IMMSI Società per Azioni

Share capital €178,464,000 fully paid up

Registered office: P.zza Vilfredo Pareto, 3 – 46100 Mantova

Mantova Register of Companies – Tax Code and VAT number 07918540019

Directors' Report and Financial Statements of the Immsi Group at 31 December 2016

Contents:

This document was approved by the Board of Directors of Immsi S.p.A. on 23 March 2017 and is available for the public to consult at the Registered Office of the Company, on the website of the Borsa Italiana S.p.A. www.borsaitaliana.it, in the centralised storage system www.emarketstorage.com and on the Issuer's website www.immsi.it (section: "Investors/Financial reports/2017") according to legislation.

COMPANY BOARDS

The Board of Directors and the Board of Statutory Auditors of Immsi S.p.A. were appointed by shareholders' resolution of 13 May 2015 and will remain in office until the date the Shareholders' Meeting is convened to approve the financial statements for the year ending 31 December 2017.

BOARD OF DIRECTORS

Roberto Colaninno	***Chairman***
Daniele Discepolo	***Deputy Chairman***
Michele Colaninno	***Chief Executive Officer***
Matteo Colaninno	***Director***
Ruggero Magnoni	***Director***
Livio Corghi	***Director***
Rita Ciccone	***Director***
Giovanni Sala	***Director***
Patrizia De Pasquale	***Director***

BOARD OF STATUTORY AUDITORS

Alessandro Lai	***Chairman***
Daniele Girelli	***Statutory Auditor***
Silvia Rodi	***Statutory Auditor***
Gianmarco Losi	***Alternate Auditor***
Elena Fornara	***Alternate Auditor***

EXTERNAL AUDITORS

PricewaterhouseCoopers S.p.A.	***2012 – 2020***

GENERAL MANAGER

Michele Colaninno

In accordance with the principles of Corporate Governance recommended by the Corporate Governance Code for Listed Companies, and pursuant to Italian Legislative Decree No. 231/01, the Board of Directors has established the following bodies:

REMUNERATION COMMITTEE

Daniele Discepolo — ***Chairman***
Giovanni Sala
Rita Ciccone

NOMINATIONS COMMITTEE

Giovanni Sala — ***Chairman***
Daniele Discepolo
Rita Ciccone

CONTROL AND RISKS COMMITTEE

Daniele Discepolo — ***Chairman***
Giovanni Sala
Rita Ciccone

RELATED-PARTIES COMMITTEE

Giovanni Sala — ***Chairman***
Rita Ciccone
Patrizia De Pasquale

COMPLIANCE COMMITTEE

Marco Reboa — ***Chairman***
Alessandro Lai
Maurizio Strozzi

LEAD INDEPENDENT DIRECTOR

Daniele Discepolo

DEPUTY CHAIRMAN

Michele Colaninno

INTERNAL AUDIT MANAGER

Maurizio Strozzi

FINANCIAL REPORTING OFFICER

Andrea Paroli

INVESTOR RELATIONS

Andrea Paroli

Directors' Report on Operations

The Financial Statements of the Immsi Group at 31 December 2016 have been drafted in compliance with International Accounting Standards (IAS/IFRS) in force at that date, issued by the International Accounting Standards Board and approved by the European Commission, as well as in compliance with the provisions established in article 9 of Legislative Decree no. 38/2005 (Consob Resolution no. 15519 of July 27/7/06 containing "Provisions for the presentation of financial statements", Consob Resolution no. 15520 of July 27/7/06 containing "Changes and additions to the Regulation on Issuers adopted by Resolution no. 11971/99", Consob communication no. 6064293 of 28/7/06 July "Corporate reporting required in accordance with article 114, paragraph 5 of Legislative Decree no. 58/98"); the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously the Standing Interpretations Committee ("SIC"), were also taken into account.

This Report also contains the consolidated financial statements and notes of the Group, and the financial statements and notes of the Parent Company Immsi S.p.A. (the "Company").
Furthermore, it should be noted that the data contained in this document may in some cases present rounding defects due to the representation in millions: in this respect, please note that the variations and percentages are generally based on data expressed in thousands and not on those rounded and sometimes shown in millions.

Information on operations and activities of the Immsi Group

In 2016, the operating results of the Immsi Group improved generally compared to the previous year, both in operating and financial terms. In particular, the profit margin indicators increased, driven by higher sales and the credit contributions from the industrial and the marine sector. There was also an improvement in the Group's net debt, primarily thanks to the significant reduction in the debt for the marine sector.

Results for the period reflect different trends depending on the sectors that make up the Group, based on different business dynamics of period in question.
Referring to explanations given later in this document for a more detailed description, the following are noted on a preliminary basis:

- the "property and holding sector" consolidated the financial position and performance of Immsi S.p.A., Immsi Audit S.c.a r.l., ISM Investimenti S.p.A., Is Molas S.p.A., Apuliae S.p.A., Pietra S.r.l., Pietra Ligure S.r.l. and RCN Finanziaria S.p.A.;

- the "industrial sector" includes the companies owned by the Piaggio group, while

- the "marine sector" includes Intermarine S.p.A. and other minor subsidiaries or associated companies of Intermarine S.p.A..

Some of the main financial data of the Immsi Group are presented below, divided by business segment and determined, as already stated, in accordance with international accounting standards (IAS/IFRS). A more detailed description of the figures below may be found later on in this document.

Alternative non-GAAP *performance* measures

This Report includes some indicators which - although still not contemplated by IFRS ("*Non-GAAP Measures*") – derive from the financial parameters adopted by IFRS.

These measures – which are presented to allow a better assessment of the Group's operating performance – should not be considered as an alternative to IFRS measures. They are identical to those contained in the Annual Report and Financial Statements at 31 December 2015 and in the periodical quarterly reports of the Immsi Group.

Moreover, the procedures for determining these measures are not specifically regulated by reference accounting standards, so they might not be uniform with the measures adopted by other entities and therefore might not be sufficiently comparable.

In particular, the following alternative performance measures have been used:

- **EBITDA**: defined as operating income before amortisation/depreciation and impairment costs of intangible assets and property, plant and equipment, as reported in the consolidated income statement.

- **Net financial debt**: represented by (current and non-current) financial liabilities, minus cash on hand and other cash and cash equivalents, as well as other (current and non-current) financial receivables. Net financial debt does not include other financial assets and liabilities arising from the fair value measurement of financial derivatives used as hedging and the fair value adjustment of related hedged items. The tables in this Report include a table with items of the Statement of Financial Position used to determine this indicator. in this respect, in conformity with the CESR recommendation of 10 February 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", the indicator, as formulated, represents the items and activities monitored by the Group's management.

Immsi Group at 31 December 2016

In thousands of euros	*Property and holding sector*	*as a %*	*Industrial sector*	*as a %*	*Marine sector*	*as a %*	*Immsi Group*	*as a %*
Net revenues	5,066		1,313,109		65,673		1,383,848	
Operating income before depreciation and amortisation (EBITDA)	-4,924	n/m	170,743	13.0%	2,650	4.0%	168,469	12.2%
Operating income (EBIT)	-5,412	n/m	60,905	4.6%	1,515	2.3%	57,008	4.1%
Profit before tax	-19,854	n/m	25,503	1.9%	-1,153	-1.8%	4,496	0.3%
Earnings for the period including non-controlling interests	-20,610	n/m	14,040	1.1%	-1,775	-2.7%	-8,345	-0.6%
Group earnings for the period (which may be consolidated)	-14,465	n/m	7,089	0.5%	-1,287	-2.0%	-8,663	-0.6%
Net debt	-348,554		-490,956		-67,342		-906,852	
Personnel (number)	71		6,706		277		7,054	

The same table is shown below, referring to the previous year; the comparison between the two periods is included in specific comments on single sectors:

Immsi Group at 31 December 2015

In thousands of euros	*Property and holding sector*	as a %	*Industrial sector*	as a %	*Marine sector*	*as a %*	*Immsi Group*	*as a %*
Net revenues	4,919		1,295,286		61,807		1,362,012	
Operating income before depreciation and amortisation (EBITDA)	-332	-6.7%	161,724	12.5%	-615	-1.0%	160,777	11.8%
Operating income (EBIT)	-819	-16.6%	56,710	4.4%	-1,837	-3.0%	54,054	4.0%
Profit before tax	-14,792	n/m	20,103	1.6%	-7,120	-11.5%	-1,809	-0.1%
Earnings for the period including non-controlling interests	-14,068	n/m	11,867	0.9%	-11,471	-18.6%	-13,672	-1.0%
Group earnings for the period (which may be consolidated)	-7,977	n/m	5,944	0.5%	-7,521	-12.2%	-9,554	-0.7%
Net debt	-328,671		-498,123		-99,858		-926,652	
Personnel (number)	74		7,053		297		7,424	

It should be noted that the data given in the preceding tables refer to the consolidable results, that is in particular net of the intergroup revenues and costs and the dividends from subsidiaries.

The property and holding sector

In thousands of euros	*31/12/2016*	*as a %*	*31/12/2015*	*as a %*	*Change*	*as a %*
Net revenues	5,066		4,919		147	3.0%
Operating income before depreciation and amortisation (EBITDA)	-4,924	n/m	-332	n/m	-4,592	n/m
Operating income (EBIT)	-5,412	n/m	-819	n/m	-4,593	n/m
Profit before tax	-19,854	n/m	-14,792	n/m	-5,062	n/m
Earnings for the period including non-controlling interests	-20,610	n/m	-14,068	n/m	-6,542	n/m
Group earnings for the period (which may be consolidated)	-14,465	n/m	-7,977	n/m	-6,488	n/m
Net debt	-348,554		-328,671		-19,883	-6.0%
Personnel (number)	71		74		-3	-4.1%

The "property and holding sector" consolidated the financial position and performance of Immsi S.p.A., Immsi Audit S.c.a r.l., ISM Investimenti S.p.A., Is Molas S.p.A., Apuliae S.p.A., Pietra S.r.l., Pietra Ligure S.r.l. and RCN Finanziaria S.p.A..

In overall terms, the **property and holding sector** in 2016 recorded a consolidated net debt of approximately €14.5 million, compared to a negative figure of around €8 million in the previous year, mainly due to:

- the recognition in 2015 of 1) income equal to €2.7 million relating to the deposit paid by Como S.r.l. in 2005 when signing the preliminary purchase agreement for the property portfolio of Pietra Ligure, following a breach of contract terms, and 2) income for a total of €1.27 million from Is Molas S.p.A. collecting two guarantees relative to contracts with Italiana Costruzioni S.p.A., following the ruling in favour of the subsidiary due to breach by the contractor;
- a worsening of the tax rate that had a negative impact of €2 million due to the non-recognition of deferred tax assets on the losses for the period reasons for prudential reasons.

The Net Debt of the sector was negative by €348.6 million, compared to €-328.7 million at the end of the previous year. It should be noted that the change in the net debt was negatively influenced primarily by the investments made in the Is Molas property complex and the borrowing costs on the debt.

The operating outlook of main companies in this sector is given below.

The Parent **Company Immsi S.p.A.** recorded, in its separate financial statements, (gross of intergroup eliminations) a net profit for the period of approximately €5.5 million, compared to a net profit of approximately €15.5 million at 31 December 2015, mainly due to the contribution from net financial activities. In 2016 the Company posted an operating loss (EBIT) of approximately €1 million, in line with the figure recorded for the previous year, and a positive balance from financial activities of €8.2 million mainly attributable to the Piaggio dividends of €9 million received during 2016.

Lastly, as regards non-financial income components, net revenues realised by Immsi S.p.A. during 2016 arising from property management and services amounted to €4.3 million, basically in line with the previous year (when this figure stood at €4.4 million).

Net financial debt of the Parent Company Immsi S.p.A. at 31 December 2016 amounted to €79.6 million, essentially in line with the figure of €78.2 million at 31 December 2015. The main items recognised during the year were:

- the inflow in April 2016 of approximately €9 million of dividends from the subsidiary Piaggio & C. S.p.A.;
- the payment of dividends to the Shareholders of the Company in May totalling approximately €5.1 million;
- disbursements of approximately €1.9 million as a "payment for a future capital increase" in compliance with the Stand-by Equity Commitment undertaken in September 2014 to subscribe and issue for a maximum of €10 million the capital increase payment resolved by the General Meeting of Alitalia - CAI on 25 July 2014; and
- other flows Company's for the difference.

With regards to the initiatives in the **property sector** and to the subsidiary **Is Molas S.p.A.** in particular, it should be noted that the company has carried out around 70% of the works relating both to the villas in the FCN10' sector and the first section of the urban infrastructure works. The construction of 4 show villas has been substantially completed and the external preparation of the gardens is being carried out.
The company has agreed a new terms with the contracting company for the construction of 15 villas in the FCN10' sector and the urban infrastructure works, with the end of the works rescheduled to December 2017.
In this contractual revision, it was agreed with the contracting company that the remaining 11 villas would be delivered in a state of advanced basic construction in order to enable potential clients to choose the flooring and internal finishings in general.
From the marketing perspective, in 2016 the typical marketing activities for the property segment were carried out. In particular, the leading international property agents, selected by the company that have been assigned agency mandates, promoted the sale of the villas through various initiatives in Italy and abroad. The feedback regarding the appreciation of the product and its positioning in the market appears to be positive and, as soon as the villas are completed, the finalisation of the first preliminary sales is expected.

With reference to earnings for the period, net revenues for 2016 amounted to approximately €2.7 million, up by €0.2 million compared to the previous year (€2.5 million). In terms of margins the company recorded a loss for 2016 of €3.6 million, up considerably compared to the figure of €-1.9 million of the previous year, which had benefited from the recognition of income for a total of €1.27 million from two guarantees relative to contracts with Italiana Costruzioni S.p.A., following the ruling in favour of the subsidiary due to breach of the contractor.
A net loss for 2016 of €4.1 million was recorded compared to a loss of €4.6 million for the previous year. This is due above all to the adjustment at 31 December 2015 of the value of deferred tax liabilities to the new nominal tax rate for Italian Tax on Corporate Income for the 2017 tax year, equal to 24%, compared to the current rate of 27.5%, as provided for by the 2016 Stability Law (negative effect of €1.8 million).
Consequently, the net loss for the Immsi Group that may be consolidated amounted to €2.3 million, compared to €-2.5 million in the previous year.

Net debt of the Company amounted to €42.9 million, with a cash flow of €1.7 million compared to 31 December 2015 (when net debt amounted to €41.2 million): this change is attributable to net cash flow absorbed by operating activities of approximately €11.2 million and by the investments in property, plant and equipment of around €0.4 million, partially offset by the payment of €9.8 million by the shareholder ISM Investimenti S.p.A. in relation to the subscription of the capital increase, chiefly aimed at launching the property business.

With reference to the **Pietra Ligure** project (**Pietra Ligure S.r.l.**), it is pointed out that, among other things, on 19 January 2016, at the Municipality of Pietra Ligure, the Final Design of the Infrastructure Works envisaged by the urban transformation plan of the area was submitted, in compliance with the formalities required by the Urban Planning Agreement entered into with the above-mentioned Municipality. Moreover, activities aimed at identifying potential parties interested in development of the Project continued. A net loss per consolidation purposes of €0.3 million was recorded for the year, compared to a loss of €0.2 million for the previous year, with a negative net debt of €0.5 million (compared to -€0.1 million at the end of 2015). With regard to the direct parent company **Pietra S.r.l.** during the period there was a net loss for consolidation purposes of €0.1 million compared to a profit of €1.4 million recorded in the previous year, mainly due to the definitive acquisition of a confirmation deposit of €2.7 million.
Net financial debt amounted to €2.6 million, in line with the end of 31 December 2015.

With reference to the subsidiary **Apuliae S.p.A**., renovation work that began in March 2005 is suspended, following investigations by the legal authorities and pending the final decision of outstanding matters. For updates on the matter, see the paragraph "*Disputes in progress*" below. At 31 December 2016, the company showed a slight loss in earnings (€0.2 million) and a net financial debt of €0.4 million, up by approximately €0.1 million compared to 31 December 2015 as a result of the negative contribution of cash generated internally.

Other major companies in the property and holding sector include RCN Finanziaria S.p.A. and ISM Investimenti S.p.A.:

- **RCN Finanziaria S.p.A.**, in which Immsi S.p.A. holds a 72.51% stake, and sole shareholder of Intermarine S.p.A., reported a net loss for consolidation purposes for the Immsi Group equal to approximately €4 million (€-3.3 million in 2015) and net financial debt as of 31 December 2016 amounting to €121.5 million, an increase of approximately €0.8 million compared to 31 December 2015 (figure equal to €120.7 million). It is noted that during 2016 the company acquired the shares from the shareholder GE Capital Equity that it held in RCN Finanziaria S.p.A. corresponding to a holding of around 12.86% and recognise them as treasury shares. As a result the holding of the other shareholders, Immsi and Intesa Sanpaolo, increase in proportion. Immsi's holding therefore increased from 72.51% from the previous 63.18%.

- **ISM Investimenti S.p.A.**, in which Immsi S.p.A. holds a 72.64% stake in terms of voting rights, and which controls Is Molas S.p.A. with an 92.59% stake as of 31 December 2016, posted a net loss for consolidation purposes for the Immsi Group equal to approximately €4.1 million (€-3.3 million in 2015) and net financial debt as of 31 December 2016 amounting to €101 million, an increase of approximately €15.4 million compared to 31 December 2015 primarily as a result of i) the subscription of tranches of a share capital increase of the subsidiary Is Molas for a total of around €9.8 million, as already described above; and ii) of the capitalisation of interest payable on some outstanding loans.

Industrial sector: Piaggio group

In thousands of euros	*31/12/2016*	*as a %*	*31/12/2015*	*as a %*	*Change*	*as a %*
Net revenues	1,313,109		1,295,286		17,823	1.4%
Operating income before depreciation and amortisation (EBITDA)	170,743	13.0%	161,724	12.5%	9,019	5.6%
Operating income (EBIT)	60,905	4.6%	56,710	4.4%	4,195	7.4%
Profit before tax	25,503	1.9%	20,103	1.6%	5,400	26.9%
Earnings for the period including non-controlling interests	14,040	1.1%	11,867	0.9%	2,173	18.3%
Group earnings for the period (which may be consolidated)	7,089	0.5%	5,944	0.5%	1,145	19.3%
Net debt	-490,956		-498,123		7,167	1.4%
Personnel (number)	6,706		7,053		-347	-4.9%

As regards the **industrial sector**, in 2016 the Piaggio group sold 532,000 vehicles worldwide, with a rise in volumes of approximately 2.4% compared to the previous year, when 519,700 vehicles were sold. Sales in EMEA and the Americas were up (+8.5%), driven by the volumes achieved on the Italian market (+16.6%) and in Europe (+7.3%), while there was a fall in vehicles sold in the Americas (-1.4%), and in Asia Pacific 2W (-7.3%).
Figures for vehicles delivered to India (+0.1%) were more or less steady, with the growth in sales of two-wheeler vehicles (+39.7%) offsetting the downturn in sales of Commercial Vehicles (-6.0%).
As regards product types in overall terms, the increase in sales mainly referred to two-wheeler vehicles (+6.7%), also boosted by the introduction of the Wi-Bike, while figures for commercial vehicles decreased (-4.6%).

In terms of consolidated turnover, the Piaggio group ended 2016 with net revenues up compared to 2015 (+1.4%). In terms of geographic segments, the increase in revenues in EMEA and the Americas (+5.7%) more than offset the downturn in India, due to the effect of an unfavourable exchange rate (-4.1%; -0.1% with constant exchange rates) and Asia Pacific (-5.3%; -4.8% with constant exchange rates). With regard to product type, the increase in turnover was concentrated in the two-wheeler vehicles (+3.6%) while commercial vehicles posted a fall (-3.4%).
As a result, the percentage of two-wheeler vehicles accounting for overall turnover dropped from 68.3% in 2015 to the current figure of 69.8%, while the percentage of commercial vehicles fell from 31.7% for 2015 to 30.2% for 2016.

Operating income including amortisation, depreciation and impairment costs of intangible assets and plant, property and equipment (EBITDA) for the year 2016 amounted to approximately €170.7 million (€161.8 million in 2015). In relation to turnover, EBITDA was equal to 13.0% (12.5% in 2015). In terms of Operating Income (EBIT), *performance* was better compared to 2015, with a consolidated EBIT equal to €60.9 million, up by €4.2 million compared to 2015; in relation to turnover, EBIT was equal to 4.6%, (4.4% in 2015).

The result of financing activities improved compared to the previous year by €1.2 million, with Net Charges amounting to €35.4 million (€36.6 million in 2015). This improvement is related to the decrease in average debt for the period and reduction in the cost of funding and positive trend of current operations, only partially offset by the lower capitalisation of borrowing costs.

Adjusted net profit stood at €14 million (1.1% of turnover), up on the figure for the previous year of €11.9 million (0.9% of turnover).

Taxes for the period were equal to €11.5 million, while they amounted to €8.2 million in 2015.

Net financial debt at 31 December 2016 amounted to €491 million, down €498.1 million compared to 31 December 2015. The reduction of €7.2 million is mainly attributable to the positive performance of operations and greater efficiency in managing working capital. Overall, cash generation enabled the payment of dividends (€18 million) the buy-back of treasury shares (€5.6 million) and financing of investment programmes.

***Two-wheeler* business**

Two-wheeler vehicles can mainly be grouped into two product segments, scooters and motorcycles, in addition to the related spare parts and accessories business, the sale of engines to third parties, involvement in main two-wheeler sports championships and technical service.

The world two-wheeler market comprises two macro areas, which clearly differ in terms of characteristics and scale of demand: economically advanced countries (Europe, United States, Japan) and emerging nations (Asia Pacific, China, India, Latin America).

In the first macro area, which is a minority segment in terms of volumes, the Piaggio group has a historical presence, with scooters meeting the need for mobility in urban areas and motorcycles for recreational purposes.

In the second macro area, which in terms of sales, accounts for most of the world market and is the group's target for expanding operations, two-wheeler vehicles are the primary mode of transport.

In 2016, the world two-wheeler market (scooters and motorcycles), based on figures from monitored markets, recorded sales of nearly 46 million vehicles, with an increase of approximately 0.6% compared to the previous year, but with different dynamics anchored to the geographic segment.

India, the most important two-wheeler market, continued its growth trend in 2016, ending the year with just over 17.7 million vehicles sold, up by 9.7% compared to 2015.

China instead recorded decreasing volumes in 2016, down by 12% compared to the previous year and ending the period with almost 8 million units sold. The Asian area, termed Asean 5, reported a slight increase in 2016 (+0.9% compared to 2015) ending the year with 12.3 million units sold. Indonesia, the main market in this area, continued its downturn in 2016, with total volumes of over 5.9 million units and a decrease of 8.5% compared to the previous year. Thailand returned to growth (1.7 million units sold, +6.4% on 2015). Malaysia, on the other hand, continued the negative trend, albeit by a slight amount, seen in the previous year (373 thousand units sold, -1.9% compared to 2015). Sales were also up in 2016 in Vietnam (3.1 million units sold, +9.5% compared to 2015). The Philippines posted a strong increase in this area, exceeding the figure of one million units sold for the first time (1.1 million units sold, +34.1% compared to 2015).

Volumes of other Asian area countries (Singapore, Hong Kong, South Korea, Japan, Taiwan, New Zealand and Australia) increased, in overall terms, compared to the previous year, with 1.4 million units sold (+8.5%). Within this area, Japan was still affected by a downturn (380 thousand vehicles sold, -6.6% compared to 2015), while sales in Taiwan went up considerably, with 788 thousand units sold (+18% compared to 2015).

The North American market recorded a fall of 1.9% compared to 2015 (547,100 vehicles sold in 2016), reversing the positive trend of the previous years.

Brazil, the most important market in South America, also reported a downturn (-28%), closing with 858 thousand vehicles sold in 2016.

Europe, the reference area for Piaggio group activities, confirmed its positive growth trend in 2016 as well, reporting a 8.7% overall increase in sales compared to 2015 (+15.2% for the motorcycle segment and +3.4% for scooters), ending the period with 1.3 million units sold.

In this international scenario, the Piaggio group maintained its leadership position on the European market in 2016, closing the year with a 15.4% market share (15.2% in 2015) thanks to the strong presence in the scooter segment where it reached a share of 25.4% (24.1% in 2015). In Italy, the Piaggio group also retained its leadership of the two-wheeler vehicle market, with a 21.8% share

(21.6% in 2015). The group, with its own sites in India and Vietnam, also operates in the premium" segment of the Indian market and in Asia Pacific countries. In particular, Piaggio is one of the leading segment operators in Vietnam, which is the group's main market in the Asian area.
The group retained its strong position on the North American scooter market, where it closed the year with a market share of 21%, and where it is committed to increasing its profile in the motorcycle segment, through the Aprilia and Moto Guzzi brands.

In terms of turnover, the increases recorded in Italy (+13.3%) and India (+37.6%) were particularly important. Turnover decreased, instead, in America (-11.8%) and Asia Pacific (-5.3%). Similar trends were recorded for volumes. The increase in two-wheeler vehicle sales in Italy (+16.6%) and India (+39.7%) more than offset the decline in Asia-Pacific (-7.3%) and the Americas (-7.9%). Figures for India benefited from the excellent performance of the new Aprilia SR 150 scooter.

Commercial Vehicles business

The Commercial Vehicles business includes three- and four-wheelers with a maximum mass below 3.5 tons (category N1 in Europe) designed for commercial and private use, and related spare parts and accessories. The Piaggio group operates in Europe and India on the light commercial vehicles market, with vehicles designed for short range mobility in urban areas (European urban centres) and suburban areas (the product range for India). The group acts as operator on European markets in a niche segment (urban mobility), thanks to its range of low environmental impact products, whereas it is also present in India, in the passenger vehicle and cargo sub-segments of the three-wheeler market.

In 2016, the European market for light commercial vehicles (vehicles with a maximum mass of up to 3.5 tons) where the Piaggio group operates, accounted for 1.9 million units sold, up 11.9% compared to 2015 (source ACEA data). In detail, the trends of main European reference markets are as follows: Germany (+8.5%), France (+8.2%), Italy (+50.0%) and Spain (+11.2%).
Sales on the Indian three-wheeler market, where Piaggio Vehicles Private Limited, a subsidiary of Piaggio & C. S.p.A., operates, went up from 514,000 units in 2015 to 546,000 in 2016, registering a 6.2% increase.
Within this market, the passenger vehicles subsegment reported a positive trend (+4.8%), closing with 439,000 units. The cargo segment also reported an increase (+11.9%), from 95,000 units in 2015 to 107,000 units in 2016. Through its Indian affiliate, the Piaggio group also operates on the four-wheeler light commercial vehicles (LCV) market (cargo vehicles for goods transport). The LCV cargo market, with vehicles with a maximum mass below 2 tons and on which the Porter 600 and Porter 1000 are sold, accounted for 116,100 units sold in 2016, going up by 0.4% compared to 2015. The demonetisation decided by the Indian government resulted in a considerable market downturn, from November 2016 onwards. Despite this, forecasts for next year are optimistic, pointing to a market increase in 2017.
In 2016, sales of Commercial Vehicles generated a turnover of approximately €396.6 million, including approximately €44.5 million relative to spare parts and accessories, down by 3.4% over the previous year. During the year, 188,000 units were sold, down by 4.6% compared to 2015.
On the EMEA and Americas market, the Piaggio group sold 14,700 units, generating a total net turnover of approximately €89.3 million, including spare parts and accessories for €18.4 million. The 14.7% increase in sales was supported by the good performance of the reference market.
Sales of three-wheeler vehicles went down from 158,950 units in 2015 to 157,750 units in 2016, registering a decrease of 0.8%.
The same affiliated company also exported 18,685 three-wheeler vehicles (26,180 in 2015); the downturn is mainly due to a slowdown in the sales of some African countries and this trend was also reported for all main competitors.
On the four-wheeler market, sales of Piaggio Vehicles Private Limited decreased by 26.9% in 2016 compared to 2015, closing with 3,681 units.

The Marine sector: Intermarine

In thousands of euros	31/12/2016	as a %	31/12/2015	as a %	Change	as a %
Net revenues	65,673		61,807		3,866	6.3%
Operating income before depreciation and amortisation (EBITDA)	2,650	4.0%	-615	-1.0%	3,265	530.9%
Operating income (EBIT)	1,515	2.3%	-1,837	-3.0%	3,352	182.5%
Profit before tax	-1,153	-1.8%	-7,120	-11.5%	5,967	83.8%
Earnings for the period including non-controlling interests	-1,775	-2.7%	-11,471	-18.6%	9,696	84.5%
Group earnings for the period (which may be consolidated)	-1,287	-2.0%	-7,521	-12.2%	6,234	82.9%
Net debt	-67,342		-99,858		32,516	32.6%
Personnel (number)	277		297		-20	-6.7%

As regards the **naval sector**, net sales revenues went up in 2016 (comprising turnover and changes in works in progress to order), compared to the same period of the previous year, with an increase of 6.3%, and figures at €65.7 million compared to €61.8 million compared to 2015. Production progress, including research and development, and the completion of constructions and deliveries, concerned in particular:

- the *Defence* division, with €63.6 million (€58.6 million in 2015), in particular for the progress in the construction of the minesweepers for the Finnish Navy (€2.2 million), for the construction of the units and the logistic package for Guardia di Finanza [Italian financial police] (€4.5 million), for the Gaeta MMI operations (€2.5 million), for the construction of the integrated platforms for the Italian group operating in the sector (€24.5 million), for the contract with an Asian shipyard for a naval platform (€27.4 million), for the implementation of the MMI contract in the Sarzana shipyard for 2 special high-speed vessels (€1.5 million) and for other contracts (€1.0 million);
- the *Fast Ferries and Yacht* division, with €2.1 million (€3.2 million during 2015), mainly for repair work on vessels currently in operation belonging to the fleet operating in southern Italy.

The figures for the year 2016 show a positive EBITDA of €2.7 million, a positive EBIT of €1.5 million and earnings before tax that becomes a loss of €1.2 million due to borrowing costs.

The net profit or loss showed a net loss of €1.8 million was posted compared to a net loss for the same period of 2015 of €11.5 million, with a significant improvement (€9.7 million) compared to the previous year, with a net profit or loss essentially at breakeven in the second half of 2016.

In 2016 the overheads were at the same level in terms of amount as those in the previous year, and represented the same percentage of the value of production.

From a financial perspective, the 2016 financial statements show a significant reduction in the net financial exposure, which fell from €99.9 million at 31 December 2015 to €67.3 million, with an improvement of €32.5 million, primarily due to the receipts from the contract for the Asian shipyard and those resulting from the delivery of the third Finland unit, with consequent repayment of the bank credit lines.

The total value of the order book at 31 December 2016 is €314 million (remaining part of the contracts in place that still needs to be implemented in terms of value of production) and may broken down as follows:

- Italian Navy, Refitting and TS Gaeta Programme for €41 million,
- Italian Navy, Contract for 2 very high-speed Naval Vessels for €40 million,
- Guardia di Finanza, Logistics Package for €16 million,
- Italian Operator, Contract for 2 Integrated minesweeping platforms for €89 million,
- Asian Shipyard, Naval platform, transfer of technologies and royalties for €128 million.

The orders portfolio includes activities for services and logistics for Guardia di Finanza for 6 years from the delivery of the units, up to 2017 the first integrated minesweeper platform and up to 2019 for the second platform for the Italian operator in the sector, up to 2021 for the refitting of minesweepers of the Italian Navy, up to 2019 for the construction of 2 naval units for MMI, up to 2019 for the naval platform and up to 2022 for the transfer of technologies to the Asian shipyard.

Financial position and performance of the Group

As already referred to in this report, during 2016, the operating results of Immsi Group improved generally compared to the previous year, in a macroeconomic context characterised by growth in the world economy, but with dynamics that differed considerably by geographic segment.

The scope of consolidation has not changed considerably compared to the Consolidated Financial Statements at 31 December 2015. In particular:

- on 30 June 2016 the company Rodriquez Engineering S.r.l., a subsidiary of Intermarine S.p.A., was liquidated;
- on 5 August 2016 RCN Finanziaria S.p.A. purchased ordinary treasury shares held by the minority shareholder GE Capital Equity Holdings LLC equal to 12.86%;
- in Is Molas S.p.A. a capital increase was subscribed and paid up by the shareholder ISM Investimenti S.p.A. which increased its holding from 89.48% to 92.59%.

Lastly, following the purchase and sale of treasury shares by Piaggio & C. S.p.A., the stake of consolidated shareholders' equity of the Piaggio group, which amounted to 50.06% as of 31 December 2015, stood at 50.49% as of 31 December 2016.

Net revenues realised in 2016, equal to €1,383.8 million and increasing over the previous year (+1.6%), mainly refer to the industrial sector (€1,313.1 million), with €65.7 million relative to the Marine sector and the remaining part relative to the property and holding sector.

Operating income including amortisation, depreciation and impairment costs of intangible assets and plant, property and equipment (EBITDA) at 31 December 2016 amounted to €168.5 million, equal to 12.2% of net revenues, up in absolute terms and as a percentage compared to the previous year, when it stood at €160.8 million and was equal to 11.8% of revenues; the operating income (EBIT) came to €57 million (4.1% of net revenues), up by €2.9 million compared to €54.1 million for the previous year (when corresponded to 4% of net revenues).

Consolidated operating income (EBIT) does not include goodwill impairment because on the basis of results expected from long-term development plans prepared by Group companies and used in impairment testing, it was not considered necessary to carry out impairment, as this goodwill was considered recoverable through future financial flows.
As the analyses conducted to estimate the recoverable value of the goodwill of cash generating units of the Immsi Group were determined also based on estimates, the Group does not have the assurance that an impairment loss in goodwill will not occur in future periods.
Given the current ongoing difficulty of reference and financial markets, the various factors - both internal and external to cash generating units identified - used in making the estimates could be revised in future: The Group will constantly monitor these factors and the possible existence of future impairment losses.

Profit before tax for 2016 amounted to €4.5 million positive, compared to a profit before tax at 31 December 2015 of €1.8 million negative: this improvement (of €6.3 million) is due in particular to:

- an improvement €5.4 million in profit before tax recorded for the industrial sector (Piaggio group);
- the loss before taxes of the Marine sector, which recovered €6 million in 2016 compared to the loss registered for 2015.

You are reminded that in 2015 income of €2.7 million was recognised related the definitive cashing of the deposit paid by Como S.r.l. in 2005 when signing the preliminary purchase agreement for the property portfolio of Pietra Ligure, following a breach of contract terms, and income for a total of €1.27 million from Is Molas S.p.A. collecting two guarantees relative to contracts with Italiana Costruzioni S.p.A., following the ruling in favour of the subsidiary due to breach by the contractor.

Taxes for the period totalled €12.8 million, up by €1 million compared to €11.9 million as of 31 December 2015. When making the comparison it should be remembered that while 2015 the Group had recognised the adjustment of deferred tax assets to the new nominal tax rate for Italian Tax on Corporate Income for the 2017 tax year, equal to 24%, compared to the current rate of 27.5%, as provided for by the 2016 Stability Law with an overall negative impact of €14.4 million on the earnings for the period, during 2016 the Group did not recognise deferred tax assets in respect of losses of the Group companies totalling €5.1 million. This choice was a result of a prudential assessment of the recoverability of the losses accumulated by the Group companies, particularly those participating in the Group tax consolidation, based on the forecasts of expected future taxable income. If the taxable income in future years is higher than the current forecasts, the deferred tax assets not recognised may be recovered, because the Italian tax legislation allows for the losses to be carried forward without any expiry date.

In view of the above, the calculation of the average consolidated tax rate for the year 2016 was not significant, as was the case for the previous year.

Lastly, following the above dynamics, the Group recorded a net loss for the period of €8.7 million, compared to the loss of €9.6 million as of 31 December 2015.

Net financial debt of the Group at 31 December 2016 totalled €906.9 million and improvement of approximately €19.8 million compared to a figure of €926.7 million at 31 December 2015, due mainly to net investments in plant, property and equipment and intangible assets for the period, equal to a total of €95.5 million, the payment of dividends to third parties for €14 million, and the purchase of treasury shares by Piaggio & C S.p.A. more than offset by net monetary flows generated from operations, equal to approximately €144.2 million.

Group gross investments in the year totalled €99.8 million, divided as follows:

- €58.7 million in intangible assets, referring nearly entirely to the Piaggio group;
- €39.2 million in plant, property and equipment, referring nearly entirely to the Piaggio group;
- €1.9 million relative to the investee Alitalia – Compagnia Aerea Italiana S.p.A., for payments made during the period in compliance with the Stand-by Equity Commitment undertaken in September 2014.

Total shareholders' equity of the Immsi Group at 31 December 2016 was equal to €392.6 million; excluding the portion attributable to non-controlling interests, shareholders' equity attributable to the Group was equal to €232.8 million.

Financial performance of the Group

The Group prepares reclassified figures as well as the financial statement schedules required by law. A short description of the main balance sheet and income statement items is provided below the reclassified schedules.
For more details on items in the statements, see the Notes. Specific notes referring to mandatory items are omitted as the main aggregates coincide.

The reclassified consolidated income statement of Immsi Group shown below is classified by the nature of the income components and is in line with the IAS/IFRS guidelines which consider them entirely arising from ordinary activities, except for those of a financial nature.

In thousands of euros	*31/12/2016*		*31/12/2015*		*Change*	
Net revenues	**1,383,848**	**100%**	**1,362,012**	**100%**	**21,836**	**1.6%**
Costs for materials	786,766	56.9%	785,366	57.7%	1,400	0.2%
Costs for services, leases and rentals	272,674	19.7%	268,669	19.7%	4,005	1.5%
Employee costs	232,808	16.8%	231,868	17.0%	940	0.4%
Other operating income	110,675	8.0%	114,066	8.4%	-3,391	-3.0%
Other operating costs	33,806	2.4%	29,398	2.2%	4,408	15.0%
OPERATING EARNINGS BEFORE AMORTISATION AND DEPRECIATION (EBITDA)	**168,469**	**12.2%**	**160,777**	**11.8%**	**7,692**	**4.8%**
Depreciation and write-downs of plant, property and equipment	47,337	3.4%	47,157	3.5%	180	0.4%
Amortisation of goodwill	0	-	0	-	0	-
Amortisation and impairment of intangible assets with a definite useful life	64,124	4.6%	59,566	4.4%	4,558	7.7%
OPERATING INCOME	**57,008**	**4.1%**	**54,054**	**4.0%**	**2,954**	**5.5%**
Earnings on investments	568	0.0%	165	0.0%	403	-
Financial income	15,612	1.1%	20,577	1.5%	-4,965	-24.1%
Borrowing costs	68,692	5.0%	76,605	5.6%	-7,913	-10.3%
PROFIT BEFORE TAX	**4,496**	**0.3%**	**-1,809**	**-0.1%**	**6,305**	**348.5%**
Taxes	12,841	0.9%	11,863	0.9%	978	8.2%
EARNINGS AFTER TAXES FROM CONTINUING OPERATIONS	**-8,345**	**-0.6%**	**-13,672**	**-1.0%**	**5,327**	**39.0%**
Gain (loss) from assets held for disposal or sale	0	-	0	-	0	-
EARNINGS FOR THE PERIOD INCLUDING NON-CONTROLLING INTERESTS	**-8,345**	**-0.6%**	**-13,672**	**-1.0%**	**5,327**	**39.0%**
Earnings for the period attributable to non-controlling interests	318	0.0%	-4,118	-0.3%	4,436	107.7%
EARNINGS FOR THE PERIOD ATTRIBUTABLE TO THE GROUP	**-8,663**	**-0.6%**	**-9,554**	**-0.7%**	**891**	**9.3%**

The consolidated net revenues of the Immsi Group have increased by approximately €21.8 million (+1.6%) to around €1,383.8 million, mainly due to the industrial sector, which contributed about €1,313.1 million, and the marine sector, which contributed around €65.7 million. Net revenues of the property and holding sector, amounting to approximately €5 million, were basically unchanged compared to the same period of the previous year.
In particular, net revenues of the industrial sector went up by approximately 1.4% compared to the previous year (€+17.8 million compared to approximately €1,295.3 million at 31 December 2015) while net revenues of the naval sector totalled €65.7 million at 31 December 2016, up by 6.3%, compared to €61.8 million in 2015.

Operating costs and other net consolidated expenses of the Group in 2016 amounted to €1,216.8 million (87.9% of net revenues), with €1,143.7 million (equal to approximately 87.1% of net revenues of the sector) relative to the Piaggio group. The cost of materials amounted to €786.8 million, accounting for 56.9% of net revenues; the cost referred to the industrial sector alone amounted to €784.4 million, equal to 59.7% of net revenues of the sector. Personnel costs totalled €232.8 million, accounting for 16.8% of net revenues. The largest portion, amounting to €213.8 million (16.3% of net revenues of the sector), refers to the Piaggio group.

Operating income including amortisation, depreciation and impairment costs of intangible assets and plant, property and equipment (EBITDA) amounted to €168.5 million, equal to 12.2% of net revenues, of which €170.7 million referred to the industrial sector.
Depreciation and amortisation for the period stood at €111.5 million (of which €109.8 million relates to the industrial sector), representing 8% of turnover, up by around €4.7 million compared to 2015 (+4.4%). Depreciation charges of plant, property and equipment amounted to 47.3 million euros (+0.2 million euros compared to the figure for 2015), while amortisation charges for intangible assets, which does not include amortisation on goodwill, totalled 64.1 million euros (59.6 million in 2015).

Operating income (EBIT) was equal to €57 million (+€3 million, or +5.5%, compared to 31 December 2015), accounting for 4.1% of net revenues (compared to 4% recorded in 2015).

The net balance of financial activities - including investments - was negative by €52.5 million, comprising a net negative balance of €35.4 million for the industrial sector and a net negative balance of €2.7 million relative to the Marine sector, while the property and holding sector registered a negative balance of approximately €14.4 million.

In consideration of the above, a profit before taxes of €4.5 million was recorded, with a positive contribution from the industrial sector of €25.5 million, while the contribution from the naval sector was €1.2 million negative, and from the property and holding sector €19.9 million negative.
With regard to the item Taxes you are reminded that in the previous year the Group adjusted the deferred taxes to the new rate introduced by Law 208/2015 (2016 stability law) which amended Article 77 paragraph 1 of the Income Tax Code, reducing the nominal Italian Tax on Corporate Income rate from 27.5% to 24%, effective for the tax periods after the period underway at 31 December 2016. The change in the tax rate resulted in a reduction in the value of the deferred taxes for the Group recognised in the income statement for a total of €14.4 million in the year 2015. For the year 2016 no deferred tax assets were recognised on the losses for the period for reasons of prudence concerning their recoverability, amounting to approximately €5.1 million.
Lastly, a net loss for the period, after taxation and net of the portion attributable to non-controlling interest, was registered, amounting to approximately €8.7 million, a partial improvement on the loss of €9.6 million recorded as of 31 December 2015.

Reclassified financial situation of the Group

In thousands of euros	*31/12/2016*	*as a %*	*31/12/2015*	*as a %*
Current assets:				
Cash and cash equivalents	197,919	9.1%	124,510	5.8%
Financial assets	0	0.0%	0	0.0%
Operating activities	472,518	21.8%	532,092	24.7%
Total current assets	**670,437**	**31.0%**	**656,602**	**30.5%**
Non-current assets:				
Financial assets	0	0.0%	0	0.0%
Intangible assets	847,059	39.1%	852,211	39.5%
Plant, property and equipment	336,467	15.5%	343,465	15.9%
Other assets	311,524	14.4%	303,420	14.1%
Total non-current assets	**1,495,050**	**69.0%**	**1,499,096**	**69.5%**
TOTAL ASSETS	**2,165,487**	**100.0%**	**2,155,698**	**100.0%**
Current liabilities:				
Financial liabilities	575,022	26.5%	426,074	19.8%
Operating liabilities	554,157	25.6%	559,908	26.0%
Total current liabilities	**1,129,179**	**52.1%**	**985,982**	**45.7%**
Non-current liabilities:				
Financial liabilities	529,749	24.5%	625,088	29.0%
Other non-current liabilities	114,001	5.3%	116,534	5.4%
Total non-current liabilities	**643,750**	**29.7%**	**741,622**	**34.4%**
TOTAL LIABILITIES	**1,772,929**	**81.9%**	**1,727,604**	**80.1%**
TOTAL SHAREHOLDERS' EQUITY	**392,558**	**18.1%**	**428,094**	**19.9%**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,165,487**	**100.0%**	**2,155,698**	**100.0%**

Current assets as of 31 December 2016 amounted to €670.4 million, up by €13.8 million compared to 31 December 2015. This increase is due to positive change in cash and cash equivalents, equal to €73.4 million partly offset by the reduction in operating assets of €59.6 million. Non-current assets as of 31 December 2016 (including assets for disposal) amounted to €1,495.1 million compared to €1,499.1 million as of 31 December 2015, with a decrease of €4 million.

In particular, non-current assets include intangible assets amounting to €847.1 million, down compared to 31 December 2015 by €5.2 million, plant, property and equipment amounting to €336.5 million (€343.5 million at the end of 2015) and other assets amounting to €311.5 million (compared to €303.4 million at the end of 2015).

Current liabilities at 31 December 2016 amounted to €1,129.2 million up by €143.2 million compared to 31 December 2015, as a result of an increase in financial liabilities (€148.9 million) partially offset by a decrease in current operating liabilities (€-5.8 million).
Non-current liabilities at 31 December 2016 totalled €643.8 million compared to €741.6 million at 31 December 2015, with the decrease mainly due to financial liabilities (€-97.8 million).

Consolidated shareholders' equity attributable to the Group and non-controlling interests amounted to €392.6 million at 31 December 2016, of which €159.8 million attributable to non-controlling interests.

An analysis of **invested capital** and its financial cover is presented below:

In thousands of euros	*31/12/2016*	*as a %*	*31/12/2015*	*as a %*
Current operating assets	472,518	33.4%	532,092	36.2%
Current operating liabilities	-554,157	-39.2%	-559,908	-38.1%
Net operating working capital	**-81,639**	**-5.8%**	**-27,816**	**-1.9%**
Intangible assets	847,059	59.9%	852,211	57.9%
Plant, property and equipment	336,467	23.8%	343,465	23.3%
Other assets	311,524	22.0%	303,420	20.6%
Capital employed	**1,413,411**	**100.0%**	**1,471,280**	**100.0%**
Non-current non-financial liabilities	114,001	8.1%	116,534	7.9%
Capital and reserves of non-controlling interests	159,771	11.3%	162,460	11.0%
Consolidated shareholders' equity attributable to the Group	232,787	16.5%	265,634	18.1%
Total non-financial sources	**506,559**	**35.8%**	**544,628**	**37.0%**
Net financial debt	**906,852**	**64.2%**	**926,652**	**63.0%**

The table below shows the **statement of cash flows** for the period:

In thousands of euros	*31/12/2016*	*31/12/2015*
Cash generated internally	113,975	102,990
Change in net working capital	30,237	-3,287
Net cash flow generated from operations	**144,212**	**99,703**
Payment of dividends by the Parent Company	-5,107	0
Payment of dividends to non-controlling interests by Group companies	-8,921	-12,851
Acquisition of intangible assets	-58,678	-63,907
Purchase of plant, property and equipment	-39,247	-39,016
Net decrease from property disposals	287	333
Acquisition of non-controlling investments, net of disposal	-1,881	-1,760
Acquisition of controlling investments and business complexes, net of disposals	-5,612	5,206
Other net movements	-5,253	-4,605
Change in net debt	**19,800**	**-16,897**
Initial net debt	**-926,652**	**-909,755**
Closing net debt	**-906,852**	**-926,652**

Net financial debt, equal to €906.9 million at 31 December 2016, was analysed below and compared with the same data at 31 December 2015.

In thousands of euros	*31/12/2016*	*31/12/2015*
Short-term financial assets		
Cash and cash equivalents	-197,919	-124,510
Financial assets	0	0
Total short-term financial assets	**-197,919**	**-124,510**
Short-term financial payables		
Bonds	9,617	0
Payables due to banks	512,778	372,551
Amounts due for finance leases	1,114	31
Amounts due to other lenders	51,513	53,492
Total short-term financial payables	**575,022**	**426,074**
Total short-term financial debt	**377,103**	**301,564**
Medium/long-term financial assets		
Receivables for loans	0	0
Other financial assets	0	0
Total medium/long-term financial assets	**0**	**0**
Medium/long-term financial payables		
Bonds	282,442	290,139
Payables due to banks	236,319	333,765
Amounts due for finance leases	10,311	179
Amounts due to other lenders	677	1,005
Total medium/long-term financial payables	**529,749**	**625,088**
Total medium-/long-term financial debt	**529,749**	**625,088**
Net financial debt *	**906,852**	**926,652**

*) The indicator does not include financial assets and liabilities arising from the fair value measurement of financial derivatives designated as hedges and the fair value adjustment of related hedged items and related accruals (see note G2 – “Financial liabilities” in the Notes).

Financial position and performance of the Parent Company

A summary and short description of the main financial statement items are given below. Further information on these items may be found in the explanatory and additional Notes to the financial statements of Immsi S.p.A..

In thousands of euros	*2016*	*2015*
Earnings on financial operations	8,210	14,623
Profit before tax	7,131	13,601
Income for the period	5,492	15,496
Net operating working capital	59,722	64,847
Capital employed	470,231	473,480
Non-financial sources	390,623	395,325
Net debt	-79,607	-78,155
Shareholders’ equity	370,771	376,823
Personnel (number)	10	12

During 2016, the Company recorded a profit from financing activities of €8,210 thousand mainly attributable to approximately €9 million of dividends distributed by the subsidiary Piaggio & C. S.p.A. (€13,156 thousand in 2015). The negative difference recorded compared to the previous year also attributable to the capital gain of €2.7 million realised in May 2015 from the sale of 1.9 million Piaggio & C. S.p.A. shares. Profit before tax accounted for a minimum part of taxable income as regards income tax, because most components comprise financial statement items, which are tax-neutral.
In 2016, a profit of €5,492 thousand was recorded, down on the figure of €15,496 thousand for 2015, due to the positive financial items referred to above and the recognition in the previous year of income, under the item taxes, equal to €1,868 thousand, realised as part of the national consolidated tax convention. The agreements signed with member companies that allow the consolidating company to deduct interest expense which single member companies would not be able to deduct independently, but which they could deduct thanks to the ROL from the other participating companies. The estimates for the year 2016 did not identify surplus ROL to the benefit of the deduction of surplus interest expense and accordingly no income was recognised for Immsi.

Net operating working capital went from €64,847 thousand at 31 December 2015 to €59,722 thousand at the end of 2016, mainly because of the increase in receivables due from Group companies.

Invested capital amounted to €470,231 thousand, down compared to 31 December 2015, and mainly comprised the investment property situated in Rome amounting to €74,055 thousand, investments in subsidiaries amounting to €322,332 thousand, and the investment in Alitalia – Compagnia Aerea Italiana S.p.A. amounting to €13,996 thousand.

Non-financial sources, consisting of €19,852 thousand relative to non-current non-financial liabilities (mainly deferred tax liabilities) and €370,771 thousand relative to shareholders' equity, decreased compared to 31 December 2015, due to the change of the latter item.

Net financial debt at 31 December 2016 stood at €79,607 thousand, up slightly by €1,452 thousand compared to 31 December 2015, due in particular to cash flows generated from €9,041 thousand from dividends paid by the subsidiary Piaggio & C. S.p.A., which were only partially offset by cash outflows related to the distribution of €5,107 thousand as a dividend and the payment and subscription of a capital increase in favour of Alitalia – CAI for a total of €1,881 thousand.

Statement of reconciliation between shareholders' equity and net profit for the period of the Parent Company and consolidated companies

The reconciliation between shareholders’ equity and earnings for the period of the Parent Company and consolidated figures are shown below:

In thousands of euros	*Shareholders’ equity*	*Earnings for the period*
Shareholders’ equity and earnings for the period as recorded in the financial statements of the Parent Company Immsi S.p.A.	370,770	5,492
De-recognition of dividends from subsidiaries of the Parent Company	n/a	(9,041)
Pro rata earnings and shareholders’ equity of investee companies	463,503	(5,113)
Elimination of the carrying amount of investments	(601,486)	0
TOTAL	**232,787**	**(8,663)**

Research & development

The Immsi Group carries out research and development activities through the Piaggio group and the subsidiary Intermarine S.p.A.: below is a summary of the main current activities in the two respective sectors.

With reference to the **Piaggio group**, in 2016 the Piaggio group continued its policy of consolidating its technological leadership in the sector, allocating total resources of €50.1 million to research and development, of which €30.9 million is capitalised under intangible assets as development costs.
Anticipating customer requirements, creating products that are innovative in terms of their technology, style and functionality, pursuing research for a better quality of life are all fields of excellence in which the Piaggio group excels, as well as a means for measuring its leadership position on the market.
The Piaggio group develops these areas through activities at its research and development centres in Italy, India, Vietnam, the United States and China.
In particular, the main objective of the Piaggio group is to meet the most progressive needs for mobility, while reducing the environmental impact and consumption of its vehicles, guaranteeing their performance and levels of excellence. A constant focus is placed on research into vehicles that are at the forefront in terms of:

- environmental credibility, products that can reduce pollutant gas and CO_2 emissions in town and out-of-town use; this is achieved by further developing traditional engine technologies (increasingly sophisticated internal combustion engines), as well as making more use of renewable, sustainable energy sources;
- reliability and safety, vehicles that enable a growing number of users to get about town easily, helping to reduce traffic congestion and guaranteeing high standards of active, passive and preventive safety;
- recyclability, i.e. products that minimise environmental impact at the end of their useful life cycle; and
- cost-effectiveness, vehicles with lower running and maintenance costs.

In order to achieve the best results possible, during the year the Piaggio group focussed on four fundamental areas, which are summarised below:

- Improving engines
  The process to continually improve the 125 cc engine led to the development of the new iGet 125 and 150 Euro 4 air engines, which made their début on the new Liberty ABS 3V. The project, which aims to reduce overall and improve rideability, made it possible to optimise the engine injection and control system.
- Improving efficiency
  The new engines of the "iGet 4V Water" family, available in 125cc and 150cc, come equipped with electronic injection, four valve cylinder heads and radiator fitted on the propeller. They can be used with the "Start & Stop" system. This device replaces the starter and alternator and has no transmission gears that can cause noise.
  Compliant with the Euro4 standard, they are the result of a design philosophy guided primarily by new and higher levels of quality and reliability.
  Each component, from the exhaust to the inside of the gearbox cover and the new air filter has been designed to make for a smooth, quiet and comfortable ride, and to lengthen the life of the engine.
  The design aims above all to reduce friction and in particular friction in the timing system.
  The mechanical noise is also extremely low thanks to reduced play and optimised materials and shapes.
  Building the radiator into the engine has reduced the overall weight of the vehicle and engine

warm-up times, with benefits in terms of consumption and cold emissions.
The gearbox has been entirely redesigned and uses a latest-generation double toothed belt to minimise passive losses, as well as a setting that improves rideability, performance and consumption.
The new built-in engine electronic control unit, integrated with the S&S management part (Alternator, S&S Inverter, RISS), has been entirely developed by Piaggio.
In the course of 2016 this engine was also installed on the Vespa GTS 125 and in the next year it will gradually replace the Quasar engine on all models.

- Riding pleasure
  One example of the application of research to improve riding pleasure is the new power unit for the Moto Guzzi Roamer V9 and V9 Bobber, developed to increase the available torque at low rpm and engine elasticity, key ways to ensure a pleasurable ride and fun on the road. The changes have affected a large part of the traditional longitudinal V90° twin-cylinder engine, now in the Euro4 version. In addition to the crankcase and the drive shaft, the lubrication system has also been redesigned to reduce power consumption. New low flow oil pump; new piston cooling oil jets, equipped with control valve and flow management; new thermodynamics, first of all in the bore and stroke values. The timing now has inclined valves to improve volumetric efficiency. The electronic engine control unit and electronic injection system are new. The six-speed gearbox is new and highly precise with soft changes, and the clutch is single disc. The final transmission again uses a cardan shaft.
  In the course of 2016, improvements were also extended to the V7-III family, the third generation of Moto Guzzi's most popular model. In this case the maximum power is increased by 10%.
- Increase in safety and comfort
  Recent years have seen major focus on this year, which can be summed up in the following points:
  - ABS for light scooters: the new Medley, developed in 2015 and marketed in 2016, is fitted by default with disc brakes with ABS. Each wheel has a sensor and a phonic wheel to measure angular speeds. The 2-channel hydraulic control unit continuously compares the two signals and activates the ABS system, when the change of speed of one of the two wheels is abnormal, avoiding locking and ensuring stability and braking efficiency even on a low friction coefficient surfaces. The new Liberty 125 is also equipped with single-channel ABS, a completely new feature especially for Asian markets, which will get a specific version;
  - Traction control for vehicles without the ride by wire system, combined with ABS, for optimal grip during acceleration and braking; the system was extended to the entire Vespa product line > 50 cc., MP3, Beverly, X10 and to the Moto Guzzi V7 and V9;
  - the study and trial of an advanced semi-active electronic suspension system ADD (Aprilia Dynamic Damping) and its application to the mass produced Aprilia Caponord 1200;
  - extension of the Ride by wire to the majority of group vehicles, including the 500 version of MP3, which allows adoption of “by wire” Traction Control together with ABS, to maximise traction while accelerating or breaking, and offers the multi-map management of the engine to adapt the power supply to the traction or driving conditions;
  - in the course of 2016, a new dial was developed which integrates the sensors of the "By Wire" device, allowing for savings in terms of weight and cost and the ability to more easily extend this technology to the scooters. The debut model in 2016 was the Moto Guzzi MGX21. In 2017 this innovation will be extended to other models;
  - the Moto Guzzi MGX21 also featured new controls on the handlebars based on CAN technology (digital protocol), which permits a drastic reduction of wired connections on particularly complex interfaces such as that of the motorcycle in question;
  - cruise control (based on Ride by Wire) available on the Aprilia and Moto Guzzi;
  - the APRC system (Aprilia Performance Ride Control based on the ride by wire system) on the RSV4;
  - Multimap cornering ABS (RSV4 RR and RF), developed to ensure safety on the road and racing performance. The system ensures optimal braking and ABS action when cornering. The new ABS system combines with Aprilia’s RLM (Rear Liftup Mitigation), which limits the

lifting of the rear wheel when decelerating sharply. Each of the three mappings of the Cornering ABS can be combined with any of the three new engine maps (Sports, Track, Race) so that riders of various experience and ability can find their best combination. The three maps are "full power" and only differ for the delivery curve and the engine brake's percentage;

- electrically adjustable suspension, on the Piaggio X10 and Aprilia Caponord, of which the ADD package is a part (electronic suspension);
- dissemination and expansion of the Piaggio Multimedia Platform info-mobility system, based on linking the smartphone and the vehicle via Bluetooth®, iOS and Android;
- development and installation on Porter and Porter Maxxi of the electronic stability control system (ABS+ESC).

During 2016 a new dashboard was developed that was adopted by most of the Aprilia models (Shiver 900, RSV4 1000 and Tuono 1100) with TFT technology. It displays clear and easy to read information by adjusting the background and font colour to light conditions, which are automatically detected by the integrated sensor.

With reference to the naval sector, **Intermarine** is particularly focussed on research, also using loans from the Ministry of Education and Research (MIUR), Ministry of Transport, Ministry of Economic Development and of the Region of Liguria (FILSE). To develop some issues concerning research, it is partnered by universities and public research organisations. Research and development mainly concern new projects for vessels and prototypes.

The Aliscafi ad Ala Immersa project was developed with the aim of studying, designing and developing two prototypes (with two different propulsion systems) on a new type of hydrofoil with immersed wings.
The prototypes, which are highly innovative in relation to traditional hydrofoils, provide technological benefits, are competitive in terms of fuel consumption compared to similar vessels, ensure greater comfort, and the possibility to increase the number of days of use, thanks to the possibility to operate with a stronger wave wash, a 25% greater speed for more efficient engines and so, overall, lower operating costs.
In 2016, activities continued for the experimental testing of the vessel with pod propulsion. As regards the hydrofoil with propeller propulsion, completion is related to the finalisation of one of the negotiations ongoing with shipping companies interested in using the vessel. As the project concerns a prototype, an initial stage provides for hire of the vessel with a purchase option, to allow the shipping companies to evaluate performance and reliability of the innovative vessel.

The Aliswath project is a prototype of a revolutionary quick vessel, whose main characteristic is the combined use of foils and an immersed body ("torpedo"). The prototype has highly innovative characteristics, which mean better handling, consumption 50% less than a conventional vessel with the same weight and speed, a considerable reduction in wave wash and minimisation of pollution (as the engines are below water inside the "gondola").
The Aliswath is targeted for the short-medium distance quick transport segment. This type of vessel is particularly suitable for passenger transport with passenger vehicles and the transport of highly perishable and/or hazardous goods; in addition, the fairly small size (63m x 15.5m) means that particularly developed port structures are not necessary.
Because of the current downturn in the *Fast Ferries* market segment, activities to complete the unit have been deferred until concrete opportunities are identified for such an innovative type of product. The company is also assessing a possible variation to change this prototype into a "wave piercing" vessel, to meet the needs of foreign shipping companies that have expressed an interest.
Given the considerable innovation content of the project, a stage was initially planned to market the vessel to national shipping companies, to provide a prompt After Sales Service. In a second stage, it was planned to expand the target market to cover the entire Mediterranean area, with strong interest for services connecting coastal towns in southern Spain with the Balearic Islands and with Morocco.

Risk factors

The Immsi Group has developed procedures both in the Parent Company and in main subsidiaries for risk management in areas most exposed, identifiable at strategic, market, operational, financial and legal level.

Strategic risks

The Immsi Group has identified strategic risks in the system of opportunities and threats that can significantly affect the accomplishment of the Group's objectives. In particular, the Group's strategy is aimed at:

- completing and consolidating processes of restructuring and re-launching started in the different sectors of activity in which the Group operates;
- seizing new business opportunities in terms of geographic segments and market sectors;
- correctly appraising the markets potential;
- investing the financial resources in the areas with greater potential;
- choosing the most suitable methodologies for the various local realities;
- protecting its trademarks and products.

Market risks related to business sectors

The market risks the Group sometimes faces are specific to a certain sector of business while in other cases they may concern the entire business portfolio.

<u>Risks related to changed customer preferences</u> – The success of the Group's products depends on its ability to manufacture products that cater for consumer's tastes and – with particular reference to the Piaggio group – can meet their needs for mobility. With reference to the subsidiary Intermarine, however, the success of the company in the different lines of business in which it operates depends on the ability to offer innovative and high quality products that guarantee the performance demanded by customers, in terms of lower fuel consumption, higher performance, greater passenger transport capacity, greater cruising comfort, handling and safety of the vessels used, among other things, in the defence and control of territories.
If the products of the Immsi Group companies were not appreciated by customers, revenues or, further to more aggressive sales policies in terms of discount drives, margins would be lower, and this would have a negative impact on the related economic and financial situation. In order to guard against this risk, the Group invests constantly in research and development work (see the paragraph "*Research and development*"), in order to optimally meet customer needs and anticipate market trends, introducing innovative products.

<u>Risks related to a high level of market competition</u> – With particular reference to the Piaggio group, over the last few years, the competitiveness of sectors in which the group operates has increased considerably – above all in terms of prices – and also subsequent to a declining demand worldwide. Piaggio has tried to tackle this risk, which could have a negative impact on the financial position and performance of the group, by manufacturing high quality products that are innovative, cost-effective, reliable, safe and have reduced emissions as well as reinforcing their presence in the Asian continent. With reference to the naval sector, in the minesweeper segment, Intermarine has a significant technological edge over the competition, while the Fast Ferry segment, in particular, faces tough competition from competitors working in countries with lower labour costs.

<u>Risks related to the protection of trademark, licence and patent rights</u> – The Group legally protects its products and brands throughout the world. In some countries where the Group operates, laws do

not offer certain standards of protection for intellectual property rights. This circumstance could therefore render the measures adopted by the Group to protect itself from the unlawful use of these rights by third parties inadequate. Unlawful plagiarism by competitors could have a negative effect on the Group's sales.

Risks related to seasonal fluctuations in operations – The Piaggio group's business is extremely seasonal, particularly on western markets where sales of two-wheeler vehicles mainly take place in spring and summer. In addition, an extremely wet spring could lead to fewer sales of products with a negative effect on business and related financial performance. The group tackles these risks first and foremost by consolidating its presence on markets, such as India and Pacific Asia, which are not affected by an extremely seasonal nature and by adopting a flexible production structure that can deal with peak demand through partial and fixed term employment contracts. In the other sectors in which the Immsi Group operates, seasonality has a significantly lower effect.

Risks related to the regulatory reference framework – The sectors in which the Group is present are subject to a high level of regulation. With reference in particular to the Piaggio group, numerous national and international laws and regulations on safety, noise levels, consumption and the emission of pollutant gases apply to Piaggio products. Strict regulations on atmospheric emissions, waste disposal, the drainage and disposal of water and other pollutants also apply to the group's production sites. The enactment of regulations which are more stringent than those currently in force could lead to products being taken off the market and force manufacturers to make investments to renew product ranges and/or renovate/upgrade production sites. To deal with these risks, the group has always invested in research and development into innovative products that anticipate any restrictions on current regulations. Moreover, the group, as one of the sector's leading manufacturers, is often requested to be represented on parliamentary committees appointed to discuss and formulate new laws. In this framework, government measures in the form of incentives or tax reductions to boost demand must be taken into account. These measures, which are not easy to predict, may affect the financial position and performance of the group to a considerable extent.

Risks related to the macroeconomic and sector situation - All the Group's business sectors are affected moreover by the general conditions of the economy, that can occur with diversified effects in the various markets in which it operates. The global economic crisis of the last few years has led to a significant downturn in consumption, and consequently, to a decline in demand from markets where the Group operates. The persistence or worsening of the weakness of global and national markets, despite measures taken by Governments and monetary authorities, could compromise the strategy, prospects and financial position and performance of the Group.
To offset the negative effects of the decline in demand, Group companies have introduced innovative products to the market, to enable it to obtain higher market shares, and also adopted a flexible organisational structure which, through the use of fixed term employment contracts, can match production capacity to market requirements.

Country risk – The Group operates in an international arena and is therefore exposed to risks connected with a high level of internationalisation, such as exposure to local economic conditions and policies, compliance with different tax systems, customs barriers or more in general the introduction of laws or regulations which are more stringent than the current regulatory framework. All these factors may have a negative impact on the financial position and performance of the Group. As regards Great Britain's decision to leave the European Community, the Group considers the effects on global sales and profitability as negligible. In fact, turnover on the British market, for the Piaggio group in particular, accounts for around 2% of total turnover.

Risks connected with inflation – Group profitability on some markets could be negatively affected by any decrease in the purchasing power of currency and consequent increase in prices. In particular, the Group is subject to the risk arising from the organisation's failure to put in place an appropriate response plan to deal with these price fluctuations.

Operating risks

Operational risks mean all those factors inside the business organisation and outside it but correlated to operatives, that may have negative effects on the Group.
In order to meet the needs of various markets, the Group must be able to organise and coordinate integrated production, logistics and sales processes. The activity of supplying goods, correct warehouse management, manufacture of products according to the required standards and the ability to deliver the products and spare parts in appropriate times are essential for the success of the business strategies. External factors to the company, such as prolonged strikes or delays in times for obtaining licences or permits, can stop production activities and the delivery and availability of products.

Risks connected with dependence on suppliers and the global sourcing policy – In carrying out its business, the Group uses different suppliers of raw materials, semi-finished products and components. Group operations are conditioned by the ability of its suppliers to guarantee the quality *standards* and specifications requested for products, as well as relative delivery times. In the future any shortages of supplied products or breaches by suppliers concerning quality standards, specific requests and/or delivery times could increase prices of supplies, lead to interruptions and/or detrimental effects for Group operations.

Risks related to higher energy, raw material and component costs - Production costs are exposed to the risk of fluctuating of energy prices, raw material and component. If the Group was not able to offset an increase in these costs against sales prices, its financial position and economic performance would be affected.

Risks related to the operation of industrial sites – The Group operates through industrial sites located in Italy, India and in Vietnam. These sites are subject to operating risks, including for example, plant breakdowns, failure to update to applicable regulations, withdrawal of permits and licences, lack of manpower, natural disasters, sabotage, terrorist attacks or major interruptions to supplies of raw materials or components. Any interruption to production activities could have a negative impact on the operations and financial position and performance of the Group. In particular, the operating risks related to industrial sites in Italy and other countries are managed through specific insurance cover assigned to sites based on their relative importance.

IT and data and information management risks – The Group is exposed to the risk of company data and information being accessed and used without authorisation, which could have a negative impact on profitability. Therefore, the Group has established operating policies and technical security measures designed to afford adequate protection for company data and information.

Risks related to delays in the completion of orders - With particular reference to the subsidiary Intermarine operating in the marine industry, any delay in the completion of contracts in progress may lead to customers requesting penalties for late delivery where contractually agreed, with the risk of reducing the overall profitability of orders and reducing financial assets.
On the other hand, the company could pass on the effect of the impact on delivery times, for delays in deliveries and in completing services and for failing to pass tests, with the need to perform the tests again, to its subcontractors.

Corporate Social Responsibility Risks – With regard to the Piaggio group in particular, in its effort to ensure the sustainability of its products, it takes into account the entire life cycle, which comprises the design, procurement of raw materials, production proper, use of the product by customers and, finally, decommissioning, which consists in disassembly at the end of service life and in the disposal and/or recycling of the components and raw materials. This strategy exposes the Group to the risk of using suppliers or sub-suppliers that do not meet the Group's sustainability standards (risk connected to the sustainable supply chain) and to the risk of inadequate technological investments for sustainable mobility. The development of products with an inadequate technological level could mean that consumers' mobility needs and legal requirements are not met (risk connected with the development of environmentally-friendly products). This could exacerbate how stakeholders perceive the Group and its reputation, and affect stakeholder loyalty.

Risks linked to the management of talent, recruitment and retention – These are the risks connected to:

- the adoption of an adequate human resources management policy in terms of motivation, remuneration, development and growth;
- any loss of key competencies and know-how due to strategic employees no longer working for the Group;
- any inadequate management of these organisational changes.

To offset these risks, the Group has established specific policies for recruitment, career development, training, remuneration and talent management, which are adopted in all countries where the Group operates according to the same principles of merit, fairness and transparency, and focussing on aspects that are relevant for the local culture.

Other risks – In the specific case of the Parent Company Immsi S.p.A., in consideration of its nature as a holding company and the different phase of development and advancement of investments made both directly and through subsidiaries, its financial performance and profitability are strictly related to the financial performances of subsidiaries.

Financial risks

Risks connected with financial debt – At the date of the financial statements the main sources of Group financing were:

- debenture loans for a nominal amount of approximately €301.8 million issued by Piaggio & C. S.p.A.;
- bank loans for a nominal amount of approximately €751.1 million. The type, rates and maturities of these loans are discussed in the Notes.

In addition, the Group has outstanding debts for financial leases, payables to subsidiary but not fully consolidated companies and amounts due to other lenders for an overall amount of approx. €52 million.

This debt could in future negatively affect Group operations, limiting its capacity to obtain further financing or to obtain it at more favourable conditions.

Liquidity risk (access to the credit market) – This risk is connected with any difficult the Group could have in obtaining financing on an appropriate time-scale for its operations. In particular, over the next 12 months several credit lines will mature his renewal which is decisive for being able to operate. A detailed examination of these lines is provided in the Notes. The Parent Company Immsi S.p.A. where necessary assists its subsidiaries with credit lines, in order to guarantee support for implementing development plans. As far as the Piaggio group is concerned, the cash flows, financing requirements and liquidity of group companies are monitored or managed centrally by the group's Finance Management, with the aim of guaranteeing an effective and efficient management of financial resources. To provide further hedging for the liquidity risk, the group's Central Treasury Department has committed credit lines, as described in the Notes to the Financial Statements.

Exchange rate risks – The Group, primarily through the companies of Piaggio group and Intermarine, undertakes operations in currencies other than the euros and this exposes it to the risk of fluctuating exchange rates of different currencies. Exposure to business risk consists of envisaged payables and receivables in foreign currency, taken from the budget for sales and purchases reclassified by currency and accrued on a monthly basis. With reference to the Piaggio group, the policy is to hedge at least 66% of the exposure of each reference month. Exposure to the settlement risk consists of receivables and payables in foreign currency acquired in the accounting system at any moment. The hedge must at all times be equal to 100% of the import, export or net settlement exposure for each currency. In 2016, the exchange risk was managed in line with the current policy, which aims to neutralise the possible negative effects of exchange rate changes on company cash-flow, by hedging the business risk, which concerns changes in company profitability in relation to the annual business budget on the basis of a key change (the so-called "budget change") and of the settlement risk, which concerns the differences between the exchange rate recorded in the financial statements for receivables or payables in foreign currency and that recorded in the related receipt or payment.

Interest rate risks – The Group has assets and liabilities which are sensitive to changes in interest rates and are necessary to manage liquidity and financial requirements. These assets and liabilities are subject to an interest rate risk and are hedged by derivatives or, where necessary, by specific fixed-rate loan agreements.

Credit risk – The Group is exposed to the risk of late payments of receivables. To balance this risk, Piaggio & C. S.p.A. has stipulated agreements with primary factoring companies in Italy and other countries for the sale of trade receivables without recourse, while in the naval sector it is customary to request advance payments on work in progress.

Legal risks

Risks connected with product liability and with any product defects – These risks are related to any inadequate maintenance of the level of technological innovation of the product and failure to comply with legal regulations and standards on product quality and safety in relation to market requests, with consequent liability that could expose the Group to claims for compensation that exceed insurance cover, repair operations under warranty and recall campaigns. To mitigate these risks, the Group adopts an efficient quality control system for supplied components and finished products.

Risks connected with legal and tax litigation – As regards legal litigation, see the paragraph on "*Disputes in progress*".

Risks connected with trade union relations – The employees of Group companies are protected by laws and collective labour contracts that guarantee them - through local and national representation - the right to be consulted on specific matters, including programmes related to the use of staff in accordance with ongoing orders. In particular, in Europe, the Piaggio group operates in an industrial context with a strong trade union presence, and is potentially exposed to the risk of strikes and interruptions to production activities. In the recent past, the group was not affected by any major interruptions to production because of strikes.
To avoid the risk of interruptions to production activities, as far as possible, Immsi Group companies have always engaged with trade union organisations.

Risks related to financial disclosure – The Group is exposed to the risk of possible inadequacies in its procedures that are intended to ensure compliance with Italian and relevant foreign regulations applicable to financial disclosure. To deal with this risk, its financial statements are *audited* by Independent Auditors. The control activities required by Law no. 262/2005 are also carried out at the most important foreign subsidiaries Piaggio Vehicles Private Ltd, Piaggio Vietnam Co Ltd, Piaggio Hellas S.A. and Piaggio group Americas Inc..

Human resources

At 31 December 2016, Immsi Group employed 7,054 staff members, of which 71 in the property and holding sector, 6,706 in the industrial sector (Piaggio group) and 277 in the naval sector (Intermarine S.p.A.).
The following tables divide resources by category and geographic segment:

Human resources by category

numbers	31/12/2016			
	Property and holding sector	Industrial sector	Marine sector	Group total
Senior management	5	97	8	110
Middle managers and white collars	36	2,330	148	2,514
Manual workers	30	4,279	121	4,430
TOTAL	**71**	**6,706**	**277**	**7,054**

numbers	31/12/2015			
	Property and holding sector	Industrial sector	Marine sector	Group total
Senior management	7	104	8	119
Middle managers and white collars	37	2,506	156	2,699
Manual workers	30	4,443	133	4,606
TOTAL	**74**	**7,053**	**297**	**7,424**

numbers	Changes			
	Property and holding sector	Industrial sector	Marine sector	Group total
Senior management	-2	-7	0	-9
Middle managers and white collars	-1	-176	-8	-185
Manual workers	0	-164	-12	-176
TOTAL	**-3**	**-347**	**-20**	**-370**

Human resources by geographic segment

numbers	31/12/2016			
	Property and holding sector	Industrial sector	Marine sector	Group total
Italy	71	3,518	277	3,866
Rest of Europe	0	174	0	174
Rest of the World	0	3,014	0	3,014
TOTAL	**71**	**6,706**	**277**	**7,054**

numbers	31/12/2015			
	Property and holding sector	Industrial sector	Marine sector	Group total
Italy	74	3,638	297	4,009
Rest of Europe	0	187	0	187
Rest of the World	0	3,228	0	3,228
TOTAL	**74**	**7,053**	**297**	**7,424**

numbers	Changes			
	Property and holding sector	Industrial sector	Marine sector	Group total
Italy	-3	-120	-20	-143
Rest of Europe	0	-13	0	-13
Rest of the World	0	-214	0	-214
TOTAL	**-3**	**-347**	**-20**	**-370**

The decrease in personnel (-370 units compared to 2015) is almost entirely attributable to the Piaggio group (-347 units) which continued the streamlining and organisational cutbacks in 2016.
At 31 December 2016 Group staff also included seasonal staff (with fixed-term contracts), mainly relating to the industrial sector.

Group and Related-Party Transactions

As regards information concerning related-party transactions in accordance with *IAS 24 - Related Parties Disclosures*, undertaken by Group companies, such transactions took place as part of normal operations in market conditions or as established by specific laws. No atypical or unusual transactions were carried out during the period to 31 December 2015. It should be noted that, in compliance with Regulation No. 17221 on related party transactions, issued by Consob on 12 March 2010 and subsequently amended, the Company has adopted a procedure aimed at regulating the approval of related party transactions, available from the issuer's website at www.immsi.it, in the section Governance-Procedures.

The main economic and financial effects of Related-Party transactions and their impact on financial statement items, resulting from consolidated data of the Immsi Group at 31 December 2016 are shown below: the financial effects arising from consolidated intergroup operations were eliminated during consolidation.

Main economic and financial items	Amounts in thousands of euros 2016	% accounting for financial statement items	Description of the nature of transactions	Amounts in thousands of euros 2015
Transactions with Related Parties:				
Current trade payables	*187*	*0.0%*	*Tax advisory services provided by St. Girelli & Ass. to the Group*	*106*
Costs for services, leases and rentals	*224*	*0.1%*	*Tax advisory services provided by St. Girelli & Ass. to the Group*	*205*
Transactions with Parent companies:				
Non-current financial liabilities	*2,900*	*0.5%*	*Piaggio debenture loan (PO) undersigned by Omniaholding S.p.A.*	*2,900*
Current trade payables	*248*	*0.0%*	*Rental of offices provided by Omniaholding S.p.A. to the Group*	*47*
Costs for services, leases and rentals	*532*	*0.2%*	*Rental of offices provided by Omniaholding S.p.A. to the Group*	*510*
Borrowing costs	*134*	*0.2%*	*Charges related to the Piaggio debenture loan undersigned by Omniaholding S.p.A.*	*134*
Transactions with Subsidiaries, Affiliated Companies, Joint Ventures:				
Trade receivables and other non-current	*133*	*0.9%*	*Receivables from Fondazione Piaggio*	*153*
Current trade receivables and other receivables	*3,176* *4,306*	*2.4%* *3.2%*	*Receivables from Consorzio CTMI and Rodriquez do Brasil* *Trade receivables from Piaggio Foshan*	*3,297* *2,009*
Trade payables and other non-current payables	*162*	*2.4%*	*Payables to Piaggio Foshan*	*0*
Current financial liabilities	*12*	*0.0%*	*Financial payables to Rodriquez Pietra Ligure S.r.l.*	*13*
Current trade payables	*9,777* *86*	*2.1%* *0.0%*	*Trade payables by Piaggio & C. S.p.A. to Piaggio Foshan* *Payables to Consorzio CTMI*	*9,311* *70*
Other current payables	*215*	*0.4%*	*Payables to Fondazione Piaggio and Piaggio Foshan*	*1,634*
Net revenues	*855*	*0.1%*	*Sales to Piaggio Foshan*	*794*
Costs for materials	*23,289*	*3.0%*	*Purchases of Piaggio & C. S.p.A. from Piaggio*	*25,616*
Costs for services, leases and rentals	*165* *34*	*0.1%* *0.0%*	*Costs for services from Consorzio CTMI, Rodriquez Engineering S.r.l. and Rodriquez Pietra Ligure S.r.l.* *Costs for services from Fondazione Piaggio*	*36* *30*
Other operating income	*3,042*	*2.8%*	*Income from Piaggio Foshan*	*648*

Intesa Sanpaolo group, a minority shareholder of RCN Finanziaria S.p.A., ISM Investimenti S.p.A. and Pietra S.r.l., has shareholder loan agreements in investees and loan and guarantee operations with Intermarine S.p.A..

Stock options

At the end of 2016, no stock option plans were adopted by the Immsi Group.

Investments held by members of company management and supervisory boards, by general managers and key senior managers

Regarding the disclosure requirements provided by the Issuers' Regulation no. 11971/99, relating to equity investments held in the Parent company and in its subsidiaries, by the members of the management and supervisory boards, by the general managers, as well as spouses not legally separated and children who are minors, directly or through subsidiaries, trustees or third parties, as evidenced in the shareholder list or from information received and other information acquired by those members of the management and supervisory boards and by the general managers, reference is made to the Report on Remuneration foreseen in Article 84-*quater* of the aforementioned Issuers' Regulations which will be made available, under the terms of the law, also on the Issuer's website www.immsi.it under the section "*Governance/General Meeting/Archive/2017*".

Other information

Treasury shares

At 31 December 2016, Immsi S.p.A. held no treasury shares. The share capital of Immsi S.p.A. is unchanged at €178,464,000.00, represented by 340,530,000 ordinary shares with no nominal value.

It is also noted that by resolution passed on 29 April 2016, the Ordinary Shareholders' Meeting authorised the purchase and disposal of ordinary shares of the Company, in accordance with the combined provisions of Articles 2357 and 2357-*ter* of the Italian Civil Code, and Article 132 of the Consolidated Law on Finance and related implementing provisions, subject to revocation of the resolution authorising the purchase and disposal of treasury shares adopted on 13 May 2015. Purchase authorisation was granted for the 18 month period as of the date of the above resolution, whereas authorisation for placing was granted with no time limits. For more details see section 2, subparagraph i), of the Report on Corporate Governance and Ownership at 31 December 2016.

With reference to the subsidiary Piaggio & C. S.p.A., during the year the company purchased 3,038,736 treasury shares. Therefore, as of 31 December 2016, Piaggio & C. S.p.A. held 3,054,736 treasury shares, equal to 0.8457% of the share capital.

Disclosure of payments

In relation to the disclosure obligations required by article 149-*duodecies* of the Consob Regulation on Issuers no.11971/99, regarding the disclosure of payments for the year, made to the Parent Company Immsi S.p.A. and its subsidiaries for services provided:

a) by the independent auditors, for the provision of auditing services;
b) by the independent auditors, for the provision of services other than auditing, divided into services of verification finalised at issuing certification and other services, distinguished by type;
c) by the bodies belonging to the network of the independent auditors, for the provision of services, divided by type;

the table below provides a breakdown of the payments (as well as charges and additional expenses):

Disclosure of payments referred to the 2016				
Type of service	**Company providing the service**	**Recipient**	**Notes**	**Payments in Euros**
Auditing services				
	PwC S.p.A.	Parent Company - Immsi S.p.A.		43,830
	PwC S.p.A.	Subsidiaries		670,179
	PwC network	Subsidiaries		375,692
Certification services				
	PwC S.p.A.	Subsidiaries		27,000
	PwC network	Subsidiaries		60,402
Other services				
	PwC S.p.A.	Subsidiaries	1)	254,000
	PwC network	Subsidiaries		45,200
Total				**1,476,303**

1) Activities mainly related to re-engineering and computerisation in Piaggio & C. S.p.A.

The payments of subsidiaries operating in currencies other than the euros and agreed in local currency have been translated at the average exchange rate for 2016.
During 2012, the Ordinary Shareholders' Meetings of companies belonging to the Immsi Group appointed PricewaterhouseCoopers S.p.A. as independent auditors for the period 2012-2020.

Corporate ownership

Information on corporate ownership is given in section 2 of the Report on Corporate Governance and Ownership at 31 December 2016, which is referred to.

Management and coordination

The Company gives reasons why management and coordination activities were not performed by the parent company, in section 2, letter l), of the Report on Corporate Governance and Ownership at 31 December 2016, which is referred to.

Processing of personal data - Italian Legislative Decree no. 196 of 30 June 2003

As regards the “Personal data protection code” (*Testo Unico sulla Privacy*), and Legislative Decree no. 196 of 30 June 2003 – Annex B “Technical specifications”, Immsi S.p.A. as data controller adopted the security measures of the decree and also updated its Security Planning Document. The purpose of the Security Policy Document is to:

1. define and describe the security policies adopted regarding treatment of the personal data of employees, collaborators, customers and suppliers;
2. define and describe the organisational criteria followed by the Company when implementing such policies;
3. provide suitable information on the subject to third parties as well;
4. provide formal evidence of the corporate changes made.

Disputes in progress

There are no ongoing disputes of any significance involving the Parent Company **Immsi S.p.A.**

With regard to the **property sector** (Is Molas S.p.A.), it is noted that with regard to the dispute relating to the "Le Ginestre" property, on 2 January 2012, the Court of Mantova accepted the request from the promissory buyers to obtain the repayment of double the confirmation deposit paid in 2007 when the preliminary contract for the property was signed. An appeal has been lodged against that ruling on 19 May 2016, the Brescia Court of Appeal upheld the validity of the expert opinion of the first instance, rejecting the appeal of Is Molas. However, given that there are valid grounds that could have a real possibility of been accepted, the company is preparing an appeal for the Supreme Court. Given that the ruling has not yet been notified, the term for appeal expires on 19 June 2017.

As regards the case with Sarroch Granulati S.r.l., after the latter with a summons dated 20 March 2014 filed an appeal against the first instance ruling handed down by the Court of Bergamo, Sarroch's solicitor in the hearing of 8 July 2014, informed the Court that the company had been declared insolvent and the Court stopped proceedings. The case was resumed and in the hearing of 10 June 2015, the Judge left the case open. In a ruling of 16 July 2015, the Court quashed the appeal to stop the enforcement of the first instance ruling, setting the hearing for closing arguments for 9 March 2016. In that hearing, the parties presented their respective conclusions and the Court assigned the terms for the filing of the conclusion and reply appearances. By order of 13 June 2016, the Court – having found that the appellant had not filed proof of notification of resumption of the bankruptcy proceedings – ordered Sarroch Granulati S.r.l. to do so and postponed the hearing to 23 November 2016. During that hearing, the document was filed with which the Judge confirmed that the non-resumption was not due to the lack of interest by the receiver, but to a negative assessment regarding the resumption, which demonstrates the inadmissibility of the opposition appeal. The Court has set the hearing for 21 February 2018 for presentation of the pleadings.

As regards the dispute with Italiana Costruzioni S.p.A. (a contractor with whom contracts were signed in 2013 for the development of the first 15 holiday villas and first section of primary services and to whom, due to works being put on hold, Is Molas S.p.A. had notified termination of the contract due to breach of the contractor):

- regarding the enforcement order served by Is Molas on the counterparty on 18 June 2015 concerning the costs incurred for the clearing of the site, the counterparty filed an appeal requesting suspension of the enforcement. On 8 January 2016 the judge rejected the request for suspension of the enforcement and on 8 March 2016 the counterparty made the payment of the entire sum. In the continuation of the dispute, the Judge, in the hearing of 26 October 2016, rejected the preliminary motions, suggesting that the parties seek a settlement and setting the hearing for the presentation of the pleadings at 15 June 2017.
- On 20 May 2015 Is Molas filed its summons for compensation for contract damages arising from the other party defaulting on the obligations of contracts signed. During the hearing to discuss the case of 30 November 2016, in view of the new documentary evidence, the Judge adjourned the examination of the same artist of the hearing of 4 May 2017.
- By order of 21 May 2014, the Administrative Appeals Court rejected the suspension requested made by Italiana Costruzioni against the measure issued by the Municipality of Pula. The Administrative Appeals Court, in its ruling of 9 June 2016, also dismissed the application brought by Italiana Costruzioni, ordering the applicant to pay costs in favour of the accused parties. In February 2017, Italiana Costruzioni submitted an appeal against that ruling to the Council of State. The cross-appeal is currently being prepared which is expected to take place by March 2017.

With reference to the **property sector** (Apuliae S.p.A), the Province of Lecce has sought to amend the request for settlement with the State Property Agency, as Article 56-bis of Italian Law Decree no.

69 of 21 June 2013, the so-called "Decreto del Fare" introduced simplified procedures for the free transfer of property to local authorities (so-called "State Property Federalism"). From 1 September 2013 up until 30 November 2013, Municipalities, Provinces, Metropolitan Cities and Regions could apply for the free acquisition of real estate properties of the State. The Province of Lecce adopted this simplified procedure to obtain the property of the former Scarciglia holiday complex it stated the need for acknowledgement that no reciprocal debit/credit situations existed and for the pending ruling to be cancelled. Negotiations for an amicable settlement between the parties are in the advanced stage.
The dispute is also still ongoing brought by Apuliae S.p.A. against the Province of Lecce for the prejudicial consequences incurred, requesting the latter to repay the company the costs incurred for the works and investments carried out. In the hearing of 23 March 2016, set for the destruction, the Judge ordered the adjournment at 28 June 2017.

As regards the **industrial sector** (Piaggio group): Piaggio filed an appearance in the proceedings brought by Altroconsumo opposing: the alleged existence of a design defect and hazardous nature of the Gilera Runner first series, which was manufactured and sold by Piaggio from 1997 to 2005. In the case put forward by Altroconsumo, the erroneous design would make the vehicle in question more hazardous in the event of an accident with frontal impact. The trial judge rejected the claim, ordering Altroconsumo to pay Piaggio's legal fees. Following the appeal made by Altroconsumo, a technical appraisal was ordered to ascertain the existence of the design defect claimed by Altroconsumo. On 29 January 2013, the Board informed the parties that Altroconsumo's appeal had been upheld, ruling Piaggio to (i) inform owners of the hazardous nature of the product, (ii) publish the ruling of the Board in some newspapers and specialised magazines (iii) recall the product. The effects of the ruling were subsequently suspended by the Court of Pontedera with a ruling of 28 March 2013, concerning the appeal made by Piaggio, in accordance with Article 700 of the Italian Code of Civil Proceedings. Following the cross examination with Altroconsumo, the suspension ruling was confirmed by the Court of Pontedera on 3 June 2013. Altroconsumo appealed against the suspension ruling before the Board at the Court of Pisa. The Board therefore order a new expert witness report. The results of the expert witness report were discussed at the hearing of 19 January 2015, at the end of which the Court of Pisa upheld the judgement issued on 29 January 2013. Piaggio has therefore executed the measure, by publishing the notice on the daily newspapers and preparing a recall campaign on the vehicles still in circulation, pending the outcome of the proceedings on the merits.
Piaggio has also taken action before the Court of Pontedera for a final dismissal of the ruling of the Court of Pisa of 29 January 2013. In upholding Piaggio's motion, the Judge ordered a new expert opinion on the product which is still currently being produced. The discussion hearing was postponed to 6 April 2017.

Canadian Scooter Corp (CSC), the sole distributor of Piaggio for Canada, summoned Piaggio & C. S.p.A., Piaggio group Americas Inc. and Nacional Motor S.A to appear before the Court of Toronto (Canada) in August 2009 to obtain compensation for damages sustained due to the alleged infringement of regulations established by Canadian law on franchising (the Arthur Wishart Act). Proceedings have been stopped while a settlement of the dispute is being defined.

In 2010, Piaggio took action to establish an arbitration board through the Arbitration Chamber of Milan, for a ruling against some companies of the Case New Holland group (Italy, Holland and the US), to recover damages under contractual and non-contractual liability relating to the execution of a supply and development contract of a new family of utility vehicles (NUV). In the award notified to the parties on 3 August 2012, the Board rejected the claims made by the Company. The company filed an objection with the Milan Court of Appeal dismissed the appeal by Piaggio, by ruling of 8 June 2016. The Company has lodged an appeal with the Supreme Court.

Da Lio S.p.A., by means of a writ received on 15 April 2009, summoned Piaggio & C. S.p.A. to appear before the Court of Pisa to claim compensation for the alleged damages sustained for various reasons as a result of the termination of supply relationships. The Company appeared in court requesting the rejection of all opposing requests. Da Lio requested a joinder with the opposition concerning the injunction obtained by Piaggio to return the moulds retained by the supplier at the end of the supply agreement. Judgements were considered and a ruling was issued on 7 June 2011, ordering Piaggio to pay €109.6 thousand, in addition to interest relative to sums which were not disputed. After reaching a decision at the end of testimonial evidence, the judge admitted a technical/accounting court-appointed expert requested by Da Lio to quantify the amount of interest claimed and the value of the inventory stock. The technical appraisal was completed at the end of 2014. The case was adjourned to 23 September 2016 for specification of the pleadings and was then ruled on.

In June 2011 Elma srl, a Piaggio dealer since 1995, started two separate proceedings against the company, claiming the payment of approximately €2 million for alleged breach of the sole agency ensured by Piaggio for the Rome area and an additional €5 million as damages for alleged breach and abuse of economic dependence by the Company. Piaggio opposed the proceedings, disputing the claims and requesting a ruling for it to pay the outstanding sums owing of approximately €966 thousand.
During the case, Piaggio requested the payment of bank guarantees that ensured against the risk of default by the dealer issued in its favour. Elma attempted to stop payment of the guarantees with preventive proceedings at the Court of Pisa; the proceedings ended in favour of Piaggio that collected the amounts of the guarantees (over €400 thousand). Trial proceedings took place and a hearing was held on 24 April 2013 to examine evidence and then on 17 December 2015 for the presentation of the closing arguments, which was subsequently postponed to 3 March 2016 and never held due to the transfer of the Judge. At present, the case is pending, with a new Judge to be assigned.
As regards the matter, Elma has also brought a case against a former senior manager of the Company with the Court of Rome, claiming compensation for damages. Piaggio appeared in the proceedings, requesting, among others, that the case be moved to the Court of Pisa.
The hearing to present the conclusions was not held because the Judge, on request by Elma, reopened the preliminary phase and set the hearing for 25 May 2016. On this date, examination of the witnesses began and the hearing was adjourned to 24 October 2016 to continue the preliminary investigation. After the hearing, the Judge ruled on the application for the expert witness's report.

In a writ received on 29 May 2007, Gammamoto S.r.l. in liquidation, an Aprilia licensee in Rome, brought a case against the Parent Company before the Court of Rome for contractual and non-contractual liability. The Company fully opposed the injunction disputing the validity of Gammamoto’s claims and objecting to the lack of jurisdiction of the Judge in charge. The Judge, accepting the petition formulated by the Company, declared its lack of jurisdiction with regards to the dispute. Gammamoto has continued proceedings through the Court of Venice. The Judge admitted the testimonial evidence requested by the parties, setting the hearing of 12 November 2012 for the beginning of the investigation phase. After defining the closing arguments of the hearing of 26 June 2013, the terms for final statements and relative replies were granted, and the case was ruled on. The Court of Venice issued a ruling in favour of Piaggio, filed on 17 February 2014. Gammamoto appealed and at the first hearing on 23 October 2014 the Court decide to rule without proceeding with the preliminary investigation requested by the other party. The hearing for closing arguments has been set for 1 April 2019.

The company Taizhou Zhongneng summoned Piaggio before the Court of Turin, requesting the annulment of the Italian part of the 3D mark registered in Italy protecting the form of the Vespa, as well as a ruling dismissing the offence of the counterfeiting of the 3D mark in relation to scooter models seized by the Guardia di Finanza at the 2013 EICMA trade show, based on the petition filed by Piaggio, in addition to compensation for damages. At the first hearing for the parties to appear, set for 5 February 2015, the judge lifted reservations, arranging for a technical appraisal to establish the validity of the Vespa 3D mark and the infringement or otherwise of Znen scooter models. During the hearing of 3 February 2016, to discuss the expert witness report, the Judge, considering the preliminary investigation completed, set the hearing for closing arguments for 26 October 2016. At that hearing, the Judge set the date of 14 January 2017 as the final deadline for the filing of the conclusion and reply briefs. The parties are waiting for the Judge to set the date for the final discussion hearing.

In a writ of 27 October 2014 Piaggio summoned the companies Peugeot Motocycles Italia S.p.A., Motorkit S.a.s. e C., Gi.Pi. Motor and GMR Motor S.r.l. before the Court of Milan to obtain the recall of Peugeot “Metropolis” motorcycles from the market, to establish the infringement of some European patents and designs owned by Piaggio, as well as a ruling for the compensation of damages for unfair competition, and the publication of the ruling in some newspapers.
At the first hearing the judge set the deadline for filing briefs and ordered the appointment expert witness report. The filing of the final expert witness report is set for 31 March 2017.
Piaggio brought a similar action against Peugeot Motocycles SAS before the Tribunal de Grande Instance in Paris. As a result of this action by Piaggio (“Saisie Contrefaçon”) several documents were acquired and several tests were carried out to demonstrate the infringement of the MP3 motorcycle by the Peugeot “Metropolis” motorcycle. The hearing took place on 8 October 2015 for the appointment of the expert witness, who will examine the findings of the Saisie Contrefaçon. On 3 February 2016 the hearing took place to discuss the preliminary briefs exchanged between the parties. The hearing for the assessment of the results of the investigation phase was adjourned to 9 February 2017, pending the results of the proceedings before the EPO, which concluded on 22 November 2016 in favour of Piaggio.

In a writ of 4 November 2014 Piaggio summoned the companies YAMAHA MOTOR ITALIA s.p.a., TERZIMOTOR di Terzani Giancarlo e Alberto s.n.c., NEGRIMOTORS s.r.l. and TWINSBIKE s.r.l. before the Court of Milan to obtain the recall of Yamaha "Tricity" motorcycles from the market, and to establish the infringement of some European patents and designs owned by Piaggio, as well as a ruling for the compensation of damages for unfair competition, and the publication of the ruling in some newspapers.
In July 2015 Yamaha Hatsudoki Kabushiki Kaisha (Yamaha Motor Co Ltd) brought three separate proceedings before the Court of Rome, the Tribunal de Grande Istance de Paris and the Court of Düsseldorf, against Piaggio & C. SpA, Aprilia Racing S.p.A, Piaggio France and Piaggio Deutschland GmbH, to obtain (i) the recall of MP3 and Gilera Fuoco motorcycles, (ii) a ruling for the compensation of damages, and (iii) the publication of the ruling in several newspapers, after establishing the infringement of several European patents owned by Yamaha concerning an air intake for the cooling of a CVT transmission system, and a boomerang external cover with and essentially static function and placed under the seat of the vehicle, in addition to acts of unfair competition.
In July 2015 Yamaha Hatsudoki Kabushiki Kaisha (Yamaha Motor Co Ltd) brought three separate proceedings before the Court of Rome, the Tribunal de Grande Istance de Paris and the Court of Düsseldorf, against Piaggio & C. SpA, Aprilia Racing S.p.A, Piaggio France and Piaggio Deutschland GmbH, to obtain (i) the recall of Aprilia RSV4 motorcycles, (ii) a ruling for the compensation of damages, (iii) and the publication of the ruling in some newspapers, after establishing the infringement of some European patents owned by Yamaha concerning an injection system for high performance with variable intake pipes, as well as for unfair competition.
All the above proceedings involving various companies that are part of the Piaggio group and Yamaha Motor Corporation respectively, were closed with a settlement agreement between the parties.

The amounts allocated by the Company for the potential risks deriving from the current disputes appear to be consistent with the predictable outcome of the disputes.

As regards tax claim rulings involving the Parent Company Piaggio & C. S.p.A., two appeals are ongoing against two tax assessments notified to the Company and relative to the 2002 and 2003 tax years respectively. These assessments originate from an access conducted by the Italian Revenue Agency in 2007 at Piaggio's offices, following information filed in the Report of Verification issued in 2002 following a general verification.
Piaggio has obtained a favourable ruling concerning these verification notice, in both the first and second instance, and with reference to both tax periods. The Revenue Agency filed an appeal with the Court of Cassation and the Company filed its own appeal. The dates for the hearings still have to be set.
The Company has also lodged three appeals after a draft assessment at the Income Tax Appellate Tribunal against the assessments orders received following the audits on the income generated by Piaggio & C. S.p.A. in India during the Indian tax periods of 2009-2010, 2010-2011 and 2011-2012, respectively, concerning figures of approximately €1.2 million, €1 million and €1.1 million. In accordance with the local regulations, the company has already paid the Indian Tax Authorities part of the amounts subject of dispute in relation to the first two years for a total of €0.6 million; these amounts will be repaid to the company if the disputes are concluded in its favour. As regards disputes relative to the 2009-2010 and 2010-2011 tax periods, the ruling from the court of the first instance is pending, while the date for the hearing relative to the 2011-2012 tax period dispute still has to be set.
The Company has not considered allocating provisions for these disputes, in view of the positive opinions expressed by consultants appointed as counsel.
The main tax disputes of other group companies concern Piaggio Vehicles PVT Ltd, Piaggio France S.A. and Piaggio Hellas S.A..

With reference to the Indian subsidiary, some disputes concerning different tax years from 1998 to 2015 are ongoing related to direct and indirect tax assessments and for a part of which, considering positive opinions expressed by consultants appointed as counsel, provisions have not been made in the financial statements. The Indian company has already partly paid the amounts contested, as required by local laws, that will be paid back when proceedings are successfully concluded in its favour.

As regards the French company, a favourable ruling was issued in December 2012 by the *Commission Nationale des Impots directes et des taxes sur le chiffre d'affaires*, the decision-making body ruling prior to legal proceedings in disputes with the French tax authorities concerning a general audit of the 2006 and 2007 periods. However, the French Tax authorities decided to uphold the complaints made against the company, requesting repayment of the amounts identified and issuing the related demands (one for withholding tax, and the other relating to corporate income tax and VAT). The amount concerned, equal to approximately €3.7 million, was paid in full to the French tax authorities.
The Company appealed against the notices and appeals were filed against the findings on withholding tax and corporate income tax, before the *Tribunal Administratif*. In both cases, a ruling was issued against the company. An appeal has been lodged against those decisions, respectively on 7 September 2015 and 8 July 2016 with *Cour Administrative d'Appel de Versailles*; the dates for the hearings still have to be set.
The Company has not considered allocating provisions, considering that amounts paid may be recovered, in view of the positive opinions expressed by consultants appointed as counsel, as well as the opinion of the above Commission.

On 8 April 2015, the Greek company Piaggio Hellas S.A. received a Tax Report following a general audit for the 2008 tax period, with findings for approximately €0.5 million. On 12 June 2015, the Company appealed against the report with the Tax Center – Dispute Resolution Department. Following the unfavourable outcome of this appeal, the Company, on 9 December 2015, filed an appeal with the Administrative Court of Appeal. Following the hearing held on 5 December 2016, the company is awaiting the decision. The amount in question was paid in full to the Greek tax authorities. However, based on positive opinions from professionals appointed as counsel, the Company considers a positive outcome as likely and the subsequent reimbursement of amounts paid.

As regards the **naval sector** (Intermarine), there are the following disputes of a legal and fiscal character.

With regard to the ships of the Finland contract, in 2016 the legal dispute continued with the original contractor for the air conditioning system and the work is underway for the expert witness report requested by the Judge, which will be completed with the filing of the final report, both from a technical perspective and in terms of the verification of the costs incurred by Intermarine to renovate the systems.
The expert witness' report is due to be produced by 9 April 2017, whereas the hearing for the continuation of the proceedings, in which Intermarine has requested the recognition of the direct costs incurred and the indirect damages suffered, has been set for 28 September 2017.

The Court of Rome had ordered RCN/Intermarine to pay Yachitaly a total of €693 thousand, in addition to the payment of the legal and expert witness costs. In February 2012, RCN (now Intermarine) had lodged an appeal against the ruling and requested the suspension of the provisional enforcement. Despite the appeal, the company followed the ruling by making the payment in January 2013, with "the right of repetition", of the entire amount of €761 thousand. The appeal hearing was adjourned on several occasions and has now been set for 15 November 2017.

With reference to the legal dispute with the Municipality of Messina, for which on 28 January 2013 a favourable ruling was issued rejecting all claims of the Municipality and recognising the ownership of the areas owned by the State and the right of the Port Authority to operate them, Intermarine was served notice of the appeal lodged by the Autonomous Port Authority of Messina, which requested the suspension of the effects of the sentence. The appeals proceedings were interrupted in 2016 and resumed by the Municipality in January 2017. The hearing has been set for 21 September 2017. According to the lawyers advising the company, given that in his ruling the charge had fully argued his decision, it seems unlikely that the first instance ruling will be changed by the Appeal Court.

With reference to the summons by the Court of Naples of the company Scoppa Charter S.r.l. (formerly Immobilservice Rad S.p.A. purchaser, through Unicredit Leasing, of the vessel Conam 75 WB Alvadis II delivered on 2010 for a sum of €2 million), through which the Shipping Company had appealed against the alleged nonconformity of the asset to sales specifications and the owner manual and the unsafe nature of the unit, requesting compensation for alleged damage amounting to approximately €5 million. For this dispute, the Court of Naples issued the first instance ruling, at the end of September 2016, with a primarily favourable outcome for Intermarine with respect to the opposing party's request, but ordering the company to pay the amount of €0.6 million, based on an equitable determination.
In January 2017, the company filed an appeal and motion for suspension of the enforcement of the ruling and in February 2017 it reached an agreement with the opposing party for the settlement of the dispute and the reciprocal waiver of any further claims. The provision of the disputes was aligned to the value of the settlement.

With regard to the legal dispute relating to the Pietra Ligure contract, concerning the injunction presented by the opposing party for the enforcement of the surety of €2.7 million, the Judge rejected the provisional enforcement, upholding the arguments made by the company and adjourning the hearing for the investigation measures. Following the filing of the briefs by the parties, the Judge took the documentary case under examination and set the hearing for the presentation of the conclusions at 4 July 2018.

With regard to the writ of summons served by the company on Como S.r.l. for the request for damage compensation, the parties submitted their briefs within the deadline of 5 October 2016, the replies by 21 October 2016 and the hearing was set for 3 April 2017.

Other disputes are ongoing with suppliers and customers and labour disputes, which, in the opinion of the company's lawyers, should not result in significant liabilities and expenses in excess of provisions for risks already allocated in the financial statements..

With regard to the tax dispute, in May 2013 the Guardia di Finanza of La Spezia had initiated a tax audit for the purposes of direct tax and VAT for the tax periods 2011 and 2012 (subsequently also extended to 2010) on the incorporated company “Rodriquez Cantieri Navali S.p.A.” which concluded with the preparation of the related Report of Verification on 25 July 2013. For the purposes of direct tax, the Inspectors had mainly identified (alleged) violations of the principle of tax competence; as regards VAT, only one finding was made, which was negligible in quantitative terms. As declared in the Report of Verification, the Company considers the principles contained therein to be legally unfounded and was confident, based on the opinion of the consultants advising it during the audit, that it could “*neutralise*” the majority of the findings claimed through appropriate actions (verification with acceptance, motion for adjustment of tax losses, changes in the tax returns). In any event, this verification did not result in any amount to be paid as income tax. In January 2014, the Revenue Agency of Messina (with geographical jurisdiction) served the company the Verification Notice for the year 2010. This measure was settled through the verification with acceptance procedure which ended in May 2014 without the payment of any amount as tax, fines (not even formal) and/or interest. In 2015, the Revenue Agency of La Spezia served the company the Verification Notice for the year 2011 (without, however, including the finding relating to VAT which was therefore definitively abandoned by the Office). In 2016, the Notice was settled through the verification with acceptance procedure which ended without the payment of any amount as tax, fines (not even formal) and/or interest.

In July 2013 the Customs Agency of Messina had served the company a Payment Notice for approximately €51 thousand and Sanctions of €9 thousand as regards assessments made from October 2012 to February 2013. In particular, the Customs Agency of Messina had claimed the failure to pay excise relative to some diesel fuel fuelling operations used in 2009 and 2010 for tests at sea of some vessels being built. In reality, this infringement, which is administrative, basically depends on a failure to perform correctly of the supplier and the tax deposit of contractual agreements reached concerning the status and payment of excise. In this regard, the supplier recognised the error made and consequently formally indemnified the company against any cost arising therefrom. Moreover, the Customs Agency of Messina had also claimed an alleged use in the Territory of the State of fuel constituting stock on board two vessels to be exported to Oman. This finding has no legal grounds. The company promptly took action against the notices served by the Customs Agency and filed an appeal with the competent Provincial Tax Commission. On 28 September 2016, the Commission ruled, partially upholding the appeal with regard to the second finding and ordering the repayment of the company of around €15 thousand. At the same time that tax inspection activities were completed, the Customs Agency notified competent Legal Authorities of the criminal offence concerning the case. In September 2014, the Public Prosecutor of the Court of Messina sent notice of the completion of preliminary investigations and defence rights in relation to claims made. The legal representative properly submitted a specific defence brief with objective arguments intending to demonstrate the absence of a criminal nature of the alleged irregularities and a consequent request for the case to be dismissed. However, during 2015, the Court of Messina had served the decree of summons for proceedings on the legal representative. During 2016 several hearings were held to hear the witnesses summoned by the parties. It is noted that in the meantime the recent legislative decrees 7 and 8 of 2016 have introduced the decriminalisation of various criminal offences, including the offence pursuant to article 292 of Presidential Decree no. 43/1973, concerning one of the two charges brought. The investor phase should be completed during 2017 with the publication of the first instance ruling.

As regards the appeals lodged by the company against the refusal notices, served on 25 May 2010 by the Revenue Agency - Genoa Department, the claims for partial reimbursement of the registration tax and the property assessment taxes in relation to the sale of 18 December 2007 of the property portfolio situated in the Municipality of Pietra Ligure, it is noted that the Tax Commission of the Province of Genoa had issued a ruling on 28 May 2013. In particular, the Judges of the local court upheld the appeal lodged by the company as regards the registration tax and consequently ordered the Revenue Agency to reimburse the amount equal to €264 thousand, in addition to interest accrued. The Genova Agency appealed against this ruling; the company filed an appearance with responses and counterarguments. Following the hearing for the discussion of the merits held on 27 November 2015, the Regional Tax Commission issued as a ruling that fully rejected the appeal by the office, confirming the company's entitlement to the repayment of the registration tax. On 19 April 2016, the Office – defended by the Attorney General's Office – submitted an appeal to the Supreme Court against which the company submitted a counter appeal. A date for the hearing still has to be set.

On 26 May 2008, the Customs Agency of La Spezia served a report of verification to the Company, relative to the inspection which began on 24 April 2008 concerning excise on mineral oils. Based on the above report, on 19 June 2008, the Financial Administration had served the Company a Notice of Payment of 3 June 2008 requesting payment of the above excise for an €38 thousand. The Company appealed against this Notice of Payment, lodging an appeal with the Tax Commission of the Province of La Spezia. On 10 January 2012, the Commission issued a ruling rejecting the initial appeal. In November 2013, the Company appealed against this ruling with the Regional Tax Commission in Genoa. The discussion on the merits was held on 15 May 2015 and in February 2016 the ruling was filed that upheld the company's Appeal without reservations. On 6 July 2016, the Office – defended by the Attorney General's Office – submitted an appeal to the Supreme Court against which the company submitted a counter appeal. A date for the hearing still has to be set.

As regards the tax litigation brought by the subsidiary Rodriquez Cantieri Navali S.p.A. for the 2003 tax year, a year preceding its acquisition by the Immsi Group, on 16 January 2017 the merits were discussed of the appeal lodged by the Company against the sentence partially upholding the initial appeal. On 8 February 2017, the Regional Tax Commission of Messina files the ruling rejecting the Appeal and ordering the company to pay €2 thousand as legal fees for the proceedings. To date the terms are still pending for the submission of the appeal to the Supreme Court. Taking into account the amount already paid during the proceedings, the company would still have to pay the tax authorities and amount of approximately €40 thousand, a cost that has already been allocated in the financial statements in previous years.

On 13 May 2015, the company was served a Notice of Payment issued by the Revenue Agency - Provincial Department of Savona - Territorial Unit of Albenga, concerning the additional registration tax claimed in relation to the registration of the long-term Maritime Concession Agreement stipulated on 30 December 2014 registered with the Revenue Agency of Albenga on 14 January 2015 for a total amount of €463 thousand.
In essence, the recovery of the higher registration tax due on the Deed of Concession resulted from the failure by the Office to apply the provisions of Article 3, paragraph 16, of Italian Law Decree 95 of 6 July 2012, based on which, in accordance with the provisions for long-term leases on open properties, also for the concessions of properties belonging to the state, it was possible to pay the registration tax annually on the amount of the lease fee for each year, instead of as a single payment on the total amount of the state lease fees agreed for the entire duration of the concession.
The company promptly submitted an appeal against that Notice with the Provincial Tax Commission, which, on 29 April 2016 issued a ruling upholding the complaints by the company, and cancelling

the notice challenged and ordered the Tax Authorities to bear the legal costs of the proceedings in the amount of €5 thousand. On 14 December 2016, the Office served the company the Notice of Appeal against that ruling, following which the company filed an appearance. A date for the hearing still has to be set.

Regarding the tax dispute of the subsidiary Rodriquez do Brasil, the last tax dispute referring to 2003 (year prior to the acquisition by the Immsi Group) concerning value added tax, income tax and profit contribution tax is still pending, for which the company, in the light of notification of payment of 9.4 million Brazilian real (at the exchange rate of 31/12/2016 of approx. €2.7 million, including taxes, penalties and interest) and following the negative outcome of the first instance first instance legal opposition proceedings, an appeal was lodged in April 2016. The Appeal hearing, held in January 2017, had an unfavourable outcome for the company, which, based on advice from leading Italian and Brazilian legal and tax firm considers that it can submit arguments within further ordinary legal actions that could lead to a positive outcome and the annulment of the request. Based on independent legal advice, the risk was evaluated at the end of December 2016 as "possible"; within Intermarine provisions have been allocated of €0.6 million. On the other hand, according to Brazilian tax legislation, tax amnesties could be issued by the Brazilian tax authorities which, if beneficial, could enable the company to pay a reduced amount and settle the proceedings.

Significant events occurring after the reporting period and outlook of operations for 2017

As regards the operating outlook of the Immsi Group, with reference to the subsidiary **Is Molas S.p.A.**, completion of the first lot of 15 holidays villas and first section of primary works is scheduled for 2017, which is prior to testing market feedback and to signing the first preliminary sales agreements, that will boost development of the Is Molas project.

As far as the **industrial sector** (Piaggio group) is concerned, in a macroeconomic context in which the global economic recovery will probably strengthen, but is still weighed by uncertainties over the pace of growth in Europe and risks of a slowdown in some countries in Far East Asia, the Group is committed, in commercial and industrial terms, to:

- confirm its leadership position on the European two-wheeler market, optimally levering expected recovery by:

- an additional strengthening of the product range;
- current positions on the European commercial vehicles market will be maintained;

- consolidating its position in Asia Pacific, thanks also to the opening of new Motoplex centres, exploring new opportunities in mid-power motorcycle segments and increasing penetration in the Chinese market premium segment;
- boosting sales of the scooters on the Indian market, thanks to the Vespa range and success of the new Aprilia SR 150;
- increasing sales of commercial vehicles in India and in emerging countries, targeting a further development of exports to African and Latin American markets.

In terms of technology, the Piaggio group will continue to seek new solutions for the problems of current and future mobility, through the work of Piaggio Fast Forward (Boston) and the new frontiers of designed by the PADc (Piaggio Advanced Design center) in Pasadena.
In Europe, the Group's Research and Development Centres traditionally more focussed on defining new products and on their production start up, will target the development of technologies and platforms that emphasise the functional and emotional aspects of vehicles, with constant updates to engines and in particular electric engines, a sector where Piaggio has been a pioneer since the mid-nineteen seventies.

More in general, the Group is committed - as in the past and for operations in 2017 - to increasing productivity with a strong focus on efficient costs and investments, while complying with its business ethics.

With regard to the **marine sector** (Intermarine S.p.A.), in 2017, there will be significant push on the production progress on the contracts acquired, which will enable the company to obtain positive earnings with consequent increase in shareholders' equity and a further reduction in the financial exposure. In addition, the company is involved in various negotiations, particularly in the Defence sector, aimed at requiring more contracts that will allow to increase the purchase order book and consequently provide the conditions to enable the company to optimise its production capacity over the coming years.

REPORT
ON CORPORATE GOVERNANCE AND OWNERSHIP

in accordance with article 123-*bis* of the TUF

(Traditional management and control model)

Immsi
Società per Azioni

www.immsi.it

Financial year to which the Report refers: 2016
Date of approval of the report: 23 March 2017

CONTENTS

GLOSSARY

Code / Corporate Governance Code: The Corporate Governance Code of listed companies approved in July 2015 by the Corporate Governance Committee and endorsed by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria; available at www.borsaitaliana.it, in the section “Borsa Italiana/Rules/Corporate Governance”.

Civil Code / CC: the Civil Code.

Board / Board of Directors / Administrative Body: the Board of Directors of the Issuer.

Issuer / Company / Immsi: the Issuer of listed securities to which the Report refers.

Financial year: the financial year to which the Report refers.

Consob Regulation on Issuers or Issuer Regulation: the Regulations issued by Consob by Resolution no. 11971 of 1999 (and amendments thereto) concerning Issuers.

Consob Regulation on Markets or Markets Regulation: the Regulations issued by Consob by Resolution no. 16191 of 2007 (and amendments thereto) concerning markets.

Consob Regulation on Transactions with Related Parties or Related-Party Transactions Regulation: the regulations issued by Consob with resolution no. 17221 of 12 March 2010 (as amended) concerning transactions with related parties.

Report: the report on corporate governance and ownership which companies are obliged to prepare pursuant to art. 123-*bis* of the Consolidated Law on Finance.

Remuneration Report: the remuneration report prepared pursuant to Article 123-*ter* of the Consolidated Law on Finance and Article 84-*quater* of the Consob Regulation on Issuers pursuant to legislation at the registered office of the Company, at Borsa Italiana and on the website of the Issuer at www.immsi.it and in the authorised storage mechanism “eMarket STORAGE” viewable at the web address www.emarketstorage.com.

TUF (Consolidated Law on Finance): Italian Legislative Decree no. 58 of 24 February 1998.

1. ISSUER PROFILE

Immsi is organised following the traditional management and control model established in article 2380-*bis et seqq.* of the Italian Civil Code, with a Shareholders' Meeting, a Board of Directors and a Board of Statutory Auditors.

In particular, the Company's purpose is: (i) investing in the equity of other Italian or foreign companies, i.e. the activity of acquiring, holding and managing the rights, whether represented by securities or not, over the share capital of other companies; (ii) the purchase, sale and management of bonds; (iii) the granting of loans, mortgages and guarantees. The above-mentioned activities may not be conducted with the public and will be in any event carried out pursuant to and within the limits of Italian Legislative Decree 385/1993 and its implementing rules.

Moreover, the Company's purpose includes all activities and transactions in the property sector, both in Italy and abroad, on its own behalf and for third parties, including but not limited to, the purchase, sale, exchange, construction, restructuring, management of corporate assets, leasing (non-finance) and maintenance of buildings and property in general for all types of use, as well as the establishment, purchase, sale and exchange of rights relating to property, excluding the activity of real estate brokerage. The Company may also provide technical, commercial and financial assistance in the preliminary and executive phases of property projects.

The Company may carry out the above activities directly and indirectly on its own behalf and for third parties, including accepting and/or assigning contracts or concessions and development ventures in the property field.
The Issuer may carry out, not directly with the general public, all those acts necessary, in the judgement of the Board of Directors, to implement the corporate purpose.

2. INFORMATION ON CORPORATE OWNERSHIP
(pursuant to article 123-*bis*, paragraph 1 of the TUF)

as of 31/12/2016

a) Share capital structure (pursuant to article 123-*bis*, paragraph 1, letter a) of the TUF)

The share capital of the Issuer, fully subscribed and paid up, is equal to €178,464,000 divided into 340,530,000 dividend-bearing ordinary shares, with no indication of the nominal value. The shares - each share gives entitlement to one vote - are indivisible and are issued in a dematerialised form.

See Table 1 in the appendix, which includes information updated at 31/12/2016.

b) Restrictions on the transfer of securities (pursuant to article 123-*bis*, paragraph 1, letter b) of the TUF)

There are no securities transfer restrictions.

c) Significant holdings in the share capital(pursuant to article 123-*bis*, paragraph 1, letter c) of the TUF)

For indirect or direct material investments in capital, as resulting from disclosure made pursuant to article 120 of the TUF and specific information received by the Issuer, see Table 1, in the index, which includes information updated at 31/12/2016.

d) Securities with special rights (pursuant to article 123-*bis*, paragraph 1, letter d) of the TUF)

No securities have been issued that give special rights of control or special powers.

The articles of association of the Issuer do not contain provisions relating to the increased vote pursuant to art. 127-*quinquies* of the Consolidated Law on Finance.

e) Employee share ownership: mechanism of exercising voting rights (***pursuant to* article 123-*bis*, paragraph 1, letter e) of the TUF)**

No system for employees' equity holdings exists.

f) Restrictions on voting rights (pursuant to article 123-*bis*, paragraph 1, letter f) of the TUF)

There are no restrictions on voting rights.

For more details, see the information in section 16 of this Report.

g) Significant shareholder agreements (pursuant to article 123-*bis*, paragraph 1, letter g) of the TUF)

No agreement in force exists involving material shares of the Issuer in accordance with article 122 of the TUF.

h) Clauses of change of control (pursuant to article 123-*bis*, paragraph 1, letter h) of the TUF) and statutory provisions concerning IPOs (pursuant to article 104, paragraph 1-*ter*, and 104-*bis*, paragraph 1 of the TUF)

The Issuer has stipulated some significant agreements that could be amended or terminated in the event of changes in control of Immsi S.p.A., such as: a Bullet - Multi Borrower loan agreement in effect at 31 December 2016 for a total of €130 million, of which €77.7 million disbursed to Immsi S.p.A., €30 million to ISM Investimenti S.p.A. and €22.3 million to Intermarine S.p.A.; a mortgage loan agreement for a residual nominal value of approximately €40.5 million; further loan agreements and credit lines for a total nominal value of approximately €99 million.

The Piaggio group has signed significant agreements that may be modified or extinguished in the event of changes to the ownership of the contracting company. Specifically the following agreements have been made: a contract for a syndicated term loan and revolving credit facility for a total of €220 million; an addendum for a total of €30 million to the abovementioned contract for a syndicated term loan and revolving credit facility; a debenture loan of €250 million issued by Piaggio & C. S.p.A.; a debenture loan of 75 million USD issued by Piaggio & C. S.p.A.; a loan agreement with the European Investment Bank for €60 million; a loan agreement with the European Investment Bank for €70 million; loan agreements 56.5 million USD with International Finance Corporation to support the Indian and Vietnamese subsidiaries; a loan agreement with Banco Popolare for €10 million; a *revolving credit facility* with Banco Popolare for €10 million; a loan agreement with Banca Popolare Emilia Romagna for €25 million; a revolving credit facility with Banca del Mezzogiorno MedioCredito Centrale for €20 million; a credit facility and term loan agreement with Banca Popolare di Milano for a total of €25 million.

With regard to the subsidiary Intermarine S.p.A., the following significant agreements are noted that may be modified or extinguished in the event of changes to the ownership of the contracting company. Specifically: an unsecured line of credit (for a total value of 84.5 million USD and used at 31 December 2016 for 3.8 million USD) valid on the contract with the Sultanate of Oman, guaranteed by a pool of banks; a guarantee for an amount of €2.7 million issued by Banco Popolare for the Pietra Ligure project and additional credit lines and financing associated with the company's operations for a total amount used as of 31 December 2016 of €70 million, including the aforesaid share of the Bullet – Multiborrower loan issued to Intermarine S.p.A. for an amount of €22.3 million. Lastly, regarding the contract stipulated between the Finnish Navy and the subsidiary Intermarine S.p.A. for the construction of three minesweepers, the Finnish Navy granted advance payments that are guaranteed – for an amount equal to 115% of the sum received – through insurance guarantees issued by SACE; SACE declared it was willing to issue the above guarantees if Immsi S.p.A. had joint obligations: at 31 December 2016, these amounts – in view of progress made and the use of loans granted - totalled €5.1 million.

In addition, the subsidiary Is Molas S.p.A. has a mortgage loan contract for an amount of approximately €1 million that has provision for invalidating the benefit of the term if changes are made to the ownership of the subsidiary such as to have a negative effect on the assets and liabilities, corporate, financial and economic situation of the mortgaging party.

Lastly, i) as part of investments in other businesses operated by the Issuer and ii) as used in order to regulate and discipline governance with any minority shareholders of some of the companies in which Immsi S.p.A. directly or indirectly has investments, shareholders' agreements have been stipulated with these Shareholders and/or loans given by the above Shareholders to investee companies giving the contracting parties special rights (*inter alia* pre-emption rights, tag-along rights, tag-along obligations) in the event of a change in direct and/or indirect control of the investee company.

The provisions of the Articles of Association of the Issuer do not affect the passivity rule established by article 104, paragraphs 1 and 1-*bis* of the TUF. In addition, the Articles of Association of the Issuer do not provide for the application of neutralisation as of article 104-*bis*, paragraphs 2 and 3 of the TUF.

i) Powers to increase share capital and authorisation to purchase treasury shares (pursuant to article 123-*bis*, paragraph 1, letter m) of the TUF)

The Extraordinary Shareholders' Meeting of 13 May 2014 resolved to give the Board of Directors the following powers (i) and (ii) alternatively among them:

(i) pursuant to article 2443 of the Italian Civil Code, to increase, on one or more occasions, against payment and also in divisible amounts, within a period of five years from the date of the resolution, the share capital up to a maximum nominal amount of €500 million, through the issue, with or without a share premium, of new ordinary shares having the same characteristics as those already in issue, to be offered as stock options to those entitled;

(ii) pursuant to article 2443 and 2420-*ter* of the Italian Civil Code, to increase, on one or more occasions, against payment and also in divisible amounts, within a period of five years from the date of the resolution, the share capital up to a maximum nominal amount of €500 million, to use as follows:

- a) for a maximum amount of €250,000,000, for bonds convertible into ordinary shares, with or without warrants, to issue in compliance with the option right of those entitled. The Board of Directors is therefore given, pursuant to article 2420-*ter* of the Italian Civil Code, the right to issue on one or more occasions, in compliance with the option right, bonds convertible into ordinary shares having the same characteristics as those already in issue, with or without warrants, within a period of five years from the date of the resolution, for a maximum amount of €250,000,000 and, in any case, for amounts that, within the above limit, do not exceed the limits set by law for issuing bonds; and

- b) for a maximum nominal amount of €250,000,000, as well as any remaining amount, if the convertible bonds as of point a) above are not issued using the entire amount above, by issuing, with or without a share premium, new ordinary shares having the same characteristics as those in issue, to be offered as stock options to those entitled.

The Board may determine from time to time, in exercising the aforesaid powers, in compliance with the option right of those entitled and with procedures of laws as applicable, and within the above limits, the amount of the increase in capital (and/or of single tranches), the issue price (including any share premium) of new ordinary shares, taking account of market trends and practices of similar operations, and the times, methods and conditions of the offer under option; as well as the amount of the convertible loan stocks that can be converted into ordinary shares, with or without warrants, and of the increase in capital to service them, the procedures, terms and conditions of the issue of the debenture loans (including the share exchange ratio and bond conversion methods; the interest rate, expiry and methods of repayment, also in advance, the characteristics, terms and the conditions of the issue of warrants) and relative regulations and/or the regulation of combined warrants, and, more in general, define the terms and conditions of the increase in capital and the operation as a whole.

The Board of Directors will also have powers for all obligations and necessary formalities to allow the newly issued financial instruments to be admitted to trading.

During the year, none of the above powers were exercised.

By resolution passed on 29 April 2016, the Ordinary Shareholders' Meeting authorised the purchase and disposal of ordinary shares of the Company, in accordance with the combined provisions of Articles 2357 and 2357-*ter* of the Italian Civil Code, and Article 132 of the Consolidated Law on Finance and related implementing provisions, subject to revocation of the resolution authorising the purchase and disposal of treasury shares adopted on 13 May 2015. Purchase authorisation was granted for the 18 month period as of the date of the above resolution, whereas authorisation for placing was granted with no time limits.

The authorisation to purchase and dispose of treasury shares is aimed at giving the Company a useful strategic investment opportunity for all purposes allowed by applicable provisions, including the purposes set out in the "market practices" permitted by Consob pursuant to Article 180, paragraph 1, letter c) of the TUF with resolution no. 16839 of 19 March 2009 ("**Market Practices**") and EC Regulation no. 2273/2003 of 22 December 2003 (the "**Safe Harbour Regulation**") where applicable, and to proceed with the purchase of treasury shares based on their subsequent cancellation, according to the terms and procedures decided by competent company bodies.

This authorisation was requested for the purchase, also in several tranches, of ordinary shares of Immsi up to a maximum number which, considering the ordinary shares of Immsi held from time to time by the Company and by its subsidiaries, is not more than the maximum limit established by applicable *pro tempore* regulations. The shares may be purchased according to procedures, to be established as and when necessary in compliance with 144-*bis*, paragraph 1, letter b) of the Consob Regulation on Issuers and provisions that are applicable in any case, to ensure the fair treatment of shareholders as provided for by article 132 of the TUF. As regards the amount, the Board of Directors proposed that the purchases of treasury shares be made at a price which does not exceed the higher price between the price of the last independent trade and the highest current independent bid price on the trading venues where the purchase is made, provided that the unit price may not in any event be less than the minimum of 20% and no greater than the maximum of 10% of the arithmetic mean of the official prices recorded by the Immsi share in the ten days of trading prior to each single purchase.

The Shareholders' Meeting also authorised the use, pursuant to article 2357-*ter* of the Italian Civil Code, at any time, entirely or partially, on one or several occasions, of treasury shares purchased according to the aforesaid resolution or in any case in the Company's portfolio by selling them on the stock exchange or over the counter, also by selling any real and/or personal rights, including but not limited to securities lending, based on the terms, procedures and conditions of the act of disposal of treasury shares considered the most appropriate in the interests of the Company, in compliance with applicable *pro tempore* laws and regulations and in order to achieve the objectives as of the above shareholders' resolution.

During the Year no treasury stocks have been bought, therefore at 31 December 2016 and at the date of this Report, the Issuer holds no treasury share in portfolio.

l) Management and coordination (pursuant to article 2497 *et seqq.* of the Italian Civil Code)

The Issuer is directly and indirectly controlled, in accordance with article 93 of the TUF, by Omniaholding S.p.A., a company wholly owned by the Colaninno family, through the subsidiary company Omniainvest S.p.A..

In particular, control of the Issuer does not actually correspond to management and coordination activities attributable to the specific case defined in article 2497 et seqq. of the Italian Civil Code and none of the above entities have a structure or organisation that allows them to carry out said management and coordination activities. Therefore, the Company and, particularly, its Board of Directors make their respective decisions with complete autonomy.

* * *

Please note that:

- the information required by article 123-*bis*, paragraph one, letter i) ("*agreements between the company and directors ... that establish indemnity in case of resignation or dismissal without just cause or if their working relationship ceases following a take-over bid*") is included in the Remuneration Report published pursuant to article 123-*ter* of the TUF and included in section 9 of this Report;
- the information required by article 123-*bis*, paragraph one, letter l) ("*regulations applicable to the appointment and replacement of directors… as well as amendments to the articles of association, if different from legal and regulatory provisions applicable on a supplementary basis*") is explained in section 4.1 of this Board of Directors' Report.

3. COMPLIANCE (pursuant to article 123-*bis*, paragraph 2, letter a) of the TUF)

The Issuer has adopted a corporate governance system in accordance with the main contents of the Corporate Governance Code, as indicated in this Report, prepared by the committee for the corporate governance of listed companies, as amended (July 2015) and is available at www.borsaitaliana.it, under *Borsa Italiana/Rules/Corporate Governance*.

Neither Immsi nor strategically important subsidiaries are subject to non-Italian legal provisions affecting the corporate governance structure of the Company.

4. BOARD OF DIRECTORS

4.1. APPOINTMENT AND REPLACEMENT

(pursuant to article 123-*bis*, paragraph 1, letter l) of the TUF)

The provisions in the Articles of Association of the Issuer, applicable to the appointment and replacement of Directors, are suitable for guaranteeing compliance with the provisions introduced by the Italian Legislative Decree no. 27/10, implementing Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies. In addition, on 13 November 2014, the Board of Directors of the Company amended the Articles of Association as regards regulations on the gender balance of Boards as of article 147-*ter*, paragraph 1-*ter* of the TUF, as introduced by Italian Law 120/2011, and article 144-*undecies*.1 of the Consob Regulation on Issuers.

The Company is managed by a Board of Directors comprising no fewer than five and no more than thirteen members appointed by the Shareholders' Meeting.

The Shareholders' Meeting determines the number of Board members as well as the term of their office which cannot be more than three years, and which will expire at the date of the Shareholders' Meeting called to approve the financial statements of the last year of their term of office. They may be reappointed.

According to the Articles of Association, the Directors must meet the requirements of applicable *pro tempore* legislation; a minimum number of Directors, corresponding to the minimum required by law, must meet the independence requirements as of article 148, paragraph 3 of the TUF.

If a Director no longer has the prescribed requisites his term of office shall immediately expire. If a Director no longer meets the independence requirements as of article 148, paragraph 3 of the TUF, he/she will not have to step down, if the minimum number of Directors required by applicable laws meets these requirements.

The Board of Directors is appointed, in compliance with applicable *pro tempore* regulations on gender balance, on the basis of lists presented by the Shareholders with the procedures specified below, in which the candidates must be listed with a progressive number.

The lists presented by the Shareholders, signed by the parties presenting them, must be filed at the Company's headquarters, and made available for any person requesting them, at least twenty-five days before the date set for the Shareholders' Meeting on first call, and are subject to the other types of notification and filing procedures established by applicable *pro tempore* regulations.

Each Shareholder, Shareholders belonging to a significant shareholder agreement pursuant to article 122 of the TUF, the parent company, subsidiaries and entities subject to common control pursuant to article 93 of the TUF, may not present or contribute to the presentation, not even through a third party or trust company, of more than one list, nor may they vote for different lists and each candidate may be included in only one list, otherwise they cannot be elected. Support and votes expressed in breach of this prohibition are not attributed to any list.

Shareholders are entitled to present lists only if, alone or with other Shareholders, they hold shares with voting rights representing at least 2.5% of the share capital with voting rights at the Ordinary Shareholders' Meeting, or a different percentage that may be established by law or other regulations. In its ruling no. 19856 of 25 January 2017, Consob established a requirement of 2.5% of the share capital as necessary for presenting lists of candidates for election to the Board of Directors of the Company.

Ownership of the shareholding required, pursuant to the above, for the purposes of presenting the list, is established in relation to the shares registered in the name of the Shareholder on the date when the lists are filed with the Issuer; relative certification may also be submitted after the list is filed, provided this is before the deadline for publishing the lists.

Together with each list, within the terms indicated above, (i) statements of the individual candidates accepting their nomination and certifying, under their own responsibility, that causes for ineligibility and incompatibility do not exist, and that they meet the requirements established for respective positions; (iii) a *curriculum vitae* with the personal and professional characteristics of each candidate, indicating the person’s suitability to be qualified as independent, as applicable, must be filed.

Lists with three or more candidates shall ensure that both genders are present, so that candidates of the less represented gender are at least one third of the total (rounding any fractions up to the nearest whole number).

Lists presented without complying with the above provisions are considered as not presented.

The Board of Directors is appointed as follows:

a) the list with the highest number of votes is used for presenting the Directors to elect, bar one, in the consecutive order in which they appear in the list;

b) the remaining Director is taken from the minority list that is not connected in any way, not even indirectly, with entities that presented or voted the list as of letter a) above and that obtained the second highest number of votes. If the minority list as of point b) has not achieved a percentage of votes equal to at least half that required for the presentation of lists, all Directors to be elected will be taken from the list as of point a).

If the candidates elected as above do not ensure the appointment of a minimum number of independent directors as established by article 148 of the TUF, the non-independent candidate pursuant to article 148 of the TUF, elected last in consecutive order in the list that received the highest number of votes, as of letter a) above, is replaced by the first independent candidate pursuant to article 148 of the TUF, according to the consecutive order, not elected in the same list, or, failing this, by the first independent candidate pursuant to article 148 of the TUF, according to the consecutive order, not elected in the other lists, according to the number of votes obtained by each one. This replacement procedure is repeated until the composition of the Board of Directors comprises a number of independent directors pursuant to article 148 of the TUF, equal to at least the minimum number required by law. If this procedure does not achieve the above, a replacement is made with a resolution passed by the Shareholders' Meeting with relative majority, subject to the presentation of candidates that meet the above mentioned requirements.

If, in addition, with the candidates elected in the manner described above, a composition of the Board of Directors compliant with *pro tempore* legislation in force at any time concerning the balance between genders is not ensured, the candidate of the more represented gender elected as last in the sequential order in the list that received the most votes shall be replaced by the first candidate of the less represented gender not elected from the same list according to the sequential order. This replacement procedure is repeated until a composition of the Board of Directors compliant with *pro tempore* legislation in force at any time concerning the balance between genders has been ensured. If the aforesaid procedure does not ensure the last result indicated above, the replacement will take place by resolution passed by the Shareholders' Meeting by relative majority subject to the presentation of candidates belonging to the less represented gender.

If only one list is presented or if no list is presented, the Shareholders' Meeting resolves with the majorities established by law, save for compliance with applicable *pro tempore* regulations on gender balance.

If during the year one or more vacancies occur on the Board, the procedure established in article 2386 of the Italian Civil Code shall be adopted according to the following indications, provided that the majority always consists of Directors appointed by the Shareholders' Meeting:

a) the Board of Directors replaces the vacancy, electing a person from the same list as the former director and the Shareholders' Meeting resolves with the majorities established by law, complying with the same criterion;

b) where no unelected candidates remain on the candidate list, or where for any reason whatsoever the provisions of point (a) above cannot be met, the Board of Directors replaces the director, as subsequently resolved by the Shareholders' Meeting, with majorities established by law, without voting for the list.

In any case the Board of Directors and the Shareholders' Meeting will appoint the director so that (i) the minimum number of independent directors pursuant to article 148 of the TUF is appointed as required by applicable *pro tempore* applications and (ii) applicable *pro tempore* regulations on gender balance are complied with.

If there is no longer a majority of Directors, due to resignations or other causes, the entire Board is considered as having resigned and shall cease to hold office from the time when the Board of Directors has been re-established following acceptance by at least half the new Directors appointed by the Shareholders' Meeting, that shall be called on an urgent basis.

Given the organisational structure of the Issuer, as well as the practice of assigning the position of Executive Director to persons who have gained significant experience within the Company or to persons who have gained experience in sectors in which the Issuer operates, the Board of Directors, during the meeting of 23 March 2017, deemed it unnecessary to adopt a plan for the succession of Executive Directors, with the right to make different evaluations in the future.

4.2. COMPOSITION (pursuant to article 123-*bis*, paragraph 2, letter d) of the TUF)

The Board of Directors of the Issuer, in office at the date of this Report, comprises 9 members appointed by the Ordinary Shareholders' Meeting of 13 May 2015.

The Board, appointed on the basis of the single list of candidates presented by the majority Shareholder Omniainvest S.p.A., was elected with a percentage of votes presenting 98.75% of shares with voting rights and will remain in office until the date when the Shareholders' Meeting is convened to approve the Financial Statements for the year ending 31 December 2017.

For more information on the list filed for the appointment of the Management Body, see the website of the Issuer, and the section "*Governance/Shareholders' Meeting/Archive/2015*" or in the authorised storage mechanism "eMarket STORAGE" viewable at the web address www.emarketstorage.com.

The professional *curricula* of Board Directors are filed at the registered office of the Company and are available on the website of the Issuer, in the section "*Governance/Management"*.

Board Directors in office meet the requirements established in the Articles of Association and of applicable laws and regulations.

See Table 2 in the appendix.

Pursuant to article 20 of the Articles of Association, the Chairman, or anyone acting on his behalf, shall convene a meeting of the Board of Directors, at the registered office of the Company or in another location, whenever deemed necessary in the interests of the Company or when requested by three Board members.

Board meetings will be convened in writing, with notice also sent by fax, telegram or email to Board members in office and to the Statutory Auditors, at least five days before the date set for the meeting, or, in urgent cases, with the same procedure, but with minimum notice of six hours.

Directors may take part in Board Meetings also by teleconferencing and/or video conferencing, provided that all those entitled to take part are able to do so and may be identified and can follow the meeting and intervene in real time as regards items being discussed. If these conditions are met, the Board Meeting shall be considered as having taken place in the location where the Chairman and Secretary of the meeting are present, in order to take the minutes, which are signed by both the Chairman and Secretary.

Pursuant to article 22 of the Articles of Association, in order for resolutions of the Board of Directors to be valid, the majority of Board members in office shall be present. Resolutions will be passed by the absolute majority of those present.

Maximum accumulation of offices held in other companies

Each member of the Board of Directors shall make informed decisions, independently, pursuing the objective of creating value for Shareholders, and in his/her position held in the Company shall spend the time necessary to ensure functions are duly carried out, irrespective of other positions held outside the Immsi Group, aware of the responsibilities of his/her office.

For this purpose, each Director shall have evaluated, when accepting the position at the Company and regardless of limits established by law and by regulations on the number of positions that may be held, his/her ability to carry out assigned duties diligently and effectively, considering in particular the total commitment required of other positions outside the Immsi Group.

Each member of the Board of Directors shall also inform the Board of any positions as Director or Statutory Auditor in other companies, in order to comply with disclosure obligations established by applicable laws and regulations.

In the meeting of 23 March 2016, the Board decided not to define general criteria regarding the maximum number of administration and control positions that may be held in other companies, that may be considered as compatible with effectively holding the position of Director of the Issuer, without prejudice to the fact that each Director shall assess the compatibility of positions of Director and Statutory Auditor held in other companies listed on regulated markets (also abroad), in financial, banking and insurance companies or in companies of a considerable scale, diligently conducting the duties assigned to them as Board Director of the Issuer.

In the meeting of 23 March 2017, the Board, after reviewing positions currently held by its Directors in other companies, confirmed that the number and type of positions held does not cause any interference and is therefore compatible with effectively carrying out duties as Director of the Issuer.

In addition, the majority of Board Members of the strategic subsidiary Piaggio & C. S.p.A. does not hold Administrative and/or Managerial positions in the Parent Company Immsi S.p.A.

The table below lists the administration and control positions held, at 31 December 2016, by the members of the Board of Directors, in other companies listed on regulated markets (also abroad), in financial, banking and insurance companies or in companies of a considerable scale.

Full name	Company	Administration and control positions
Roberto Colaninno	Piaggio & C. S.p.A.* Omniaholding S.p.A.* Omniainvest S.p.A.* Alitalia - Società Aerea Italiana S.p.A.(1) Piaggio Fast Forward * RCN Finanziaria S.p.A.* Intermarine S.p.A.*	Chairman BoD and Chief Executive Officer Chairman of the Board of Directors Chairman of the Board of Directors Honorary Chairman of the Board of Directors Chairman of the Advisory Board Director Director
Michele Colaninno	Omniaholding S.p.A.* Omniainvest S.p.A.* ISM Investimenti S.p.A.* Piaggio Fast Forward Inc.* Piaggio & C. S.p.A.* Is Molas S.p.A.* RCN Finanziaria S.p.A.* Immsi Audit S.c.a r.l.* Intermarine S.p.A.*	Chief Executive Officer Chief Executive Officer Chairman of the Board of Directors Deputy Chairman of the Board Director Director Director Director Director
Daniele Discepolo	Primus Capital S.p.A. Primus Management S.p.A. Simest S.p.A. Pianoforte Holding S.p.A. Sorgenia S.p.A. Esaote S.p.A. Argenta S.p.A. Fondazione Filarete per le Bioscienze e l'Innovazione Manucor S.p.A. Livingston S.p.A. under special management Mareklon S.p.A. Mareklon Yarn S.r.l. Valtur S.p.A. Coop. Commissionaria Valtrumplina Co.Va.C. – Soc. Coop. a r.l.	Chairman of the Board of Directors Chairman of the Board of Directors Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Statutory Auditor Chairman of the Supervisory Board Chairman of the Supervisory Board Chairman of the Supervisory Board Director Special Administrator Special Administrator Special Administrator Member of the trio of Special Administrators Official Liquidator
Matteo Colaninno	Omniaholding S.p.A.* Piaggio & C. S.p.A.* Omniainvest S.p.A.*	Deputy Chairman and Chief Executive Officer Deputy Chairman Director
Rita Ciccone	-	-
Patrizia De Pasquale	-	-
Giovanni Sala	Intermonte Holding SIM S.p.A. Intermonte SIM S.p.A. Gewiss S.p.A.	Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Director
Ruggero Magnoni	Fondazione Giuliano e Maria Carmen Magnoni Onlus Fondazione Laureus sport for Good Italia Onlus M&M Capital Ltd Respublica Fondazione di Cultura e Politica APLOMB S.r.l. Raffaele Caruso S.p.A. Compagnie Financiere Richemont SA Intek S.p.A Omniainvest S.p.A.* Fondazione Dynamo Motore di Filantropia Lehman Brothers Foundation Europe QUATTRODUEDUE Holding BV Istituto Javette "Amici della Bocconi" TRILANTIC Capital Partners Europe	Founding Member and Chairman Founding Member and Chairman Chairman Deputy Chairman Director Director Director Director Director Director Trustee Supervisor Director Executive Committee Member Senior Advisor and Member of the Advisory Council
Livio Corghi	Intermarine S.p.A.* RCN Finanziaria S.p.A.*	Chief Executive Officer Director

* Company of the Group of which the Issuer is Parent Company or forms a part.

(1) Office terminated as of 7 February 2017

The type of board disclosure allows Directors to have adequate knowledge of the sector in which the Issuer operators, of corporate dynamics and their developments, as well as the regulatory and self-regulatory reference framework. Indeed, during the board meetings concerning the approval of the period accounting figures, the Chief Executive Officer updates the Board, on at least a quarterly basis, on the organisational changes, the strategic development strategies and the outlook for the Group, breaking down the analysis according to the individual cash generating units. With regard to the regulatory framework and the applicable internal regulations it is noted that, in the board meeting of 29 August 2016, the Directors examined the new company procedures in relation to the Market Abuse Regulation, namely: the “Procedure for Communicating Privileged Information to the General Public”; the “Procedure for management of the Register of Persons who have access to Price-Sensitive Information” and the “Procedure for the fulfilment of Internal Dealing obligations”, adopted by the Issuer in accordance with the new EU provisions relating to market abuse (Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014, “**MAR**” and the related implementing regulations of the European Commission).

Company management also worked on a continual basis with company boards as regards information flows and/or updates on issues of interest.

In any case, the Issuer will draw up structured training plans if considered necessary, or required by company bodies.

4.3. ROLE OF THE BOARD OF DIRECTORS
(pursuant to article 123-*bis*, paragraph 2, letter d) of the TUF)

During the year, the Board of Directors held 6 meetings on the following dates: 15 March, 23 March, 3 May, 29 August, 14 November and 21 December.

The average duration of meetings was two hours, and they were attended by the Board of Statutory Auditors.

The average attendance of Board Directors at these meetings was equal to 93.81%, while the average attendance of Independent Directors was equal to 100%.

The Articles of Association do not establish a minimum number of Board meetings, however the Board is expected to meet at least 8 times in 2017. At the date of this Report, the Board had met 4 times on the 9 February, 10, 17 and 23 March 2017.

In compliance with article 2.6.2, paragraph 1, letter b) of the Regulation on markets organised and managed by Borsa Italiana S.p.A., on 30 January 2017, Immsi S.p.A. informed Borsa Italiana S.p.A. of its annual schedule of corporate events for 2017. This calendar has also been published on the website of the Issuer, in the section “*Investors/Calendar*” and in the authorised storage mechanism “eMarket STORAGE” viewable at the web address www.emarketstorage.com.

On 3 November 2016, Consob approved the changes to the Consob Regulation on Issuers regarding interim financial reports at the end of a regulatory process that started in February 2016 and with the adoption (through Italian Legislative Decree 25 of 15 February 2016) of the Transparency II Directive (2013/50/EU), which removed the obligation to publish those reports.

Within this process, Consob decided not to use the option to reintroduce additional periodic information with respect to the annual and half yearly financial reports, and leaving the choice to the issuers regarding the decision whether to publish that information, as well as the level of information content and the timing of its disclosure to the public.

In this regard, it should be noted that, in order to ensure the continuity and regularity of information to the financial community, the Company resolve to continue publishing the quarterly information, on a voluntary basis, and, with effect from the year 2017 and until otherwise decided, to adopt the communication policy detailed in the press release of 21 December 2016 available on the website of the Issuer, in the section “*Investors/Media/Press Releases*” and in the authorised storage mechanism “eMarket STORAGE” viewable at the web address www.emarketstorage.com.

The Chairman of the Board of Directors, through the Secretary of the Board of Directors, ensures that adequate information regarding items on the agenda is made available to all Directors in reasonable time. In particular, documents on items to discuss are sent, by email, usually 48 hours in advance of the meeting, except for particularly urgent cases or in the case of a particular need for confidentiality; in the latter case, the Chairman ensures that items are reviewed in depth during board meetings. In this way, the Chairman of the Board of Directors promotes an informed debate, encouraging the contribution of all participants, ensuring that enough time will be spent on items on the agenda to ensure a constructive dialogue.

The Director of Administration, Finance and Control, Andrea Paroli, has always taken part in board meetings, to provide further information on items on the agenda.

The Board of Directors plays a central role within the corporate organisation. It is in charge of strategic and organisational functions and responsibilities, and also ensures necessary controls are in place to monitor the performance of the Issuer and companies in the Group.

The Board of Directors has the widest possible powers to manage the Company, and to that end it may pass resolutions or take any action deemed necessary or useful for achieving the Company object, with the exception of powers assigned by law and by the Articles of Association to the Shareholders' Meeting.

Pursuant to article 23 of the Articles of Association, the Board of Directors is also responsible for deciding upon all matters regarding:

- mergers and demergers in accordance with articles 2505, 2505-*bis* of the Italian Civil Code, the latter also referred to in article 2506-*ter* of the Italian Civil Code;
- the establishment or closure of secondary offices;
- Directors representing the Company;
- reductions in share capital in the event of Shareholder withdrawal;
- amendments to the Articles of Association to comply with regulatory provisions;
- transfer of the registered office to another location in Italy;

notwithstanding that such decisions may also be taken by the Extraordinary Shareholders' Meeting.

In the meeting of 13 May 2015, the Board of Directors resolved on the distribution of managerial competencies of the Board of Directors (see section 4.4 below for the competencies of the Chairman and Chief Executive Officer), with the Board jointly having, besides all powers assigned to it by law and by the Articles of Association, as well as powers to approve "related-party transactions" as provided for by the specific procedure adopted by the Company (see section 12 of this Report), the following powers:

a) define the strategic, industrial and financial strategies as well as the general policy of the Company and Group;

b) acquire and dispose of controlling investments, acquire or dispose of business units for individual amounts above €25 million, mergers and demergers;

c) approve long-term plans;

d) carry out property dealings for individual amounts above €25 million.

Within its area of responsibility, the Board approves the corporate governance system of the Issuer, it defines the structure of the Issuer's Group, it examines and approves the strategic, industrial and financial plans of the Issuer and of its Group, periodically monitoring relative implementation.

Pursuant to article 2381 of the Italian Civil Code and to the application criterion 1, paragraph 1, letter c) of the Code, during the year the Board evaluated the adequacy of the organisational, administrative and general accounting structure of the Issuer and its strategic subsidiaries, with particular reference to the internal control and risk management system, according to procedures adopted by the Issuer for this purpose. In particular, in the meetings of 23 March 2016 and 23 March

2017, the Board considered - among others - the functional company organisation charts of the main strategic companies of the Group, with a particular focus on the charts of the Administration, Finance and Control departments, also considering organisational changes taking place during the year.

Within the framework of this periodic activity the Board has, depending on the case, used the support of the Control and Risks Committee, the Head of Internal Audit, the auditing company Immsi Audit S.c. a r.l. and the Financial reporting manager as well as the procedures and checks implemented also in accordance with Italian Law 262/2005. In particular, the Control and Risks Committee of the Issuer, in its meeting of 3 May 2016, reviewed specific documentation in order to determine operating and significant companies to be included in its controls, pursuant to Italian Law no. 262/2005, agreeing on the methodology to apply and companies to be controlled.

Relevant subsidiaries were identified using quantitative parameters, determining specific threshold values, and qualitative parameters, performing assessments based on knowledge of the Company and existing specific risk factors.

As a result of this analysis and also considering its nature as a diversified industrial group, the main subsidiaries of strategic importance were determined, and subsequently included in the scope of controls pursuant to Italian Law no. 262/2005.

For a description of the main characteristics of the risk management and internal control system in relation to the financial disclosure process, pursuant to article 123-*bis*, paragraph 2, letter b) of the TUF, see Attachment 1 in the appendix.

During the year, the Board evaluated the general trend of operations, at least quarterly, considering information received from authorised bodies, periodically comparing results with objectives.
In accordance with legal provisions, the Articles of Association and the Code, the Board of Directors has examined and approved in advance transactions, conducted by the Issuer and its subsidiaries, of strategic importance or with a material impact on the financial position and performance of the Issuer, with a particular focus on transactions in which one or more Directors have a personal interest or interest on behalf of third parties.

On 23 March 2016 and 23 March 2017, the Board of Directors of the Issuer conducted the annual review pursuant to Article 1, paragraph 1, letter g) of the Corporate Governance Code, considering the size, composition and operation of the Board and its Committees to be basically adequate for the management and organisational requirements of the Company, also taking into account the professional competencies, including the expertise and managerial skills of its members, the number of years in office and the fact that the Board is made up of 9 directors, of which seven non-executive and four non-executive independent directors, which also ensures the ideal composition of Board committees.

In this regard, the Board decided to carry out self-assessment, to evaluate its abilities to carry out the functions assigned to it by applicable regulations. This assessment was conducted in February 2017. It concerned the financial year and was based on a self-assessment questionnaire sent to all Board Directors. The questionnaire – which was divided into different areas of investigation (e.g. composition, structure, size, functioning and dynamics of the Board, interaction with management, risk governance, and composition and structure of the Committees) and with the possibility of providing comments and suggestions – was completed by all the Directors and examined by the Board in the meeting of 23 March 2017. As stated above, the assessment outcome showed that the Board and Committees are suitable for carrying out their respective functions.

Under article 18 of the Articles of Association, and unless decided otherwise by the Shareholders' Meeting, Directors are not subject to the prohibition set out in article 2390 of the Italian Civil Code.

At present, the above departure has not been applied in any specific case.

4.4. AUTHORISED BODIES

The Chairman is appointed by the Board of Directors from its members, if not already appointed by the Shareholders' Meeting.

The Chairman convenes the Board of Directors and coordinates its activities, ensuring that adequate information on items on the agenda is made available to all Directors, taking account of contingent circumstances. The Chairman chairs Shareholders' Meetings, ascertains the identity and entitlement of those attending, that the meeting is duly established, that a sufficient number of Shareholders is present for resolutions to be valid, and also governs the proceedings, establishing voting methods and monitoring results.

The Board of Directors may also appoint a Deputy Chairman, who replaces the Chairman in the above functions in his absence or impediment.
The Chairman has powers to sign for the Company and is the legal representative vis-à-vis third parties and before the courts. In the case of his absence or impediment, these functions are overseen by the Deputy Chairman, if appointed.

The Board of Directors may also delegate, within the same limits, its powers to one or more of its members, possibly Chief Executive Officers, granting them several or joint powers of signature, as deemed appropriate.

Pursuant to article 23 of the Articles of Association, the Board of Directors may appoint General Managers, Managers and Attorneys-in-fact, with several or joint powers of signature, determining their powers and duties, as well as delegate powers for certain acts or categories of acts.

Powers of representation and signature may also be granted by the Board, which determines the limits, to company employees or to third parties.

Chairman of the Board of Directors and Chief Executive Officer

On 13 May 2015, the Ordinary Shareholders' Meeting appointed Roberto Colaninno as Chairman of the Board of Directors, who will remain in office until approval of the Financial Statements for the year ending 31 December 2017.

The Chairman of the Board is the person mainly responsible for management of the Issuer (Chief Executive Officer): by Board resolution of 13 May 2015, this officer, in addition to the task of overseeing the management of the Company, has been assigned all powers of ordinary and extraordinary management, excluding those powers reserved by Law or the Articles of Association to the entire Board of Directors, as well as the powers in all cases reserved to the Board on the basis of said resolution (refer to section 4.3 above for a list). In the event of extraordinary actions or operations, the Chairman shall adequately inform the Board at the first possible meeting.

The Board considers that granting executive powers to the Chairman meets the considerable organisational needs of the Issuer, i.e. streamlining the operation of the Board of Directors of the Company. Accordingly, the Board appointed the Director Daniele Discepolo as Lead Independent Director pursuant to the Code. For more information about the Lead Independent Director, see section 4.7.

Interlocking directorate, as established by application criterion 2, paragraph 5 of the Code, does not apply.

Michele Colaninno, former General Manager of the Company, was re-appointed Chief Executive Officer on 13 May 2015. In addition to powers to act as the Company's legal representative vis-à-vis third parties and before the courts and to sign on behalf of the company, the CEO was granted the power to oversee the ordinary management of the Company, being authorised, for this purpose, to carry out all standard operations for sums not exceeding €20,000,000 per transaction or series of related transactions, and to adopt the resolutions passed by the Shareholders' Meeting and the Board of Directors.

He was also granted the power to appoint, dismiss, direct, supervise and discipline Company Manager(s) and their subordinates, with the approval of the Chairman, with the exception of any such power regarding the General Manager(s).

The powers of the Chief Executive Officer do not include powers assigned by law or by the Articles of Association to the Board of Directors, and powers that in any case are assigned to the Board according to the same resolution (see section 4.3, letters a), b), c) and d) above for details, for amounts also lower than those indicated).

Reporting to the Board and the Board of Statutory Auditors

In accordance with article 21 of the Articles of Association, the Delegated Bodies report to the Board of Directors and the Board of Statutory Auditors on their activities and the most significant financial and economic transactions carried out by the Company or its subsidiaries, referring in particular to transactions in which Directors have an interest, on their own behalf or on behalf of third parties, or that are influenced by the entity carrying out management and coordination. The information is given promptly, on at least a quarterly basis, during Board meetings, or in a written notice addressed to the Chairman of the Board of Statutory Auditors.

In particular, during the 6 board meetings held during the year, the Delegated Bodies promptly and extensively reported to the Board of Directors on activities carried out, on the performance generation operations and their outlook, as well as material transactions, in terms of their scale and characteristics, undertaken by the Company and its subsidiaries, as required by law and by the Articles of Association.

4.5. OTHER EXECUTIVE DIRECTORS

Besides the Chairman and Chief Executive Officer, there are no other Executive Directors.

4.6. INDEPENDENT DIRECTORS

Non-executive directors currently make up seven of the nine Board Directors of the Issuer, of whom four are independent. The number and position of these Directors is such as to guarantee a significant contribution to decisions taken by the Board. The Non-Executive Directors and Independent Directors bring their specific competencies to Board discussions, contributing to decisions made in the Company's interest.

The Board of Directors evaluates the independence of its Non-Executive members in accordance with both Article 148, paragraph 3, points b) and c) of the Consolidated Law on Finance, referred to by Article 147-*ter*, paragraph 4 of the Consolidated Law on Finance, and by applying all criteria in accordance with Article 3 of the Self-Regulatory Code of Conduct at the time of appointment, making known the results of its assessments by means of a press release issued to the market, as well as periodically during the term in office, through the annual report on corporate governance. The monitoring criteria and procedures adopted by the Board of Directors for evaluating independence requirements are verified by the Board of Statutory Auditors in accordance with the Corporate Governance Code.

The independence requirements as of article 3 of the Code and article 148, paragraph 3, letters b) and c) of the TUF foreseen for independent directors currently in office are reviewed annually by the Board of Directors on the first occasion possible after appointment and most recently during the meeting of 23 March 2017. On the same date, the Board of Statutory Auditors acknowledged that the criteria and review procedures used by the Board of Directors to evaluate independence requirements had been correctly adopted.

In order to rule out potential risks of limiting the management independence of the strategic subsidiary Piaggio & C. S.p.A., the majority Board Directors of Piaggio & C S.p.A. has no administrative and/or managerial duties in the Parent Company Immsi S.p.A.

The Independent Directors are committed to maintaining independence during their term of office, and in any event shall promptly inform the Board of Directors of any situation that might compromise their independence. Pursuant to the provisions of article 17, paragraph 4 of the Articles of Association of the Issuer, if a Director no longer meets the independence requirements as of article 148, paragraph 3 of the TUF, he/she will not have to step down, if the minimum number of Directors required by applicable laws meets these requirements.

During the year, the independent directors met, on 30 September 2016, without the other Directors.

4.7. LEAD INDEPENDENT DIRECTOR

The Chairman of the Board of Directors is the person mainly responsible for management of the Issuer (Chief Executive Officer). On 13 May 2015, the Board of Directors appointed the non-executive, independent Director Daniele Discepolo as Lead Independent Director, to represent non-executive directors and in particular independent directors.

The Lead Independent Director, Daniele Discepolo, with adequate accounting, financial and risk management expertise, also holds the position of Chairman of the Control and Risks Committee and of the Remuneration Committee of the Issuer.

The Lead Independent Director also works with the Chairman to ensure that Directors receive exhaustive and timely information, and may call, independently or at the request of other Directors, special meetings only attended by Independent Directors, to discuss issues considered of interest regarding the functions of the Board of Directors and corporate management.

As indicated in the paragraph above, during the year, the independent directors met, on 30 September 2016, without the other Directors.

5. PROCESSING OF CORPORATE INFORMATION

As regards issues concerning the management of price sensitive information and in order to regulate internal management and disclosure, the Board of Directors of the Issuer updated the "Procedure for the management of the Register of persons with access to Privileged Information" on 20 December 2012, while in the meeting of 13 November 2014, it amended the "Procedure for Communicating Privileged Information to the General Public".

During the year, and specifically, on 1 July 2016, the Issuer adopted the new procedures in relation to the Market Abuse Regulation – with binding effect from 3 July 2016, and in accordance with the new EU provisions on market abuse (Regulation (EU) No 596/2014 of the European Parliament and of the Council of the European Union 16 April 2014, "**MAR**" and related implementation regulations of the European Commission) – consisting of:

- the "Procedure for Communicating Privileged Information to the General Public";
- the "Procedure for management of the Register of Persons who have access to Price-Sensitive Information";
- the "Procedure for the fulfilment of Internal Dealing obligations".

In particular, these procedures specifically establish the procedures for monitoring, accessing and distributing inside information before it is disclosed to the public, in order to ensure compliance with obligations of laws and regulations concerning confidentiality and market protection.

These procedures are also available on the website of the Issuer www.immsi.it, in the section "*Governance/Procedures*".

6. BOARD COMMITTEES (pursuant to article 123-*bis,* page 2, letter d), TUF)

The Board of Directors has appointed the Remuneration Committee, the Appointments Committee, the Control and Risks Committee and the Related-Party Transactions Committee.

The Issuer has not established a committee that performs the functions of two or more committees required by the Code, nor committed other than those indicated in the Code, nor has it assigned the functions or one or more committees to the entire Board overseen by the Chairman.

7. NOMINATIONS COMMITTEE

In compliance with the Code and in consideration of the list-based voting system in the Articles of Association for Board appointments, the Board of Directors has established an internal Appointments Committee.

Composition and operation of the Appointments Committee (pursuant to article 123-*bis*, paragraph 2, letter d) of the TUF)

On 13 May 2015, the Board of Directors appointed to the Appointments Committee the independent director Giovanni Sala, acting as Chairman, and the independent directors Daniele Discepolo and Rita Ciccone, who will remain in office until the date of the Shareholders' Meeting convened to approve the Financial Statements for the year ending 31 December 2017.

During the year, the Appointments Committee did not meet, as there were no circumstances making this necessary.

See Table 2 in the appendix.

Functions of the Appointments Committee

The Appointments Committee checks that procedure for presenting lists, established by Articles of Association, takes place correctly and transparently, in compliance with applicable laws and regulations. After it has checked the presentation procedure for lists, ensuring specifically that documents filed with the lists are complete and filing deadlines are met, the Committee arranges the formalities for presenting the lists to the General Shareholders' Meeting convened for the appointment of the Board of Directors or its members.

In accordance with the Application Criterion 5.C.1, lett. a) and b) of the Code, the Appointments Committee is also assigned the task of providing opinions to the Board, when considered necessary, regarding its size and composition or making recommendations regarding the professional profiles that are considered advisable to be present within the Board, as well as the maximum number of positions of Director or Statutory Auditor that can be considered compatible with the effective performance of the position of Director in the Issuer, and regarding the advisability of authorising exemptions to the non-competition obligation. The Committee also advises the Board on candidates for the position of Director in the case of co-opting, when independent directors need to be replaced.

In carrying out its functions, the Appointments Committee was able to access and consult the corporate information and departments necessary to carry out its duties, and also use external consultants within the terms set by the Board.

No financial resources were allocated to the Appointments Committee, as it uses the funds and facilities of the Issuer to perform its duties.

8. REMUNERATION COMMITTEE

The Board of Directors of the Company, in compliance with the Corporate Governance Code, has established a Remuneration Committee, comprising independent directors that will remain in office until the date of the Shareholders' Meeting convened to approve the Financial Statements for the year ending 31 December 2017.

Composition and operation of the Remuneration Committee (pursuant to article 123-*bis*, comma 2, let. d), TUF)

On 13 May 2015, the Board of Directors appointed to the Remuneration Committee, the non-executive independent director Daniele Discepolo, acting as Chairman, and the non-executive independent directors Giovanni Sala and Rita Ciccone. All members of the above committee have an adequate knowledge and experience of financial matters and/or salary policies, considered conforming by the Board at the time of the appointment.

During the year, the Remuneration Committee held 1 meeting on 17 March 2016, lasting approximately 30 minutes, attended by all its members, the secretary designated to take the minutes of the meeting and the members of the Board of Statutory Auditors, who were informed of all decisions taken by the Committee, before they were submitted, by the Committee's Chairman, to Board of Directors of the Issuer at the meeting of 23 March 2016.

For the year 2017 the Remuneration Committee is expected to meet at least once. At the date of this Report, this meeting had been held on 23 March 2017.

See Table 2 in the appendix.

Functions of the Remuneration Committee

The Remuneration Committee of the Issuer has the following duties, in the absence of persons directly involved:

- periodically assessing the adequacy, overall consistency and actual application of the Remuneration Policy for the Directors and Key Management Personnel, and using the information provided by the Executive Directors for this purpose;
- make recommendations to the Board to define the General Remuneration Policy for executive directors, other directors with key positions and key senior management, monitoring the adoption of decisions taken;
- presenting proposals to the Board concerning the remuneration of Executive Directors and Directors with special positions as well as defining performance objectives related to the variable component of remuneration, monitoring the application of decisions adopted by the Board and verifying, in particular, the actual achievement of performance objectives.

In particular, the Committee considers the following, when defining the above remuneration: consistency with previous terms of office, appropriacy as regards undertakings and responsibilities of positions held, professional qualifications of persons concerned as well as the size of the Company, Group and relative prospects for growth.

For further information, see the Remuneration Report, available, as established by law, on the website of the Issuer, in the section "*Governance*/General Meeting/Archive" and in the authorised storage mechanism “eMarket STORAGE” viewable at the web address www.emarketstorage.com.

9. DIRECTORS' REMUNERATION

On 23 March 2017, the Board, following a proposal made by the Remuneration Committee, confirmed the “General policy for the remuneration of directors and key managers” (the “**Remuneration Policy**”) pursuant to Article 6 of the Code. This policy defines the basic guidelines on which the remunerations must then be concretely established by the competent company bodies.

For a description of the Remuneration Policy and fees paid during the year to Directors, General Directors and Key Senior Management, see the Remuneration Report, available, as established by law, on the website of the Issuer, in the section “*Governance/General Meeting/Archive*” in the authorised storage mechanism “eMarket STORAGE” viewable at the web address www.emarketstorage.com.

Mechanisms of incentive of the Head of the Internal Audit Function and of the Financial reporting manager.

At the date of this Report, there are no mechanisms of incentive of the Head of the Internal Audit Function and of the Financial reporting manager.

Directors’ indemnity in case of resignations, dismissal or cessation of the relationship following a public purchase offer (pursuant to article 123-*bis*, p. 1, let. i), TUF)

No agreements have been entered into between the Issuer and the directors that provide for indemnities in the case of resignation, dismissal/termination without just cause, or if the employment ceases following a public offering.

10. CONTROL AND RISKS COMMITTEE

The Board of Directors of the Company, in compliance with the Corporate Governance Code, has established a Control and Risks Committee, comprising non-executive, independent Directors, with committee works coordinated by a Chairman.

Composition and operation of the Control and Risks Committee (pursuant to article 123-*bis*, paragraph 2, letter d) of the TUF)

On 13 May 2015, the Board of Directors appointed the independent Director Daniele Discepolo, who has suitable skills in accounting and finance and/or risk management, with the function of Chairman (also appointed Lead Independent Director), along with the independent directors Giovanni Sala and Rita Ciccone, as members of the Control and Risks Committee, on the basis of the professional characteristics of the candidates put forward.

During the year, the Control and Risks Committee held 8 meetings, lasting on average one hour, co-ordinated by the Chairman of the Committee.

The Internal Audit Department Manager takes the minutes of each meeting held by the Committee in order to officially certify the meeting's progress, contents and decisions made.

On request of the Committee and in relation to matters of interest, the meetings were also attended by the Board of Statutory Auditors and the Financial reporting manager, apart from the meeting of 23 May 2016, and, in the meetings held to review the audit plan, a representative from the Independent Auditors was also present.

In particular, the Control and Risks Committee operated during the year working with the Board of Statutory Auditors and with continuous information flows on issues in its remit. In view of the above, and with particular reference to monitoring the financial reporting system, the internal control and risk management system implemented by the Issuer already regulates the management of inside information and market abuse, as well as the process to define and authorise disclosure on accounts and relative certification.

In 2017, the Control and Risks Committee is expected to meet at least 8 times; the first four meetings were held on 8 February and on 10, 17 and 23 March, which discussed matters relating to the year 2016.

See Table 2 in the appendix.

Functions of the Control and Risks Committee

The Control and Risks Committee, with functions overseen by the Board of Directors on 23 March 2016, in assisting the Board to carry out its duties concerning internal control and risk management:

(i) evaluates, with the Financial reporting manager and after consulting with the independent auditors and the Board of Statutory Auditors, the correct use of accounting standards and their consistency in the preparation of the Consolidated Financial Statements;

(ii) expresses opinions on specific aspects concerning the identification of main company risks;

(iii) reviews periodic reports on the evaluation of the internal control and risk management system, and information of particular significance provided by the Internal Audit Department;

(iv) monitors the independence, adequacy, effectiveness and efficiency of the Internal Audit Department;

(v) requests the Internal Audit Department to audit specific operating areas, also informing the Chairman of the Board of Statutory Auditors;

(vi) reports to the Board, at least every six months, at the time of approving the annual and half-yearly financial report, regarding activities carried out, as well as the adequacy of the internal control and risk management system;

(vii) supports, with adequate preliminary activities, the evaluations and decisions made by the Board of Directors on the management of risks arising from adverse events which have come to the knowledge of the Board of Directors;

(viii) gives recommendations to the Board as regards decisions relative to the appointment, removal from office, remuneration and availability of resources of the Internal Audit Department Manager.

During the year, the Control and Risks Committee monitored the internal control and risk management system on a continual basis and in particular, in this context, it:

a) reviewed changes to the organisational structure, to processes and company activities;

b) reviewed the progress of the internal auditing work plan, with particular reference to the implementation of measures concerning audits of previous years, the progress of the 2016 Audit Plan, including activities assisting the Risk Analysis unit and compliance audits conducted pursuant to Italian Law no. 262/2005 and Italian Legislative Decree no. 231/2001;

c) monitored the independence, adequacy and effectiveness of the Internal Audit Department, also based on a review of specific indicators and of the Quality Assurance Review process adopted by the Function, which resulted in certification being obtained in compliance with international standards for the sector and recommendations of the Corporate Governance Code;

d) reviewed, with the Financial reporting manager and after consulting the Independent Auditors and Board of Statutory Auditors, the financial disclosure process, the accounting standards adopted in preparing accounts and the financial statements, as well as the uniformity of these principles for preparing the consolidated financial statements;

e) reviewed the impairment testing procedure used to verify adequacy and compliance with IAS/IFRS, as regards recommendations in the document issued by the Bank of Italy, Consob and ISVAP on 3 March 2010;

f) examination of risk management and evolution of the risk assessment process.

In order to carry out its duties, the Committee:

- is assisted on an permanent basis by the Internal Audit Department;
- may access information and company functions necessary to carry out its duties;
- may be assisted by external professionals, within the limits of the budget established by the Board of Directors, provided they comply with necessary confidentiality requirements.

During the year, the Control and Risks Committee regularly reported to the Board on its work, on the result of audits and checks made and on the operation of the internal control and risk management system, indicating that the system is appropriate for the size and organisational and operational structure of the Issuer.

The Board of Directors, already in the meeting of 13 May 2015, had set the annual expenditure budget for the Control and Risks Committee at €30,000.

11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The internal control and risk management system comprises rules, procedures and organisational structures to identify, measure, manage and monitor main risks. This system is integrated at various levels with general organisational and corporate governance strategies adopted by the Company, and contributes to safeguarding corporate assets, the efficiency and effectiveness of company processes, the reliability of financial information, and compliance with laws, regulations, the Company's articles of associations and internal procedures.

The Board of Directors, after consultation with the Control and Risks Committee:

a) It defines the nature and the level of risk compatible with the Issuer's strategic objectives, including in its assessment all risks that may be significant for medium to long term sustainability;

b) defines the guidelines for the internal control and risk management system, so that main risks concerning the Issuer and its subsidiaries are correctly identified, and adequately measured, managed and monitored, also determining the level of compatibility of these risks with a business management in line with strategic objectives identified;

c) evaluates, at least annually, the adequacy of the internal control and risk management system in relation to business characteristics and the risk profile undertaken, as well as its effectiveness;

d) approves, at least annually, the work plan prepared by the *Internal Audit* Function Manager, after consulting with the Board of Statutory Auditors and the Internal Control and Risk Management Director;

e) describes, in the corporate governance report, the main characteristics of the internal control and risk management system, evaluating its adequacy;

f) evaluates, after consulting with the Board of Statutory Auditors, the results of the independent auditors in their letter of findings and fundamental issues identified during auditing.

In carrying out such functions, the Board is assisted by the Director appointed to the internal audit and risk management system (the "**Director Appointed**") and by the Control and Risks Committee; it also takes into consideration the compliance programmes adopted by the Issuer and Companies of the Group of which the Issuer is Parent Company, in accordance with Italian Legislative Decree no. 231/2001.

In the meetings of 23 March 2016 and 23 March 2017, the Board of Directors, also considering recommendations from the Control and Risks Committee, evaluated the effectiveness of the internal control and risk management system of the Issuer as adequate, with respect to the characteristics of the company and its risk profile.

For a description of the main characteristics of the risk management and internal control system in relation to the financial disclosure process, pursuant to article 123-*bis*, paragraph 2, letter b) of the TUF, see Attachment 1 in the appendix.

11.1. THE DIRECTOR APPOINTED TO OVERSEE THE FUNCTIONING OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

On 13 May 2015, the Board of Directors, in compliance with the Corporate Governance Code, and assisted by the Control and Risks Committee, appointed the Chief Executive Officer, Michele Colaninno, as the Internal Control and Risk Management System Director.

This position, as identified above, supervises the operation of the internal control and risk management system as part of guidelines established by the Board of Directors.

In this regard, the Internal Control and Risk Management System Director:

- identified main corporate risks (strategic, operational, financial and compliance risks), taking account of the characteristics of the Issuer and its subsidiaries' operations, and regularly notified them to the Board for review
- implemented the guidelines defined by the Board, overseeing the design, development and management of the internal control and risk management system, checking its overall adequacy and effectiveness on an ongoing basis;
- oversaw changes to this system to take into account dynamics in operating conditions and legal developments;
- has the power to request that the Internal Audit Function perform verifications on specific areas of operation and on compliance with the internal rules and procedures in the execution of corporate operations, giving concurrent communication to the Chairman of the Board of Directors, the Chairman of the Control and Risks Committee and the Chairman of the Board of Statutory Auditors. During the Year, although no need was identified to request the performance of specific audits, the Head of Internal Audit was provided the information from the Appointed Director for the preparation of the Audit Plan, which also took into account the same information provided by the Control Bodies;
- proposes the Board to appoint the Head of the Internal Audit Function.

11.2. INTERNAL AUDIT DEPARTMENT MANAGER

On 12 December 2008, a consortium company was established called Immsi Audit Società Consortile di Internal Auditing del Gruppo Immsi a r.l. ("**Immsi Audit**"), in order to start the centralisation and relocation of all internal auditing activities of Group companies to a single company. Immsi Audit provides its services solely for companies which are part of the consortium (Immsi S.p.A., Intermarine S.p.A., Is Molas S.p.A. and Piaggio & C. S.p.A.) and, in their interest, it carries out all activities connected with and functional to internal auditing, with the objective of improving the effectiveness and efficiency of the internal control and risk management system and assessing its functionality. This strategy allows the Group to acquire the necessary knowledge and expertise on internal control and risk assessment, whilst also achieving economies of scale and synergies in applying uniform audit methods.

On 13 May 2015, the Board of Directors of the Company, following recommendations from the Internal Control and Risk Management System Director and after consulting with the Control and Risks Committee and Board of Statutory Auditors, approved the appointment of Maurizio Strozzi (Chief Executive Officer of Immsi Audit S.c. a r.l.) as Internal Audit Department Manager, responsible for verifying the functioning and adequacy of the internal control and risk management system. No specific financial resources were allocated to the Internal Audit Department Manager, as he uses funds and facilities of the Issuer to carry out his duties, and of Immsi Audit, which charges each company in the consortium for costs incurred for the services provided to them.

The Internal Audit Function Manager, who is not responsible for any operating area of the Issuer and directly reports on activities carried out to the Board of Directors, and has direct access to all information useful for his position, which involved:

- checking, on both an ongoing basis and in relation to specific needs and in compliance with international standards, the operation and adequacy of the internal control and risk management system, through an audit plan approved by the Board of Directors and based on a structured process that analyses and prioritises main risks;
- preparing periodic reporting, which included appropriate information on activities and an assessment of the adequacy of the internal control and risk management system, as well as compliance with action plans established to reduce risks;
- prepared the audit plan for 2016, in line with the relative 2015-2017 plan, comprising an audit of the reliability of information systems, including accounting systems.

In particular, during the year, the Internal Audit Manager, assisted by Immsi Audit, S.c. a r.l., conducted an audit of the internal control and risk management system, in accordance with the 2016 Internal Audit Plan, as the annual updated to the Plan for the three-year period 2015-2017, and approved by the Board of Directors on 15 March 2016, carrying out risk analysis, financial, operational and compliance auditing (with particular reference to audits carried out in order to comply with provisions of Italian Law no. 262/2005 and Italian Legislative Decree no. 231/2001), verifying the reliability of information systems, including accounting systems, and monitoring adoption of improvement/corrective actions agreed after internal audit activities.

The results of auditing activities, carried out based on the Audit Plans, were always analysed and discussed with various Managers of the processes/functions and Company Management, in order to agree on and adopt preventive/corrective measures, with implementation monitored. The Internal Audit Department Manager therefore presented audit reports to the Chairman, the Internal Control and Risk Management System Director, the Chairman of the Control and Risks Committee and the Chairman of the Board of Statutory Auditors, as well as the Supervisory Board and Financial Reporting Office for areas in his remit. This presentation was made at the end of the related audits, both by sending the audit reports and with examination of the specific outcomes during periodic meetings with mentioned recipients. In a specific report, the Internal Audit Department Manager also provided details on the worked conducted by the Internal Audit Department in 2016, also giving his opinion on the adequacy of the Company's internal control and risk management system.

11.3. ORGANISATIONAL MODEL pursuant to Legislative Decree 231/2001

On 13 September 2004, the Issuer adopted the Compliance Programme for the prevention of offences indicated in Legislative Decree no. 231/2001 as amended. This strategy has also been adopted by subsidiaries with strategic importance, that in turn resolved to adopt their own Programmes pursuant to Legislative Decree no. 231/2001.

The current Programme comprises a general part, with the Code of Ethics (available on the website of the Issuer www.immsi.it, in the section *"Governance/Procedure")* and Disciplinary System, as well as special parts for the different types of offence considered in the Decree.

- "Special Section 1" concerns specific categories of offences against the Public Administration, against Public Property and the offence of inducing persons to give or promise benefits pursuant to articles 24 and 25 of the Decree, as well as computer crime and the unlawful processing of data pursuant to article 24-*bis* of the Decree, and offences concerning copyright infringement pursuant to article 25-*novies* of the Decree;
- "Special Section 2" refers to corporate crime and the offence of corruption between private individuals, as of article 25-*ter* of the Decree;
- "Special Section 3" covers market abuse offences, as of article 25-*sexies* of the Decree;
- "Special Part 4" concerns offences concerning occupational health and safety regulations, as of article 25-*septies* of the Decree;
- "Special Part 5" concerns types of offences relating to the handling of stolen goods and money laundering, use of money, goods or assets of unlawful origin and self-laundering as of article 25-*octies* of the Decree;
- "Special Part 6" concerns types of offences that violate environmental regulations as of article 25-*undecies* of the Decree.

The Model is continuously monitored and was most recently updated in November 2015. This work involved the additions to Italian Legislative Decree 231/2001 concerning the crimes of money laundering, corporate crimes and crimes against the environment, with the inclusion within the Model of the appropriate instructions regarding the circumstances that are considered at risk of commission of the crimes (e.g. regulatory references, typical conduct, management and control protocols, and information flows for the Supervisory Body pursuant to Italian Legislative Decree 231/2001).

The Programme is updated on an ongoing basis and likewise company procedures are updated accordingly, with correct application monitored through planned compliance activities, recommended and coordinated by the Supervisory Board and carried out by the Internal Audit Department Management. This monitoring process also involves Process Owners, i.e. the parties/entities responsible for company processes that are considered "sensitive" as regards the commission of offences, that periodically report to the Supervisory Board. Employees - top managers and positions reporting to them - as well as third parties (i.e. suppliers, customers, consultants, etc.) are informed about the adoption of the Code of Ethics and the Code of Conduct and, when signing contracts, specific clauses are included referring to the principles of ethics/conduct adopted.

On 13 May 2015, Board of Directors re-elected the following members of the Supervisory Body of the Issuer: Marco Reboa, chosen from outside professionals possessing the necessary requirement, who holds the position of Chairman, Alessandro Lai, selected as Chairman of the Board of Statutory Auditors, and Maurizio Strozzi, Chief Executive Officer of Immsi Audit S.c. a r.l., Selected as Manager of the Company's Internal Audit Department.

Already during 2013, the Issuer had considered the feasibility of assigning Supervisory Functions to the Board of Statutory Auditors, considering nevertheless the supervisory functions of an *ad hoc* organisation, i.e. the Supervisory Board, as more efficient and effective in monitoring the functioning of and compliance with the Model.

This Board, that will remain in office until the date of the Shareholders' Meeting convened to approve the Financial Statements for the year ending 31 December 2017, operates at the highest company level, and according to principles of independence, autonomy, professionalism and impartiality, and also on the basis of Regulations approved by the Board of Directors, that it reports to periodically on activities carried out, information received and sanctions administered. In this regard, it is noted that there is a specific electronic mailbox, solely accessible by the Supervisory Body, that allows all the employees of the Issuer to send any appropriate reports to the Body.

The Board has the financial and logistics resources necessary to carry out its duties. On 13 May 2015, the Board of Directors set the annual expenditure budget for the Supervisory Board at €30,000.

During the year, the Supervisory Body of Immsi S.p.A. met 6 times and overall member attendance was 100%.

The Supervisory Board is expected to meet at least 4 times in 2017. The first two meetings were held on 17 and 23 March 2017; the Working Plan for 2017 was approved during the meeting of the Supervisory Board on 10 November 2016.

11.4. EXTERNAL AUDITORS

The Shareholders' Meeting of Immsi S.p.A. of 11 May 2012 appointed PricewaterhouseCoopers S.p.A. as independent auditors for the period 2012 - 2020.

11.5. FINANCIAL REPORTING MANAGER AND OTHER COMPANY ROLES AND FUNCTIONS

In accordance with the Articles of Association, the Board of Directors, with the mandatory opinion of the Board of Statutory Auditors, appoints and revokes the Financial reporting manager, that shall meet requirements for good standing as of laws applicable to persons holding management and control positions, and shall also meet professional requirements, with specific administrative and accounting expertise. This competence, to be verified by the Board of Directors, must be attained through work experience gained in positions of adequate responsibility for a reasonable period of time. The above Manager has the powers and functions established by law and by other applicable provisions, as well as the powers and functions established by the Board on his appointment or by subsequent resolution.

On 18 June 2007, the Board of Directors, as recommended by the Board of Statutory Auditors, appointed Andrea Paroli, already Manager of the Administration and Financial Statements Department of Immsi S.p.A., as Financial reporting manager, giving him all powers and resources necessary to carry out duties assigned and in particular:

a) free access to all information considered important for carrying out duties, both within Immsi and within Group companies, with the power to review all financial reporting documents of Immsi and the Group and the power to request clarifications and explanations from all persons involved in the process of preparing the accounts of Immsi and the Group;

b) attendance at the meetings of the Board of Directors;

c) the right to engage with every Administrative and Control Body;

d) the right to prepare and put forward for approval company procedures, when they affect the financial statements, the consolidated financial statements and documents submitted for certification;

e) is involved in designing the information systems that affect financial position and performance, with the possibility of using them for control purposes;

f) the right to organise a suitable structure within his own area of activity, internally employing available resources and, where necessary, outsourcing;

g) the right to use the Internal Audit Department, for mapping processes in his area of activity and in carrying out specific controls, with the possibility of outsourcing if this Function is not available in-company.

Lastly, the Executive in charge of financial reporting must report, at least half-yearly, to the Board of Directors, on activities carried out and expenses sustained.

For a description of the main characteristics of the risk management and internal control system in relation to the financial disclosure process, pursuant to article 123-*bis*, paragraph 2, letter b) of the TUF, see Attachment 1 in the appendix.

11.6. COORDINATION BETWEEN PERSONS INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Issuer, in order to ensure coordination between parties involved in the internal control and risk management system, promotes the organisation of meetings between these parties. This ensures maximum efficiency of the internal control and risk management system implemented by the Issuer, while also reducing the duplication of activities.

On 23 March 2017, the Board of Directors, in accordance with the provisions of criterion 7.C.1 of the Code, provided its opinion on the adequacy of the aforementioned procedures of coordination between the various parties involved in the internal control and risk management system.

12. INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES

On 17 December 2013, the Board updated the Procedure for regulating the approval and management of Related-Party transactions ("**Related-Parties Procedure**"), effective from 1 January 2014, pursuant to article 4 of Consob Regulation no. 17221 of 12 March 2010 (as amended), undertaken by Immsi S.p.A., also through its subsidiaries.

The Company applies the Related-Parties Procedure taking into account Consob Communication no. DEM/10078683, published on 24 September 2010, containing "Indications and guidelines for applying the Regulations on related-party transactions adopted with ruling no. 17221 of 12 March 2010 as amended".

Pursuant to this Communication, the Board will also evaluate whether to review this procedure during 2017.

The Related-Parties Procedure regulates the identification, approval and management of related-party transactions. In particular, the Procedure:

- regulates procedures for identifying related parties, defining the methods and times for preparing and updating the related parties list and for identifying competent company functions;
- establishes the procedures for identifying related-party transactions prior to their completion;
- regulates the procedures for the Company to perform related-party transactions, also through subsidiaries pursuant to article 2359 of the Italian Civil Code or companies that in any case are subject to management and coordination;
- establishes the procedures and times for complying with obligations to report to company bodies and the market.

In compliance with regulations in force and the Articles of Association, the examination and prior approval of the transactions by the Issuer and its subsidiaries in which one or more directors hold a personal interest or interest on behalf of third parties, are reserved to the Board.

The Issuer's Board of Directors appointed a Related Party Transactions Committee responsible for approving both minor and major transactions with related parties. The Committee, as appointed by the Board of Directors on 13 May 2015, consists exclusively of 3 independent directors who, in accordance with statutory regulations, are required to be directors that are not related to the transactions reviewed. Specifically, the three members of the Related Party Transactions Committee are: Giovanni Sala, acting as Chairman, Patrizia De Pasquale and Rita Ciccone.

This Committee has the functions indicated in the relative Procedure, which is available on the Issuer's website www.immsi.it, in the section "*Governance/Procedure".*

13. APPOINTMENT OF STATUTORY AUDITORS

The provisions in the Articles of Association of the Issuer, applicable to the appointment and replacement of Directors, are suitable for guaranteeing compliance with the provisions introduced by Legislative Decree no. 27/10, implementing Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies. In addition, on 13 November 2014, the Board of Directors of the Company amended the Articles of Association as regards regulations on the gender balance of Boards as of article 148, paragraph 1-*bis*, of the TUF, as introduced by Law no. 120/2011, and article 144-*undecies*.1 of the Consob Regulation on Issuers.

In accordance with article 25 of the Articles of Association, the Board of Statutory Auditors comprises three Statutory Auditors and two Substitute Auditors, who remain in office for three years, until the date of the Shareholders' Meeting called to approve the financial statements of the last year of their term of office, and may be re-elected.

The Auditors have the functions and duties assigned to them as of applicable laws and must also meet requirement of applicable laws concerning the total number of positions held.

All Auditors must be registered auditors and have practised for at least three years.

Auditors may not be elected and if elected will be removed from office if they do not meet requirements established by law. The Board of Statutory Auditors is appointed in accordance with applicable regulations pro tempore concerning gender balance, based on the lists submitted by Shareholders in which candidates are listed with a consecutive number.

The list, with the names marked by a consecutive number, of one or more candidates, indicates whether the candidate is standing for the position of Statutory Auditor or Alternate Auditor.

Lists that have an overall number of candidates greater than or equal to three must be composed of candidates belonging to both genders, in such a way that at least one third (in any case rounded upwards) of candidates for the position of Statutory Auditor and at least one third (in any case rounded upwards) of candidates for the position of Alternate Auditor belong to the less represented gender of said list. Each Shareholder, Shareholders belonging to a significant shareholder agreement pursuant to article 122 of the TUF, the parent company, subsidiaries and entities subject to common control pursuant to article 93 of the TUF, may not present or contribute to the presentation, not even through a third party or trust company, of more than one list, nor may they vote for different lists and each candidate may be included in only one list, otherwise they cannot be elected. Support and votes expressed in breach of this prohibition are not attributed to any list.

The lists presented by the Shareholders must be filed at the Company's headquarters, at least twenty-five days before the date set for the Shareholders' Meeting on first call, save for other types of notification and filing procedures established by applicable pro tempore regulations. If, once the deadline has lapsed, only one list of candidates has been filed or only candidate lists have been filed by shareholders that are connected in a material way with the candidates as per applicable pro tempore laws and regulations, lists may be presented within the deadlines indicated by applicable pro tempore laws and regulations; in this case, the minimum threshold for presenting lists is reduced by half.

Shareholders are entitled to present lists only if, alone or with other Shareholders, they hold shares with voting rights representing at least 1% of the share capital with voting rights at the Ordinary Shareholders' Meeting, or a different percentage that may be established by law or other regulations. With ruling no. 19856 of 25 January 2017, Consob established a requirement of 2.5% of the share capital as necessary for presenting lists of candidates for election to the Board of Statutory Auditors.

The lists must be presented along with:

a) information on the identity of the Shareholders presenting the lists, indicating the overall ownership percentage held; ownership of the overall shareholding held, determined as regards the shares registered in the name of the Shareholder on the date when the lists are filed with the issuer, is certified, even after the filing of the lists, according to the deadlines and procedures provided for by legislation, also regulatory, in force at any time;
b) a statement from Shareholders other than those that, even jointly, hold a controlling or relative majority interest, certifying that no connections exist with the latter, as required by applicable regulations;
c) comprehensive information on the personal characteristics of the candidates, as well as a declaration issued by the same candidates attesting, under their own responsibility, that (i) there are no grounds of ineligibility and incompatibility, (ii) they possess the requisites prescribed by law and (iii) they accept their candidacy, and lastly the list of management and control positions held in other companies.

Any list presented without complying with the above will be considered as not presented. Each Shareholder may vote for only one list.

Auditors will be elected as follows: from the list that obtained the highest number of votes, in the consecutive order in which they are listed, two statutory auditors and one alternate auditor; from the list that obtained the second highest number of votes and that, in accordance with applicable regulations is not connected, even indirectly, with persons who presented or voted the list that obtained the highest number of votes, in the consecutive order in which they are listed, one statutory auditor, who will be Chairman of the Board of Statutory Auditors and one alternate auditor.

If lists receive the same number of votes, the Shareholders’ Meeting will vote again, with the candidates of the list obtaining a simple majority being elected.

If with the procedures described above, a composition of the Board of Statutory Auditors, in terms of its statutory members, compliant with *pro tempore* legislation in force at any time concerning the balance between genders is not ensured, the necessary replacements shall be made, within the scope of candidates for the office of Statutory Auditor of the list which obtained the greatest number of votes, according to the sequential order in which the candidates are listed.

If only one list is presented or if no list is presented, the Statutory Auditors and Alternate Auditors will be elected from all candidates to these positions in the list or those voted by the Shareholders' Meeting, provided they obtain the relative majority of votes cast in the Shareholders' Meeting and save for compliance with applicable pro tempore regulations on gender balance.

If requirements of regulations and the Articles of Association are no longer met, the Auditor is removed from office.

If an Auditor is replaced, the alternate auditor from the same list is appointed. The foregoing is without prejudice to the fact that the Chairman of the Board of Statutory Auditors will be the minority Auditor and the composition of the Board of Statutory Auditors shall comply with applicable pro tempore regulations on gender balance.

When the Shareholders' Meeting has to appoint Statutory and/or Substitute Auditors, to make up numbers on the Board of Statutory Auditors, it proceeds as follows: if Auditors elected from the majority list have to be replaced, the appointment is made with a relative majority vote, without list restrictions; conversely, if the Statutory Auditors elected from the minority list are to be replaced, the Shareholders' Meeting shall replace them by relative majority voting, selecting them from among the candidates indicated in the list of the statutory auditor to be replaced.

If the application of the above procedures does not allow, for whatever reason, the replacement of the Statutory Auditors designated by the minority, the Shareholders' Meeting will replace them by relative majority voting; however, in verifying the result of this last voting no account will be taken of the votes cast by the subjects who according to the communications made in compliance with current legal regulation have, even indirectly or jointly with other Shareholders taking part to a Shareholders' Agreement pursuant to article 122 of the Consolidated Law on Finance, the relative majority of the votes that may be cast at the Shareholders' Meeting, as well as those Shareholders who control, are controlled or are subject to joint control by the same.

The above replacement procedures shall in any event ensure compliance with applicable regulations concerning gender balance.

14. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS (pursuant to article 123-*bis*, p. 2, let. d), TUF)

At the time of this Report, the Board of Statutory Auditors of the Issuer, in office at the date of this Report has been appointed by the Shareholder’s General Meeting held on 13 May 2015, on the basis of the single list of candidates presented by the majority Shareholder Omniainvest S.p.A., in conformity with the provisions of the Statute. The Supervisory Board formed in this manner, elected with a percentage of votes in relation to the voting capital equal to 98.41%, shall remain in office until the date of the Shareholders’ Meeting called for approval of the financial statements for the year ending 31 December 2017.

For more information on the list filed for the appointment of the Board, see the website of the Issuer, and the section “*Governance/Shareholders' Meeting/Archive/2015*” or the authorised storage mechanism “eMarket STORAGE” viewable at the web address www.emarketstorage.com.

As required by the Corporate Governance Code, the professional *curricula* of Auditors are filed at the registered office and are available on the website of the Issuer www.immsi.it, in the section “*Governance/Management”*.

During 2016, the Board of Statutory Auditors held 11 meetings with an average duration of 2 hours, with an average overall attendance of 96.97%.

For the year 2017 the Board of Statutory Auditors is expected to meet at least 8 times. At the date of this Report, the Board had met 4 times on the following dates: 8 February, and 10, 17 and 23 March.

See Table 3 in the appendix.

The Board of Statutory Auditors, during its meetings of 23 March 2016 and 23 March 2017, verified that Board members met independence requirements, as already verified on their appointment and during their term of office, also based on criteria established by the Self-Regulatory Code of Conduct with reference to Directors. During the board meeting of 23 March 2017, save for evaluations in the remit of the Board of Statutory Auditors as regards its composition, the Board, favouring a composition based on substance, resolved the following: (i) consider appropriate, in the interest of the Company, the non-application of the criterion 3.C.1 point e) of the Corporate Governance Code with regard to the Auditor Alessandro Lai (possessing high professional profiles that over time have proven valuable to the Issuer), (ii) to recognise the fulfilment of the requirements of independence pursuant to Article 148, paragraph 3, of the TUF and Article 3 of the Corporate Governance Code by all the members of the Board of Statutory Auditors.

The characteristics of the Board Report enable the Auditors to gather adequate knowledge of the field of activity in which the Issuer operates, its corporate dynamics and their evolution, as well as the relevant regulatory framework.

As it is considered to be a deontological duty to inform the other Auditors and the Chair of the Board of Directors whenever an Auditor has, on his own account or on that of third parties, an interest in a specific operation of the Issuer, no provision is made for any specific obligations on the matter.

In carrying out its own activity, the Board of Statutory Auditors is coordinated both with the Internal Audit function and with the Control and Risks Committee. In particular, it is noted that the person in charge of the Internal Audit has participated in some meetings of the Board of Statutory Auditors, while the Board of Statutory Auditors has participated to the majority of the meetings of the Control and Risks Committee.

You are reminded that Italian Legislative Decree No. 39/2010, "Implementing Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC", identifies the Board of Statutory Auditors as the "Internal Control Committee" responsible for monitoring: i) the financial reporting process; ii) the effectiveness of internal control systems; iii) the statutory auditing of the annual accounts and consolidated accounts; iv) the independence of the independent auditors, and in particular the provision of additional, non-audit services to the audited entity. Starting from the year 2017, the Internal Control Committee and the accounts audit have been assigned the new tasks established by Article 19 of Italian Legislative Decree 39/2010 as amended by Italian Legislative Decree 135/2016.

15. RELATIONSHIPS WITH SHAREHOLDERS

The Company feels that engaging with Shareholders and institutional investors, on the basis of a mutual understanding of roles, is in its own interests and also a duty it has to the market; such a relation should be carried on within the observance of the "Procedure for Communicating Privileged Information to the General Public", available on the Issuer's institutional website www.immsi.it, in the section *Governance - Procedures*, and referenced in the above section 5.

It was considered that this relationship with the majority of shareholders and institutional investors could be facilitated via the constitution of dedicated corporate structures, provided with the suitable personnel and organisational resources.

For this purpose, during the meeting held on 15 October 2003, the Board of Directors of the Company decided to establish an Investor Relations Function, which, assisted by the Legal and Corporate Affairs Department, oversees relations with Shareholders and Institutional Investors and carries out specific duties regarding the handling of price-sensitive information, as well as relations with Consob and Borsa Italiana S.p.A.

At the date of this Report, the Investor Relations Manager is Andrea Paroli appointed by the Board of Directors on 13 May 2014. This department can be contacted at: andrea.paroli@immsi.it.

Investor Relations reporting is also ensured by making the most significant corporate documentation available in a timely manner and ongoing basis on the website of the Issuer, in the sections *"Investor Relations and Governance"* and in the authorised storage mechanism "eMarket STORAGE" viewable at the web address www.emarketstorage.com.

For the transmission and storage of the Regulated Information, the Issuer uses the "eMarket SDIR" diffusion system and the "eMarket STORAGE" storage system available at the website www.emarketstorage.com., managed by Spafid Connect S.p.A. – based in Foro Buonaparte 10, Milan – following the authorisation and the Consob resolutions 19878 and 19879 of 15 February 2017.

In particular, the company website provides Italian and English versions of the CVs of Directors and Auditors, all press releases distributed to the market, periodical accounting documents of the Company approved by Company Bodies, as well as documents distributed at meetings with professional investors, analysts and the financial community. It is also possible to view the documentation prepared for the Shareholders' Meetings, the communications on internal dealing, the annual report on the corporate governance system and the ownership structure, and any other document whose publication, on the website of the Issuer, is required by the applicable regulations.

To facilitate prompt reporting to the market, the Company has an e-mail alert service for material published on its site in real time.

16. SHAREHOLDERS' MEETINGS (pursuant to article 123-*bis*, p. 2, let. c), TUF)

The Shareholders' Meeting represents all Shareholders and its resolutions, passed in compliance with law and the Articles of Association, are binding for all Shareholders, even if not taking part or not in agreement.

The Ordinary Shareholders' Meeting shall be convened at least once a year to approve the financial statements within one hundred and twenty days from the end of the reporting period, or within one hundred and eighty day according to the terms and conditions established by laws.

Ordinary and Extraordinary Shareholders' Meetings are convened by the Board of Directors, also at a venue other than the registered office, provided this is in Italy, by a notice published on the website of the Company and, if required by applicable pro tempore regulations, in a notice published in the Gazzetta Ufficiale della Repubblica or, as decided by the Board of Directors, in at least one of the following newspapers: "Il Sole 24 Ore" or "MF" – "Milano Finanza", according to the terms established by law and save for any other requirement of applicable regulations and the Articles of Association.

Article 127 - *ter* TUF provides that those who have the right to vote may ask questions on the items on the agenda even prior to the Shareholders' meeting. Questions submitted before the Shareholders' Meeting shall be answered at the latest during the meeting itself, with the option for the Company to provide a joint answer to questions having the same content. The notice convening the meeting indicates the deadline by which questions to submit to the Shareholders' Meeting must be sent to the Company. The deadline may not be before three days prior to the date when the Shareholders' Meeting is convened on first call, or before the five days prior to that date if the notice convening the meeting requires the Company to give replies to the questions. In the latter case, the replies shall be given at least two days prior to the Shareholders' Meeting, and may also be published in a specific section of the Company's Internet site.

The Shareholders' Meeting shall be chaired by the Chairman of the Board of Directors or by a person acting on his/her behalf or by another person designated by Board of Directors; failing such, the shareholders' meeting shall appoint its own Chairman. The Chairman of the Shareholders' Meeting shall be assisted by a Secretary, appointed by the same Shareholders' Meeting, and said person does not necessarily have to be a shareholder.

Both the Ordinary and Extraordinary Shareholders' Meetings are duly established and may pass resolutions according to law. Each share gives entitlement to one vote.

Ordinary Shareholders' Meetings can: (a) approve the financial statements; (b) appoint and remove Directors, Auditors and the Chairman of the Board of Statutory Auditors and the subject to which the auditing of company accounts is assigned; (c) determine the emoluments of the Directors and the Statutory Auditors, if not established in the Articles of Association; (d) decide on the responsibilities of the Directors and Statutory Auditors; (e) resolve on any other matters assigned by law to the Shareholders' Meeting, as well as decide on authorisations required by the Articles of Association for activities of Directors, save for the responsibility of Directors for such activities; (f) approve any rules governing meetings; (g) approve any other matters it must resolve on pursuant to law.

The Extraordinary Shareholders' Meeting resolves on amendments to the Articles of Association, the appointment, replacement and powers of official receives and on any other matter expressly assigned to the them by law.

In accordance with article 23 of the Articles of Association, the board competence is derogated to the Board of Directors for deciding upon all matters regarding:

- mergers and demergers in accordance with articles 2505 and 2505-*bis* of the Italian Civil Code, the latter being referred to by article 2506-*ter* of the Italian Civil Code;

- establishment or closure of secondary offices;

- which Directors represent the Company;

- reductions in share capital in the event of withdrawal of the shareholder;

- amendments to the Articles of Association in order to comply with legal provisions;

- transfer of the registered office to another location in Italy.

Such decisions may also be taken by an Extraordinary Shareholders' Meeting.

Applicable laws and regulations in force govern the rights of shareholders; besides that which has already been stated in the above paragraphs in this Report.

Pursuant to Article 12 of the Issuer's Articles of Association, all shareholders registered as of the seventh market trading day prior to the first scheduled date of a Shareholders' Meeting, as notified to the Company within the statutory term by the intermediary responsible by law for the keeping of shareholder accounts, are entitled to attend the shareholders' meeting and exercise their voting rights. To this end, reference is made to the date of the first call, as long as the dates of any subsequent calls are indicated in the single notice convening the meeting; otherwise, reference is made the date of each meeting call.

The credit and debit entries made in the accounts after said deadline are irrelevant for the purposes of entitlement to exercise voting rights at the Shareholders' Meeting.

All subjects with voting rights may appoint, in writing, a proxy to attend and vote on their behalf. The electronic notification of the proxy may be carried out, in accordance with the methods specified in the meeting notice, sending a message to the certified e-mail box indicated in the meeting notice itself or using a special section of the Company's web site.

The Chairman of the Shareholders' Meeting has the duty to ascertain the regularity of the proxies and the right of those present to attend the Shareholders' Meeting, as well as to establish the rules for its performance including therein the timing of any speakers.

The Issuer takes action to aid and encourage the fullest participation of the Shareholders in the meetings and to use these meetings as a moment of dialogue and liaison between the Company and the Investors, guaranteeing, to all the participants legitimated to intervene, the right to be able to express their opinion in relation to the topics on the agenda.

The Company does not currently see the need to propose the adoption of a specific regulation governing Shareholders' Meetings, considering that it deems appropriate that, in principle, the shareholders shall be assured the widest participation and expression in shareholder discussions.

The Board, through the Chairman and the Chief Executive Officer, reports to the Shareholders' Meeting on the activity it has performed and programmed, taking steps to assure the Shareholders, also on the basis of what is illustrated in the above section 15, the necessary information so that they can knowledgeably make their decisions.

At the Ordinary Shareholders' Meeting of the Issuer, held on 29 April 2016, 5 Directors took the floor, out of 9 in office on the Board of Directors and the entire Board of Statutory Auditors.

It is also deemed that the Shareholders were adequately informed about the operation of the Remuneration Committee through the Remuneration Report, prepared by the Company pursuant to Article 123-*ter* of the Consolidated Law on Finance, and published on the Issuer's institutional website, in the section "*Governance/General Meeting/Archive*“ and in the authorised storage mechanism “eMarket STORAGE” viewable at the web address www.emarketstorage.com. The Company also has distributed a copy of the same to all the Shareholders who attended the General Meeting, in order to facilitate the expression of the advisory vote.

In the meeting of 23 March 2017, the Board decided that it was not necessary to propose amendments to the Shareholders' Meeting concerning the percentages established to protect minorities as, in accordance with article 144-*quater* of the Consob Regulation on Issuers on presenting lists for the appointment of members of the Board of Directors and the Board of Statutory Auditors, articles 17 and 25 of the Articles of Association of the Issuer have established a requirement of 2.5% and 1% of the share capital with voting rights, or as otherwise required by applicable laws or regulations. With resolution no. 19856 of 25 January 2017, Consob established a requirement of 2.5% of the share capital as necessary for presenting lists of candidates for election to the Board of Directors and Board of Statutory Auditors of the Issuer.

17. FURTHER CORPORATE GOVERNANCE PRACTICES (pursuant to article 123-*bis*, paragraph 2, letter a) of the TUF)

The Issuer does not adopt practices of corporate governance other than those required by the laws and/or regulations, described in this Report.

18. CHANGES AFTER THE FINANCIAL YEAR-END

At the date of closing the year, no change has occurred to the corporate governance structure, than those notified within the specific sections.

TABLE 1: INFORMATION ON CORPORATE OWNERSHIP

STRUCTURE OF THE SHARE CAPITAL at 31/12/2016				
	N° of Shares	% of share capital	Listed	rights and obligations
Ordinary shares	340,530,000	100%	Screen-based stock market Standard Segment	Articles 2346 et seq. of the Italian Civil Code
Shares with multiple voting	-	-	-	-
Shares with restricted votes	-	-	-	-
Shares without voting rights	-	-	-	-
Other	-	-	-	-

OTHER FINANCIAL INSTRUMENTS (assigning the right to subscribe newly issued shares) at 31/12/2016				
	Listed (indicate the markets) / not listed	Number of instruments in issue	Class of shares for the conversion / exercise	Number of shares for the conversion / exercise
Convertible bonds	-	-	-	-
Warrants	-	-	-	-

SIGNIFICANT HOLDINGS IN THE SHARE CAPITAL at 31/12/2016			
Declarer	Direct shareholder	% of ordinary share capital	% of shares with voting rights
Omniaholding S.p.A.	Omniaholding S.p.A.	15.69%	15.69%
	Omniainvest S.p.A.	44.14%	44.14%
	Total	59.83%	59.83%

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors													Control and Risks Committee		Remuneration Committee		Nomination Committee		Executive Committee *(as applicable)*	
Position	**Member/Name**	**Year of birth**	**Date of first appointment ***	**In office since**	**In office up to**	**List ****	**Exec.**	**Non-exec.**	**Indep. Code**	**Indep. Consolidated Law on Finance**	**No. of other positions *****	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Chairman ◊	Roberto Colaninno	16/08/1943	31/01/2003	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M	X				7	6/6								
Deputy Chairman ○	Daniele Discepolo	20/07/1947	13/05/2015	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M		X	X	X	14	6/6	8/8	P	1/1	P				
CEO •	Michele Colaninno	23/11/1976	13/11/2006	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M	X				9	6/6								
Director	Matteo Colaninno	16/10/1970	31/01/2003	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M		X			3	6/6								
Director	Patrizia De Pasquale	02/04/1961	13/05/2015	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M		X	X	X	-	6/6								
Director	Ruggero Magnoni	10/02/1951	27/08/2010	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M		X			14	6/6								
Director	Giovanni Sala	14/04/1938	13/11/2008	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M		X	X	X	3	4/6	6/8	M	1/1	M				
Director	Rita Ciccone	06/06/1960	11/05/2012	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M		X	X	X	-	6/6	6/8	M	1/1	M				
Director	Livio Corghi	15/02/1946	13/05/2015	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M		X			2	6/6								
---------------------------- DIRECTORS NO LONGER IN OFFICE DURING THE REPORTING PERIOD ----------------------------																				
Number of Meetings held during the reporting period – BoD: 6						Control and Risks Committee: 8				Remuneration Committee: 1			Nomination Committee: -		Executive Committee: -					
Indicate the quorum required by minorities to submit lists to elect one or more members (pursuant to article 147-ter TUF): 2.5%																				

• This symbol indicates the Internal control and Risk Management System Director.
◊ This symbol indicates the main person responsible for managing the issuer (Chief Executive Officer or CEO).
○ This symbol indicates the Lead Independent Director (LID).
* The date of first appointment means the date when the director was appointed for the first time (in absolute terms) to the Board of Directors of the issuer.
** This column indicates the list from which each director was voted ("M": majority list; "m": minority list; "BoD": list presented by the Board of Directors).
*** This column indicates the number of positions held as director or auditor by the person in other companies listed on regulation markets, also abroad, and in financial, banking, insurance or large-scale companies. These positions are indicated in full in the Corporate Governance Report.

(*) This column indicates the participation of directors in meetings of the Board of Directors and committees (indicate the number of meetings attended and the total number of meetings the person could have attended; e.g. 6/8; 8/8 etc.).
(**) This column indicates the position of the director on the Committee: "P": Chairman; "M": member.

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors									
Position	**Member/Name**	**Year of birth**	**Date of first appointment ***	**In office since**	**In office up to**	**List ****	**Indep. Code**	**Involvement in Board meetings *****	**No. of other positions ******
Chairman	Alessandro Lai	10/01/1960	05/05/2003	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M	X	11/11	7
Statutory Auditor	Daniele Girelli	16/05/1960	11/05/2012	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M	X	10/11	10
Statutory Auditor	Silvia Rodi	07/12/1977	13/05/2015	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M	X	11/11	3
Alternate Auditor	Gianmarco Losi	22/07/1964	29/04/2009	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M	X	--	--
Alternate Auditor	Elena Fornara	31/05/1974	29/04/2009	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M	X	--	--
---------------------------- AUDITORS NO LONGER IN OFFICE DURING THE REPORTING PERIOD ----------------------------									
Number of meetings held during the reporting period: 11									
Indicate the quorum required by minorities to submit lists to elect one or more members (pursuant to article 148-ter TUF): 2.5%									

** The date of the first appointment of each auditor means the date when the auditor was appointed for the first time (in absolute terms) to the Board of Statutory Auditors of the issuer.*
*** This column indicates the list from which each auditor was voted ("M": majority list; "m": minority list).*
(*) This column indicates the participation of auditors in meetings of the Board of Statutory Auditors (indicate the number of meetings attended and the total number of meetings the person could have attended; e.g. 6/8; 8/8 etc.).
*****This column indicates the number of position held with companies as of Book V, Part V, Sections V, VI and VII of the Italian Civil Code. For information on the positions of director and auditor held by members of the Board of Statutory Auditors, which are relevant pursuant to articles 144-duodecies et. seq. of the Consob Issuer Regulation, see data published by Consob pursuant to article 144-quinquiesdecies of the Consob Regulation on Issuers, on the website www.sai.consob.it in the section "Company Boards – Information for the public".*

Attachment 1: Section on the “Main characteristics of risk management and internal controls systems established in relation to the financial disclosure process,” pursuant to article 123-*bis*, paragraph. 2, letter b) of the TUF

Introduction

Immsi S.p.A. has established specific guidelines to update its own Internal Control System on financial disclosure, requesting Delegated Company Bodies and Delegated Managers (where appointed) / Administrative Directors of subsidiaries, formal certification vis-à-vis the Chief Executive Officer and Financial Reporting Officer on the adequacy and effective application of administrative and accounting procedures adopted to prepare documents on consolidation sent to the parent company.

Aims and objectives

The risk management and internal control system in relation to Immsi Group financial disclosure was developed using the “2013 COSO Report”([1]) as a reference model. According to this report, the Internal Control System, given its broadest meaning, is defined as “*a process, carried out by the Board of Directors, by Senior Management and other subjects of the company structure, intended to provide reasonable certainty as to achieving objectives in the following categories*:

- *Effectiveness and efficiency of operations;*
- *Reliability of financial reporting;*
- *conformity with applicable laws and regulations*”.

In relation to the financial disclosure process, these objectives are mainly identified in the reliability, accuracy, dependability and timeliness of information.

Main characteristics of the risk management and internal control system in relation to the financial disclosure process

Methodological approach

The internal control and risk management system in relation to Immsi Group financial disclosure is part of the Group's wider-ranging Internal control and risk management system, which includes the following:

- Code of Ethics;
- Compliance programme pursuant to Legislative Decree no. 231/2001 and related protocols;
- Procedures for insider trading notices;
- Principles and procedures for material transactions and transactions with related parties;
- the System granting powers and proxies;
- Company Organisation Chart and Job profiles;
- Procedure on reporting information to the Market;

[1] The COSO Model, developed by the Committee of Sponsoring Organizations of the Treadway Commission - “Internal Control – Integrated Framework” published in 1992 and updated in 2013 by *the Committee of Sponsoring Organizations of the Treadway Commission.*

- Risk Analysis process adopted (Risk Assessment);
- Accounting and Management Control System.

In turn, the Accounting and Management Control System of Immsi S.p.A. comprises a set of procedures and operative documents, including:

- the Accounting and Administrative Auditing Model – a document available to all employees directly involved in the process of preparing and/or controlling accounting information and aimed at defining the operating procedures of the Accounting Auditing System;
- The Group Accounting Manual – a document designed to promote the development and application of standard accounting policies across the Group for the recognition, classification and measurement of operations;
- Operating instructions for financial statements and reporting and closing schedules – documents designed to instruct various company departments on specific operational procedures for preparing financial statements within established deadlines;
- Administrative and accounting procedures – documents that identify responsibilities and rules in administrative and accounting processes.

The Accounting and Administrative Control Model of Immsi S.p.A. defines a methodological approach for the risk management and internal control system, comprising the following stages:

a) Identification and assessment of risks involved in financial disclosure;

b) Identification of controls to minimise risks identified;

c) Assessment of controls to minimise risks identified and the management of any problems found.

Elements of the system

a) Identification and assessment of financial disclosure risks

Risks connected with the preparation of financial reports are identified through a step-by-step *risk assessment* process. The process involves identifying the objectives that the internal control system for financial disclosure is expected to deliver, so as to ensure that financial reports are fair and truthful. Those objectives cover the assertions made in financial reports (regarding the existence and occurrence of events, comprehensiveness, rights and obligations, the measurement/recognition of items, presentation and disclosures) and other control objectives (such as, for example, compliance with approval limits, the separation of roles and responsibilities, the documentation and traceability of transactions, and so on).

Risk assessment, including the risk of fraud, is therefore focused on the different areas of the financial statements in which the failure to deliver control objectives would have a potential impact on financial disclosure requirements.

The process to determine the scope of entities and processes that are “significant” in terms of potential impact on financial disclosure identifies, with reference to the consolidated financial statements of the Group, financial statement items, subsidiaries and administrative accounting processes considered as significant, based on evaluations made using quantitative and qualitative parameters.

Those criteria are determined by:

- by determining the quantitative threshold values to compare accounts of the consolidated financial statements and the relative contribution of subsidiaries within the framework of the Group;
- making qualitative judgements on the basis of managers' knowledge of the company and existing specific risk factors inherent to administrative-accounting processes.

b) Identification of controls for identified risks;

The controls needed to mitigate risks identified in administrative-accounting processes are identified by considering, as mentioned earlier, the control objectives associated with financial disclosure.

In particular, the accounts of the financial statements classified as significant are connected to the business processes underlying them in order to identify controls that meet the objectives of the internal control and risk management system for financial disclosure. Assessments are then made of the adequacy and effective application of the controls identified. For automatic controls, the assessment of adequacy and effective application also concerns general IT controls on the software applications used to support processes of material relevance.

The functions involved in the financial disclosure process ensure that administrative and accounting procedures and relative controls are updated, as concerns areas in their remit.

If, after defining the scope of actions, sensitive areas are identified which are not regulated, either wholly or in part, by administrative and accounting procedures, existing procedures are supplemented and new procedures are formalised, overseen by the Executive in Charge of Financial Reporting, in relation to management areas in his remit.

c) Evaluation of controls for identified risks and management of any problems detected

The financial audit system is reviewed and assessed regularly at least once every six months, and when the separate annual financial statements, consolidated annual financial statements, and the condensed consolidated interim financial statements are each prepared.

Evaluations related to the adequacy and actual application of administrative and accounting procedures and controls in these procedures are developed through specific monitoring (testing) based on best practices in this sector.

Testing is done throughout the financial year, as arranged and coordinated by the Executive in Charge of Financial Reporting through his own department, supported if necessary by the internal audit department or appropriately selected external consultants.

Control tests are run on the administrative and functional departments coordinated by the Executive in Charge of Financial Reporting or by his officers, assisted by the Internal Audit department to ensure that controls for administrative and accounting procedures are carried out, in addition to specific focused controls on companies, processes and accounting entries.

Delegated bodies and administrative managers of subsidiaries report to the Executive in Charge of Financial Reporting on the monitoring of the adequacy and application of administrative and accounting procedures.

The Executive in Charge of Financial Reporting, assisted by the Internal Auditing Manager, produces a report summarising the results of evaluations on controls for previously identified risks (Management Summary). This is based on the outcome of monitoring activities, also carried out by delegated administrative bodies and based on statements received from managers. The assessment made of controls may entail the identification of compensatory controls, corrective measures or improvement plans to address any problems identified.

Once cleared by the Chief Executive Officer, the management summary is sent to the Board of Statutory Auditors, to the Internal Control and Risk Management Committee, and to the Board of Directors.

Roles and departments involved

The risk management and internal control system for financial disclosure is governed by the Financial reporting manager appointed by the Board of Directors. Working in concert with the Chief Executive Officer, the financial reporting manager is responsible for designing, implementing and approving the Financial and Administrative Audit Model, assessing its application and issuing an attestation statement for the separate and consolidated annual and interim financial statements, and the separate, consolidated and half-year reports.

The Financial Reporting Officer is also responsible for preparing adequate administrative and accounting procedures for preparing the financial statements and consolidated financial statements and, assisted by the Internal Audit Department, provides subsidiaries that are considered as significant within the framework of the Group financial disclosure process, with guidelines for carrying out appropriate activities to evaluate their own Accounting Control System.

In carrying out activities, the Executive in Charge of Financial Reporting:

- interacts with the Internal Audit Department / Internal Audit Department Manager, that carries out independent audits on the operation of the control system and assists the Financial Reporting Officer, and interacts with the Legal and Corporate Affairs Department as regards regulatory and legal compliance concerning financial disclosure;
- is assisted by Function Managers. These managers ensure complete, reliable information flows to the Executive in Charge of Financial Reporting, for areas in their remit, for accounting disclosure purposes;
- co-ordinates the activities of the administrative managers of "material" subsidiaries, who, together with their executive officers, are tasked with implementing a suitable financial audit system in their respective companies to control administrative-accounting processes, assessing the effectiveness of the system over time, and reporting outcomes to the parent company via internal attestation statements;
- exchanges information with the Control and Risks Committee and with the Board of Directors, reporting on activities carried out, on the use of accounting standards and their uniformity for the purposes of preparing the consolidated financial statements, and on the adequacy of the internal control and risk management system as regards financial disclosure, as part of a wider overall evaluation of corporate risks.

Finally, the Board of Statutory Auditors, the Control and Risks Committee and the Supervisory Board are informed of the adequacy and reliability of the administrative/accounting system.

Immsi Group

Financial statements at 31 December 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

In thousands of euros

ASSETS		31 December 2016	31 December 2015
NON-CURRENT ASSETS			
Intangible assets	*F1*	847,059	852,211
Plant, property and equipment	*F2*	336,467	343,465
Investment property	*F3*	85,765	85,965
Investments	*F4*	7,464	9,546
Other financial assets	*F5*	33,205	36,812
Tax receivables	*F6*	15,680	5,477
Deferred tax assets	*F7*	126,640	122,493
Trade receivables and other receivables	*F8*	15,587	15,820
- of which with Related Parties		*133*	*153*
TOTAL NON-CURRENT ASSETS		1,467,867	1,471,789
ASSETS HELD FOR DISPOSAL	*F9*	27,183	27,307
CURRENT ASSETS			
Trade receivables and other receivables	*F8*	134,382	204,342
- of which with Related Parties		*7,487*	*5,306*
Tax receivables	*F6*	29,386	23,396
Inventories	*F10*	294,057	287,859
Other financial assets	*F5*	14,693	16,495
Cash and cash equivalents	*F11*	197,919	124,510
TOTAL CURRENT ASSETS		670,437	656,602
TOTAL ASSETS		2,165,487	2,155,698

LIABILITIES		31 December 2016	31 December 2015
SHAREHOLDERS' EQUITY			
Consolidated shareholders' equity attributable to the Group		232,787	265,634
Capital and reserves of non-controlling interests		159,771	162,460
TOTAL SHAREHOLDERS' EQUITY	*G1*	392,558	428,094
NON-CURRENT LIABILITIES			
Financial liabilities	*G2*	548,512	648,793
- of which with Related Parties		*2,900*	*2,900*
Trade payables and other payables	*G3*	6,907	6,503
- of which with Related Parties		*162*	*0*
Retirement fund and similar obligations	*G4*	53,482	54,046
Other long-term provisions	*G5*	11,739	10,331
Deferred tax liabilities	*G6*	23,110	21,949
TOTAL NON-CURRENT LIABILITIES		643,750	741,622
LIABILITIES RELATED TO ASSETS HELD FOR DISPOSAL		0	0
CURRENT LIABILITIES			
Financial liabilities	*G2*	582,096	429,104
- of which with Related Parties		*12*	*226*
Trade payables	*G3*	469,314	468,641
- of which with Related Parties		*10,298*	*9,534*
Current taxes	*G7*	9,314	15,880
Other payables	*G3*	52,267	55,629
- of which with Related Parties		*215*	*1,634*
Current portion of other long-term provisions	*G5*	16,188	16,728
TOTAL CURRENT LIABILITIES		1,129,179	985,982
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,165,487	2,155,698

CONSOLIDATED INCOME STATEMENT AT 31 DECEMBER 2016

In thousands of euros

		2016	2015
Net revenues	*H1*	1,383,848	1,362,012
- of which with Related Parties		*855*	*895*
Costs for materials	*H2*	786,766	785,366
- of which with Related Parties		*23,289*	*25,616*
Costs for services, leases and rentals	*H3*	272,674	268,669
- of which with Related Parties		*955*	*781*
Employee costs	*H4*	232,808	231,868
Depreciation of plant, property and equipment	*H5*	46,337	47,157
Amortisation of goodwill		0	0
Amortisation of intangible assets with a definite life	*H6*	63,745	59,566
Other operating income	*H7*	110,675	114,066
- of which with Related Parties		*3,042*	*648*
Other operating costs	*H8*	35,185	29,398
OPERATING INCOME		57,008	54,054
Earnings on investments	*H9*	568	165
Financial income	*H10*	15,612	20,577
Borrowing costs	*H11*	68,692	76,605
- of which with Related Parties		*134*	*157*
PROFIT BEFORE TAX		4,496	(1,809)
Taxes	*H12*	12,841	11,863
EARNINGS AFTER TAXES FROM CONTINUING OPERATIONS		(8,345)	(13,672)
Gain (loss) from assets held for disposal or sale	*H13*	0	0
EARNINGS FOR THE PERIOD INCLUDING NON-CONTROLLING INTERESTS		(8,345)	(13,672)
Earnings for the period attributable to non-controlling interests		318	(4,118)
EARNINGS FOR THE PERIOD ATTRIBUTABLE TO THE GROUP	*H14*	(8,663)	(9,554)

EARNINGS PER SHARE

In euros

From continuing and discontinued operations:	*2016*	*2015*
Basic	(0.025)	(0.028)
Diluted	(0.025)	(0.028)

From continuing activities:	*2016*	*2015*
Basic	(0.025)	(0.028)
Diluted	(0.025)	(0.028)

Average number of shares:	340,530,000	340,530,000

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AT 31 DECEMBER 2016

In thousands of euros

	2016	*2015*
EARNINGS FOR THE PERIOD INCLUDING NON-CONTROLLING INTERESTS	(8,345)	(13,672)
Items that will not be reclassified to profit or loss		
Actuarial gains (losses) on defined benefit plans	(2,756)	1,962
Total	(2,756)	1,962
Items that may be reclassified to profit or loss		
Gains/(losses) on cash flow hedges	473	542
Profit (loss) deriving from the translation of financial statements of foreign companies denominated in foreign currency	1,429	3,260
Gains/(Losses) on evaluation at *fair value* of assets available for sale and property investments	(6,697)	1,572
Total	(4,795)	5,374
Other Consolidated Comprehensive Income (Expense)	(7,551)	7,336
TOTAL COMPREHENSIVE PROFIT (LOSS) FOR THE PERIOD	(15,896)	(6,336)
Comprehensive earnings for the period attributable to non-controlling interests	(257)	(1,361)
COMPREHENSIVE EARNINGS FOR THE PERIOD ATTRIBUTABLE TO THE GROUP	(15,639)	(4,975)

The values in the previous table are net of the corresponding tax effect.

STATEMENT OF CONSOLIDATED CASH FLOWS AT 31 DECEMBER 2016

In thousands of euros

		2016	2015
Operating activities			
Profit before tax		4,496	(1,809)
Depreciation of plant, property and equipment (including investment property)	*H5*	46,337	47,157
Amortisation of intangible assets	*H6*	63,745	59,566
Provisions for risks and for severance indemnity and similar obligations	*H4 - H8*	22,742	21,013
Write-downs (reversals of fair value measurements)	*H7 – H8*	2,747	3,251
Losses / (Gains) on the disposal of plant, property and equipment (including investment property)	*H7 – H8*	(2,295)	(248)
Interest income	*H10*	(2,705)	(1,020)
Dividend income	*H10*	(24)	(130)
Interest expense	*H11*	52,034	52,812
Amortisation of grants	*H7*	(4,260)	(3,839)
Portion of earnings before taxes of affiliated companies (and other companies valued using the equity method)	*H9*	(568)	(141)
Change in working capital:			
(Increase) / Decrease in trade receivables	*F8*	110	(3,902)
(Increase)/Decrease in inventories	*F10*	(6,198)	18,162
Increase / (Decrease) in trade payables	*G3*	(2,195)	(35,840)
(Increase) / Decrease in contract work in progress	*F8*	64,856	3,414
Increase / (Decrease) in provisions for risks	*G5*	(12,870)	(15,004)
Increase / (Decrease) in reserves for severance indemnity and similar obligations	*G4*	(9,664)	(16,037)
Other changes		(6,356)	44,717
Cash generated from operating activities		209,932	172,122
Interest paid		(45,557)	(47,089)
Taxes paid		(25,850)	(23,555)
Cash flow from operations		138,525	101,478
Investing activities			
Acquisition of subsidiaries, net of cash and cash equivalents		(5,612)	0
Sale price of subsidiaries, net of cash and cash equivalents		0	5,206
Investments in plant, property and equipment	*F2*	(39,371)	(38,817)
Sale price, or repayment value, of plant, property and equipment (including investment property)	*F2*	2,582	581
Investments in intangible assets	*F1*	(58,678)	(63,907)
Sale price, or repayment value, of intangible assets		0	56
Purchase of non-consolidated investments		0	(8)
Sale price of non-consolidated investments		0	14
Purchase of financial assets	*F5*	(1,881)	(1,766)
Sale price of financial assets		3	47
Collected interests		594	767
Other flows from assets held for disposal or sale		124	(199)
Grants received		244	159
Cash flow from investing activities		(101,995)	(97,867)
Financing activities			
Loans received	*G2*	328,836	301,737
Outflow for repayment of loans	*G2*	(295,279)	(263,955)
Financing received for leases	*G2*	12,839	0
Repayment of finance leases	*G2*	(1,601)	(31)
Outflow for dividends paid to Parent Company Shareholders	*G1 - N*	(5,107)	0
Outflow for dividends paid to non-controlling interests		(8,921)	(12,851)
Cash flow from financing activities		30,767	24,900
Increase / (Decrease) in cash and cash equivalents		67,297	28,511
Opening balance		104,415	75,899
Exchange differences		1,511	5
Closing balance		173,223	104,415

Changes in working capital include a decrease in trade payables and other payables towards Related Parties for €654 thousand and an increase in trade receivables and other receivables from Related Parties for €2,181 thousand. For more detail on Related-Party transactions during 2016, see the paragraph in the Report on Operations.

This table shows the changes in cash and cash equivalents at 31 December 2016, which amount to €197.9 million, gross of short-term bank overdrafts equal to €24.7 million.

CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31 DECEMBER 2016

In thousands of euros	*Share capital*	*Reserves and retained earnings(losses)*	*Earnings for the period*	*Shareholders' equity attributable to the Group*	*Capital and reserves of non-controlling interests*	*Shareholders' equity attributable to the Group and non-controlling interests*
Balances at 31 December 2014	***178,464***	***160,538***	***(70,814)***	***268,188***	***173,923***	***442,111***
Allocation of Group earnings to the Legal Reserve	0	0	0	0	0	0
Allocation of Group earnings to Dividends	0	0	0	0	(12,851)	(12,851)
Allocation of Group earnings to Retained Earnings/Losses	0	(70,814)	70,814	0	0	0
Purchase of treasury shares by Piaggio & C. S.p.A.	0	(17)	0	(17)	(17)	(34)
Sale of treasury shares by Piaggio & C. S.p.A.	0	0	0	0	0	0
Figurative cost of stock options	0	0	0	0	0	0
Other changes	0	2,438	0	2,438	2,766	5,204
Overall earnings for the period	0	4,579	(9,554)	(4,975)	(1,361)	(6,336)
Balances at 31 December 2015	***178,464***	***96,724***	***(9,554)***	***265,634***	***162,460***	***428,094***

In thousands of euros	*Share capital*	*Reserves and retained earnings(losses)*	*Earnings for the period*	*Shareholders' equity attributable to the Group*	*Capital and reserves of non-controlling interests*	*Shareholders' equity attributable to the Group and non-controlling interests*
Balances at 31 December 2015	***178,464***	***96,724***	***(9,554)***	***265,634***	***162,460***	***428,094***
Allocation of Group earnings to the Legal Reserve	0	775	(775)	0		0
Allocation of Group earnings to Dividends	0	0	(5,107)	(5,107)	(8,921)	(14,028)
Allocation of Group earnings to Retained Earnings/Losses	0	(15,436)	15,436	0		0
Purchase of treasury shares by Piaggio & C. S.p.A.	0	(2,833)	0	(2,833)	(2,779)	(5,612)
Sale of treasury shares by Piaggio & C. S.p.A.	0	0	0	0	0	0
Figurative cost of stock options	0	0	0	0	0	0
Other changes	0	(9,268)	0	(9,268)	9,268	0
Overall earnings for the period	0	(6,976)	(8,663)	(15,639)	(257)	(15,896)
Balances at 31 December 2016	***178,464***	***62,986***	***(8,663)***	***232,787***	***159,771***	***392,558***

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

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- A – GENERAL ASPECTS

Immsi S.p.A. (the "Company") is a limited company established under Italian law and has registered offices in Mantova - P.zza Vilfredo Pareto, 3 Centro Direzionale Boma. The main activities of the company and its subsidiaries (the "Immsi Group"), the information on relevant events after the end of the reporting period and on operating outlook are described in the Directors' Report on Operations. At 31 December 2016, Immsi S.p.A. was directly and indirectly, pursuant to article 93 of the TUF, controlled by Omniaholding S.p.A., a company wholly owned by the Colaninno family, through the subsidiary Omniainvest S.p.A..

The consolidated financial statements of the Immsi Group include the financial statements of the Parent Company Immsi S.p.A. and the Italian and international companies directly and indirectly controlled by it, approved by the relevant corporate functions of the respective companies, the list of which is shown in the paragraph "List of companies included in the consolidated financial statements and investments" contained in this Report.
The financial statements are expressed in euros since that is the currency in which most of the Group's transactions take place.
The amounts in the above tables and in the Notes to the consolidated financial statements are in thousands of euros (if not otherwise indicated).
These Financial Statements are audited by PricewaterhouseCoopers S.p.A. pursuant to the appointment granted by the Shareholders' Meeting on 11 May 2012 for the period 2012-2020.

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

The Consolidated Financial Statements of the Immsi Group at 31 December 2016 have been drafted in compliance with International Accounting Standards (IAS/IFRS) in force at that date, issued by the International Accounting Standards Board and approved by the European Commission, as well as in compliance with the provisions established in article 9 of Legislative Decree no. 38/2005 (Consob Resolution no. 15519 of July 27/7/06 containing "Provisions for the presentation of financial statements", Consob Resolution no. 15520 of July 27/7/06 containing "Changes and additions to the Regulation on Issuers adopted by Resolution no. 11971/99" and Consob communication no. 6064293 of 28/7/06 containing "Corporate reporting required in accordance with article 114, paragraph 5 of Legislative Decree no. 58/98"). The interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously the Standing Interpretations Committee ("SIC"), were also taken into account.

Moreover, international accounting standards have been uniformly adopted for all Group companies: the financial statements of subsidiaries, used for consolidation, have been appropriately modified and reclassified, where necessary, to bring them in line with the international accounting standards and uniform classification criteria used by the Group.

The financial statements have been prepared on a historical cost basis, amended as required for the measurement of some financial statement items. They have also been prepared on a going concern basis, with reference to a future period of 12 months from 31 December 2016, despite the situation of high financial strain caused by the difficult economic environment, among other factors, with sharp falls in the equity markets, which resulted in the failure by Immsi S.p.A. as of 31 December 2016 to meet several financial parameters and guarantee amounts linked to the listing of the subsidiary Piaggio & C. S.p.A., for which the relevant exemption has been requested and obtained. In view of the uncertainty arising from this situation, and taking into account the credit lines maturing during the year and the financial commitments that the Group has made to support the implementation of its projects, and in particular the real estate project currently being implemented by the subsidiary Is Molas S.p.A., the Directors of the Parent Company, in order to ensure the performance of its obligations and its continuity as a going concern, have taken actions aimed at seeking solutions to ensure financial stability for the next 12 months. These actions take into account both the possible risk of future weak equity markets, which is a significant factor of uncertainty with respect to the size of the credit lines currently granted to Immsi, and the use of the financial resources to meet the commitments made by the Group to support the projects underway.

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Group has chosen to highlight all changes generated by transactions with non-shareholders within two statements reporting trends of the period, respectively named the "Consolidated Income Statement" and "Consolidated Statement of Comprehensive Income". These consolidated financial Statements are therefore composed of the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Statement of Changes in Consolidated Shareholders' Equity, the Consolidated Cash Flow Statement, and these Explanatory and additional notes to the consolidated financial statements.

With reference to Consob Resolution no. 15519 of 27 July 2006, as regards the financial statements, specific Income statement and Statement of financial position tables have been included indicating significant Related-Party transactions and non-recurring transactions. In this regard, it is noted that in 2016 no non-recurrent, atypical or unusual transactions were recorded, as was also the case in the previous year.

Consolidated income statement (reclassified)
The Consolidated income statement is presented with the items classified by nature. The overall Operating Income is shown, which includes all income and cost items, irrespective of their repetition or fact of falling outside normal operations, except for the items of financial operations included under Operating Income and Earnings before tax. In addition, the income and cost items arising from assets that are held for disposal or sale, including any capital gains or losses net of the tax element, are recorded in a specific item of the consolidated statement of financial position which precedes Group net income and non-controlling interest.

Consolidated Statement of Comprehensive Income
The Consolidated Statement of Comprehensive Income is presented as provided for in IAS 1 revised. This amended version of the standard requires income attributable to parent company owners and to non-controlling interests net of the corresponding tax effect and groups components under Other comprehensive income/(losses) depending on whether or not they may be subsequently reclassified to profit or loss.

Consolidated Statement of Financial Position
The Consolidated Statement of Financial Position is presented in opposite sections with separate indication of assets, liabilities, and shareholders' equity. In turn, assets and liabilities are reported in the Consolidated Financial Statements on the basis of their classification as current and non-current.

Consolidated Statement of Cash Flows
The Consolidated Statement of Cash Flows is divided into cash-flow generating areas. The Consolidated Statement of Cash Flows model adopted by the Immsi Group has been prepared using the indirect method. The cash and cash equivalents recorded in the Statement of Cash Flows include the Consolidated Statement of Financial Position balances for this item at the reporting date. Financial flows in foreign currency have been converted at the average exchange rate for the period. Income and costs related to interest, dividends received and income taxes are included in the cash flow generated from operations.

Consolidated net debt
The statement of Consolidated net debt in this Report details this aggregate: in this respect, in conformity with the CESR recommendation of 10 February 2005 “Recommendations for the consistent implementation of the European Commission’s Regulation on Prospectuses”, it should be noted that the indicator, thus formulated, represents what was monitored by the Group's management and that it differs from what is suggested by Consob Communication no. 6064293 of 28 July 2006, as it also highlights the non-current portion of financial receivables.

Statement of changes in consolidated shareholders' equity
The Statement of Changes in consolidated Shareholders’ equity is presented as required by IAS 1 revised. It includes total comprehensive income, while separately reporting the amounts attributable to owners of the Parent Company as well as the quota pertaining to non-controlling interests, amounts of operations with shareholders acting in this capacity and any potential effects of retroactive application or of the retroactive calculation pursuant to IAS 8. Reconciliation between the opening and closing balance of each item for the period is presented.

- B - SCOPE OF CONSOLIDATION

The scope of consolidation has not changed considerably compared to the Consolidated Financial Statements at 31 December 2015. In particular:

- on 30 June 2016 the company Rodriquez Engineering S.r.l., a subsidiary of Intermarine S.p.A., was liquidated;
- on 5 August 2016 RCN Finanziaria S.p.A. purchased ordinary treasury shares held by the minority shareholder GE Capital Equity Holdings LLC equal to 12.86%;
- in Is Molas S.p.A. a capital increase was subscribed and paid up by the shareholder ISM Investimenti S.p.A. which increased its holding from 89.48% to 92.59%.

These changes - as they are of a limited extent - did not alter the comparability of data on the financial position and performance between the reference periods, and essentially only resulted in a partial redistribution of net profit and shareholders' equity attributable to the Group and to non-controlling interests.

Lastly, the consolidated portion of shareholders’ equity of the Piaggio group, which amounted to 50.49% at 31 December 2016, was equal to 50.06% at 31 December 2015: the increase is a result of the effect of the purchase by Piaggio in 2016 of 3,039 thousand treasury shares.

- C - CONSOLIDATION PRINCIPLES

Assets and liabilities, and income and costs, of consolidated companies are recognised on a global integration basis, eliminating the carrying amount of consolidated investments in relation to the relative shareholders' equity at the time of purchase or underwriting. The carrying amount of investments has been eliminated against the shareholders' equity of subsidiaries/associates, assigning to non-controlling interests under specific items the relative portion of shareholders' equity and relative net profit due for the period, in the case of subsidiaries consolidated on a line-by-line basis.

Subsidiaries

Subsidiaries are companies in which the Group has a major influence. This influence exists when the Group has direct or indirect power to determine the financial and operational policies of a company in order to gain benefits from its operations. The acquisition of subsidiaries is recognised according to the acquisition method. The cost of acquisition is determined by the sum of present values at the date control of the given assets was obtained, liabilities borne or undertaken and

financial instruments issued by the Group in exchange for control of the acquired company.
In the case of acquisitions of companies, acquired and identifiable assets, liabilities and potential liabilities are recognised at the present value at the date of acquisition. The positive difference between the acquisition cost and the share of the Group at the fair value of said assets and liabilities is classified as goodwill and recognised in the financial statements as an intangible asset. Any negative difference ("negative goodwill") is instead recorded in the Income Statement at the time of acquisition.
The financial statements of subsidiaries are included in the Consolidated Financial Statements starting from the date when control is acquired until control ceases.
The portions of shareholders' equity and income attributable to non-controlling interests are separately indicated in the Consolidated Statement of Financial Position and Consolidated Income Statement respectively.

Associates and Joint Arrangements

Associates are companies in which the Group has considerable influence but not control of financial and operational policies.
The Group adopts IFRS 11 for all joint arrangements. According to IFRS 11, investments in joint arrangements are classified as joint operations or joint ventures depending on the contractual obligations and rights of each investor. The Group has classified the only joint arrangement agreement in place as being a joint venture.
In adopting the equity method, the investment in an associate or joint venture is initially recognised at cost and the carrying amount is increased or decreased to recognise the portion attributable to the Group of profit or loss of the investee realised after the date of acquisition. The portion of profit (loss) for the period of the investee attributable to the Group is recognised separately in the consolidated profit or loss. Dividends received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount of the investment are also due to changes in items of other comprehensive income of the investee (e.g. changes arising from translation differences of items in foreign currency). The portion of these changes, attributable to the Group, is recognised under other components of comprehensive income. If the Group's share of the losses of an associate or a joint venture is equal to or more than its interest in the associate or the joint venture, the Group ceases to recognise its share of any additional losses. After the interest is reduced to zero, additional losses are recognised by a provision (liability) only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the Group resumes recognising its portion of those profits only after its portion of the profits equals the share of losses not recognised. The profits and losses resulting from "upwards" and "downwards" transactions between the Group and an associate or a joint venture are recognised in the consolidated financial statements solely to the extent of the non-controlling interest in the associate or joint venture. The Group's share of the profit or loss of the associate or joint venture arising from these transactions, attributable to the investor, is eliminated in the consolidated income statement under "earnings from investments", with a counter entry of the asset's value, in "upwards" transactions, and of the value of the investment, in "downwards" transactions.

Investments in other companies

Investments in other companies (usually the percentage held is less than 20%) are entered at cost minus any impairment losses. Dividends received from these companies are included under the item Financial income. It should also be noted that the Group Parent Company Immsi S.p.A. has minority stakes in Alitalia - Compagnia Aerea Italiana S.p.A. and Unicredit S.p.A., both classified under the item Financial assets available for sale ("AFS") and valued at the end of each reporting period at fair value: gains and losses arising from changes in fair value are recognised directly in equity until they are sold or a significant impairment loss is recorded. At that time the cumulative gains or losses previously recognised in equity are recognised in profit or loss for the period.

Transactions eliminated during the consolidation process

In preparing the Consolidated Financial Statements, all balances and significant transactions between Group companies have been eliminated, as well as unrealised profits and losses arising from intergroup transactions. Unrealised profits and losses generated from transactions with associates or jointly controlled companies are eliminated based on the value of the investment of the Group in the companies.

Transactions in foreign currency

Transactions in foreign currency are recorded at the exchange rate in effect on the date of the transaction. Monetary assets and liabilities in foreign currency are translated at the exchange rate in effect at the reporting date.

Consolidation of foreign companies

The separate financial statements of each company belonging to the Group are prepared in the currency of the primary economic environment in which they operate (the functional currency). For the purposes of the consolidated financial statements, the financial statements of each foreign entity are in euros, which is the functional currency of the Group and the presentation currency of the consolidated financial statements.
All assets and liabilities of foreign companies in a currency other than the euros which come under the scope of consolidation are translated, using exchange rates in effect at the reporting date (currency exchange rates method). Income and costs are translated at the average exchange rate of the period. Translation differences arising from the adoption of this method, as well as the exchange differences arising from the comparison between the initial shareholders' equity converted at current exchange rates and the same translated at historical exchange rates, pass through the Statement of Comprehensive Income and are accumulated in a specific reserve of shareholders' equity until disposal of the investment: average exchange rates for translating the cash flows of foreign subsidiaries are used in preparing the Statement of Consolidated Cash Flows.

The exchange rates used to translate the financial statements of companies included in the scope of consolidation into euros are shown in the following table (data rounded up to 2 decimal places):

	Spot exchange rate at 31 December 2016	Average exchange rate 2016	Spot exchange rate at 31 December 2015	Average exchange rate 2015
US Dollar	1.0541	1.10690	1.0887	1.10951
Pounds Sterling	0.85618	0.819483	0.73395	0.72585
Brazilian Real	3.4305	3.85614	4.3117	3.70044
Indian Rupee	71.5935	74.3717	72.0215	71.1956
Singapore Dollars	1.5234	1.52754	1.5417	1.52549
Chinese Renminbi	7.3202	7.35222	7.0608	6.97333
Croatian Kuna	7.5597	7.53329	7.638	7.6137
Japanese Yen	123.40	120.197	131.07	134.314
Vietnamese Dong	23,894.71	24,566.34911	24,435.06	24,147.36965
Indonesian Rupiah	14,167.10	14,721.43381	15,029.50	14,861.45152
Canadian Dollars	1.4188	1.46588	1.5116	1.41856

- D - ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

The most significant accounting policies adopted to prepare the Consolidated Financial Statements at 31 December 2016 are outlined below:

INTANGIBLE ASSETS

As provided for in IAS 38, an intangible asset which is purchased or internally generated, is recognised as an asset only if it is identifiable, controllable and future economic benefits are expected and its cost may be measured reliably.
Intangible assets with a finite life are measured at acquisition cost or production cost net of amortisation and accumulated impairment losses. For an asset that justifies capitalisation, the cost also includes any borrowing costs that are directly attributable to acquisition, construction or production of the asset.
Amortisation is referred to the expected useful life and commences when the asset is available for use.

Goodwill

In the case of acquisitions of companies, acquired and identifiable assets, liabilities and potential liabilities are recognised at fair value at the date of acquisition. The positive difference between the acquisition cost and the share of the Group at the fair value of said assets and liabilities is classified as goodwill and recognised in the financial statements as an intangible asset. Any negative difference ("negative goodwill") is instead recorded in the Income statement at the time of acquisition.
Goodwill is not amortised but tested annually for impairment, or more frequently if specific events or changed circumstances indicate that an asset may be impaired, as provided for in IAS 36 - *Impairment of Assets.* After initial recognition, goodwill is recognised at cost net of any accumulated impairment losses.
At the disposal of part of or an entire company previously acquired from whose acquisition goodwill arose, the corresponding residual value of goodwill is considered when measuring the capital gain or loss of the disposal.

During first-time adoption of IFRSs, the Group opted not to retroactively apply IFRS 3 – Business Combinations to acquisitions of companies that took place before 1st January 2004. Accordingly, the goodwill generated by acquisitions made prior to the date of adoption of IFRS was left unchanged as previously calculated under Italian GAAP, subject to determination and reporting of any impairments. After 1 January 2004, and following acquisitions made during 2004, additional goodwill was generated, the amount of which was remeasured in the light of the different values of shareholders' equity of the acquired companies in relation to provisions in IFRS 3.

Development costs

Development costs are recognised as assets only if all of the following conditions are met: the costs can be reliably measured and the technical feasibility of the product, the volumes and expected prices indicate that costs incurred during development will generate future economic benefits. Capitalised development costs include only costs incurred that may be directly attributed to the development process. Capitalised development costs are amortised on a systematic criterion basis, starting from the beginning of production through the estimated life of the product.
All other development costs are recorded in the Income statement when they are incurred.

Other intangible assets

As provided for in IAS 38 – *Intangible Assets*, other intangible assets which are purchased or internally generated are recognised as assets if it is probable that use of the asset will generate future economic benefits and the cost of the asset can be reliably measured. These assets are recognised at acquisition or production cost and are amortised on a straight line basis over their estimated useful life, if they have a definite useful life.

Intangible assets with an indefinite useful life are not amortised but tested annually for impairment, or more frequently if there is an indication that an asset may be impaired. Other intangible assets recognised following the acquisition of a company are accounted for separately from goodwill, if their fair value can be reliably measured. The amortisation period for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period: if the expected useful life proves different from previous estimates, the amortisation period is changed accordingly.
The amortisation periods of intangible assets are shown below:

Development costs	3 - 5 years
Industrial patents and rights of use for original works	3 - 5 years
Other	5 years
Trademarks	15 years

PLANT, PROPERTY AND EQUIPMENT

The Immsi Group opted to use the cost method for the first-time adoption of IAS/IFRSs in preparing its financial statements, as provided for by IFRS 1. For the measurement of property, plant and equipment, therefore, the preference was not to use the fair value method. Property, plant and equipment were booked at the purchase or production cost and were not revalued. Borrowing costs related to the acquisition, construction or production of certain assets that require a significant period of time before they are ready for use or sale (qualifying assets), are capitalised along with the asset. Costs incurred after acquisition are capitalised only if they increase the future economic benefits of the asset they refer to. All other costs are recorded in the income statement when they are incurred. Property, plant and equipment under construction are measured at cost and depreciated starting from the period in which they are put into operation.
Depreciation is determined, on a straight-line basis, on the cost of the assets net of their relative residual values, based on their estimated useful life, while land is not depreciated.
Assets are depreciated by applying the criterion and rates indicated below:

Buildings	from 1.67% to 3%
Plant and machinery	from 6.67% to 25%
Miscellaneous equipment and other assets	from 5% to 40%
Land	not depreciated
Assets to be given free of charge	based on the duration of the concession

Profits and losses arising from the sale or disposal of assets are measured as the difference between the sale revenue and net carrying amount of the asset and are recognised in profit or loss for the period.
Assets to be given free of charge are assets held by Intermarine S.p.A. further to an agreement to lease and at the end thereof must be given free of charge and in perfect working order to the lessor. These assets are depreciated according to the duration of the concession.

Lease contracts

Lease contracts for property, plant and machinery where the Group, as lessee, basically undertakes all risks and benefits of the property, are classified as finance leases. Finance leases are capitalised when the lease is established, at the fair value of the leased asset or, if less, at the current value of minimum payments due. The corresponding amount due to the lessor, net of borrowing costs, is recognised as a financial payable. The borrowing cost is recognised in profit or loss over the lease period, so as to produce an interest rate that is constant for the remaining amount due for each period. Property, plant and machinery of finance leases are depreciated during the useful life of the asset or the shorter of the useful life of the asset or the duration of the lease agreement, if there is no reasonably certainty that the Group will obtain the property at the end of the lease period.
Leases in which a significant part of the risks and benefits of ownership are not transferred to the Group as the lessor, are classified as operating leases. Payments made for operating leases (net of any incentives received from the lessee), are recognised in profit or loss on a straight-line basis for the duration of the lease agreement.
The Group – through the Piaggio group – has its own production plants even in countries where ownership rights are not allowed. In 2007, on the basis of clarification from IFRIC, the Group reclassified as receivables the rentals paid in advance to obtain the availability of land where its production sites are situated.

Impairment

At the end of the reporting period, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that these assets may be impaired (impairment test). If there is an indication that an asset may be impaired, the asset's recoverable amount is estimated to determine the amount of the write-down. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the asset's cash generating unit.
The recoverable amount is the higher of an asset's fair value less costs to sell (if available) and its value in use. In measuring the value in use, estimated future cash flows are discounted at their fair value, using a rate net of taxes, which reflects current market changes in the fair value of money and specific risks of the asset.
If the recoverable amount of an asset (or of a cash generating unit) is estimated to be lower than the relative carrying amount, the carrying amount of the asset is reduced to the lower recoverable value. An impairment loss is immediately recognised in profit or loss, unless the asset is land or buildings other than the property investments recognised at revalued amounts, in which case the loss is charged to the respective revaluation reserve.
When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset (or of a cash generating unit), except for goodwill, is increased to the new value arising from an estimate of its recoverable amount, up to the net carrying amount applicable to the asset if no impairment loss had been recognised. The reversal of the impairment loss is immediately recognised in profit or loss, unless the asset is land or buildings other than the property investments recognised at revalued amounts, in which case the loss is charged to the respective revaluation reserve.
An intangible asset with an indefinite useful life is tested annually for impairment, or more frequently if there is an indication that an asset may be impaired.

INVESTMENT PROPERTY

International accounting standards regulate the accounting treatment of property used for production or administrative purposes (IAS 16) differently from investment property (IAS 40). As permitted by IAS 40, non instrumental property and buildings held for rental and/or asset appreciation purposes are measured at fair value.
Investment properties are eliminated from the financial statements when they are disposed of or

when they may not be used over time and future economic benefits from their sales are not expected.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (or disposal groups) that are classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell. Non-current assets (and disposal groups) are classified as held for sale when it is expected that their carrying amount will be recovered through a sale rather than through their use in company operations. This condition is only met when the sale is highly probable, the asset (or disposal group) is available for immediate sale and management is committed to a plan to sell, which should take place within 12 months from the date in which this item was classified as held for sale.

FINANCIAL ASSETS

Financial assets are recognised and deleted from the financial statements based on the negotiation date and are initially measured at fair value, represented by the initial increased amount, with the exception of assets held for negotiation, of costs relative to the transaction. At subsequent end of reporting periods, the financial assets the Group intends and can retain up until maturity (securities held until maturity) are recognised at amortised cost based on the effective interest rate method, net of reversals for impairment losses.

Financial assets other than those held to maturity are classified as held for trading or for sale, and are measured at fair value at the end of each period. When financial assets are held for trading, profits and losses arising from changes in fair value are recognised in profit or loss for the period.
For financial assets held for sale, profits and losses arising from changes in fair value are recognised in the other components of the statement of comprehensive income and allocated to a specific reserve of shareholders' equity until sold, recovered or disposed of.

INVENTORIES

Inventories are recognised as the lower of the purchase or production cost, determined by assigning to products the costs directly incurred in addition to the portion of indirect costs reasonably attributable to the performance of production activities in normal production capacity conditions and the market value at the end of the reporting period. The purchase or production cost is determined based on the weighted average cost method. As regards raw materials and work in progress, the market value is represented by the estimated net realisable value of corresponding finished products minus completion costs; as regards end products, the market value is represented by the estimated net realisable value (price lists less the costs for sales and distribution). The lower measurement based on market trends is eliminated in subsequent years, if the trends no longer exist. Obsolete, slow moving and/or excess inventories are impaired in relation to their possible use or future realisation, in a provision for the write-down of inventories.

RECEIVABLES

Trade receivables and other receivables are initially recognised at fair value and subsequently recognised based on the amortised cost method, net of the provisions for write-downs. Losses on receivables are recognised in the financial statements when there is objective evidence that the company will not be able to recover the amount due based on the contractual terms from the counterparty.
When payment of amounts due exceeds standard terms of payment granted to clients, the receivable is discounted.

Orders in progress, entirely related to the naval sector (Intermarine S.p.A.), were classified under the item Other receivables and consist mainly of:

- building work for the company’s own account and repair work, valued at the lower value between cost incurred and revenue achievable: To this end, they are entered as assets in the Statement of financial position net of the write-down fund for boats and semi-finished items likely to prove hard to sell;
- building work covered by standard contracts, valued in terms of revenue based on the status reached at the close of the year, calculated, as far as the materials and work contracted out are concerned, with reference to the costs actually incurred compared with the costs forecast on the basis of updated estimates and, with regard to labour, with reference to the direct hours actually worked compared with the direct hours forecast. The price revision is recognised based on a prudent basis taking into account the amounts recognisable by customers, in proportion to the value of the progress. Due to the features of the works in progress produced by the company, they also include parts of the assets the ownership of which was transferred in guarantee of payments received from customers. In fact assessment of proceeds takes place when the purchaser of the work accepts it, since the order is a unitary indivisible object.

FACTORING AND REVERSE FACTORING

The Group – mainly through the companies of the Piaggio group – sells a significant part of its trade receivables through factoring. Factoring may be without recourse, and in this case no risks of recourse or liquidity exist, as corresponding amounts of the balance of trade receivables are reversed when the receivable is sold to the factor. For factoring with recourse, the risk of non-payment and the liquidity risk are not transferred, and therefore relative receivables remain under the Statement of financial position until payment by the client of the amount due: in this case any advance payments collected by the factor are recognised under payables as amounts due to other lenders.
The Immsi Group - through the Piaggio group - in order to ensure easier access to credit for its suppliers, has established factoring agreements, typically in the technical forms of supply-chain financing or reverse factoring. On the basis of existing contractual structures, the supplier has the option to sell, at its discretion, the amounts due from the group to a lender and cash in the amount before expiry. In some cases, the timing of payment provided in the invoice is subject to further extensions agreed between the supplier and the group: these extensions may be interest or non-interest bearing. In order to assess the nature of these reverse factoring transactions, the group has adopted a specific policy: in relation to the contractual terms, differentiated on the basis of place of origin, a qualitative analysis of the contract terms is performed centrally by the Finance department, as well as a legal analysis aimed at evaluating the regulatory references and the assignment nature of the transaction (in accordance with the provisions of IAS 39 AG57 b). In some cases, as payment terms have been extended, quantitative analysis is carried out to verify the materiality of changes in contract terms, based on quantitative tests as required by IAS 39 AG 62. In this context, relations, for which a primary obligation with the supplier is maintained and any deferment, if granted, does not significantly change payment terms, are still classified as trade liabilities.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, current bank accounts, deposits payable on demand and other high liquidity short term financial investments, which are readily convertible into cash and not affected by any major risk of a change in value. This item does not include bank overdrafts payable on demand.

TREASURY SHARES

Treasury shares are recognised as a reduction of shareholders' equity. The original cost of treasury shares and the revenue proceeds from any subsequent sale are recognised directly in equity.

FINANCIAL LIABILITIES

Financial liabilities are recognised at fair value net of relative transaction costs. After initial recognition, loans are measured at amortised cost and calculated using the effective interest rate. Financial liabilities hedged with derivative instruments are booked at fair value, according to the methods established for *hedge accounting*, applicable to the *fair value hedge*: profits and losses arising from subsequent measurements at fair value, due to changes in interest rates, are recognised in profit or loss and offset by the effective portion of the loss and profit arising from subsequent measurements at present value of the hedged instrument. At the moment of the initial assessment, a liability may be designated to the fair value taken from the Income statement (profit & loss) when such designation eliminates or significantly reduces a lack of uniformity in the evaluation or in the assessment (at times defined “accounting asymmetry”) that otherwise would appear from the asset or liability evaluation or from the evaluation of the relative profits and losses on different bases. This fair value designation is exclusively applied to some financial liabilities in currency subject to exchange risk hedging.

DERIVATIVES AND MEASUREMENT OF HEDGING OPERATIONS

Group assets are primarily exposed to financial risks from changes in exchange and interest rates. The Group uses derivatives to hedge risks arising from changes in foreign currency and interest rates in particular irrevocable commitments and planned future transactions. With particular reference to the Piaggio group, the use of these instruments is regulated by written procedures on the use of derivatives, in line with the risk management policies of the group.

Derivatives are initially recognised at fair value*,* represented by the initial amount, and adjusted to fair value at subsequent end of reporting periods. Derivative financial instruments are only used with the intent of hedging, in order to reduce the exchange risk, interest rate risk and risk of changes in market prices.
In line with IAS 39, financial derivatives may qualify for hedge accounting, only when the hedging instrument is formally designated and documented, is expected to be highly effective and this effectiveness can be reliably measured and is highly effective throughout the reporting periods for which it is designated. When financial instruments may be measured by hedge accounting, the following accounting treatment is adopted:

- *Fair value hedge*: if a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of a recognised asset or liability, attributable to a particular risk and could affect profit or loss, the gain or loss from the subsequent change in fair value of the hedging instrument is recognised in profit or loss. The gain or loss on the hedged item, attributable to the hedged risk, change the carrying amount of the hedged item and is recognised in profit or loss;

- *Cash flow hedge*: if an instrument is designated as a hedge of the exposure to variability in cash flows of a recognised asset or liability or of a highly probable forecast transaction which could affect profit or loss, the effective portion of the gain or loss on the financial instrument is recognised in the statement of comprehensive income. Accumulated gain or loss is reversed from the statement of comprehensive income and recognised in profit or loss in the same period as the hedging transaction. The gain or loss associated with hedging or the part of hedging which is ineffective, is immediately recognised in profit or loss. If a hedging instrument or hedge relationship is terminated, but the hedged transaction has not yet been completed, the aggregate gains and losses, up to that moment recorded in Shareholders' equity, are recognised in profit or loss at the moment when the related transaction takes place. If hedge accounting ceases for a cash flow hedge relationship, gains and losses deferred in the statement of comprehensive income are recognised immediately in profit or loss.

If hedge accounting cannot be applied, gains and losses from measurement at fair value of the derivative financial instrument are immediately recognised in profit or loss.

LONG-TERM PROVISIONS

The Group recognises provisions for risks and charges when it has a legal or implicit obligation to third parties and it is likely that Group resources will have to be used to meet the obligation and when the amount of the obligation itself can be reliably estimated. Changes in estimates are recognised in profit or loss when the change takes place. If the effect is considerable, provisions are calculated discounting future cash flows estimated at a discount rate gross of taxes, to reflect current market changes in the fair value of money and specifics risks of the liability.

RETIREMENT FUNDS AND EMPLOYEE BENEFITS

Liabilities relative to employee benefits paid on or after termination of employment for defined benefit plans are determined separately for each plan, based on actuarial hypotheses estimating the amount of future benefits that employees will accrue at the reporting date (the "projected unit credit method”). Liabilities, recognised in the financial statements net of any assets serving the plan, are entered for the period when the right accrues. Liabilities are measured by independent actuaries.
The cost components of defined benefits are recognised as follows:

- costs relative to services are recognised in profit or loss under employee costs;
- net borrowing costs of liabilities or assets with defined benefits are recognised in profit or loss as financial income/(borrowing costs), and are determined by multiplying the value of the net liability/(asset) by the rate used to discount the obligations, taking account of the payment of contributions and benefits during the period;
- the remeasurement components of net liabilities, which include actuarial gains and losses, returns on assets (excluding interest income recognised in profit or loss) and any change in the limit of the assets, are immediately recognised as Other total profits (losses).These components must not be reclassified to the Income Statement in a subsequent period.

TERMINATION BENEFITS

Termination benefits are recognised at the closest of the following dates: i) when the Group can no longer withdraw the offer of such benefits and ii) when the Group recognises the costs of restructuring.

STOCK OPTION PLAN

As provided for in IFRS 2 - *Share-Based Payment*, the total amount of the fair value of stock options at the date of assignment is recognised wholly in profit or loss under employee costs, with a counter entry recognised directly in shareholders' equity, if the grantees of the instruments representing capital become owners of the right on assignment. If a "maturity period" is required, in which certain conditions are necessary before grantees become holders of the right, the cost for payments, determined on the basis of the fair value of options at the date of assignment, is recognised under employee costs on a straight line basis for the period between the date of assignment and maturity, with a counter entry directly recognised in shareholders' equity. Determination of fair value based on the Black-Scholes method. Changes in the fair value of options subsequent to the date of assignment do not have any effect on initial recognition.

TAX ASSETS AND LIABILITIES

Deferred taxes are determined based on the temporary taxable differences between the value of the asset and liability and their tax value. Deferred tax assets are measured only to the extent to which it is likely that adequate future taxable sums exist against which the deferred taxes can be used. The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent to which it is no longer likely that sufficient taxable income exists allowing for all or a portion of said assets to be recovered.
Deferred tax liabilities are determined based on tax rates expected for the period in which the tax assets are realised, considering the rates in effect or which are known to come into effect. Deferred tax liabilities are directly recognised in profit or loss, except for items directly recognised in the statement of comprehensive income, in which case relative deferred taxes are also recognised in the statement of comprehensive income. In the case of reserves of undistributed profits of subsidiaries and because the Group is able to control distribution times, deferred taxes are allocated for the reserves when distribution is expected in the future.
Deferred tax assets and liabilities are recognised at their net value when they may be offset in the same tax jurisdiction.

PAYABLES

Trade payables falling due within normal business terms are not discounted and are recognised at nominal value, deemed representative of their extinction value.

RECOGNITION OF REVENUES

According to IFRS, sales of goods are recognised when the goods are dispatched and the company has transferred the significant risks and benefits connected with ownership of the goods to the purchaser, the sale price has been agreed or can be determined and the receipt of the proceeds is reasonably certain. Revenues are recognised net of returns, discounts, rebates and premiums, as well as taxes directly connected with the sale of the goods and provision of services. Financial revenues are recognised on an accrual basis. Revenues from the provision of services are recognised when the services are provided with reference to the interim payment certificate. Revenues also include lease payments recognised on a straight line basis for the duration of the contract.

GRANTS

Equipment grants are recognised in the financial statements when their payment is certain and are recognised in profit or loss based on the useful life of the asset for which the grants have been provided. Operating grants are recognised in the financial statements, when their payment is certain and are recognised in profit or loss in relation to costs for which the grants have been provided.

With specific reference to the subsidiary Intermarine S.p.A. operating in the naval sector, the company benefits from different types of Ministerial contributions. Intermarine primarily benefits from ministerial research grants, out of national and Community funds, due on the research and development costs incurred and capitalised, are entered under Other payables and will be offset against the amortisation and depreciation entries of the capitalised costs they are related to in the Income statement. For projects that entail the building of a prototype, the subsidy granted for the costs incurred is entered in the Income statement account in proportion to the work progress status of the underlying construction.

FINANCIAL INCOME

Financial income is recognised on an accrual basis and includes interest payable on invested funds, exchange differences receivable and income from financial derivatives, when not offset in hedging transactions. Interest income is charged to the Income statement as it accrues, considering the effective yield.

BORROWING COSTS

Financial charges are recognised on an accrual basis and include interest payable on financial payables calculated using the effective interest rate method, exchange differences payable and losses on derivatives. The rate of interest payable of finance lease payments is recognised in profit or loss, using the effective interest rate method.

DIVIDENDS

Dividends recognised in profit or loss, from non-controlling interests, are recognised on an accrual basis, and therefore at the time when, following the resolution to distribute dividends by the subsidiary, the relative right to payment arises.

INCOME TAXES

Taxes represent the sum of current and deferred tax assets and liabilities. Taxes allocated under statutory accounting circumstances of individual companies included in the scope of consolidation are recognised in the consolidated financial statements, based on taxable income estimated in compliance with national laws in force at the end of the reporting period, considering applicable exemptions and tax receivables owing. Income taxes are recognised in profit or loss, with the exception of those taxes relative to items directly deducted from or charged to the Statement of Comprehensive Income. Taxes are recorded under “Tax payables” net of advances and withheld taxes. Taxes due in the event of the distribution of reserves as withheld taxes recognised in the financial statements of individual Group companies are not allocated, as their distribution is not planned.

Immsi S.p.A., with the subsidiaries Piaggio & C. S.p.A., Piaggio Concept Store Mantova S.r.l., Aprilia Racing S.r.l., Apuliae S.p.A., Intermarine S.p.A., RCN Finanziaria S.p.A., ISM Investimenti S.p.A., Pietra S.r.l. and Pietra Ligure S.r.l., opted to be a part of the Group taxation system, as provided for by articles 117 et seq. of the Consolidated Income Tax Act (National Consolidated Tax Convention). In exercising this option, each company which is party to the National Consolidated Tax Convention transfers its tax income (taxable income or tax loss) to the consolidating company: the consolidating company therefore determines one taxable base for the group of companies that are party to the National Consolidated Tax Convention, and may therefore offset taxable income against tax losses in one tax return. The latter recognises a receivable from consolidated companies transferring taxable income, while for companies with tax losses, the consolidating company records a related payable equal to Italian Tax on Corporate Income on the portion of the loss actually offset at a Group level.

EARNINGS PER SHARE

Earnings per share are calculated by dividing the income or loss attributable to parent company shareholders by the weighted average number of ordinary shares outstanding during the period, excluding treasury stock. Diluted earnings per share are calculated dividing the profit or loss attributable to shareholders of the Parent Company by the weighted average of ordinary shares in circulation adjusted to take account of the effects of all potential ordinary shares with a dilutive effect.

USE OF ESTIMATES

The preparation of the financial statements and notes in compliance with IFRS requires management

to make estimates and assumptions which have an impact on the values of assets and liabilities and on disclosure regarding contingent assets and liabilities at the end of the reporting period. Actual results could differ from estimates.
Moreover, estimates are used to measure intangible assets tested for impairment and to identify allocations for bad debts, for obsolete inventories, amortisation and depreciation, impairment of assets, employee benefits, taxes, restructuring provisions and other allocations and funds. Estimates and assumptions are periodically revised and the effects of any change are immediately recognised in profit or loss.

In the current ongoing world economic and financial crisis, assumptions made as to future trends are marked by a considerably degree of uncertainty. Therefore the possibility in the next reporting period of results that differ from estimates cannot be ruled out, and these could require even significant adjustments which at present cannot be predicted or estimated.

TRANSACTIONS WITH SUBSIDIARIES AND RELATED PARTIES

Transactions with subsidiaries and related parties are described in the Report on Operations and in the Note, referred to herein.

NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS FROM 1 JANUARY 2016

Competent bodies of the European Union have approved the following accounting standards and amendments to adopt as from 1 January 2016, with none having a significant effect on the Financial Statements of the Group.

- IAS 16 and IAS 38 "*Clarification of Acceptable Methods of Depreciation and Amortisation*": according to the changes, it is considered inappropriate to adopt an amortisation/depreciation method based on revenues. As regards intangible assets, this indication is considered as a relative assumption, that may only be overcome in one of the following circumstances: (i) the right to use an intangible asset is related to the realisation of a predefined threshold for revenues to be produced; or (ii) when it may be demonstrated that the realisation of revenues and use of the economic benefits of the asset are strongly related.
- IFRS 11 "Joint arrangements: Recording the acquisition of investments in jointly controlled assets": the changes provide clarification on the recording for accounting purposes of the acquisition of investments in jointly controlled assets constituting a *business*. The amendments are applicable in a retrospective manner for years commencing from or after 1 January 2016.
- Annual amendments to IFRS 2012-2014. The amendments concern:
  (i) IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations";
  (ii) IFRS 7 "Financial Instruments: Disclosures";
  (iii) IAS 19 "Employee Benefits";
  (iv) IAS 34 "Interim Financial Reporting".
  As regards the first point, the amendment clarifies that the financial statements need not be restated if an asset or group of assets available for sale was reclassified as "held for distribution", or vice versa.
  With reference to IFRS 7, the amendment states that if an entity transfers a financial asset on terms that allow the de-recognition of the asset, information must be disclosed concerning the entity's involvement in the transferred asset.
  The proposed amendment to IAS 19 makes it clear that, in determining the discount rate of the obligations arising following the termination of the employment relationship, it is the currency in which they are denominated that counts, rather than the country in which they arise.

The proposed amendment to IAS 34 requires cross-references between information reported in the interim financial statements and the related disclosure.

- IAS 1 “Presentation of Financial Statements”: the amendment to the principle in question is intended to provide clarification on the aggregation or disaggregation of financial statement items if the amount is significant, or "material”. In particular, the amended standard requires there to be no aggregation of items with different characteristics or disaggregation that hampers disclosure or interpretation of the financial statements. Moreover, the amendment requires the presentation of headings, partial results and additional items, also separating the items listed in section 54 (Statement of Financial Position) and 82 (Income Statement) of IAS 1, when this presentation is significant for the purposes of understanding the statement of financial position and financial position and performance of the entity.
- IFRS 10 “Consolidated Financial Statements”, and IAS 28 “Investments in Associates and *Joint Ventures*”.
  Regarding the first point, the amendment clarifies that the exemption of the presentation of consolidated financial statements applies to a parent company that is controlled by an investment company, when the latter measures all its subsidiaries at fair value. IAS 28 was amended as regards investments in associates or joint ventures that are “investment entities”: these investments may be recognised with the equity method or at fair value.
- IAS 27 Revised “Separate Financial Statements”: the amendment, applicable from 1 January 2016, allows an entity to use the equity method to recognise investments in subsidiaries, joint ventures and associates in the separate financial statements.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE

At the date of these Financial Statements, competent bodies of the European Union had not completed the approval process necessary for the application of the following accounting standards and amendments.

- In May 2014, the IASB and FASB jointly published IFRS 15 “Revenue from Contracts with Customers”. The purpose of this standard is to improve reporting on revenues and their comparability between different financial statements. The new standard is applicable in a retrospective manner for years commencing from or after 1 January 2018. Early adoption is possible. The Group is currently assessing the effects on the consolidated financial statements of adopting the new standard. At present, the Group is not in a position to asses the impacts. Management considers that it will be able to make a more reliable evaluation in the next 12 months.
- On 24 July 2014, the IASB finalised its project to revise the accounting standard for financial instruments, with the issue of the complete version of IFRS 9 “Financial Instruments”. In particular, the new provisions of IFRS 9: (i) amend the model that classifies and measures financial assets; (ii) introduce a new method for writing down financial assets that takes account of expected credit losses; and (iii) amend hedge accounting provisions. The provisions of IFRS 9 will be applicable for years commencing on or after 1 January 2018.
- In the month of January 2016, the IASB published IFRS 16 "Leases". This new standard will replace the current IAS 17. The main change concerns the accounting by lessees that, according to IAS 17, were required to make a distinction between a financial lease (in the budget) and operating leases (off budget). With IFRS 16, operating leases will be treated for accounting purposes as financial leases. The IASB has provided for the optional exemption for certain leasing contracts and low value and short-term leases.
  This principal will apply from 1 January 2019. Early application will be possible if IFRS 15 "Revenue from contracts with customers" is jointly adopted.

- In January 2016, the IASB issued an amendment to IAS 12 "Income Taxes". These amendments clarify how to enter active deferred taxes related to debt instruments calculated at *fair value*.
  These amendments will apply from 1 January 2017.
- In January 2016, the IASB issued an amendment to IAS 7 "Statement of Cash Flows". These amendments to IAS 7 introduce additional information that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. These amendments will apply from 1 January 2017.
- In June 2016, the IASB issued an amendment to IFRS 2 “Share-based Payment”. These amendments clarify how some share-based payments are recognised. These amendments will apply from 1 January 2018.
- In December 2016, the IASB issued an amendment to IAS 40 "Investment Property". These amendments clarify change in use, which is a necessary condition for transfer from/to Investment Property. These amendments will apply from 1 January 2018.
- In September 2016, the IASB issued an amendment to IFRS 4 – “Insurance Contracts” as regards application of IFRS 9 – Financial Instruments.
  These amendments will enable companies that issue insurance contracts to recognise the volatility that may arise when IFRS 9 is adopted before the new standard on insurance contracts is issued in the statement of comprehensive income rather than in the income statement. It will also allow companies whose main activity is related to insurance contracts to temporarily defer the adoption of IFRS 9 until 2021. Entities that defer the adoption of IFRS 9 will continue to adopt IAS 39.
- In December 2016, the IASB issued a series of annual amendments to the IFRS 2014 – 2016. The amendments concern: IFRS 12 “Disclosure of interests in other entities” (applicable from 1 January 2017); IFRS 1 “First-time Adoption of International Financial Reporting Standards” (applicable from 1 January 2018); IAS 28 – “Investments in associates and joint ventures” (applicable from 1 January 2018). The amendments clarify, correct or remove redundant text in the associated IFRS standards and they are not expected to have a significant impact on the financial statements or the disclosure.
- In December 2016, the IASB issued the Interpretation IFRIC 22 “Foreign currency transactions and advance consideration”. The amendment addresses the exchange rate to be used in transactions and in advances paid or received in foreign currency. The amendment will apply from 1 January 2018.

The Group will adopt these new standards, amendments and interpretations, based on the application date indicated, and will evaluate potential impact, when the standards, amendments and interpretations are endorsed by the European Union.

- E - SEGMENT REPORTING

The application of IFRS 8 - Operating Segments - is mandatory at 1 January 2009. This principle requires operating segments to be identified on the basis of an internal reporting system which company management utilises to allocate resources and assess performance.

The information for operating segments presented below reflects the internal reporting system utilised by management for making strategic decisions. In this respect, as regards individual *business* areas, wherever possible information is provided relating to the property and holding, industrial and marine sectors.

Primary sector: *business* areas

Income statement at 31 December 2016

In thousands of euros	*Property and holding sector*	*Industrial sector*	*Marine sector*	*Immsi Group*
Net revenues to non-controlling interests	5,066	1,313,109	65,673	1,383,848
Intercompany net revenues				0
NET REVENUES	**5,066**	**1,313,109**	**65,673**	**1,383,848**
OPERATING INCOME	**-5,412**	**60,905**	**1,515**	**57,008**
Earnings on investments	0	564	4	568
Financial income				15,612
Borrowing costs				68,692
PROFIT BEFORE TAX				**4,496**
Taxes				12,841
EARNINGS AFTER TAXES FROM CONTINUING OPERATIONS				**-8,345**
Gain (loss) from assets held for disposal or sale				0
EARNINGS FOR THE PERIOD INCLUDING NON-CONTROLLING INTERESTS				**-8,345**
Earnings for the period attributable to non-controlling interests				318
EARNINGS FOR THE PERIOD ATTRIBUTABLE TO THE GROUP				**-8,663**

Statement of financial position at 31 December 2016

In thousands of euros	*Property and holding sector*	*Industrial sector*	*Marine sector*	*Immsi Group*
Segment assets	370,465	1,630,574	164,289	2,165,328
Investments in affiliated companies	0	141	18	159
TOTAL ASSETS	**370,465**	**1,630,715**	**164,307**	**2,165,487**
TOTAL LIABILITIES	**358,151**	**1,237,001**	**177,777**	**1,772,929**

Other information at 31 December 2016

In thousands of euros	*Property and holding sector*	*Industrial sector*	*Marine sector*	*Immsi Group*
Investments in plant, property and equipment and intangible assets	**439**	**96,673**	**937**	**98,049**
Depreciation, amortisation and write-downs	**488**	**111,086**	**1,255**	**112,829**
Cash flow from operating activities	**-21,366**	**126,980**	**32,911**	**138,525**
Cash flow from investing activities	**-8,063**	**-93,537**	**-395**	**-101,995**
Cash flow from financing activities	**5,012**	**55,144**	**-29,389**	**30,767**

Secondary sector: geographic segments

The following table presents the financial position and performance of the Group for 2016 in relation to geographic segments "of origin", that is, with reference to the country of the company which realised the revenues or which owns the assets.

The distribution of revenues by geographic segment of "destination", that is, with reference to the customer's country, is analysed in the Notes to the Consolidated Financial Statements at 31 December 2016 under the item net revenues in the Income Statement.

Income statement at 31 December 2016

In thousands of euros	*Italy*	*Rest of Europe*	*India*	*United States*	*Rest of the World*	*Immsi Group*
NET REVENUES	**768,180**	**27,021**	**339,147**	**63,826**	**185,674**	**1,383,848**

Statement of financial position at 31 December 2016

In thousands of euros	*Italy*	*Rest of Europe*	*India*	*United States*	*Rest of the World*	*Immsi Group*
Segment assets	1,750,748	27,787	203,697	42,850	140,246	2,165,328
Investments in affiliated companies	124	35	0	0	0	159
TOTAL ASSETS	**1,750,872**	**27,822**	**203,697**	**42,850**	**140,246**	**2,165,487**

In thousands of euros	*Italy*	*Rest of Europe*	*India*	*United States*	*Rest of the World*	*Immsi Group*
Total receivables *	**86,803**	**23,400**	**26,588**	**10,635**	**15,944**	**163,370**
Total payables **	**342,104**	**34,713**	**111,070**	**2,971**	**37,630**	**528,488**

*) Contract work in progress and Tax receivables are not included.

**) Payables for Current taxes and Financial liabilities are not included.

Other information at 31 December 2016

In thousands of euros	*Italy*	*Rest of Europe*	*India*	*United States*	*Rest of the World*	*Immsi Group*
Investments in plant, property and equipment and intangible assets	**77,918**	**121**	**10,484**	**1,177**	**8,349**	**98,049**
Depreciation, amortisation and write-downs	**86,408**	**329**	**13,450**	**192**	**12,450**	**112,829**

For comparability, corresponding tables referring to 31 December 2015 are shown below:

Income statement at 31 December 2015

In thousands of euros	*Property and holding sector*	*Industrial sector*	*Marine sector*	*Immsi Group*
Net revenues to non-controlling interests	4,919	1,295,286	61,807	1,362,012
Net intergroup revenues				0
NET REVENUES	**4,919**	**1,295,286**	**61,807**	**1,362,012**
OPERATING INCOME	**-819**	**56,710**	**-1,837**	**54,054**
Earnings on investments	0	165	0	165
Financial income				20,577
Borrowing costs				76,605
PROFIT BEFORE TAX				**-1,809**
Taxes				11,863
EARNINGS AFTER TAXES FROM CONTINUING OPERATIONS				**-13,672**
Gain (loss) from assets held for disposal or sale				0
EARNINGS FOR THE PERIOD INCLUDING NON-CONTROLLING INTERESTS				**-13,672**
Earnings for the period attributable to non-controlling interests				-4,118
EARNINGS FOR THE PERIOD ATTRIBUTABLE TO THE GROUP				**-9,554**

Statement of financial position at 31 December 2015

In thousands of euros	*Property and holding sector*	*Industrial sector*	*Marine sector*	*Immsi Group*
Segment assets	383,088	1,551,381	221,047	2,155,516
Investments in affiliated companies	0	169	13	182
TOTAL ASSETS	**383,088**	**1,551,550**	**221,060**	**2,155,698**
TOTAL LIABILITIES	**347,659**	**1,147,257**	**232,688**	**1,727,604**

Other information at 31 December 2015

In thousands of euros	*Property and holding sector*	*Industrial sector*	*Marine sector*	*Immsi Group*
Investments in plant, property and equipment and intangible assets	**406**	**101,890**	**428**	**102,724**
Depreciation, amortisation and write-downs	**517**	**107,484**	**1,973**	**109,974**
Cash flow from operating activities	**-20,013**	**128,841**	**-7,350**	**101,478**
Cash flow from investing activities	**2,869**	**-100,457**	**-279**	**-97,867**
Cash flow from financing activities	**35,270**	**-17,212**	**6,842**	**24,900**

Secondary sector: geographic segments

Income statement at 31 December 2015

In thousands of euros	*Italy*	*Rest of Europe*	*India*	*United States*	*Rest of the World*	*Immsi Group*
NET REVENUES	**717,449**	**24,298**	**353,708**	**70,377**	**196,180**	**1,362,012**

Statement of financial position at 31 December 2015

In thousands of euros	*Italy*	*Rest of Europe*	*India*	*United States*	*Rest of the World*	*Immsi Group*
Segment assets	1,757,271	26,857	192,181	40,713	138,494	2,155,516
Investments in affiliated companies	147	35	0	0	0	182
TOTAL ASSETS	**1,757,418**	**26,892**	**192,181**	**40,713**	**138,494**	**2,155,698**

In thousands of euros	*Italy*	*Rest of Europe*	*India*	*United States*	*Rest of the World*	*Immsi Group*
Total receivables *)	**100,166**	**15,420**	**25,223**	**7,508**	**20,390**	**168,707**
Total payables)**	**322,106**	**54,375**	**108,279**	**2,558**	**43,455**	**530,773**

*) Contract work in progress and Tax receivables are not included.

**) Payables for Current taxes and Financial liabilities are not included.

Other information at 31 December 2015

In thousands of euros	*Italy*	*Rest of Europe*	*India*	*United States*	*Rest of the World*	*Immsi Group*
Investments in plant, property and equipment and intangible assets	**79,153**	**88**	**8,105**	**264**	**15,114**	**102,724**
Depreciation, amortisation and write-downs	**81,492**	**415**	**17,361**	**123**	**10,583**	**109,974**

- F - INFORMATION ON MAIN ASSET ITEMS

Amounts are stated in thousands of euros unless otherwise indicated.

- F1 - INTANGIBLE ASSETS 847,059

Net intangible assets at 31 December 2016 amounted to €847,059 thousand, a decrease of €5,152 thousand compared with 31 December 2015, broken down as follows:

In thousands of euros	*Development costs*	*Concessions, patents, industrial and similar rights*	*Trademarks and licences*	*Goodwill*	*Other intangible assets*	*TOTAL*
Gross amounts at 31 December 2014	**199,734**	**282,472**	**149,200**	**625,421**	**9,569**	**1,266,396**
Increases	31,420	32,360	0	0	127	63,907
Change in the scope of consolidation	0	0	0	0	0	0
Other changes	976	2,777	0	0	(4)	3,749
Gross amounts at 31 December 2015	**232,130**	**317,609**	**149,200**	**625,421**	**9,692**	**1,334,052**
Accumulated amortisation at 31 December 2014	**91,834**	**216,709**	**91,314**	**11,439**	**8,525**	**419,821**
Depreciation	32,722	21,261	4,828	0	755	59,566
Change in the scope of consolidation	0	0	0	0	0	0
Other changes	2,044	447	0	0	(37)	2,454
Accumulated amortisations at 31 December 2015	**126,600**	**238,417**	**96,142**	**11,439**	**9,243**	**481,841**
Net amounts at 31 December 2015	**105,530**	**79,192**	**53,058**	**613,982**	**449**	**852,211**
Gross amounts at 31 December 2015	**232,130**	**317,609**	**149,200**	**625,421**	**9,692**	**1,334,052**
Increases	30,909	27,679	0	0	90	58,678
Change in the scope of consolidation	0	0	0	0	0	0
Other changes	1,050	157	0	0	167	1,374
Gross amounts at 31 December 2016	**264,089**	**345,445**	**149,200**	**625,421**	**9,949**	**1,394,104**
Accumulated amortisations at 31 December 2015	**126,600**	**238,417**	**96,142**	**11,439**	**9,243**	**481,841**
Depreciation	31,645	26,992	4,828	0	280	63,745
Change in the scope of consolidation	0	0	0	0	0	0
Other changes	1,149	147	0	0	163	1,459
Accumulated depreciation at 31 December 2016	**159,394**	**265,556**	**100,970**	**11,439**	**9,686**	**547,045**
Net amounts at 31 December 2016	**104,695**	**79,889**	**48,230**	**613,982**	**263**	**847,059**

NB: The "Other movements" item includes the reductions for fully amortised intangible assets, translation differences relating to financial statements in foreign currencies, reclassifications and write-downs.

Development costs

Development costs include costs for products, vessels and engines in projects for which there is an expectation, for the period of the useful life of the asset, to realise revenues that will allow for the recovery of the costs incurred. This item includes assets under construction for €23,185 thousand, entirely ascribable to the Piaggio group, which instead represent costs for which the conditions for capitalisation exist, but in relation to products that will go into production in future years.

With particular reference to the **industrial sector** (Piaggio group), new projects capitalised during 2016 refer to the study of new vehicles and new engines (two-/three-/four-wheelers which will feature

as the top products in the 2016-2018 range.
Borrowing costs attributable to the development of products which require a considerable period of time to be realised are capitalised as a part of the cost of the actual assets. Development costs included under this item are amortised on a straight line basis, from 3 to 5 years, in consideration of their remaining useful life.
Lastly, during 2016, development costs of approximately €19,200 thousand were recognised directly by the Piaggio group in profit or loss.

With reference to the **naval sector** (Intermarine S.p.A.), in the last few years two important research projects had started called “Hydrofoils with immersed wing” and “Enviroaliswath”.
For the Ala Immersa and Enviroaliswath projects a total of €7.7 million (of which €3.5 million for Ala Immersa and €4.2 million for Aliswath) was capitalised at 31 December 2016 under the intangible assets, net of amortisation and deferred income, and €24.7 million (no. 1 Aliswath €4.8 million, no. 2 Ala Immersa €19.9 million) for the value of the prototypes under construction.
The company plans to restart the development of the prototypes in 2017 and begin marketing from 2017, in line with the long-term plan.

In terms of capital employed by the company, this research and development will start to produce future benefits after the completion of the project and the prototype constructions and from the marketing, through the medium and long-term hire/rental with purchase option or the sale of new types of vessels to shipping companies.

Accordingly, that appreciation will start from the end of the studies, research and prototype completions, in conjunction with their actual commercial use. On the commercial front, initiatives are currently being studied to prepare the offering of these innovative vessels to customers, also making available project finance support that can be used by the shipping companies. The company has envisaged the start of marketing in 2017 for the prototypes to Ala Immersa, with the start of the amortisation of the long-term costs in that year.

For the other projects underway at 31 December 2016 there were capitalised costs of €0.1 million receivables for contributions/fees for the projects to be received from the amount of €0.8 million.

For further details on main research and development activities carried out by Immsi Group companies, see the paragraph *“Research & Development*”.

Concessions, patents, industrial and similar rights

The net balance of this item, equal to €79,889 thousand at 31 December 2016, is mainly related to the Piaggio group that has recorded software, patents and know-how for a total of €79,469 thousand, of which fixed assets in progress for €2,890 thousand.
Patents and know-how mainly refer to the Vespa, MP3, RSV4 and Aprilia SR 150 vehicles, while increases for the period chiefly concern new calculation, design and production techniques and methodologies developed by the group for its new products in the 2016-2018 range.

Industrial patent and intellectual property rights costs are amortised over three years. Other Immsi Group companies recognised the item “software” referable to Intermarine S.p.A. for naval architecture, design and EDP programmes and, in the case of the subsidiary Is Molas S.p.A., for the hotel management programme and other applications.

Trademarks and licences

The item trademarks and licences with a finite useful life, totalling €48,230 thousand, is broken down as follows:

In thousands of euros	**Net value as of 31 December 2016**	**Net value as of 31 December 2015**	**Change**
Guzzi trademark	16,250	17,875	(1,625)
Aprilia trademark	31,930	35,123	(3,193)
Other	50	60	(10)
Total brands	**48,230**	**53,058**	**(4,828)**

The Aprilia and Guzzi trademarks are amortised over a period of 15 years, expiring in 2026.

Goodwill

The goodwill recognised by the Group was unchanged compared to the balance at the end of 2015. The item in question is broken down in the following table:

In thousands of euros	
	Net balance at 31.12.2016
Acquisition of 100% of Piaggio & C. S.p.A. by Piaggio Holding N. BV (in 2003)	405,985
Acquisition of 2.81% of Piaggio & C. S.p.A. by Piaggio Holding N. BV (in 2006)	14,620
Acquisition of 31.25% of Piaggio Holding N. BV by Immsi S.p.A. (in 2003)	3,480
Acquisition of 5.23% of Piaggio & C. S.p.A. by Immsi S.p.A. (in 2004) / Sale of 2.32% of Piaggio & C. S.p.A. by Immsi S.p.A. in 2008	3,643
Acquisition of 17.7% of Piaggio Holding N. BV by Immsi S.p.A. (in 2004 and 2006)	64,756
Acquisition of 2.22% of Piaggio & C. S.p.A. by Immsi S.p.A. (in 2007 and 2008)	7,143
Acquisition of 100% of Aprilia S.p.A. by Piaggio & C. S.p.A. (in 2004)	79,705
Acquisition of 66.49% of Rodriquez Cantieri Navali S.p.A. by RCN Finanziaria S.p.A. (in 2004)	30,337
Acquisition of 33.51% of Rodriquez Cantieri Navali S.p.A. by RCN Finanziaria S.p.A. (in 2005)	2,001
Acquisition of 2.37% of RCN Finanziaria S.p.A. by Immsi S.p.A. (in 2007)	1,286
Other acquisitions / changes	1,026
TOTAL	**613,982**
- *of which allocated to Piaggio group cash-generating unit*	*579,492*
- *of which allocated to Intermarine cash-generating unit*	*34,428*

Goodwill derives from the greater value paid compared to the corresponding portion of the investee companies' shareholders' equity at the time of the purchase, reduced by the related cumulative amortisation until 31 December 2003. During first-time adoption of the IFRS, in fact, the Group chose not to apply IFRS 3 – Business combinations retroactively to company acquisitions prior to 1 January 2004. Accordingly, the goodwill generated by acquisitions made prior to the date of adoption of IFRS was left unchanged as previously calculated under Italian GAAP, subject to determination and reporting of any impairments. As of 1 January 2004 goodwill is no longer amortised: the recoverable value of the cash-generating unit to which the goodwill was allocated is verified by determining the recoverable value (value in use) and submitted to an impairment test, applying the method required by the International Accounting Standard IAS 36. Such value has been estimated on the basis of:

- the current value of future financial flows over a multi-year forecasting period that are estimated to be generated by the continuous use of the assets referred to the single cash generating units ("Unlevered" version of the "Discounted Cash Flow" method); and
- by the terminal value attributable to them (estimated according to the perpetual growth method), so as to reflect the residual value that each cash-generating unit is expected to generate beyond the planning timeframe and which is representative of the current value of future cash flows after the specific period of forecast financial data.

It should be borne in mind, lastly, that goodwills recoverability is checked at least once a year (as of 31 December), even failing indicators of a possible loss of value.

Goodwill has been allocated to the Intermarine and Piaggio group cash-generating units. The impairment testing for both the cash-generating units was conducted in-house by Immsi S.p.A.'s management, in order to support the Company's Board of Directors in the application of the procedure set out in the accounting standard IAS 36.

As concerns the **Piaggio group**, it has been considered reasonable to consider the Piaggio cash-generating unit coincident with the Piaggio group as a whole (Piaggio & C. S.p.A. and its subsidiaries). Therefore all the considerations related to the estimate of the utilisation value of the cash-generating unit and to its use for the purposes of the impairment test were developed considering the Piaggio group at consolidated level. The carrying amount of the goodwill allocated to the cash-generating unit Piaggio group is equal to approximately €579.5 million. The main hypotheses and assumptions used in determining the recoverable value of the cash generating unit are related to i) the use of forecast economic and asset data of the Piaggio group; ii) the discount rate used for discounting estimated expected cash flows; iii) the use of the expected growth rate for the calculation of the terminal value consistently with the approach of the perpetuity growth.
As regards the figures as of point i), analyses were based on predicted financial flows relative to a four-year period assumed from 2017 budget data supplemented by forecast data relative to 2018-2020 (approved by the Board of Directors of Piaggio & C. S.p.A. on 23 February 2017).
With reference to the value of point ii), for discounting the estimated expected cash flows, a weighted average discount rate calculated beginning from the discount rates related to the different geographic segments of operation of the Piaggio group for its own *cash-generating units* has been used, that reflect the current market evaluations of the cost of money and that take account of the specific risks of the business and of the geographic segment in which the different cash-generating units of the Piaggio group operate. In particular, to establish the cost of its equity ("K_e") according to the CAPM ("*Capital Asset Pricing Model*") a) a variable long-term risk-free rate for the different areas of operation of the group was considered; b) a market risk premium in an unconditional form (normal long-term premium), in order to avoid the risk of running into a "double counting" of the country risk associated to the group's operational areas; c) Beta coefficients also taking into account the Beta coefficients of main listed companies that are comparable to the Piaggio group. The cost of debt ("K_d") net of taxes was estimated taking account of the target financial structure that can be related to main listed companies comparable to the Piaggio group as well as – prudentially in order to mitigate the positive impact of the current expansive monetary policy – a long-term risk-free rate. The weighted average discount rate ("WACC") used for the purposes of the impairment test net of taxes is therefore estimated equal to approximately 6.9%: the slight reduction in the WACC from the previous year (7.4% at 31 December 2015) is mainly due to the decrease in the interest rate for risk-free activities.
As regards point iii) when processing the impairment test, the final value was determined using a weighted average perpetual growth rate (*"g rate"*), calculated starting from different *"g rates"*, determined by the Piaggio group for its own internal cash-generating units; this average weighted "*g rate*" has been estimated at around 1.34% (slightly less than the figure used at 31 December 2015).

Analyses did not identify any impairment losses: therefore, no impairment loss was reflected in the data of the Consolidated Financial statements of the Immsi Group at 31 December 2016. With the above values of the basic assumptions considered, the goodwill test regarding the Piaggio group cash-generating unit was passed with a broad margin. In addition, also on the basis of the indications contained in the Document Banca d'Italia/Consob/Isvap no. 2 of 6 February 2009 and in the document Banca d'Italia/Consob/Isvap no. 4 of March 2010, sensitivity analysis was carried out on the test results compared to the basic assumptions used such as the perpetual growth rate used to process the final value ("g rate") and the discount rate ("WACC"), that affect the estimate of the value of use of the cash-generating unit Piaggio group. Impairment testing was successful, also considering a worst case scenario of a reduction in the perpetual growth rate ("g rate") by half a percentage point, at the same time as an increase in the WACC by a percentage point.

As regards the cash-generating unit **Intermarine** the company coincides with the definition of the "naval sector" identified by the Immsi Group in its own segment reporting, in compliance with *IFRS 8 – Operating segments*: the carrying amount of goodwill allocated to the cash-generating unit is equal to approximately €34.4 million. The main hypotheses and assumptions used in determining the recoverable value of the cash generating unit are related to i) the use of forecast financial data

of Intermarine; ii) the discount rate used for discounting estimated expected cash flows; iii) the expected growth rate for calculating the terminal value, consistently with the approach of discounting back the "perpetual growth".
As regards values of point i) the analyses were based on a hypothesis of forecast financial flows relative to a four-year time line inferable from budget data for 2017, supplemented with forecast data for the period 2018-2019 prepared by the management of Intermarine S.p.A.: the resulting figures produced were approved by the Board of Directors of the company on 20 January 2017. In this regard, forecast data considered – uncertain and variable by nature – reflect the evolution of the company's order portfolio as well as its future industrial and commercial strategies: the data, in particular, are based - to a significant extent - on the acquisition of future contracts for which negotiations, at various stages, are ongoing with the Italian Navy and international navies. Updates, revisions or negative developments relative to the aforesaid assumptions and forecasts occurring after the reporting period of this evaluation could influence, even significantly, the results of impairment testing. In this regard, during preceding years, the final results of the naval sector showed significant deviations compared to estimates in financial forecasts used, even after several exceptional and unforeseeable events such as flooding at the Intermarine shipyard in Sarzana: given the intrinsically uncertain nature of the forecast data considered, it cannot be excluded that these deviations may continue to take place even in the future, with respect to the forecast data used in the impairment test carried out at 31 December 2016.
As regards the value of point ii), for discounting the estimated expected cash flows of Intermarine, a discount rate was used that reflects current market evaluations of the cost of money and takes account of the specific risks of the business and geographic segment in which the company operates. In particular, the cost of equity ("K_e") was determined according to the CAPM ("*Capital Asset Pricing Model*"). For this purpose, we considered a) a long-term risk-free rate; b) a market risk premium in an unconditional form (normal long-term premium); c) a Beta coefficient calculated by taking into account also the Beta coefficient of a sample of companies comparable to the company, operating in the leisure and defence shipbuilding sector. For the purpose of estimating the aforementioned rate, a specific risk premium equal to 1.5% was also considered. The cost of debt ("K_d") net of taxes was estimated taking account of the expected financial structure of a panel of listed companies comparable to Intermarine as well as – prudentially in order to mitigate the positive impact of the current expansive monetary policy - a long-term risk-free rate. The weighted average discount rate used for the purposes of the impairment test net of taxes is therefore estimated equal to approximately 7.28% (8.52% at 31 December 2015).
As regards point iii) when processing the impairment test, the final value was determined using a perpetual growth rate ("*g rate*") conservatively estimated as being equal to 1% (in line with the figure at 31 December 2015), which is in line with the approximation of inflation expected in Italy in the period when the Plan ends.

The analyses conducted did not highlight any impairment losses with reference to the test of goodwill allocated to the Intermarine cash-generating unit: therefore, no impairment of goodwill is reflected in the data of the Consolidated Financial statements of the Immsi Group at 31 December 2016. Sensitivity analysis was carried out on the test results compared to the basic assumptions used such as the perpetual growth rate used to process the final value ("*g rate*") and the discount rate ("WACC"), that affect the estimate of the value of use of the cash-generating unit Intermarine: the test concerning goodwill allocated to the cash-generating unit in question was passed in all reasonably considered cases. In this regard, changes in values assigned to basic assumptions considered reached the worst case scenario of a reduction in the perpetual growth rate ("g rate") of half a percentage point, and a concomitant increase in the WACC of one percentage point.

Considering that the analyses conducted to estimate the recoverable value both for the Piaggio group cash-generating unit and for Intermarine cash-generating unit has also been determined on the basis of estimates, the Group cannot assure that there will not be a loss in value of the goodwill in future periods.

Given the current ongoing difficulty of reference and financial markets, the various factors - both internal and external to cash generating units identified - used in making the estimates could be revised in future. The Group will constantly monitor these factors and the possible existence of future impairment losses.

Other intangible assets

The item "Other intangible assets with a finite life" totalling €263 thousand, mainly includes expenses incurred by Piaggio Vietnam. The item also includes assets under construction for €4 thousand, referring entirely to the Piaggio group.

- F2 - PLANT, PROPERTY AND EQUIPMENT 336,467

Net plant, property and equipment at 31 December 2016 amounted to €336,467 thousand, compared to €343,465 thousand at 31 December 2015, and comprise assets owned by the Piaggio group for €301,079 thousand, of Intermarine S.p.A. for €18,034 thousand, of Is Molas S.p.A. for €17,226 thousand and of Immsi S.p.A. for €119 thousand. The following table details this item:

In thousands of euros	*Land*	*Buildings*	*Plant and machinery*	*Industrial and commercial equipment*	*Assets to be given free of charge*	*Other assets*	*TOTAL*
Gross amounts at 31 December 2014	**44,865**	**184,730**	**475,123**	**523,624**	**10,521**	**53,464**	**1,292,327**
Increases	0	2,629	24,369	7,354	21	4,324	38,697
Decreases	0	(10)	(5,370)	(2,748)	0	(2,830)	(10,958)
Change in the scope of consolidation	0	0	0	0	0	0	0
Other changes	0	1,797	10,204	1,189	(127)	1,266	14,329
Gross amounts at 31 December 2015	**44,865**	**189,146**	**504,326**	**529,419**	**10,415**	**56,224**	**1,334,395**
Accumulated amortisation at 31 December 2014	**0**	**65,513**	**341,878**	**484,925**	**9,471**	**46,090**	**947,877**
Depreciation	0	5,717	22,701	14,646	52	4,041	47,157
Applications	0	0	(5,252)	(2,704)	0	316	(7,640)
Change in the scope of consolidation	0	0	0	0	0	0	0
Other changes	0	393	3,881	1,173	0	(1,911)	3,536
Accumulated amortisations at 31 December 2015	**0**	**71,623**	**363,208**	**498,040**	**9,523**	**48,536**	**990,930**
Net amounts at 31 December 2015	**44,865**	**117,523**	**141,118**	**31,379**	**892**	**7,688**	**343,465**
Gross amounts at 31 December 2015	**44,865**	**189,146**	**504,326**	**529,419**	**10,415**	**56,224**	**1,334,395**
Increases	0	2,031	22,302	9,193	78	5,716	39,320
Decreases	0	0	(3,495)	(13,925)	0	(2,228)	(19,648)
Change in the scope of consolidation	0	0	0	0	0	0	0
Other changes	0	454	(83)	(3,089)	5,431	24	2,737
Gross amounts at 31 December 2016	**44,865**	**191,631**	**523,050**	**521,598**	**15,924**	**59,736**	**1,356,804**
Accumulated amortisations at 31 December 2015	**0**	**71,623**	**363,208**	**498,040**	**9,523**	**48,536**	**990,930**
Depreciation	0	5,554	24,041	12,449	70	4,223	46,337
Applications	0	0	(3,442)	(13,847)	0	(15)	(17,304)
Change in the scope of consolidation	0	0	0	0	0	0	0
Other changes	0	201	(1,032)	(1,838)	5,431	(2,388)	374
Accumulated depreciation at 31 December 2016	**0**	**77,378**	**382,775**	**494,804**	**15,024**	**50,356**	**1,020,337**
Net amounts at 31 December 2016	**44,865**	**114,253**	**140,275**	**26,794**	**900**	**9,380**	**336,467**

NB: the “Other movements” item includes the translation differences relating to financial statements in foreign currencies, reclassifications and write-downs.

Plant, property and equipment are depreciated at rates considered suitable for representing their useful life and in any case according to depreciation on a straight line basis, to which reference is made to paragraph *D – Accounting standards and measurement criteria*.

Plant, property and equipment at 31 December 2016 included approximately €900 thousand relative to freely transferable assets attributable to Intermarine, comprising light constructions, buildings and relative renovation costs, built on state-owned land in the Municipality of Messina. Buildings built on state-owned land are depreciated based on the remaining duration of the concession. These assets, held because of a concession agreement, at its expiry, must be freely and in a perfect state of operation transferred to the granting body.
Furthermore, borrowing costs on loans acquired to finance the building of assets that require a substantial period of time to be ready for use are capitalised as part of the cost of the assets themselves: in this regard, the Group capitalised borrowing costs for €401 thousand in the year.

Land and building

Land and industrial property refer to production facilities of the Piaggio group located in Pontedera (Pisa), Noale (Venice), Mandello del Lario (Lecco), Barcelona (Spain), Baramati (India) and Vinh Phuc (Vietnam), to the industrial complex of Intermarine S.p.A. in Sarzana (SP) and to the tourism/hotel structure managed by Is Molas S.p.A. in the Municipality of Pula (Cagliari). The item also includes a land and a building belonging to the Piaggio group at Pisa which was transferred by Piaggio & C. S.p.A. in December 2009 to a property fund, consolidated on a line-by-line basis.
The Group recognised €5,028 thousand for assets under construction at owned property.

Plant and machinery

The “Plant and machinery” item refers essentially to the production facilities of the Piaggio group located in Pontedera (Pisa), Noale (Venice), Mandello del Lario (Lecco), Baramati (India) and Vinh Phuc (Vietnam), as well as the structures owned by Intermarine S.p.A. and the facilities located in the tourism/hotel complex managed by Is Molas S.p.A., for a net overall amount (excluding assets held under finance leases) of €127,864 thousand. The Group recognised €10,471 thousand for assets under construction and as a whole it uses plant and machinery fully depreciated for a gross value of approximately €25,800 thousand.
This item includes the net value of the assets held through finance leases of €12,411 thousand, consisting of the Vespa painting plant located in Pontedera.

Industrial and commercial equipment

The item “Industrial and commercial equipment”, totalling €26,794 thousand, basically comprises production equipment of Piaggio & C. S.p.A., Piaggio Vehicles Private Ltd, Piaggio Vietnam Co. Ltd and Intermarine S.p.A.. The balance includes assets under construction for €5,229 thousand wholly recognised by the Piaggio group and equipment fully depreciated but still in use for a total of €6,896 thousand wholly recognised by Intermarine S.p.A..
Main investments in equipment were made by the Piaggio group and concerned moulds for new vehicles launched during the year or scheduled to be launched in the first half of next year, moulds for new engines and specific equipment for assembly lines.

Other assets

The “Other assets” item comprises vehicles, furniture, office fittings and EDP systems. Other assets are recognised for a total value of €9,380 thousand, net of relative depreciation. The Group uses fully depreciated assets belonging to this category for a gross value of €5,616 thousand and recognised assets under construction for €105 thousand. This item includes the net value of assets held through finance leases of €115 thousand, consisting of auto vehicles supporting the Aprilia Racing Team.

Guarantees

At 31 December 2016, the Group had land and property encumbered by mortgages or pledges in favour of financial institutions to guarantee bank loans, to which reference is made in the paragraph *I – Commitments,risks and guarantees*.

- F3 - INVESTMENT PROPERTY 85,765

At 31 December 2016, investment property of the Immsi Group was recognised amounting to €85,765 thousand, attributable to the property of Immsi S.p.A. situated in Rome – Via Abruzzi for €74,055 thousand and to property, plant and machinery of the Spanish site at Martorelles of the Piaggio group for €11,710 thousand.

With reference to the building used by the Parent Company Immsi S.p.A. (in Via Abruzzi, Rome), as previously mentioned, since 2008 the Company has classified this as investment property, as defined in IAS 40: the carrying amount was reassessed to the market value at the date of change of destination (equal to €72.1 million), since it was no longer instrumental to the typical activity, but instead an asset usable to finance other ongoing investment activities. The greater value was entered in a specific reserve of shareholders' equity, net of the related tax effect. Subsequent investments led to an increase of the property as periodically confirmed by an independent external appraisal. Moreover, the investment is no longer subject to depreciation, starting from the year 2009, as established by international accounting standards. The value recognised in the Financial Statements at 31 December 2016 includes €15 thousand of works in progress that will be completed and will generate profit starting from 2017.
The valuation of the real estate investment is based on an appraisal of an external consultant that estimated the fair value at the end of 2016 in line with the value recognised in the Financial Statements at 31 December 2016. The valuation criteria used in this survey refer to generally accepted valuation methodologies and principles, using discounted cash flow analysis.
The valuation is therefore based on discounting cash flows generated during the period at the estimate date. Revenues and costs were considered at present value, at the time when they arose and were discounted bank using a suitable rate.
The market value of the property complex therefore comprises the discounting of operating costs, revenues from the property according to various uses and revenues from the sale of the property assumed for capitalisation of the rental payment of the last period considered.
In order to determine the rental payment of the property, the comparative synthetic method was used which makes it possible to determine the value corresponding to the sum of money for which the property could be rented, at the time of the estimate, between an owner and lessee both interested in the transaction, in the absence of particular interests and after an adequate sale, assuming that both parties act freely, cautiously and are informed. This comparative procedure estimates the rental value by comparing recent or present transactions, relative to similar assets as regards the type, building and location. The rental payment for the asset may, therefore, be determined taking into account rental prices and making adjustments considered adequate as regards the morphological aspects of the asset, its maintenance, profitability, the qualities of any lessee and any other factor considered relevant.
The continued uncertainty on the real estate market makes it possible for prices and values to be extremely volatile at times, until the market regains stability.
Lastly, rental income referred to the property in question and recognised under net revenues amounted to €2,669 thousand, whereas the costs connected to it refer mainly to ordinary

maintenance and operating costs of the building. Most of these costs are then charged to tenants as of building service regulations.
There are also mortgages on this property, for a total of €90 million guaranteeing the loan obtained in 2010 and renegotiated at the end of 2015 with Banco BPM (former Banco Popolare) for €45 million, which is expected to be settled in 2025.

As regards the property of the Piaggio group, the carrying amount of the Martorelles site at 31 December 2016 was determined by a specific appraisal conducted by an independent expert who measured the "Fair Value less cost of disposal" based on a market approach (as provided for in IFRS 13). This analysis shows an overall value of the investment which is more or less the same as the previous year and therefore the carrying amount of €11,710 thousand was confirmed. In this regard, the valuation took account of the current status of the property,and the project to convert the area, for the development of a retail centre prepared by the Piaggio group, together with comparable transactions. Following the site redevelopment project, an agency management contract was given to a Spanish property company, to seek investors interested in the property.
The group uses the "fair value model" as provided for by IAS 40. If the cost criterion had still been used instead of fair value, the value of the Martorelles site would have been equal to €6,558 thousand.

- F4 - INVESTMENTS 7,464

The table below details the item Investments at 31 December 2016:

In thousands of euros	*Balance at 31/12/2015*	*Increases*	*Decreases*	*Revaluations/Write-downs*	*Reclassification/Exchange differences*	*Balance at 31/12/2016*
Investments in subsidiaries	14	0	0	(2)	(1)	11
Investments in affiliated companies and joint ventures	9,532	0	0	568	(2,647)	7,453
TOTAL	**9,546**	**0**	**0**	**566**	**(2,648)**	**7,464**

The decrease in this item was due to the measurement at equity of the investment in the joint-venture Zongshen Piaggio Foshan Motorcycles Co. Ltd., positive by around €0.6 million, more than offset by the reclassification of €2.3 million from the same item Receivables from joint ventures due from that company.

Below is the corresponding table related to changes that occurred during 2015:

In thousands of euros	*Balance at 31/12/2014*	*Increases*	*Decreases*	*Revaluations/Write-downs*	*Reclassification/Exchange differences*	*Balance at 31/12/2015*
Investments in subsidiaries	9	8	(3)	0	0	14
Investments in affiliated companies and joint ventures	8,822	0	(1)	141	570	9,532
TOTAL	**8,831**	**8**	**(4)**	**141**	**570**	**9,546**

The table below details Investments at 31 December 2016:

Investments	% Group	Carrying amount as of 31 December 2016
Accounted for using the equity method:		
Rodriquez Cantieri Navali do Brasil Ltda *)	100.00%	0
Rodriquez Pietra Ligure S.r.l.	100.00%	11
Accounted for using the cost method:		
Rodriquez Mexico *)	50.00%	0
Total subsidiaries		**11**
Accounted for using the equity method:		
Zongshen Piaggio Foshan Motorcycle Co. LTD.	45.00%	7,294
Total joint-ventures		**7,294**
Accounted for using the equity method:		
S.A.T. Societé d'Automobiles et Triporteurs S.A.	20.00%	0
Depuradora d'Aigües de Martorelles S.C.C.L.	22.00%	31
Pont – Tech, Pontedera & Tecnologia S.c.r.l.	20.44%	110
Accounted for using the cost method:		
Consorzio CTMI – Messina	25.00%	18
Total associates		**159**
TOTAL		**7,464**

*) Inactive companies or companies in liquidation

As regards the investment in Rodriquez Cantieri Navali do Brasil Ltda it is noted that a specific provision has been made for risks on investments of €2,599 thousand for the hedging of negative shareholders' equity of the investee.

The investment in Zongshen Piaggio Foshan Motorcycles Co. Ltd was classified under "Joint ventures" in relation to the agreement signed on 15 April 2004 between Piaggio & C. S.p.A. and Foshan Motorcycle Plant, on one side, and the Chinese company Zongshen Industrial Group Company Limited on the other side. Piaggio & C. S.p.A.'s investment in Zongshen Piaggio Foshan Motorcycles is equal to 45%, of which 12.5% through the direct subsidiary Piaggio China Company Ltd. The carrying amount of the investment is equal to €7,294 thousand and refers to shareholders' equity pro-rata adjusted to take into account the measurement criteria adopted by the group.

The following table summarises the main financial highlights of the joint venture:

Figures in thousands of euros	45% owned by the Piaggio group	45% owned by the Piaggio group
	31/12/2016	31/12/2015
Working capital	4,857	4,714
Total assets	5,847	6,731
NET CAPITAL EMPLOYED	**10,704**	**11,444**
Provisions	59	47
Consolidated debt	1,036	2,047
Shareholders' equity	9,609	9,350
TOTAL SOURCES OF FINANCING	**10,704**	**11,444**
Shareholders' equity attributable to the Group	9,609	9,350
Elimination of margins on internal transactions	(2,315)	(1,100)
Value of the investment	**7,294**	**8,250**

The statement of reconciliation of Shareholders' Equity at the end of 2015 and as of 31 December 2016 is presented below:

Opening balance as of 1 January 2016	8,250
Profit (Loss) for the period	588
Other comprehensive income	(329)
Elimination of margins on internal transactions	(1,215)
Closing balance as of 31 December 2016	**7,294**

- F5 - OTHER FINANCIAL ASSETS 47,898

- Non-current portion

Other non-current financial assets, equal to €33,205 thousand, decreased by €3,607 thousand compared to the value at the end of 2015 and mainly refer to financial assets available for sale, consisting of the investment (equal to 2.77% of capital) in Alitalia – Compagnia Aerea Italiana S.p.A. held by Immsi S.p.A..
This investment was recognised in the financial statements at 31 December 2016 as €13,996 thousand, up by €1,881 thousand compared to the corresponding value at 31 December 2015 (€12,115 thousand). This increase was due to the payments "for future capital increases" made during the year in compliance with the Stand-by Equity Commitment undertaken in September 2014 to subscribe and issue for a maximum of €10 million the capital increase payment resolved by the General Meeting of Alitalia - CAI on 25 July 2014 (in relation to that commitment of the Company had already paid €5.4 million during 2014 and €1.8 million in 2015).
On 31 December 2014, a final agreement was signed between the long-standing shareholders of Alitalia – CAI and lender banks with a new minority shareholder of Alitalia, Etihad Airways, as part of an operation to reorganise and relaunch Alitalia, through a strategic partnership with the new partner and airline company Etihad Airways. This operation led to the establishment of a new company called Alitalia - SAI, in which the operating activities of Alitalia – CAI, a company in which Immsi is still shareholder, were transferred. For more details, see the Directors' Report and Financial Statements of the Immsi Group at 31 December 2014.
With regard to that investment, it is noted that on 15 March 2017 the Board of Directors of Alitalia-SAI approved a new Industrial Plan that includes drastic cost-cutting measures aimed at bringing the company into profit in 2019, and therefore with a two-year delay with respect to the previous Plan.
From what can be gathered from press sources, the new Plan requires the agreement by the other stakeholders (government, lending institutions, trade unions, shareholders, etc.) to become effective. Despite the evidence of the failure to adhere to the previous Plan, the information currently available is not considered sufficient to be able to measure the fair value of the company at 31 December 2016. With this limited information any assessment would lack any objective grounds, and accordingly also in view of the small remaining value of the equity interest compared to the overall investment, the estimate of the recoverable amount has been deferred to the next accounting closures, in the belief that it will be possible to acquire additional information for the assessment in the meantime.

The item in question also includes:

- for a total of €19,173 thousand, the fair value of the hedging derivative instruments entered into by the Piaggio group in relation to its foreign currency borrowings and comprising:
    - €17,433 thousand from the fair value of the cross currency swap relative to a private debenture loan;
    - €1,504 thousand from the fair value of the cross currency swap relative to a medium-term loan of the Indian subsidiary; and
    - €236 thousand from the fair value of the cross currency swap relative to a medium-term loan of the Vietnamese subsidiary; and
- the carrying amount of investments held in other minor companies by the Piaggio group for a total of €36 thousand, with a reduction €3 thousand and compared to 2015.

- Current portion

Other current financial assets, equal to €14,693 thousand, include:

- primarily, the fair value at 31 December 2016 of the investment (corresponding to 2,788,464 shares) held by Immsi S.p.A. in Unicredit S.p.A., amounting to €7,624 thousand. The value of the investment had decreased by €6,695 thousand compared to 31 December 2015. The Unicredit share price at 31 December 2016 stood at €2.73, 49% lower than the carrying amount for Immsi S.p.A. (equal to approximately €5.326 per share). In this regard, the procedure of Immsi S.p.A. relating to the determination of the impairment of equity financial instruments classified as "Available For Sale" ("AFS") has defined alternatively the conditions of a prolonged or significant reduction in fair value on the basis of i) a reduction in the market value exceeding two thirds of the original cost; and ii) a market value continuously lower than the original carrying amount, observed over a period of time of at least two years. It remains understood that, in exceptional circumstances, the Company Management may consider any such decline as not representative of a significant or prolonged loss of value of the security and exceptionally derogate from the specified thresholds, reserving the right - in justified circumstances - to change the aforementioned thresholds in order to reflect any significant changes in the economic and financial context. In this regard it is pointed out that on 6 and 7 July 2016, the reduction in the market value of Unicredit shares compared to the book value slightly exceeded the threshold of two-thirds of the book value (constituting the first condition provided for by the aforementioned procedure). The Board of Directors, however, deemed that this decrease was part of a general situation of significant weakness of European stock markets and in the banking sector in particular. In accordance with the aforementioned company procedure, the Board of Directors therefore decided not to consider the market valuation of Unicredit shares for the two closures mentioned above as bring indicative of a "significant reduction in fair value" and to exceptionally waiver the indicated threshold;
- for the remainder, €7,069 thousand for the short-term portion of the fair value of the Cross Currency Swaps taken out by the Piaggio group (€4,001 thousand for the short-term portion of the fair value of the Cross Currency Swaps in place on the private bond, €2,832 thousand for the Cross Currency Swap in place on the medium-term loans of the Indian subsidiary and €236 thousand for Cross Currency Swap in place on the medium-term loan of the Vietnamese subsidiary).

- F6 - TAX RECEIVABLES 45,066

Current and non-current amounts due from tax authorities total €45,066 thousand and are as follows:

- Non-current portion

In thousands of euros	*Balance at 31/12/2016*	*Balance at 31/12/2015*
VAT receivables	4,415	3,001
Income tax receivables	7,585	1,927
Other tax receivables	3,680	549
TOTAL	**15,680**	**5,477**

- Current portion

In thousands of euros	*Balance at 31/12/2016*	*Balance at 31/12/2015*
VAT receivables	23,746	16,312
Income tax receivables	4,447	5,967
Other tax receivables	1,193	1,117
TOTAL	**29,386**	**23,396**

Tax receivables due within 12 months mainly refer to receivables of the Piaggio group for VAT, up compared to 31 December 2015 mainly because of the increase in VAT of the Indian subsidiary of the Piaggio group.
Immsi S.p.A. has tax consolidation contracts with the subsidiaries Piaggio & C. S.p.A., Piaggio Concept Store Mantova S.r.l., Aprilia Racing S.r.l., Apuliae S.p.A., Intermarine S.p.A., RCN Finanziaria S.p.A., ISM Investimenti S.p.A., Pietra S.r.l. and Pietra Ligure S.r.l.. As regards contracts signed with these companies, the Parent Company Immsi S.p.A., as consolidating entity, recognised tax receivables for €119 thousand in its financial statements, relative to withholding taxes transferred from companies of the agreement, recognised in the current portion as they concern disposal to subsidiaries pursuant to article 43-*ter* of Italian Presidential Decree no. 602/73 to be offset in 2017. Group taxation calculated for 2016 recorded a consolidated tax loss, therefore no advance payments on Italian Tax on Corporate Income will be made in 2017.

- F7 - DEFERRED TAX ASSETS **126,640**

At 31 December 2016, net deferred tax assets that will fall due within 12 months total €13,866 thousand (€13,959 thousand at 31 December 2015) while those falling due beyond 12 months amount to €112,774 thousand (€108,534 thousand at 31 December 2015): these values are recorded net of deferred tax liabilities which are uniform as regards maturity and nature. Deferred tax liabilities were determined applying the tax rate in effect in the year when temporary differences occur.

The Piaggio group recognised €60,372 thousand of deferred tax assets compared to €56,434 thousand recorded at 31 December 2015: this increase was mainly due to the recognition of deferred assets on tax losses that may be offset in subsequent tax periods.
Deferred tax assets recognised by Intermarine S.p.A. amount to €43,640 thousand (compared to €43,973 thousand at 31 December 2015): the relative tax benefit was measured solely on tax losses and on temporary differences for which there is the probability of realising future taxable amounts able to absorb them, taking account of the forecast plan drawn up by Intermarine and also considering the results expected by the national consolidated tax convention of which the Parent Company Immsi S.p.A. is the consolidating party and Intermarine S.p.A. is a member.
Deferred tax assets accrued by Is Molas S.p.A. totalled €13,181 thousand (€11,981 thousand at 31 December 2015) and refer to temporary differences recorded during 2016 and previous years, losses for the years from 2004 to 2016 in addition to the excess of interest payable and similar costs not deducted in previous years but that may be carried forward to subsequent years.

As regards the measurements to define the deferred tax assets, the Group mainly took account of i) the tax regulations in the various countries in which it operates; ii) their impact in terms of timing differences and any tax benefits deriving from the use of prior tax losses in consideration of their falling due; iii) the estimated financial results for each individual company; iv) the economic and tax repercussions of the implementation of the reorganisations; and v) of the agreements and plans of national tax consolidation over a period of five years. In view of the above considerations and also for the sake of prudence, the tax benefits deriving from the losses carried forward and from temporary differences were not fully recognised.

Gross deferred tax assets are as follows:

In thousands of euros

	Total ex VAT	Tax effect	Recognised	Not recognised
Temporary differences for allocations to provisions	77,930	20,949	n/a	n/a
Other differences	40,223	11,383	n/a	n/a
Total of reserves and other changes	**118,153**	**32,332**	**31,578**	**754**
Tax losses	416,657	104,098	95,380	8,718
Grand total at 31 December 2016	**534,810**	**136,430**	**126,958**	**9,472**

Unrecognised deferred tax assets – amounting to €9,472 thousand – in relation to prior losses and other temporary differences, mainly attributable to the Parent Company Immsi S.p.A. for €1,858 thousand, to the Piaggio group for €4,265 thousand, to RCN Finanziaria S.p.A. for €1,480 thousand and to ISM Investimenti for €1,766 thousand.

For comparability, the corresponding table at 31 December 2015 is shown below:

In thousands of euros

	Total ex VAT	Tax effect	Recognised	Not recognised
Temporary differences for allocations to provisions	75,694	20,774	n/a	n/a
Other differences	70,751	17,563	n/a	n/a
Total of reserves and other changes	**146,445**	**38,337**	**37,561**	**776**
Tax losses	352,017	88,106	86,732	1,374
Grand total at 31 December 2015	**498,462**	**126,443**	**124,293**	**2,150**

- F8 - TRADE RECEIVABLES AND OTHER RECEIVABLES 149,969

- Non-current portion

Trade receivables and other receivables included under non-current assets total €15,587 thousand against €15,820 thousand at 31 December 2015 and are broken down as follows:

In thousands of euros	*Balance at 31/12/2016*	*Balance at 31/12/2015*
Amounts due from affiliated companies	133	153
Other receivables	15,454	15,667
TOTAL	**15,587**	**15,820**

Receivables due from affiliated companies only comprise receivables from Fondazione Piaggio. Other non-current receivables include €10,904 thousand of prepaid expenses, €1,013 thousand of guarantee deposits, €61 thousand of amounts advanced to employees and other receivables of various kinds. These include in particular the receivable of €2,227 thousand recognised by Is Molas and referring to the “Le Ginestre” case.
The item in question includes trade receivables due after 12 months recognised by Intermarine S.p.A. and to this date entirely written down for €1,203 thousand.

- Current portion

Trade receivables and other current receivables are represented by the following:

In thousands of euros	*Balance at 31/12/2016*	*Balance at 31/12/2015*
Trade receivables	117,760	120,031
Receivables due from subsidiaries	2,613	2,604
Amounts due from affiliated companies	568	693
Amounts due from joint ventures	4,306	2,009
Other receivables	9,135	79,005
TOTAL	**134,382**	**204,342**

The item trade receivables comprises amounts referred to normal sales transactions, recognised net of a provision for bad debts equal to €30,223 thousand (of which €1,203 thousand related to non-current receivables), which at 31 December 2016 had decreased by €1,472 thousand compared to 31 December 2015.
The following table shows the movements of the provision in question during 2016:

In thousands of euros	
Balance at 31/12/2015	**31,695**
Increases for allocations	191
Decreases for use	(1,663)
Other changes	0
Balance at 31/12/2016	**30,223**

The Piaggio group transfers on a regular basis a large part of its trading receivables with and without recourse: The group has signed contracts with some of the most important Italian and foreign factoring companies as a move to optimise the monitoring and the management of its trade receivables, besides offering its customers an instrument for funding their own inventories, for factoring classified as without the substantial transfer of risks and benefits. On the contrary, for factoring without recourse, contracts were formalised for the substantial transfer of risks and benefits. At 31 December 2016, trade receivables still due, sold without recourse, totalled €89,123 thousand: on such receivables, the Piaggio group received payment before the natural expiry of the receivable for €88,546 thousand. At 31 December 2016, the advances received – both from factoring firms and from banks – on disposals of trade receivables with recourse totalled €11,030 thousand and are offset in the corresponding item under current liabilities.
The balance of the item receivables due from subsidiaries, equal to €2,613 thousand, refers to trade receivables due from the subsidiary Rodriquez Cantieri Navali do Brasil Ltda. The balance of receivables due from associated companies refers instead to receivables due from Consorzio CTMI amounting to €563 thousand, while receivables due from joint ventures, equal to €4,306 thousand as of 31 December 2016, refer to Zongshen Piaggio Foshan Motorcycle Co. Ltd..

Other receivables include advances to suppliers for €4,907 thousand, mainly recognised by the subsidiary Intermarine S.p.A., accrued income and deferred charges for a total of €6,241 thousand, advances to employees for €2,228 thousand, guarantee deposits for €221 thousand, receivables relating to hedging instruments for €401 thousand and other receivables of a various type.

Finally other receivables include the equivalent value of works in progress to order net of advances received, referring entirely to the subsidiary Intermarine S.p.A., whose composition is given below.

In thousands of euros				
	Balance at 31/12/2015	*Increases*	*Decreases*	*Balance at 31/12/2016*
Contract work in progress gross of advances	**210,839**	58,603	(97,292)	**172,150**
Contractual advances received from customers	159,384			185,551
Contract work in progress net of advances	**51,455**			**(13,401)**
Costs sustained	172,349			114,358
Margins recognised (net of losses)	38,490			57,792

- F9 - ASSETS HELD FOR DISPOSAL 27,183

The net carrying amount of assets held for sale amounts to €27,183 thousand and refers nearly entirely to the property portfolio of Pietra Ligure acquired at the public auction of the State in December 2007 for a total of €19.1 million and recognised under buildings held for disposal in relation to contracts and obligations undertaken by the company. For an update on the progress of the project concerning the property portfolio of Pietra Ligure, see the Report on Operations of the Immsi Group at 31 December 2016.

- F10 - INVENTORIES 294,057

Inventories are measured at the lower of cost and market value and total €294,057 thousand at the year end and comprise:

In thousands of euros	*Balance at 31/12/2016*			*Balance at 31/12/2015*		
	Cost	*Write-down*	*Net*	*Cost*	*Write-down*	*Net*
Consumables	40	0	40	40	0	40
Raw materials	107,401	(17,101)	90,300	109,393	(15,054)	94,339
Work in progress and semi-finished products	91,822	(1,102)	90,720	82,698	(1,102)	81,596
Finished products	136,613	(23,616)	112,997	136,757	(24,873)	111,884
TOTAL	**335,876**	**(41,819)**	**294,057**	**328,888**	**(41,029)**	**287,859**

The above write-downs were necessary due to stocks of raw materials no longer usable in the production process and obsolete or slow-moving finished products and goods.
At 31 December 2016, the Piaggio group recognised, net of write-downs, inventories for €208,459 thousand referred to components, accessories, 2-wheeler, 3-wheeler and 4-wheeler vehicles. Intermarine S.p.A. contributed €40,680 thousand, mainly concerning raw materials and products in progress for prototypes, own construction and repairs. Finally, Is Molas S.p.A. records €44,918 thousand of inventories at the end of the reporting period relating to the hotel business, as well as work in progress and semi-finished products comprising land, volumes, costs for services and consultancy for the property development project relating to the allotment located in Is Molas - Cagliari.

- F11 - CASH AND CASH EQUIVALENTS 197,919

Cash and cash equivalents at the end of the reporting period totalled €197,919 thousand against €124,510 thousand at 31 December 2015, as detailed in the table below:

In thousands of euros		
	Balance at 31/12/2016	***Balance at 31/12/2015***
Cheques	32	1
Cash and cash equivalents	117	107
Securities	25,594	5,464
Receivable due from banks within 90 days	172,176	118,938
TOTAL	**197,919**	**124,510**

The aggregate in question refers to cash, current bank accounts, deposits refundable on demand and other short-term high-liquidity financial investments readily convertible into cash and subject to an insignificant risk of change in value.

The item Securities refers to deposit contracts made by the Indian subsidiary of the Piaggio group in order to use the temporary liquidity in an effective way, while receivables from banks with a maturity of less than 90 days (attributable to the Piaggio group for €166,114 thousand) mainly refer to bank and postal deposits and the increase compared to the previous year was mainly due to the disbursement of several medium-term loans in December 2016.

- G - INFORMATION ON MAIN LIABILITIES

Amounts are stated in thousands of euros unless otherwise indicated.

- G1 - SHAREHOLDERS' EQUITY 392,558

Shareholders’ equity at 31 December 2016 amounted to €392,558 thousand, of which €232,787 thousand referred to consolidated shareholders’ equity attributable to the Group and €159,771 thousand referring to capital and reserves of non-controlling interests.

Share capital

At 31 December 2016, the share capital of Immsi S.p.A., fully subscribed and paid up, comprised 340,530,000 ordinary shares with no nominal value, for a total of €178,464,000.00.
As already stated, at 31 December 2016, Immsi S.p.A. held no treasury shares. Each ordinary share entitles the holder to a proportionate part of distributable profits and of the shareholders’ equity resulting from any liquidation, as well as unlimited voting rights.

Legal reserve

The legal reserve comprises reserves allocated following the distribution of profits of Immsi S.p.A. from the year 2000 to the year 2015, in accordance with provisions of law and totalled €7,764 thousand at the end of 2016.

Other reserves

This item totalled €181,554 thousand. The share premium reserve includes the consideration of shares underwritten following the increase in share capital of Immsi S.p.A. in 2005 and 2006, net of uses to cover losses for €342 thousand, for a total amount of €94,874 thousand. Other reserves also include the reserve generated from the Group’s transition to international accounting standards at 1 January 2004, equal to €5,300 thousand, details of which are in the Report to the Financial Statements at 31 December 2005, also available on the website www.immsi.it. The stock option reserve amounts to €6,742 thousand while the reserve allocated to the measurement of financial instruments is negative amounting to €8,128 thousand. Other changes primarily include the effects of redistributing reserves between the Group and non-controlling interest, due to changes in the consolidation portions of shareholders' equity.

The details of the item are shown in the table below:

In thousands of euros	*Extraordinary reserve*	*Share premium reserve / share capital increase*	*IAS transition reserve*	*Reserves as per Law no. 413/91*	*Legal reserves*	*Translation reserves*	*Stock option reserve*	*Reserve for actuarial gains (losses) relative to defined benefit plan*	*Financial instrument measurement reserve*	*Other changes in other reserves*	*Total other provisions*
Balances at 31 December 2015	***0***	***94,874***	***5,300***	***4,602***	***1,153***	***(8,573)***	***6,742***	***(3,332)***	***(1,806)***	***98,837***	***197,798***
Other changes										(9,268)	(9,268)
Overall earnings for the period						753		(1,408)	(6,322)		(6,976)
Balances at 31 December 2016	***0***	***94,874***	***5,300***	***4,602***	***1,153***	***(7,819)***	***6,742***	***(4,740)***	***(8,128)***	***89,570***	***181,554***

Retained earnings

Retained earnings amount to €126,332 thousand negative and refer to cumulative Group earnings.

Capital and reserves of non-controlling interests

At 31 December 2016 the balance of share capital and reserves attributable to third party shareholders totalled €159,771 thousand, down by €2,689 thousand compared to 31 December 2015.

- G2 - FINANCIAL LIABILITIES 1,130,608

Financial liabilities as of 31 December 2016 amounted to €1,130,608 thousand: the portion recognised as non-current liabilities amounted to €548,512 thousand, compared to 648,793 as of 31 December 2015, while the portion recognised as current liabilities amounted to €582,096 thousand, compared to €429,104 thousand as of 31 December 2015.
Financial liabilities also include the fair value measurement of financial derivatives used to hedge exchange and interest rate risks and the adjustment of relative items hedged - underwritten by the Piaggio group – for a total of €25,837 thousand, of which €18,763 thousand recognised as non-current liabilities and €7,074 thousand as current liabilities. As already stated, net financial debt does not include financial assets and liabilities arising from the fair value measurement of financial derivatives used for hedging, the fair value adjustment of relative hedged items and related accruals.

The following tables summarise the composition by type of the gross Financial debt:

- Non-current portion

In thousands of euros	*Balance at 31/12/2016*	*Balance at 31/12/2015*
Bonds	282,442	290,139
Payables due to banks	236,319	333,765
Amounts due for finance leases	10,311	179
Amounts due to other lenders	677	1,005
TOTAL	**529,749**	**625,088**

We point out that in the item Amounts due to bank and in the item Bonds there are financings treated from an accounting point of view according to the criterion of amortised cost. According to this criterion the nominal amount of the liability is decreased by the amount of the relative issuing and/or stipulation costs in addition to any costs linked to refinancing previous liabilities.
The amortisation of these costs is determined on an effective interest rate basis, and namely the rate which discounts the future flows of interest payable and reimbursements of principle at the net carrying amount of the financial liability. Furthermore, some financial liabilities attributable to the Piaggio group are entered at fair value with recognition of the relative effects in the Income Statement.

- Current portion

In thousands of euros	*Balance at 31/12/2016*	*Balance at 31/12/2015*
Bonds	9,617	0
Payables due to banks	512,778	372,551
Amounts due for finance leases	1,114	31
Amounts due to subsidiaries *)	12	225
Amounts due to other lenders	51,501	53,267
TOTAL	**575,022**	**426,074**

*) not consolidated on a global integration basis

The composition of gross financial debt is as follows:

In thousands of euros	Book value as of 31/12/2016	Book value as of 31/12/2015	Nominal value as of 31/12/2016	Nominal value at 31/12/2015
Bonds	292,059	290,139	301,799	301,799
Payables due to banks	749,097	706,316	751,114	708,810
Amounts due for finance leases	11,425	210	11,440	210
Amounts due to subsidiaries *)	12	225	12	225
Amounts due to other lenders	52,178	54,272	52,010	54,272
TOTAL	**1,104,771**	**1,051,162**	**1,116,375**	**1,065,316**

*) not consolidated on a global integration basis

The following table shows the reimbursement plan for gross financial debt at 31 December 2016 of the Group:

In thousands of euros	Nominal value as of 31/12/2016	Amounts falling due within 12 months	Amounts falling due within 31/12/2018	Amounts falling due within 31/12/2019	Amounts falling due within 31/12/2020	Amounts falling due within 31/12/2021	Portions falling due
Bonds	301,799	9,669	9,669	10,359	11,050	261,052	0
Payables due to banks	751,114	513,815	104,578	59,602	16,471	14,372	42,276
Amounts due for finance leases	11,440	1,114	1,143	1,238	1,147	1,167	5,631
Amounts due to subsidiaries *)	12	12	0	0	0	0	0
Amounts due to other lenders	52,010	51,333	332	335	10	0	0
TOTAL	**1,116,375**	**575,943**	**115,722**	**71,534**	**28,678**	**276,591**	**47,907**

*) not consolidated on a global integration basis

The following table analyses gross financial debt by currency and interest rate:

In thousands of euros	Book value as of 31/12/2015	Book value as of 31/12/2016	Nominal value as of 31/12/2016	Interest rate as of 31/12/2016
Euro	973,325	1,005,527	1,017,131	3.46%
Vietnamese Dong	31,323	53,668	53,668	8.87%
Japanese Yen	4,730	3,269	3,269	2.75%
Indian Rupee	18,709	13,393	13,393	9.42%
Indonesian Rupiah	3,327	2,824	2,824	9.05%
US Dollar	19,748	26,090	26,090	3.07%
TOTAL	**1,051,162**	**1,104,771**	**1,116,375**	**3.80%**

Amounts due to banks mainly include the following loans:

IMMSI S.p.A.

- a loan undersigned in June 2010 by the Company and renegotiated in December 2015 with Banco BPM for a total of €45 million maturing at the end of 2025, with repayment in six-monthly instalments at a rate equal to the Euribor increased by a spread. The loan has been recognised in the financial statements on an amortised cost basis for €39,862 thousand, of which €4,500 thousand relative to instalments that may be repaid within 12 months. The loan is guaranteed by mortgages on property located in Rome – via Abruzzi for a total of €90 million, in addition to the payment of income from lease contracts on the same property being paid into an account subject to special conditions, up to the amount of the interest instalment closest to maturity. The loan agreement has two covenants, which had been met at the date of this report. To cover the risk of interest rate fluctuation for cash flows, Immsi S.p.A. kept on the existing interest rate swap hedging contract, which changes the variable rate into a fixed rate for the entire duration of the contract on 75% of the nominal value of the loan taken out in 2010;

- a revolving credit line granted by the bank Monte dei Paschi di Siena for a total nominal value of €30 million (fully used as of 31 December 2016) and a benchmark rate of the variable Euribor plus a spread. The line includes compliance with a covenant, to be communicated after the approval of the 2016 Financial Statements by the Shareholders' Meeting of Immsi S.p.A.. Although the covenant was not observed as at 31 December 2016, given that the line matures in April 2017 and therefore before the date of approval of the aforementioned Financial Statements and in view of the negotiations under way with the bank, aimed at renewing the credit line to be completed within the maturity established, it was considered no longer necessary to verify the covenant;
- a revolving credit line, disbursed by Intesa Sanpaolo for €25 million, fully used at 31 December 2016, with a benchmark rate equal to the Euribor increased by a spread and maturing in June 2017. This line includes a covenant to be verified as of 30 June and 31 December of each year, which had been complied with as of 31 December 2016;
- a credit line granted by Intesa Sanpaolo for a nominal amount of €15 million (fully used as of 31 December 2016). The line, maturing in February 2017 and with a benchmark rate equal to the variable Euribor increased by a spread requires a covenant to be complied with, to be verified on 30 June and 31 December of each year, which had been complied with as of 31 December 2016;
- revolving credit line granted by Unicredit for €25 million (of which €16.5 million used at 31 December 2016), with a benchmark rate equal to the Euribor increased by a spread, with expiry in May 2017. This line includes a covenant, to be checked monthly, whose verification was exempted at 31 December 2016. This covenant, which was exceeded at 31 January 2017 and 28 February 2017, was the subject of a waiver request by Immsi and exempted by the Bank in March 2017;
- a loan granted by Banca Popolare dell'Emilia Romagna for a nominal residual amount of €2.5 million maturing in March 2017 and with a benchmark rate equal to the Euribor increased by a spread. This line includes accumulated amortisation in half-yearly instalments of increasing amount and compliance with two covenants, one of which breached at 31 December and subsequently exempted at such due date;
- a revolving credit line granted by the bank Banca Nazionale del Lavoro for a total of €20 million (fully used at 31 December 2016). This line, maturing in April 2018 and with a benchmark rate of variable Euribor increased by a spread, has covenants that had been complied with at the end of 2016;
- a revolving credit line, disbursed by Banco BPM for €20 million (fully used at 31 December 2016), maturing in December 2018 and with a benchmark rate equal to the variable Euribor increased by a spread. This line has a repayment schedule with straight-line quarterly instalments. With reference to the maturity of the instalment due for 31 March 2017, the Company request dated the postponement of its debiting and the borrowing costs until 30 April 2017. At the date of approval of the Draft Financial Statements, the Company was awaiting a response;
- a Bullet – Multi Borrower loan granted by Intesa Sanpaolo for a total of €130 million, fully disbursed at the end of 2016, maturing in December 2017 with a benchmark rate equal to the variable Euribor increased by a spread, of which €77.7 million granted to Immsi S.p.A., €30 million granted to ISM Investimenti S.p.A. and €22.3 million granted to Intermarine S.p.A.. With reference to the above line, the Company obtained a temporary exemption (up to 30 April 2017) from verification of the Value to Loan;
- a securities loan agreement between Immsi S.p.A. and Banca Akros, which - against a loan of 278,847 Unicredit shares, envisages a cash collateral from the bank of approximately €6,664 thousand represented by the market value of the share at the date of subscription net of a spread, which takes into account any downward fluctuations in the share. The contract, which expires on withdrawal, envisages a fee equal to 0.05% and interest payable equal to the EONIA increased by a spread, calculated on the cash collateral disbursed by Banca Akros.

A further €4.6 million relative to a revolving line of credit granted by Intesa Sanpaolo had been fully used at the end of the year.

The Company has deposited as collateral for its bank borrowing a total of 23,252 million Piaggio shares and pledged a total of 129,077 million Piaggio shares.

Piaggio group

- a medium-term loan for €32,727 thousand from the European Investment Bank to finance Research & Development investments planned for the 2013-2015 period. The loan will mature in December 2019 and has a repayment schedule of 11 six-monthly instalments at a fixed rate. The contractual terms envisage loan covenants;
- medium-term loan for €69,893 thousand (nominal value of €70,000 thousand) from the European Investment Bank to finance Research & Development investments planned for the 2016-2018 period. The loan will mature in February 2023 and has a repayment schedule of 7 fixed-rate annual instalments. The contractual terms envisage loan covenants;
- syndicated loan of €93,953 thousand (nominal value of €95,000 thousand), totalling €250,000 thousand consisting of a four-year tranche of €175,000 thousand as a revolving credit line (nominal value of €20,000 thousand used as of 31 December 2016) and a tranche of €75,000 thousand as a five-year loan with amortisation, which has been wholly disbursed. The contractual terms envisage loan covenants;
- a loan granted by Banco Popolare and recognised for the amount of €16,661 thousand (with nominal value of €16,667 thousand) granted by Banco BPM and subscribed in July 2015. This loan consists of a tranche of €10,000 thousand maturing in January 2017 and a tranche of €10,000 thousand granted as a three-year loan with repayments made in full;
- a €20,797 thousand medium-term loan (nominal value of €20,835 thousand) granted by Banca Popolare Emilia Romagna in June 2015. The loan matures in June 2019 and has a repayment schedule of six-monthly instalments as from 31 December 2016;
- a €12,500 thousand medium-term loan granted by Banco BPM, comprising a tranche of €12,500 thousand granted as a revolving credit line (unused as of 31 December 2016), maturing in January 2021 and a tranche of €12,500 thousand, maturing in July 2022, which has been wholly disbursed;
- a €19,990 thousand medium-term loan (nominal value of €20,000 thousand) granted by Banca del Mezzogiorno as a revolving credit line maturing in July 2022;
- a medium-term loan for 10,545 thousand USD, with €3,935 thousand still available granted by International Finance Corporation (a World Bank member) to the subsidiary Piaggio Vehicles Private Limited with interest accruing at a variable rate. The loan matures on January 2018 and will be repaid with a repayment schedule of six-monthly instalments as from January 2014. Contract terms provide for a guarantee from Piaggio & C. S.p.A. and compliance with some covenants. Cross currency swaps have been taken out on this loan to hedge the exchange risk and interest rate risk. It is noted that this loan and the related cross currency swaps were fully pre-repaid in January 2017;
- a medium-term loan of 15,851 thousand USD, with €9,146 thousand still available granted by International Finance Corporation to the subsidiary Piaggio Vehicles Private Limited with interest accruing at a variable rate. The loan matures in July 2019 and has a repayment schedule of six-monthly instalments as from July 2015. Contract terms provide for a guarantee from Piaggio & C. S.p.A. and compliance with some covenants. Cross currency swaps have been taken out on this loan to hedge the exchange risk and interest rate risk;
- a medium-term loan of 13,107 thousand USD, with €7,687 thousand still available granted by International Finance Corporation to the subsidiary Piaggio Vietnam with interest accruing at a variable rate. The loan matures in July 2018 and has a repayment schedule of six-monthly instalments as from July 2014. Contract terms provide for a guarantee from Piaggio & C. S.p.A.

and compliance with some covenants. Cross currency swaps have been taken out on this loan to hedge the exchange risk and interest rate risk;

- €14,369 thousand medium-term loan, relating to 343,339,791 thousand VND, granted by VietinBank to the Piaggio Vietnam subsidiary (for a total amount of 414,000,000 thousand VND) to finance further investments in R&D. The loan matures in June 2021, with a repayment schedule in 7 six-monthly instalments, starting from June 2018, with a fixed rate for the first year, followed by a variable rate;
- loans totalling €1,386 thousand from various banks pursuant to Italian Law no. 346/88 on subsidised applied research.

All financial liabilities indicated above are unsecured, and based on results at 31 December 2016, all covenants on loans had been met.

Intermarine S.p.A.

- loans disbursed by Intesa Sanpaolo for a total of €10.3 million to be repaid in correlation with the residual proceeds from the contract with the Finnish Navy, expiring on the 30 April 2017, guaranteed by a lien on shares of Piaggio & C S.p.A. held by Immsi S.p.A. and letters of guarantee;
- loan for a nominal €10 million relative to an "Amortizing Loan" line issued by Intesa Sanpaolo in November 2012, with a maturity of six years, three years of pre-amortisation and co-obligation of the parent company Immsi S.p.A.: this line is secured by a first mortgage on property in Sarzana and an insurance obligation;
- a revolving credit line from Intesa Sanpaolo for €18 million, to be used mainly for the settlement of liabilities towards key strategic suppliers, used €16.5 million as of 31 December 2016 and guaranteed by a lien on Piaggio & C. S.p.A. shares held by Immsi S.p.A. and maturing in April 2017;
- financial payables for advance transactions by Banca Carige for approximately €1.4 million: this line is assisted by a letter of patronage issued by Immsi S.p.A.;
- financial payables for advance transactions by Banca IFIS for approximately €9.5 million (secured, as regards contract advances, by a letter of patronage issued by RCN Finanziaria S.p.A. and by Immsi S.p.A.);
- the use of current account overdrafts with various banks for a total amount of approximately €2 million.

Is Molas S.p.A.

- a variable rate loan granted by Monte dei Paschi di Siena to Is Molas S.p.A., valid until withdrawal, usable for cash, for a total of €20 million equal to the actual debt for capital, interest and additional costs accrued and payable;
- senior mortgage loan on the “Le Ginestre” real estate complex for a term of seven years, agreed in November 2009 with Banco BPM for an initial amount of €5 million, on which approximately €1 million is currently outstanding: the terms of the mortgage require two years of pre-amortisation at the three-month Euribor plus a spread. With reference to the maturity of the instalment due for 31 March 2017, the company requested the postponement of its debiting and the borrowing costs until 30 April 2017. At the date of approval of the Draft Financial Statements of Immsi S.p.A. it had not yet received a response.

The item Bonds for €292,059 thousand (nominal value equal to €301,799 thousand) refers to:

- €51,627 thousand (nominal value of €51,799) related to a private debenture loan (US Private Placement) issued by Piaggio & C. S.p.A. in July 2011 for 75,000 USD wholly subscribed by an American institutional investor, payable in 5 annual instalments from July 2017, with a semi-annual coupon at a fixed annual nominal rate. At 31 December 2016 the fair value measurement of the debenture loan was equal to €72,604 thousand (the fair value is determined based on

IFRS relative to fair value hedging). A Cross Currency Swap has been taken out on this debenture loan to hedge the exchange risk and interest rate risk;

- €240,432 thousand (nominal value equal to €250,000 thousand) refers to the high yield debenture loan issued in April 2014 for €250,000 thousand maturing in April 2021 and with semi-annual coupon at a fixed annual nominal rate. Standard & Poor's and Moody's assigned a B+ rating with a stable outlook and a B1 rating with a stable outlook respectively.

The company may repay the amount of the high yield debenture loan issued in April 2014, early, in full or in part, under the conditions indicated in the indenture. The value of prepayment options was not deducted from the original contract, as these are considered as being closely related to the host instrument, as provided for by IAS 39 AG30 g).

The amounts due for finance leases of €11,425 thousand related to the finance lease for €11,246 thousand (nominal value of €11,261 thousand) granted by Albaleasing in the form of a Sale&Lease back on a Piaggio & C. S.p.A. production plant. The contract has a duration of ten years and provides for quarterly repayments (non-current part of €10,165 thousand) and a lease granted for €179 thousand by VFS Servizi Finanziari for the use of vehicles.

Payables to other lenders totalled €52,010 thousand, of which €51,333 thousand due after the year. Their breakdown was as follows:

- subsidised loans for a total of €951 thousand provided by the Italian Ministry of Economic Development and Italian Ministry of Education, University and Research using regulations to encourage exports and investments in research and development (non-current portion of €636 thousand);

- a loan for €54 thousand granted by BMW Finance to the Piaggio group for the purchase of cars;
- two shareholder loans of €6,000 and €8,646 thousand respectively granted to RCN Finanziaria S.p.A. by Intesa Sanpaolo (shareholder of the company), convertible into shares of the beneficiary, maturing during 2015. These loans were extensively discussed by shareholders with a view to restoring agreements; the times of these negotiations, with shareholder loans connected to them, meant that the renewal of the loans was deferred;
- shareholder loans for €25,497 thousand with a duration of 10 years, maturing in December 2018, granted by IMI Investimenti S.p.A. (shareholder of the company) to ISM Investimenti S.p.A.;
- financial advances from factoring companies and banks for credit sold with recourse relative to trade receivables amounting to €11,030 thousand and entirely referred to the Piaggio group.

- G3 - TRADE PAYABLES AND OTHER PAYABLES 528,488

Trade payables to other lenders totalled €528,488 thousand, of which €521,581 thousand due after the year. Trade payables and other current payables are detailed below:

In thousands of euros	***Balance at 31/12/2016***	***Balance at 31/12/2015***
Trade payables	459,220	462,250
Amounts due to affiliated companies	86	70
Amounts due to parent companies	231	40
Amounts due to *joint ventures*	9,777	9,311
Other payables	52,267	52,599
TOTAL	**521,581**	**524,270**

With particular reference to the Piaggio group, to facilitate credit conditions for its suppliers, the group has used factoring agreements since 2012, mainly supply chain financing and reverse factoring

agreements.
These operations did not change the primary obligation, nor substantially changed payment terms, so their nature is the same and they are still classified as trade liabilities.
At 31 December 2016, the value of trade payables covered by reverse factoring or supply chain financing agreements was equal to €173,058 thousand (€147,341 thousand at 31 December 2015).

Payables to joint ventures at 31 December 2016, equal to €9,777 thousand, mainly refer to purchases made by Piaggio Foshan Motorcycles of the Piaggio group.

The “Other current payables” item is detailed below:

In thousands of euros		
	Balance at 31/12/2016	***Balance at 31/12/2015***
Amounts due to employees	16,753	17,972
Liabilities connected to hedging instruments	237	3,450
Advances from customers	816	826
Amounts due to company boards	726	145
Amounts due to social security institutions	10,049	8,050
Other amounts due to third parties	1,019	2,086
Other amounts due to affiliated companies	34	30
Other amounts due to *joint ventures*	181	1,604
Accrued expenses	7,213	6,876
Deferred income	5,397	5,290
Other payables	9,842	9,300
TOTAL	**52,267**	**55,629**

Amounts due to employees include holidays accrued and not taken and other remuneration to pay, as at 31 December 2016, while amounts to social security institutes basically refer to amounts owing for items payable by companies and employees relative to salaries and wages as well as sums accrued and not paid.

- G4 - RESERVES FOR SEVERANCE INDEMNITY AND SIMILAR OBLIGATIONS 53,482

The reserve for pensions and similar obligations at 31 December 2016 amounted to €53,482 thousand, down by €564 thousand compared to the figure at 31 December 2015. Below is the breakdown of its composition and movements:

In thousands of euros						
	Balance at 31/12/2015	***Service cost***	***Actuarial (gain) loss***	***Interest cost***	***Uses and other changes***	***Balance at 31/12/2016***
Termination benefits	53,264	9,100	3,151	718	(13,506)	52,727
Other funds	782	0	0	0	(27)	755
TOTAL	**54,046**	**9,100**	**3,151**	**718**	**(13,533)**	**53,482**

The item Other funds is mainly attributable to the Piaggio group and includes i) funds for personnel set aside by foreign companies of the group; and ii) the supplementary indemnity fund for customers, that represents the indemnities owing to the agents of the Piaggio group in case of the agency contract winding up due to events not ascribable to them.
Uses refer to the payment of benefits already accrued in previous years, while allocations refer to benefits accrued in the period.
The item Provision for termination benefits comprises termination benefits for employees of Italian companies belonging to the Immsi Group and includes post-employment benefits identified as defined benefit plans.

The economic / technical assumptions used to discount the value by the companies of the Immsi Group operating in Italy are described below:

• Technical annual discount rate	0.78% - 1.62%;
• Annual rate of inflation	1.70% for 2017; 1.70% for 2018; 1.60% for 2019; 2.00% for 2020; 2.00% from 2021 onwards;
• Annual rate of increase in termination benefits	2.775% for 2017; 2.775% for 2018; 2.70% for 2019; 3.00% for 2020 3.00% from 2021 onwards.

As regards the discount rate, the iBoxx Corporates AA rating (Piaggio group and Intermarine) and iBoxx Corporates A rating (other Group companies) with a duration from 5 to 10+ were used for the evaluation.

The table below shows the effects, in absolute terms, at 31 December 2016, which would have occurred following changes in reasonably possible actuarial assumptions:

Assumptions taken into consideration	**Provision for termination benefits**
In thousands of euros	
Turnover rate +2%	51,894
Turnover rate -2%	53,513
Inflation rate + 0.25%	53,372
Inflation rate - 0.25%	51,866
Discount rate + 0.50%	50,272
Discount rate - 0.50%	55,139

The average duration of the bond ranges from 7 to 30 years, while future payments estimated in the Group are equal to:

Year	**Future amounts**
In thousands of euros	
1	4,232
2	3,920
3	1,349
4	4,254
5	5,460

Being an actuarial valuation, the results depend on the technical bases adopted such as - among others - the interest rate, the inflation rate and the expected turnover. A variation of these parameters could lead to a significant change in the liability estimated to date: similar impacts may be caused by unexpected changes in other technical bases.

The German and Indonesian subsidiaries of the Piaggio group have provisions for employees identified as defined benefit plans. At 31 December 2016, these provisions amounted to €256 thousand.

- G5 - OTHER LONG-TERM PROVISIONS 27,927

The balance of other long-term reserves, including the portion due within 12 months, totalled €27,927 thousand at the end of December 2016, registering an increase of €868 thousand compared to 31 December 2015. The other reserves recognised in the financial statements are detailed below:

In thousands of euros	*Balance at 31/12/2015*	*Allocations*	*Applications*	*Other changes*	*Balance at 31/12/2016*	*Of which current*
Provision for product warranties	14,566	12,168	(11,089)	17	15,662	11,201
Provisions for risk on equity investments	3,046	0	(218)	0	2,828	2,599
Provision for contractual risks	4,329	641	(124)	300	5,146	797
Other provisions for risks and charges	5,118	833	(1,550)	(110)	4,291	1,591
TOTAL	**27,059**	**13,642**	**(12,981)**	**207**	**27,927**	**16,188**

The product warranty provision refers to allocations recognised at 31 December 2016 by the Piaggio group for €11,700 thousand and by Intermarine S.p.A. for €3,962 thousand for technical warranty operations on products covered by warranties, which are expected to be carried out in the contractual warranty period. As regards – in particular – the forecasts made by the Piaggio group, this period varies according to the type of goods sold and the market, and is also determined by the customer take-up to commit to planned maintenance. With reference to Intermarine S.p.A., the company allocates this reserve for maintenance under warranty to be carried out in the future years on naval vessels under construction, delivered during the year and/or in previous years, determined on the basis of the estimate of costs incurred in the past for similar vessels.

As regards other main provisions recognised, the provision for risks on investments refers to €2,599 thousand for the hedging of negative shareholders' equity of the investee Rodriquez Cantieri Navali do Brasil Ltda.

The provision for contractual risks refers mainly to costs that could arise from the negotiation of an ongoing supply contract in the Piaggio group, while other provisions for risks and charges include the provision for legal risks allocated by the Piaggio group and amounting to €2,082 thousand.

- G6 - DEFERRED TAX LIABILITIES 23,110

The item "Deferred tax liabilities" refers to tax payables provisioned by the individual companies on the basis of applicable national laws. The balance was offset by €318 thousand by deferred tax assets, of a uniform maturity and type.
Deferred tax assets were recognised by the Piaggio group for €3,880 thousand, by the Parent Company Immsi S.p.A. for €19,128 thousand (mainly concerning the fair value measurement of the investment property in Rome) and by Intermarine S.p.A. for €102 thousand. This item increased by €1,161 thousand compared to the amount recorded at 31 December 2015.

- G7 - CURRENT TAXES 9,314

The item current taxes - which includes tax payables recognised in the financial statements of individual consolidated companies, allocated as regards taxes based on applicable national legislation - decreased by €6,566 thousand compared to the end of 2015, and are broken down as follows:

In thousands of euros	Balance at 31/12/2016	Balance at 31/12/2015
Amounts due for income tax	1,231	7,513
VAT payables	2,187	1,859
Amounts due for withholding tax	5,096	5,895
Amounts due for local taxes	38	38
Other payables	762	575
TOTAL	**9,314**	**15,880**

VAT payables refer nearly entirely (€1,958 thousand) to the Piaggio group, while amounts due for withholding tax refer mainly to withholdings on salaries, on termination payments and self-employed income.

H – INFORMATION ON THE MAIN INCOME STATEMENT ITEMS

Amounts are stated in thousands of euros unless otherwise indicated.

Before analysing the individual item, it is pointed out that the general information on costs and revenues is contained in the Report on Operations, in accordance with art.2428 of the Italian civil code.

- H1 - NET REVENUES 1,383,848

Revenues from sales and services as of 31 December 2016 amounted to €1,383,848 thousand, up by 1.6% (€+21,836 thousand) compared to the previous year. The increase is attributable in particular to the industrial sector (€+17,823 thousand, +1.4%) and marginally to the marine sector (€+3,866 thousand, +6.3%), whereas the property and holding sector was essentially unchanged at €5,066 thousand (+3%).
This item is stated net of premiums given to the customers of the Piaggio group (dealer) and it does not include transport costs recharged to customers and the recovery of advertising costs invoiced, which are shown under other operating income. Moreover, revenues do not include recharges for building service fees, offset with the related costs incurred by the Parent Company Immsi S.p.A..
Below is a division of net revenues by business sectors and by geographic segment of destination, that is, referring to the nationality of the customer:

By business segment

In thousands of euros	***2016***		***2015***	
	Amount	***%***	***Amount***	***%***
Property and holding sector	5,066	0.4%	4,919	0.4%
Industrial sector (Piaggio group)	1,313,109	94.9%	1,295,286	95.1%
of which Two-Wheeler business	916,500	66.2%	884,900	65.0%
of which Commercial Vehicle business	396,609	28.7%	410,386	30.1%
Shipyard sector (G. Rodriquez)	65,673	4.7%	61,807	4.5%
TOTAL	**1,383,848**	**100.0%**	**1,362,012**	**100.0%**

By geographic segment

In thousands of euros	***2016***		***2015***	
	Amount	***%***	***Amount***	***%***
Italy	193,244	14.0%	240,684	17.7%
Other European countries	595,306	43.0%	493,820	36.3%
Rest of the World	595,298	43.0%	627,508	46.1%
TOTAL	**1,383,848**	**100.0%**	**1,362,012**	**100.0%**

- H2 - COSTS FOR MATERIALS 786,766

Costs for materials totalled €786,766 thousand, compared to €785,366 thousand for the previous year. The weight of this item as a percentage of net revenues improved compared to the previous year, from 57.7% for the year 2015 to 56.9% for the current period.
The item includes €23,289 thousand (€25,616 thousand in 2015) for purchases of scooters from the

Chinese subsidiary Zongshen Piaggio Foshan, that are sold on European and Asian markets.
The item in question does not include costs recharged to customers and tenants, for an equal amount, and costs related to assets held for disposal, which are recognised separately in a specific item in the Income Statement. The following table details the content of this item:

In thousands of euros	*2016*	*2015*
Change in inventories of finished products, work in progress and semi-finished products	(7,238)	12,799
Change in capitalised piecework	(659)	(132)
Purchase of raw materials and consumables	792,702	763,298
Change in raw materials and consumables	1,961	9,401
TOTAL	**786,766**	**785,366**

- H3 - COSTS FOR SERVICES, LEASES AND RENTALS 272,674

Costs for services, leases and rentals total €272,674 thousand. Below is a breakdown of this item:

In thousands of euros	*2016*	*2015*
Transport costs	35,248	34,136
Product warranty costs	8,232	9,145
Advertising and promotion	35,266	31,564
Outsourced manufacturing	30,841	30,433
External maintenance and cleaning costs	9,245	9,544
Employee costs	17,133	18,169
Technical, legal, tax, administrative consultancy, etc.	21,066	24,873
Sundry commercial expenses	10,743	12,478
Energy, telephone, postage costs, etc.	17,593	19,254
Services provided	8,998	9,142
Insurance	4,969	4,683
Cost of company boards	4,573	4,519
Sales commissions	1,624	1,096
Part-time staff and staff of other companies	3,815	2,319
Bank charges and commission	5,730	5,345
Quality-related events	5,688	10,836
Other expenses	34,484	24,575
TOTAL COSTS FOR SERVICES	**255,250**	**252,111**
Rental instalments of business property	7,118	6,976
Other instalments	10,306	9,582
TOTAL COSTS FOR LEASES AND RENTALS	**17,424**	**16,558**
TOTAL COSTS FOR SERVICES, LEASES AND RENTALS	**272,674**	**268,669**

The increase of €4,005 thousand (+1.5%) in the item was mainly due to higher costs for services (€+3,139 thousand, +1.2%), and by the increase in costs for leases and rentals (€+866 thousand, +5.2%).
The item under review includes Related Party Transactions for €955 thousand, which are detailed in a paragraph contained within this Report.

- H4 - EMPLOYEE COSTS 232,808

Employee costs are broken down as follows:

In thousands of euros	2016	2015
Salaries and wages	171,223	170,327
Social security contributions	47,138	46,733
Termination benefits	9,100	9,340
Early retirement incentives	4,409	4,613
Other costs	938	855
TOTAL	**232,808**	**231,868**

The table below shows the average number of employees by category. For more details on personnel, refer to the specific paragraph in the Report on Operations:

	2016	2015
Senior management	114	120
Middle managers and white collars	2,552	2,782
Manual workers	4,681	5,041
TOTAL	**7,347**	**7,943**

Employee costs increased in absolute terms by €940 thousand compared to figures for the previous year (+0.4%).
Employee costs include €4,409 thousand relating to costs for mobility plans mainly for the Pontedera and Noale production sites, while in 2015 these costs, relative to the same production sites, were equal to €4,613 thousand.
The average number of employees was affected by seasonal workers in the summer months (with fixed-term contracts and fixed-term service contracts) used to deal with typical peaks in demand in the summer months.
In 2016, the Group reduced employee numbers, continuing its restructuring, streamlining and organisational cutbacks. The Group's average number of employees in 2016 was 7,347, down by 596 (-7.5%) compared to 31 December 2015.
As required by international accounting standards, no costs for stock options were recognised under employee costs, with no stock options in either 2016 or 2015.

- H5 - DEPRECIATION OF PLANT, PROPERTY AND EQUIPMENT 46,337

Depreciation recognised at 31 December 2016 for plant, property and equipment is listed below, with depreciation rates indicated in the section on accounting standards adopted by the Group:

In thousands of euros	2016	2015
Depreciation of buildings	5,554	5,717
Depreciation of plant and machinery	24,041	22,701
Depreciation of industrial and commercial equipment	12,449	14,646
Depreciation of assets to be given free of charge	70	52
Depreciation of other assets	4,223	4,041
DEPRECIATION OF PLANT, PROPERTY AND EQUIPMENT	**46,337**	**47,157**

- H6 - AMORTISATION OF FINITE LIFE INTANGIBLE ASSETS 63,745

Amortisation of intangible assets with a finite life recognised in 2016 totalled €63,745 thousand, and is broken down as follows:

In thousands of euros	2016	2015
Amortisation of development costs	31,645	32,722
Amortisation of concessions, patents, industrial and similar rights	26,955	21,233
Amortisation of trademarks and licences	4,828	4,828
Amortisation software	37	28
Amortisation of other intangible assets with a finite life	280	755
AMORTISATION OF INTANGIBLE ASSETS	**63,745**	**59,566**

As set out in more detail in the paragraph on intangible assets, as from 1 January 2004, goodwill is no longer amortised, but tested annually for impairment. For further details, readers are referred to Explanatory and Additional Note F1 – Intangible Assets. Amortisation of intangible assets does not include impairment of goodwill during 2016 or in the previous year, as – based on tests carried out – it was not necessary to carry out impairment because goodwill was considered recoverable through future financial flows relative to the cash generating units the goodwill was allocated to.

- H7 - OTHER OPERATING INCOME 110,675

The “Other operating income” item comprises:

In thousands of euros	2016	2015
Gains on the disposal of plant, property and equipment	2,337	259
Sponsorships	2,419	4,059
Grants	4,260	3,839
Recovery of sundry costs	31,702	31,584
Licence rights	7,838	3,104
Sale of materials and sundry equipment	830	1,074
Insurance settlements	2,445	3,775
Increases in fixed assets from internal work	44,247	47,047
Rents received	3,702	3,706
Other operating income	10,895	15,619
TOTAL	**110,675**	**114,066**

The item Gains on the disposal of plant, property and equipment includes the proceeds from the sale of moulds and projects for vehicles released for production in the Piaggio group.
The item contributions includes €2,719 thousand for state and EU contributions for research projects. The grants are recognised in profit or loss, with reference to the amortisation and depreciation of capitalised costs for which the grants were received. This item also includes contributions for exports (€1,161 thousand) received from the Indian subsidiary of the Piaggio group.
“Recovery of sundry costs” (less the amount in reduction of costs incurred) are related to transport costs recharged to customers, the charges for which are classified under “Costs for services and use of third party assets”.
The item under review includes Related Party Transactions for €3,042 thousand, which are detailed in a paragraph contained within this Report.

- H8 - OTHER OPERATING COSTS 35,185

The item Other operating costs at 31 December 2016 amounted to €35,185 thousand and is broken down as follows:

In thousands of euros	2016	2015
Losses on the disposal of plant, property and equipment	42	11
Duties and taxes not on income	5,612	5,862
Loss in value of plant, property and equipment	1,000	29
Impairment losses of intangible assets	379	0
Provisions for product warranty	10,981	11,218
Provisions for litigation	85	200
Provisions for future and other risks	2,576	255
Write-down of trade receivables (including provisions to the provision for bad debts)	1,366	3,185
Write-down of financial (including provisions to the provision for bad debts)	0	37
Other operating costs	13,144	8,601
TOTAL	**35,185**	**29,398**

Overall, the other operating costs have shown increase mainly due to the recognition by the subsidiary Intermarine of contractual penalties on orders of around €8 million, partially offset (€1.6 million) by the reversal of provisions recognised in the item borrowing costs.

- H9 - EARNINGS ON INVESTMENTS 568

The item recorded a positive balance at 31 December 2016 of €568 thousand and mainly refers to the equity measurement of the investment held by the Piaggio group in the joint venture Zongshen Piaggio Foshan Motorcycle Co. Ltd..

- H10 - FINANCIAL INCOME 15,612

Financial income recognised by the Group in 2016 is detailed below:

In thousands of euros	2016	2015
Interest income	2,705	1,020
Exchange gains	12,545	18,938
Dividends	24	130
Other income	338	489
TOTAL	**15,612**	**20,577**

During 2016, financial income was lower by €4,965 thousand compared to the figure recorded for the previous year: This decrease was mainly due to the lower exchange gains, particularly for the Piaggio group, which were essentially said during the year by the decrease in exchange losses recognised under the item Borrowing costs.

- H11 - BORROWING COSTS 68,692

Borrowing costs at 31 December 2016 are broken down as follows:

In thousands of euros	2016	2015
Interest payable on bank loans	26,232	26,515
Interest payable on loans from third parties	8,109	7,469
Interest payable on debenture loans	16,020	15,498
Other interest payable	1,673	3,330
Commissions payable	2,106	2,564
Exchange losses	12,560	19,225
Fair value and interest rate hedging charges	533	649
Financial component of retirement funds and termination benefits	665	880
Other charges	794	475
TOTAL	**68,692**	**76,605**

The borrowing costs for the year 2016 fell by €7,913 thousand compared to the previous year, mainly as a result of lower exchange losses, particularly for the Piaggio group, offset by the decrease in exchange gains, recognised under the item Financial income.

- H12 - TAXES 12,841

Taxation on the income of companies consolidated on a line-by-line basis recognised in the Financial Statements at 31 December 2016 amounted to €12,841 thousand, and is broken down as follows:

In thousands of euros	2016	2015
Current taxes	13,435	8,955
Deferred tax liabilities	(594)	2,908
TOTAL	**12,841**	**11,863**

Taxes for the period increased by €978 thousand compared to 31 December 2015. The calculation of the average consolidated tax rate for the two years being compared, should not be considered significant, because the tax for the year 2015 included the adjustment of deferred tax assets and liabilities to the new nominal tax rate for Italian Tax on Corporate Income for the 2017 tax year, equal to 24%, compared to the previous rate of 27.5%, as provided for by the 2016 Stability Law. This adjustment had an overall negative impact on the income statement of around €14.4 million. Vice versa in the year 2016 no deferred tax assets were recognised on the losses for the period for reasons of prudence concerning their recoverability, amounting to approximately €5.1 million.

The Parent Company Immsi S.p.A., Piaggio & C. S.p.A., Piaggio Concept Store Mantova S.r.l., Intermarine S.p.A., Apuliae S.p.A., RCN Finanziaria S.p.A., ISM Investimenti S.p.A., Pietra S.r.l., Pietra Ligure S.r.l. and Aprilia Racing S.r.l. are party to the National Consolidated Tax Convention, and were therefore able to recognise overall deferred tax assets for 2016 of €2.7 million, in the view of results forecast for the Immsi Group.

Below is a reconciliation between the theoretical tax burden and the actual tax burden:

	TOTAL
Profit before tax	*4,496*
Theoretical rate (24%)	
Theoretical income taxes	***1,236***
Effect resulting from the non-recognition of deferred tax assets on losses	*5,342*
Effect arising from changes in Profit before tax and deferred tax liabilities	*3,155*
Tax effect arising from taxes on income produced abroad	*8,543*
Other differences	*-5,775*
Income taxes recognised in the financial statements (Italian Tax on Corporate Income)	***12,502***
Regional production tax (IRAP)	*339*
Income taxes recognised in the financial statements	***12,841***

The effect arising from regional production tax was determined separately, as this tax is calculated based on earnings before tax.

- H13 - GAIN/LOSS ON THE DISPOSAL OF ASSETS 0

At the end of the reporting date, there were no gains or losses from assets held for sale or disposal, as well as for the previous year.

- H14 - EARNINGS FOR THE PERIOD (8,663)

As of 31 December 2016, the Immsi Group posted a loss for the period of €8,663 thousand, after attributing a profit of €318 thousand to non-controlling interest.

- I - COMMITMENTS, RISKS AND GUARANTEES

The main guarantees issued by banks on behalf of **Piaggio & C. S.p.A** in favour of third parties are listed below:

Type	In thousands of euros
Guarantee of BCC-Fornacette issued in favour of the Livorno Customs Authority for Piaggio goods handling in the Port of Livorno	200
A guarantee of BCC-Fornacette issued to Pisa Customs Authorities for handling Piaggio goods at the Pisana docks and at Livorno Port	200
Guarantee of BCC-Fornacette issued in favour of the Financial Administration - Revenue Agency, Provincial Department of Milan - to guarantee the excess deductible tax requested as a refund by the subsidiary Motoride SpA (now closed down)	275
Guarantee of BCC-Fornacette issued for Piaggio & C. S.p.A. in favour of Poste Italiane – Rome to guarantee contract obligations for the supply of vehicles	1,321
Guarantee of Banco di Brescia issued in favour of the Municipality of Scorzè, to guarantee the urbanisation and construction of the plant in Scorzè	166
Guarantee of Banca Intesa Sanpaolo issued to the Ministry of the Interior of Algeria, to guarantee contract obligations for the supply of vehicles	140
Guarantee of Banca Intesa Sanpaolo issued to the Ministry of the Defence National Algeria, to guarantee contract obligations for the supply of vehicles	158

The main guarantees given to third parties recorded by **Intermarine** are detailed below:

Subject	In thousands of euros
Italian public entities for minesweepers and lookouts	19,519
Foreign public entity of the European Community	17,348
Italian operator for the supply of the integrated minesweeper platform	4,575
Asian operator for minesweepers naval platform	27,018
Ministries for research projects	4,074
Foreign public entity of Arab countries	3,605
Como S.r.l.	2,700
Various minor items	513

Guarantees to third parties referred to above are mainly relate to guarantees issued for contracts ongoing with the following customers:

- Italian public entities for €19,519 thousand mainly issued to the Navy, of which €11.7 million for performance bonds in addition to the coverage of the advances on the contract for the upgrade of the Gaeta class minesweeper, and €2.1 million for performance bonds, with Immsi counterguarantee, issued on the Unpav contract, and to Guardia di Finanza for deposits on guarantees on contracts in place with that Office for €5.7 million;
- Asian Naval Shipyard for €27,018 thousand relating to the performance bonds and guarantees on advances;
- a foreign public organisation of the European Community, for €17,348 thousand, referred to the supply contract for 3 minesweepers, of which i) €12,240 thousand for a contract guarantee issued by the parent company RCN Finanziaria S.p.A.; and ii) the remaining portion referred to guarantees for payments received as advances issued by SACE with Immsi S.p.A. as joint and several guarantor (as described below);
- Italian operator active in the naval sector for the supply of an integrated minesweeper platform, for €4,575 thousand referred to the performance bond and to guarantees on

advances on the contract to build a minesweeper;

- Foreign public entity of the Arab countries, for €3,605 thousand, referred to guarantees for post delivery bonds issued to Oman for constructions C351 and C353. These guarantees are covered by a counter-guarantee of Immsi S.p.A. (as described below).

There are also other risks amounting to €1,934 thousand, relating to the maximum penalty that may be calculated in relation to the commitment undertaken by Intermarine S.p.A. with the Industrial Participation contract (obligation to obtain exports of Finnish products) signed along with the construction contract with the foreign public entity of the European Community.
Lastly, to guarantee the payable to ISP obtained from Intermarine for €10 million, a first degree loan was issued up to a maximum of 200%.

With reference to the company **Is Molas S.p.A.,** €7.4 million were recognised relative to the value of the commitment undertaken with the Municipality of Pula on 26 March 2015, following the stipulation of the New Additional Planning Act. Finally, as collateral for bank loans, a first mortgage was issued by the subsidiary Is Molas S.p.A. on the real estate complex “Le Ginestre” for €10 million.

With regard to the subsidiary **Apuliae S.p.A.**, there are overall commitments of around €1.3 million relating to the procurement contract entered into for the renovation work for the property located in S. Maria di Leuca (LE). Notwithstanding what has been described regarding the lawsuits that prevent the implementation of the entire investment, it was deemed best not to change the amount of the aforementioned contractual obligation, since the contract is formally still in force, although its execution is currently suspended.

With reference to the **Parent Company Immsi S.p.A.**, see the section “Commitments, risks and guarantees” in the "Notes to the Financial Statements at 31 December 2016” of the separate financial statements of Immsi S.p.A..

- L - RELATED-PARTY TRANSACTIONS

Reference should be made to the relevant paragraph as regards the main business relations of Group companies with related parties.

- M - FINANCIAL POSITION

Net financial debt of the Immsi Group at 31 December 2016 is shown below. Further details of the main components are provided in the tables in the Report on Operations and the related information below them:

In thousands of euros	***31/12/2016***	***31/12/2015***
Cash and cash equivalents	-197,919	-124,510
Other short-term financial assets	0	0
Medium/long-term financial assets	0	0
Short-term financial payables	575,022	426,074
Medium/long-term financial payables	529,749	625,088
Net financial debt *)	**906,852**	**926,652**

*) The indicator does not include financial assets and liabilities arising from the fair value measurement of financial derivatives designated as hedges and the fair value adjustment of the related hedged items and related expenses (see note G2 – “Financial liabilities” in the Notes)

- N - DIVIDENDS PAID

As proposed by the Board of Directors on 23 March 2016 and as approved by the Ordinary Shareholders' Meeting on 29 April 2016, the Parent Company distributed dividends during 2016 for a total of €5.1 million, while it did not distribute any in 2015.

- O - EARNINGS PER SHARE

Earnings per share

The earnings per share is calculated by dividing the net income/loss for the year attributable to Parent company shareholders by the average weighted number of ordinary shares in issue during the period, from which any own shares held are excluded.

The average number of shares in circulation is calculated by using the principle of retrospectively applying the changes in the number of shares in circulation.

	2016	*2015*
Net profit attributable to ordinary shareholders (in thousands of euros)	(8,663)	(9,554)
Average weighted number of shares in circulation during the year	340,530,000	340,530,000
Basic earnings per share (in euros)	**(0.025)**	**(0.028)**

Diluted earning per share

Diluted earning per share is calculated by dividing the net income/loss for the year attributable to Parent company Ordinary Shareholders by the average weighted number of shares in issue during the year, taking account of the diluting effect of potential shares. Any treasury shares held are excluded from this calculation.

The Company had no category of potential ordinary shares at 31 December 2016, therefore the diluted income per share coincides with the basic earning per share indicated above.

- P - INFORMATION ON FINANCIAL INSTRUMENTS

Information on financial instruments, the risks connected with them, as well as “sensitivity analysis” in accordance with requirements of IFRS 7 that came into force on 1 January 2007, is given below.

The following table shows the financial instruments of the Immsi Group registered in the financial statements at 31 December 2016 and at 31 December 2015:

In thousands of euros	*31 December 2016*	*31 December 2015*
ASSETS		
NON-CURRENT ASSETS		
Other financial assets	***33,169***	***36,773***
Financial receivables	0	0
Financial assets	33,169	36,773
CURRENT ASSETS		
Other financial assets	***14,693***	***16,495***
Financial receivables	0	0
Financial assets	14,693	16,495
LIABILITIES		
NON-CURRENT LIABILITIES		
Financial liabilities	***548,512***	***648,793***
Bonds	282,442	290,139
Payables due to banks	236,319	333,765
Amounts due for finance leases	10,311	179
Amounts due to other lenders	677	1,005
Financial liabilities for hedging instruments	18,763	23,705
CURRENT LIABILITIES		
Financial liabilities	***582,096***	***429,104***
Bonds	9,617	0
Payables due to banks	512,778	372,551
Amounts due for finance leases	1,114	31
Amounts due to subsidiaries	12	225
Amounts due to other lenders	51,501	53,267
Financial liabilities for hedging instruments	7,074	3,030

Financial assets

Current and non-current financial assets are fully commented upon in Note *F5 – Other financial assets*, to which reference is made.

Current and non-current liabilities

Current and non-current liabilities are fully commented upon in Note *G2 – Financial liabilities*, to which reference is made. In this section the debt is divided by type and detailed by maturity.
The main loan agreements entered into by Group companies (fully described in the above note), require – in line with market practices for borrowers with a similar credit standing – compliance with:

- financial covenants, on the basis of which the financed company undertakes to comply with certain levels of contractually defined financial indices, with the most significant - in particular for the Piaggio group - comprising the ratio of net financial debt/gross operating margin (EBITDA), measured on the consolidated perimeter of the group, according to definitions agreed on with lenders;

- negative pledges according to which the company may not establish collaterals or other

constraints on company assets;
- *"pari passu"* clauses, on the basis of which the loans will have the same repayment priority as other financial liabilities;
- change of control clauses, which are effective if the majority shareholder loses control of the company;
- the cross default clauses, based on which, in the event of default on a loan, the default automatically extends to the other lines;
- limitations on the extraordinary operations the company may carry out.

The measurement of financial covenants and other contract commitments is monitored by the Group companies on an ongoing basis. In particular, based on the results at 31 December 2016 all the parameters had been met or if some of them had not been met, specific requests had been made that had been accepted by the banks concerned. Finally, any failure to comply with these covenants and other contractual commitments applied to the loans mentioned above - if not adequately remedied within the agreed time - could result in the requirement of early repayment of the related outstanding debt.
For more details, see the information in Note G2 – *Financial liabilities.*

Lines of credit

At 31 December 2016 the Immsi Group had irrevocable credit lines available until maturity amounting to €1,188.3 million. For further details reference is made to the Note G2 on Financial liabilities.

Management of financial risks

The financial risks to which the Immsi Group believes to be potentially exposed to are:
- the management of capital and the liquidity risk;
- the exchange risk;
- the interest rate risk; and
- the credit risk.

In the **Piaggio group**, management of these risks is centralised and treasury operations are performed in the sphere of policy and formalised guidelines, valid for all the companies in the group.

Capitals management and liquidity risk

The liquidity risk derives from the possibility that available financial resources may not be sufficient to hedge, in the means and times, future disbursements generated by financial and/or commercial bonds.
The **Parent Company Immsi S.p.A.** provides financing for the Group's subsidiaries and/or issues guarantees to facilitate their funding: these operations are regulated under normal market conditions.
With particular reference to the **Piaggio group**, to face such a risk, cash flows and the company's credit line needs are monitored and/or managed centrally under the control of the group's Treasury Department, in order to guarantee an effective and efficient management of the financial resources as well as optimise the debt's maturity standpoint. Moreover, Piaggio & C. S.p.A. finances the temporary cash requirements of group companies by providing direct or indirect short-term loans regulated in market conditions or through guarantees. A cash pooling zero balance system is used between Piaggio & C. S.p.A. and European subsidiaries to reset the receivable and payable balances of subsidiaries on a daily basis, for a more effective and efficient management of liquidity in the Eurozone.
For greater coverage of the risk of liquidity, at 31 December 2016 the Immsi Group had unused credit lines available for €341.1 million (€366.8 million at 31 December 2015) of which €170.6 million maturing within 12 months and €170.5 million maturing at a later date.

The Directors believe that the currently available funds, in addition to those that will be generated from operating and financing activities, will enable the Group to meet its own needs arising from investments, management of working capital and repayment of debts when they become due, and will ensure an adequate level of operational and strategic flexibility, on the assumption that the various lines that will become due in the next 12 months, and in particular for the Parent Company Immsi S.p.A., will be fully renewed by the banks. The above also means that the guarantees are available that these contracts required to be able to activate them and also that there are no breaches of the Guarantee Values and financial covenants or if they have been breached the banks are willing to grant an exemption from compliance with them.

Exchange rate risk management

The Immsi Group – particularly through the subsidiaries of the Piaggio group and through the subsidiary Intermarine S.p.A. – operates in an international context where transactions are conducted in currencies different from Euro. This exposes the Group to risks arising from exchange rates fluctuations: exchange-risk hedging contracts are entered into solely by companies belonging to the aforementioned groups.

In particular the **Piaggio group** has an exchange rate risk management policy which aims to neutralise the possible negative effects of the changes in exchange rates on company cash-flows. This policy analyses:

- transaction exchange risk: the policy wholly covers this risk, which arises from differences between the exchange rate recorded in the financial statements for receivables or payables in foreign currency and the exchange rate recorded on the related collection or payment. To cover this type of exchange risk, the exposure is naturally offset in the first place (netting between sales and purchases in the same currency) and if necessary, by signing currency future derivatives, as well as advances of receivables denominated in currency;
- translation risk: arises from the conversion into euros of the financial statements of subsidiaries prepared in currencies other than the euros during consolidation: the policy adopted by the group does not impose the hedging of such a kind of exposure;
- economic exchange risk: arises from changes in company profitability in relation to annual figures planned in the economic budget on the basis of a reference change (the "budget change") and is covered by derivatives. The items of these hedging operations are therefore represented by foreign costs and revenues forecast by the sales and purchases budget. The total of forecast costs and revenues is processed monthly and relative hedging is positioned exactly on the average weighted date of the economic event, recalculated based on historical criteria. The economic occurrence of future receivables and payables will occur during the budget year.

Cash flow hedging related to the Piaggio group

As of 31 December 2016, the group had undertaken the following futures operations (recognised based on the regulation date), relative to payables and receivables already recognised to hedge the transaction exchange risk:

Company	Operation	Currency	Amount in currency	Value in local currency (forward exchange rate)	Average maturity
			In thousands	*In thousands*	
Piaggio & C.	Purchase	CNY	51,000	6,896	29/01/2017
Piaggio & C.	Purchase	JPY	270,000	2,216	17/01/2017
Piaggio & C.	Purchase	GBP	500	586	16/01/2017
Piaggio & C.	Purchase	USD	9,750	9,164	17/01/2017
Piaggio & C.	Sale	CAD	560	395	05/02/2017
Piaggio & C.	Sale	CNY	4,000	549	03/01/2017
Piaggio & C.	Sale	GBP	2,400	2,808	09/01/2017
Piaggio & C.	Sale	INR	92,000	1,279	25/01/2017
Piaggio & C.	Sale	JPY	20,000	163	28/02/2017
Piaggio & C.	Sale	SGD	420	276	11/02/2017
Piaggio & C.	Sale	USD	3,700	3,526	22/01/2017
Piaggio group Americas	Purchase	CAD	225	165	30/03/2017
Piaggio group Americas	Sale	€	455	430	03/03/2017
Piaggio VietNam	Purchase	€	2,700	65,557,200	06/02/2017
Piaggio VietNam	Sale	€	1,700	40,905,700	13/02/2017
Piaggio Indonesia	Purchase	€	43	629,986	09/02/2017
Piaggio Indonesia	Purchase	USD	2,897	38,484,695	24/01/2017
Piaggio Vehicles Private Limited	Sale	€	1,776	130,516	28/02/2017
Piaggio Vehicles Private Limited	Sale	USD	160	10,897	05/02/2017

At 31 December 2016, the group had the following transactions to hedge the business risk:

Company	Operation	Currency	Amount in local currency	Value in local currency (forward exchange rate)	Average maturity
			In thousands	*In thousands*	
Piaggio & C.	Purchase	CNY	209,000	27,415	05/06/2017
Piaggio & C.	Sale	GBP	12,300	14,308	25/06/2017

To hedge the business risk, cash flow hedging is adopted with the effective portion of profits and losses recognised in a specific shareholders' equity reserve. Fair value is determined based on market quotations provided by main traders. At 31 December 2016, the overall fair value of hedging instruments on the exchange risk recognised on a hedge accounting basis was positive, amounting to €164 thousand. During 2016, profit under other components of the Statement of comprehensive income was recognised amounting to €164 thousand and profit from other components of the Statement of comprehensive income was reclassified under profit/loss for the period amounting to €285 thousand. The net balance of cash flows during 2016 is shown below, divided by main currency:

	Amounts in million of euros
	Cash-flow 2016
Pound Sterling	23.4
Indian Rupee	19.5
Croatian Kuna	2.5
US Dollar	(10.6)
Canadian Dollar	7.3
Indonesian Rupiah	17.7
Vietnamese Dong	(17.8)
Chinese Yuan*)	(44.0)
Japanese Yen	(7.3)
Total cash flow in foreign currency	**(9.3)**

**) flow partially settled in euros*

The subsidiary **Intermarine** also hedges risks arising from fluctuating exchange rates through specific operations related to single orders that require invoicing in currencies other than the euros. In particular, the policy concerning the exchange risk adopted by the group totally eliminates any risk by defining a fixed forward exchange rate to hedge fluctuating exchange rates. At 31 December 2016, no forward sales contracts were ongoing.

In view of the above, assuming an appreciation/depreciation of 3% of the mean exchange rate of the euros on the unhedged portion of the economic exposure on main currencies observed in 2016, the impact on profit would have been approximately €0.3 million.

Management of the interest rate risk

The exposure to interest rate risk arises from the necessity to fund operating activities, both industrial and financial, of Group companies and to use available liquidity. Changes in interest rates may affect the costs and returns of investment and financing operations: this risk arises from fluctuations in interest rates and the impact this may have on future cash flows arising from floating rate financial assets and liabilities. Therefore, the Group regularly measures and controls its exposure to interest rates changes with the aim of reducing the fluctuation of borrowing costs limiting the risk of a potential rise in interest rates: this objective is pursued both through an appropriate mix of fixed rate and floating rate exposure, and through the use of derivative instruments, mainly Interest Rate Swaps and Cross Currency Swaps, also according to practices established by its own management policies.

With reference to the **Piaggio group**, at 31 December 2016, the following hedging derivative instruments were recognised:

- a Cross Currency Swap to hedge the private debenture loan issued by Piaggio & C. S.p.A. for a nominal amount of 75,000 thousand USD dollars. The purpose of the instrument is to hedge both the exchange risk and interest rate risk, turning the loan from US dollars to euros, and from a fixed rate to a variable rate; the instrument is accounted for on a fair value hedge basis, with effects arising from the measurement recognised in profit or loss. At 31 December 2016, the *fair value* of the instrument was equal to €21,434 thousand. The net economic effect arising from the measurement of the instrument and underlying private debenture loan was equal to €-206 thousand; the sensitivity analysis of the instrument and its underlying, assuming a 1% increase and decrease in the shift of the interest rates curve, showed a potential impact on the income statement, net of the related tax effect, of €20 thousand and €-23 thousand respectively, assuming constant exchange rates; assuming a 1% appreciation and depreciation of the exchange rates, the sensitivity analysis identified a potential impact on the income statement, net of the related tax effect, of €-24 thousand and €24 thousand respectively;

- a cross currency swap to hedge loans relative to the Indian subsidiary for 10,545 thousand USD (at 31 December €3,935 thousand) granted by International Finance Corporation. The purpose of the instruments is to hedge the exchange risk and interest rate risk, turning the loan from US dollars to Indian Rupees, and half of said loan from a variable rate to a fixed rate. At 31 December 2016 the *fair value* of the instruments was equal to €2,080 thousand. The sensitivity analysis of the instrument and its underlying, assuming a 1% increase and decrease in the shift of the interest rates curve, showed a potential impact on the income statement, net of the related tax effect, of €7 thousand and €-7 thousand respectively, assuming constant exchange rates. Assuming a 1% reversal and write-down of the exchange rate of the Indian Rupee, sensitivity analysis of the instrument and its underlying identified a potential impact on the Income Statement, net of the relative tax effect, which was basically negligible;
- a cross currency swap to hedge loans relative to the Indian subsidiary for 15,851 thousand USD (at 31 December €9,146 thousand) granted by International Finance Corporation. The purpose of the instruments is to hedge interest rate risk and exchange risk, turning the loan from US dollars to Indian Rupees, and to hedge the interest rate risk on the US dollar. At 31 December 2016 the *fair value* of the instruments was equal to €2,256 thousand. The sensitivity analysis of the instrument and its underlying, assuming a 1% increase and decrease in the shift of the interest rates curve, showed a potential impact on the income statement, net of the related tax effect, of €3 thousand and €-3 thousand respectively, assuming constant exchange rates. Assuming a 1% appreciation and depreciation of the exchange rate of the Indian rupee, the sensitivity analysis of the instrument and its underlying identified a potential impact on the income statement, net of the related tax effect, of €-2 thousand and €2 thousand respectively;
- a cross currency swap to hedge the loan relative to the Vietnamese subsidiary for 13,107 thousand USD (at 31 December €7,687 thousand) granted by International Finance Corporation. The purpose of the instruments is to hedge the exchange risk and partially hedge the interest rate risk, turning the loan from US dollars at a variable rate into Vietnamese Dong at a fixed rate, except for a minor portion (24%) at a variable rate. At 31 December 2016 the *fair value* of the instruments was positive amounting to €472 thousand. The sensitivity analysis of the instrument and its underlying, assuming a 1% increase and decrease in the shift of the interest rates curve, showed a potential impact on the income statement, net of the related tax effect, of €26 thousand and €-26 thousand respectively, assuming constant exchange rates. Assuming a 1% appreciation and depreciation of the exchange rate of the Vietnamese dong, the sensitivity analysis of the instrument and its underlying identified a potential impact on the income statement, net of the related tax effect, which was entirely negligible.

In thousands of euros	***FAIR VALUE***
Piaggio & C. S.p.A.	
Cross Currency Swap	21,434
Piaggio Vehicles Private Limited	
Cross Currency Swap	2,080
Cross Currency Swap	2,256
Piaggio Vietnam	
Cross Currency Swap	472

Moreover, the Parent Company **Immsi S.p.A.** has an Interest Rate Swap to change 75% of flows for interest relative to the loan, for residual nominal amounts of €13.8 million with Banco Popolare from a variable to a fixed rate. at 31 December 2016, the fair value of the instrument amounted to €374 thousand. In 2016, profit amounting to €274 thousand was recognised in other components of the statement of comprehensive income.

Management of the credit risk

The Group considers that its exposure to credit risk is as follows:

In thousands of euros	***31 December 2016***	***31 December 2015***
Bank funds and securities	197,802	124,510
Financial assets	47,898	53,307
Tax receivables	45,066	28,873
Trade receivables and other receivables	149,969	220,162
Total	***440,735***	***426,852***

In particular, the **Piaggio group** monitors or manages credit centrally by using established policies and guidelines. The portfolio of trade receivables shows no signs of concentrated credit risk in light of the broad distribution of its own licensee or distributor network. In addition, most trade receivables are short-term. In order to optimise credit management, Piaggio & C. S.p.A. has established revolving programmes with some primary factoring companies for selling its trade receivables without recourse in Europe and the United States.

With reference to the subsidiary **Intermarine**, whose business typically means that receivables are concentrated with a few customers, the most significant customers in quantitative terms are public organisations: moreover, in general production to order requires substantial advance payments by the customer as works progress, thereby reducing the credit risk.

With reference to the other companies of the Immsi Group, there is currently no significant exposure to credit risk.

Hierarchical fair value valuation levels

IFRS 13 – *Fair value measurement* applies as from 1 January 2013. The Standard defines fair value on the basis of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In the absence of an active market or market that does not operate regularly, fair value is measured by valuation techniques. The standard defines a fair value hierarchy:

- level 1: quoted prices in active markets for assets or liabilities measured;
- level 2: directly (prices) or indirectly (price-derived) observable market inputs other than level 1 inputs;
- level 3: inputs not based on observable market data.

The valuation techniques that refer to levels 2 and 3 must take into account adjustment factors that measure the risk of failure of both parties: to this end, the principle introduces the concepts of *Credit Value Adjustment* (CVA) and *Debit Value Adjustment* (DVA). The CVA allows the inclusion, in the determination of the fair value, of the credit risk of the counterparty, while the DVA reflects the insolvency risk of companies.
IFRS 7 also requires the fair value of debts recognised on a amortised cost basis to be measured, for disclosure purposes only. The table below indicates these values:

In thousands of euros	*Nominal value*	*Carrying amount*	*Fair Value Estimate*
Piaggio group - High yield debenture loan	250,000	240,432	259,318
Piaggio group - Private debenture loan	51,799	51,627	75,076
Piaggio group - BPER [Banca Popolare dell'Emilia Romagna] credit line	20,835	20,797	20,743
Piaggio group - EIB (2013-2015 R&D fund)	32,727	32,727	32,911
Piaggio group - EIB (2016-2018 R&D fund)	70,000	69,893	65,878
Piaggio group - Syndicated Revolving Credit line	20,000	19,305	19,899
Piaggio group - Syndicated loan maturing in July 2019	75,000	74,648	75,615
Piaggio group - Banco BPM credit line	6,667	6,661	6,734
Piaggio group - Banco BPM credit line	12,500	12,500	12,271
Piaggio group - Revolving Credit line B. del Mezzogiorno	20,000	19,990	19,504
Piaggio group – Medium-term VietinBank loan	14,369	14,369	13,729
Immsi S.p.A. – Mortgage loan with Banco Popolare	40,500	39,862	37,974
Immsi S.p.A. – Credit line maturing in December 2018	20,000	19,931	20,036
Immsi S.p.A. – Credit line maturing in March 2017	2,500	2,495	2,562
Immsi S.p.A. – Credit line maturing in April 2018	20,000	19,908	19,875

For other financial liabilities of the Immsi Group not expressly included in the table provided, the carrying amount is essentially similar to the fair value.
The table below shows the assets and liabilities measured at fair value at 31 December 2016, by fair value measurement hierarchical level.

In thousands of euros	*Level 1*	*Level 2*	*Level 3*
Assets measured at fair value	7,624		13,996
Hedging financial derivatives		25,770	472
Investment property			85,765
Other assets		401	36
Total assets measured at fair value	***7,624***	***26,171***	***100,269***
Liabilities measured at fair value		(98,405)	
Hedging financial derivatives		(374)	
Other liabilities		(237)	
Total liabilities measured at fair value	***0***	***(99,016)***	***0***
Balance as of 31 December 2016	***7,624***	***(72,845)***	***100,269***

Hierarchical level 1 includes the carrying amount of the investment held by Immsi S.p.A. in Unicredit S.p.A., down by €6,695 thousand compared to 31 December 2015 following a sharp decrease in the share price recorded during the year.

Hierarchical level 2 includes among the assets the positive value of the derivative hedging financial instruments attributable to the Piaggio group, while the liabilities include the negative value of the derivative financial instruments (Interest Rate Swap) attributable to the Parent company Immsi S.p.A..

Lastly, hierarchical level 3, under financial assets, includes the carrying amount of the investment held by Immsi S.p.A. in Alitalia – Compagnia Aerea Italiana S.p.A..
Investment property mainly includes the fair value of the investment property attributable to Immsi S.p.A. (located in Via Abruzzi, Rome) and the former Piaggio group site in Martorelles, Spain.
The measurement of the Cross Currency Swap in place for the Vietnamese subsidiary of the Piaggio group was classified within hierarchical level 3: this classification reflects the characteristics of illiquidity of the local market that do not allow for measurement with traditional criteria. If we had adopted the valuation techniques typical of liquid markets – a characteristic that is notably not found in the Vietnamese market – the derivatives would have expressed a fair value amounting to €44 thousand (instead of a positive €472 thousand, included in the derivative financial instruments – Level 3) and accrued expenses on hedging derivatives amounting to €453 thousand.
The following table highlights changes that occurred within various levels during 2016:

In thousands of euros	***Level 1***	***Level 2***	***Level 3***
Balance at 31 December 2015	*14,319*	(82,694)	*98,771*
Gain and (loss) recognised in profit or loss		9,410	(431)
Increases/(Decreases)	(6,695)	439	1,929
Balance as of 31 December 2016	***7,624***	***(72,845)***	***100,269***

LIST OF COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS AND INVESTMENTS AT 31 DECEMBER 2016

Pursuant to Consob Resolution no. 11971 of 14 May 1999 as amended (article 126 of the Regulations), a list of IMMSI Group companies and its material investments is set out below. The list states the companies, divided according to consolidation procedure.

The following are also given for each company: the company name, registered office and country of establishment, as well as the share capital in the original currency. The percentages held by IMMSI S.p.A. or other Group companies are also indicated. The percentage of Ordinary Shareholders' Meeting votes is also shown in a separate column, where it differs from the percentage of share capital held.

Company name	Currency	Share Capital (subscribed and paid-up)	% of Share Capital owned	% votes (if different)
LIST OF COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS ON A LINE-BY-LINE BASIS				
IMMSI S.p.A. Mantova (MN) – Italy Parent Company	Euro	178,464,000.00		
Apuliae S.p.A. Lecce (LE) – Italy Immsi S.p.A. investment: 85.69%	Euro	1,000,000.00	85.69%	
ISM Investimenti S.p.A. Mantova (MN) – Italy Immsi S.p.A. investment: 72.64%	Euro	6,654,902.00	72.64%	
Is Molas S.p.A. Pula (CA) – Italy ISM Investimenti S.p.A. investment: 92.59%	Euro	10,398,437.00	92.59%	
Pietra S.r.l. Milan (MI) – Italy Immsi S.p.A. investment: 77.78%	Euro	40,000.00	77.78%	
Pietra Ligure S.r.l. Mantova (MN) – Italy Investment of Pietra S.r.l. 100.00%	Euro	10,000.00	100.00%	
Immsi Audit S.c.a r.l. Mantova (MN) – Italy Immsi S.p.A. investment: 25.00% Is Molas S.p.A. investment: 25.00% Piaggio & C. S.p.A. investment: 25.00% Intermarine S.p.A. investment: 25.00%	Euro	40,000.00	100.00%	
RCN Finanziaria S.p.A. Mantova (MN) – Italy Immsi S.p.A. investment: 63.18%	Euro	1,000,000.00	63.18%	
Intermarine S.p.A. Sarzana (La Spezia) – Italy RCN Finanziaria S.p.A. investment: 100.00%	Euro	9,990,000.00	100.00%	
Piaggio & C. S.p.A. Pontedera (PI) – Italy Immsi S.p.A. investment: 50.06%	Euro	207,613,944.37	50.06%	
Aprilia Brasil Industria de Motociclos S.A.*) Manaus – Brazil Aprilia World Service Holding do Brasil Ltda. investment: 51.00%	R$	2,020,000.00	51.00%	
Aprilia Racing S.r.l. Pontedera (PI) – Italy Piaggio & C. S.p.A. investment: 100.00%	Euro	250,000.00	100.00%	
Aprilia World Service Holding do Brasil Ltda.*) San Paolo – Brazil Piaggio group Americas Inc. investment: 99.99995%	R$	2,028,780.00	99.99995%	
Atlantic 12- Property investment fund Rome – Italy Piaggio & C. S.p.A. investment: 100.00%	Euro	10,639,718.35	100.00%	

Company name	Currency	Share Capital (subscribed and paid-up)	% of Share Capital owned	% votes (if different)
Foshan Piaggio Vehicles Technology Research & Development Co. Ltd Foshan City – China Piaggio Vespa B.V. investment: 100.00%	RMB	10,500,000.00	100.00%	
Nacional Motor S.A. Barcelona – Spain Piaggio & C. S.p.A. investment: 100.00%	Euro	60,000.00	100.00%	
Piaggio Asia Pacific PTE Ltd. Singapore – Singapore Piaggio Vespa B.V. investment: 100.00%	SGD	100,000.00	100.00%	
Piaggio Advanced Design Center Corp. California – USA Piaggio & C. S.p.A. investment: 100.00%	USD	100,000.00	100.00%	
Piaggio China Co. LTD Hong Kong – China Piaggio & C. S.p.A. investment: 99.99999%	USD	12,100,000.00	99.99999%	
Piaggio Concept Store Mantova S.r.l. Mantova – Italy Piaggio & C. S.p.A. investment: 100%	Euro	100,000.00	100.00%	
Piaggio Deutschland GmbH Düsseldorf – Germany Piaggio Vespa B.V. investment: 100.00%	Euro	250,000.00	100.00%	
Piaggio España S.L.U. Alcobendas – Spain Piaggio & C. S.p.A. investment: 100.00%	Euro	426,642.00	100.00%	
Piaggio Fast Forward Inc. Delaware – USA Piaggio & C. S.p.A. investment: 86.00%	USD	5,930.23	86.00%	
Piaggio France S.A.S. Clichy Cedex – France Piaggio Vespa B.V. investment: 100.00%	Euro	250,000.00	100.00%	
Piaggio group Americas Inc. New York – USA Piaggio Vespa B.V. investment: 100.00%	USD	2,000.00	100.00%	
Piaggio group Canada, Inc. Toronto – Canada Piaggio group Americas Inc. investment: 100.00%	CAD$	10,000.00	100.00%	
Piaggio group Japan Tokyo – Japan Piaggio Vespa B.V. investment: 100.00%	YEN	99,000,000.00	100.00%	
Piaggio Hellas S.A. Athens – Greece Piaggio Vespa B.V. investment: 100.00%	Euro	1,004,040.00	100.00%	
Piaggio Hrvatska D.o.o. Split – Croatia Piaggio Vespa B.V. investment: 100.00%	HRK	400,000.00	100.00%	
Piaggio Limited Bromley Kent – UK Piaggio Vespa B.V. investment: 99.9996% Piaggio & C. S.p.A. investment: 0.0004%	GBP	250,000.00	100.00%	
Piaggio Vehicles Private Limited Maharashtra – India Piaggio & C. S.p.A. investment: 99.9999971% Piaggio Vespa B.V. investment: 0.0000029%	INR	349,370,000.00	100.00%	
Piaggio Vespa B.V. Breda – Holland Piaggio & C. S.p.A. investment: 100%	Euro	91,000.00	100.00%	
Piaggio Vietnam Co. Ltd. Hanoi – Vietnam Piaggio & C. S.p.A. investment: 63.50% Piaggio Vespa B.V. investment: 36.50%	VND	64,751,000,000.00	100.00%	
PT Piaggio Indonesia Jakarta – Indonesia Piaggio Vespa B.V. investment: 99.00% Piaggio & C. S.p.A. investment: 1.00%	Rupiah	4,458,500,000.00	100.00%	

Company name	Currency	Share Capital (subscribed and paid-up)	% of Share Capital owned	% votes (if different)
EQUITY INVESTMENTS IN SUBSIDIARIES, ASSOCIATED AND JOINT CONTROL COMPANIES VALUED USING THE EQUITY METHOD				
Zongshen Piaggio Foshan Motorcycle Co. Ltd. Foshan City – China Piaggio & C. S.p.A. investment: 32.50% Piaggio China Co. Ltd. investment: 12.50%	USD	29,800,000.00	45.00%	
Rodriquez Cantieri Navali do Brasil Ltda. *) Rio de Janeiro – Brazil Intermarine S.p.A. investment: 100.00% less one share held by Rodriquez Pietra Ligure S.r.l.	R$	4,066,803.00	100.00%	
Rodriquez Pietra Ligure S.r.l. Milan (MI) – Italy Intermarine S.p.A. investment: 100.00%	Euro	20,000.00	100.00%	
Depuradora d'Aigües de Martorelles S.C.C.L. Barcelona – Spain Nacional Motor S.A. equity investment: 22.00%	Euro	60,101.21	22.00%	
Pont – Tech, Pontedera & Tecnologia S.c.r.l. Pontedera (PI) – Italy Piaggio & C. S.p.A. investment: 20.45%	Euro	884,160.00	20.45%	
S.A.T. Societé d'Automobiles et Triporteurs S.A. Tunis – Tunisia Piaggio Vespa B.V. investment: 20.00%	TND	210,000.00	20.00%	
EQUITY INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES VALUED USING THE COST METHOD				
Rodriquez Mexico *) La Paz – Mexico Intermarine S.p.A. investment: 50.00%	Pesos	50,000.00	50.00%	
Consorzio CTMI – Messina Messina (ME) – Italy Intermarine S.p.A. investment: 33.33%	Euro	53,040.00	33.33%	
Fondazione Piaggio Pontedera (PI) – Italy Piaggio & C. S.p.A. investment: 66.67%	Euro	103,291.38	66.67%	

*** Non-operating company or company in liquidation.

* * *

This document was published on 7 April 2017 by authorisation of the Chairman of the Company, Roberto Colaninno.

Certification of the Consolidated Financial Statements pursuant to article 154-bis of Italian Legislative Decree no. 58/98

The undersigned Roberto Colaninno, as Chairman of the Board of Directors, Michele Colaninno, as Chief Executive Officer and Andrea Paroli, as Financial reporting manager of Immsi S.p.A., certify, also taking into account provisions of article 154-*bis*, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998:

- the appropriateness with regard to the company's characteristics and
- effective application

of the administrative and accounting procedures for preparing the consolidated financial statements at 31 December 2016.

With regard to the above, no relevant aspects are to be reported.

In addition, it is certified that the consolidated financial statements at 31 December 2016:

- were drawn up in compliance with applicable international accounting standards recognised by the European Union in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to accounting records;
- are adequate for giving a true and fair view of the financial position, performance and cash flows of the Issuer and of companies included in the scope of consolidation.

The Report on Operations includes reliable analysis of operations, as well as the situation of the Issuer and of companies included in the scope of consolidation, along with a description of the main risks and uncertainties to which they are exposed.

23 March 2017

The Chairman
Roberto Colaninno

The Manager in charge of preparing the company accounts and documents
Andrea Paroli

Chief Executive Officer
Michele Colaninno

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

To the shareholders of
IMMSI SpA

Report on the consolidated financial statements

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

Directors' responsibility for the consolidated financial statements

The directors of IMMSI 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.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C .F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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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 IMMSI 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 IMMSI SpA, with the consolidated financial statements of the IMMSI 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 IMMSI Group as of 31 December 2016.

Brescia, 6 April 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

IMMSI S.p.A.

Financial statements at 31 December 2016

Immsi S.p.A. Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Shareholders' Equity, detailing amounts attributable to Related-Party and intergroup transactions:

Statement of Financial Position

In thousands of euros

ASSETS	Notes	31/12/2016	31/12/2015
NON-CURRENT ASSETS			
Intangible assets		0	0
Plant, property and equipment	C1	119	175
- of which related parties and intergroup		*5*	*10*
Investment property	C2	74,055	74,004
Investments in subsidiaries and associates	C3	322,332	322,332
Other financial assets	C4	13,996	12,115
- of which related parties and intergroup		*0*	*0*
Tax receivables	C5	0	0
Deferred tax assets	C6	0	0
Trade receivables and other receivables	C7	6	7
TOTAL NON-CURRENT ASSETS		**410,509**	**408,633**
ASSETS HELD FOR DISPOSAL		0	0
CURRENT ASSETS			
Trade receivables and other receivables	C7	55,954	52,167
- of which related parties and intergroup		*55,373*	*51,416*
Tax receivables	C5	120	502
Inventories		0	0
Works in progress to order		0	0
Other financial assets	C4	184,677	176,553
- of which related parties and intergroup		*177,054*	*162,234*
Cash and cash equivalents	C8	792	18,702
TOTAL CURRENT ASSETS		**241,543**	**247,924**
TOTAL ASSETS		**652,052**	**656,557**

LIABILITIES	Notes	31/12/2016	31/12/2015
SHAREHOLDERS' EQUITY			
Share capital		178,464	178,464
Reserves and retained earnings		186,816	182,863
Net profit for the period	E10	5,492	15,496
TOTAL SHAREHOLDERS' EQUITY	D1	**370,771**	**376,823**
NON-CURRENT LIABILITIES			
Financial liabilities	D2	0	117,311
Trade payables and other payables	D5	422	674
Retirement fund and similar obligations	D3	302	342
Other long-term provisions		0	0
Deferred tax liabilities	D4	19,128	17,485
TOTAL NON-CURRENT LIABILITIES		**19,852**	**135,812**
LIABILITIES RELATED TO ASSETS HELD FOR DISPOSAL		0	0
CURRENT LIABILITIES			
Financial liabilities	D2	257,453	141,780
Trade payables	D5	1,918	913
- of which related parties and intergroup		*361*	*84*
Current taxes	D6	281	425
Other payables	D5	1,776	803
- of which related parties and intergroup		*2*	*2*
Current portion of other long-term provisions		0	0
TOTAL CURRENT LIABILITIES		**261,429**	**143,921**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**652,052**	**656,557**

Income Statement

In thousands of euros

	Notes	2016	2015
Financial income	E1	18,688	24,811
- of which related parties and intergroup		*18,346*	*21,793*
Borrowing costs	E2	(10,478)	(10,188)
Earnings on investments		0	0
Operating income	E3	4,277	4,434
- of which related parties and intergroup		*1,949*	*1,982*
Costs for materials		(34)	(35)
Costs for services, leases and rentals	E4	(3,426)	(3,395)
- of which related parties and intergroup		*(435)*	*(408)*
Employee costs	E5	(1,245)	(1,321)
Depreciation of plant, property and equipment	E6	(78)	(86)
Amortisation of goodwill		0	0
Amortisation of intangible assets with a definite life		0	0
Other operating income	E7	124	150
- of which related parties and intergroup		*92*	*86*
Other operating costs	E8	(697)	(769)
PROFIT BEFORE TAX		**7,131**	**13,601**
Taxes	E9	(1,639)	1,895
- of which related parties and intergroup		*0*	*1,868*
EARNINGS AFTER TAX FROM OPERATING ACTIVITIES		**5,492**	**15,496**
Gain (loss) from assets held for disposal or sale		0	0
NET PROFIT FOR THE PERIOD	E10	**5,492**	**15,496**

Statement of Comprehensive Income

In thousands of euros

	Notes	2016	2015
NET PROFIT FOR THE PERIOD	E10	**5,492**	**15,496**
Items that may be reclassified to profit or loss:			
Gains/(Losses) on fair value measurement of assets available for sale		(6,695)	(557)
Gains/(losses) on cash flow hedges		274	298
Adjustment of the Investment Property reserve		0	2,129
Items that cannot be reclassified in the Income statement:			
Actuarial gains (losses) on defined benefit plans		(15)	15
TOTAL GAINS (LOSSES) OF THE PERIOD	D1	**(944)**	**17,381**

The figures in the above table are net of the corresponding tax effect.

Statement of Cash Flows

In thousands of euros

This table shows the changes in cash and cash equivalents, net of short-term bank overdrafts (equal to €4,393 thousand at 31 December 2016 and 0 at 31 December 2015).

	Notes	31/12/2016	31/12/2015
Operating activities			
Profit before tax	E10	7,131	13,601
Depreciation of plant, property and equipment	E6	78	86
Amortisation of intangible assets		-	-
Provisions for risks and for severance indemnity and similar obligations	D3	71	75
Write-downs / (Reversals)	C3-C4	-	30
Losses / (Gains) on the disposal of property, plant and equipment (including investment property)		-	3
Losses / (Gains) on the disposal of securities		-	(2,670)
Interest receivable (1)	E1	(8,837)	(8,146)
Dividend income (2)		(9,041)	(13,156)
Interest expense	E2	8,949	8,912
Change in working capital			
(Increase) / Decrease in trade receivables (3)	C7	(5,618)	(5,044)
Increase / (Decrease) in trade payables (4)	D5	1,007	(239)
Increase / (Decrease) in reserves for severance indemnity and similar obligations	D3	(133)	(77
Other changes (5)		11,180	8,979
Cash generated from operating activities		**4,787**	**2,354**
Interest paid	E2	(8,237)	(8,659)
Taxes paid		-	-
Cash flow from operations		**(3,450)**	**(6,305)**
Investing activities			
Acquisition of subsidiaries, net of cash and cash equivalents (8)		-	(2,508)
Sale price of subsidiaries, net of cash and cash equivalents (9)		-	5,206
Investments in property, plant and equipment (including investment property)	C1-C2	(73)	(133)
Sale price, or repayment value, of plant, property and equipment (including investment property)		6	-
Loans provided (6)	C4	(14,820)	(12,377)
Repayment of loans (7)	C4	-	1,100
Purchase of financial assets	C4	(1,881)	(1,766)
Collected interests		12	12
Dividends from investments (2)		9,041	13,156
Cash flow from investing activities		**(7,715)**	**2,690**
Financing activities			
Loans received	D2	184,131	173,217
Outflow for repayment of loans	D2	(190,162)	(153,555)
Outflow for dividends paid	H	(5,107)	-
Cash flow from financing activities		**(11,138)**	**19,662**
Increase / (Decrease) in cash and cash equivalents		(22,303)	16,047
Opening balance		18,702	2,655
Exchange differences		-	-
Closing balance		**(3,601)**	**18,702**

(1) of which €8,830 thousand from financings granted to companies in the Group;

(2) dividends paid out by Piaggio & C. S.p.A.;

(3) of which €5,696 thousand increased for receivables from companies in the Group;

(4) of which €277 thousand decreased related to payables to companies in the Group and other Related Parties;

(5) of which approximately €1,737 thousand due to the decrease in receivables from companies in the Group adhering to the fiscal consolidated agreements;

(6) entirely referred to loans to subsidiaries;

(7) referred to receivables due from Intermarine S.p.A.;

(8) relative to the payment of future capital increases in favour of RCN Finanziaria S.p.A.;

(9) relative to the sale of 1.9 million shares of Piaggio.

Changes in Shareholders' Equity

Note D1

In thousands of euros	Share capital	Extraordinary reserve A - B - C	Share premium reserve A - B	Reserves for the fair value measurement of financial assets available for sale	Reserves for the fair value measurement of hedging instruments	Reserve for the measurement of entities under common control	Investment Property Revaluation reserve	Actuarial evaluation reserve on defined benefit plans	Revaluation reserve A - B - D	Legal reserve TO	Other legal reserves A - B - D	IAS transition reserve	Earnings reserve A - B - C	Earnings for the period	Shareholders' equity
Balances at 31 December 2014	**178,464**	**7,103**	**95,216**	**27**	**(947)**	**65,087**	**40,709**	**(40)**	**4,602**	**6,989**	**1,153**	**(1,614)**	**28,324**	**(65,628)**	**359,443**
Increases in share capital against payment															0
Allocation of earnings to the Legal Reserve															0
Allocation of earnings to Dividends															0
Allocation of earnings to Retained Earnings/Losses		(7,103)	(342)										(58,184)	65,628	0
Purchase of treasury shares															0
Other changes															0
Comprehensive income				(557)	298		2,129	15						15,496	17,381
Balances at 31 December 2015	**178,464**	**0**	**94,874**	**(531)**	**(649)**	**65,087**	**42,838**	**(25)**	**4,602**	**6,989**	**1,153**	**(1,614)**	**(29,860)**	**15,496**	**376,823**

In thousands of euros	Share capital	Extraordinary reserve A - B - C	Share premium reserve A - B	Reserves for the fair value measurement of financial assets available for sale	Reserves for the fair value measurement of hedging instruments	Reserve for the measurement of entities under common control	Investment Property Revaluation reserve	Actuarial evaluation reserve on defined benefit plans	Revaluation reserve A - B - D	Legal reserve TO	Other legal reserves A - B - D	IAS transition reserve	Earnings reserve A - B - C	Earnings for the period	Shareholders' equity
Balances at 31 December 2015	**178,464**	**0**	**94,874**	**(531)**	**(649)**	**65,087**	**42,838**	**(25)**	**4,602**	**6,989**	**1,153**	**(1,614)**	**(29,860)**	**15,496**	**376,823**
Increases in share capital against payment															0
Allocation of earnings to the Legal Reserve										775				(775)	0
Allocation of earnings to Dividends														(5,107)	(5,107)
Allocation of earnings to Retained Earnings/Losses													9,613	(9,613)	0
Purchase of treasury shares															0
Other changes															0
Comprehensive income				(6,696)	274			(15)						5,492	(944)
Balances at 31 December 2016	**178,464**	**0**	**94,874**	**(7,227)**	**(374)**	**65,087**	**42,838**	**(40)**	**4,602**	**7,764**	**1,153**	**(1,614)**	**(20,247)**	**5,492**	**370,771**

Available for:
A: Cover lossesB: Share capital increase
C: Distribution to shareholders D: Distribution to shareholders under tax suspension

Notes to the financial statements at 31 December 2016

Note	Description
A	**General aspects**
B	**Accounting standards and measurement criteria**
C	**Information on main assets**
C1	Plant, property and equipment
C2	Investment property
C3	Investments in subsidiaries and associates
C4	Other financial assets
C5	Tax receivables
C6	Deferred tax assets
C7	Trade receivables and other receivables
C8	Cash and cash equivalents
D	**Information on main liabilities**
D1	Shareholders' equity
D2	Financial liabilities
D3	Reserves for severance indemnity and similar obligations
D4	Deferred tax liabilities
D5	Trade payables and other payables
D6	Current taxes
E	**Information on main Income Statement items**
E1	Financial income
E2	Borrowing costs
E3	Operating income
E4	Costs for services, leases and rentals
E5	Employee costs
E6	Depreciation of plant, property and equipment
E7	Other operating income
E8	Other operating costs
E9	Taxes
E10	Net profit for the period
F	**Commitments, risks and guarantees**
G	**Net debt**
H	**Dividends paid**
I	**Group and Related-Party Transactions**
L	**Risks and uncertainties**
M	**Auditing costs**

A – General aspects

Immsi S.p.A. (the Company) is a limited company established under Italian law and has registered offices in Mantova - P.zza Vilfredo Pareto, 3 and sub-offices in via Abruzzi, 25 – Rome and via Broletto, 13 – Milan. The main activities of the company and its subsidiaries (the Group) are described in the first section of the Directors' Report on operation.
At 31 December 2016, Immsi S.p.A. was directly and indirectly controlled, pursuant to article 93 of the TUF, by Omniaholding S.p.A., a company wholly owned by the Colaninno family, through the subsidiary Omniainvest S.p.A..

Following the coming into force of European Regulation no. 1606 in July 2002, Immsi S.p.A. has adopted the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Commission, the updates of those pre-existing ones (IAS), as well as the documents of the International Financial Reporting Interpretations Committee (IFRIC) deemed applicable to the transactions carried out by the Company.
The financial statements of Immsi S.p.A. are drawn up in compliance with Legislative Decree no. 58/1998, as well as in compliance with provisions issued pursuant to article 9 of Italian Legislative Decree no. 38/2005 (Consob Resolution no. 15519 dated 27/7/06 containing "Provisions for the presentation of financial statements", Consob Resolution no. 15520 dated 27/7/06 containing "Changes and additions to the Regulation on Issuers" adopted by Resolution no. 11971/99", Consob communication no. 6064293 dated 28/7/06 containing "Corporate reporting required in accordance with article 114, paragraph 5 of Italian Legislative Decree no. 58/98"). The Company did not consider presentation of segment information, as established in IFRS 8, as significant.
The currency used in preparing these financial statements is the euros and amounts are expressed in thousands of euros (unless otherwise indicated).
For information on significant events and operating outlook, see the Report on Operations at 31 December 2016.
These Financial Statements are audited by PricewaterhouseCoopers S.p.A. pursuant to the appointment granted by the Shareholders' Meeting on 11 May 2012 for the period 2012-2020.

Presentation of the financial statements

The Consolidated Financial Statements consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Shareholders' Equity and the Notes.
As provided for by Consob Ruling no. 15519 of 27 July 2006, the financial statements include specific evidence of related-party and intergroup transactions.

In relation to options in IAS 1 "Presentation of Financial Statements", Immsi S.p.A. opted to present the following types of accounting statements:

- **Statement of Financial Position:** The Statement of Financial Position is presented in sections with Assets, Liabilities and Shareholders' Equity indicated separately. Assets and Liabilities are shown in the financial statements on the basis of their classification as current and non-current;
- **Income Statement:** The Income Statement is presented with the items classified by kind of costs. The Company, in view of the economic importance of the financial component in relation to the real estate and services component, has adopted a format for the Income Statement which shows the main activity of Immsi S.p.A. at the top of the statement;
- **Statement of Comprehensive Income:** The Statement of Comprehensive Income is presented in accordance with the provisions of IAS 1 revised, net of a possible tax component. The items presented in Other comprehensive profits/(losses) are grouped according to whether or not they can be subsequently reclassified in the Income statement;

- **Cash Flow Statement:** The Cash Flow Statement is presented divided into areas generating cash flows, as indicated by international accounting standards. The Statement adopted by Immsi has been prepared using the indirect method;
- **Statement of Changes in Shareholders' Equity:** The Statement of Changes in Shareholders' Equity is presented as required by the IAS 1 revised. It includes the Statement of Comprehensive Income. Reconciliation between the opening and closing balance of each item for the period is presented.

B - Accounting standards and measurement criteria

The accounting standards adopted in preparing these financial statements are the same as those adopted for preparing the financial statements at 31 December 2015, except for the contents of the section on main accounting standards adopted as from 1 January 2016.
The Directors have prepared the financial statements on a historical cost basis, amended as required for the measurement of some financial statement items.
The financial statements have been prepared on a going concern basis, with reference to a future period of 12 months from 31 December 2016, despite the situation of high financial strain caused by the difficult economic environment, among other factors, with sharp falls in the equity markets, which resulted in the failure by Immsi S.p.A. as of 31 December 2016 to meet several financial parameters and guarantee amounts linked to the listing of the subsidiary Piaggio & C. S.p.A., for which the relevant exemption has been requested and obtained. In view of the uncertainty arising from this situation, and taking into account the credit lines maturing during the year and the financial commitments that the Group has made to support the implementation of its projects, and in particular the real estate project currently being implemented by the subsidiary Is Molas S.p.A., the Directors, in order to ensure the performance of its obligations and its continuity as a going concern, have taken actions aimed at seeking solutions to ensure financial stability for the next 12 months. These actions take into account both the possible risk of future weak equity markets, which is a significant factor of uncertainty with respect to the size of the credit lines currently granted to Immsi, and the use of the financial resources to meet the commitments made by the Group to support the projects underway.
No atypical, unusual or non-recurrent operations were recorded during 2015 and 2016.
No exceptional circumstances occurred requiring departures from legal provisions concerning Financial Statements pursuant to article 2423, section 4 of the Italian Civil Code.

The international accounting standards adopted are listed and summarised below.

Intangible assets

An intangible asset is recorded only if it is identifiable, verifiable and it is likely to generate future economic benefits and its costs can be reliably determined.
These assets are recognised at acquisition or production cost and amortised on a straight line basis over their estimated useful life, if they have a finite useful life. Intangible assets with an indefinite useful life are not amortised but are subject to impairment testing.
The amortisation period for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period: if the expected useful life proves different from previous estimates, the amortisation period is changed accordingly.

Plant, property and equipment

Plant, property and equipment are recorded at purchase cost, including directly related charges, net of accumulated depreciation and impairment losses. For an asset that justifies capitalisation, the cost also includes any borrowing costs that are directly attributable to acquisition, construction or production of the asset.
The costs incurred following the purchase are capitalised only if they increase the future economic

benefits inherent in the asset to which they refer. All other costs are recorded in the income statement when they are incurred.
Plant, property and equipment in progress are valued at cost and are depreciated from the period in which they come into operation.
Depreciation is determined on a straight-line basis over the estimated useful life of the assets or, in the case of disposal, until the end of the previous year.
Land is not depreciated.
Profits and losses arising from the sale or disposal of assets are measured as the difference between the sale revenue and net carrying amount of the asset and are recognised in profit or loss for the period.
At 31 December 2016, the Company did not hold any assets under finance lease agreements.
Other plant, property and equipment are depreciated applying the rates indicated below, reduced by half for fixed assets acquired during the year:

Plant and machinery	from 15% to 30%
Furniture and fittings, electrical machines	12%
Personal computers, hardware, EDP and telephone systems	20%
Vehicles	25%
Other equipment	15%

Investment property

As provided for by IAS 40, a non-instrumental property owned in order to obtain rent and/or for the appreciation of the property is measured at fair value.
Investment property is not amortised and is eliminated from the financial statements when sold or when the investment property is unusable in the longer term and no future economic benefits are expected from its sale.
The Company annually revises the carrying amount of investment property held or more frequently if required by facts or circumstances.

Investments

Investments in subsidiaries and affiliated companies are recorded at cost adjusted for any impairment.
Purchase and sale flows relative to investments are based on the FIFO criterion.

Impairment

Plant, property and equipment and investments in subsidiaries and affiliated companies are tested for impairment annually, or more frequently. If there is evidence that such assets have suffered a prolonged or significant loss in value, the asset's recoverable amount is estimated to determine the amount of the impairment and it is immediately observed in the Income Statement. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the asset's cash generating unit. The recoverable amount is the higher of an asset's fair value less costs to sell (if available) and its value in use. In evaluating the value in use, estimated future cash flows are discounted to the present value, which reflects current market valuations of the actual value of money and specific risks of the asset.
If the recoverable amount of an asset (or of a cash generating unit) is estimated to be lower than the relative carrying amount, the carrying amount of the asset is reduced to the lower recoverable value. An impairment loss is immediately recognised in profit or loss, unless the asset is land or buildings other than the property investments recognised at revalued amounts, in which case the loss is charged to the respective revaluation reserve.

As regards the measurement of investments, if any portion belonging to losses of the investee attributable to the Company exceeds the carrying amount of the investment and the Company is

liable for them, the value of the investment is reset and the portion of any further losses is recorded as a provision in liabilities.
Should the recorded write-down no longer be valid, the book value of the asset is increased to the new value arising from the estimate made of its recoverable value, but not more than the net carrying amount that the asset would have had if the write-down for impairment losses had not been made. The restored value is posted to the Income statement.

Receivables

Trade receivables and other receivables are initially recognised at fair value and subsequently recognised based on the amortised cost method, net of the provisions for write-downs. This provision is calculated on the basis of the recovery assessments carried out by analysis of the individual positions and of the overall risk of all the receivables, also taking account of any guarantees.
When the payment of the sum due is deferred beyond normal credit terms offered to customers and the financial effect associated with such deferral is significant, it is necessary to discount the receivable.

Cash and cash equivalents

This item includes cash in hand, on demand deposit accounts and other highly-liquid short-term financial investments, which are readily convertible into cash and have an insignificant risk of losing value.

Financial assets

The item financial Assets includes: i) assets held for trading *(fair value to profit and loss)*), ii) investments held at maturity, iii) loans and receivables and iv) the residual category for assets available for sale.
Financial assets include current securities, i.e. short-term or negotiable securities that represent temporary investments of liquidity and do not meet requirements for classification as cash equivalents. Their initial measurement takes account of the transition costs directly attributable to their purchase or issue.
After initial recognition, financial instruments available for sale and held for trading are measured at fair value.
When financial assets are held for trading, the gains and losses arising from changes in the fair value are charged to the Income statement. When financial assets are available for sale, namely they are not classified as financial assets held for trading and they are not loans or receivables, the gains and losses arising from changes in the fair value are charged to the Statement of Comprehensive Income until the financial asset is sold or de-recognised; at that time, accumulated gains or losses, including gains or losses previously recognised in shareholders’ equity, are recognised in the Income statement of the period.

Investments held to maturity and not for trading purposes (loans and receivables originating from normal operations), and financial assets with medium-long term maturities, for which no quotations are available on an active market and whose fair value cannot be determined reliably, are valued on an amortised cost basis net of any write-downs applied to reflect impairment losses.

Loans and receivables originating during typical operations that Immsi S.p.A. does not hold for trading purposes, for which the fair value cannot be reliably determined, and that do not have a fixed maturity, are measured at purchase cost.

Financial liabilities

Financial liabilities include loans that are recognised at the original sums received and are

recognised and reversed from the financial statements on the basis of their trade date. Non-current financial liabilities which differ from financial liabilities measured at fair value and recognised in the Income statement, are entered net of the accessory acquisition fees and, subsequently, are measured with the amortised cost method, using the effective interest rate.
The Company's activities are exposed primarily to financial risks from changes in interest rates. The Company uses derivative instruments to hedge risks arising from changes in interest rates on certain irrevocable commitments and planned future transactions. Derivatives are initially measured at fair value represented by the initial amount.
Derivative financial instruments are used solely for hedging purposes, in order to hedge against fluctuations in interest rates. In line with IAS 39, financial derivatives may qualify for hedge accounting, only when the hedging instrument is formally designated and documented, is expected to be highly effective and this effectiveness can be reliably measured and is highly effective throughout the reporting periods for which it is designated.
Financial liabilities hedged with derivative instruments are booked according to the methods established for hedge accounting, applicable to the cash flow hedge: the profit and loss portion on the hedging instrument that is considered actual coverage is charged in the prospectus of the Statement of Comprehensive Income, the aggregate gain or loss is removed from Shareholders' equity and recognised in profit or loss in the same period during which the hedged transaction is recognised. The ineffective portion of the profits and losses on the hedging instrument is entered in the Comprehensive Income.
If a hedging instrument or hedge relationship is terminated, but the hedged transaction has not yet been completed, the aggregate gains and losses, up to that moment recorded in Shareholders' equity, are recognised in profit or loss at the moment when the related transaction takes place. If the hedged transaction is no longer expected to occur, the unrealised gains or losses suspended in Shareholders' equity are recognised immediately in the Income statement.

Payables

Payables are recognised at fair value and are subsequently measured using the amortised cost method, which coincides with the nominal amount for trade payables that fall due within normal business terms.

Employee benefits

With the adoption of the IFRS, termination benefits accrued up to 31 December 2006, that will now be held by the company, is considered a defined benefit obligation to be recorded in accordance with IAS 19 “Employee Benefits”, consequently, it must be recalculated using the projected unit credit method, by undertaking actuarial valuations at the end of each period.
Liabilities for employee termination benefits recognised in the financial statements represent the present value of liabilities for defined benefit plans adjusted to take account of actuarial gains and losses and unrecorded costs related to previous employment services.
The cost components of defined benefits are recognised as follows:

- costs relative to services are recognised in profit or loss under employee costs;
- net borrowing costs of liabilities or assets with defined benefits are recognised in profit or loss as financial income/(borrowing costs), and are determined by multiplying the value of the net liability/(asset) by the rate used to discount the obligations, taking account of the payment of contributions and benefits during the period;
- the remeasurement components of net liabilities, which include actuarial gains and losses, returns on assets (excluding interest income recognised in profit or loss) and any change in the limit of the assets, are immediately recognised as Other total profits (losses). These components must not be reclassified to the Income Statement in a subsequent period.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated on all temporary taxable differences between the carrying amount and their tax value.
Deferred tax assets on tax losses are recognised only to the extent that the existence of adequate future taxable income of the Group against which to use this positive balance is considered likely. The value of deferred tax assets is revised annually and is reduced to the extent to which the existence of sufficient taxable income to allow the whole or partial recovery of such assets is no longer probable.
Deferred tax assets and the provision for deferred tax liabilities are offset when there is a legal right to offset them and when the taxes are due to the same tax authority.
Deferred taxation is determined on the basis of the tax rates which are expected to be applied in the periods in which such temporary differences will occur or be extinguished.
Deferred taxes may not be discounted and are classified as non-current assets and liabilities.

Financial income and expenses

Financial income and expenses are recorded on an accrual basis.
Financial income includes dividends, interest income on invested funds and income arising from financial instruments.
Interest income is charged to the Income statement as it accrues, considering the effective yield.
Interests due on financial payables are calculated using the effective interest rate method.
Dividends in the Income statement are recognised when, following the resolution by an investee company to distribute a dividend, the relative credit right arises.

Operating revenues and costs

Costs and revenues from the sale of assets are recognised in the financial statements only when the risks and related benefits of ownership of the assets are transferred while, as concerns services, costs and revenues, they are recognised in profit or loss with reference to their progress and the benefits achieved at the date of the financial statements.

The reporting criteria required by IAS 18 are applied to one or more operations as a whole when they are so closely connected that the commercial result cannot be valued without making reference to such operations as to a single whole, therefore the income from re-charging costs for materials and services sustained by Immsi S.p.A. on behalf of companies in the Group or third parties is not recognised in profit or loss as it is offset against the relative costs that generated it.

Current taxes

Income taxes for the year are calculated using the tax rates in force at end of the reporting period and are recognised in profit or loss, except for items directly charged or debited to Shareholders' equity, in which case the tax effect is recognised directly as a reduction or increase in the Shareholders' equity item.
Other taxation unrelated to income is included in other operating costs.
Income tax for regional production tax is recognised in the amounts due to the tax authorities net of advances. While as for Italian Tax on Corporate Income it is noted, that since 2007 the Company has undersigned with some companies of the Group a national fiscal consolidated contract, therefore the payables, advance payments and withholdings suffered were transferred at the end of the year to the fiscal consolidated company. Immsi, as the consolidating company, has recognised in its own financial statements the net effect of the amount due to companies transferring tax losses and tax receivables, and the receivable due from companies transferring a taxable amount with a counter entry of the cumulative receivable or payable vis-à-vis the tax authorities.

Use of estimates

The preparation of the financial statements and notes in compliance with IAS/IFRS requires Management to make estimates and assumptions that have an impact on the values of assets and liabilities in the financial statements and on disclosure relating to contingent assets and liabilities at the reporting date. Actual results could differ from estimates. Estimates are used, among others, to evaluate activities subject to impairment testing, and to identify provisions for bad debts, amortisation and depreciation, impairment losses of assets, employee benefits, taxes and other provisions and reserves. Estimates and assumptions are periodically revised and the effects of any change are recognised in profit or loss.
It should be pointed out that, in particular, considering the current global economic and financial crisis, assumptions about future trends reflect a significant degree of uncertainty. Consequently, the Group cannot rule out the possibility that next year's results will differ from estimates and may require adjustments that are even considerable and which are not foreseeable and cannot be estimated at present.

New accounting standards applicable as from 1 January 2016

At the date of these financial statements, competent bodies of the European Union had completed the approval process necessary for the application of new accounting standards and amendments as from 1 January 2016. The adoption of the new standard has not resulted in any significant effects for Immsi S.p.A.. For a brief description of the main amendments to international accounting standards applied and/or applicable as from 1 January 2016, as well as standards for which at the date of these financial statements, the competent bodies of the European Union have not yet completed the approval process necessary for adoption, reference is made to the Notes to the Consolidated Financial Statements of the Immsi Group at 31 December 2016.

C – Information on main asset items

C1	Plant, property and equipment	119

Changes in plant, property and equipment are broken down as follows:

In thousands of euros	Plant, property and equipment
Assets at 31/12/2015	**175**
- Capital amount	1,397
- Accumulated depreciation	-1,222
Increases for investments	**22**
Decreases for depreciation	**-78**
Decreases for disposals	**-0**
- (Capital amount)	-22
- Accumulated depreciation	22
Assets at 31/12/2016	**119**
- Capital amount	1,397
- Accumulated depreciation	-1,278

The item includes plant, furniture and fittings, office and electronic machinery, cars and various equipment.

C2	Investment property	74,055

The Company classified the property located in Rome – via Abruzzi as investment property, as defined by IAS 40, revaluing the carrying amount based on the market value at the date of change of destination as equal to €72.1 million, since it was no longer instrumental to business operations, but an asset usable to finance other ongoing investment activities. The greater value was entered in a specific reserve of shareholders' equity, net of the related tax effect. Subsequent investments have led to an increase of the property.
The investment is no longer subject to depreciation starting from the year 2009, as required by international accounting standards. The value recognised in the financial statement includes €15 thousand of works in progress that will be completed and will generate profit starting from 2017.

The valuation of the real estate investment is based on an appraisal of an external consultant that estimated the fair value at the end of 2016. The valuation criteria used in this appraisal refer to generally accepted valuation methodologies and principles, using discounted cash flow analysis.
The valuation is therefore based on discounting cash flows generated during the period at the estimate date. Revenues and costs were considered at present value, at the time when they arose and were discounted bank using a suitable rate.
The market value of the property complex therefore comprises the discounting of operating costs, revenues from the property according to various uses and revenues from the sale of the property assumed for capitalisation of the rental payment of the last period considered.
In order to determine the rental payment of the property, the comparative synthetic method was used which makes it possible to determine the value corresponding to the sum of money for which the property could be rented, at the time of the estimate, between an owner and lessee both interested in the transaction, in the absence of particular interests and after an adequate sale, assuming that both parties act freely, cautiously and are informed. This comparative procedure estimates the rental value by comparing recent or present transactions, relative to similar assets as regards the type,

building and location. The rental payment for the asset may, therefore, be determined taking into account rental prices and making adjustments considered adequate as regards the morphological aspects of the asset, its maintenance, profitability, the qualities of any lessee and any other factor considered relevant.
The market value at 31 December 2016 identified by the appraisal referred to was slightly lower than the carrying amount in the financial statements at the end of 2016. The Company decided not to reflect the fair value adjustment in the income statement in view of the small difference that emerged, estimated to be less than 2% of the amount recognised in the Company's balance sheet.
The continued uncertainty on the real estate market makes it possible for prices and values to be extremely volatile at times, until the market regains stability.

Rental income referred to the building and was recognised under operating income, amounting to €2,669 thousand. Connected costs mainly refer to ordinary maintenance and management of the building. Most of these costs are then charged to tenants as of building service regulations.
Mortgages are secured on the property in Rome, for a total of €90 million guaranteeing the loan obtained in 2010 and renegotiated at the end of 2015 with Banco Popolare for a nominal amount of €40.5 million, which is expected to be settled in 2025.

C3	Investments in subsidiaries and associates	322,332

The total value of investments in subsidiaries and affiliated companies amounted to €322,332 thousand and was unchanged compared to the figure recorded at 31 December 2015.
The main data from the last financial statements approved by the Boards of subsidiaries are given below. The data have been calculated based on the adoption of international accounting standards.

Company Name and Head office	Share capital	Shareholders' equity	Net profit	% of Share Capital owned	Pro rata shareholders' equity	Difference between pro rata shareholders' equity and carrying amount	No. of shares	Carrying amount
Apuliae S.p.A. Lecce	1,000	503	-164	85.69%	431	-908	2,000,000	1,339
ISM Investimenti S.p.A. Mantova	6,655	21,678	-6,716	72.64%	15,747	-20,713	6,654,902	36,460
Piaggio & C. S.p.A. Pontedera (Pisa) *	207,614	318,918	14,003	50.49%	161,019	-84,237	361,208,380	245,256
RCN Finanziaria S.p.A. Mantova *	1,000	15,988	-5,551	72.51%	11,593	-8,913	2,000,000	20,506
Pietra S.r.l. Milan	40	24,995	-165	77.78%	19,441	681	n/a	18,761
Immsi Audit S.C. a R.L. Mantova	40	33	4	25.00%	8	-2	n/a	10

*) percentage net of treasury shares.

APULIAE S.p.A.

The equity investment in Apuliae S.p.A, is recognised in the financial statements for the amount underwritten upon establishing the company in December 2003, increased by the amount paid for a future increase in share capital in January 2004 for €2 millions and in December 2012 for €92 thousand. As a consequence of the extended suspension of the restructuring activities relating to the "ex Colonia Scarciglia" building in Santa Maria di Leuca (Lecce), during 2006 Immsi wrote down its shareholding by €2,453 thousand. The Extraordinary Shareholders' Meeting of Apuliae S.p.A. held in 2008 resolved, partial coverage of the losses accumulated at 31 December 2007 equal to €2,490 thousand by writing down the shareholders' equity and zeroing the reserve of €2 million paid by Immsi. The General Meeting in late 2012 resolved to partially cover the accumulated losses at 30 September 2012 amounting to €620 thousand through a reduction of the share capital. Lastly, it is noted that, in light of the losses accumulated due to the continued suspension of operations, the Extraordinary Shareholders' Meeting of the company held in February 2017 decided to further reduce the share capital by an amount corresponding to the losses accumulated at 31 December 2016 of €497 thousand and at the same time to transform the company into a Limited Liability Company, pending the possible outcome of the disputes and the return to operations.

Reference is made to the sections on the Property and holding sector and Disputes in progress in the Directors' Report and the Financial Statements of the Immsi Group as of 31 December 2016 for an update on the investigations conducted by the legal authorities that had led to the suspension of the renovation work from March 2005.

ISM INVESTIMENTI S.p.A.

The company ISM Investimenti S.p.A. with IMI Investimenti S.p.A. as its minority shareholder, after a capitalisation operation, acquired from Immsi S.p.A. shares, equal to 60% of the capital, relative to the investment in Is Molas S.p.A., previously held directly by Immsi S.p.A., paying an amount equal to €84 million. The operation was in line with Immsi's strategy to concentrate some of the Group's tourist-real estate development activities in a specific company, with the objective of associating partners with these initiatives to strengthen the asset base. On the basis of agreements between the shareholders, Immsi S.p.A. has maintained control of Is Molas S.p.A..
After the conversion into shares in 2013 of the convertible financial instruments issued and subscribed by partners in 2010, Immsi S.p.A. holds 4,834,175 category A shares, while IMI Investimenti S.p.A. holds 1,820,727 category B shares, with investments (in terms of voting rights) equal to 72.64% and 27.36% respectively. In this regard, considering the different equity rights of the two shareholders established by the co-investment and shareholders agreement signed at the time of the initial investment as supplemented and amended in 2013 - the portion of shareholders' equity of ISM Investimenti S.p.A. consolidated by Immsi S.p.A. was estimated to be 60.39% at 31 December 2016, unchanged compared to 2015.

The value of the investment is €20,713 thousand greater than the pro-quota shareholders' equity. The recoverability of that difference, can be considered not referable to an impairment loss, in consideration of the expected losses based on the plan produced by the Company Is Molas S.p.A. 2017 – 2022, as supported by the impairment testing conducted at 31 December 2016.
The recoverable amount of the equity investment in ISM Investimenti S.p.A. was determined as the value in use, through the Unlevered Discounted Cash Flows Method by discounting the expected cash flows of Is Molas S.p.A..
As regards the discount rate for the present value discounting of the estimated expected cash flows of Is Molas, a discount rate was used that reflects current market evaluations of the cost of money and takes account of the specific risks of the business segment in which the company operates. In particular, the cost of equity ("Ke") was determined according to the CAPM ("Capital Asset Pricing Model"). For this purpose, we considered a) a long-term risk-free rate; b) a market risk premium in an unconditional form (normal long-term premium); c) a Beta coefficient calculated by taking into account also the Beta coefficient of a sample of companies comparable to the company. For the purpose of estimating the aforementioned rate, a specific risk premium considered suitable to reflect the elements of risk included windy in the forecasts assumptions used in the 2017-2022 was also considered. The cost of debt ("Kd") was estimated taking account of the expected financial structure of a panel of listed companies comparable to Is Molas as well as – prudentially in order to mitigate the positive impact of the current expansive monetary policy - a long-term risk-free rate. The discount rate ("WACC") used for the purposes of the impairment test before tax was therefore estimated as being equal to approximately 9.51%.
The terminal value was determined by calculating the present residual value of the existing resort facilities at the end of the plan period, determined by valuing the resort facilities solely construction cost and the villas at a list price discounted by 20% that are expected to still be unsold by the end of 2022.

The impairment testing also considered the shareholder agreements between the two shareholders of ISM Investimenti S.p.A. (Immsi S.p.A. and IMI Investimenti S.p.A.) in force since 2008, and subsequently modified, which include the provision of a precise hierarchy in the repayment of the company's sources of financing, both with regard to capital and to loans.
These analyses revealed that the value in use of this equity investment was higher than its carrying amount at 31 December 2016, and therefore denying the need to make any reductions to the carrying amount of the equity investment held by Immsi S.p.A. in ISM Investimenti S.p.A.. In addition, also on the basis of the indications contained in the Banca d'Italia/Consob/Isvap joint document no. 2 of 6 February 2009 and in the Document Banca d'Italia/Consob/Isvap no. 4 of March 2010, sensitivity analysis has been carried out on the results of the test in relation to the change in basic assumptions such as the discount rate before tax and the discount rate with respect to this price to used in the valuation of the properties unsold at the end of the plan period, which condition the estimate of the value in use of the investment tested. The sensitivity analysis showed a value in use of the equity investment held in ISM Investimenti S.p.A. that is lower than its carrying amount for a WACC rate before tax worse than the one estimated and with a valuation of the unsold villas obtained by applying a discount of 30% or more than the list price.
The forecast data considered – uncertain and variable by nature – reflect the future real estate and commercial strategies. Updates, revisions or negative developments relative to the aforesaid assumptions and forecasts occurring after the reporting period of this evaluation could influence, even significantly, the results of impairment testing. Given the intrinsically uncertain nature of the forward looking data considered, we cannot exclude that these variances may continue to take place even in the future with respect to the forward looking data used with reference to the assessments carried out as of 31 December 2016.
Given that the analyses conducted to determine the recoverable amount were also carried out on the basis of estimates, the existence of adequate cash flows to allow the recovery of the carrying amount of the equity investment and the period within which those flows will be produced, is dependent on the outcome of initiatives provided within the forecast data of Is Molas S.p.A.. Given the current crisis in the reference markets and the financial markets, the Company can not guarantee that there will be no impairment loss of the equity investment in future periods: in view also of the fact that a number of factors - both internal and external to Is Molas - considered in the calculation of the estimates could be revised in the future, the company will constantly monitor these factors and the possible existence of future impairment losses.

Reference is made to the sections on the Property and holding sector and Disputes in progress in the Directors' Report and the Financial Statements of the Immsi Group at 31 December 2016 for an update on the Is Molas real estate project.

PIAGGIO & C. S.p.A.

Immsi S.p.A.'s investment in Piaggio & C. S.p.A. was recognised under assets as of 31 December 2016 for €245,256 thousand, and remained unchanged compared to 31 December of the previous year. As a result of sales and purchase of treasury shares by Piaggio & C. S.p.A. that took place in 2016, the stake of Immsi went from 50.06% as of 31 December 2015 to 50.49% as of 31 December 2016.
The value of the investment calculated based on the specific listing at December 2016 amounted to €286,794 thousand.

The portion of share capital at 31 December 2016 was €84,237 thousand more than the pro-rata shareholders' equity. This difference is considered by the Directors to be recoverable in relation to the development plans of the Piaggio group as backed up by the impairment test carried out on 31 December 2016. Analyses conducted did not highlight any impairment loss as regards the carrying amount of the investment held by Immsi S.p.A. in Piaggio & C. S.p.A..
In particular, with the values considered for the main basic assumptions adopted for impairment testing (i.e. weighted average "*g rate*" for the Piaggio group equal to approximately 1.34% and

average weighted WACC for the Piaggio group estimated to be approximately 6.87%), the test concerning the value in use of the investment held in the Piaggio group was passed with a broad margin. In addition, also on the basis of the indications contained in the Document Banca d'Italia/Consob/Isvap no. 2 of 6 February 2009 and in the document Banca d'Italia/Consob/Isvap no. 4 of March 2010, sensitivity analysis was carried out on the test results compared to the basic assumptions used such as the perpetual growth rate used to process the final value ("g rate") and the discount rate ("WACC"), that affect the estimate of the value of use of the cash-generating unit Piaggio group. the impairment test was passed in all reasonably considered cases. In this regard, changes in values assigned to basic assumption considered reached the worst case scenario of a reduction in the perpetual growth rate ("*g rate*") of one percent, and an increase in the WACC of one percent. For more details on impairment testing and the relative underlying assumptions, see the Notes to the consolidated financial statements of the Immsi Group.

Lastly, it is noted that all the Piaggio shares held by Immsi S.p.A. at 31 December 2016 were depositors as guarantees for loans granted by banks to Group companies.

RCN Finanziaria S.p.A.

The equity investment in RCN Finanziaria S.p.A. is recognised in the financial statements at the end of the reporting period for €20,506 thousand, and is unchanged compared to the figure as of 31 December 2015.

Following the purchase by the RCN Finanziaria of all the ordinary shares of the company held by the minority shareholder GE Capital Equity Holdings LLC finally last August 2016, the stake of Immsi S.p.A. in the subsidiary increased from 63.18% to 72.51%.

The portion of share capital at 31 December 2016 was €8,913 thousand more than the pro-rata shareholders' equity. This difference is considered by the Directors to be recoverable in relation to development plans of the indirect subsidiary Intermarine S.p.A. as backed up by the impairment test carried out on 31 December 2016. Analyses conducted did not highlight any impairment loss as regards the carrying amount of the investment held by Immsi S.p.A..

The main hypotheses and assumptions used in determining the recoverable value of the stake, based on the Unlevered Discounted Cash Flows Method, related to i) the use of forecast economic and asset data of Intermarine S.p.A., a 100% subsidiary of RCN Finanziaria S.p.A.; ii) the discount rate used for discounting estimated expected cash flows; and iii) the expected growth rate for calculating the terminal value, consistently with the approach of discounting back the "perpetual growth". The discount rate ("WACC") used for the purposes of the impairment test net of taxes is therefore estimated equal to approximately 7.28% (8.52% at 31 December 2015). For further details regarding the assumptions underlying the determination of the WACC, readers are referred to the comments made in the Notes on the Immsi Group's consolidated financial statements. These analyses revealed that the value in use of this equity investment was higher than its carrying amount at 31 December 2016, and therefore denying the need to make any reductions to the carrying amount of the equity investment held by Immsi S.p.A. in RCN Finanziaria S.p.A.. In addition, also on the basis of the indications contained in the Banca d'Italia/Consob/Isvap joint document no. 2 of 6 February 2009 and in the Document Banca d'Italia/Consob/Isvap no. 4 of March 2010, sensitivity analysis has been carried out on the results of the test in relation to the change in basic assumptions such as the WACC and the forecast perpetual growth rate ("g rate"), which condition the estimate of the value in use of the investment tested. The sensitivity analysis showed a value in use of the equity investment held in RCN Finanziaria S.p.A. that is lower than its carrying value in the case of were scenarios in terms of WACC and "g rate": In detail, it is noted that – on a like-for-like basis – the WACC that makes the value in use equal to the carrying amount is around 7.35%, whereas the "g rate" that makes the value in use equal to the carrying amount is around 0.92%.

The forecast data considered – uncertain and variable by nature – reflect the evolution of the company's order portfolio as well as its future industrial and commercial strategies. Such data, in

particular for the two-year period 2018-2019, is also based on the acquisition of future contracts, in relation to which negotiations are currently under way. Updates, revisions or negative developments relative to the aforesaid assumptions and forecasts occurring after the reporting period of this evaluation, could influence, even significantly, the results of impairment testing.
In this regard, during previous years the final results of Intermarine S.p.A. showed significant deviations compared to forecasts of forward looking financial data used, even after several exceptional and non foreseeable events, such as the floods at the Intermarine site in Sarzana. Given the intrinsically uncertain nature of the forward looking data considered, we cannot exclude that these variances may continue to take place even in the future with respect to the forward looking data used with reference to the assessments carried out as of 31 December 2016. It is noted, in contrast, that the final figures for 2016 were close to the estimated figures in the 2016 budget, except for the non-recurring items such as penalties and deductions incurred by the subsidiary during the year just ended, and that in 2016 the prediction of a return to a position of stable earnings and financial stability was realised, mainly thanks to the contracts acquired by the Defence *business* and the containment of indirect and general costs.

Lastly, an impairment loss for the investment was recorded amounting to €22,607 thousand, based on the results of impairment testing carried out in 2010, 2011, 2012 and 2013. Given that the analyses conducted to determine the recoverable amount were also carried out on the basis of estimates, the existence of adequate cash flows to allow the recovery of the carrying amount of the equity investment and the period within which those flows will be produced, is dependent on the outcome of initiatives provided within the forecast data of Intermarine S.p.A.. Given the current difficulties in the reference markets and the financial markets, the management of the Company can not guarantee that there will be no impairment loss of the equity investment in future periods: as a number of factors - both internal and external to Intermarine S.p.A. - considered in the calculation of the estimates could also be revised in the future, the Company will constantly monitor these factors and the possible existence of future impairment losses.

PIETRA S.r.l.

At the end of 2006, Immsi S.p.A. acquired a 77.78% investment in Rodriquez Pietra Ligure S.r.l., which was then transformed into Pietra S.r.l., recognised in the financial statements for a total of €18,761 thousand, corresponding to the amount paid on the initial underwriting and at subsequent capital increases.
This company, originally established by Rodriquez Cantieri Navali S.p.A. (now Intermarine S.p.A.), was then sold to the two current shareholders (Immsi S.p.A. and Intesa San Paolo S.p.A.), in order to sign an agreement to sell the future receivable relating to the Pietra Ligure shipyard project with Rodriquez Cantieri Navali S.p.A..
At the same time as the sale of the receivable, Rodriquez Cantieri Navali S.p.A. granted Pietra S.r.l. subscription rights for the acquisition of the entire stake in the Pietra Ligure S.r.l, the newco assigned the industrial complex along with the area transferred from the State, at the price of €300 thousand. The option was exercised at the end of May 2015.
This project refers to the shipyard area located in Pietra Ligure (Savona) that – in the intentions of the subsidiary – would be turned into a property complex with apartments, a hotel, mooring places, shops and other services. The area concerned was acquired during a public auction in 2007. Reference is made to the sections on the Property and holding sector and Disputes in progress in the Directors' Report and the Financial Statements of the Immsi Group at 31 December 2016 for an update on the situation.

Lastly, in 2008, a company was established called IMMSI Audit Società Consortile di Internal Auditing del Gruppo Immsi a R.L. (IMMSI Audit S.c. a r.l.), with Immsi S.p.A. subscribing 25% of the share capital, equal to €10 thousand.

C4	Other financial assets	198,674

Below is a breakdown of other financial assets held by Immsi S.p.A.:

In thousands of euros	2016	2015
Other non-current financial assets:	**13,996**	**12,115**
Financial assets available for sale (afs)	13,996	12,115
Financial receivables due from third parties	-	-
Financial receivables due from Group companies	-	-
Other current financial assets:	**184,678**	**176,553**
Financial assets available for sale (afs)	7,624	14,319
Financial receivables due from third parties	-	-
Financial receivables due from Group companies	177,054	162,234
Total other financial assets	**198,674**	**188,668**

Other non-current financial assets include the value of the investment in Alitalia – Compagnia Aerea Italiana S.p.A. acquired in 2008. The value of the investment recognised in the financial statements at 31 December 2016 is equal to €13,996 thousand, up by €1,881 thousand due to payments made in accordance with the Stand-by Equity Commitment undertaken in September 2014 to subscribe and release a maximum €10 million capital to increase capital against payment resolved by the shareholders' meeting of Alitalia – CAI on 25 July 2014.
After this operation, Immsi S.p.A. held a 2.77% investment at 31 December 2016.

On 31 December 2014, a final agreement was signed between the long-standing shareholders of Alitalia – CAI and lender banks with a new minority shareholder of Alitalia, Etihad Airways, as part of an operation to reorganise and relaunch Alitalia, through a strategic partnership with the new partner and airline company Etihad Airways. This operation led to the establishment of a new company called Alitalia - SAI, in which the operating activities of Alitalia – CAI, a company in which Immsi is still shareholder, were transferred. For more details, see the Directors' Report and Financial Statements of the Immsi Group at 31 December 2014.
With regard to that equity investment, it is noted that on 15 March 2017 the Board of Directors of Alitalia-SAI approved a new Industrial Plan that includes drastic cost-cutting measures aimed at bringing the company into profit in 2019, and therefore with a two-year delay with respect to the previous Plan.
From what can be gathered from press sources, the new Plan requires the agreement by the other stakeholders (government, lending institutions, trade unions, shareholders, etc.) to become effective. Despite the evidence of the failure to adhere to the previous Plan, the information currently available is not considered sufficient to be able to measure the fair value of the company at 31 December 2016. With this limited information any assessment would lack any objective grounds, and accordingly also in view of the small remaining value of the equity interest compared to the overall investment, the estimate of the recoverable amount has been deferred to the next accounting closures, in the belief that it will be possible to acquire additional information for the assessment in the meantime.

Other current financial assets at 31 December 2016 amounted to €184,678 thousand and include the shareholding in Unicredit and loans granted to subsidiaries.

The latter amount to €177,054 thousand, up by €14,820 thousand compared to the end of 2015.
In particular, the Company has receivables amounting to €105,735 thousand due from RCN Finanziaria S.p.A. which include, among others, two convertible shareholder loans subscribed by

the Parent Company, for €27.4 million and €12 million respectively, which have now expired and which the Company has stated it intends to renew. The renewal of these loans was extensively discussed by shareholders with a view to restoring agreements. The times of these negotiations, with the above-mentioned loans connected to them, meant that the renewal of the loans was deferred.
The receivables due from RCN Finanziaria increased during the year mainly due to the interest capitalised at the end of 2016 and accrued on the first convertible shareholder loan.
The Company also granted loans to ISM Investimenti S.p.A. for a total of €45,503 thousand, of which €30.8 million granted mainly to allow the subsidiary to take part in the capital increase operation undertaken by Is Molas S.p.A..
Loans receivable include €22,200 thousand payable to the Parent Company by Is Molas S.p.A., €3,176 thousand payable by Pietra S.r.l. and €440 thousand payable to the subsidiary Apuliae S.p.A..

Current financial assets available for sale include the investment held in Unicredit equal to €7,624 thousand for 2,788,464 shares. The fair value of the investment, represented by the share price at the end of 2016, is down compared to the end of 2015, by approximately €6,695 thousand and is recognised under positive components of the Statement of Comprehensive Income net of the relative tax effect. The Unicredit share price at 31 December 2016 stood at €2.734, lower than the book value (equal to approximately €5.326 per share). This difference is not considered to be a permanent impairment as determined by the procedure adopted by Immsi S.p.A.: in this regard, this procedure relating to the determination of the impairment of equity financial instruments classified as "Available For Sale" ("AFS") has defined alternatively the conditions of a prolonged or significant reduction in fair value on the basis of i) a reduction in the market value exceeding two thirds of the original cost; and ii) a market value continuously lower than the original carrying amount, observed over a period of time of at least two years. It remains understood that, in exceptional circumstances, the Company Management may consider any such decline as not representative of a significant or prolonged loss of value of the security and exceptionally derogate from the specified thresholds, reserving the right - in justified circumstances - to change the aforementioned thresholds in order to reflect any significant changes in the economic and financial context. In this regard it is pointed out that on 6 and 7 July 2016, the reduction in the market value of Unicredit shares compared to the book value slightly exceeded the threshold of two-thirds of the book value (constituting the first condition provided for by the aforementioned procedure). The Board of Directors, however, deemed that this decrease was part of a general situation of significant weakness of European stock markets and in the banking sector in particular. In accordance with the aforementioned company procedure, the Board of Directors therefore decided not to consider the market valuation of Unicredit shares for the two closures mentioned above as bring indicative of a "significant reduction in fair value" and to exceptionally waiver the indicated threshold.
Lastly, it should be pointed out that Unicredit shares referred to above are bound up to 31 December 2016 as a result of a security loan contract guaranteed by cash collateral that the Company undersigned with Banca Akros as from December 2007 and periodically renewed. Contractually the agreements between the parties only transfer the rights and duties deriving from their possession for the duration of the contract, therefore the shareholding is registered in the assets of Immsi for a liability equal to the liquidity disbursed by the Bank as collateral.
In fact, the existing contract with Banca Akros requires a cash collateral of €6,664 thousand at 31 December 2016 to be delivered by the intermediary, represented by the market value of the security net of a margin accounting for any downward trends, against the loan of the above Unicredit securities. The contract, which expires on withdrawal, envisages a fee receivable and interest payable equal to the EONIA increased by a spread, calculated on the cash collateral disbursed by Banca Akros.

C5	Tax receivables	120

The Company opted to be a part of the Group taxation system, as provided for by articles 117 *et seq.* of the Consolidated Income Tax Act (National Consolidated Tax Convention) along with the subsidiaries Piaggio & C.. S.p.A., Aprilia Racing S.r.l., Apuliae S.p.A., Intermarine S.p.A., RCN Finanziaria S.p.A., ISM Investimenti S.p.A., Pietra S.r.l., Pietra Ligure S.r.l. and Piaggio Concept Store Mantova S.r.l.. As regards contracts signed with these companies, the Parent Company Immsi S.p.A., as consolidating entity, recognised tax receivables for €120 thousand in its financial statements, relative to withholding taxes transferred from companies of the agreement, recognised in the current portion as they concern disposal to subsidiaries pursuant to article 43-*ter* of Italian Presidential Decree no. 602/73 to be offset in 2017.

C6	Deferred tax assets	0

The Company recognised gross deferred tax assets for a total of €318 thousand, recognised exclusively in respect of temporary differences for deductible costs in future years. The decrease compared to the end of 2015, amounting to approximately €1.5 million, is attributable to the prudential reversal of the tax recognised for prior tax losses with a recoverability under the national consolidated tax convention confirmed in future years (when estimating the recoverable amount, the Company considered the long-term plans of Group companies that are included in the national consolidated tax convention). For the same reason, the Company did not prudentially recognise deferred tax assets in relation to the estimated tax loss for the year 2016.
Deferred tax assets were entirely offset by deferred tax liabilities as they refer to the same income tax owing to the tax authorities and may be recovered in similar times.

C7	Trade receivables and other receivables	55,960

Current trade receivables and other receivables are nearly entirely recognised in the current portion and refer to trade receivables from third parties and from Group companies for lease contracts, management contracts, fees paid for positions held by employees of the Parent Company, interest, fees on guarantees and expenses charged for activities managed by Immsi S.p.A. on behalf of subsidiaries. This item includes receivables due from companies belonging to the Immsi Group for €44,278 thousand, and namely Is Molas for €11,552 thousand, RCN Finanziaria for €29,099 thousand, Piaggio for €121 thousand, ISM Investimenti for €2,792 thousand, €633 thousand for Pietra S.r.l. and the remainder from other Group companies. Other current receivables of Immsi S.p.A., as the consolidating company, defined in the national consolidated tax convention, include the net receivable from companies party to the convention, for a total amount of €11,095 thousand.
Trade receivables are recorded net of a bad debt reserve prudently allocated for €784 thousand against the uncertain recoverability of approximately €690 thousand receivables due from Volare Group relative to the rental of a portion of the property of Via Pirelli – Milan sold by Immsi during 2005. In this respect, the Volare Group has been in receivership since the end of 2004 and Immsi, proving its debts, has been admitted to the benefit. The filing of the plan to distribute assets relative to privileged creditors pursuant to article 2764 of the Italian Civil Code (receivables of lessors of property) is pending.

Immsi S.p.A. received guarantees and guarantee deposits for a total of €662 thousand for lease agreements stipulated for the property in Rome.

The Company has not recorded any receivables from foreign companies due after 5 years.

C8	Cash and cash equivalents	792

This item covers cash and current bank accounts. The balance decrease significantly compared to the end of 2015 when the figure was influenced by the disbursement of €24,556 thousand to the Company ordered by Banco Popolare following the renegotiation of the mortgage loan.
For this loan, Immsi is required to channel income from the lease into a special account, for the entire duration of the contract, and to keep a minimum amount there equal to the interest instalment closest to maturity. This sum, equal to €3 thousand at 31 December 2016 is, to all effects, unavailable up to the minimum amount for payment of the interest instalment due in June 2017.

D - Information on main liabilities

D1	Shareholders' equity	370,771

Share capital

At 31 December 2016, the share capital of Immsi S.p.A. totalled €178,464,000.00, fully subscribed and paid up, and represented by 340,530,000 ordinary shares with no nominal value.

Each ordinary share entitles the holder to a proportionate part of distributable profits and of the shareholders' equity resulting from any liquidation, as well as unlimited voting rights.

As regards proxies to increase share capital and authorisations to purchase treasury shares, see the 2016 Report on Corporate Governance and Ownership.

Other reserves and retained earnings

The item Other reserves at 31 December 2016 is broken down as follows:

- legal reserve comprising provisions approved following the distribution of the profit for the year for €7,764 thousand;
- legal reserves for a total of €1,153 thousand;
- revaluation reserve for plant, property and equipment, established in accordance with Law no. 413/91 by Sirti and transferred to Immsi following the demerger for €4,602 thousand;
- fair value valuation reserve of the property investments for €42,838 thousand. For details of this operation generating this reserve, see the item Investment Property;
- share premium reserve that includes the increases in share capital of €44,880 thousand in early 2005, as well as €50,336 thousand in 2006, net of uses of €342 thousand to cover losses in 2014;
- evaluation reserve under common control equal to €65,087 thousand, in compliance with guidelines as of OPI (Assirevi preliminary guidelines on IFRS) no. 1, whose underlying operation, concerning the subsidiaries Is Molas S.p.A. and ISM Investimenti S.p.A., is commented on in the Investments item.

The item Other reserve includes the negative component arising from the retrospective measurement of the actuarial gain/loss referred to defined benefit obligations for €40 thousand, the fair value adjustment of assets available for sale for €7,227 thousand, the reserve for transition to international accounting standards for €1,614 thousand and the reserve relative to the fair value of the hedging instrument - an interest rate swap - for €374 thousand.

With regard to the use in the 3 previous years of reserves to cover losses, capital increases or distributions to shareholders, the only thing to be noted is the replenishment of the loss for 2014, equal to €65,628 thousand, through the full use of the retained earnings and the extraordinary reserve, and the partial use of the share premium reserve referred to above.

As a result, the Shareholders' Equity of the Company includes earnings carried forward for €20,247 thousand, representing the part of the loss accrued in 2012 not yet covered.

Statement of Comprehensive Income

In 2016, the Statement of Comprehensive Income showed a loss for the period of €944 thousand, as a result of a positive change in the fair value of the interest swap hedging instrument of €274 thousand, the lower fair value of the investment in Unicredit compared to the value at the end of 2015, equal to €6,695 thousand, and the adjustment of €15 thousand for the measurement of defined benefit plans concerning the actuarial profit generated in 2016.

D2	Financial liabilities	257,453

With reference to the financial liabilities it is pointed out that, mainly due to the sharp fall in share prices, primarily linked to fears about the capital solidity of the European banking sector, but which in fact then also involved all the other sectors, the values of listed companies held by Immsi S.p.A., namely Piaggio S.p.A. and Unicredit S.p.A., incurred sharp depreciations during 2016.
Since these securities are used by the Company to secure several credit lines, as of 31 December 2016 a of non-compliance with certain financial covenants and Values to Loan came about. The Company therefore promptly activated the appropriate requests for exceptions or exemptions with respect to the contractual provisions, but the time needed to manage these processes resulted in obtaining several positive replies only subsequent to 31 December 2016.
This necessitated the temporary reclassification of medium-long term credit lines to short-term in this statement of financial position, due to the various clauses protecting the creditor generally provided for in loan agreements, including the acceleration clause. This reclassification was due to the decrease in the non-current financial liabilities compared to the figure at the end of 2015 (€117,311 thousand) and will be changed returning the above loans to the contractual maturities in subsequent accounting closures in the light of obtaining the necessary waivers from the banks.

Below is the detail of the breakdown of bank debt:

- a loan undersigned in June 2010 by the Company and renegotiated in December 2015 with Banco Popolare for a total of €45 million maturing at the end of 2025, with repayment in six-monthly instalments at a rate equal to the Euribor increased by a spread. The loan has been recognised in the financial statements on an amortised cost basis for €39,862 thousand, of which €4,500 thousand relative to instalments that may be repaid within 12 months. The loan is guaranteed by mortgages on property located in Rome – via Abruzzi for a total of €90 million, in addition to the payment of income from lease contracts on the same property being paid into an account subject to special conditions, up to the amount of the interest instalment closest to maturity. The loan agreement includes two covenants, to be verified on 31 December of each year, which had been complied with at the end of 2016. To cover the risk of interest rate fluctuation for cash flows, Immsi S.p.A. kept on the existing interest rate swap hedging contract, which changes the variable rate into a fixed rate for the entire duration of the contract on 75% of the nominal value of the loan taken out in 2010;
- a revolving credit line granted by the bank Monte dei Paschi di Siena for a total nominal value of €30 million (fully used as of 31 December 2016) and a benchmark rate of the variable Euribor plus a spread. The line includes compliance with a covenant, to be communicated after the approval of the 2016 Financial Statements by the Shareholders' Meeting of Immsi S.p.A.. Although the covenant was not observed as at 31 December 2016, given that the line matures in April 2017 and therefore before the date of approval of the aforementioned Financial Statements and in view of the negotiations under way with the bank, aimed at renewing the credit line to be completed within the maturity established, it was considered no longer necessary to verify the covenant;
- a revolving credit line, disbursed by Intesa Sanpaolo for €25 million, fully used at 31 December 2016, with a benchmark rate equal to the Euribor increased by a spread and maturing in June 2017. This line includes a covenant, to be verified at 31 December and 30 June of each year, which had been complied with at the end of 2016;
- credit line granted by Intesa Sanpaolo for a total nominal value of €15 million (fully drawn at 31 December 2016) maturing in February 2017 and already renewed, reference rate equal to the variable Euribor plus a spread, includes compliance with a covenant, to be verified at 31 December and 30 June of each year, which had been complied with at the end of 2016. With

reference to the above line, the Company obtained a temporary exemption (up to 30 April 2017) from verification of the Value to Loan;

- revolving credit line granted by Unicredit for a total of €25 million (of which €16.5 million used at 31 December 2016), with a benchmark rate equal to the Euribor increased by a spread, with expiry in May 2017. This line includes a covenant, to be checked monthly, whose verification was exempted by the bank up to 31 December 2016. This covenant, which had also been exceeded at 31 January 2017 and 28 February 2017, was therefore the subject of a waiver request by Immsi and exempted by the Bank in March 2017;
- a loan granted by Banca Popolare dell'Emilia Romagna for a nominal residual amount of €2.5 million and recognised in the financial statements at 31 December 2016 for €2,494 thousand based on the amortised cost principle, maturing in March 2017 and with a benchmark rate equal to the Euribor increased by a spread. This line includes accumulated amortisation in half-yearly instalments of increasing amount and compliance with two covenants, one of which marginally breached at 31 December but exempted for the March 2017 due date;
- a revolving credit line granted by the bank Banca Nazionale del Lavoro for a total of €20 million (fully used at 31 December 2016). The line, with latest expiry in April 2018 and with a benchmark rate equal to the variable Euribor increased by a spread requires compliance with two covenants, to be verified on 31 December of each year, which have been complied with the end of 2016;
- a revolving credit line, disbursed by Banco BPM, former Banco Popolare for €20 million (fully used at 31 December 2016), maturing at the end of 2018 and with a benchmark rate equal to the variable Euribor increased by a spread. With reference to the maturity of the instalment due for 31 March 2017, the Company request dated the postponement of its debiting and the borrowing costs until 30 April 2017. At the date of approval of the Draft Financial Statements, it was awaiting a response;
- a Bullet – Multi Borrower loan disbursed by Intesa Sanpaolo for a total of €130 million, fully used at the end of 2016, maturing in June 2017 with a benchmark rate equal to the variable Euribor increased by a spread, of which €77.7 million granted to Immsi S.p.A., €30 million granted to ISM Investimenti S.p.A. and €22.3 million granted to Intermarine S.p.A.. With reference to the above line, the Company obtained a temporary exemption (up to 30 April 2017) from verification of the Value to Loan;
- a securities loan agreement between Immsi S.p.A. and Banca Akros, which - against a loan of 2,788,464 Unicredit shares, envisages a cash collateral from the bank of approximately €6,664 thousand represented by the market value of the share at the date of subscription net of a spread, which takes into account any downward fluctuations in the share. The contract, which expires on withdrawal, envisages a fee equal to 0.05% and interest payable equal to the EONIA increased by a spread, calculated on the cash collateral disbursed by Banca Akros.

A further €4.6 million relative to a revolving line of credit granted by Intesa Sanpaolo had been fully used at the end of the year.

The Company has deposited as collateral for its bank borrowing a total of 23,252 million Piaggio shares and pledged a total of 129,077 million Piaggio shares.
Nominal financial payables, by contractual due date, are shown below:

In thousands of euros	In 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	After 5 years	Total
Payables to banks	**192,262**	**34,500**	**4,500**	**4,500**	**4,500**	**18,000**	**258,262**

D3	Reserves for severance indemnity and similar obligations	302

Liabilities only include the reserve for termination benefits totalling €302 thousand at the end of 2016. As provided for by Italian Legislative Decree no. 252/2005 and by Italian Law no. 296 of 27 December 2006, since Immsi has fewer than 50 employees, the termination benefit of employees that did not opt to assign the benefit to other types of supplementary welfare schemes, continued to be managed by the company, unless otherwise indicated by personnel.

New IFRS identify the liability relating to termination benefits using the actuarial measurement method. An estimate is made of the probable employment period in the company for each employee. For this period, annual salaries were revised based on an expected rate of inflation and a portion (legal rate) was allocated as termination benefit.
The portion of termination benefit already accrued, and which will accrue at the foreseeable date of termination of employment, is revised as required by law and discounted by a rate equal to 1.62%. As regards the discount rate, the iBoxx Corporates A rating with a 10+ duration at 31 December 2016 was used as the valuation reference.
The parameters used in the evaluation are shown below:

	Inflation rate	**Rate of increase in termination benefit**
2017	1.70%	2.775%
2018	1.70%	2.775%
2019	1.60%	2.7%
since 2020	2.00%	3.00%

The table below shows the effects, at 31 December 2016, which would have occurred following changes in reasonably possible actuarial assumptions:

In thousands of euros	**Provision for termination benefits**
Turnover rate +2%	296
Turnover rate -2%	309
Inflation rate + 0.25%	307
Inflation rate - 0.25%	296
Discount rate + 0.50%	287
Discount rate - 0.50%	318

Estimated future payments are shown below:

In thousands of euros	**Future amounts**
1	50
2	16
3	16
4	16
5	17

The average duration of the bond is 14 years.

Being an actuarial valuation, the results depend on the technical bases adopted such as, among others, the interest rate, the inflation rate and the expected turnover. A variation of these parameters could lead to a significant change in the liability estimated to date; similar impacts may be caused by unexpected changes in other technical bases.
Movements in the fund during the year are shown below:

In thousands of euros	
Balance at 31/12/2015	**342**
Service cost	24
Use for employment termination/advances	-85
Interest cost	6
Actuarial (gain)/loss	15
Balance at 31/12/2016	**302**

As foreseen by the amendment to IAS 19, the cost components relating to the provision of work and net borrowing costs, equal to €30 thousand, were directly recognised in profit or loss, whereas the recognition of actuarial loss arising from the remeasurement each year of liabilities, equal to €15 thousand, was recorded in the Statement of Comprehensive Income.

D4	Deferred tax liabilities	19,128

Deferred tax liabilities at 31 December 2016 total €19,128 thousand, net of the portion of deferred tax assets allocated for temporary differences and fiscal losses, offset by €318 thousand in that they are consistent for nature and the Tax authority.
Gross deferred tax liabilities are recognised above all for the fair value measurement of the investment property in Rome, for €17,986 thousand against lower depreciation recognised during the transition to accounting standards, relative to buildings and plant depreciated net of the value of land and the recoverable value at the end of their useful life, amounting to €1,087 thousand.

D5	Trade payables and other payables	4,116

Other non-current debts, equal to €422 thousand, include almost exclusively the mark to market value at the end of 2016 of the hedging instrument specific of the risk of interest rate variation (IRS) with reference to 75% of the 2010-2019 mortgage loan contract of an original €46 million, renegotiated at the end of 2015 with Banco BPM (former Banco Popolare). The change compared to 2015, amounts to €274 thousand and is recognised in the Statement of Comprehensive Income. The additional €48 thousand recognised under other non-current debts are attributable to the guarantee deposits paid by the tenants of the Rome property as a guarantee for the leases.

Current trade payables refer to invoices received and not yet paid and to invoices to be received recognised on an accrual basis and total €1,918 thousand, of which €361 thousand to Related Parties and other companies of the Group.
Other current payables mainly include payables to social security institutes for €85 thousand, payables to employees and company bodies for €775 thousand, accrued liabilities and deferred income for €913 thousand.

At the end of 2016, no trade payables or other payables due to foreign companies or payables due after 5 years were recognised.

D6	Current taxes	281

Current taxes at 31 December 2016 refer to taxes withheld on the income of employees and freelance workers amounting to €257 thousand, tax payables for VAT amounting to €11 thousand and payables for Regional Tax on Productive Activities of €13 thousand.
Group taxation calculated for 2016 recorded a tax loss, therefore no advance payments on Italian Tax on Corporate Income will be made in 2017.

E - Information on the main Income Statement items

E1	Financial income	18,688

Details of financial income for 2016 and a relative comparison with the previous year are given below:

In thousands of euros	2016	2015
Dividends from subsidiaries	9,041	13,156
Gains from the sale of subsidiaries' shares	-	2,670
Interests and commission from subsidiaries	9,306	8,637
Other financial income	341	348
Total	**18,688**	**24,811**

The decrease compared to the previous year was mainly due to the receipt in 2015 of a higher amount of dividends from Piaggio & C. S.p.A. and the realisation of a gain on the sale of 1.9 million Piaggio shares.
Other financial income mainly includes to income recognised by Banca Akros for a securities loan agreement secured by cash collateral, following the distribution of Unicredit dividends received and referring to the shares covered by the agreement.

E2	Borrowing costs	10,478

Borrowing costs amount to €10,478 thousand and include nearly entirely interest and charges accrued on bank borrowings. This item increase slightly compared to the figure record of the previous year, of €10,188 thousand.

E3	Operating income	4,277

Operating income, equal to €4,277 thousand, includes €1,608 thousand referred to service contracts with Group companies and revenues for approximately €2,669 thousand from the lease on the property situated in Rome, of which €341 thousand to Group companies.

Revenues from recharging costs for materials and services sustained by Immsi S.p.A. on behalf of Group companies and tenants are not recognised in profit or loss as they are offset by relative costs generating them, as provided for by IAS 18, according to which the commercial result of operations that in their entirety are strictly related, may not be measured without referring to such operations as a whole.

E4	Costs for services, leases and rentals	3,426

Costs for services, leases and rentals, net of costs recharged in accordance with IAS 18 as described above, total €3,426 thousand, of which approximately €435 thousand deriving from intergroup transactions and with related parties, the details of which are provided at the end of these Notes.

Costs for services, leases and rentals are broken down as follows:

In thousands of euros	2016	2015
External maintenance and cleaning expenses	198	165
Employee costs	24	24
Technical, legal, tax, administrative consultancy, etc.	601	645
Material, promotional activities and brands	4	5
Energy, telephone, postal costs, etc.	71	56
Insurance	41	41
Board of Directors operating costs	1,652	1,653
Board of Statutory Auditors operating costs	141	144
Communication and publication costs	9	14
Certification fees	59	59
Listing rights and Securities Centralised Administration	100	72
Condominium, security and porter costs	44	48
Bank charges	7	8
Expenses for website handling and maintenance	10	10
Charges for property rentals	393	377
Charges for rents and other rentals	64	66
Miscellaneous expenses	8	8
Total	**3,426**	**3,395**

E5	Employee costs	1,245

Employee costs recognised in 2016 refer to salaries for approximately €918 thousand, social security contributions for €256 thousand and provisions as termination benefit for €71 thousand. For more details on the latter item, see the item Reserves for severance indemnity and similar obligations.

Immsi S.p.A. currently has no employee stock option plan.
As required by paragraph 1-bis of article 78 of the Consob Regulation on Issuers, the Company did not carry out operations for the purchase or subscription of shares by employees pursuant to article 2358 of the Italian Civil Code.

The average workforce paid in the year is 11 employees, of which 3 senior managers.

E6	Depreciation of plant, property and equipment	78

Depreciation of plant, property and equipment recognised in 2016 amounted to €78 thousand and refers to electronic machines, hardware, vehicles, furniture and fittings and miscellaneous equipment. Since 2009, buildings and plants relating to the property owned in Via Abruzzi 25 – Rome have not been depreciated. For further details, reference is made to the comment in the item Investment Property.
As regards investments during the year, it was deemed appropriate to apply the depreciation rates reduced by 50% due to their limited use. The Company also fully depreciated those assets of minor value whose use had essentially ended during the year.

E7	Other operating income	124

This item amounted to €124 thousand, net of income generated from recharged costs as provided for by IAS 18, and basically refers to income for fees repaid by Company employees for company positions held within the Group, contingent items and the recovery of insurance costs and compensation.

E8	Other operating costs	697

Details of other operating costs are indicated below:

In thousands of euros	2016	2015
capital losses on disposals	-	3
Municipal property tax	501	532
provisions for risks on receivables	-	30
other taxes and duties	175	174
other operating charges	21	30
Total	**697**	**769**

E9	Taxes	1,639

Income tax for the year recognised in 2016 amounting to €1,639 thousand.
The item profit before tax accounted for a minimum part of taxable income as regards income tax, because most components comprise financial items, which are tax-neutral; these are commented on under the item Financial Income.
The item Taxes also includes, in addition to the estimated costs for the year for Regional Tax on Productive Activities and deferred taxes generated by temporary differences, the prudential reversal of the deferred tax assets recognised in previous years of around €1.5 million in relation to prior tax losses that are not expected to be recoverable within the tax consolidation during the time period considered in the plan.
The reconciliation between the theoretical tax burden and actual tax burden is shown below:

ITALIAN TAX ON CORPORATE INCOME	**Income**		**Taxes**	
	Earnings	**Temporary components**	**Current**	**Deferred**
Profit before tax	7,131			
Theoretical tax charge (benefit)			1,961	
Temporary differences taxable in subsequent years	-670	-670	-184	161
Temporary differences deductible in subsequent years	595	-595	164	-143
Reversal of temporary differences arising in previous years	-218	218	-60	60
Permanent differences that will not be annulled in subsequent years	-6,953	0	-1,912	0
Total differences	-7,246	-1,047	-1,993	78
Taxable income	-115			
Total tax expense (benefit) on income for the period			-32	78
Other amendments			32	1,547
Total tax expense (benefit) on income recognised in the financial statements			**0**	**1,625**

Regional production tax (IRAP)	**Income**		**Taxes**	
	Earnings	**Temporary components**	**Current**	**Deferred**
Value of gross production	-1,078			
Theoretical tax charge (benefit)			-60	
Borrowing costs/income	-1,160	0	-65	0
Timing differences taxable / deductible in later years	0	0	0	0
Reversal of temporary differences arising in previous years	-16	16	-1	1
Permanent differences that will not be annulled in subsequent years	2,496	0	139	0
Total differences	1,320	16	74	1
Taxable income/Value of net production	242	2,496		
Total tax expense (benefit) on income for the period			**13**	**1**
Other amendments			0	0
Total tax expense (benefit) on income recognised in the financial statements			**13**	**1**

E10	Net profit for the period	5,492

Immsi S.p.A. realised a net profit equal to €5,492 thousand in particular due to positive financial components recognised in 2016.

F – Commitments, risks and guarantees

The Company as a first mortgage and a second mortgage on property in Rome recognised for a total of €90 million, guaranteeing the long-term loan obtained in June 2010 and renegotiated at the end of 2015 with Banco Popolare for a total of €45 million.
With this financing, Immsi must for the entire duration of the contract channel the revenues from leasing into a deposit account and keep a minimum amount there equal to the interest instalment nearest maturity.

Intesa Sanpaolo has issued a revocable signed credit line equal to €400 thousand, of which Immsi used €350 thousand for the Cassa di Previdenza Integrativa (supplementary social security fund) of personnel of Istituto San Paolo di Torino, with which Immsi stipulated a lease contract in December 2008 for the property located in Milan – via Broletto 13.

To guarantee the lease contracts of the property in Rome in effect at 31 December 2016 Immsi S.p.A. received guarantees for a total of €614 thousand and guarantee deposits for €48 thousand.

As regards the credit lines and bank loans received, the Company deposited 23.252 million shares as a guarantee, and approximately 129.1 million Piaggio shares as a lien; for further details, reference is made to the item Financial liabilities.

Immsi S.p.A. also issued a guarantee for a loan granted by Intesa Sanpaolo to Intermarine for €18 million, a commitment to issue equity in favour of Intermarine so that it can meet the financial requirements for the development and completion of its contracts.
Immsi has also signed an independent first demand guarantee for a maximum amount of €33.8 million and issued a letter of commitment in favour of Intesa Sanpaolo to guarantee the revolving loan granted to Intermarine S.p.A. by Intesa, of which €10.3 million used, related to future flows of the contract with the Finnish Navy.
The subsidiary pays remuneration to Immsi for the issue of these guarantees, in proportion to the amounts disbursed by the bank.
Immsi S.p.A. filed 28.5 million Piaggio shares as a lien, to guarantee the above loans.

Following the contract stipulated between the Finnish Navy and the subsidiary Intermarine S.p.A. for the construction of three minesweepers, which have already been delivered, the Finnish Navy granted three advance payments, for an amount of 115% of the sum received, through insurance guarantees issued by SACE, which has stated its willingness to issue said guarantees provided there is the co-obligation of Immsi S.p.A.. The Parent Company is remunerated in proportion to the sums secured. In consideration of the progress made, the guarantee for the last vessel equal to €5.1 million is still outstanding.

As part of the supply contract for five catamarans to the Sultanate of Oman, for which Intermarine stipulated a signature line of agreement with a pool of banks for an amount of 84.5 million US dollars to guarantee payment of the consideration envisaged in the contract signed with the Sultanate of Oman for 90 million US dollars, Immsi counter-guaranteed the “pre-delivery performance bond”, “advanced payment bond” and “post-delivery bond” issued by the above banks for a maximum amount of 60 million US dollars by issuing a bank guarantee, and a letter of patronage for any part exceeding such amount in relation to Intermarine S.p.A.’s obligations to channel payments.
At the end of 2016, with all vessels completed, the actual exposure of Intermarine S.p.A. to banks for the post-delivery bond was equal to 3.8 million USD. The guarantor banks granted an extension of the relative guarantees up to September 2020.

Immsi S.p.A. has issued a letter of patronage on the surety issued by Banco Popolare (Efibanca) in favour of the company Como for the down payment of €2.7 million paid by it to Intermarine S.p.A.

and a letter of patronage as a guarantee for credit facilities granted by Banca Carige to Intermarine S.p.A. of which €1.4 million in late 2016 used for advances.

Immsi is also co-obligated for the repayment of the loan of €10 million that Intesa Sanpaolo granted to the subsidiary Intermarine, maturing at the end of 2018.

In relation to the line of credit in place between Intermarine S.p.A. and Banca IFIS S.p.A., in the form of an advance on contract and factoring for the sale of receivables from the Italian Navy arising from the refitting contract of the Gaeta Minesweeper, and in regard to the advance on the contract for the sale of receivables due from an Italian group operating in the sector for the construction of integrated platforms, Banca IFIS was issued letter of patronages by the direct parent company RCN Finanziaria S.p.A. confirmed by Immsi S.p.A.. The value of the guarantees at the end of 2016 was €9.5 million in total.

In 2016, Immsi also issued a surety in favour of Banco BPM for a total of €5.1 million for advances on a contract and as a counter guarantee for the sureties that this bank has issued to the Italian Navy for advances paid to Intermarine.

Immsi, in relation to the €30 million loan granted to ISM Investimenti S.p.A. by Intesa Sanpaolo, undertook, in the interests of IMI Investimenti S.p.A., to grant a shareholder loan for the amount necessary to enable ISM to repay its debt in full, if it fails to refinance this amount due to Intesa Sanpaolo on the market.

G – Net debt

The net financial debt at 31 December 2016 of Immsi S.p.A. is shown below. For further details on main components, reference is made to the Notes to these financial statements.

In thousands of euros	31/12/2016	31/12/2015
Cash and cash equivalents	(792)	(18,702)
Other short-term financial assets	(177,054)	(162,234)
Medium/long-term financial assets	0	0
Short-term financial payables	257,453	141,780
Medium/long-term financial payables	0	117,311
Net financial debt	**79,607**	**78,155**

Net financial debt at 31 December 2016 amounted to €79,607 thousand, up by €1,452 thousand compared to the figure at 31 December 2015.

In thousands of euros	31/12/2016	31/12/2015
Cash generated internally	(160)	3,240
Change in net working capital	5,769	3,625
Net cash flow generated from operations	**5,609**	**6,865**
Payment of dividends by the Parent Company	(5,107)	0
Acquisition of intangible assets	0	0
Acquisition of plant, property and equipment and investment property	(73)	(133)
Net decrease from property disposals	0	3
Acquisition of non-controlling investments, net of disposal	(1,881)	(1,766)
Acquisition of controlling investments, net of disposal	0	2,698
Other net movements	0	0
Change in net debt	**(1,452)**	**7,667**
Initial net debt	**(78,155)**	**(85,822)**
Closing net debt	**(79,607)**	**(78,155)**

In compliance with CESR recommendation of 10 February 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", the indicator, thus formulated, represents aspects monitored by the Group's management and differs from recommendations in Consob Communication no. 6064293 of 28 July 2006, as it also includes the non-current portion of financial receivables.

H - Dividends paid

Immsi S.p.A., as the shareholder resolution of 29 April 2016, paid dividends (on the profits for the year 2015), totalling €5,107 thousand corresponding to €0.015 per 340,530,000 shares.
You are reminded that Immsi S.p.A. did not pay any dividends during 2015.

I - Group and Related-Party Transactions

As regards disclosure on related-party transactions as of IAS 24 undertaken by Immsi S.p.A., the transactions undertaken with these entities were carried out in normal market conditions or according to specific regulatory provisions.

In compliance with Regulation no. 17221 on transactions with Related Parties issued by Consob on 12 March 2010 as amended by Ruling no. 17389 of 23 June 2010, the Company adopted a new procedure to regulate procedures to approve related-party transactions, available on the website of the Issuer www.immsi.it, in the section Governance.

The main economic effects (excluding revenues to deduct from subsidiaries and parent companies in compliance with IAS 18) and financial effects of Related-Party transactions and their impact on financial statement items of Immsi S.p.A. at 31 December 2016, compared to the amount recognised for the same related parties in 2015, are shown below:

Main economic and financial items	2016 amounts in thousands of euros	% accounting for financial statement items	Description of the nature of transactions	2015 amounts in thousands of euros
Transactions with Related Parties:				
Current trade payables	*51*	*2.7%*	*Tax advisory services provided by Studio Girelli e Associati*	*19*
Costs for services, leases and rentals	*51*	*1.5%*	*Tax advisory services provided by Studio Girelli e Associati*	*53*
Transactions with Parent companies:				
Current trade payables	*124*	*6.5%*	*Rental of offices in Mantova provided by Omniaholding S.p.A.*	*2*
Costs for services, leases and rentals	*227*	*6.6%*	*Rental of offices in Mantova provided by Omniaholding S.p.A.*	*222*
Transactions with Subsidiaries:				
Plant, property and equipment	*5*	*4.2%*	*Plants and fittings provided by Is Molas S.p.A.*	*10*
Current trade receivables and other receivables	*65*	*0.1%*	*Amounts due from Intermarine S.p.A. for recharged costs, rental of offices in Rome, interest, fees and a consultancy contract*	*654*
	29,098	*52.0%*	*Amounts due from RCN Finanziaria S.p.A. for recharged costs and interest*	*24,966*
	11,552	*20.6%*	*Amounts due from Is Molas S.p.A. for recharged costs, a consultancy contract and interest*	*9,811*
	2,792	*5.0%*	*Amounts due from ISM Investimenti S.p.A. for recharged costs and interest*	*1,915*
	121	*0.2%*	*Receivables due from Piaggio & C. S.p.A. for recharged costs, consultancy contract and remuneration repayment*	*740*
	638	*1.1%*	*Amounts due from Pietra S.r.l. and Pietra Ligure S.r.l. for*	*486*
	12	*0.0%*	*Amounts due from Apuliae S.p.A. for interest*	*0*
	11,095	*19.8%*	*Amounts due from the national consolidated tax convention*	*12,832*
Other current financial assets	*105,735*	*57.3%*	*Loans granted to RCN Finanziaria S.p.A.*	*105,126*
	22,200	*12.0%*	*Loans granted to Is Molas S.p.A.*	*21,600*
	45,503	*24.6%*	*Loans granted to ISM Investimenti S.p.A.*	*32,449*
	3,175	*1.7%*	*Loans granted to Pietra S.r.l.*	*2,730*
	440	*0.2%*	*Loans granted to Apuliae S.p.A.*	*330*
Current trade payables	*153*	*8.0%*	*Payable to Piaggio & C. S.p.A. for recharged costs*	*57*
	33	*1.7%*	*Internal auditing services by Immsi Audit S.c.a.r.l.*	*0*
Financial income	*9,041*	*48.4%*	*Dividends from Piaggio & C. S.p.A.*	*13,156*
	4,680	*25.0%*	*Interest income from RCN Finanziaria S.p.A.*	*4,754*
	474	*2.5%*	*Interest income and guarantee fees from Intermarine S.p.A.*	*510*
	1,011	*5.4%*	*Interest income from Is Molas S.p.A.*	*1,075*
	2,980	*15.9%*	*Interest income from ISM Investimenti S.p.A.*	*2,158*
	141	*0.8%*	*Interest income from Pietra S.r.l.*	*122*
	19	*0.1%*	*Interest income from Apuliae S.p.A.*	*13*
Operating income	*1,326*	*31.0%*	*Consultancy and assistance contract and rental of offices in Rome rented to Piaggio & C. S.p.A.*	*1,326*
	600	*14.0%*	*Consultancy & assistance contract with Is Molas S.p.A.*	*600*
	15	*0.4%*	*Consultancy & assistance contract and rental of offices in Rome rented to Intermarine S.p.A.*	*48*
Costs for services, leases and rentals	*65*	*1.9%*	*Internal auditing services by Immsi Audit S.c.a.r.l.*	*75*
	91	*2.7%*	*Chargebacks to be received from Piaggio & C. S.p.A.*	*57*
Other operating income	*80*	*64.5%*	*Remuneration repayment from Piaggio & C. S.p.A.*	*80*

Figures including non-deductible VAT.

As regards relations, guarantees and commitments ongoing with Group companies, see item F - Commitments, Risks and Guarantees.

L - Risks and uncertainties

Financial instruments

With reference to financial instruments, already commented on in the Notes, the Parent Company did not recognise any differences between the fair value and the carrying amount for all items in question, excluding investments in Unicredit, the details of which are included in the section on financial assets. At 31 December 2016, the Company had no long-term fixed rate assets and/or liabilities for which it is necessary to recalculate the relative value according to current market rates.

In thousands of euros	31/12/2016	31/12/2015
ASSETS		
NON-CURRENT ASSETS		
Other financial assets	**13,996**	**12,115**
Financial receivables	0	0
Financial assets	13,996	12,115
CURRENT ASSETS		
Other financial assets	**184,678**	**176,553**
Financial receivables	177,054	162,234
Financial assets	7,624	14,319
LIABILITIES		
NON-CURRENT LIABILITIES		
Financial liabilities	**0**	**117,311**
Payables due to banks	0	117,311
CURRENT LIABILITIES		
Financial liabilities	**257,453**	**141,780**
Payables due to banks	257,453	141,780

Interest Rate Risk

Variations in interest rates on the market can impact the fair value of a financial asset or liability.
Exposure to market risk arising from the variation in interest rates is mainly connected to medium and long-term loans.
The following table shows the nominal value of the Company's financial assets and liabilities, recognised entirely in the current portion, that are exposed to interest rate risk, divided depending on whether they are contractually subject to fixed or variable rates (net of any specific hedging instruments for interest rate changes).

In thousands of euros	Total
Total fixed rate	**-11,499**
Total variable rate	**-69,704**

An increase or decrease of 1% of the Euribor with reference to the net specific exposure of Immsi S.p.A. would have produced greater or lesser interest for €697 thousand per year.

Price Risk

Concerning the price risk on investments held by the Company and classified as other financial assets available for sale, see the comments in this Note.

Credit risk

The following table analyse by maturity the item of Trade receivables, including written-down or guaranteed payables, with comments in the Notes to the financial statements.

In thousands of euros	31/12/2016	31/12/2015
Receivables past due:		
0-30 days	3,224	3,809
30-60 days	63	34
60-90 days	14	191
> 90 days	40,458	34,875
Total receivables past due	**43,759**	**38,909**
Total receivables maturing	124	28
Total	43,883	38,937

Tax receivables were used in the first few months of 2017 by other receivables basically comprising accruals and deferrals.

Liquidity Risk

The Company could suffer from possibly critical situations concerning the subsidiaries, especially those for which it granted short-term financings. Immsi S.p.A. in fact provides loans and issues guarantees in favour the Group's to facilitate their funding; these operations are regulated under normal market conditions.
As regards debt, the Company basically renewed expired credit lines in 2016 with new loans.
The liquidity risk derives from the possibility that available financial resources may not be sufficient to hedge, with due procedures and times, future disbursements generated by financial obligations.

At the end of 2016, the Company had unused credit lines totalling €8.7 million, of which €8.5 million referred to the Unicredit credit line and the remainder to the revolving credit line with agreed withdrawal, from Intesa Sanpaolo.

The Directors believe that the currently available funds, in addition to those that will be generated from operating and financing activities, will enable Immsi to meet its own needs arising from investments, management of working capital and repayment of debts and will ensure an adequate level of operational and strategic flexibility, on the assumption that the various lines that will expire during the next 12 months will be fully renewed by the banks. The above also means that the guarantees are available that these contracts required to be able to activate them and also that there are no breaches of the Guarantee Values and financial covenants or if they have been breached the banks are willing to grant an exemption from compliance with them. It is noted that the lines used for a total of €166.7 million will mature in 2017.

Hierarchical fair value valuation levels

As regards financial instruments recognised at fair value in the Statement of Financial Position, IFRS 7 requires these values to be classified on the basis of hierarchical levels which reflect the significance of the inputs used in determining fair value. These levels are as follows:

- level 1 – quoted prices in active markets for assets or liabilities measured;
- level 2 – inputs other than quoted prices included within Level 1 that are observable directly (prices) or indirectly (derived from prices) on the market;
- level 3 – inputs not based on observable market data.

With reference to assets measured at fair value that have quotations on an active market held by Immsi S.p.A. (level 1) Unicredit shares in the portfolio at 31 December 2016 were equal to 2,788,464 shares, for a total value at that date of €7,624 thousand. The fair value of the investment, represented by the share price at the end of 2016, is down compared to the end of 2015, by approximately €6,695 thousand.

At 31 December 2016, non-current liabilities included the hedging instrument (IRS) underwritten to hedge 75% of the 2010-2019 loan, renegotiated at the end of 2015, for a total of €45 million with Banco Popolare, with a fair value at the end of the year which was €374 thousand negative (level 2 financial instruments).

The financial assets measured at fair value for which there are no observable market data (level 3) amounted to €88,051 thousand and refer to €13,996 thousand for the investment held in Alitalia – Compagnia Aerea Italiana S.p.A. and €74,055 thousand for the investment property located in via Abruzzi, Rome.

In addition, IFRS 7 requires the fair value of payables recognised on an amortised cost basis, to be determined, only for disclosure purposes, as indicated below.

In thousands of euros	**Nominal value**	**Carrying amount**	**Fair Value Estimate**
Immsi S.p.A. – Mortgage loan with Banco Popolare	40,500	39,862	37,974
Immsi S.p.A. – Credit line maturing in March 2017	2,500	2,495	2,562
Immsi S.p.A. – Credit line maturing in April 2018	20,000	19,908	19,875
Immsi S.p.A. – Credit line maturing in December 2018	20,000	19,931	20,036

The difference between the fair value and nominal liabilities is justified by use of the rates curve for unsecured payables in the fair value measurement procedure, while typically financial liabilities of the Parent Company are mainly secured.

For other financial liabilities not expressly included in the table provided, the carrying amount is considered to be basically aligned with the fair value.

M - Auditing costs

As regards disclosure obligations pursuant to article 149-*duodecies* of the Issuer Regulation, concerning remuneration pertaining to the year for appointments assigned by Immsi S.p.A. to the independent auditors, remuneration paid in 2016 to Pricewaterhouse Coopers S.p.A. amounted to €43,830 (in addition to costs, additional fees and regulatory fees). In this respect, the Shareholders' Meeting of 11 May 2012 appointed PricewaterhouseCoopers S.p.A. as independent auditors for the 2012-2020 period.

* * *

This document was published on 7 April 2017 by authorisation of the Chairman of the Company, Roberto Colaninno.

Certification of the financial statements pursuant to article 154-bis of the Legislative Decree no. 58/98

The undersigned Roberto Colaninno, as Chairman of the Board of Directors, Michele Colaninno, as Chief Executive Officer and Andrea Paroli, Financial reporting manager of Immsi S.p.A., certify, also taking account provisions of article 154-*bis*, paragraphs 3 and 4 of the Italian Legislative Decree no. 58 of 24 February 1998:

- the appropriateness with regard to the company's characteristics and
- effective application

of the administrative and accounting procedures for preparing the financial statements during 2016.

With regard to the above, no relevant aspects are to be reported.

In addition, it is certified that the Financial Statements at 31 December 2016:

- were drawn up in compliance with applicable international accounting standards recognised by the European Union in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to accounting records;
- are adequate for giving a true and fair view of the financial position, performance and cash flows of the Issuer.

The Report on Operations includes reliable analysis of operations, as well as the situation of the Issuer, along with a description of the main risks and uncertainties to which they are exposed.

23 March 2017

The Chairman
Roberto Colaninno

The Manager in charge of preparing the company accounts and documents
Andrea Paroli

Chief Executive Officer
Michele Colaninno

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

To the shareholders of
IMMSI SpA

Report on the financial statements

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

Directors' responsibility for the financial statements

The directors of IMMSI 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 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 IMMSI 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 IMMSI SpA, with the financial statements of IMMSI 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 IMMSI SpA as of 31 December 2016.

Brescia, 6 April 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

Report of the Board of Statutory Auditors to the General Shareholders' Meeting of IMMSI S.p.A.

pursuant to Art. 153 of Italian Legislative Decree 58/98 and Art. 2429 of the Italian Civil Code.

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Dear Shareholders

Submitted for your approval are the financial statements of IMMSI S.p.A., for the year ended 31 December 2016, prepared in accordance with IAS/IFRS, which present a net profit of 5,492,000 Euro, compared to 15,496,000 Euro in the previous year.

Also submitted are the consolidated financial statements for 2016, which present an overall loss of 8,345,000 Euro (compared to an overall loss of 13,672,000 Euro in the previous year), which breaks down into a loss attributable to minority interests of 318,000 Euro and a net loss attributable to the Group of 8,663,000 Euro.

The financial statements of the Company and consolidated financial statements of the Group, prepared by the Directors pursuant to legislation, were duly notified to the Board of Statutory Auditors together with the Directors' Report on Operations and the Corporate Governance and Share Ownership Report. The Board has also acquired the Independent Auditors' reports.

To the best of our knowledge, the Directors did not depart from legislation relating to the formation of the financial statements and took into account, in preparing the financial reports, the measures issued implementing Art. 9 of Italian Legislative Decree 38/2005, the IFRIC (formerly "SIC") interpretations, as well as the Bank of Italy/Consob/ISVAP Documents No. 2 of 6 February 2009 and No. 4 of 3 March 2010.

The Board of Statutory Auditors, during 2016, carried out the supervisory activities required by law, also taking into account the Consob communications on corporate controls and related to Board of Statutory Auditors' activities. It therefore monitored: (i) compliance with the law and the memorandum of association, (ii) compliance with the principles of proper management, (iii) adequacy of the organisational structure of the company for the aspects under its responsibility, the internal control system and the administrative accounting system, as well as the reliability of the latter in correctly representing operations, (iv) procedures for effective implementation of the corporate governance rules provided for by the Corporate Governance Code of the Corporate Governance Committee of listed companies, which the company has adhered to, and (v) adequacy of the instructions given to the subsidiaries pursuant to Art. 114, paragraph 2 of the Consolidated Finance Act. In addition, the Board of Statutory Auditors, in its capacity as "Internal Control and Audit Committee" pursuant to Art. 19 of Italian Legislative Decree no. 39 of 27 January 2010 (in the *formula* applicable to the 2016 financial year), also monitored (i) the financial disclosure process, (ii) the effectiveness of internal control, internal auditing and risk management systems, (iii) the statutory audit of the annual accounts and of the consolidated accounts, (iv) the independence of the independent auditors, in particular as regards the provision of non-auditing services to the entity subject to the statutory audit.

The Board, in accordance with Art. 2429 of the Italian Civil Code and Art. 153 of Italian Legislative Decree 58/98 and having regard to the information provided in Consob communication no. DEM/1025564 of 06/04/2001, as amended by communication no. 6031329 of 07.04.2006, therefore reports as follows.

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1. The most significant economic, financial and equity transactions put in place by the Company in 2016 have been comprehensively described by the Directors in the Report on Operations. The Board of Statutory Auditors became aware of the same by attending Board of Directors' meetings, as well as by meetings with the Company's management. The Board was able to ascertain that the transactions put in place were not imprudent, risky, in conflict of interest, contrary to shareholders' resolutions and the Articles of Association or otherwise prejudicial to the integrity of corporate assets.

2. In 2016 there were no atypical and/or unusual transactions, neither with third parties nor with Group companies or with related parties, as also attested by the Directors in the section "Form and content of the consolidated financial statements" of the Notes to the consolidated financial statements; for the list of ordinary transactions between the Group or the Parent Company IMMSI and related parties or other Group companies, please refer to the Directors' Report under "Group and Related arty Transactions", with regard to the Group, and in the Notes in the section "I - Group and Related arty Transactions", as regards IMMSI alone. These transactions mainly concern trade and financial receivables/payables, the supply of materials and financial, tax, contractual and leasing advisory services. For the Parent Company alone, income from subsidiaries is also significant. The same documents also illustrate in detail the related economic effects, with the clarification that the transactions are governed by normal market conditions or specific regulatory provisions. The Board of Statutory Auditors believes that such transactions are appropriate and that they are in the corporate interest. The report also illustrates that, in accordance with Regulation No. 17221 on related party transactions issued by Consob on 12 March 2010, as amended, the Company has adopted the procedure aimed at regulating the procedures for approval of related party transactions.

3. The Board deems the disclosure provided by the Directors in the Report on Operations and in the explanatory notes to the separate financial statements, concerning intercompany and related party transactions, to be adequate.

4. The independent auditors, PricewaterhouseCoopers S.p.A., have audited the financial statements and issued - on 6 April 2017 - the related reports that have no findings or requests for disclosures.

5. During 2016, no complaints pursuant to Art. 2408 of the Italian Civil Code were received by the Board of Statutory Auditors.

6. During 2016, no petitions were received by the Board of Statutory Auditors.

7. The independent auditors, PricewaterhouseCoopers SpA, have issued a statement - pursuant to Article 17, paragraph 9(a) of Italian Legislative Decree 39/2010 relative to 2016. The Board of Statutory Auditors - also at the group level - verified that "auditing services" determined fees to PricewaterhouseCoopers of 43,830 Euro for IMMSI alone and 670,179 Euro for the rest of the Group (of which 463,870 Euro relating to the subsidiary Piaggio & C. S.p.A. and 113,647 Euro relating to Piaggio subsidiaries). Analysis shows that the Independent Auditors carried out "certification services" for Group subsidiaries for 27,000 Euro (wholly attributable to the subsidiary Piaggio & C. S.p.A) and “other services” for 254,000 Euro (of which € 227,000 related to the re-engineering and computerisation of Piaggio & C. S.p.A.). In this statement, the independent auditors attested that in the period from 1 January 2016 to the date of the statement there were no situations that could have compromised independence or causes of incompatibility pursuant to Articles 10 and 17 of Italian Legislative Decree 39/2010 and to its implementing provisions.

8. Investigations also showed that the PricewaterhouseCoopers Network received payments related to "auditing services" entirely from Piaggio & C. S.p.A. subsidiaries for the amount of 375,692 Euro. Moreover, the Network received fees of 60,402 Euro from Piaggio & C. S.p.A. subsidiaries for “certification services”, as well as 45,200 Euro for “other services”, from Piaggio & C. S.p.A. subsidiaries.

Also in the light of the above comments and those contained in point 7 above, and given the international dimension of the Group, the Board deems that no critical aspects emerged concerning the independence of the Independent Auditors.

9. During 2016, the Board of Statutory Auditors provided, when necessary, opinions and comments provided for by law. The content of these opinions did not conflict with the subsequent resolutions adopted by the Board of Directors.

10. The Board of Directors met 6 times in 2016, meetings which the Board of Statutory Auditors always attended; The Control and Risks Committee met 8 times; the Remuneration Committee met once, while the Board held 11 meetings and has also held collegiate meetings and/or of its individual members with the independent auditors PricewaterhouseCoopers S.p.A.. Control and Risks Committee meetings are normally extended to the entire Board of Statutory Auditors, in order to ensure the sharing of information flows within the company.

11. It is deemed that the Company complied with the principles of proper administration and that the decisions of the Board of Directors were taken in the corporate interest.

12. The Board of Statutory Auditors, for matters under its responsibility, believes that the company's organisational structure can be considered adequate, also with regard to actual business operations, primarily as a holding company of a group which includes approximately 43 companies in diversified sectors, (including 34 consolidated in the group financial statements) in particular industrial (especially in the "two wheeler" and "commercial vehicles" businesses), marine and real estate/holding companies. Operations are mainly directed to financing subsidiaries, as well as managing and developing these investments. With regard to this activity, the direct presence of the Company's directors on the boards of Group companies strengthens the control of the subsidiaries. The Board of Statutory Auditors monitored the organisational structure of the Company as part of its periodic verifications, and also monitored the organisational chart of the Group, with particular regard to the administrative area. The Board is periodically informed by the Group Internal Audit department about subsidiaries. Moreover, the fact that members of the Board of Statutory Auditors are also Statutory Auditors of the subsidiary Piaggio & C. S.p.A. and of other subsidiaries facilitated the exchange of information with regard to the listed subsidiary and main Group companies. Through these members, the Chairman of the Board of Statutory Auditors, during the year, liaised with the Boards of Statutory Auditors of the most important Group companies, in particular of sub-parent companies, in order to verify the existence of issues of common interest. The Board received information on the financial position and performance of sub-groups, some of which (marine and property sub-groups) received financial support from IMMSI and necessary guarantees to carry out their business activities, as explained in the section “The marine sector: Intermarine”, and in the section “The property and holding sector” of the Directors' Report on Operations. The evolution of net indebtedness - a summary of which is provided in the paragraph "Financial position and performance of the Group" (in said Directors' Report) - was systematically followed by the Board in its meetings: the Board was in fact regularly updated - during the year - on the evolution of this situation and had specific meetings to such effect with the CFO of IMMSI, in order to ascertain the Group's financial strategy, as well as the outcome of net debt monitoring and liquidity situation, also separately by business segment. The Chairman of the Control and Risks Committee, and Deputy Chairman of the Company and/or entire Control and Risks Committee, generally attended these meetings. As regards these aspects, the Board of Statutory Auditors also met with the Chairman and CEO, recommending continual engagement with banks. The Board confirms the attention of the Directors on this matter and the adequacy of the organisational and administrative structure with regard to the monitoring process. The notes in section G2 Financial Liabilities and notes to the Separate Financial Statements, in section D2 Financial Liabilities, indicate the composition of bank debt, by bank and credit line, and relative maturities.

13. The Board of Statutory Auditors supervised the adequacy of the internal control system, gathering information, *inter alia*, from the Directors, the independent auditors and the Internal Control Officer, who is also responsible for the internal audit function and Chief Executive Officer of IMMSI Audit S.C. a r.l..

IMMSI likewise made recourse to IMMSI Audit S.C. a r.l. for the outsourcing of internal auditing services, as did the other Group companies and, in particular, also the main subsidiary Piaggio & C. S.p.A.. IMMSI Audit S.C. a r.l. also monitored the organisational and management model in support of the Supervisory Board pursuant to Legislative Decree 231/01 and the controls in outsourcing instrumental to the verifications required by Law 262/05 and to the activity of the Manager in charge of preparing the company accounts and documents. The Board of Statutory Auditors interacted with the internal audit officer, in charge of the audit function, with regard to which it obtained very positive feedback (as already emerging in previous years) on the activities carried out and the effectiveness of the same, from which - with regard to the corporate cycles and functions controlled during 2016 - no shortcomings of the Company emerged worthy of mention here.

The Board also points out that IMMSI Audit S.C. a r.l., for the period 2015-2017, submitted an audit plan for IMMSI S.p.A. with a view to verifying, over such three-year period, all significant corporate activities and processes at least once. This plan was approved by the IMMSI Board of Directors in March 2015. The activities actually performed in 2016 - the subject of a detailed report examined by the Control and Risks Committee and the Board of Statutory Auditors - were positively evaluated by the Board, which had summary feedback on the audit work carried out for both the parent company and subsidiaries, also with the expression of an opinion on the issues highlighted and on their removal or mitigation. The objectives and activities for 2017 were also specified, also in the light of the activities actually carried out in 2016 and of adoption of the comments of the Director in charge of the internal control and risk management system, in the person of the Chief Executive Officer, or of the corporate governance bodies, for the in-depth investigation of new topics to be analysed, or for a different assignment of priorities in the conduct of the audits, also in the light of the comments shared with the management. The Board reached an opinion of adequacy with regard to the control system. Following entry into force of Legislative Decree no. 39 of 27 January 2010, the Board of Statutory Auditors, in its capacity as "Internal Control and Audit Committee", through its Chairman, liaised with a continuous flow of information with the Control and Risks Committee, constituted by Directors, also extending the meetings to all members of the Board of Statutory Auditors.

Finally, the Board of Statutory Auditors interfaced with the Supervisory Board - again through its Chairman (who is also an acting member of the same), - also interacting with regard to updating of the Organisational, Management and Control Model pursuant to Legislative Decree 231/2001.

During Control and Risks Committee meetings no aspects emerged worthy of further mention here.

In view of the above, the Board of Statutory Auditors deems that the internal control system is, at present, on the whole adequate.

14. The Board of Statutory Auditors, for the aspects under its responsibility, deems the administrative/accounting system to be adequate and deems it appropriate to correctly represent operations. In this regard, the Board of Statutory Auditors was periodically informed of the activities supporting the Manager in charge of preparing the company accounts and documents (for which the Company - as mentioned above - also made recourse IMMSI Audit S.c. a r.l.), which involved the analysis of the corporate areas deemed important and assessment of the risks involved, also considering the processes to mitigate such risks. From the exchange of information with the CFO and from meetings with the Independent Auditors, the Board ascertained the validity of the functioning of such system. The Chairman of the Company, the CEO and the Manager in charge of preparing the company accounts and documents issued the certifications provided for by Art. 154-*bis*, paragraph 5, of Legislative Decree 58/1998. The Control and Risks Committee, in advance with respect to the Board of Directors which approved the financial statements, examined the results of the impairment procedures and discussed them with the Independent Auditors, in the presence of the Board of Statutory Auditors.

15. Pursuant to Art. 114 of Legislative Decree 58/98, the Company issues adequate instruction to its subsidiaries in order to obtain the information necessary to fulfil the disclosure requirements provided for by law. The aforementioned presence of Directors of the Company on the Boards of the main subsidiaries is also recalled here.

16. The Board of Statutory Auditors, during 2016 and beyond, up to the date of this report, regularly held meetings with the Independent Auditors, PricewaterhouseCoopers, useful for exchanging data and information of significance for the performance of their duties, as required by point 3 of Art. 150 of Italian Legislative Decree 58/98; no findings emerged from these meetings. Moreover, in order to analyse in detail the aspects of Art. 19, paragraph 1*(c)* of Italian Legislative Decree 39/2010, the Board of

Statutory Auditors examined the most important aspects of the audit plan, which, *inter alia*, included a discussion of the significant risks and the related audit feedback. This examination also included a discussion – with the Independent Auditors – of the main types of risk. The Board also examined the report pursuant to Art. 19, paragraph 3, of Italian Legislative Decree 39/2010 submitted by the Independent Auditors - also discussing the same with said company - in which PricewaterhouseCoopers declared that (a) there were no fundamental issues to be brought to the attention of the Board and that (b) no material deficiencies had been identified in the internal control system in relation to the financial disclosure process which, according to the professional opinion of this Company - are sufficiently important to be brought to the attention of the Internal Control and Audit Committee. The Board of Statutory Auditors acknowledges to have had the opportunity to analyse - from said report and meeting with the independent auditors - also other aspects concerning: i) measurement of the investment in Unicredit S.p.A.; ii) recoverability – for IMMSI S.p.A. – of deferred tax assets; iii) the financial situation of IMMSI S.p.A.

17. The Directors, in the "Report on Corporate Governance and Corporate Ownership" pursuant to Art. 123-*bis* Consolidated Law on Finance, in support of the financial statement dossier, provide detailed information regarding the corporate governance system, highlighting the degree of alignment with the indications provided by the Corporate Governance Code. In particular, the Company has established the Directors' Remuneration Committee, the Control and Risks Committee, the Lead Independent Director and the Director responsible for the internal control and risk management system. The Company has a "Procedure for Communicating Privileged Information to the General Public", a "Procedure for the Management of the Register of Persons with Access to Privileged Information", a "Procedure to comply with Internal Dealing requirements" (which were fully revised in July 2016, in relation to the need for alignment with new legislation arising from EU regulations) and a "Related Parties transactions regulation”. Also these aspects are discussed in the annual corporate governance report. It has already been pointed out that the Company has adopted the procedure - in force from 1 January 2011 and updated in December 2013 - to regulate the approval and management of transactions with Related Parties, pursuant to Art. 4 of Consob Regulation no. 17221 of 12 March 2010, put in place by IMMSI also by means of its subsidiaries. The permanence of the related parties committee is linked to the existence of three independent directors: this circumstance occurred on a continual basis during 2016. The independence requirements as of article 3 of the Corporate Governance Code and article 148, paragraph 3, letters b) and c) of Italian Legislative Decree 58/98 for independent directors were reviewed by the Board of Directors on 23 March 2016 and subsequently revised on 23 March 2017. The Board of Statutory Auditors certifies that the criteria and review procedures used by the Board of Directors to evaluate independence requirements had been correctly adopted. The Board of Statutory Auditors also verified the independence requirements of its members based on the same criteria and communicated such verification to the Board of Directors. In this regard, it is acknowledged that the Boards of Directors' meetings of 16 March 2015, 13 May 2015, 23 March 2016 and 23 March 2017, with reference to members of the controlling body, resolved, without prejudice to the assessment being the responsibility of the Board of Statutory Auditors concerning its composition: (i) to consider it appropriate, in the interest of the Company, not to apply criterion 3.C.1 point e) of the Corporate Governance Code with regard to the Statutory Auditor Alessandro Lai; (ii) to recognise the fulfilment of the requirements of independence pursuant to Article 148, paragraph 3, of the Consolidated Law on Finance and Article 3 of the Corporate Governance Code by all the members of the Board of Statutory Auditors. The individual members of the Board also certify compliance with the limits on the number of offices pursuant to Art. 148-*bis*, paragraph 1 of Italian Legislative Decree 58/98. The members of the Board of Statutory Auditors shared the need, in the case of transactions for which they have an interest on their own behalf or on that of others, to report this situation to the Board of Directors and the other members of the Board itself.

The Company has for some time now adopted a Code of Ethics, an Organisation, Management and Control Model pursuant to Legislative Decree 231/2001 and a Supervisory Board, which also includes the Chairman of the Board of Statutory Auditors.

The Company submits to the General Meeting a Remuneration Report pursuant to Art. 123-*ter* of Italian Legislative Decree 58/1998 and Art. 84-*quater* of Consob Regulation 11971/1999 and in accordance with Annex 3, schemes 7-*bis* and 7-*ter* of said Regulation.

18. The Board of Statutory Auditors, in the course of the verification carried out during the year, did not find omissions, misconduct or serious irregularities and, therefore, does not deem it necessary to make any report to the Controlling Bodies or to the General Meeting as provided for by paragraph 1 of Art. 153 of Legislative Decree 58/98.

19. The Board of Statutory Auditors has no proposal to submit to the General Meeting, pursuant to Art. 153 par. 2 of Legislative Decree 58/98, except as indicated below concerning approval of the financial statements.

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The Board of Statutory Auditors, in light of the considerations made and the aspects under its responsibility, has no reason to object to the approval of the financial statements at 31 December 2016 and adheres to the proposal of the Board of Directors regarding allocation of the operating profit.

Mantova, 7 April 2017.

For the Board of Statutory Auditors - The Chairman

(Alessandro Lai)