniques based on market data. Gains or losses arising from fair value measurement relating to assets and liabilities held for trading are recognised in the income statement.

- the valuation of "Financial liabilities valued at amortised cost", carried out at amortised cost, in the case of instruments maturing within 12 months uses the nominal value as an approximation of amortised cost.

Payables denominated in foreign currencies are adjusted to year-end exchange rates and gains or losses resulting from the adjustment are recognised in the income statement.

Own shares

Own shares are reported as a reduction in respect of shareholders' equity. The original cost of the own shares and the income generated by any subsequent sales are reported as changes in shareholders' equity.

Provisions for risks and future liabilities

Allocations to provisions for risks and future liabilities take place when the Group has a current obligation (legal or implicit) arising from a past event, it is probable that a financial outlay will take place to meet the obligation and a reliable estimate can be made of the obligation.

Allocations to provisions for risks and future liabilities exceeding one year are discounted only if the effect of discounting is material, at a pre-tax discount rate that reflects current market assessments of the value of money in relation to time and, if appropriate, the specific risks associated with the liability. When discounting back takes place, the increase in the provision due to the passage of time is recognised as a financial charge.

Employee benefits

The post-employment benefit reserve, which is mandatory for Italian companies pursuant to Italian Law No. 297/1982, is considered a defined benefit plan and is based, inter alia, on the working lives of employees and the remuneration earned by the employee over a predetermined period of service. The post-employment benefit reserve is calculated by independent actuaries using the "*Traditional unit credit*" method. The Company has opted to recognise all cumulative actuarial gains and losses both on first-time adoption of IFRS and subsequently.

The costs associated with an increase in the present value of the obligation for the post-employment benefits reserve, resulting from the approach of the time when benefits will be paid, are posted to the statement of comprehensive income.

Translation of foreign currency items

Foreign currency transactions are implemented by each entity at the conversion rate prevailing at the accounting date. Subsequently, at the time of payment or collection, the exchange rate difference arising from the time difference between the two moments is recorded and posted to the income statement.

From an equity point of view, at the close of the reporting period, receivables and liabilities arising from transactions in currencies other than the functional currency are reassessed in the company's currency, taking as benchmark the exchange rate prevailing at the reporting date. Also in this case, the exchange rate difference is posted to the income statement.

Non-monetary items denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the transaction date, i.e. at the historical exchange rate.

5. ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE FROM 1 JANUARY 2016

For the analysis, please see note 7 in the explanatory notes to the accounts to the consolidated financial statements.

6. ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE

Please see note 8 in the explanatory notes to the accounts to the consolidated financial statements for this analysis.

7. MAIN DECISIONS IN THE APPLICATION OF ACCOUNTING STANDARDS AND UNCERTAINTIES IN MAKING ESTIMATES

In drafting the financial statements and the explanatory notes to the accounts, in accordance with the IAS/IFRS principles, the company's management makes use of estimates and assumptions to assess certain items. These are not based on historical experience and uncertain assumptions, but on realistic data, assessed regularly and, if necessary, updated, with effect on the income statement for the period and for future periods. The uncertainty inherent in these assessment estimates may lead to misalignment between the estimates made and the actual effects of the estimated events on the financial statements.
Below are the processes that require management to perform assessment estimates, and with regard to which a change in the underlying conditions could have a significant impact on the consolidated financial data:

Provision for inventory write-down

Inventories are stated as the lower between the cost of purchase (measured using the weighted average cost method) and the net realisable value. The provision for inventory write-down is necessary in order to adjust the value of inventories to the estimated realisable value: inventory composition is analysed for slow-moving stocks, with the aim of assessing a prudent provision that reflects any obsolescence of same.

Provision for doubtful receivables

The provision for doubtful receivables reflects management's estimates regarding the recoverability of receivables from customers. Management's assessment is based on experience and on an analysis of situations with a known or probable risk of non-collection.

Goodwill and intangible assets with a definite life

These are periodically subject to evaluation through the impairment test, with the aim of determining their present value and accounting for any differences in value; for details, see the specific sections of the notes to the financial statements.

Employee benefits

The provision for the post-employment benefit reserve is posted to the financial statements and annually reviewed by external actuaries, taking into account assumptions regarding the discount rate, inflation and demographic assumptions; for details, see the specific section of the notes to the financial statements.

Deferred tax assets

The recoverability of deferred tax assets is periodically evaluated, based on the results achieved and on the business plans prepared by management.

Current and non-current provisions

Provisions are made for risks of a legal and fiscal nature to represent the risk of a negative outcome. The amount of the provisions posted to the financial statements in relation to these risks represents management's best estimate at that time. This estimate entails the adoption of assumptions that depend on factors that may change over time and that could, therefore, have a significant effect on the current estimates made by management in preparing the Group's consolidated financial statements.

8. NON-RECURRING INCOME (CHARGES)

(EUR /000)	**Personnel costs**	**Total**
Non-recurring income	-	-
Non-recurring charges	(1,620)	(1,620)
Total non-recurring income (charges)	**(1,620)**	**(1,620)**
Financial statement total	**(30,038)**	
Incidence	5.4%	

Non-recurring personnel costs relate to provisions for restructuring costs of EUR 1,620 thousand, concerning both Italy and the Spanish branch.

There were no non-recurring components present in the financial statements at 31 December 2015.

9. OPERATING ASSETS HELD FOR SALE

The operating assets held for sale include the assets related to the photovoltaic business know-how, with the terms of the sale currently being established.

The economic impacts specifically attributable to the photovoltaic business for 2016 are equal to EUR 0. In detail, this income, deriving from the transfer of the licence for the production and sale of string inverters to an Indian group, amounts to EUR 400 thousand and is recorded net of the costs incurred by Gefran for the transfer, which at 31 December 2016 were estimated as EUR 400 thousand. The impact was by contrast negative for EUR 187 thousand at 31 December 2015.

The company branch relating to the distribution of the sensors and automation components in Spain/Portugal, stated at EUR 140 thousand under assets held for sale as at 31 December 2015, was sold to a Spanish distributor on 21 March 2016, as part of the sales contract of the Group's assets in Spain/Portugal, implementing the decision by the Board of Directors to sell the aforementioned branch and the consequent winding-up of the Spanish branch.

The net result from the sale of the company branch involved in the distribution of sensors and automation components in Spain/Portugal was a positive amount of EUR 486 thousand.

10. MANAGEMENT OF FINANCIAL RISKS

The Company's activities are exposed to different types of risk: market risk (including exchange rate risks, interest rate risks and price risks), credit risk and liquidity risk. The Company's risk management strategy focuses on the markets' unpredictability and is intended to minimise the potential negative effects on Gefran S.p.A.'s results. Certain types of risk are mitigated through the use of derivatives. Coordination and monitoring of the main financial risks are centralised in the Group's Finance and Administration Department, as well as the Purchasing function as regards the price risk, in close partnership with the Company's operating units. Risk management policies are approved by the Administration, Finance and Control Department, which provides written guidelines for the management of the risks listed above and the use of derivative and non-derivative financial instruments. As part of the sensitivity analyses described below, the effect on the net profit figure and on shareholders' equity is determined gross of the tax effect.

Exchange rate risks

Gefran S.p.A. is exposed to the risk of changes in the EUR/USD exchange rate for business transactions and cash held in a currency other than the functional currency of the Company (euro). Around 2% of sales are denominated in a different currency.

Gefran S.p.A. hedges some of its foreign currency transactions by trading exchange rate derivatives (currency forward purchase and sale), the due dates of which coincide with that of the hedged transaction, in order to maximise its effectiveness. The main currency risk hedging activity is conducted through forward exchange rate option sale and purchase transactions. At 31 December 2016, the Group had hedging transactions in place for the purchase of Yen.

Sensitivity to a hypothetical, unfavourable and immediate change of 5% and 10% in exchange rates, with other variables remaining unchanged, would have the following impact on the fair value of financial assets and liabilities held in US$:

Description	**31 December 2016**		**31 December 2015**	
(EUR /000)	-5%	+5%	-5%	+5%
US dollar	(21)	19	(64)	58
Total	(21)	19	(64)	58

Description	**31 December 2016**		**31 December 2015**	
(EUR /000)	-10%	+10%	-10%	+10%
US dollar	(45)	37	(135)	111
Total	(45)	37	(135)	111

Interest rate risk

The interest rate risk to which the Company is exposed mainly originates from long-term loans. These are floating-rate loans. Floating-rate loans expose the Company to a risk associated with interest rate volatility (cash flow risk). The Company uses derivatives to hedge its exposure to interest rate risk, stipulating Interest Rate Swap (IRS) and Interest Rate CAP contracts.

The Group's Administration and Finance Department monitors exposure to the interest rate risk and proposes appropriate hedging strategies to contain exposure within the limits defined and agreed in the internal policies, using derivatives when necessary.

The table below shows a sensitivity analysis of the impact that an interest rate increase/decrease of 100 basis points would have on net operating profit (loss), comparing interest rates at 31 December 2016 and 31 December 2015, while keeping other variables unchanged.

(EUR /000)	**2016**		**2015**	
	-100	100	-100	100
EUR	(78)	41	(254)	138
Total	**(78)**	**41**	**(254)**	**138**

The potential impacts shown above are calculated with reference to the net liabilities that account for the most significant portion of Gefran S.p.A.'s debt on the reporting date, and measuring, on this amount, the effect on net financial liability charges resulting from the change in interest rates on an annual basis.

The net liabilities considered in this analysis include floating-rate financial assets and liabilities, cash and cash equivalents and derivative financial instruments, the value of which is affected by interest rate fluctuations.

The table below shows the carrying value at 31 December 2016, broken down by maturity, of the Company's financial instruments exposed to interest rate risk:

Floating rate	**<1 year**	**1-5 years**	**>5 years**	**Total**
(EUR /000)				
Loans due	9,857	16,045	-	25,902
Other accounts payable	43	-	-	43
Account overdrafts	6,111	-	-	6,111
Cash pooling current account overdrafts	7,346	-	-	7,346
Total liabilities	**23,357**	**16,045**	**-**	**39,402**
Cash in current accounts	10,831	-	-	10,831
Cash in cash pooling current accounts	2,684	-	-	2,684
Total assets	**13,515**	**-**	**-**	**13,515**
Total floating rate	**(9,842)**	**(16,045)**	**-**	**(25,887)**

Unlike net debt figures, the amounts shown in the table above do not include the fair value of derivatives (negative for EUR 216 thousand) or cash on hand (positive for EUR 86 thousand).

Liquidity risk

Prudent management of the liquidity risk arising from the Company's normal operations requires an appropriate level of cash on hand and short-term securities to be maintained, as well as the availability of funds obtainable through an appropriate amount of committed credit lines.

The Administration and Finance Department monitors forecasts on the use of the Company's liquidity reserves based on expected cash flows. The table below shows the amount of liquidity reserves on the reference dates:

Description	**2016**	**2015**	**changes**
(EUR /000)			
Cash and cash equivalents	9	16	(7)
Cash in bank deposits	10,831	17,533	(6,702)
Total liquidity	**10,840**	**17,549**	**(6,709)**
Multiple mixed credit lines	15,000	13,541	1,459
Cash flexibility credit lines	8,785	8,785	-
Invoice factoring credit lines	12,934	10,708	2,226
Total credit lines available	**36,719**	**33,034**	**3,685**
Total liquidity available	**47,559**	**50,583**	**(3,024)**

To complete disclosure on financial risks, the table below shows a reconciliation of financial asset and liability classes, as identified in the Company's statement of financial position, and the types of financial assets and liabilities identified on the basis of IFRS 7 requirements:

	Level 1	**Level 2**	**Level 3**	**Total**
(EUR /000)				
Available-for-sale assets valued at fair value:				
Shareholdings valued at fair value with a balancing item in other overall profit/(loss)	513	-	1,443	1,956
Hedging transactions	-	4	-	4
Total assets	**513**	**4**	**1,443**	**1,960**
Hedging transactions	-	(215)	-	(215)
Foreign exchange forward transactions	-	(5)	-	(5)
Total liabilities	**-**	**(215)**	**-**	**(215)**

Level 1: Fair values represented by the prices - listed in active markets (unadjusted) - of financial instruments identical to those being valued that may be accessed at the measurement date. These prices are defined as mark-to-market inputs as they provide a fair value measurement based directly on official market prices, therefore without the need for any modification or adjustment.

Level 2: Fair values determined using evaluation techniques based on variables that may be observed in active markets, which in this case include the evaluation of interest rate hedging and of foreign exchange hedging. As with the Level 1 inputs, the reference value is mark-to-market, i.e. the evaluation method whereby the value of a financial instrument or contract is systematically adjusted according to the current market prices.

Level 3: Fair values determined using evaluation techniques based on variables that may not be observed, and in particular the values of equity investments in other companies that are not listed on international markets whose overall value has not suffered overall changes compared to 31 December 2015.

Below is a reconciliation of financial asset and liability classes, as identified in the Gefran S.p.A. statement of financial position, and the types of financial assets and liabilities identified on the basis of IFRS 7 requirements, for the year 2015:

	Note	Level 1	Level 2	Level 3	Total
(EUR /000)					
Available-for-sale assets valued at fair value:					
Shareholdings valued at fair value with a balancing item in other overall profit/(loss)		352	-	1,448	1,800
Foreign exchange forward transactions		-	-	-	-
Hedging transactions		-	25	-	25
Total assets		**352**	**25**	**1,448**	**1,825**
Hedging transactions		-	274	-	274
Total liabilities		**-**	**274**	**-**	**274**

Credit risk

The Company deals mainly with known and reliable customers. Gefran S.p.A.'s credit policy is to subject customers who require extended payment terms and new customers to credit checks. In addition, receivables are monitored over the year to reduce late payments and prevent significant losses.

The Company has adopted a policy of monitoring outstanding receivables, a measure made necessary given the possible deterioration of certain receivables, the decline in credit rating reliability and the lack of liquidity on the market. The write-down process, carried out in accordance with the Company's procedures, establishes that credit positions are written down in percentage terms based on the overdue period of time; the individual trade positions for which there is objective evidence of insolvency are also written down individually.

Gefran S.p.A. has established formal procedures for customer credit and credit collection through the Administration and Finance Department and in partnership with leading external law offices. All the procedures put in place are intended to reduce credit risk. Exposure to other forms of credit, such as financial receivables, is constantly monitored and reviewed monthly or at least quarterly, in order to determine any losses or recovery-associated risks.

The Company has assigned a portion of its trade receivables to a leading factoring company by transferring the insolvency risk.

Risk of change in raw material prices

The Company's exposure to price risk is minimal. Purchases of materials and components subject to fluctuations in raw material prices are not significant. The purchase costs of the main components are usually set with counterparties for the full year, and reflected in the budget.

Gefran S.p.A. has in place structured and formalised governance systems that it uses to regularly analyse its margins. Commercial operations are coordinated by business area, so as to monitor sales and manage discounts.

Fair value of financial instruments

All Gefran S.p.A.'s financial instruments are recorded in the financial statements at fair value. The amount of financial liabilities valued at amortised cost is considered close to the fair value on the reporting date.

The table below summarises Gefran's net debt, comparing fair value and carrying value:

(EUR /000)	book value 2016	book value 2015	fair value 2016	fair value 2015
Financial investments				
Cash and cash equivalents	9	16	9	16
Cash in bank deposits	13,515	18,910	13,515	18,910
Financial assets for derivatives	4	25	4	25
Total financial assets	**13,528**	**18,951**	**13,528**	**18,951**
Financial liabilities				
Current portion of long-term debt	(9,857)	(26,876)	(9,857)	(26,876)
Short-term bank debt	(6,111)	(10,063)	(6,111)	(10,063)
Financial liabilities for derivatives	(220)	(275)	(220)	(275)
Factoring	(43)	(265)	(43)	(265)
Leasing	-	(16)	-	(16)
Other financial payables	(7,346)	(7,108)	(7,346)	(7,108)
Non-current financial debt	(16,045)	(10,879)	(16,045)	(10,879)
Total financial liabilities	**(39,622)**	**(55,482)**	**(39,622)**	**(55,482)**
Total net debt	**(26,094)**	**(36,531)**	**(26,094)**	**(36,531)**

11. INTANGIBLE ASSETS

"Intangible assets" exclusively comprises assets with a definite life, and decreased from EUR 7,771 thousand at 31 December 2015 to EUR 7,043 thousand at 31 December 2016. The movements during the period are shown below.

Historical cost	**31 December 2015**	**Increases**	**Decreases**	**Other changes**	**31 December 2016**
(EUR /000)					
Development costs	14,669	771	-	1,292	16,732
Intellectual property rights	3,810	93	(2)	38	3,939
Assets in progress and payments on account	1,972	426	-	(1,562)	836
Other assets	6,184	97	(39)	235	6,477
Total	26,635	1,387	(41)	3	27,984

Accumulated amortisation	**31 December 2015**	**Increases**	**Decreases**	**Other changes**	**31 December 2016**
(EUR /000)					
Development costs	10,434	1,556	-	-	11,990
Intellectual property rights	3,458	198	(1)	-	3,655
Other assets	4,972	363	(39)	-	5,296
Total	18,864	2,117	(40)	-	20,941

Net value	**31 December 2015**	**31 December 2016**	**Changes**
(EUR /000)			
Development costs	4,235	4,742	507
Intellectual property rights	352	284	(68)
Assets in progress and payments on account	1,972	836	(1,136)
Other assets	1,212	1,181	(31)
Total	7,771	7,043	(728)

The changes relating to 2015 are as follows:

Historical cost	31/12/2014	Increases	Decreases	Other changes	31/12/2015
(EUR /000)					
Development costs	13,307	658	-	704	14,669
Intellectual property rights	3,585	268	(61)	18	3,810
Assets in progress and payments on account	2,309	848	(10)	(1,175)	1,972
Other assets	5,236	504	-	444	6,184
Total	24,437	2,278	(71)	(9)	26,635

Accumulated amortisation	31/12/2014	Increases	Decreases	Other changes	31/12/2015
(EUR /000)					
Development costs	9,074	1,360	-	-	10,434
Intellectual property rights	3,314	200	(56)	-	3,458
Other assets	4,628	344	-	-	4,972
Total	17,016	1,904	(56)	-	18,864

Net value	31/12/2014	31/12/2015	changes
(EUR /000)			
Development costs	4,233	4,235	2
Intellectual property rights	271	352	81
Assets in progress and payments on account	2,309	1,972	(337)
Other assets	608	1,212	604
Total	7,421	7,771	350

Development costs include the capitalisation of costs incurred for the following activities:

- EUR 1,326 thousand relating to new lines for mobile hydraulics, melt sensors, pressure transducers (KS) and contactless linear position transducers (MK–IK and RK);
- EUR 1,974 thousand to component lines for the new range of regulators, GF Project VX, G Cube Performa and G Cube Fit;
- EUR 1,448 thousand relating to the new range of ADV 200 drives, lift and power supplies.

These assets are considered to have a useful life of 5 years.

Intellectual property rights exclusively comprises the costs incurred to purchase the company IT system management programmes and the use of licences for third-party software. These assets have a useful life of three years.

Assets in progress and payments on account includes payments on account made to suppliers to purchase software programmes and licences expected to be delivered during the next year.

It also includes EUR 565 thousand in development costs, the benefits of which will be recognised in the income statement from the following year, as a result of which they have not been amortised. They relate to sensors (EUR 66 thousand), components (EUR 254 thousand) and drives (EUR 245 thousand).

The other assets item includes almost all the costs incurred to implement ERP SAP/R3, Business Intelligence (BW), Customer Relationship Management (CRM) and management software in previous years and in the current year. These assets have a useful life of five years.

The increases in historical value of the *“Intangible assets”*, amounting to EUR 1,387 thousand in 2016, include EUR 1,107 thousand linked to the capitalisation of internal costs.

12. PROPERTY, PLANT, MACHINERY AND TOOLS

"*Property, plant, machinery and equipment*" came to EUR 30,847 thousand, compared with EUR 32,616 thousand at 31 December 2015. The change is shown in the table below:

Historical cost	**31 December 2015**	**Increases**	**Decreases**	**Other changes**	**31 December 2016**
(EUR /000)					
Land	4,068	-	-	-	4,068
Industrial buildings	34,474	61	(1)	1	34,535
Plant and machinery	31,690	329	(1,835)	311	30,495
Industrial and commercial equipment	19,894	489	(2,629)	59	17,813
Other assets	7,794	35	(3,195)	5	4,639
Assets in progress and payments on account	543	298	-	(378)	463
Total	98,463	1,212	(7,660)	(2)	92,013

Accumulated amortisation	**31 December 2015**	**Increases**	**Decreases**	**Other changes**	**31 December 2016**
(EUR /000)					
Industrial buildings	13,453	777	(1)	1	14,230
Plant and machinery	26,769	1,244	(1,834)	(1)	26,178
Industrial and commercial equipment	18,329	755	(2,626)	-	16,458
Other assets	7,296	199	(3,194)	(1)	4,300
Total	65,847	2,975	(7,655)	(1)	61,166

Net value	**31 December 2015**	**31 December 2016**	**Changes**
(EUR /000)			
Land	4,068	4,068	-
Industrial buildings	21,021	20,305	(716)
Plant and machinery	4,921	4,317	(604)
Industrial and commercial equipment	1,565	1,355	(210)
Other assets	498	339	(159)
Assets in progress and payments on account	543	463	(80)
Total	32,616	30,847	(1,769)

Changes in tangible assets relating to 2015 were as follows:

Historical cost	**31/12/2014**	**Increases**	**Decreases**	**Other changes**	**31/12/2015**
(EUR /000)					
Land	4,068	-	-	-	4,068
Industrial buildings	34,402	95	(27)	4	34,474
Plant and machinery	31,036	502	(126)	278	31,690
Industrial and commercial equipment	19,269	654	(147)	118	19,894
Other assets	7,994	91	(291)	-	7,794
Assets in progress and payments on account	432	503	-	(392)	543
Total	97,201	1,845	(591)	8	98,463

Accumulated amortisation	**31/12/2014**	**Increases**	**Decreases**	**Other changes**	**31/12/2015**
(EUR /000)					
Industrial buildings	12,677	781	(5)	-	13,453
Plant and machinery	25,634	1,260	(125)	-	26,769
Industrial and commercial equipment	17,597	870	(138)	-	18,329
Other assets	7,294	252	(250)	-	7,296
Total	63,202	3,163	(518)	-	65,847

Net value	**31/12/2014**	**31/12/2015**	**changes**
(EUR /000)			
Land	4,068	4,068	-
Industrial buildings	21,725	21,021	(704)
Plant and machinery	5,402	4,921	(481)
Industrial and commercial equipment	1,672	1,565	(107)
Other assets	700	498	(202)
Assets in progress and payments on account	432	543	111
Total	33,999	32,616	(1,383)

No write-downs for impairment losses took place in 2015.

The biggest changes during the year related to:

- investments in plant and production equipment for EUR 1,048 thousand;
- investments to upgrade industrial buildings for approximately EUR 163 thousand.

Mortgages on owned buildings amounted to around EUR 36 million, for bank loans relating to property in Provaglio d'Iseo.

The increases in historical value of the *"Property, plant, machinery and tools*", amounting to EUR 1,212 thousand in total in 2016, include EUR 7 thousand linked to the capitalisation of internal costs.

13. EQUITY INVESTMENTS IN SUBSIDIARIES

"Equity investments in subsidiaries" amounted to EUR 24,640 thousand at 31 December 2016, down EUR 1,252 thousand with respect to the previous year, when the balance was EUR 25,892. The change refers entirely to the write-down of the equity investment in Gefran Brasil. The balance breaks down as follows:

Description	**Shareholding**	**31 December 2016**	**31 December 2015**	**change**
(EUR /000)				
Gefran GmbH (Germany)	100.00%	365	365	-
Gefran Brasil Ltda (Brasil)	100.00%	2,924	2,924	-
Gefran UK Ltd (UK)	100.00%	5,141	5,141	-
Gefran Soluzioni S.r.l. (Italy)	100.00%	1,012	1,012	-
Sensormate AG (Switzerland)	100.00%	4,123	4,123	-
Gefran Benelux Bvba (Belgium)	100.00%	344	344	-
Gefran Inc. (Usa)	100.00%	7,848	7,848	-
Gefran France SA (France)	99.00%	4,338	4,338	-
Siei Areg GmbH (Germany)	100.00%	1,032	1,032	-
Gefran Siei Asia Pte (Singapore)	100.00%	2,883	2,883	-
Gefran India Ltd (India)	100.00%	1,722	1,722	-
Gefran Middle East (Turkey)	100.00%	377	377	-
Gefran South Africa SA (South Africa)	100.00%	152	152	-
Adjustment provision		(7,622)	(6,370)	(1,252)
Total		24,640	25,892	(1,252)

The following is a breakdown of the adjustment provision:

Description *(EUR /000)*	**31 December 2016**	**31 December 2015**	**change**
Gefran Brasil Ltda (Brasil)	1,252	0	1,252
Gefran UK Ltd (UK)	3,841	3,841	-
Gefran France SA (France)	2,000	2,000	-
Gefran Middle East (Turkey)	377	377	-
Gefran South Africa SA (South Africa)	152	152	-
Total	7,622	6,370	1,252

Pursuant to IAS 36, the amount recognised in the financial statements is reviewed if any indicators of potential impairment appear.

The discount rate used for discounting cash flows (WACC) was analytically calculated on the basis of specific key assumptions.

When determining the value in use, the specific cash flows relating to the period 2017 - 2019 were considered, deriving from the Plan of the individual investment, along with the terminal value, which represents the ability to generate cash flows beyond the explicit forecast timescale.

The main assumptions used by management to calculate value in use concern the discount rate (WACC) and the long-term growth rate (*g*), owing to the hypotheses reflected in the change in sales prices and volumes and the trend of the costs envisaged in the Group Plan.

The rate used for discounting back the future cash flows is the weighted average cost of the capital (Weighted Average Cost of Capital or also WACC), which is calculated as the weighted average of the cost of own capital and the cost of third party capital, net of the tax effects.

When calculating the same, market parameters are used such as the Beta, a factor which expresses the risk which characterises the particular business with respect to the financial market in general, and the related financial structure taken from calculations developed by Professor Damodaran, one of the leading experts in business valuations globally.

The return from risk-free assets has been parameterised to the yield of the individual 10-year government securities.

The premium for the market risk represents the additional return required by an investor against the risk, compared with the return which can be obtained from risk-free assets: it is attributable to the difference between the long-term formalised return of the share market and the risk-free assets rate.

In order to establish the terminal value, the long-term growth rate of the cash flows adopted has been defined in relation to the levels of inflation expected locally, making reference to estimates of international bodies.

With reference to the investment in Gefran Brasil, the WACC thus calculated and equal to 21.2%, in significant deterioration with respect to the WACC calculated at the end of 2015, disclosed the need for further analysis.

Description	Net book value 31/12/2016	Net book value 31/12/2015	Explicit forecast	WACC (%)	Value in use 31/12/2016	Risk free (%)	Risk premium (%)	Theoretical tax rate (%)
(EUR /000)								
Brazil	1,672	2,924	2017 - 2019	21.2%	1,672	13.0%	8.0%	34.0%

The final outcome of the impairment testing on the book values of the equity investments was an *equity value* (enterprise value net of the corresponding net financial position) lower than the book value, therefore steps were taken to adjust the book value of the investment.

With reference to the other investments in subsidiaries, the related book values recorded in the financial statements have been maintained.

14. EQUITY INVESTMENTS VALUED AT PURCHASE COST

The item amounted to EUR 1,724 thousand at 31 December 2016, with no change on the previous year. The balance breaks down as follows:

Description		31 December 2016	31 December 2015	changes during the period
(EUR /000)				
Ensun S.r.l.	*Shareholding*	*50.00%*	*50.00%*	
Via Stacca, 1	Investment value	1,466	1,466	0
Rodengo Saiano (BS)	Adjustment provision	(15)	(15)	0
	Net value	1,451	1,451	0
Axel S.r.l.	*Shareholding*	*30.00%*	*30.00%*	
Via Dandolo, 5	Investment value	273	273	0
Varese (VA)	Adjustment provision	0	0	0
	Net value	273	273	0
Total		1,724	1,724	

15. EQUITY INVESTMENTS IN OTHER COMPANIES

"*Equity investments in other companies*" totalled EUR 1,956 thousand, an increase of EUR 156 thousand compared with the figure at 31 December 2015. The balance breaks down as follows:

(EUR /000)	Shareholding	31 December 2016	31 December 2015	change
Colombera S.p.A.	16.56%	1,416	1,416	0
Woojin Plaimm Co Ltd	2.00%	159	159	0
Inn. Tec.Srl	n.a.	0	0	0
UBI Banca S.p.A.	n.s.	203	204	(1)
Other	-	27	32	(5)
Adjustment provision	-	151	(11)	162
Total		1,956	1,800	156

Equity investments are classed as held for sale and are recognised at fair value, deriving from the stock market quotation, for Woojin Machinery Co. Ltd. (Seoul Stock Exchange) and for Ubi Banca S.p.A. (Borsa italiana). The adjustment provision is due to the fair value adjustment of:

- Woojin Machinery, listed in Seoul (positive adjustment of EUR 312 thousand);
- Ubi Banca (negative adjustment of EUR 161 thousand).

16. RECEIVABLES AND OTHER NON-CURRENT ASSETS

"Receivables and other non-current assets" stood at EUR 58 thousand, and break down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Guarantee deposits	58	58	0
Total	**58**	**58**	**0**

17. NET WORKING CAPITAL

Net working capital totalled EUR 21,966 thousand, compared with EUR 20,320 thousand at 31 December 2015, and breaks down as follows:

(EUR /000)	31 December 2016	31 December 2015	changes
Inventories	11,221	11,222	(1)
Trade receivables	13,605	11,307	2,298
Trade payables to subsidiaries	11,430	11,722	(292)
Trade payables	(13,272)	(13,437)	165
Trade payables to subsidiaries	(1,018)	(494)	(524)
Net amount	**21,966**	**20,320**	**1,646**

Specifically, net working capital generated from dealings with subsidiaries was EUR 10,412 thousand, down by EUR 816 thousand compared with 2015, while net working capital vis-à-vis third parties came to EUR 11,554 thousand, down EUR 2,462 thousand on the previous year.

"Inventories" amounted to EUR 11,221 thousand and are made up as follows:

(EUR /000)	31 December 2016	31 December 2015	changes
Raw materials, consumables and supplies	8,901	8,957	(56)
provision for write-down of raw materials	*(2,500)*	*(2,071)*	(429)
Work in progress and semi-finished products	4,331	3,598	733
provision for write-down of work in progress	*(973)*	*(770)*	(203)
Finished products and goods for resale	2,779	2,587	192
provision for write-down of finished products	*(1,317)*	*(1,079)*	(238)
Total	**11,221**	**11,222**	**(1)**

"*Trade receivables*" increased by EUR 2,298 thousand during the year and break down as follows:

(EUR /000)	**31 December 2016**	**31 December 2015**	**changes**
Receivables from customers due within 12 months	15,074	12,586	2,488
Provision for doubtful receivables	*(1,469)*	*(1,279)*	(190)
Net amount	**13,605**	**11,307**	**2,298**

This includes receivables assigned with recourse to a leading factoring company for EUR 44 thousand (EUR 55 thousand at 31 December 2015). In addition, during the year, a total of EUR 5,053 thousand in receivables was assigned without recourse to factoring companies, of which nil in the last quarter of the year (EUR 2,158 thousand in December 2015).

Receivables were adjusted to their estimated realisable value through the provision of a specific allowance calculated on the basis of an examination of individual debtor positions. The provision at 31 December 2016 represents a prudential estimate of the current risk, and registered the following changes:

(EUR /000)	**31 December 2015**	**Provisions**	**Use**	**Release**	**31 December 2016**
Provision for doubtful receivables	**1,279**	**304**	**(114)**	**0**	**1,469**

The changes in the provision for doubtful receivables relating to 2015 are as follows:

(EUR /000)	**31 December 2014**	**Provisions**	**Use**	**Release**	**31 December 2015**
Provision for doubtful receivables	**2,507**	**553**	**(1,781)**	**0**	**1,279**

Decreases include the use of the provision to cover losses on unrecoverable receivables. The Company monitors the riskiest receivables and also implements specific legal measures.

The book value of trade receivables is considered to approximate to their fair value.

"*Trade receivables from subsidiaries*" amounted to EUR 11,430 thousand compared with a balance of EUR 11,722 thousand at 31 December 2015. The item relates to receivables from the sale of products and from service contracts carried out by Gefran S.p.A. in favour of the subsidiaries. The carrying value of intercompany receivables is believed to approximate the fair value.

"Trade payables" were down EUR 165 thousand at 31 December 2016 compared with 31 December 2015, as shown below:

(EUR /000)	**31 December 2016**	**31 December 2015**	**changes**
Payables to suppliers	9,561	5,805	3,756
Payables to suppliers for invoices to be received	3,703	7,625	(3,922)
Payments on account received from customers	8	7	1
Total	**13,272**	**13,437**	**(165)**

"*Trade payables to subsidiaries*" amounted to EUR 1,018 thousand, compared with EUR 494 thousand at 31 December 2015. This item refers to payables from the purchases of products and services by the parent company.

The book value of trade payables and intercompany trade payables is believed to approximate the fair value.

18. OTHER CURRENT ASSETS

"*Other current assets*" totalled EUR 1,612 thousand at 31 December 2016, compared with EUR 1,485 thousand at 31 December 2015. The balance breaks down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Services and maintenance	313	297	16
Receivables from employees	21	27	(6)
Bank transaction fees	237	377	(140)
VAT reimbursements on vehicles LD 258/2006	128	128	0
IRES receivable IRAP non-deductibility	56	56	0
Other tax receivables	145	19	126
Other	712	581	131
Total	**1,612**	**1,485**	**127**

The carrying value of other current assets is believed to approximate their fair value.

19. CURRENT TAX RECEIVABLES AND PAYABLES

"Current tax receivables" mainly comprise IRAP and taxes paid abroad, up by EUR 89 thousand in 2016, broken down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
IRAP (regional business tax)	0	250	(250)
Other taxes	339	0	339
Total	**339**	**250**	**89**

"*Current tax payables*" totalled EUR 539 thousand at 31 December 2016, as follows:

(EUR /000)	31 December 2016	31 December 2015	changes
IRES (corporate income tax)	285	-	285
IRAP (regional business tax)	254	-	254
Total	**539**	**0**	**539**

The items IRAP (regional business tax) and IRES (corporate income tax) increased due to the taxable income, for which the prior tax losses can only be partly used, in accordance with current legislation.

20. NET FINANCIAL POSITION

The table below shows a breakdown of the net debt:

(EUR /000)	31 December 2016	31 December 2015	Changes
Cash	10,840	17,549	(6,709)
Financial receivables from subsidiaries	2,684	1,377	1,307
Current financial payables	(16,011)	(37,220)	21,209
Financial payables to subsidiaries	(7,346)	(7,108)	(238)
Financial liabilities for derivatives	(220)	(275)	55
Financial assets for derivatives	4	25	(21)
(Debt)/short-term cash and cash equivalents	**(10,049)**	**(25,652)**	**15,603**
Non-current financial payables	(16,045)	(10,879)	(5,166)
(Debt)/medium-/long-term cash and cash equivalents	**(16,045)**	**(10,879)**	**(5,166)**
Net financial position	**(26,094)**	**(36,531)**	**10,437**

The following table breaks down the net debt by maturity:

(EUR /000)	31 December 2016	31 December 2015	Changes
A. Cash on hand	9	16	(7)
B. Cash in bank deposits	10,831	17,533	(6,702)
Term deposits – less than 3 months	-	-	-
C. Securities held for trading	-	-	-
D. Cash And cash equivalents (A) + (B) + (C)	**10,840**	**17,549**	**(6,709)**
E. Current financial receivables from subsidiaries	2,684	1,377	1,307
F. Current financial payables to subsidiaries	(7,346)	(7,108)	(238)
Financial liabilities for derivatives	(220)	(275)	55
Financial assets for derivatives	4	25	(21)
G. Fair value hedging derivatives	(216)	(250)	34
H. Current portion of long-term debt	(9,857)	(26,876)	17,019
I. Other current financial payables	(6,154)	(10,344)	4,190
J. Total current financial payables (I) + (H)	**(16,011)**	**(37,220)**	**21,209**
L. Total current payables (F) + (G) + (J)	**(23,573)**	**(44,578)**	**21,243**
M. Net current financial debt (D) + (E) + (L)	**(10,049)**	**(25,652)**	**15,603**
N. Non-current financial debt	**(16,045)**	**(10,879)**	**(5,166)**
O. Net financial debt (M) + (N)	**(26,094)**	**(36,531)**	**10,437**
Of which to minorities:	*(21,432)*	*(30,800)*	*9,368*

The net debt at 31 December 2016 is equal to EUR 26,094 thousand, an improvement over 31 December 2015 of EUR 10,437 thousand. This change was essentially originated by the positive cash flows from normal operations (EUR 12,964 thousand) mitigated by the negative flows of the technical investments (EUR 2,600 thousand).

Please see the Report on Operations for further details on changes in financial operations during the year.

The long term debt is up by EUR 5,166 thousand compared to 2015, essentially due to the reclassification of loans as short term which at 31 December 2015 did not comply with the terms of the financial covenant, as indicated previously.

Cash and cash equivalents amounted to EUR 10,840 thousand at 31 December 2016, down by EUR 6,709 thousand compared with the balance at 31 December 2015:

(EUR /000)	31 December 2016	31 December 2015	changes
Cash in bank deposits	10,831	17,533	(6,702)
Cash	9	16	(7)
Total	**10,840**	**17,549**	**(6,709)**

The technical forms used at 31 December 2016 are shown below:
- maturities: payable on presentation;
- counterparty risk: deposits are made care of leading banks;
- country risk: the deposits are made in Italy.

Financial receivables from subsidiaries refer to the balances of individual debt positions of the subsidiaries, generated by cash transfers by means of the cash pooling system, and present a balance of EUR 2,684 thousand, which compared with the EUR 1,377 thousand at 31 December 2015.

In the cash flow statement and the breakdown of net debt, this item is classed as “Cash on hand”.

Current financial payables decreased by EUR 21,209 thousand at 31 December 2016 versus the same period in 2015, and break down as follows:

(EUR /000)	31 December 2016	31 December 2015	changes
Current portion of debt	9,857	26,876	(17,019)
Current overdrafts	6,111	10,063	(3,952)
Factoring	43	265	(222)
Leasing	-	16	(16)
Total	**16,011**	**37,220**	**(21,209)**

The current portion of debt decreased by EUR 21,209 thousand compared to December 2015, when, due to the failure to observe the financial covenant relating to the ratio of shareholders’ equity to EBITDA, an total amount of EUR 15,032 thousand was reclassified from *“Non-current financial payables”* to *“Current financial payables”*.

Net of this reclassification, the overall decrease in current financial payables came to EUR 6,177 thousand, of which EUR 11,853 thousand in relation to the reimbursements envisaged by the repayment plans of the individual loans, while the balance increased by EUR 5,719 thousand due to the recognitions of the portions of loans whose maturity is envisaged in the next 12 months under short-term.

At 31 December 2016, the financial covenants were checked and have been fully observed.

The “factoring” item, which decreased by EUR 222 thousand, comprises payables to factoring companies, for the payment extension period from the original maturity of the payable with certain suppliers, for which Gefran has accepted non-recourse assignment.

Bank overdrafts at 31 December 2016 totalled EUR 6,111 thousand, compared with a balance at 31 December 2015 of EUR 10,063 thousand. The item has the following characteristics:

- for use of credit lines payable on demand, the overall annual interest rate is in the 2.5%-5.7% range;
- for use of credit facilities on trade receivables, repayable on the maturity of these receivables, the overall annual interest rate is in the 0.5%-1.0% range;

Financial payables to subsidiaries at 31 December 2016 amount to EUR 7,346 thousand and refer to the balance of the individual debtor positions of the subsidiaries, generated from transfers to the Parent Company of cash on hand through the cash pooling system for European subsidiaries.

In the cash flow statement and the breakdown of net debt, this item is classed as “*Short-term financial payables*”.

Non-current financial payables break down as follows:

Bank	31 December 2016	31 December 2015	changes
Centrobanca	1,456	2,927	(1,471)
Deutsche Bank	-	150	(150)
Banco di Brescia	657	1,930	(1,273)
Cred. Bergamasco	-	404	(404)
Unicredit SACE	750	1,750	(1,000)
Banco di Brescia	702	-	702
BNL	1,333	2,000	(667)
Banca Pop. Sondrio	964	1,718	(754)
Unicredit	900	-	900
Unicredit	2,000	-	2,000
Banca Pop. Emilia Romagna	2,283	-	2,283
Mediocredito	5,000	-	5,000
Total	**16,045**	**10,879**	**5,166**

The main changes relate to the reclassification from current to non-current of loans which at 31 December 2015 did not observe the financial covenant of the ratio of net debt to EBITDA, amounting to EUR 10,885 thousand (EUR 15,032 thousand at 31 December 2015) and the transfer of the portions of loans whose maturity is envisaged in the next 12 months from *“Non-current financial payables”* to *“Current financial payables”* for EUR 5,719 thousand.

The loans listed in the table are all floating-rate contracts and have the following characteristics:

Bank	Amount disbursed (€/000)	Signing date	Balance at 31 December 2016	Of which within 12 months	Of which over 12 months	Interest rate	Maturity	Repayment method
Centrobanca	EUR 10,976	04/09/2008	2,928	1,472	1,456	Euribor 6m + 0.85%	01/10/2018	half-yearly
Deutsche Bank	EUR 3,000	09/03/2012	150	150	-	Euribor 3m + 3.60%	31/03/2017	quarterly
Banco di Brescia	EUR 6,000	31/05/2013	1,930	1,273	657	Euribor 3m + 3.90%	31/05/2018	quarterly
Cred. Bergamasco	EUR 3,000	18/06/2013	403	403	-	Euribor 3m + 4.20%	30/06/2017	monthly
Unicredit SACE	EUR 5,000	27/09/2013	1,750	1,000	750	Euribor 3m + 2.60%	30/09/2018	quarterly
Banco di Brescia	EUR 3,000	28/11/2014	1,458	756	702	Euribor 3m + 1.75%	30/11/2018	monthly
BNL	EUR 3,000	19/12/2014	2,000	667	1,333	Euribor 6m + 1.35%	18/12/2019	half-yearly
Banca Pop. Sondrio	EUR 3,000	23/12/2014	1,718	754	964	Euribor 3m + 2.00%	22/12/2018	quarterly
Unicredit	EUR 2,000	19/02/2015	1,300	400	900	Euribor 3m + 2.10%	29/02/2020	quarterly
Unicredit	EUR 2,000	19/02/2015	2,000	-	2,000	Euribor 3m + 2.50%	28/02/2019	bullet
Banca Pop. Emilia Romagna	EUR 4,000	06/08/2015	3,265	982	2,283	Euribor 3m + 1.25%	03/02/2020	quarterly
Mediocredito	EUR 10,000	07/08/2015	7,000	2,000	5,000	Euribor 3m + 1.35%	30/06/2020	quarterly
Total			**25,902**	**9,857**	**16,045**			

The loan granted by Centrobanca is guaranteed by a EUR 36 million mortgage on properties in Provaglio d'Iseo.

Seven of the loans listed above are governed by covenants, specifically:

a) the EUR 6,000 thousand UBI-Banco di Brescia loan taken out on 31 May 2013, is subject to the following covenant:

- consolidated debt to equity ratio of ≤ 0.7.

Termination clauses are triggered in the event that this value is exceeded.

b) the EUR 3,000 UBI-Banco di Brescia loan, taken out on 28 November 2014, is subject to two financial covenants:

- consolidated debt to equity ratio of ≤ 0.7.
- consolidated debt to EBITDA ratio of ≤ 3.5.

If the ratios are exceeded, the lending bank will have the right to request early repayment.

c) the EUR 3,000 thousand BNL loan, taken out on 19 December 2014, is subject to two financial covenants:

- consolidated debt to equity ratio of ≤ 0.7.
- Equity and Total consolidated assets > 30%.

If both ratios are exceeded, the lending bank will have the right to request early repayment.

d) The two Unicredit loans, taken out on 19 February 2015 for a total of EUR 4,000 thousand, are subject to two financial covenants:

- consolidated debt to equity ratio of ≤ 0.7.
- consolidated debt to EBITDA ratio of ≤ 3.0.

If the ratios are exceeded, the lending bank will have the right to request early repayment.

e) the EUR 4,000 thousand Banca Popolare Emilia Romagna loan taken out on 6 August 2015, is subject to the following covenant:

- consolidated debt to EBITDA ratio of ≤ 3.5.

If the ratio is exceeded, the lending bank will have the right to request early repayment.

f) the EUR 10,000 thousand Mediocredito loan taken out on 7 August 2015, is subject to the following covenants:

- consolidated debt to equity ratio of ≤ 0.7.
- consolidated debt to EBITDA ratio of ≤ 3.5.

A number of outstanding loan contracts include other covenants, in line with market practices, that place limits on the possibility of issuing new real guarantees and conducting extraordinary transactions.

The Administration, Finance and Control Department is responsible for checking these contractual restrictions every quarter: the ratios calculated on the data at 31 December 2016 are fully observed and the loans have been distributed in the table of the maturities according to the forms originally envisaged by the agreements.

The management considers that the credit lines currently available, as well as the cash flow generated by current operations, will enable Gefran to meet its financial requirements resulting from investment activities, working capital management and repayment of debt at its natural maturity.

The **financial assets for derivatives** totalled EUR 4 thousand at 31 December 2016, and consist of the positive fair value recorded at the end of the financial year of certain CAP contracts entered into by the Parent Company to hedge interest rate risks. **Financial liabilities for derivatives** totalled EUR 220 thousand, owing to the negative fair value of certain IRS contracts, also entered into by the Parent Company to hedge interest rate risks.

To mitigate the financial risk associated with floating-rate loans, which could arise in the event of an increase in the Euribor, the Parent Company decided to hedge its floating-rate loans through CAPs *(interest rate caps)*, as set out below:

Bank *(EUR /000)*	Notional principal	Signing date	Notional at 31 December 2016	Derivative	Fair Value at 31 Dec. 2016	Long position rate	Short position rate
Unicredit	EUR 6,000	04/06/2013	1,930	CAP	0	Strike Price 0.75%	Euribor 6m
Credito Bergamasco	EUR 3,000	20/06/2013	403	CAP	0	Strike Price 0.75%	Euribor 3m
Unicredit	EUR 5,000	15/10/2013	1,750	CAP	0	Strike Price 0.60%	Euribor 3m
Banco di Brescia	EUR 3,000	28/11/2014	1,458	CAP	0	Strike Price 0.10%	Euribor 3m
BNL	EUR 3,000	19/12/2014	2,000	CAP	1	Strike Price 0.20%	Euribor 6m
Unicredit	EUR 2,000	19/02/2015	1,718	CAP	1	Strike Price 0.10%	Euribor 3m
Unicredit Bullet	EUR 2,000	19/02/2015	1,300	CAP	2	Strike Price 0.10%	Euribor 3m
Total financial assets for derivatives – interest rate risk					**4**		

Gefran S.p.A. has also taken out IRS *(Interest Rate Swap)* contracts, as set out in the table below:

Bank *(EUR /000)*	Notional principal	Signing date	Notional at 31 December 2016	Derivative	Fair Value at 31 Dec. 2016	Long position rate	Short position rate
Centrobanca	EUR 9,550	31/03/2010	2,928	IRS	(98)	Fixed 3.11%	Euribor 6m
Deutsche Bank	EUR 3,000	09/03/2012	150	IRS	(1)	Fixed 1.34%	Euribor 3m
Banca Pop. Emilia Romagna	EUR 4,000	01/10/2015	3,265	IRS	(36)	Fixed 0.15%	Euribor 3m
Intesa	EUR 10,000	05/10/2015	7,000	IRS	(80)	Fixed 0.16%	Euribor 3m
Total financial liabilities for derivatives – interest rate risk					**(215)**		

The breakdown of the derivatives undertaken to hedge the exchange rate risk is shown below:

Bank	Category	Underlying element	Maturity	Strike Price	Fair Value at 31 Dec. 2016
(EUR /000)					
Banco di Brescia	Currency Swap	Purchase JPY 79,788	07/06/2017	122.35 and 122.60	(5)
Total financial liabilities for derivatives – exchange rate risk					**(5)**

All the contracts described above are booked at fair value:

	at 31 December 2016		at 31 December 2015	
(EUR/000)	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Exchange rate risk	0	(5)	0	0
Interest rate risk	4	(215)	25	(274)
Total cash flow hedge	**4**	**(220)**	**25**	**(274)**

All derivatives were tested for effectiveness, with positive outcomes.

In order to support its current operations, Gefran has various credit lines granted by banks and other financial institutions available, mainly in the form of loans for advances on invoices, cash flexibility and mixed loans for a total of EUR 43,864 thousand. Overall use of these lines at 31 December 2016 totalled EUR 7,145 thousand, with a residual available amount of EUR 36,719 thousand.

No fees are due in the event that these lines are not used.

21. SHAREHOLDERS' EQUITY

Shareholders' equity amounted to EUR 56,311 thousand at 31 December 2016, up EUR 9,614 thousand with respect to 31 December 2015, mainly due to the positive result for the year.

Share capital was EUR 14,400 thousand, divided into 14,400,000 ordinary shares, with a par value of EUR 1 each.

At 31 December 2016, Gefran S.p.A, held 227,394 shares or 1.58% of the total, while at 31 December 2015, the own shares were 219,735, or 1.53% of the share capital.

The Company did not issue convertible bonds.

The type and purpose of the equity reserves can be summarised as follows:

- the share premium reserve, amounting to EUR 19,046 thousand, which is a capital reserve that includes the amounts received by the Company for the issue of shares at a price higher than their nominal value;
- the legal reserve, amounting to EUR 2,880 thousand, which is populated by the mandatory allocation of an amount not less than one-twentieth of annual net profits, until an amount equal to one-fifth of the share capital has been reached (which has already occurred);
- the cash flow hedge reserve, which includes effects recognised directly under equity as deriving from the measurement at fair value of derivative financial instruments to hedge cash flows from changes in interest rates and exchange rates, and amounts to EUR 216 thousand;
- the extraordinary reserve (EUR 9,255 thousand), which is recognised under "other reserves";
- own shares, which are deducted from the Company's shareholders' equity (EUR 694 thousand) and are classed under "other reserves";
- the merger surplus reserve (EUR 858 thousand), which was created in 2006 after the merger by incorporation of Siei S.p.A. and Sensori S.r.l. and is included under "other reserves";
- the reserve for conversion to IAS/IFRS (EUR 137 thousand), which is included under "other reserves";
- the employee benefit valuation reserve pursuant to IAS 19 (EUR 661 thousand), which is included under "other reserves".

For details on the movements in equity reserves during the year, see the table showing Changes in shareholders' equity.

Changes in the *"Reserve for the measurement of securities at fair value"* are shown in the table below:

(EUR /000)	31 December 2016	31 December 2015	changes
Balance at 1 January	(10)	(33)	23
UBI Banca S.p.A. shares	(57)	4	(61)
Woojin Plaimm Co Ltd shares	218	19	199
Net amount	**151**	**(10)**	**161**

Changes in the *"Reserve for the measurement of derivatives at fair value"* are shown in the table below.

(EUR /000)	31 December 2016	31 December 2015	changes
Balance at 1 January	(249)	(317)	68
Change in fair value of derivatives	33	68	(35)
Net amount	**(216)**	**(249)**	**33**

Shareholder's equity breaks down as follows:

(EUR/000)	Amount	Possibility of utilisation	Portion available
Share capital	14,400		
Capital reserves			
Share premium reserve	19,046	A-B-C	19,046
Retained earnings			
- legal reserve	2,880	B	
- extraordinary reserve	9,255	A-B-C	9,255
- IFRS conversion reserve	137		
- reserve for the measurement of securities at fair value	151		
- reserve for unrealised exchange rate gains	-		
- cash flow hedging reserve	(216)		
- IAS 19 reserve	(661)		
- own shares reserve	(694)		
- merger surplus reserve	858	A-B-C	858
- retained earnings/losses	1,707	A-B-C	1,707
- profit/(loss) for the year	8,196		
Total	**55,059**		**30,866**
Restricted portion			6,313
Residual portion available			24,553

NB: A = for capital increase, B = to cover losses, C = for distribution to shareholders

22. EMPLOYEE BENEFITS

Liabilities for *"Employee benefits"* showed the following changes:

Description	**31 December 2015**	**Increases**	**Decreases**	**Discounting**	**Other changes**	**31 December 2016**
(EUR /000)						
Post-employment benefits	4,880	70	(333)	71	(175)	4,513

The item comprises the post-employment benefits reserve for employees. The change during the year was due to an increase of EUR 70 thousand - resulting from disbursements to employees of EUR 333 thousand and from the revaluation of the payable existing at 31 December 2016 pursuant to IAS, equal to EUR 71 thousand (interest costs for EUR 38 thousand and actuarial losses for EUR 33 thousand) - and to other decreases equal to EUR 175 thousand connected with moving staff and from the parent company Gefran S.p.A. to the subsidiary Gefran Soluzioni S.r.l..

Pursuant to IAS 19, the post-employment benefit reserve was valued using the "traditional unit credit" method, which breaks down into the following steps:

- any future benefits that might be paid out to each employee registered with the scheme in the event of retirement, death, disability, resignations etc. are projected using a series of financial assumptions. The estimate of future benefits does not include any increases for further service periods accrued or any presumed increase in pay at the valuation date, as any future increases in the post-employment benefit reserve are fully transferred to supplementary pension funds;
- at the valuation date, based on the annual interest rate used and the probability that every benefit has to be effectively paid, the *average current value of future benefits* is calculated;
- the liability for the Company is defined by identifying, in proportion the length of service accrued, the portion of the *average current value of future benefits* that relates to the service already accrued by the employee at the valuation date;
- based on the liability calculated as per the previous point and the reserve created in the financial statements for Italian statutory purposes, the reserve recognised as valid for IAS purposes is identified.

More specifically, the following assumptions were used:

Demographic assumptions	**Managers**	**Non-managers**
Probability of death	ISTAT 2014 Mortality tables	ISTAT 2014 Mortality tables
Probability of disability	Unisex tables drawn up by the CNR (National Research Council) reduced by 80%	Unisex tables drawn up by the CNR (National Research Council) reduced by 80%
Probability of resignation		
- up to 50 years of age	2.0% in each year	4.0% in each year
- subsequently	Nil	Nil
Probability of retirement	Calculated according to the rules set forth in the Monti-Fornero law.	Calculated according to the rules set forth in the Monti-Fornero law.
Probability of a person of working age of:		
- receiving an early pay-out of the post-employment benefit reserve allocated of 70%	3.0% in each year	3.0% in each year

Financial assumptions	**Managers**	**Non-managers**
Increase in the cost of living	1.5 % annually	1.5 % annually
Discount rate	1.5 % annually	1.5 % annually
Pay increase		
- equal to or less than 40 years of age	n/a	n/a
- over 40, but equal to or less than 55 years of age	n/a	n/a
- over 55 years of age	n/a	n/a

According to the sensitivity analysis performed on the financial assumptions used, the effect of a change of half a percentage point in the discount rate would result in an actuarial gain of EUR 234 thousand in the event of increase in the interest rate, and would, conversely, result in an actuarial loss of EUR 250 thousand in the event of a decrease in the interest rate. By contrast, a change of one percentage point in the discount rate would result in an actuarial gain of EUR 456 thousand in the event of increase in the interest rate, and would, conversely, result in an actuarial loss of EUR 514 thousand in the event of a decrease in the interest rate.

23. CURRENT AND NON-CURRENT PROVISIONS

"Non-current provisions" rose by EUR 656 thousand compared with 31 December 2015, and break down as follows:

Description	31 December 2015	Provisions	Use	Release	31 December 2016
(EUR /000)					
- for restructuring	-	1,700	(1,428)	(272)	-
- for legal disputes	374	850	(194)	-	1,030
- other provisions	85	-	-	-	85
Total	**459**	**2,550**	**(1,622)**	**(272)**	**1,115**

The item *"Legal disputes"* includes the provisions made for liabilities related to the settlement of pending disputes regarding claims from customers, some employees and distributors. The item *"Other provisions"* also includes tax risks.

"Current provisions" totalled EUR 716 thousand at 31 December 2016, compared with provisions for EUR 689 thousand at 31 December 2015. The item breaks down as follows:

Description	31 December 2015	Provisions	Use	Release	31 December 2016
(EUR /000)					
FISC	10	-	(6)	-	4
Product warranty	679	285	(252)	-	712
Total	**689**	**285**	**(258)**	**0**	**716**

The item refers to envisaged charges for repairs on products under warranty, and increased mainly due to the allocations to the provision during the year; at year-end, the adequacy of the provision was checked, with a positive outcome.

The provision was EUR 285 thousand, and is in line with the volume of revenues and the regularity with which events have historically occurred.

24. OTHER LIABILITIES

"Other liabilities" at 31 December 2016 amounted to EUR 8,802 thousand and break down as follows:

Description	31 December 2016	31 December 2015	changes
(EUR /000)			
Payables to personnel	4,564	2,776	1,788
Social security payables	2,526	2,285	241
Accrued interest on loans	60	130	(70)
Payables to directors and statutory auditors	42	32	10
Other accruals	169	156	13
Other payables for taxes	1,287	1,411	(124)
Other current liabilities	154	735	(581)
Total	**8,802**	**7,525**	**1,277**

"*Payables to personnel*" were up with respect to the previous year mainly due to the incentives and the other amounts due being disbursed to the employees of Gefran S.p.A. who terminated their employment relationship with the company in December, in accordance with the reorganisation agreement agreed on with the trade union delegations.

"Other current liabilities" decreased EUR 581 thousand with respect to 31 December 2015, mainly due to the payment of the second portion for the acquisition of the subsidiary Sensormate AG, as envisaged by the agreement between the parties signed on 4 July 2013 (equal to EUR 462 thousand). The third and last payment is envisaged for 2018.

25. REVENUES FROM SALES OF PRODUCTS AND SERVICES

"Revenues" for 2016 totalled EUR 75,050 thousand, compared with EUR 71,945 thousand in 2015. The following table provides a breakdown of sales and service revenues by business and geographic region.

Sector	31 December 2016	31 December 2015	Change	%
(EUR /000)				
Sensors	31,363	28,574	2,789	9.8%
Automation components	17,947	18,721	(774)	-4.1%
Drives	25,740	24,650	1,090	4.4%
Total	**75,050**	**71,945**	**3,105**	**4%**

Geographic region	31 December 2016	31 December 2015	Change	%
(EUR /000)				
Italy	31,959	30,650	1,309	4.3%
European Union	18,627	17,056	1,571	9.2%
Non-EU Europe	4,523	4,460	63	1.4%
North America	6,716	6,062	654	10.8%
South America	1,155	1,031	124	12.0%
Asia	11,547	11,827	(280)	-2.4%
Rest of the World	523	859	(336)	-39.1%
Total	**75,050**	**71,945**	**3,105**	**4%**

Total revenues include revenues from services provided for EUR 1,288 thousand (EUR 1,303 thousand in the previous year).

26. OTHER OPERATING REVENUES AND INCOME

"*Other operating revenues and income*" amounted to EUR 2,970 thousand, up on 31 December 2015 by EUR 145 thousand, as the following table shows:

Description	31 December 2016	31 December 2015	Change	%
(EUR /000)				
Royalty income	171	171	0	0.0%
Services to Group companies	2,121	2,161	(40)	-1.9%
Recovery of company canteen expenses	37	40	(3)	-7.5%
Insurance reimbursements	71	37	34	91.9%
Rental income	147	110	37	33.6%
Other income	423	306	117	38.2%
Total	**2,970**	**2,825**	**145**	**5%**

The change in relation to services provided to Group companies is due to lower levels of activity in support of subsidiaries.

27. COSTS OF RAW MATERIALS AND ACCESSORIES

"*Costs of raw materials and accessories*" increased by EUR 791 thousand, from EUR 27,036 thousand in 2015 to EUR 27,827 thousand in 2016.

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Raw materials and accessories	27,827	27,036	791

28. SERVICE COSTS

"Service costs" amounted to EUR 12,112 thousand, compared with EUR 14,730 thousand in 2015, and break down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Services	11,039	13,560	(2,521)
Use of third-party assets	1,073	1,170	(97)
Total	**12,112**	**14,730**	**(2,618)**

The saving of EUR 2,618 thousand was generated by the greater efficiency obtained further to the reorganisation of the Company's processes.

29. PERSONNEL COSTS

"Personnel costs" amounted to EUR 30,038 thousand, down by EUR 503 thousand compared with 2015, and break down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Salaries and wages	20,638	22,004	(1,366)
Social security contributions	6,241	6,754	(513)
Post-employment benefit reserve	1,563	1,737	(174)
Other costs	1,596	46	1,550
Total	**30,038**	**30,541**	**(503)**

"Social security contributions" include costs for defined contribution benefit plans for management (Previndai pension plan) of EUR 76 thousand (EUR 76 thousand at 31 December 2015).

The item *"Other costs"* included non-recurring charges relating to the restructuring plan implemented in 2016, totalling EUR 1,620 thousand.

The average number of employees in 2016 is shown below:

	2016	2015	changes
Managers	18	17	1
Clerical staff	281	316	(35)
Manual workers	182	195	(13)
Total	**481**	**528**	**(47)**

The average number of employees has decreased by 47 individuals compared to 2015. The exact number at the end of the year was 446 individuals, or 67 less than at 31 December 2015. The personnel that moved to Gefran Soluzioni S.r.l., with the transfer of the activities relating to programmable automation, involved 15 individuals.

30. OTHER OPERATING EXPENSE AND INCOME

"*Other operating expense*" presented a balance of EUR 1,363 thousand, compared with EUR 2,137 thousand in 2015, and breaks down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Capital losses on the sale of assets	(6)	(4)	(2)
Losses on other receivables	(1)	(1,136)	1,135
Other taxes and duties	(312)	(498)	186
Membership fees	(152)	(171)	19
Miscellaneous	(892)	(328)	(564)
Total	(1,363)	(2,137)	774

During 2015, *"Losses on other receivables"* referred entirely to the waiver of the trade receivables due from the Gefran South African subsidiary, following the decision to wind up the company.

"Other operating income" amounted to EUR 12 thousand, compared with EUR 80 thousand in the previous year, and breaks down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Capital gains on the sale of assets	-	49	(49)
Collection of doubtful receivables	12	31	(19)
Total	12	80	(68)

31. DEPRECIATION/AMORTISATION

Depreciation and amortisation amounted to EUR 5,090 thousand, more or less in line with the balance of EUR 5,067 thousand registered in the previous year.

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Amortisation	2,116	1,903	213
Depreciation	2,974	3,164	(190)
Total	5,090	5,067	23

32. GAINS AND LOSSES FROM FINANCIAL ASSETS/LIABILITIES

"Gains from financial assets" totalled EUR 6,328 thousand, versus EUR 6,745 thousand in 2015, and break down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Interest from subsidiaries	3	-	3
Income from cash management	16	11	5
Other financial income	165	64	101
Exchange gains	303	538	(235)
Exchange valuation differences	98	148	(50)
Gains from disposal of financial assets	1	-	1
Dividends from equity investments	5,742	5,984	(242)
Total	**6,328**	**6,745**	**(417)**

The item includes dividends received by companies in the Gefran Group totalling EUR 5,742 thousand (EUR 5,984 thousand in 2015), paid by Gefran Siei Asia (EUR 4,000 thousand: EUR 4,647 thousand in 2015), Gefran Inc. (EUR 1,102 thousand: EUR 837 thousand in 2015), Gefran Deutschland (EUR 500 thousand: EUR 450 thousand in 2015) and Gefran Benelux (EUR 90 thousand: EUR 50 thousand in 2015).

"Losses from financial liabilities" totalled EUR 1,150 thousand, down with respect to the EUR 3,151 thousand in 2015, and break down as follows:

Description	31 December 2016	31 December 2015	change
(EUR /000)			
Medium/long-term interest	(725)	(1,090)	365
Short-term interest	(22)	(98)	76
Interest from subsidiaries	-	(1)	1
Factoring interest and fees	(2)	(56)	54

Other financial charges	(17)	(1,116)	1,099
Exchange losses	(352)	(737)	385
Exchange valuation differences	(32)	(53)	21
Total	**(1,150)**	**(3,151)**	**2,001**

Medium-/long-term financial charges decreased by EUR 365 thousand, mainly due to the downsizing of the medium/long-term financial debt, from EUR 37,755 thousand at 31 December 2015 to the current EUR 25,902 thousand.

"Other financial charges" in 2015 include the transfer to loss status of financial receivables due from the subsidiary Gefran South Africa, amounting to EUR 1,111 thousand, following the placement in liquidation of the company.

The balance of the differences on the currency transactions presented a positive value of EUR 17 thousand, compared with a negative value of EUR 104 thousand in 2015. The improvement in the balance of currency transactions is mainly due to the dynamics of the US dollar compared to the Euro.

"Adjustments in the value of non-current assets" amounted to EUR 1,252 thousand, referring in full to the write-down of the equity investment held in Gefran Brasil, compared with the EUR 270 thousand in 2015, generated by the write-down of the equity investments held in Gefran South Africa and Inn.Tech S.r.l., for the impairment loss recorded.

Description	**31 December 2016**	**31 December 2015**	**change**
(EUR /000)			
Gefran Brasil	(1,252)	-	(1,252)
Gefran South Africa	-	(152)	152
Inn.Tech S.r.l.	-	(118)	118
Total	**(1,252)**	**(270)**	**(982)**

33. INCOME TAXES, DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The item "Taxes" was positive and amounts to EUR 1,374 thousand; this compares with a negative balance of EUR 759 thousand in 2015, and breaks down as follows:

(EUR /000)	**31 December 2016**	**31 December 2015**
Current taxes		
IRES (corporate income tax)	(286)	-
IRAP (regional business tax)	(251)	-
Total current taxes	**(537)**	**-**
Deferred taxes		
Deferred tax liabilities	28	(23)
Deferred tax assets	1,883	(736)
Total deferred taxes	**1,911**	**(759)**
Total taxes	**1,374**	**(759)**

The current taxes were up by EUR 537 thousand compared with 2015 due to the recognition of the IRES and RAP taxable amounts, which can be offset only in part by prior tax losses, in accordance with current legislation.

The positive deferred taxes amount to EUR 1,374 thousand at 31 December 2016, for the recognition of deferred tax assets calculated on previous tax losses, further to the up-dating of the estimates on recoverability of the same based on the three-year plan for the period 2017-2019. They compared with negative taxes for EUR 759 thousand in 2015.

The reconciliation of income taxes accounted for and theoretical taxes, resulting from the application to profit before tax of the corporate income tax rate in force for the current year (27.5%), is as follows:

(EUR /000)	**31 December 2016**	**31 December 2015**
Profit (loss) before tax	6,822	(587)
Theoretical income tax	(1,876)	161
Effect from use of losses carried forward	1,142	-
Net effect of permanent differences	679	(374)
Net effect of temporary deductible and taxable differences	(231)	213
Current taxes	**(286)**	**-**
Income tax – deferred tax assets/liabilities	1,919	(761)
Recognised income taxes (excluding current and deferred IRAP)	**1,633**	**(761)**
IRAP - current taxes	(251)	-
IRAP – deferred tax assets/liabilities	(8)	2
Recognised income taxes (current and deferred)	**1,374**	**(759)**

The net effect of permanent differences mainly refers to dividends received during the year.

Deferred tax assets and deferred tax liabilities break down as follows:

(EUR /000)	**31 December 2015**	**Posted to the income statement**	**Recognised under shareholders' equity**	**31 December 2016**
Deferred tax assets				
Write-down of inventories	1,108	228		1,336
Write-down of trade receivables	290	55		345
Deductible losses to be brought forward	1,727	1,470		3,197
Exchange rate balance	15	(7)		8
Elimination of unrealised margins on inventories	-	-		-
Provision for product warranty risk	199	-		199
Provision for sundry risks	207	137	17	361
Total deferred tax assets	3,546	1,883	17	5,446
Deferred tax liabilities				
Exchange valuation differences	(28)	28		-
Other deferred tax liabilities	-	-		-
Total deferred taxes	(28)	28	-	-
Net total	3,518	1,911	17	5,446

The IRES tax losses recognised among deferred tax assets refer only to the portion that is regarded as recoverable within the next three financial years.

Deferred tax assets and deferred tax liabilities for the year 2015 break down as follows:

(EUR /000)	31 December 2014	Posted to the income statement	Recognised under shareholders' equity	31 December 2015
Deferred tax assets				
Write-down of inventories	1,219	(111)		1,108
Write-down of trade receivables	666	(376)		290
Deductible losses to be brought forward	1,980	(253)		1,727
Exchange rate balance	22	(7)		15
Provision for product warranty risk	205	(6)		199
Provision for sundry risks	140	18	49	207
Fair value hedging	-			-
Total deferred tax assets	4,232	(735)	49	3,546
Deferred tax liabilities				
Discounting of post-employment benefits reserve	-	-		-
Exchange valuation differences	(5)	(23)		(28)
Other deferred tax liabilities	-	-		-
Total deferred taxes	(5)	(23)	-	(28)
Net total	4,227	(758)	49	3,518

34. GUARANTEES GRANTED, COMMITMENTS AND OTHER CONTINGENT LIABILITIES

Guarantees granted

At 31 December 2016, Gefran had granted guarantees on the payables and commitments of third parties or subsidiaries for EUR 10,560 thousand, up by EUR 2,685 thousand compared with 31 December 2015, as shown in the table below:

(EUR /000)	2016	2015
Ubi Leasing	5,918	5,918
BNL	2	2
Banca Intesa	1,100	1,100
Banca Passadore	2,750	2,750
Banco di Brescia	790	880
Total	10,560	10,650

A guarantee in favour of UBI Leasing was issued for a total of EUR 5,918 thousand, expiring in 2029, to guarantee financial requirements for the construction of photovoltaic plants by BS Energia 2 S.r.l.. The residual liability at 31 December 2016 guaranteed by this surety amounts to EUR 2,907 thousand (EUR 3,143 thousand at 31 December 2015).

The guarantees issued to Banca Passadore and Banco di Brescia both cover the credit facilities of Ensun S.r.l.

The amount of EUR 1,100 thousand in favour of Banca Intesa relates to a simple letter of patronage issued to guarantee the credit facilities of Elettropiemme S.r.l..

Legal proceedings and disputes

Gefran is involved in various legal proceedings and disputes. It is however considered unlikely that the resolution of these disputes will generate significant liabilities for which provisions have not already been made.

Commitments

The main operating lease contracts relate to property rentals, electronic equipment and company vehicles. At the reporting date, the payments still owed by the Group on irrevocable operating leases amounted to EUR 1,367 thousand, all falling due within the next five years.

35. DEALINGS WITH RELATED PARTIES

In accordance with IAS 24, information relating to dealings with related parties for 2016 and the previous year is provided below.

Transactions with related parties are part of normal operations and the typical business of each entity involved, and are carried out under normal market conditions. The Group did not carry out any unusual and/or abnormal transactions that may have a significant impact on its economic, equity and financial situation.

On 12 November 2010, the Board of Directors of Gefran S.p.A. adopted the regulations governing transactions with related parties, published in the “Corporate Governance” section of the Company’s website www.gefran.com.

Transactions with related parties are part of the Group’s normal business management and typical activity. Dealings with other related parties are as follows:

- Elettropiemme S.r.l., a subsidiary of Ensun S.r.l.: a company in which Ennio Franceschetti (Chairman and Chief Executive Officer of Gefran S.p.A.) is Chairman and Marco Giacometti (general manager of the Gefran S.p.A. drives Business Unit) is general manager;
- Climat S.r.l.: a company in which the director and shareholder is a relative of Maria Chiara Franceschetti (CEO of Gefran S.p.A.);
- Axel S.r.l.: a company in which Adriano Chinello (director with strategic responsibilities) is a member of the Board of Directors;
- Francesco Franceschetti elastomeri S.r.l.: a company in which Ennio Franceschetti (Chairman and Chief Executive Officer of Gefran S.p.A.) is a member of the Board of Directors;
- Ensun S.r.l.: a company in which Ennio Franceschetti (Chairman and Chief Executive Officer of Gefran S.p.A.) is Chairman and Giovanna Franceschetti (Executive director of Gefran S.p.A.) is appointed director.

These dealings, summarised below, have no material impact on the Gefran's economic and financial structure.

(EUR /000)	Elettropiemme S.r.l.	Climat S.r.l.	Ensun S.r.l.	Axel S.r.l.	Francesco Franceschetti elastomeri S.r.l.	Total
Revenues from product sales						
2015	33,293	0	0	10,482	77,357	**121,132**
2016	54,716	0	52,436	3,688	0	**110,839**
Service costs						
2015	-17,478	-114,924	0	-49,090	0	**-181,492**
2016	-106,153	-150,536	0	-65,892	0	**-322,581**

(EUR /000)	Elettropiemme S.r.l.	Climat S.r.l.	Ensun S.r.l.	Axel S.r.l.	Francesco Franceschetti elastomeri S.r.l.	Total
Intangible assets						
2015	0	0	0	30,410	0	**30,410**
2016	0	0	0	39,000	0	**39,000**
Property, plant, machinery and tools						
2015	0	227,420	0	0	0	**227,420**
2016	0	102,860	0	0	0	**102,860**
Trade receivables						
2015	0	0	0	4,480	0	**4,480**
2016	12,733	0	50,064	0	0	**62,797**
Trade payables						
2015	12,336	26,432	0	7,000	0	**45,767**
2016	0	38,155	0	8,235	0	**46,390**

In accordance with internal regulations, transactions with related parties of an amount below EUR 50 thousand are not reported, since this amount was determined as the threshold for identifying significant transactions.

Members of the Board of Directors and the Board of Statutory Auditors and managers with strategic responsibilities were paid the following aggregate remuneration: EUR 1,033 thousand included in personnel costs and EUR 620 thousand included in service costs.

The executives with strategical responsibilities are the executive members of the Board of Directors, the two general managers of the Business Units and the managers with strategic responsibilities, the latter represented in the parent company by the CFO/Financial Reporting Officer and the Marketing and R&D Director of a Business Unit.

Gefran S.p.A.'s relations with subsidiaries and associates are set out in the Company's explanatory notes to individual items in the statement of financial position and the income statement, and mainly pertain to:

- relations in connection with sales of products and services;
- service contracts (communication, legal, corporate, finance and cash, IT, product marketing, personnel management) in favour of subsidiaries;
- relations of a financial nature, represented by current account relations for cash pooling purposes.

All these relations were created in the normal course of operations, taking account of the level of service provided or received and in compliance with procedures to ensure the material correctness of the transaction.

With regard to relations with the subsidiaries, Gefran also rendered technical, administrative and managerial services as well as royalties to the Group's operating subsidiaries for around EUR 2.3 million under specific contracts.

Gefran provides a Group cash pooling service, partly through a "Zero Balance" service, which involves all the European subsidiaries.

None of the subsidiaries holds shares of the Parent Company or held them during the period.

In 2016, Gefran S.p.A. recognised dividends from subsidiaries of EUR 5,742 thousand.

36. INFORMATION PURSUANT TO ARTICLE 149 DUODECIES OF THE CONSOB ISSUERS' REGULATION

The following table shows fees for 2016 for auditing services and services other than auditing provided by the same auditing company and entities within its network.

Description	Party that provided the service	Fees for 2016
(EUR/000)		
Accounts audit	PwC S.p.A.	85
Certification services	PwC S.p.A.	8
Other services	PwC S.p.A.	0
Total		93

37. EVENTS AFTER 31 DECEMBER 2016

Please see the Report on Operations for the operating performance in early 2017.

38. OTHER INFORMATION

Pursuant to Article 70.8 and Article 71.1 bis of Consob's Issuers' Regulation, the Board of Directors decided to take advantage of the option to depart from the obligations to publish the disclosure documents prescribed in relation to significant mergers, spin-offs, capital increases through contribution in kind, acquisitions and disposals.

Provaglio d'Iseo, Italy, 9 March 2017

On behalf of the Board of Directors

The Chairman	Chief Executive Officer
Ennio Franceschetti	**Maria Chiara Franceschetti**

20. CERTIFICATION OF THE ANNUAL FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION No. 11971 DATED 14 MAY 1999, AS SUBSEQUENTLY AMENDED AND ADDED TO

The undersigned **Maria Chiara Franceschetti**, in her capacity as Chief Executive Officer, and Fausta Coffano**, in her capacity as Director in charge of preparing the company accounting statements of Gefran S.p.A. hereby certify, with due regard for the provisions of Article 154 bis, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998:**

- the adequacy, with respect to the Company's characteristics,

  and

- the effective application of the administrative and accounting procedures applied in the preparation of the annual financial statements in the period from 1 January 2016 to 31 December 2016.

There are no significant events to report in this regard.

They further certify that:

1. the annual financial statements at 31 December 2016 of Gefran S.p.A.:

- were prepared in accordance with applicable international accounting standards recognised in the European Union pursuant to EC Parliament and Council Regulation 1606/2002 of 19 July 2002;
- correspond to entries made in accounting ledgers and records;
- provide a true and accurate representation of the financial situation of the issuer.

2. The Report on Operations contains a reliable analysis of operating performance and results and of the condition of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Provaglio d'Iseo, Italy, 9 March 2017

Signature of the Legal Representative and the Chief Executive Officer	Signature of the Director responsible for preparing the accounting and corporate documents
Signed Maria Chiara Franceschetti	***Signed Fausta Coffano***

GEFRAN

EXTERNAL AUDITORS' REPORT ON THE SEPARATE FINANCIAL STATEMENTS

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

To the shareholders of
GEFRAN SpA

Report on the financial statements

We have audited the accompanying financial statements of GEFRAN SpA, which comprise the statement of financial position as of 31 December 2016, the statement of profit/(loss) for the year, the statement of profit/(loss) for the year and other items of comprehensive income, the statement of changes in shareholders equity and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes to the accounts.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the

PricewaterhouseCoopers SpA

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financial statements.

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

Opinion

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

Report on compliance with other laws and regulations

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

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

Brescia, 28 March 2017

PricewaterhouseCoopers S.p.A.

Signed by

Alessandro Mazzetti
(Partner)

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

EXTERNAL AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

To the shareholders of
GEFRAN SpA

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the GEFRAN Group, which comprise the statement of financial position as of 31 December 2016, the statement of profit/(loss) for the year, the statement of profit/(loss) for the year and other items of comprehensive income, the statement of changes in shareholders' equity and the consolidated cash flow statement for the year then ended, a summary of significant accounting policies and the notes to the accounts.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Report on compliance with other laws and regulations

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

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

Brescia, 28 March 2017

PricewaterhouseCoopers S.p.A.

Signed by

Alessandro Mazzetti
(Partner)

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

BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING OF GEFRAN S.P.A. PURSUANT TO ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE No. 58 DATED 24 FEBRUARY 1998 (TUF) AND ARTICLE 2429.3 OF THE ITALIAN CIVIL CODE

Board of Statutory Auditors' Report to the Shareholders' Meeting of Gefran S.p.A. pursuant to article no. 153 of Legislative Decree no. 58 of 24 February 1998 (TUF) and article 2429, third paragraph, of the Italian Civil Code

Dear Shareholders,
In the year ended 31 December 2016, we carried out supervisory activities in compliance with the Law, aligning our operations with the rules of conduct applied to the Boards of Statutory Auditors of listed companies, issued by the National Council of Chartered Accountants and Accounting Experts (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), with the recommendations issued by the National Commission for companies and the Stock Exchange (Consob) as regards corporate auditing and the activities of the Board of Statutory Auditors as well as with the guidelines contained in the Code of Conduct issued by the Italian Stock Exchange.
As regards the regulatory auditing tasks, pursuant to Legislative Decree no. 39 of 27 January 2010 (Legislative Decree 39/2010), they have been assigned to the external auditors PricewaterhouseCoopers SpA, appointed by the Shareholders' Meeting of 21 April 2016 for a nine-year period, from 2016 to 2024.
The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting held on 29 April 2015.
Also pursuant to the recommendations issued by Consob with Communication DEM/1025564 of 6 April 2001, as amended, we wish to inform you and report about the following:

- We have monitored compliance with the Law and with the Articles of Association.
- We have attended the meetings of the Board of Directors and specific preparatory meetings about the agenda items, as well as the meetings held by the Control and Risk Committee and the Remuneration Committee, and we have obtained from the Directors periodic information on the general performance of the company, its anticipated evolution, as well as on the most significant business, financial and equity transactions carried out by the Company; moreover, we have ensured that the resolutions issued and implemented were compliant with the Law and the Articles of Association and that they were clearly not imprudent, risky, in potential conflict of interest and in contrast with the resolutions issued by the Shareholders' Meeting or such as to jeopardise the integrity of the company's assets. During the auditing carried out, the existence of atypical and/or unusual transactions did not emerge. In order to execute our mandate, we have analysed the information flows originating from different corporate structures and from the Internal Audit function (outsourced), and we have also conducted auditing on the management of the company and on the external auditors.
- On 9 March 2017, upon proposal submitted by the Remuneration Committee, the Board of Directors approved the "Annual Remuneration Report", prepared

pursuant to article 123-ter of TUF and in compliance with the provisions of article 6 of the Code of Conduct.

- We have monitored the compliance and the correct application of the “Regulations for transactions with related parties” adopted by the Board of Directors on 12 November 2010, pursuant to article 4 of the Consob Regulations, under Resolution no. 17221 of 12 March 2010, as amended.
- The Company has prepared the 2016 financial statements according to the international accounting standards (IAS/IFRS). These financial statements were submitted for an audit to be conducted by PricewaterhouseCoopers SpA, which issued its Report on 28 March 2017 without any relevant findings or requests for specific disclosures. The financial statements, together with the Directors' Report on Operations, have been made available according to the law and we have no particular observations to report.
- The Company has also prepared the 2016 consolidated financial statements of the Gefran Group in compliance with the international accounting standards (IAS/IFRS). These financial statements were also submitted for an audit to be conducted by PricewaterhouseCoopers SpA, which issued its Report on 28 March 2017 without any relevant findings or requests for specific disclosures.
- Among the most relevant transactions reported for 2016, the following should be noted (see the Directors' Report on Operations for additional details):
  -On 13 January 2016, Gefran announced that it had reached a framework agreement for the sale, to a leading Indian group involved in the design and production of measurement and control instruments, of all the rights relating to the photovoltaic product technology.
  -On 12 February 2016, Gefran notified the trade union organisations of the Parent Company, in accordance with articles 4 and 24 of Law no. 223 of 23 July 1991, of its intention to start the redundancy process for a total of 55 employees.
  -On 7 March 2016, the subsidiary Gefran Siei Asia completed the activities relating to the closure of the sales offices in Taiwan.
  -On 21 March 2016, Gefran concluded the sale, to a Spanish distributor, of the company branch involved in the distribution of sensors and automation components in Spain/Portugal.
- We have acquired knowledge and we have monitored, within our area of competence, over the appropriateness of the Company's organisational structure, compliance with the correct administration principles, and alignment with the provisions applicable to the subsidiaries pursuant to article 114, second paragraph, of TUF, by acquiring information from the managers of the company's functions and by meeting with the external auditors.
- We have assessed and monitored over the adequacy of the administrative-accounting system, as well as the reliability thereof, in correctly representing the operational facts; this was accomplished by obtaining information from the Director in charge of preparing the accounting and corporate documents, by reviewing the company's documentation and by analysing the results of the work

carried out by the external auditors PricewaterhouseCoopers SpA. The CEO and the Director in charge of preparing the accounting and corporate documents have declared, with an appropriate report attached to the 2016 financial statements: a) the adequacy and the actual application of the administrative accounting procedures; b) the compliance of the content of the accounting documents with international accounting standards; c) the consistency of the documents with the results of the accounting ledgers and records and their accuracy in correctly representing the equity, economic and financial position of the Company. A similar declaration is attached to the consolidated financial statements of the Gefran Group.

- We have assessed and monitored the adequacy of the internal control system through: a) a review of the report from the Manager of the Internal Audit about the internal control system; b) a review of the reports from the Internal Audit as well as the reporting on the results from monitoring activities; c) the attendance at the meetings of the Control and Risk Committee and the acquisition of related documentation; d) the meetings with the Director in charge of preparing the accounting and corporate documents. Participation in the Control and Risk Committee has allowed the Board of Statutory Auditors to coordinate, together with the Committee itself, the performance of its functions in the capacity of "Internal Control and Auditing Committee" pursuant to article 19 of Legislative Decree 39/2010 and, in particular, to monitor: a) the processes related to financial reporting; b) the efficacy of the internal control system, internal auditing and risk management; c) the regulatory auditing of the accounts; d) all aspects related to the independence of the external auditors.
- Based on the activities carried out and considering the evolving nature of the Internal Control System, the Board of Statutory Auditors has expressed an assessment of the overall adequacy of the same and acknowledged, in its capacity as Internal Control and Auditing Committee, that there are no relevant findings to report to the Shareholders' meeting. As regards the provisions of paragraph nine, letter a) of article 17 of Legislative Decree 39/2010, the external auditors PricewaterhouseCoopers SpA have communicated the fees for the auditing of the annual and consolidated financial statements of Gefran S.p.A. at 31 December 2016 and of the Gefran Group, as well as for the limited auditing of the half year reports, for the performance of control activities on the keeping of accounting records and all additional assigned tasks. The fees are detailed as follows (see the Directors' Report for additional details):

Accounts audit	Pwc Spa	Parent company	85,000
Accounts audit	Pwc Network	Subsidiaries	199,000
Accounts audit	Bdo Network	Subsidiaries	6,000
Certification services	Pwc Spa	Parent company	8,000
Certification services	Pwc Spa	Subsidiaries	2,000
Total eur			300,000

Furthermore, PricewaterhouseCoopers SpA has communicated that, based on the best available information, keeping into account the regulatory and professional requirements that govern auditing activities, it has maintained in the reference period its own independence and unbiased position toward Gefran SpA and that no changes have occurred concerning the non-existence of incompatible reasons about the situations and the subjects set forth in article 17 of Legislative Decree 39/2010 as well as the articles pursuant to Section I-bis of the Title VI of the Issuers' Regulation adopted with Consob Resolution no. 11971 of 14 May 1999.

- We have held periodic meetings with the staff of the external auditors PricewaterhouseCoopers SpA, pursuant to article 150, third paragraph, of TUF and no significant data or information that needs to be included in this Report has emerged. It should also be noted that on 28 March 2017 the external auditors submitted a Report pursuant to the third paragraph of article 19 of Legislative Decree 39/2010, stating that no significant matters nor significant deficiencies in the internal control system, with reference to the financial reporting process, have emerged during the auditing.
- We have monitored the methods applied to the enactment of the Code of Conduct adopted by the Company, in accordance with the Report on Corporate Governance and Ownership Structure approved by the Board of Directors on 10 March 2016. With reference to the specific recommendations, within the area of competence of the Board of Statutory Auditors, please be informed that:

  -we have checked the correct application of the criteria and procedures, for the assessment of independence, adopted by the Board of Directors;

  -as regards the self-assessment of the independence requirement applied to the members of the Board of Statutory Auditors, we have verified compliance with it initially, after our appointment, and subsequently during the Board of Statutory Auditors meetings of 11 February 2016 and 3 March 2017, using methods compliant with those adopted by the Directors;

  -we have observed the provisions set forth in the regulations for the management and the treatment of corporate confidential and privileged information.

  Finally, it should be noted that the external auditors have expressed their opinion about consistency, comparing separate and consolidated financial statements, of all information, pursuant to first paragraph, letters c), d), f), l), m) and the second paragraph, letter b) of article 123-bis of TUF, included in the above referenced Report on Corporate Governance and Ownership Structure.
- With reference to Legislative Decree no. 231 of 8 June 2001, the Company has adopted, for some time, an organisational and management model, the update of

which was approved in 2016 and the contents of which are compliant with the best practices.

During the year, the Board of Statutory Auditors has always maintained a constant information flow with the members of the Supervisory Body. From the information acquired, no criticalities have emerged regarding the correct implementation of the organisational model that would need to be included in this report.

- We have not received any complaints pursuant to article 2408 of the Italian Civil Code, nor have we any knowledge of facts or claims that need to be brought to the attention of the Shareholders' meeting.
- We have verified compliance with the laws concerning the preparation of the separate and consolidated financial statements and the Directors' Report on Operations, both directly and with the assistance of the managers of the company's functions and through information obtained by the external auditors, and we do not have any particular observations to report.
- The members of the Board of Statutory Auditors have met the communication requirements applied to the assignment of administration and auditing of Italian corporations, within the time frames and the methods set forth in article 148-bis of TUF and the articles under Section II of Title V-bis of the aforementioned Issuers' Regulation.
- During 2016, the Board of Statutory Auditors, appointed on 29 April 2015, met 13 times, provided the reasoned proposal for the engagement of the external auditor, and attended 5 meetings held by the Board of Directors and 5 meetings held by the Control and Risk Committee.

Based on its own activity and on the acquired information, the Board of Statutory Auditors has found no omissions, reprehensible facts, irregularities, or any circumstance that would require reporting to the supervisory body or mentioning in this Report.

The Board of Statutory Auditors, acknowledging the financial statements at 31 December 2016, has no objections regarding the resolution proposals submitted by the Board of Directors.

Provaglio d'Iseo, 28 March 2017
FOR THE BOARD OF STATUTORY AUDITORS
Marco Gregorini, President