GEFRAN GROUP

ANNUAL FINANCIAL REPORT

AT 31 DECEMBER 2017

SUMMARY

NOTICE OF ORDINARY SHAREHOLDERS' MEETING

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

NOTICE OF ORDINARY SHAREHOLDERS' MEETING

The Ordinary Shareholders' Meeting will be held at the registered office of GEFRAN S.p.A., in Via Statale Sebina 74, Provaglio d'Iseo (BS), at 5 p.m. on 24 April 2018 (first call), and if necessary, at the same time and place on 26 April 2018 (second call), to discuss and resolve on the following

AGENDA

Annual financial statements for the year ending 31 December 2017
Approval of the annual financial statements for the year ending 31 December 2017; reports of the Board of Directors, Board of Statutory Auditors and External Auditors
Approval of the distribution of dividends

Appointment of the Board of Statutory Auditors for 2018-2020
2.1 Appointment of the members of the Board of Statutory Auditors
2.2 Determination of the annual fee paid to members of the Board of Statutory Auditors

Appointment of the Honorary Chairman

General Group Remuneration Policy Consultation on the first section of the Remuneration Report, pursuant to paragraph 6, Article 123-*ter* of Legislative Decree 58/1998

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

For the Board of Directors
The Chairman **Ennio Franceschetti**

ANNUAL FINANCIAL REPORT AT 31 DECEMBER 2017

GEFRAN

CHAIRMAN'S LETTER

Dear Shareholders,

When the 2017 financial statements are approved, I will stop chairing the Gefran Board of Directors. Working still excites me and I still have a great desire to do so, but I am aware that I work at an analogue pace in a world that has become digital. I will continue to be present in the company and will follow technological developments closely, discuss matters with management and our professional staff, but without operational responsibilities.

Gefran is going through a particularly favourable period. Its results in 2017 in all business areas, especially sensors, confirm the positive trends of the last few years and are a reason for great satisfaction for those working for the group and for its shareholders.

I am convinced that the virtuous management performance is also the expression of a factor that is as intangible as it is decisive: the team spirit that we have been able to create and disseminate so that everyone is taking part in the company's growth project.

Gefran has come a long way in the fifty years since it started out as a small-scale industrial company, but it still has a lot to say in the market, in Italy and the world. We have built an array of skills and proprietary technologies that few can equal in our country and this has enabled us to grow in the market's esteem and gives us a solid foundation to face competition in different areas. I am sure that, guided by our new chief executive officer, these assets, which are continually growing, will be developed so that we can meet new objectives.

Our journey has been possible because of our fertile collaboration with the academic world as well. I have always believed that intuition, production capability and determination, the qualities that together define an entrepreneur, are not sufficient in and of themselves to ensure a company's lasting success and it is this conviction that led me years ago to open Gefran up to collaboration with universities. This interaction has generated a virtuous circle: our technologies and products have developed with the benefit of academic knowledge and our experience of application has provided academics with valuable elements to guide research. I like to remember that this vision of ours of the relationship between companies and universities is now considered the vital precondition for nourishing the technological and entrepreneurial innovation that our economy needs. One more reason to be proud of working for Gefran!

Ennio Franceschetti

LETTER FROM THE CHIEF EXECUTIVE OFFICER

Dear Shareholders,

This is my first letter to you as CEO of the Gefran Group. Thanks to the trust placed in me by the Franceschetti family, I started this job in May 2017 with pride, determination and the desire to place at the firm's disposal over thirty years of working experience.

I found a very positive environment and a friendly welcome, so that I was able to work well from the start. I joined a team of people with the highest professionalism and competence who seek to contribute to the team spirit and sense of belonging that characterise Gefran and are the foundation of every well-managed company.

The 2017 results were excellent. Revenues grew to 128.6 million euros (+7.8%) and the income statement figures showed remarkable performance: 14.8% for the EBITDA margin (+68%), 8.7% for the EBIT margin (+118%) and 5.3% for net profit (+74%). The results were even more striking from the financial position point of view. The reduction in net working capital and generation of cash have led to a sharp reduction in net debt (from around 13 million euros to 4.8 million) even though investments nearly doubled in 2017 (from 3 to 5.6 million). Gefran shares benefited greatly from the operational results with an annual increase of the share price of 251.6%.

The outstanding balance sheet for 2017 is the result of the restructuring and reorganisation work started a couple of years ago, which is now bearing abundant fruit. The Group has returned to operational and financial efficiency and intends to continue to play a leading role in international industrial automation.

I have started my experience following the furrow made by the excellent work carried out by my predecessor. My vision is based on the concept of sustainability: environmental, social and economic. In Gefran the foundations are laid for sustainable growth: manufacturing has a low environmental impact and for some time the firm has been operating in accordance with best international practices; Gefran can affirm with pride that it has become a national benchmark for innovativeness in organisational management; the economic and financial indicators show its soundness.

The aim is to continue to grow, in Italy and the world, ensuring the company has a future and generating job opportunities and value for shareholders. To do this, I have asked the Board of Directors for authorisation to launch an ambitious three-year plan of investments in technical capital and, above all, in human capital, so that we are able to meet the challenges of a changing world. I consider that our low level of debt enables us both to remunerate shareholders fairly and support the investment plan.

I would like to end with a snapshot of an unforgettable moment: the launch last December of FLY, our Talent Academy. It was truly thrilling to feel our founder’s passion and to bring together the whole team: the experienced people with their sound knowledge and our young colleagues full of enthusiasm. We were able to physically touch the value of an environment built to encourage mutual learning.

Thank you for your attention.

Alberto Bartoli

CORPORATE BODIES

Board of Directors

Chairman and Chief Executive Officer	Ennio Franceschetti
CEO	Alberto Bartoli
Vice Chairman	Maria Chiara Franceschetti
Director	Andrea Franceschetti
Director	Giovanna Franceschetti
Director	Romano Gallus
Director	Mario Benito Mazzoleni (*)
Director	Daniele Piccolo (*)
Director	Monica Vecchiati (*)

Board of Statutory Auditors

Chairman	Marco Gregorini
Standing Auditor	Primo Ceppellini
Standing Auditor	Roberta Dell'Apa
Deputy auditor	Guido Ballerio
Deputy auditor	Rossella Rinaldi

Control and Risks Committee

- Daniele Piccolo
- Mario Benito Mazzoleni
- Monica Vecchiati

Remuneration Committee

- Romano Gallus
- Daniele Piccolo
- Monica Vecchiati

External auditor

PricewaterhouseCoopers S.p.A.

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

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

The **Board of Directors** in office comprises nine members, in accordance with the resolution of the Ordinary Shareholders' Meeting of 20 April 2017, which appointed the members of the Company's management body, described at the beginning of this section. The entire Board will remain in office until the approval of the 2019 financial statements.

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

The Chairman of the Board of Directors is the Company's legal representative, pursuant to Article 21 of the Articles of Association. In its meeting on 20 April 2017 the Board of Directors granted the Chairman Ennio Franceschetti certain powers relating to the ordinary management and strategic coordination of the Company. It also granted powers of legal representation and wide-ranging mandates to the CEO Alberto Bartoli and also granted powers of legal representation combined with some operational mandates to the Vice Chairman Maria Chiara Franceschetti.

The Board of Directors met eight times in 2017.

Control and Risks Committee

The Committee is tasked with supporting, by conducting the appropriate preliminary work, the assessments and decisions of the Board of Directors in relation to the internal control and risk management system, as well as those relating to the approval of interim and annual financial reports. In its meeting of 20 April 2017, the Board of Directors appointed the members of the committee, as set out above.

The Committee met five times in 2017.

Remuneration Committee

The Committee submits proposals or expresses opinions to the Board of Directors on the remuneration of executive directors, other directors with special duties and managers with strategic responsibilities and sets performance objectives associated with the variable component of their remuneration; it also monitors the application of the decisions adopted by the Board, checking in particular that the performance objectives are actually achieved. In its meeting of 20 April 2017, the Board of Directors appointed new members of the committee, as set out on page 11.

Board of Statutory Auditors

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

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

The Board of Statutory Auditors met ten times in 2017.

Management and coordination activities

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

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

KEY CONSOLIDATED INCOME STATEMENT AND STATEMENT OF FINANCIAL POSITION FIGURES

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

Group income statement highlights

(EUR /.000)	31 December 2017		31 December 2016		Q4 2017		Q4 2016	
Revenues	128,639	100.0%	119,330	100.0%	34,488	100.0%	30,763	100.0%
EBITDA	19,039	14.8%	11,324	9.5%	5,476	15.9%	3,727	12.1%
EBIT	11,149	8.7%	5,115	4.3%	2,889	8.4%	2,192	7.1%
Profit (loss) before tax	8,905	6.9%	4,297	3.6%	1,824	5.3%	2,359	7.7%
Result from operating activities	6,677	5.2%	3,462	2.9%	595	1.7%	2,947	9.6%
Profit (loss) from assets held for sale	187	0.1%	486	0.4%	187	0.5%	0	0.0%
Group net profit (loss)	6,864	5.3%	3,948	3.3%	782	2.3%	2,947	9.6%

Group income statement highlights, excluding non-recurring items

(EUR /.000)	31 December 2017		31 December 2016		Q4 2017		Q4 2016	
Revenues	128,639	100.0%	118,655	100.0%	34,488	100.0%	30,609	100.0%
EBITDA	19,360	15.0%	12,513	10.5%	5,476	15.9%	3,398	11.1%
EBIT	11,470	8.9%	6,304	5.3%	2,889	8.4%	1,863	6.1%
Profit (loss) before tax	9,226	7.2%	5,486	4.6%	1,824	5.3%	2,030	6.6%
Result from operating activities	6,998	5.4%	4,651	3.9%	595	1.7%	2,618	8.6%
Profit (loss) from assets held for sale	187	0.1%	486	0.4%	187	0.5%	0	0.0%
Group net profit (loss)	7,185	5.6%	5,137	4.3%	782	2.3%	2,618	8.6%

Group statement of financial position highlights

(EUR /.000)	31 December 2017	31 December 2016
Invested capital from operations	73,477	78,612
Net working capital	30,621	35,754
Shareholders' equity	69,911	66,908
Net financial position	(4,780)	(12,918)
Operating cash flow	21,337	15,907
Investments	5,641	2,965

ALTERNATIVE PERFORMANCE INDICATORS

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

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

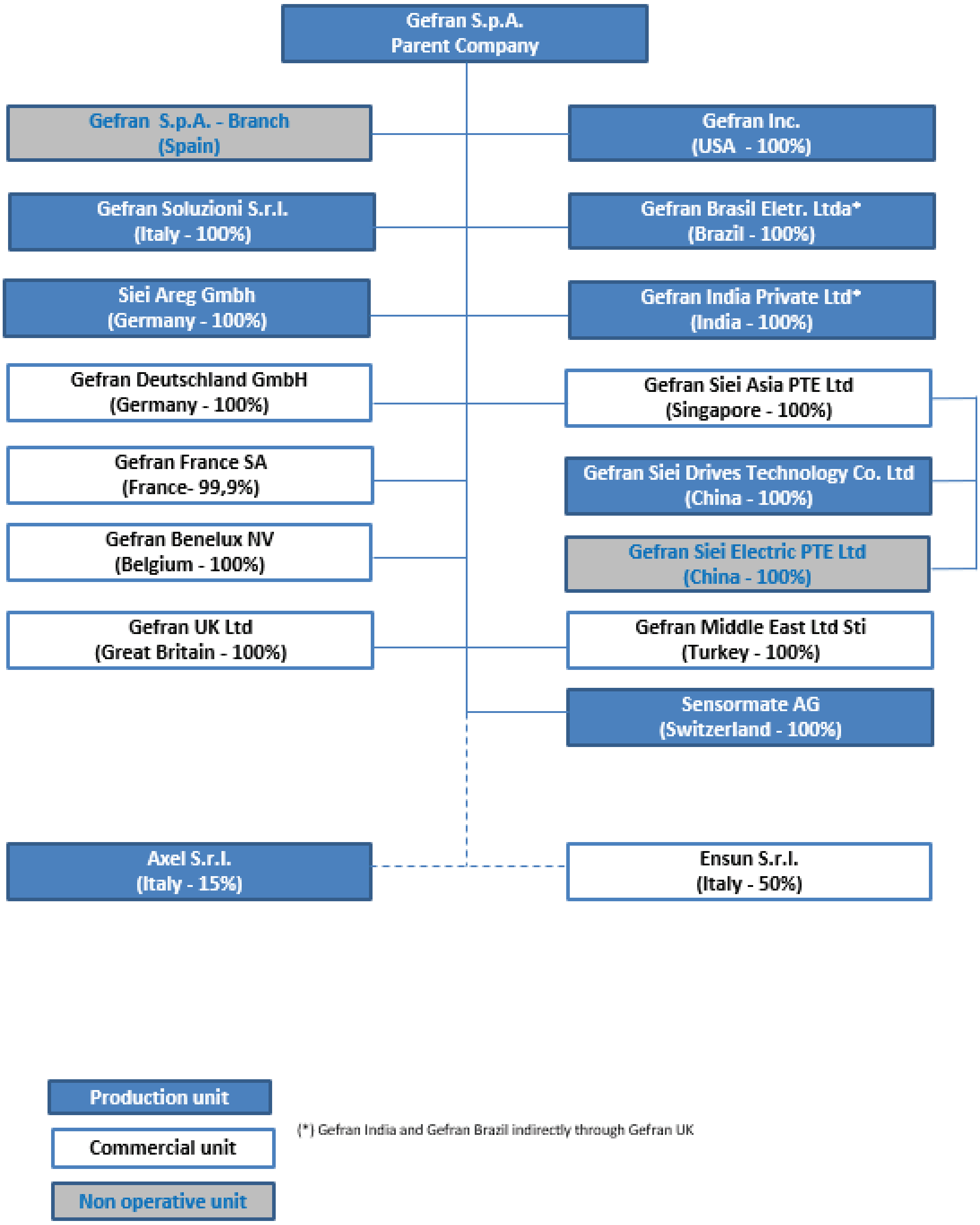
- **Added value**: the direct margin resulting from revenues, including only direct material, gross of other production costs, such as personnel costs, services and other sundry costs;
- **EBITDA**: operating result before depreciation, amortisation and impairment. The purpose of this indicator is to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

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

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

REPORT ON OPERATIONS

1. STRUCTURE OF THE GEFRAN GROUP



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

2. GEFRAN GROUP ACTIVITIES

The Gefran Group operates in three main business areas: Industrial Sensors, Automation Components and Motion Control for the electronic control of electric motors.

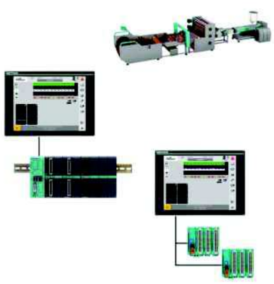
The Group offers a complete range of products and tailored turnkey solutions in numerous automation sectors. 71% of its revenues are generated abroad.

Sensors

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

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

Automation components



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

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

Motion control

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

Through the integration of advanced capabilities and flexible hardware and software configurations, Gefran provides advantageous solutions for customers and target markets, optimising both technology and costs. The motion control business generates 69% of its revenues abroad.

3. BREAKDOWN OF THE MAIN ACTIVITIES AMONG GROUP COMPANIES

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

A brief description of Gefran S.p.A. and the Gefran Group subsidiaries included in the scope of consolidation, with their main characteristics at 31 December 2017, is provided below.

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

Gefran Soluzioni S.r.l., with its registered office in Provaglio d'Iseo (BS), is 100% directly controlled by the Parent Company. It was created in April 2015 by the spin-off of the company branch of Gefran S.p.A. that designs and produces systems and panels for industrial automation. It took on its current form in 2016, with the transfer of activities relating to programmable automation from the Parent Company Gefran S.p.A..

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

Gefran France S.A., with its registered office in Saint-Priest, France, is 99.9% directly controlled by the Parent Company. It sells the Gefran Group's sensors and automation components products in France.

Gefran Brasil Eletroelectronica Ltda, with its registered office in Sao Paulo, Brazil, is 99.9% controlled by the Parent Company, with the remaining 0.1% controlled indirectly through Gefran UK. Gefran Brasil sells sensors and automation components products and produces regulators and static units for the local market.

Gefran Deutschland GmbH, with its registered office in Seligenstadt, Germany, is 100% controlled by the Parent Company. Gefran Deutschland is dedicated to selling sensors and automation components in Germany, Europe's largest market for equipment manufacturers.

Gefran Benelux NV, with its registered office in Geel, Belgium, is 100% directly controlled by the Parent Company. In addition to the Gefran sensors and automation components, it also sells dedicated systems for the oil installations sector.

Sensormate AG, with its registered office in Aadorf, Switzerland, is 100% directly controlled by the Parent Company. It was acquired in 2013 and took on its current form in 2014, after the merger with Gefran Suisse S.A. It produces strategically important load cells and sensors, which supplement the Group's other products in the business. It sells the entire Gefran product range in Switzerland.

Gefran UK Ltd, with its registered office in Warrington, UK, is 100% directly controlled by the Parent Company. Gefran UK focuses on the sale of sensors and automation components in the UK.

Siei Areg GmbH, with its registered office in Pleidelsheim, Germany, is 100% controlled by the Parent Company. The company produces and sells small-scale electric motors with integrated drive. It also sells motion control business products in Germany and northern European countries.

Gefran Siei Asia Pte Ltd, with its registered office in Singapore, is 100% controlled by the Parent Company and distributes Gefran products in South-East Asia.

Gefran Siei Drives Technology Co. Ltd, with its registered office in Shanghai, China, is 100% controlled by Gefran Siei Asia, and indirectly by Gefran S.p.A. Since 2004 it has assembled low-power drives for the lifting market and, since 2009, it has produced a line of sensors, mainly for the local market.

Gefran Siei Electric Pte Ltd, with its registered office in Shanghai, China, is 100% controlled by Gefran Siei Asia, and indirectly by Gefran S.p.A. The company has been in liquidation since the beginning of 2009.

Gefran India Private Ltd, with its registered office in Pune, India, is 95% directly controlled by the Parent Company, with the remaining 5% controlled indirectly through Gefran UK. The company distributes Gefran products in India. Since 2016, it has assembled motion control products for the Indian lifting market.

Gefran Middle East elektrik ve elektronik san. Ve Tic. Ltd. Şti, with its registered office in Istanbul (Turkey) and 100% controlled by the Parent Company, was incorporated in October 2013 to sell the full range of Gefran products in Turkey.

The main associated companies at 31 December 2017 include:

Ensun S.r.l., with its registered office in Brescia, is 50% controlled by Gefran S.p.A. The company operates in the renewable energy sector, particularly in the photovoltaic systems management business.

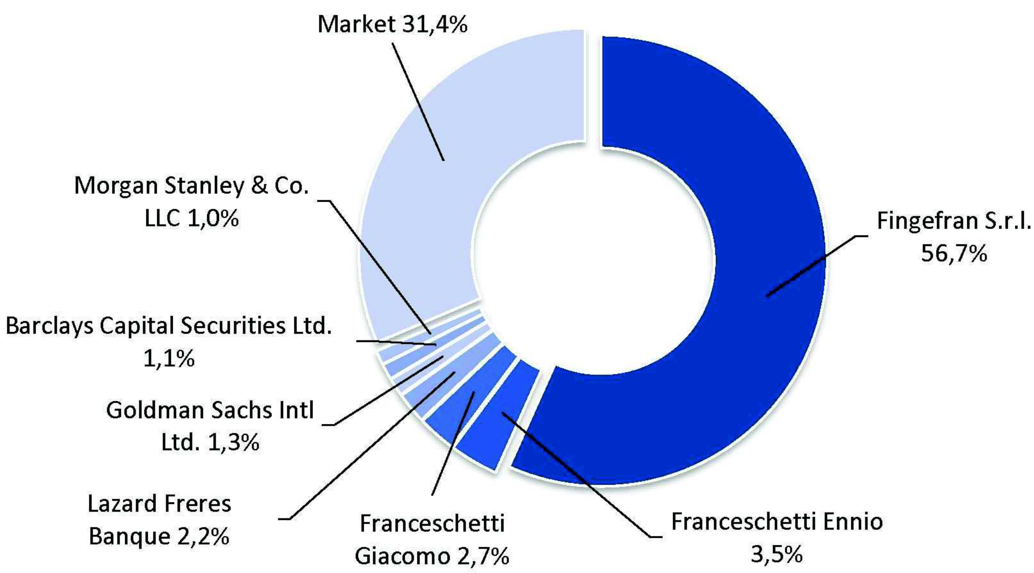
Axel S.r.l., based in Dandolo (VA), produces and sells application software for industrial automation. Gefran currently has a 15% stake in it, following the sale of the 15% in July 2017.

4. SHAREHOLDERS AND STOCK PERFORMANCE

On 31 December 2017, the subscribed and paid-up share capital was EUR 14,400,000.00, divided into 14,400,000 ordinary shares, with a nominal value of EUR 1.00 per share. No further financial instruments have been issued.

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

Gefran S.p.A. shareholder structure

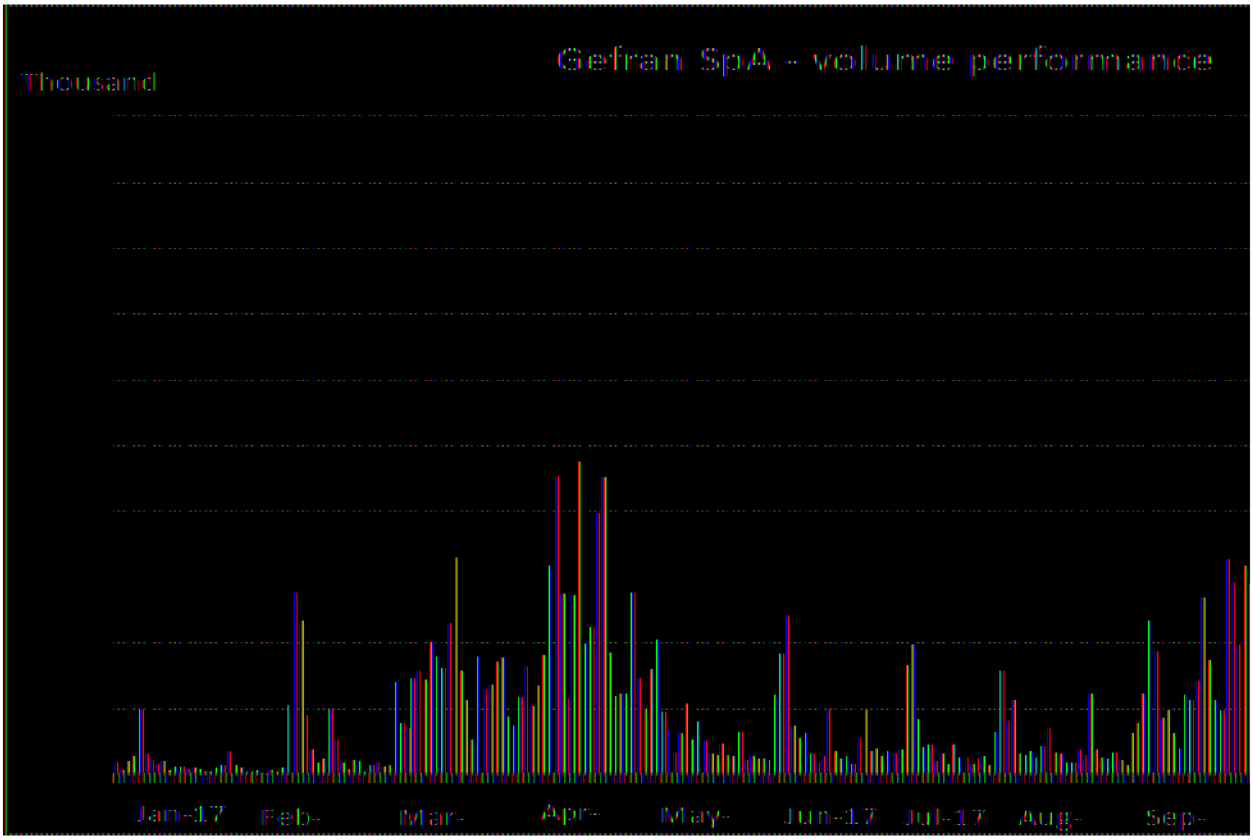


Gefran S.p.A. has been listed on the Italian Stock Exchange since 9 June 1998, and since 2001, it has been part of the FTSE Italia STAR segment, dedicated to companies with small and medium-sized capitalisations that meet specific requirements relating to transparency, liquidity and corporate governance.

The positive performance of Gefran shares, which began in 2016, continued throughout 2017, when the share price reached high levels, not only in value, touching its historic maximum at EUR 14.20 in October, but also in volumes traded, with a daily average of 187,901 and a maximum in October 2017 of 1,842,464.

Gefran shares increased their value on an annual basis by 251.63% and this increase is even more significant when compared with the reference index (+ 34%).

Minimum value (2 January): EUR 2.785 – Max value (2 October): EUR 14.20 – Average price: EUR 9.93



5. GEFRAN CONSOLIDATED RESULTS

5.1. CONSOLIDATED INCOME STATEMENT OF THE QUARTER

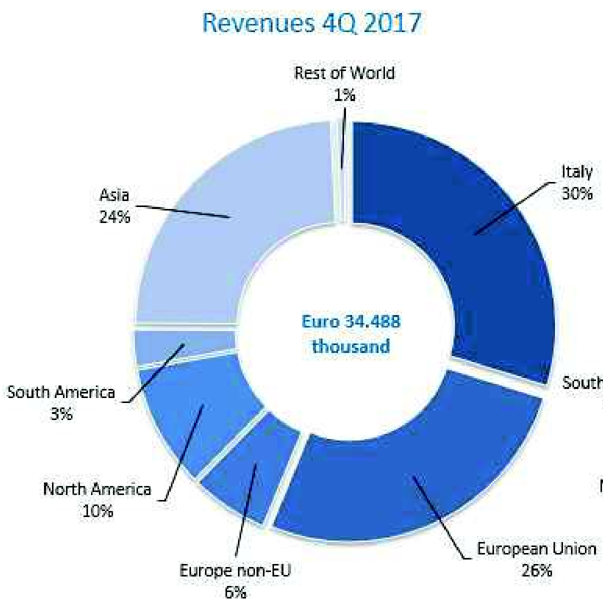
	(EUR /.000)	Q4 2017 Excl. non-rec.	Q4 2017 Incl. non-rec.	Q4 2017 Total	Q4 2016 Excl. non-rec.	Q4 2016 Incl. non-rec.	Q4 2016 Total	Change 2017-2016 Value excl. non-rec.	Change 2017-2016 %
a	Revenues	34,488	0	34,488	30,609	(154)	30,763	3,879	12.7%
b	Increases for internal work	187		187	240		240	(53)	22.1%
c	Consumption of materials and products	11,578		11,578	11,245		11,245	333	3.0%
d	Added value (a+b-c)	23,097	0	23,097	19,604	(154)	19,758	3,493	17.8%
e	Other operating costs	5,617		5,617	5,173		5,173	444	8.6%
f	Personnel costs	12,004	0	12,004	11,033	175	10,858	971	8.8%
g	EBITDA (d-e-f)	5,476	0	5,476	3,398	(329)	3,727	2,078	61.2%
h	Depreciation, amortisation and impairment	2,587		2,587	1,535		1,535	1,052	68.5%
i	EBIT (g-h)	2,889	0	2,889	1,863	(329)	2,192	1,026	55.1%
l	Gains (losses) from financial assets/liabilities	(1,238)		(1,238)	177		177	(1,415)	799.4%
m	Gains (losses) from shareholdings valued at equity	173		173	(10)		(10)	183	1830.0%
n	Profit (loss) before tax (i±l±m)	1,824	0	1,824	2,030	(329)	2,359	(206)	10.1%
o	Taxes	(1,229)		(1,229)	588		588	(1,817)	309.0%
p	Result from operating activities (n±o)	595	0	595	2,618	(329)	2,947	(2,023)	77.3%
q	Profit (loss) from assets held for sale	187		187	0		0	187	
r	Group net profit (loss) (p±q)	782	0	782	2,618	(329)	2,947	(1,836)	70.1%

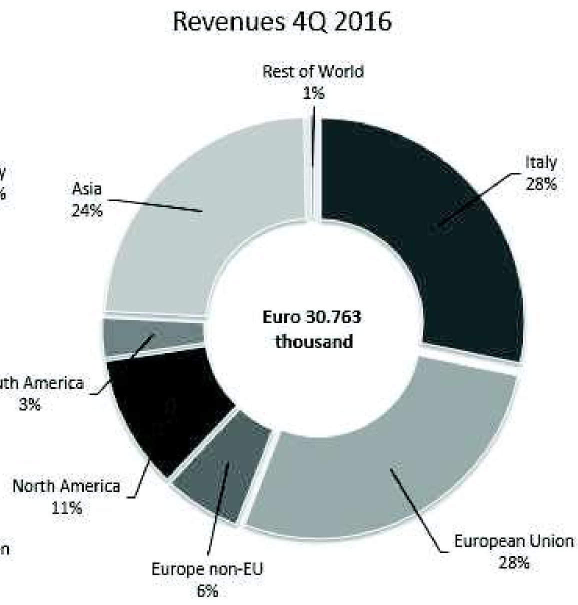
For the fourth quarter of 2017, **revenues** were EUR 34,488 thousand, an increase of EUR 3,725 thousand or 12.1% on the same period in 2016, thanks to the positive results recorded in all the geographical regions the Group operates in. Revenues for the fourth quarter of 2016 included government grants recorded by the Chinese branch, amounting to EUR 154 thousand, relating to incentives for research and development granted to technology companies; net of these grants, the growth in the quarter came to 12.7% compared with the fourth quarter in 2016.

New orders in the fourth quarter confirmed the growth compared with the same period in 2016, recording a significant increase (+25%).

The following table shows revenues by geographical region:

(EUR / 000)	Q4 2017 value	Q4 2017 %	Q4 2016 value	Q4 2016 %	Change 2017-2016 value	Change 2017-2016 %
Italy	10,271	29.8%	8,689	28.2%	1,582	18.2%
European Union	9,125	26.5%	8,506	27.7%	619	7.3%
Europe non-EU	2,129	6.2%	1,884	6.1%	245	13.0%
North America	3,373	9.8%	3,266	10.6%	107	3.3%
South America	1,010	2.9%	969	3.1%	41	4.2%
Asia	8,344	24.2%	7,332	23.8%	1,012	13.8%
Rest of the World	236	0.7%	117	0.4%	119	101.7%
Total	**34,488**	**100%**	**30,763**	**100%**	**3,725**	**12.1%**





The breakdown by **geographical region** shows growth in all the Group's strategic regions, especially in Italy (+18.2%), Asia (+13.8%) and non-EU Europe (+13%).

The table below shows the breakdown of revenues by business area in the fourth quarter of 2017 and a comparison with the same period of the previous year:

(EUR /.000)	Q4 2017		Q4 2016		Change 2017-2016	
	value	%	value	%	value	%
Sensors	15,101	43.8%	13,011	42.3%	2,090	16.1%
Automation Components	9,259	26.8%	8,301	27.0%	958	11.5%
Motion Control	11,330	32.9%	10,307	33.5%	1,023	9.9%
Eliminations	(1,202)	-3.5%	(856)	-2.8%	(346)	40.4%
Total	**34,488**	**100%**	**30,763**	**100%**	**3,725**	**12%**

The breakdown of **revenues by business area** shows growth over the same period of 2016 that involved all businesses, amounting to EUR 2,090 thousand (+16.1%) for sensors, EUR 958 thousand (+11.5%) for automation components, and EUR 1,023 thousand (+9.9%) for motion control, respectively.

EBITDA in the fourth quarter was EUR 5,476 thousand (EUR 3,727 thousand in the fourth quarter of 2016) and accounted for 15.9% of revenues (12.1% in 2016), up therefore by EUR 1,749 thousand compared with the fourth quarter of 2016, mainly due to the increase in revenues and overall increase in margins achieved, only partially offset by inventory write-downs, up by EUR 1,028 thousand.

EBIT for the fourth quarter of 2017 was positive at EUR 2,889 thousand or 8.4% of revenues, compared to an EBIT of EUR 2,192 thousand or 7.1% of revenues in the fourth quarter of 2016, an increase of EUR 697 thousand.

Net financial charges totalled EUR 1,238 thousand in the fourth quarter of 2017, compared with net financial income of EUR 177 thousand in the same period of 2016. They include financial charges of EUR 1,049 thousand for late payment of foreign taxes, and charges of EUR 118 thousand linked to the Group's debts, financial income of EUR 39 thousand and the negative balance of EUR 110 thousand for differences from currency transactions.

Income from **shareholdings valued at equity** was EUR 173 thousand (charges of EUR 10 thousand in the fourth quarter of 2016), and mainly relate to the positive pro-rata result of the Ensun S.r.l. Group.

Taxes for the fourth quarter of 2017 were negative and totalled EUR 1,229 thousand, including EUR 1,839 thousand for foreign taxes for previous financial years; this compared with positive taxes of EUR 588 thousand for the fourth quarter of 2016, which included deferred tax assets on previous tax losses incurred by the Parent Company Gefran S.p.A. of EUR 1,101 thousand.

Group net profit was EUR 782 thousand, compared with a profit of EUR 2,947 thousand in the same period of 2016.

5.2. CONSOLIDATED INCOME STATEMENT YEAR-TO-DATE

The main income statement items and comments are shown below.

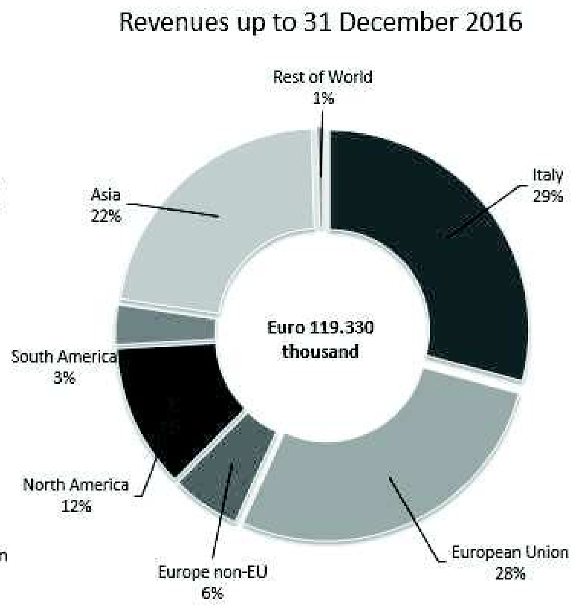
		31 December 2017			31 December 2016			Change 2017-2016	
	(EUR /.000)	Excl. non-rec.	Incl. non. rec.	Total	Excl. non-rec.	Incl. non rec.	Total	Value excl. non-rec.	%
a	Revenues	128,639	0	128,639	118,655	(675)	119,330	9,984	8.4%
b	Increases for internal work	610		610	1,119		1,119	(509)	45.5%
c	Consumption of materials and products	43,745		43,745	41,726		41,726	2,019	4.8%
d	Added value (a+b-c)	85,504	0	85,504	78,048	(675)	78,723	7,456	9.6%
e	Other operating costs	22,165		22,165	22,052		22,052	113	0.5%
f	Personnel costs	43,979	(321)	44,300	43,483	(1,864)	45,347	496	1.1%
g	EBITDA (d-e-f)	19,360	321	19,039	12,513	1,189	11,324	6,847	54.7%
h	Depreciation, amortisation and impairment	7,890		7,890	6,209		6,209	1,681	27.1%
i	EBIT (g-h)	11,470	321	11,149	6,304	1,189	5,115	5,166	81.9%
l	Gains (losses) from financial assets/liabilities	(2,400)		(2,400)	(823)		(823)	(1,577)	191.6%
m	Gains (losses) from shareholdings valued at equity	156		156	5		5	151	3020.0%
n	Profit (loss) before tax (i±l±m)	9,226	321	8,905	5,486	1,189	4,297	3,740	68.2%
o	Taxes	(2,228)		(2,228)	(835)		(835)	(1,393)	166.8%
p	Result from operating activities (n±o)	6,998	321	6,677	4,651	1,189	3,462	2,347	50.5%
q	Profit (loss) from assets held for sale	187		187	486		486	(299)	61.5%
r	Group net profit (loss) (p±q)	7,185	321	6,864	5,137	1,189	3,948	2,048	39.9%

Revenues at 31 December 2017 came to EUR 128,639 thousand, compared with EUR 119,330 thousand in 2016. Revenues in 2016 included EUR 675 thousand for non-recurring amounts resulting from government grants awarded to the Chinese subsidiary and relating to incentives for research and development granted to technology companies. Stripping out these items, growth of revenues was EUR 9,984 thousand (+8.4%).

New orders during the year rose by around 9% from the figure in the same period of 2016, and the order book also rose by around 20% compared with the end of December 2016.

The following table shows revenues by geographical region:

(EUR / 000)	31 December 2017 value	31 December 2017 %	31 December 2016 value	31 December 2016 %	Change 2017-2016 value	Change 2017-2016 %
Italy	37,593	29.2%	34,794	29.2%	2,799	8.0%
European Union	34,397	26.7%	33,065	27.7%	1,332	4.0%
Europe non-EU	7,199	5.6%	6,672	5.6%	527	7.9%
North America	14,068	10.9%	13,929	11.7%	139	1.0%
South America	4,392	3.4%	3,883	3.3%	509	13.1%
Asia	30,237	23.5%	26,377	22.1%	3,860	14.6%
Rest of the World	753	0.6%	610	0.5%	143	23.4%
Total	**128,639**	**100%**	**119,330**	**100%**	**9,309**	**7.8%**



The breakdown of revenues by **geographical region** shows widespread growth in all geographical regions: the increases in Asia (+14.6%), South America (+13.1%), Italy (+8%) and non-EU Europe (+7.9%) were all significant. The growth distributed across all geographical regions is due specifically to the positive trend that marked the Gefran Group's core sectors.

Revenues by business area at 31 December 2017 and a comparison with the previous year are shown below.

(EUR /.000)	31 December 2017 value	31 December 2017 %	31 December 2016 value	31 December 2016 %	Change 2017-2016 value	Change 2017-2016 %
Sensors	58,437	45.4%	50,069	42.0%	8,368	16.7%
Automation Components	35,743	27.8%	32,435	27.2%	3,308	10.2%
Motion Control	38,675	30.1%	40,217	33.7%	(1,542)	-3.8%
Eliminations	(4,216)	-3.3%	(3,391)	-2.8%	(825)	24.3%
Total	**128,639**	**100%**	**119,330**	**100%**	**9,309**	**7.8%**

The distribution of **revenues by business area** in 2017 shows growth over the same period of 2016 that was particularly strong for sensors (EUR 8,368 thousand, +16.7%) and for automation components (EUR

3,308 thousand, +10.2%), thanks to growth in demand in the traditional core market. The motion control business ended the year with revenues less than on 31 December 2016 of EUR 1,542 thousand (-3.8%), a decrease which, although a feature of the year, was significantly mitigated in the fourth quarter of 2017.

Increases for internal work at 31 December 2017 came to EUR 610 thousand, compared with EUR 1,119 thousand at 31 December 2016. This item mainly concerns the share of development costs incurred during the period and capitalised; for more details on research and development see section 9 of this report.

Added value was EUR 85,504 thousand at 31 December 2017 (EUR 78,723 thousand at 31 December 2016), equivalent to 66.5% of revenues (66% in 2016). The EUR 6,781 thousand growth compared with the previous year was achieved thanks to a rise in volumes accounting for EUR 6,356 and an improvement in the margins achieved on sales of EUR 1,544 thousand, partly offset by a write-down of inventory of EUR 610 thousand and a reduction in capitalisations for research and development of EUR 509 thousand.

Stripping out non-recurring items, which had a positive impact of EUR 675 thousand at 31 December 2016, added value for 2017 was higher compared to the same period of 2016 by EUR 7,456 thousand (+9.6%).

Other operating costs at 31 December 2017 were completely in line in terms of absolute value with their value at 31 December 2016 (EUR 22,165 thousand in 2017 and EUR 22,052 thousand at 31 December 2016), but the percentage of revenues of operating costs fell from 18.5% in 2016 to 17.2% in the current year, confirming the efficiency of internal processes that let the increase in revenues be absorbed without a corresponding increase, in particular, of variable costs.

Personnel costs were EUR 44,300 thousand at 31 December 2017 (34.4% of revenues), compared with EUR 45,347 thousand at 31 December 2016 (38.0% of revenues). The reduction for the period of EUR 1,047 thousand reflects the positive effect of the significant reorganisation of the Group subsidiaries and of Gefran S.p.A., which began at the end of 2015 and was completed in early 2017.

Net of the non-recurring items related to the restructuring process, which were negative overall and equal to EUR 321 thousand at 31 December 2017 and EUR 1,864 thousand for 2016, personnel costs were respectively EUR 43,979 thousand (34.2% of revenues) and EUR 43,483 thousand (36.6% of revenues).

EBITDA for 2017 was positive at EUR 19,039 thousand (EUR 11,324 thousand at 31 December 2016) and amounted to 14.8% of revenues (9.5% in 2016), an increase over 2016 of EUR 7,715 thousand in absolute value and 5.3 percentage points. The growth is due mainly to the increase in added value, related to the growth of volumes and margins, as described above.

Depreciation, amortisation and impairment totalled EUR 7,890 thousand at 31 December 2017 compared with a value of EUR 6,209 thousand at 31 December 2016; the increase is due to the increase from investments made during 2017 and to impairments of assets to adjust their carrying value to their fair value.

EBIT was positive at EUR 11,149 thousand at 31 December 2017 (8.7% of revenues), compared with an EBIT of EUR 5,115 thousand in December 2016.

Stripping out the non-recurring items, which were negative and amounted to EUR 321 thousand at 31 December 2017 and EUR 1,189 thousand at 31 December 2016, EBIT for the year was EUR 11,470 thousand (8.9% of revenues), up compared with the 2016 figure of EUR 5,166 thousand. The EBIT performance mirrored the dynamics of the EBITDA performance.

Charges from financial assets/liabilities at 31 December 2017 were EUR 2,400 thousand (EUR 823 thousand at 31 December 2016) and include:

- financial income of EUR 125 thousand (EUR 239 thousand at 31 December 2016);
- financial charges, mainly relating to Group debt of EUR 500 thousand (EUR 829 thousand in 2016), down thanks to the downsizing of medium-/long-term financial debt, and to the reduction in average spreads on the loans;
- differences on currency transactions were negative at EUR 976 thousand, compared with the also negative figure of EUR 234 thousand in 2016;
- financial charges for late payment of foreign taxes of EUR 1,049 thousand.

Gains from shareholdings valued at equity were EUR 156 thousand, an increase compared with 31 December 2016, when they amounted to EUR 5 thousand. This increase mainly relates to the pro-rata result of the Ensun S.r.l. Group.

Current and deferred **tax** assets and liabilities were negative and totalled EUR 2,228 thousand at 31 December 2017, compared with an also negative figure of EUR 835 thousand in 2016. They comprise negative current taxes of EUR 2,229 thousand, up EUR 150 thousand compared with 2016, positive deferred taxes amounting to EUR 1,839 thousand (EUR 1,245 thousand at 31 December 2016) originating mainly from the recognition of deferred tax assets calculated on previous tax losses, after updating the estimated recoverability of these based on the three-year plan for 2018-2020, and EUR 1,839 thousand for foreign taxes from previous years.

The **result from operating activities** at 31 December 2016 was positive and amounted to EUR 6,677 thousand, compared with a positive figure of EUR 3,462 thousand in 2016.

Stripping out all non-recurring items, the result from operating activities was positive and amounted to EUR 6,998 thousand, an improvement of EUR 2,347 thousand compared with 2016, and accounted for 5.4% of revenues.

The **profit from assets held for sale** at 31 December 2017 was positive and amounted to EUR 187 thousand; it relates to the recognition of the remaining ancillary costs for the sale of the user licence and resulting release of the previous provision made based on an estimate of the necessary costs. The agreement royalties have not been valued, since tangible elements that enable pertinent valuations are not available.

The figure compares with the positive result of EUR 486 thousand in 2016, which included the profit from the sale of the company branch distributing sensors and automation components in Spain and Portugal to a Spanish dealer of EUR 486 thousand and the net effect of entering into the agreement to sell the licence for the production and sale of string inverters to an Indian group. In detail, this income, derived from the sale of the licence, amounts to EUR 400 thousand and is recorded net of the costs incurred by Gefran for the sale, which at 31 December 2016 were estimated as EUR 400 thousand.

The **Group net profit** was EUR 6,864 thousand in 2017, compared with a net profit of EUR 3,948 thousand in 2016, an improvement of EUR 2,916 thousand.

Excluding the impact of the non-recurring items, the Group made a net profit of EUR 7,185 thousand at 31 December 2017, an improvement on 2016 of EUR 2,048 thousand.

5.3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Gefran Group's reclassified consolidated balance sheet at 31 December 2016 is shown below.

GEFRAN GROUP	31 December 2017		31 December 2016	
(EUR /.000)	value	%	value	%
Intangible assets	12,605	16.9	14,353	18.0
Tangible assets	35,563	47.6	36,931	46.3
Other non-current assets	11,733	15.7	10,176	12.7
Net non-current assets	59,901	80.2	61,460	77.0
Inventories	20,264	27.1	21,589	27.0
Trade receivables	29,386	39.3	30,745	38.5
Trade payables	(19,029)	(25.5)	(16,580)	(20.8)
Other assets/liabilities	(9,554)	(12.8)	(9,925)	(12.4)
Working capital	21,067	28.2	25,829	32.4
Provisions for risks and future liabilities	(1,752)	(2.3)	(2,460)	(3.1)
Deferred tax provisions	(647)	(0.9)	(1,005)	(1.3)
Employee benefits	(5,092)	(6.8)	(5,212)	(6.5)
Invested capital from operations	73,477	98.4	78,612	98.5
Invested capital from assets held for sale	1,214	1.6	1,214	1.5
Net invested capital	**74,691**	**100.0**	**79,826**	**100.0**
Shareholders' equity	69,911	93.6	66,908	83.8
Non-current financial payables	13,933	18.7	16,045	20.1
Current financial payables	14,999	20.1	17,134	21.5
Financial liabilities for derivatives	76	0.1	220	0.3
Financial assets for derivatives	(56)	(0.1)	(4)	(0.0)
Non-current financial assets	(166)	(0.2)	-	-
Cash and cash equivalents and current financial receivables	(24,006)	(32.1)	(20,477)	(25.7)
Net debt relating to operations	4,780	6.4	12,918	16.2
Total sources of financing	**74,691**	**100.0**	**79,826**	**100.0**

Net **non-current assets** at 31 December 2017 were EUR 59,901 thousand, compared with EUR 61,460 thousand at 31 December 2016. The main changes were as follows:

- Intangible assets registered an overall decrease of EUR 1,748 thousand. This includes increases for new investments (EUR 375 thousand) and the capitalisation of development costs (EUR 584 thousand), as well as decreases due to amortisation for the period (EUR 2,344 thousand) and the negative effect of exchange rate differences on goodwill and other intangible assets (EUR 383 thousand);
- Tangible assets decreased by EUR 1,368 thousand compared with 31 December 2016. Depreciation and impairment totalled EUR 5,566 thousand, in addition to which there were net decreases for disposals (EUR 60 thousand) and negative exchange rate differences (EUR 424 thousand), partly offset by investments for the period (EUR 4,682 thousand);
- Other non-current assets totalled EUR 11,733 thousand at 31 December 2017 (EUR 10,176 thousand at 31 December 2016), an increase of EUR 1,557 thousand. This change is essentially

attributable to the increase in deferred tax assets of EUR 1,546 thousand, of which EUR 1,626 thousand was for the recognition of tax losses whose recovery is envisaged within the next three years.

Working capital was EUR 21,067 thousand at 31 December 2017, compared with EUR 25,829 thousand at 31 December 2016, an overall decrease of EUR 4,762 thousand. The main changes were as follows:

- Inventories fell from EUR 21,589 thousand at 31 December 2016 to EUR 20,264 thousand at 31 December 2017. The decrease of EUR 1,325 thousand is essentially attributable to the reduction in inventories of raw materials and finished products;
- Trade receivables totalled EUR 29,386 thousand, a decrease of EUR 1,359 thousand compared with 31 December 2016, due to the decrease in the incidence of payment delays beyond the contractual conditions combined with a reduction in the average collection period;
- Trade payables amounted to EUR 19,029 thousand, an increase of EUR 2,449 thousand compared with 31 December 2016, primarily because of investments made during the last quarter;
- Other net assets and liabilities, which were negative at EUR 9,554 thousand at 31 December 2017, were in line with the value at 31 December 2016, when they amounted to EUR 9,925 thousand; they include employee and social security payables for amounts due in December, and receivables and payables for direct and indirect taxes.

Provisions for risks and future liabilities were EUR 1,752 thousand, a decrease of EUR 708 thousand from 31 December 2016. These include provisions for legal disputes in progress and miscellaneous risks. The change is due to the use of provisions made in the previous year, particularly by the Parent Company.

Employee benefits totalled EUR 5,092 thousand, down from EUR 5,212 thousand at 31 December 2016. They primarily include the provision for post-employment benefit reserve for Italian companies and the provision for non-competition agreements, signed with some employees of the Italian companies. Both the provisions were subject to actuarial valuations.

Shareholders' equity at 31 December 2017 was EUR 69,911 thousand, compared with EUR 66,908 thousand at 31 December 2016. The increase comes from the profit for the period of EUR 6,864 thousand, partially absorbed by the payment of dividends using the EUR 3,600 thousand profits made in 2016.

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

(EUR /.000)	31 December 2017		31 December 2016	
	Shareholders' equity	Result for the period	Shareholders' equity	Result for the period
Parent Company shareholders' equity and operating result	**61,398**	**8,448**	**55,059**	**8,196**
Shareholders' equity and operating result of the consolidated companies	34,729	160	37,634	605
Elimination of the carrying value of consolidated investments	(28,577)	390	(27,887)	1,252
Goodwill	3,717	0	3,779	0
Elimination of the effects of transactions conducted between consolidated companies	(1,356)	(2,134)	(1,677)	(6,105)
Group share of shareholders' equity and operating result	**69,911**	**6,864**	**66,908**	**3,948**
Minorities' share of shareholders' equity and operating result	0	0	0	0
Shareholders' equity and operating result	**69,911**	**6,864**	**66,908**	**3,948**

The **net financial position** at 31 December 2017 was negative at EUR 4,780 thousand, an improvement of EUR 8,138 thousand compared with 31 December 2016. It breaks down as follows:

(EUR / 000)	31 December 2017	31 December 2016	Change
Cash and cash equivalents and current financial receivables	24,006	20,477	3,529
Current financial payables	(14,999)	(17,134)	2,135
Financial liabilities for derivatives	(76)	(220)	144
Financial assets for derivatives	56	4	52
(Debt)/short-term cash and cash equivalents	**8,987**	**3,127**	**5,860**
Non-current financial assets	166	-	166
Non-current financial payables	(13,933)	(16,045)	2,112
(Debt)/medium-/long-term cash and cash equivalents	**(13,767)**	**(16,045)**	**2,278**
Net financial position	**(4,780)**	**(12,918)**	**8,138**

Net financial debt comprises short-term cash and cash equivalents of EUR 8,987 thousand and medium-/long-term debt of EUR 13,767 thousand.

During the year two new loans were taken out, for a total amount of EUR 11 million, both at variable rate, with a spread of less than 1% and without financial covenants. In addition, EUR 13 million was repaid, including the early pay-off of three loans amounting to EUR 4 million, taken out in 2013 and 2015, with spreads of more than 2% and with financial covenants.

The change in net financial position was mainly due to positive cash flows from ordinary operations (EUR 21,337 thousand), partially mitigated by technical investments (EUR 5,641 thousand) and by dividends paid (EUR 3,600 thousand).

The Gefran Group's **consolidated cash flow statement** at 31 December 2017 showed a positive net change in cash at hand of EUR 3,530 thousand, compared with a negative change of EUR 4,125 thousand in 2016. The change was as follows:

(EUR /.000)	31 December 2017	31 December 2016
A) Cash and cash equivalents at the start of the period	20,477	24,602
B) Cash flow generated by (used in) operations in the period:	21,337	15,907
C) Cash flow generated by (used in) investment activities	(5,355)	(2,984)
D) Free Cash Flow (B+C)	15,982	12,923
E) Cash flow generated by (used in) financing activities	(11,758)	(17,428)
F) Cash flow from continuing operations (D+E)	4,224	(4,505)
G) Cash flow from assets held for sale	0	626
H) Exchange translation differences on cash at hand	(695)	(246)
I) Net change in cash at hand (F+G+H)	3,529	(4,125)
J) Cash and cash equivalents at the end of the period (A+I)	24,006	20,477

The cash flow from operations in the period came to a positive balance of EUR 21,337 thousand; specifically, operations in 2017, net of the effect of provisions, amortisation and depreciation and financial items, generated cash of EUR 17,676 thousand (EUR 12,052 at 31 December 2016), while the decrease in working capital in the same period generated a negative cash flow of EUR 3,661 thousand.

Technical investments amounted to EUR 5,641 thousand, a rise of EUR 2,676 thousand compared with EUR 2,965 thousand at 31 December 2016.

Free cash flow (operating cash flow excluding investment activities) was positive at EUR 15,982 thousand, compared with an again positive figure of EUR 12,923 thousand in 2016, an improvement therefore of EUR 3,059 thousand mainly owing to the additional flows generated by operations during the period.

Financing activities absorbed cash amounting to EUR 11,758 thousand, principally due to repayment of instalments due on outstanding loans (EUR 9,507 thousand), the early repayment of three loans (EUR 4,000 thousand), the reduction of short-term debt (EUR 5,987 thousand) and the payment of dividends (EUR 3,600 thousand), partly offset by the incoming flows from the two new loans taken out (EUR 11,000 thousand).

In 2016, on the other hand, financing activities absorbed a total of EUR 17,428 thousand in cash, for repayment of loan instalments falling due (EUR 11,853 thousand) and reduction in short-term debt (EUR 4,199 thousand).

6. INVESTMENTS

Gross **technical investments** made in 2017 amounted to EUR 5,641 thousand (EUR 2,965 thousand at 31 December 2016) and related to:

- investments in production plant and equipment of EUR 3,740 thousand in the Group's Italian plants, in the plants of the subsidiary Gefran Soluzioni (EUR 89 thousand), the Chinese Gefran GSDT (EUR 57 thousand) and EUR 48 thousand in other Group subsidiaries;
- investments to upgrade the industrial buildings of the Parent Company, which totalled approximately EUR 251 thousand, and EUR 39 thousand in other Group subsidiaries;
- the capitalisation of costs incurred in the period for new product development, totalling EUR 584 thousand;
- other investments in intangible and tangible assets, relating to management software licences and ERP SAP development of EUR 375 thousand and to IT equipment of EUR 414 thousand and EUR 44 thousand for other equipment.

The investments are summarised below by type:

(EUR /.000)	**at 31 December 2017**	**at 31 December 2016**
Intangible assets	959	1,399
Tangible assets	4,682	1,566
Total	5,641	2,965

The investments are summarised by business area below:

(EUR / 000)	Sensors	Automation Components	Motion Control	Total
Intangible assets	134	592	233	959
Tangible assets	2,050	1,976	656	4,682
Total	2,184	2,568	889	5,641

7. ASSETS HELD FOR SALE

Operating assets held for sale include the assets related to the know-how of the photovoltaic business.

The economic impacts specifically attributable to the photovoltaic business in 2017 are for the completion of the transfer of know-how, under the agreement to sell the licence for the production and sale of the string inverters to an Indian group, entered into in 2016.

The amount of EUR 187 thousand relates to the recognition of the remaining ancillary costs for the sale of the user licence and resulting release of the previous provision made based on an estimate of the necessary costs. The agreement royalties have not been valued, since tangible elements that enable pertinent valuations are not available.

8. RESULTS BY BUSINESS AREA

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

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

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

8.1. SENSORS

Strategy

In 2018, continuing on from what has been done this year, the focus will be on the commercial development of markets, and within these, particular attention will be paid to industrial applications other than our historical applications.

In the traditional sectors (machinery for processing plastics), the main activity will be to protect the existing market and to introduce our customers to new products or applications (improved performance and/or new functionality), in line with the technological development that machinery and systems are undergoing in general.

The cornerstones of the growth strategy for sensors continue to be:

- Technological leadership to enable it to grow in mature markets;
- Knowledge of industrial processes to grow in emerging markets, supported by local producers to guarantee sufficient customer service levels;
- Extending the product range to tackle applications related to the plastics industry;
- Control of production processes and continued research on constructive means to achieve innovative effectiveness and efficiency.

This year, particular attention was paid to optimising and extending proprietary technologies (such as thick film on steel for pressure sensors and magnetostrictive technology for position sensors) to as many Gefran products as possible, with the aim of improving technical performance, quality and production efficiency even further.

2017 saw growth in volumes requested by the market combined with continuous reduction in response time; these two requirements made it necessary for us to speed up the investment plan: in December 2017 the first fully robotic workstation was introduced in production and this trend of investing in production automation will continue in 2018.

Key events

2017 was marked by a series of projects (known as “lean initiatives”) focused on optimising production processes and customer-/market-facing processes, including, for example, order acquisition and confirmation.

Summary results

The table below shows the key economic figures.

(EUR / 000)	31 December 2017	31 December 2016	Change 2017 - 2016 value	%	Q4 2017	Q4 2016	Change 2017 - 2016 value	%
Revenues	**58,437**	**50,069**	8,368	16.7%	**15,101**	**13,011**	2,090	16.1%
EBITDA	**16,295**	**13,390**	2,905	21.7%	**4,032**	**3,473**	559	16.1%
% of revenues	*27.9%*	*26.7%*			*26.7%*	*26.7%*		
EBIT	**13,223**	**11,152**	2,071	18.6%	**3,025**	**2,908**	117	4.0%
% of revenues	*22.6%*	*22.3%*			*20.0%*	*22.4%*		

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

(EUR /.000)	31 December 2017		31 December 2016		Change 2017 - 2016	
	value	%	value	%	value	%
Italy	12,395	21.2%	9,979	19.9%	2,416	24.2%
Europe	19,826	33.9%	18,248	36.4%	1,578	8.6%
America	10,138	17.3%	9,232	18.4%	906	9.8%
Asia	15,839	27.1%	12,397	24.8%	3,442	27.8%
Rest of the World	239	0.4%	213	0.4%	26	12.2%
Total	**58,437**	**100%**	**50,069**	**100%**	**8,368**	**16.7%**

Business performance

Business revenues at 31 December 2017 were EUR 58,437 thousand, an increase of EUR 8,368 thousand (+16.7%) compared with 31 December 2016. Increases were recorded in all geographical regions and all product lines, driven by excellent performance in the Gefran Group’s core market, which saw widespread growth in all geographical regions.

New orders at 31 December 2017 showed consistent growth throughout the year and increased by EUR 7 million compared to 2016; the year-end backlog grew by around 18% compared with 2016.

In the fourth quarter, revenues amounted to EUR 15,101 thousand, up 16.1% compared with the same period in 2016, when they came to EUR 13,011 thousand.

EBITDA at 31 December 2017 was EUR 16,295 thousand, an increase of EUR 2,905 thousand (+21.7%) on 2016, when it was EUR 13,390 thousand. Non-recurring items were recorded in 2016, linked to costs and provisions for personnel restructuring, amounting to EUR 348 thousand; stripping out these items, at 31 December 2017 EBITDA was up by EUR 2,659 thousand (+19.4%), with an increase in the margin due primarily to the increase in volumes.

EBIT at 31 December 2017 was EUR 13,223 thousand, equal to 22.6% of revenues, compared with EBIT of EUR 11,152 thousand in the same period of 2016 (22.3% of revenues), with a positive change of EUR 2,071 thousand (+18.6%). Stripping out the non-recurring items recorded in 2016, EBIT improved by EUR 1,825 thousand compared with the same period in 2016 (+15.9%).

Comparing the figures by quarter, EBIT relating to the fourth quarter of 2017 came to EUR 3,025 thousand and corresponds to 20% of revenues, compared with EBIT of EUR 2,908 thousand in 2016.

Investments

At 31 December 2017 Group investments in sensors amounted to EUR 2,184 thousand, EUR 134 thousand of which were investments in intangible assets, mainly relating to research and development into new products, and EUR 2,050 thousand for investments in tangible assets, the most significant portion of which was in the Parent Company (EUR 1,878 thousand), to upgrade production lines to improve production processes.

8.2. AUTOMATION COMPONENTS

Strategy

During 2018, the automation components business plans a series of activities aimed at consolidating the product range developed in previous years, both tools and power controllers. Some of the planned activities include the introduction of upgraded functions in products with the aim of responding to requests from customers that are upgrading their machines to meet connectivity requirements and to share digital information, from an Industry 4.0 perspective.

In the context of the "power controllers" product line, a custom product developed for core customers in Europe in the heat treatment sector will move to the production phase, as development has been successfully completed.

More generally, there will be a major focus on commercial development actions concentrated on the European and North American markets.

On the production processes front, in 2018 investments will continue in new machinery and in software, with the aim of automating manufacturing processes from a smart factory perspective.

With regard to the automation platforms, the strategy is to consolidate the model already in place, where Gefran Soluzioni S.r.l. is the vehicle for the market platforms. Combining the sales staff and technical support resources will make it more efficient to penetrate the vertical plastic and heat treatment sectors, thanks to the synergies between the product families.

Key events

2017 was marked by a series of projects (known as "lean initiatives") focused on optimising production processes and customer-/market-facing processes, including, for example, order acquisition and confirmation.

Summary results

The table below shows the key economic figures.

(EUR / 000)	**31 December 2017**	**31 December 2016**	**Change 2017-2016**		**Q4 2017**	**Q4 2016**	**Change 2017 - 2016**	
			value	**%**			**value**	**%**
Revenues	**35,743**	**32,435**	3,308	10.2%	**9,259**	**8,301**	958	11.5%
EBITDA	**3,667**	**2,401**	1,266	52.7%	**518**	**985**	(467)	-47.4%
% of revenues	*10.3%*	*7.4%*			*5.6%*	*11.9%*		
EBIT	**1,330**	**577**	753	130.5%	**(250)**	**543**	(793)	-146.0%
% of revenues	*3.7%*	*1.8%*			*-2.7%*	*6.5%*		

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

(EUR /.000)	31 December 2017		31 December 2016		Change 2017-2016	
	value	%	value	%	value	%
Italy	17,338	48.5%	16,126	49.7%	1,212	7.5%
Europe	10,247	28.7%	8,880	27.4%	1,367	15.4%
America	4,016	11.2%	3,987	12.3%	29	0.7%
Asia	3,947	11.0%	3,292	10.1%	655	19.9%
Rest of the World	195	0.5%	150	0.5%	45	30.0%
Total	**35,743**	**100%**	**32,435**	**100%**	**3,308**	**10.2%**

Business performance

Revenues amounted to EUR 35,743 thousand as at 31 December 2017, up by 10.2% compared to the same period of 2016. Improvements were recorded in all geographical regions and in all the Group's core products, driven by the growth recorded globally, primarily by the core market. New orders at 31 December 2017 were higher than in the same period of the previous year of EUR 2,969 thousand, as was the backlog at 31 December 2017 which was 24.3% higher than the figure in the same period of 2016.

EBITDA at 31 December 2017 was positive at EUR 3,667 thousand (10.3% of revenues), up by EUR 1,266 thousand compared to 31 December 2016 (+52.7%). The 2016 results included non-recurring items linked to provisions for personnel restructuring of EUR 698 thousand; stripping out the aforementioned non-recurring item, the 2017 EBITDA is up compared with 2016 by EUR 668 thousand (+21.6%), primarily due to growth in volumes, which enabled better absorption of management costs, which recorded an increase less than the increase in revenues.

EBIT was positive at EUR 1,330 thousand, a rise of EUR 753 thousand compared to the previous year. Stripping out the aforementioned non-recurring items for 2016, EBIT improved by EUR 155 thousand (+12.2%).

In the fourth quarter of 2017, revenues were EUR 9,259 thousand, up 11.5% compared with the same period of 2016. EBITDA was EUR 518 thousand (5.6% of revenues) and EBIT was negative and amounted to EUR 250 thousand, as more money was put into the provisions for inventory write-downs and risks.

Investments

Investments totalled EUR 2,568 thousand in 2017 and included intangible assets (EUR 592 thousand) and tangible assets (EUR 1,976 thousand).

As regards investments in intangible assets, capitalised development costs totalled EUR 375 thousand in the period and related to the new regulator and power controller ranges.

The business's tangible investments were mostly made by the Italian offices and were for the creation of new, more automated production lines.

8.3. MOTION CONTROL

Strategy

The motion control business is broken down into three sections: drives for industrial applications, for non-industrial lifting and for custom applications.

During 2017 a strategic policy was identified to grow the proportion of revenues from custom projects, which ensure stable volumes over time and more manufacturing efficiency, this policy will continue to be developed in 2018 as well.

In the non-industrial lifting sector, thanks to the Gefran brand's reputation and popularity, commercial activities will be concentrated on consolidating its presence in the geographical regions already controlled and, at the same time, on developing regions that are not yet fully mature, but which have great potential.

In the industrial sectors, the focus will be on plastic and metal applications, where Gefran's characteristic application know-how means that it can offer customers dedicated and specific solutions, thanks to the wide range of inverters available with various power levels and dedicated technologies.

Key events

During 2017 a major contract for a custom project with an American customer was concluded, confirming the strategy pursued to develop custom products. Major investment projects were also started to upgrade buildings and refurbish production lines, to house the production of these dedicated products.

Summary results

The table below shows the key economic figures.

(EUR / 000)	**31 December 2017**	**31 December 2016**	**Change 2017-2016**		**Q4 2017**	**Q4 2016**	**Change 2017 - 2016**	
			value	**%**			**value**	**%**
Revenues	**38,675**	**40,217**	(1,542)	-3.8%	**11,330**	**10,307**	1,023	9.9%
EBITDA	**(923)**	**(4,467)**	3,544	-79.3%	**926**	**(731)**	1,657	-226.7%
% of revenues	*-2.4%*	*-11.1%*			*8.2%*	*-7.1%*		
EBIT	**(3,404)**	**(6,614)**	3,210	-48.5%	**114**	**(1,259)**	1,373	-109.1%
% of revenues	*-8.8%*	*-16.4%*			*1.0%*	*-12.2%*		

The breakdown of revenues by geographical region is as follows:

(EUR /.000)	31 December 2017		31 December 2016		Change 2017-2016	
	value	%	value	%	value	%
Italy	11,854	30.7%	11,720	29.1%	134	1.1%
Europe	11,614	30.0%	12,839	31.9%	(1,225)	-9.5%
America	4,399	11.4%	4,692	11.7%	(293)	-6.2%
Asia	10,489	27.1%	10,718	26.7%	(229)	-2.1%
Rest of the World	319	0.8%	248	0.6%	71	28.6%
Total	**38,675**	**100%**	**40,217**	**100%**	**(1,542)**	**-3.8%**

Business performance

Revenues totalled EUR 38,675 thousand at 31 December 2017, down by EUR 1,542 thousand (-3.8%) compared to the same period of 2016, when they included non-recurring items amounting to EUR 675 thousand relating to government grants awarded to the Chinese subsidiary as incentives for research and development granted to technology companies. Stripping out the non-recurring item, revenues fell by EUR 867 thousand (-2.2%). This reduction is almost entirely attributable to the trend in sales of lift family products for lift applications, which involved nearly all geographical regions, apart from Italy.

Revenues in the last quarter of 2017 recorded growth compared with the same period in 2016 of EUR 1,023 thousand (+9.9%); new orders in 2017 were also positive, up compared to the total for 2016 by around 3% and the year-end backlog was up 20% compared with the same period in 2016.

In December 2017 there was a negative EBITDA of EUR 923 thousand (2.4% of revenues), a substantial improvement (EUR 3,544 thousand) compared with the same period in 2016, when it was negative and amounted to EUR 4,467 thousand. The improvement recorded in 2017 confirms the trend started in 2016 which, over the two years, has reduced the loss by EUR 5,733 thousand, moving from the negative figure at the end of 2015 of EUR 6,656 thousand to the figure, still negative, of EUR 923 thousand. This improvement was made possible by the reorganisation and improvement of internal processes, which, even with falling revenues, has made it possible to absorb resources better.

At 31 December 2017 there was a negative EBIT of EUR 3,404 thousand, compared with a negative EBIT of EUR 6,614 thousand in the same period of 2016. With regard to EBIT as well, the improvement is even more significant when compared with the figure at 31 December 2015, which was negative and amounted to EUR 8,835 thousand, thus highlighting a cumulative improvement of EUR 5,431 thousand.

Investments

Investments totalled EUR 889 thousand in 2017.

Technical investments amounted to EUR 656 thousand and were mainly for new production equipment for the Gerenzano plant.

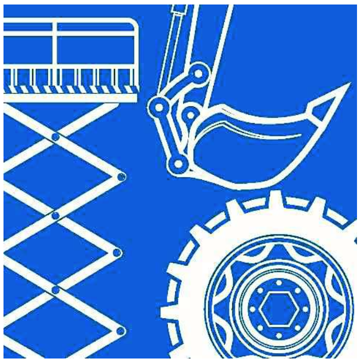
The increases in intangible assets amounted to EUR 233 thousand and mainly concerned the capitalisation of development costs (EUR 151 thousand), relating to new products for the industrial sector and the lifting sector.

9. RESEARCH AND DEVELOPMENT

The Gefran Group invests significant financial and human resources in product research and development. In 2017, about 5% of revenues were invested in these activities, considered to be strategic to maintain the products' high level of technology and innovation and to ensure the competitiveness required by the market.

Research and development is concentrated in Italy, in the laboratories in Provaglio d'Iseo and Gerenzano. It is carried out within the design department, with a separation between research and development into new products and production engineering to improve existing products with new innovations.

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



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

- melt sensors: the focus in terms of production technology for this product line has moved by increasing the production capacity of the Green line, making Gefran ready to come into line with the regulations limiting the use of mercury as a pressure transmission fluid. The future lies in knowing how to produce sensors that use NaK and oil as transmission fluids and in the Impact line where measurements are made without using any filling fluid;
- magnetostrictive sensors: work was carried out on the evolution of the Onda technology which, once developed, will be applied to the entire product range. The expected benefits are related to metrological performance, which will make the product suitable to be applied on a broader spectrum of machinery. Production is expected to start in 2018;
- pressure sensors: strongly automated assembly systems have been designed and produced in response to increased demand from the market, ensuring complete process control and optimising production cycles;
- force sensors for electric plastic injection machines: development of products for force measurements in so-called FEMs (Full Electric Machines) has continued; these are custom products made starting from a significant set of technical and technological skills that are part of the company's know how. The product range has been completed with the development of a signal amplifier with advanced performance to meet the expectations of the most advanced customers in this field.

Activity in the **automation components** sector has concentrated on the following projects.

For the instruments range:

- the development of graphic controllers with particularly advanced features and in line with the application requirements of furnaces, autoclaves, climate chambers, thermal treatments and sterilisation;
- the completion of the work to customise the regulator range for an important customer, which will serve as a primary entry point for the growth of this product family in the French market;

- the valuation of the HW / FW design changes needed for some regulator families of tools optimised for the distribution market.

For the power controller range:

- the study evaluating the design changes aimed at reducing the costs of the new range of GFW power controllers with current levels of 400A;
- the development of highly customised products for IR lamp management for applications in the glass and plastics sector;
- the start of certification activities for some Fieldbus protocols for the GFW-250 and GFW-600 product families.

Development activities in the **motion control** business are focused on both the standard product ranges (industrial and non-industrial lifting) and on important custom projects. Specifically:

- the industrial lines have seen the implementation of new application functions, primarily for the metal and energy efficiency sectors;
- the non-industrial lifting lines have required the development of SW for specific market requirements, to comply with system security regulations.

During the year, the study of new control platforms began and, at the same time, a feasibility study of the new HW and mechanical structures was initiated.

Technological optimisation of the regenerative inverter range led to collaboration with an American multinational, to which Gefran is committed at the production level for the next three years.

Finally, last June, the I-MECH project, established by the European Union and jointly funded by the Ministry of Education, Universities and Research, concerning research and innovation into motion control applied to mechatronics solutions officially got under way: in this context Gefran, specifically with the motion control division, is playing a leading role in collaboration with universities, research institutions and leading European companies.

10. ENVIRONMENT, HEALTH AND SAFETY

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

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

In 2017, Gefran S.p.A. continued with its commitment to promote initiatives and activities to protect the environment as a primary asset and the health and safety of all staff.

It has established an energy monitoring system for the production facilities at Provaglio d’Iseo.

Based on the results of the first Energy Audit, energy consumption inside the plants was divided into two main vectors: electricity and natural gas.

The monitoring system implemented was designed to measure at least 70% of consumption (compared with the 40% in the Enea guidelines) of each of the three functional areas in the companies: core activities, ancillary services and general services.

Detailed monitoring is planned for some utilities, for which it is considered that major improvement opportunities can be identified.

With the data that will be analysed in the coming year, improvements to energy performance of a management and/or technical nature can be assessed and scheduled.

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

Once again in 2017 training was provided to personnel involved in handling hazardous goods (A.D.R.) updating them on new measures introduced and checking procedures and forms for handling hazardous products.

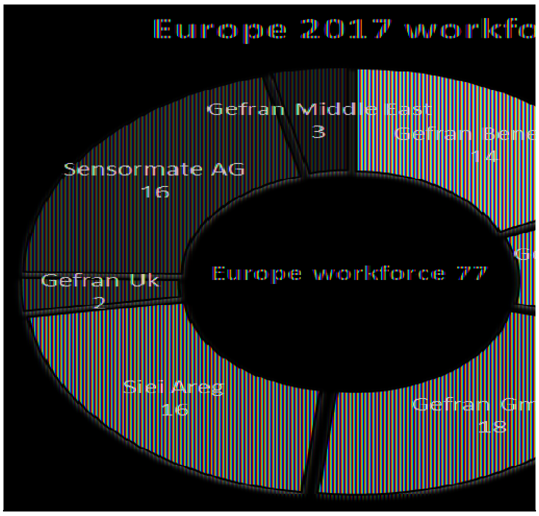
11. HUMAN RESOURCES

Workforce

At 31 December 2017, the Group's workforce numbered 730, the same number as in 2016 and 79 fewer than in 2015.

The change in headcount over the year was marked by an overall turnover rate within the Group of 16.4%, which breaks down as follows:

- 60 people joined the Group, including 10 manual workers, and 50 clerical staff;
- 60 people left the Group, including 9 manual workers, 48 clerical staff and 3 managers/executives.



The overall turnover rate in Italy was 10%.

With regard to foreign subsidiaries, significant changes were recorded in Gefran Deutschland GmbH, where restructuring was implemented, and in Gefran India, where the adjustment of the production line for motion control and the commercial investment to support the development of a region identified as strategic led to an increase in the workforce.

In the other Group subsidiaries, changes in staff numbers were due to normal staff turnover as well as organisational changes made to develop skills.

Organisation

2017 was a year of "rebirth" for the organisation and culture of Gefran from a Human Resources perspective. Many initiatives were designed and implemented to strengthen workers' engagement and develop the Group's ability to attract and retain talent and critical skills.

"WELLFRAN People in Gefran" was set up; it is the set of initiatives and actions through which Gefran looks after its employees' wellbeing, where wellbeing is understood in a holistic sense and, at the same time, as the possibility of people achieving their full potential, including through organisational wellbeing. The logo represents a set of fundamental values: common fertile land, where flowers grow up whose petals are individuals who are united, and letters that, with the same font but different colours and shapes, communicate the importance of diversity: the uniqueness of the people who together form Gefran's organisation and make it strong.

Gefran News was launched with the aim of greater sharing and cooperation at Group level; it is a digital publication exclusively for employees, which aims to provide continuous information, news and features about the Gefran world. The Gefran News portal has an international scope: every article is available in Italian and English and every subsidiary has the opportunity to share and tell stories within it.

A structured plan has been initiated to integrate young people into the organisation (new graduates from various faculties) to renew the workforce and cope with generational change. The recruitment process is carried out by HR and by the product lines in conjunction with universities. Development pathways have been designed for new staff; they are described in more detail below in the section on FLY, the Talent Academy.

In the production context, the organisational innovation process has continued through lean manufacturing initiatives; these have involved various functions and various levels of employees with the aim of improving effectiveness, efficiency and quality. To increase the level of service to the market, organisational innovation has been applied to the order management process as well with an inter-departmental "lean office" project for Italy and France.

A project has been carried out in the sensors and automation components divisions aimed at defining a new product management and product marketing organisational structure: these two separate but interdependent areas are strategic for the business's medium-/long-term growth and success. Inter-departmental and international focus groups have been set up to analyse challenges and opportunities and to define the purpose, job descriptions and KPIs of these two key functions and bring them into line with each other. This work led to the mapping and assessment of existing abilities and attitudes that enable the organisation to deal with the market challenges of today and tomorrow, producing results with focus and enthusiasm.

Industrial relations

2017 saw the start of a complex activity of analysis, reflection and negotiation, which led to the signing at the end of July with the trade unions Fim and Fiom of a supplementary company agreement for performance-related pay and welfare for workers at the Provaglio d'Iseo and Gerenzano plants. The agreement, which is valid for 2017-2019, introduced some significant new measures compared with previous agreements and included all the opportunities offered by the most recent and innovative regulations on the subject.

Performance-related pay, which is totally variable and therefore payable when all results have been actually achieved, subject to the existence of inviolable company productivity conditions, will be linked to movements in indicators related to profitability, quality, productivity and efficiency, all taken from the industrial plan. Performance-related pay can be converted in full or in part into goods and services offered by the company welfare plan.

To respond quickly to opportunities for growth and changing market requirements and to be able to carry out quickly improvements and innovations, agreement was also reached on encouraging workers' participation at every level through focus teams of a technical nature, with the aim of analysing specific themes and proposing ways to improve effectiveness and efficiency.

The agreement with the unions is part of the organisational development plan that is also being implemented through workers' involvement and their and their families' economic and social wellbeing which was started in previous years.

In November a participative organisational innovation project was started, implemented in the sensors and motion control production plants, both in Provaglio d'Iseo; this project, which also involves the social partners, uses joint focus teams to design a way of organising work, in terms of hours and workforce composition, that helps to optimise processes and reduce delivery times, while taking account of sustainability for the company and work-life balance for the workers.

Training and development

The second half of 2017 saw the start of *FLY, Gefran's Talent Academy*, which is a new stage of the Group's policy of valuing individuals' attitudes, developing skills and building growth pathways consistent with corporate values and strategies. Gefran has always invested in people's professional development through many initiatives such as partnerships with engineering faculties, sponsoring master's degrees in innovation, involvement in EMBAs and specialist master's degrees, and setting up and organising internal focus groups.

With the Talent Academy, Gefran has defined a structured approach and a way to attract and manage talent, making it one of the pillars for building tomorrow's successes.

The FLY methodology involves the use of various tools to design specific training courses, identified after an initial assessment. These tools include activities such as:

- inter-departmental training: technical and commercial, operations, economic and financial, branding, self and people management;
- reverse mentoring, where a senior member of staff comes alongside a junior member to help them acquire knowledge and experience with the possibility of new graduates making their skills available to their mentors in a system of exchange and mutual growth;
- on-the-job training using the STAR model (Situation, Task, Action, Result) aimed at providing tools to assess company situations, decide what actions to take, even in pressurised or difficult situations, and analyse the results;
- experience abroad, made possible by the Group's international presence through many branches.

FLY's importance is shown by the page devoted to it on the Gefran website (http://www.gefran.com/it/it/people/fly), where a short film, entirely written and made by Gefran staff , can be seen, which represents the heart of FLY, a project that has received and continues to receive a lot of interest in the press and on social networks, enabling Gefran to attract resources, thanks to the affirmation of its brand reputation.

Initiatives and training courses have been organised in the subsidiaries to develop cross-functional and managerial skills (for example in China), for team building (in India and the USA), as well as technical training and continual refresher courses on product innovation and applications, sales policy and process improvement.

MBO System

The Human Resources Department has continued to improve the Management By Objectives (MBO) incentive system, in terms of the tool's effectiveness and the efficiency of management processes, continuing what was started in previous years.

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

The golden rule chosen for assigning individual employees' objectives is the "S.M.A.R.T." (Specific, Measurable, Achievable, Relevant, Time-related) principle and all employees have shared with their managers objectives that are:

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

In 2017 Gefran introduced mechanisms for the possible return, even in part, of payments already paid under the MBO system. This tool enables the company to take back amounts already paid when the objectives achieved are not confirmed in the following quarter or when negative assessments are made after the event of how the results were achieved (system known as claw-back).

12. STRATEGY

The year just ended was a very positive one for the Gefran Group in various ways: the growth in revenues and margins, the significant reduction in financial debt, the start of a substantial investment plan, the dividend payment and, not least, the excellent performance of the share price and trading on the shares.

The Group was able to improve its margins further by rigorous application of the guidelines of the plan started at the end of 2015 together with investments to support growth, both capital formation and short- and medium-term projects.

The plan for 2018 is to increase investments further, especially at the industrial level, to support the expected growth of revenues and to bring internal processes more in line with market requirements, in terms of response speed, product quality and production flexibility.

As well as technical investments, there will be investments in specific projects, linked in a particular way to the sales area, to consolidate the Gefran brand in the known and traditional markets and to develop regions of interest with the best growth prospects and which have been identified as targets for launching new products and applications.

Technological leadership will make it possible to increase market share in the known applications sectors; awareness of industrial processes and the ability to provide custom solutions, together with a guaranteed and particularly effective level of service, will be the means used to develop emerging markets, core applications and custom solutions.

Projects supporting the development and growth of the group externally are not being considered at present but should not be excluded if they are consistent with the strategic guidelines and compatible with the organisational structure.

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

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

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

This model was subsequently updated in light of changes to the law mentioned above. The Organisational Model was updated under a resolution passed by the Board of Directors on 3 August 2017, based on the Confindustria Guidelines, in response to the need for continuous update of the corporate governance system, the structure of which is based in turn by the recommendations and regulations in the "Code of Conduct for Listed Companies" promoted by Borsa Italiana S.p.A., with which the Company complies.

The relevant corporate entities for the purposes of the internal control and risk management system have been identified:

- the **Risk Control Committee** (RCC), which has the task of supporting, with adequate preliminary investigation activity, evaluations and decisions of the Board of Directors regarding the internal control and risk management system, as well as of checking the proper application of accounting standards and their consistency for the purposes of preparing the consolidated financial statements;
- the **Executive Director in charge of the internal risk control system**, with the task of identifying the main corporate risks, implementing the risk management guidelines and checking their adequacy;
- the **Executive in charge of the financial reporting**, who has direct supervision of the control model pursuant to Law 262/2005 and of the related administrative and accounting procedures, in connection with the constant updating of the same;
- the **Internal Audit** function, with the task of checking, both continuously as well as in relation to specific requirements and in compliance with international standards, the operation and appropriateness of the internal control and risk management system, via an audit plan approved by the Board of Directors, which is based on a structured analysis of the main risks.

The main strategic and operating risks are identified and assessed through a risk assessment, the results of which are described and discussed with all relevant bodies for the internal control and risk management system and with the Board of Directors.

This activity enables specific actions to be identified to mitigate the risks identified.

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

The external and internal risk factors are nevertheless analysed below, classified according to the risk families identified as follows:

External risks;

(a) Market risks;
(b) Contextual risks.

Internal risks:

(c) Strategic risks;
(d) Operating risks;
(e) Financial risks;
(f) Legal compliance risks.

13.1. EXTERNAL RISKS

(a) Market risks

Risks associated with the general economic conditions and market trends

Global economic performance in 2017 exceeded expectations and substantial growth is forecast for 2018 as well, both in developed economies and in emerging markets, thanks to still favourable financial conditions and tax policies supporting growth.

The macroeconomic outlook in 2018 for Italy shows a growth rate revised upwards, to an estimated 1.1%, even though the growth potential is still limited because of the fragility of the banking system.

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

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

Risks associated with the market structure and competitive pressure

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

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

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

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

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

(b) Contextual risks

Exchange rate risk

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

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

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

Interest rate risk

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

These variable-rate loans expose the Company to a risk associated with interest rate volatility, known as cash flow risk. To limit exposure to this risk, the Parent Company puts in place derivative hedging contracts, specifically Interest Rate Swaps (IRS), which convert the variable rate to a fixed rate, or

Interest Rate Caps (CAP), which set the maximum interest rate, thereby reducing the risk originating from interest rate volatility.

The potential rise in interest rates, from the lows reached at present, is a possible risk factor for the next few quarters, although this is limited by hedging contracts.

Risks associated with fluctuations in commodity prices

Since the Group's production mainly involves mechanical, electronic and assembly processes, exposure to energy price fluctuations is very limited.

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

Risks associated with changes in the regulatory framework

Since the Group makes and distributes electronic components used in electrical applications, it is subject to numerous legal and regulatory requirements in the various countries in which it operates, and to the national and international technical standards applicable to companies operating in the same industry and to the products made and sold by the Group.

Any changes in laws or regulations could entail substantial costs to adapt the product characteristics or even temporary suspensions of the sale of some products, which would affect revenues.

The Group places great importance on the protection of the environment and safety.

Its activities do not include the manufacture or processing of materials or components to an extent that would generate a significant risk of pollution or environmental damage.

The Group has introduced a series of controls and monitoring to detect and prevent any potential increase in this risk. Furthermore, it has taken out an insurance policy to cover potential liabilities arising from environmental damage to third parties.
It is, however, possible that there are still some residual environmental risks that have not been adequately identified and covered.

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

Country risk

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

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

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

13.2. INTERNAL RISKS

(c) Strategic risks

Risks associated with the implementation of the Group's strategy

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

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

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

(d) Operating risks

Risks associated with relations with suppliers

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

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

Risks associated with product development, management and quality

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

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

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

Risks associated with operations at industrial facilities

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

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

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

Risks associated with human resources

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

The Group’s success depends to a large extent on the ability of its executive directors and other managers to manage the Group and its Sectors effectively, and on the quality, technical and managerial ability and motivation of its human resources, also with the aim of attracting and retaining talent and skills; the initiatives started in 2017, such as FLY and Wellfran had this in mind.

(e) Financial risks

Risks associated with funding requirements

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

Gefran’s capital structure is strong; it has own funds of EUR 69.9 million versus overall liabilities of EUR 70.6 million. During 2017 the Parent Company took out two new medium-long-term loans, one of which involved paying off three existing loans at the same time. With regard to existing loans, they were all negotiated at variable rates, determined by the Euribor plus a fixed spread, which in the last two years was always below 150-200 bps. Some of these outstanding loans, whose remaining value at 31 December 2017 was EUR 10.0 million, contain covenants. At 31 December 2017, the Group was fully in compliance with these clauses.

Liquidity risk

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

Credit risk

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

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

(f) Legal compliance risks

Ethical risks

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

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

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

Legal risks and product liability

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

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

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

Risks associated with intellectual property rights

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

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

14. SIGNIFICANT EVENTS DURING THE YEAR

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

- The administrative procedure to close the sales office in Russia was completed on 31 March 2017.

- On 20 April 2017, the Ordinary Shareholders’ Meeting of Gefran S.p.A. voted to:
  - Approve the Financial Statements for the financial year 2016 and distribute a dividend of EUR 0.25 per share;
  - Appoint for the three-year period 2017 - 2019 as members of the Board of Directors: Ennio Franceschetti, Maria Chiara Franceschetti, Giovanna Franceschetti, Andrea Franceschetti, Alberto Bartoli, Daniele Piccolo, Monica Vecchiati, Mario Benito Mazzoleni and Romano Gallus;
  - Authorise the Board of Directors to purchase up to a maximum of 1,440,000 own shares for a period of 18 months from the date of the Shareholders’ Meeting.

  The shareholders also expressed a favourable opinion of the general Group remuneration policy adopted by Gefran, pursuant to Article 123-*ter* of the TUF.
  At the end of the Shareholders’ Meeting, the new Board of Directors met and appointed Ennio Franceschetti Chairman and Managing Director, Maria Chiara Franceschetti, Vice-Chairman and Alberto Bartoli Chief Executive Officer. Board members Daniele Piccolo, Monica Vecchiati and Mario Benito Mazzoleni were appointed members of the Control and Risk Committee, while Romano Gallus, Daniele Piccolo and Monica Vecchiati were appointed members of the Remuneration Committee.
  At the board meeting the independence requirements of the newly appointed board were verified. The non-executive directors Daniele Piccolo, Monica Vecchiati and Mario Benito Mazzoleni declared they were in possession of the independence requirements. The executive directors are Ennio Franceschetti, Maria Chiara Franceschetti, Giovanna Franceschetti, Andrea Franceschetti and Alberto Bartoli, while Romano Gallus is a non-independent, non-executive director.

- On 12 June 2017, the Parent Company Gefran S.p.A. signed a contract with a major international lift construction group; the agreement provides for the supply of inverters for the American market, with a total value of approx. EUR 23 million and a duration of 3 years.

- The operational procedure to close the sales office in Mexico was completed on 21 July 2017.

- On 26 July 2017, the Parent Company Gefran S.p.A. formalised the sale of 50% of the shares it owned in Axel S.r.l., equal to 15% of the total.

- The Gefran S.p.A. Shareholders' Meeting held on 17 October 2017 approved, in extraordinary session, the proposal to amend Articles 11, 14, 15 and 16 of the Articles of Association and, in ordinary session, to update the Regulations for meetings: the changes introduced are an important stage in developing the Company's governance and concern, specifically, the provision of the possibility to appoint an Honorary Chairman (chosen from people who have contributed to the company's success and development) and to appoint several Vice Chairmen, up to a maximum of three.

15. SIGNIFICANT EVENTS AFTER YEAR END

Nothing to report.

16. OUTLOOK

The recovery of the global economy seen in 2017, with GDP up 3.7%, is expected to continue in 2018, thanks to emerging markets and the developed economies. The growth seems to be distributed across the Eurozone, the US and Japan, but not the UK. In the emerging economies, growth is forecast in India, Russia and Brazil, whereas China is seen as facing problems.

During 2017, Italian GDP grew by 1.5%, which was higher than expected, thanks to the growth in domestic demand, supported by better employment figures and the recovery of the trusted indices; tax cuts and favourable credit conditions also boosted investments. Despite this, in 2018 GDP is expected to grow only by +1.1%, because of the elections in March.

The main short-term risks to growth prospects in 2018 are probably political, including the future of NAFTA and the Italian elections, as well as the risk of military conflict on the Korean peninsula.

In this context, Gefran is seeing encouraging signs in all its core geographical regions and is seeing a good number of new orders in all its business lines.

2018 started with new orders and a backlog, which suggest positive results both in terms of sales revenues and margins from as early as the first quarter and the factories are coping easily with the growth in volumes. The investments made in 2017 and which will continue at a high rate in the coming years have already started to bear fruit, in terms of improved lead times and production efficiency.

From the business lines' point of view, in the coming year, the Gefran portfolio will see the share of revenues from motion control increase, as custom products and orders account for a greater proportion; sensors and automation components will focus on consolidating their presence in known markets and developing new regions and products.

In view of the above, in the absence of unforeseeable events, the Gefran Group is confident that revenues will continue to grow, with profit margins at the same levels as in 2017.

17. OWN SHARES

During the first six months of 2017, 227,394 own shares were sold at an average selling price of EUR 4.96.

At 31 December 2017 Gefran S.p.A. did not hold any own shares in its portfolio and at the reporting date the situation is unchanged.

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

18. DEALINGS WITH RELATED PARTIES

During its meeting on 12 November 2010, the Gefran Board of Directors approved the "*Regulation for transactions with related parties*" in application of Consob resolution 17221 dated 12 March 2010. This regulation is published in the "*Investor Relations*" section of the website www.gefran.com.

The regulation is based on the following general principles:

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

The regulation is structured as follows:

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

See note 41 of the Notes to the Consolidated Financial Statements for details on transactions with related parties. The procedure in question was updated by the Board of Directors on 3 August 2017 to bring the content in line with current regulations, specifically the entry into force of the "Market Abuse" regulation, EU 596/2014.

19. SIMPLIFIED INFORMATION

On 1 October 2012, the Gefran S.p.A. Board of Directors voted to avail itself of the disclosure simplification option pursuant to Article 70.8, and Article 71.1-*bis*, of Consob Regulation 11971/1999 as amended.

20. PROVISIONS UNDER ARTICLES 15 AND 18 OF THE CONSOB REGULATION ON MARKETS

With reference to the "conditions for listing of shares of parent companies of companies established and regulated by laws of countries not belonging to the European Union" as set out in Articles 15 and 18 of the Consob Regulation on Markets, note that the following subsidiaries fall under Article 36: Gefran Siei Asia PTE Ltd (Singapore), Gefran Siei Drives Technology Co Ltd. (China), Gefran Deutschland GmbH and Siei Areg GmbH (Germany), Gefran Inc. (U.S.A.), Gefran India Ltd (India), Gefran Soluzioni S.r.l. (Italy), and Sensormate AG (Switzerland).

The Group also made the adjustments necessary to meet the conditions set out under paragraph 1 of the aforementioned Article 18, and there are procedural provisions in place designed to ensure they are maintained.

Provaglio d'Iseo, 13 March 2018

For the Board of Directors

The Chairman	The Chief Executive Officer
Ennio Franceschetti	**Alberto Bartoli**

CONSOLIDATED FINANCIAL STATEMENTS

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

(EUR /.000)	*Notes*	Year-to-date at 31 December 2017	2016
Revenues from product sales	*30*	127,463	118,066
of which related parties:	*41*	*164*	*165*
Other revenues and income	*31*	1,176	1,264
of which non-recurring:	*12*	*0*	*675*
Increases for internal work	*15,16*	610	1,119
TOTAL REVENUES		**129,249**	**120,449**
Change in inventories	*20*	(531)	(1,040)
Costs of raw materials and accessories	*21*	(43,214)	(40,686)
Service costs	*22*	(21,646)	(19,635)
of which related parties:	*41*	*(180)*	*(330)*
Miscellaneous management costs	*35*	(786)	(1,726)
Other operating income	*35*	570	89
Personnel costs	*34*	(44,300)	(45,347)
of which non-recurring:	*12*	*(321)*	*(1,864)*
Impairment of trade and other receivables	*20*	(303)	(780)
Amortisation	*36*	(2,324)	(2,344)
Depreciation	*36*	(5,566)	(3,865)
EBIT		**11,149**	**5,115**
of which non-recurring:	*12*	*(321)*	*(1,189)*
Gains from financial assets	*37*	1,622	1,699
Losses from financial liabilities	*37*	(4,022)	(2,522)
Losses (gains) from shareholdings valued at equity	*38*	156	5
PROFIT (LOSS) BEFORE TAX		**8,905**	**4,297**
of which non-recurring:	*12*	*(321)*	*(1,189)*
Current taxes	*39*	(4,067)	(2,080)
Deferred taxes	*39*	1,839	1,245
TOTAL TAXES		**(2,228)**	**(835)**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**6,677**	**3,462**
of which non-recurring:	*12*	*(321)*	*(1,189)*
Net profit (loss) from assets held for sale	*23*	187	486
of which non-recurring:		*0*	*0*
NET PROFIT (LOSS) FOR THE YEAR		**6,864**	**3,948**
of which non-recurring:	*12*	*(321)*	*(1,189)*
Attributable to:			
Group		6,864	3,948
Third parties		0	0

Earnings per share *(Euro)*	*note*	Year-to-date at 31 December 2017	2016
Basic earnings per ordinary share	*26*	0.48	0.28
Diluted earnings per ordinary share	*26*	0.48	0.28

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

(EUR /.000)	*Notes*	Year-to-date at 31 December 2017	2016
PROFIT (LOSS) FOR THE YEAR		**6,864**	**3,948**
Items that will not subsequently be reclassified in the statement of profit/(loss) for the year			
- revaluation of employee benefits: IAS 19	*27*	50	(33)
- overall tax effect	*27*	60	17
Items that will or could subsequently be reclassified in the statement of profit/(loss) for the year			
- conversion of foreign companies' financial statements	*25*	(1,951)	(262)
- equity investments in other companies	*25*	49	161
- fair value of cash flow hedging derivatives	*25*	204	33
Total changes, net of tax effect		**(1,588)**	**(84)**
Comprehensive result for the period		**5,276**	**3,864**
Attributable to:			
Group		5,276	3,864
Third parties		0	0

3. STATEMENT OF FINANCIAL POSITION

(EUR /.000)	Notes	31 December 2017	31 December 2016
NON-CURRENT ASSETS			
Goodwill	14	5,753	6,093
Intangible assets	15	6,852	8,260
of which related parties:	41	0	39
Property, plant, machinery and tools	16	35,563	36,931
of which related parties:	41	168	105
Shareholdings valued at equity	17	1,071	1,051
Equity investments in other companies	18	2,006	1,956
Receivables and other non-current assets	19	89	148
Deferred tax assets	39	8,567	7,021
Non-current financial assets	24	166	-
TOTAL NON-CURRENT ASSETS		**60,067**	**61,460**
CURRENT ASSETS			
Inventories	20	20,264	21,589
Trade receivables	20	29,386	30,745
of which related parties:	41	55	114
Other receivables and assets	21	4,859	3,512
Current tax receivables	22	668	734
Cash and cash equivalents	24	24,006	20,477
Financial assets for derivatives	24	56	4
TOTAL CURRENT ASSETS		**79,239**	**77,061**
ASSETS HELD FOR SALE	**23**	**1,214**	**1,214**
TOTAL ASSETS		**140,520**	**139,735**
SHAREHOLDERS' EQUITY			
Share capital	25	14,400	14,400
Reserves	25	48,647	48,560
Profit/(loss) for the year	25,26	6,864	3,948
Total Group Shareholders' Equity	**25**	**69,911**	**66,908**
Shareholders' equity of minority interests	25	-	-
TOTAL SHAREHOLDERS' EQUITY		**69,911**	**66,908**
NON-CURRENT LIABILITIES			
Non-current financial payables	24	13,933	16,045
Employee benefits	27	5,092	5,212
Non-current provisions	28	279	1,317
Deferred tax provisions	39	647	1,005
TOTAL NON-CURRENT LIABILITIES		**19,951**	**23,579**
CURRENT LIABILITIES			
Current financial payables	24	14,999	17,134
Trade payables	20	19,029	16,580
of which related parties:	41	90	46
Financial liabilities for derivatives	24	76	220
Current provisions	28	1,473	1,143
Current tax payables	22	2,502	1,348
Other payables and liabilities	29	12,579	12,823
TOTAL CURRENT LIABILITIES		**50,658**	**49,248**
TOTAL LIABILITIES		**70,609**	**72,827**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**140,520**	**139,735**

4. CONSOLIDATED CASH FLOW STATEMENT

(EUR /.000)	*note*	**31 December 2017**	**31 December 2016**
A) CASH AND CASH EQUIVALENTS AT THE START OF THE PERIOD		**20,477**	**24,602**
B) CASH FLOW GENERATED BY (USED IN) OPERATIONS IN THE PERIOD:			
Net profit (loss) for the period	*26*	6,864	3,948
Depreciation/amortisation	*37*	7,890	6,209
Capital (gains) losses on the sale of *Non-current assets*	*15,16*	(34)	101
Capital (gains) losses on the sale of *Assets held for sale*	*23*	(187)	(486)
Net result from financial operations	*37*	2,244	818
Taxes	*39*	4,067	2,080
Change in provisions for risks and future liabilities	*28*	(806)	421
Change in other assets and liabilities	*21,22,24,29*	(453)	221
Change in deferred taxes	*39*	(1,909)	(1,260)
Change in trade receivables	*20*	525	2,736
of which related parties:	*41*	*59*	*(110)*
Change in inventories	*20*	531	1,040
Change in trade payables	*20*	2,605	79
of which related parties:	*41*	*44*	*(6)*
TOTAL		**21,337**	**15,907**
C) CASH FLOW GENERATED BY (USED IN) INVESTMENT ACTIVITIES			
Investments in:			
- Property, plant & equipment and intangible assets	*15,16*	(5,641)	(2,965)
of which related parties:	*41*	*(168)*	*(144)*
- Equity investments and securities	*17,18*	133	5
- Financial receivables	*19*	59	(33)
Disposal of non-current assets	*15,16*	94	9
TOTAL		**(5,355)**	**(2,984)**
D) FREE CASH FLOW (B+C)		**15,982**	**12,923**
E) CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES			
New financial payables	*24*	11,000	0
Repayment of financial payables	*24*	(13,507)	(11,853)
Increase (decrease) in current financial payables	*24*	(5,987)	(4,199)
Taxes paid	*39*	(1,903)	(906)
Interest (paid)	*37*	(520)	(898)
Interest (received)	*37*	125	0
Sale of own shares	*25*	1,129	0
Change in shareholders' equity reserves	*25*	1,505	428
Dividends paid	*25*	(3,600)	0
TOTAL		**(11,758)**	**(17,428)**
F) CASH FLOW FROM CONTINUING OPERATIONS (D+E)		**4,224**	**(4,505)**
G CASH FLOW FROM OPERATING ASSETS HELD FOR SALE	*23*	**-**	**626**
H) Exchange translation differences on cash at hand		(695)	(246)
I) NET CHANGE IN CASH AT HAND (F+G+H)		**3,529**	**(4,125)**
J) CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+I)		**24,006**	**20,477**

5. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(EUR / 000)							overall EC reserves						
	Note	**Share capital**	**Capital reserves**	**Consolidation reserve**	**Other reserves**	**Retained profit /(loss)**	**Fair value measurement reserve**	**Currency translation reserve**	**Other reserves**	**Profit/(loss) for the year**	**Group Total shareholders' equity**	**Shareholders' equity of minority interests**	**Total shareholders' equity**
Balances at 1 January 2016		14,400	21,926	14,373	9,567	3,052	(259)	5,336	(643)	(4,769)	62,984	0	62,984
Destination of 2015 profit													
- Other reserves and provisions	*25*			(3,423)		(1,346)				4,769	0		0
- Dividends	*25*										0		0
Income/(expenses) recognised at equity	*25,27*			72			194		(16)		250		250
Change in translation reserve	*25*			0				(260)	(2)		(262)		(262)
Other changes	*25*			0	(12)						(12)		(12)
2016 profit	*25,27*									3,948	3,948		3,948
Balance at 31 December 2016		14,400	21,926	11,022	9,555	1,706	(65)	5,076	(661)	3,948	66,908	0	66,908
Destination of 2016 profit													
- Other reserves and provisions	*25*			(4,094)	0	8,042				(3,948)	0		0
- Dividends	*25*					(3,600)					(3,600)		(3,600)
Income/(expenses) recognised at equity	*25,27*			1,278			254		110		1,642		1,642
Change in translation reserve	*25*							(1,951)	0	0	(1,951)		(1,951)
Other changes	*25*			(1,235)	696	587					48		48
2017 profit	*25,26*									6,864	6,864		6,864
Balances at 31 December 2017		14,400	21,926	6,971	10,251	6,735	189	3,125	(551)	6,864	69,911	0	69,911

NOTES TO THE ACCOUNTS

1.General information

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

On 13 March 2018, the consolidated financial statements of the Gefran Group for the year ending 31 December 2017 were approved by the Board of Directors, which authorised their publication.

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

2. Form and content

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

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

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

These consolidated financial statements are presented in euros (EUR), the functional currency of most Group companies. Unless otherwise stated, all amounts are expressed in thousands of euros.

3. Accounting schedules

The Gefran Group has adopted:

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

With reference to Consob resolution 15519 of 27 July 2006, amounts referring to transactions with related parties and non-recurring items are shown separately from the relevant items in the statement of financial position and income statement.

4. Consolidation principles

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

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

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

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

The main principles adopted are the same for all companies in the scope of consolidation, and the related income statements and statements of financial position were all drawn up as of 31 December 2017; in addition, all financial statements have been approved by the respective Boards of Directors.

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

Gains from transactions between subsidiaries not yet realised, as well as receivables, payables, costs and revenues between consolidated companies, are eliminated.

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

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

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

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

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

5. Change in the scope of consolidation

The scope of consolidation at 31 December 2017 is different from 31 December 2016 as the elimination of the subsidiary already undergoing liquidation, Gefran South Africa (Pty) Ltd., came into effect on 30 January 2017, and on 26 July 2017 Gefran S.p.A.'s share in Axel S.r.l., a company consolidated by the equity method, was reduced from 30% to 15%.

6. Valuation criteria

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

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

With reference to Consob Communication 0003907 of 19 January 2015, note 13 "Goodwill and other intangible assets with an indefinite life" includes the required information, and specifically the references to the external information and the sensitivity analysis.

With reference to Consob Communication 0092543 of 3 December 2015, we note that in the Report on Operations the ESMA guidelines (ESMA/2015/1415) were followed with regard to the information aimed at ensuring the comparability, reliability and comprehensibility of the Alternative Performance Indicators.

With reference to Consob Communication 0007780 of 28 January 2016, we note that the impact of market conditions on the information in the financial statements was included in the Directors' Report on Operations. We also note that the application of IFRS 13 "Fair value measurement" does not involve significant changes to items in the financial statements for Gefran.

The most significant valuation criteria adopted by the Gefran Group are summarised in this section.

<u>Segment reporting</u>

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

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

Revenues

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

Sale of goods

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

Service revenues

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

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

Interest income

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

Dividends

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

Government grants

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

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

Costs

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

Financial charges

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

Income tax

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

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

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

Earnings per share

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

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

Tangible assets

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

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

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

Leases

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

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

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

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

Research and development costs

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

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

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

Business combinations and goodwill

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

Goodwill is recognised as the difference between:

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

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

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

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

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

Asset impairment

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

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

Other intangible assets

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

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

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

Non-current assets held for sale

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

Investments in affiliates and joint ventures

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

The portions of profit (loss) resulting from the application of this consolidation method are posted to the income statement under *"Gains (losses) from shareholdings valued at equity"*.

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

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

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

Inventories

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

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

Production cost includes the cost of raw materials, materials, labour and all other direct production expenses, including depreciation and amortisation. Production cost does not include distribution costs. Obsolete or slow-moving inventories are written down according to the possibility of using or realising them.

Trade receivables and payables and other receivables/payables

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

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

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

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

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

Financial derivatives

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

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

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

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

Own shares

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

Provisions for risks and future liabilities

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

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

Employee benefits

The post-employment benefit reserve, which is mandatory for Italian companies pursuant to Italian Law 297/1982, is considered a defined benefit plan and is based, *inter alia*, on the working lives of employees and the remuneration earned by the employee over a predetermined period of service. The post-employment benefit reserve is calculated by independent actuaries using the “*Traditional Unit*

Credit" method. The Company has opted to recognise all cumulative actuarial gains and losses both on first-time adoption of IFRS and subsequently.

This item is also used to recognise non-competition agreements, signed with some employees to protect the company from any competitive activities; the value of the obligation is the subject of actuarial valuation and, when first recognised, the portion of the provision determined by actuarial methods is posted to the statement of profit/(loss) for the year.

Translation of foreign companies' financial statements

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

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

When an investment in a foreign company is disposed of, the accumulated exchange rate differences recognised in the "*Currency translation reserve*", relating to a particular foreign company, are reported in the statement of profit/(loss) for the year.

Translation of foreign currency items

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

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

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

7. Accounting standards, amendments and interpretations applicable from 1 January 2017

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

- In January 2016, IASB issued an amendment to IAS 12 "Income Taxes". These changes clarify how to recognise deferred taxes relating to debt instruments valued at fair value with regard to costs relevant for tax purposes;
- In January 2016, IASB issued an amendment to IAS 7 "Statement of Cash Flows", whereby supplementary disclosure is introduced to enable users of the financial statements to assess changes to the relevant cash flows;
- In December 2016 lASB issued an amendment to the 2014-2016 IFRS. The amendment concerns IFRS 12 "Disclosure of Interests in Other Entities", applicable as of 1 January 2017. The amendment clarifies that the disclosure required under the standard must be made for investments classified as held for sale, except for the provisions in B12.

8. Accounting standards, amendments and interpretations not yet applied

At the date of these financial statements, the competent bodies of the European Union have not yet concluded the approval process necessary for the adoption of the following accounting standards and amendments:

- In May 2014, IASB and FASB published jointly IFRS 15 "Revenue from Contracts with Customers". The new standard is applicable retrospectively for annual accounting periods beginning on or after 1 January 2018. Early adoption is permitted. IFRS 15 sets out the rules for posting revenues, introducing an approach involving the recognition of a revenue item only when the contractual obligations have been fully met. The standard sets out recognition of the revenue based on the following five steps:
  1. identification of the contract;
  2. identification of the obligations (goods or services);
  3. determination of the transaction price;
  4. allocation of the transaction price determined in step 3 to the obligations identified in step 2;
  5. recognition of the revenues allocated to the obligation when it is performed, i.e. when the customer gains control of the goods and/or services.

  The Group has carried out in-depth analysis of the various forms and types of contracts used to sell products and ancillary services, as the various obligations are clearly identified and valued separately in almost all existing contracts.
  As a result of this analysis, the Group concluded that it does not expect a significant impact from the adoption of the new standard as the most significant component of revenues will continue to be recognised in line with the previous accounting guidelines.
- On 24 July 2014, IASB finalised the draft revision of the accounting standard on financial instruments with the issue of the full version of IFRS 9 "Financial Instruments". In detail, the new provisions of IFRS 9: (i) amend the classification and measurement model of financial assets; (ii) introduce a new write-down method of financial assets, which takes account of expected credit losses; (iii) amend the provisions on hedge accounting, and (iv) define new criteria for recognising operations to change financial liabilities. The provisions of IFRS 9 are effective as from the accounting periods beginning on or after 1 January 2018. Early application is permitted.
  The Group has completed analysis of the quantitative impact of implementing the standard, without identifying any impact.

- In September 2016, IASB issued an amendment to IFRS 4, "Insurance Contacts", in relation to the application of IFRS 9, "Financial Instruments".
  The changes to the standard will give all companies that issue insurance contracts the option to recognise in the comprehensive income statement, rather than in the income statement, the volatility that might arise when IFRS 9 is applied before the new standard on insurance contracts is issued. It will also give companies whose activity is primarily linked to insurance contracts a temporary optional exemption from applying IFRS 9 until 2021. Entities that defer the application of IFRS 9 will continue to apply IAS 39. These amendments will be applicable from 1 January 2018.
- In January 2016, IASB published IFRS 16 "Leases". This new standard will replace the current IAS 17. The main change concerns the recognition in the accounts by the lessees which, on the basis of IAS 17, were obliged to make a distinction between a finance lease (recognised in accordance with the discounted cash flow method) and an operating lease (recognised on a straight-line basis). With IFRS 16, the accounting treatment of operating leases will be placed on the same footing as finance leases. The IASB envisaged the optional exemption for certain lease agreements with a low value and which are short-term.
  This standard will be applicable from 1 January 2019. Early application will be possible if IFRS 15 "Revenues from Contracts with Customers" is adopted at the same time.
  The Group is currently assessing alternative solutions for assessing and determining the potential impact.

9. Accounting standards, amendments and interpretations not yet applicable

As of the date of these financial statements, furthermore, the competent bodies of the European Union have not yet concluded the approval process necessary for the adoption of the following accounting standards and amendments:

- In June 2016, IASB issued an amendment to IFRS 2 "Share-based Payment". These amendments clarify how to recognise certain share-based payments. These amendments will be applicable from 1 January 2018;
- In January 2016, IASB issued an amendment to IAS 40 "Investment Property". These amendments clarify that change of use is a necessary condition for transfers to or from investment property. These amendments will be applicable from 1 January 2018;
- In December 2016 IASB issued a series of annual amendments to the 2014-2016 IFRS. The amendments concern:
  - 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 related IFRS standards and we do not envisage them having a significant impact on either the financial statements or on disclosure;
- In December 2016, IASB issued IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration". The amendment deals with the exchange rate to use in transactions and advance consideration paid or received in foreign currency. The amendment will be applicable from 1 January 2018.
- In May 2017, IASB issued the new standard IFRS 17 "Insurance Contracts". The new standard will replace IFRS 4 and will be applicable from 1 January 2021.
- In June 2017, IASB published IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments", which provides information on how to recognise income taxes taking into consideration uncertainties over the tax treatment of specific situations. IFRIC 23 will come into force on 1 January 2019.

The Group will adopt these new standards, amendments and interpretations, based on the expected date of application, and will assess their potential impact, when these have been approved by the European Union.

10. Main decisions in the application of accounting standards and uncertainties in making estimates

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

Provision for inventory write-down

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

Provision for doubtful receivables

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

Goodwill and intangible assets with a finite life

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

Employee benefits and non-competition agreements

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

Deferred tax assets

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

Current and non-current provisions

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

11. Financial instruments: supplementary disclosure pursuant to IFRS 7

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

Exchange rate risks

The Group is exposed to the risk of fluctuations in exchange rates in relation to commercial transactions and the cash held in currencies other than the euro, the Group's functional currency. Around 28% of sales are denominated in a different currency. Specifically, the Group is most exposed to the following exchange rates:

- EUR/USD to the tune of 9%, mainly related to the commercial transactions of the Parent Company Gefran S.p.A. and the subsidiary Gefran Inc.;
- EUR/RMB to the tune of 10%, mainly related to the Chinese operating company Gefran Siei Drives Technology;
- the remainder is divided between EUR/BRL, EUR/GBP, EUR/CHF, EUR/INR and EUR/TRL.

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

Description	**31 December 2017**		**31 December 2016**	
(EUR /.000)	-5%	+5%	-5%	+5%
Chinese renminbi	(2)	2	30	(27)
US dollar	4	(4)	35	(31)
Total	2	(2)	65	(58)

Description	**31 December 2017**		**31 December 2016**	
(EUR /.000)	-10%	+10%	-10%	+10%
Chinese renminbi	(4)	4	64	(52)
US dollar	9	(8)	73	(60)
Total	5	(4)	137	(112)

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

Description	31 December 2017		31 December 2016	
(EUR /.000)	-5%	+5%	-5%	+5%
Chinese renminbi	(155)	140	(76)	68
US dollar	64	(58)	63	(58)
Total	(91)	82	(13)	10

Description	31 December 2017		31 December 2016	
(EUR /.000)	-10%	+10%	-10%	+10%
Chinese renminbi	(326)	267	(160)	131
US dollar	136	(111)	134	(111)
Total	(190)	156	(26)	20

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

Description	31 December 2017		31 December 2016	
(EUR /.000)	-5%	+5%	-5%	+5%
Chinese renminbi	1,957	748	763	(691)
US dollar	112	(485)	354	(321)
Total	2,069	263	1,117	(1,012)

Description	31 December 2017		31 December 2016	
(EUR /.000)	-10%	+10%	-10%	+10%
Chinese renminbi	2,662	226	1,612	(1,319)
US dollar	460	(743)	748	(613)
Total	3,122	(517)	2,360	(1,932)

Interest rate risk

The interest rate risk to which the Group is exposed mainly originates from long-term financial payables with variable interest rate. Variable -rate loans expose the Group to a risk associated with interest rate volatility (cash flow risk). The Group uses derivatives to hedge its exposure to interest rate risk, entering into Interest Rate Swap (IRS) and Interest Rate Cap (CAP) contracts.

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

The table below shows a sensitivity analysis of the impact that an interest rate increase/decrease of 100 basis points would have on the consolidated net profit/(loss), comparing interest rates at 31 December 2017 and 31 December 2016, while keeping other variables unchanged.

(EUR /.000)	**2017**		**2016**	
	-100	100	-100	100
EUR	40	(124)	7	(44)
Total	**40**	**(124)**	**7**	**(44)**

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

The net liabilities considered in this analysis include variable-rate financial receivables and payables, cash and cash equivalents and financial derivatives, the value of which is affected by interest rate fluctuations.

The table below shows the carrying value at 31 December 2017, broken down by maturity, of the Group's financial instruments exposed to the interest rate risk:

Variable rate	<1 year	1-5 years	>5 years	Total
(EUR /.000)				
Loans due	9,462	13,933	-	23,395
Other accounts payable	47	-	-	47
Account overdrafts	5,490	-	-	5,490
Cash pooling current account overdrafts	-	-	-	-
Leases	-	-	-	-
Total liabilities	**14,999**	**13,933**	**-**	**28,932**
Cash in current accounts	23,913	-	-	23,913
Other cash	-			-
Cash in cash pooling current accounts	-	-	-	-
Total assets	**23,913**	**-**	**-**	**23,913**
Total variable rate	**8,914**	**(13,933)**	**-**	**(5,019)**

Unlike net financial position figures, the amounts shown in the table above do not include the fair value of derivatives (negative at EUR 20 thousand), cash on hand (positive at EUR 94 thousand) or deferred financial income (positive at EUR 165 thousand).

Liquidity risk

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

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

Description	2017	2016	Change
(EUR /.000)			
Cash and cash equivalents	94	86	8
Cash in bank deposits	23,913	20,388	3,525
Term deposits – less than 3 months	-	3	(3)
Total liquidity	**24,007**	**20,477**	**3,530**
Multiple mixed credit lines	15,283	15,000	283
Cash flexibility credit lines	8,835	8,785	50
Invoice factoring credit lines	12,604	12,934	(330)
Total credit lines available	**36,722**	**36,719**	**3**
Total liquidity available	**60,729**	**57,196**	**3,533**

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

	Level 1	Level 2	Level 3	Total
(EUR /.000)				
Available-for-sale assets valued at fair value:				
Shareholdings valued at fair value with a balancing item in other overall profit/(loss)	562	-	1,444	2,006
Hedging transactions	-	56	-	56
Total assets	**562**	**56**	**1,444**	**2,062**
Hedging transactions	-	(76)	-	(76)
Foreign exchange forward transactions	-	-	-	-
Total liabilities	**-**	**(76)**	**-**	**(76)**

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

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

Level 3: Fair values determined using evaluation techniques based on variables that may not be observed, and in particular the values of equity investments in other companies that are not listed on international markets whose overall value has not suffered overall changes compared to 31 December 2016.

Below is a reconciliation of financial asset and liability classes, as identified in the Group's statement of financial position, and the types of financial assets and liabilities identified on the basis of IFRS 7 requirements, for the year 2017:

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

Credit risk

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

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

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

At 31 December 2017, gross trade receivables totalled EUR 32,288 thousand (EUR 35,129 thousand at 31 December 2016), and included EUR 2,315 thousand (EUR 2,632 thousand at 31 December 2016) related to receivables subject to individual impairment; of the remaining amount, the sum overdue by less than two months was EUR 2,457 thousand (EUR 2,238 thousand at 31 December 2016), while that overdue by more than two months was EUR 1,357 thousand (EUR 6,569 thousand at 31 December 2016).

Risk of change in raw material prices

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

Fair value of financial instruments

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

The table below summarises the Group's net financial position, comparing fair value and carrying value:

	carrying value		fair value	
(EUR /.000)	**2017**	**2016**	**2017**	**2016**
Financial assets				
Cash and cash equivalents	93	86	93	86
Cash in bank deposits	23,913	20,388	23,913	20,388
Securities held for trading	-	3	-	3
Financial assets for derivatives	56	4	56	4
Non-current financial assets	166	-	166	-
Total financial assets	**24,228**	**20,481**	**24,228**	**20,481**
Financial liabilities				
Current portion of long-term debt	(9,462)	(9,857)	(9,462)	(9,857)
Short-term bank debt	(5,490)	(7,226)	(5,490)	(7,226)
Financial liabilities for derivatives	(76)	(220)	(76)	(220)
Factoring	(39)	(43)	(39)	(43)
Leasing	-	-	-	-
Other financial payables	(8)	(8)	(8)	(8)
Non-current financial debt	(13,933)	(16,045)	(13,933)	(16,045)
Total financial liabilities	**(29,008)**	**(33,399)**	**(29,008)**	**(33,399)**
Total net debt	**(4,780)**	**(12,918)**	**(4,780)**	**(12,918)**

12. Non-recurring income (charges)

(EUR /.000)	Other revenues and income	Personnel costs	Total
Non-recurring charges		(321)	(321)
Total non-recurring income (charges)	**-**	**(321)**	**(321)**
Financial statement total	**1,169**	**(44,300)**	
Incidence	0.00%	0.72%	

At 31 December 2017, there were no non-recurring revenues, unlike 2016 when they amounted to EUR 675 thousand, relating to government grants awarded to the Chinese subsidiary in respect of incentives for research and development granted to technology companies.

Non-recurring personnel costs are attributable to costs incurred by the subsidiaries Gefran Deutschland GmbH and Gefran France to complete the restructuring process started in 2016.

At 31 December 2016 these costs amounted to EUR 1,864 thousand.

13. Information by business area

Primary segment – sector of activity

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

Profit and Loss by business area

	(EUR /.000)	Sensors	Automation Components	Motion Control	Elimina-tions	Not divided	31 December 2017
a	Revenues	58,437	35,743	38,675	(4,216)		128,639
b	Increases for internal work	71	387	152	-		610
c	Consumption of materials and products	14,193	12,516	21,251	(4,216)		43,745
d	**Added value (a+b-c)**	**44,315**	**23,614**	**17,576**		**-**	**85,504**
e	Other operating costs	10,636	5,407	6,123	-		22,165
f	Personnel costs	17,384	14,540	12,376	-		44,300
g	**EBITDA (d-e-f)**	**16,295**	**3,667**	**(923)**		**-**	**19,039**
h	Depreciation, amortisation and impairment	3,072	2,337	2,481	-		7,890
i	**EBIT (g-h)**	**13,223**	**1,330**	**(3,404)**		**-**	**11,149**
l	Gains (losses) from financial assets/liabilities					(2,400)	(2,400)
m	Gains (losses) from shareholdings valued at equity					156	156
n	**Profit (loss) before tax (i±l±m)**	**13,223**	**1,330**	**(3,404)**		**(2,244)**	**8,905**
o	Taxes					(2,228)	(2,228)
p	**Result from operating activities (n±o)**	**13,223**	**1,330**	**(3,404)**		**(4,472)**	**6,677**
q	Profit (loss) from assets held for sale					187	187
r	**Group net profit (loss) (p±q)**	**13,223**	**1,330**	**(3,404)**		**(4,285)**	**6,864**

	(EUR /.000)	Sensors	Automation Components	Motion Control	Eliminations	Not divided	31 December 2016
a	Revenues	50,069	32,435	40,217	(3,391)		119,330
b	Increases for internal work	319	553	247	-		1,119
c	Consumption of materials and products	11,235	11,013	22,868	(3,391)		41,726
d	Added value (a+b-c)	39,153	21,975	17,596	-	-	78,723
e	Other operating costs	9,470	5,142	7,441	-		22,052
f	Personnel costs	16,293	14,432	14,622	-		45,347
g	EBITDA (d-e-f)	13,390	2,401	(4,467)	-	-	11,324
h	Depreciation, amortisation and impairment	2,238	1,824	2,147	-		6,209
i	EBIT (g-h)	11,152	577	(6,614)	-	-	5,115
l	Gains (losses) from financial assets/liabilities					(823)	(823)
m	Gains (losses) from shareholdings valued at equity					5	5
n	Profit (loss) before tax (i±l±m)	11,152	577	(6,614)	-	(818)	4,297
o	Taxes					(835)	(835)
p	Result from operating activities (n±o)	11,152	577	(6,614)	-	(1,653)	3,462
q	Profit (loss) from assets held for sale					486	486
r	Group net profit (loss) (p±q)	11,152	577	(6,614)	-	(1,167)	3,948

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

Statement of financial position figures by business area

(EUR /.000)	Sensors	Automation Components	Motion Control	Not divided	31 December 2017	Sensors	Automation Components	Motion Control	Not divided	31 December 2016
Intangible assets	7,465	2,600	2,540		12,605	8,472	2,901	2,980		14,353
Tangible assets	9,736	10,793	15,034		35,563	10,196	10,282	16,453		36,931
Other assets				11,733	11,733				10,176	10,176
Net non-current assets	**17,201**	**13,393**	**17,574**	**11,733**	**59,901**	18,668	13,183	19,433	10,176	61,460
Inventories	5,112	3,642	11,510		20,264	4,565	3,543	13,481		21,589
Trade receivables	10,860	8,004	10,522		29,386	9,279	7,652	13,814		30,745
Trade payables	(6,505)	(5,388)	(7,136)		(19,029)	(5,193)	(4,449)	(6,938)		(16,580)
Other assets/liabilities	(3,746)	(2,663)	(2,476)	(669)	(9,554)	(3,467)	(2,593)	(2,496)	(1,369)	(9,925)
Working capital	**5,721**	**3,595**	**12,420**	**(669)**	**21,067**	5,184	4,153	17,861	(1,369)	25,829
Provisions for risks and future liabilities	(933)	(66)	(449)	(304)	(1,752)	(937)	(297)	(965)	(261)	(2,460)
Deferred tax provisions				(647)	(647)				(1,005)	(1,005)
Employee benefits	(1,369)	(1,895)	(1,828)		(5,092)	(1,556)	(2,230)	(1,426)		(5,212)
Invested capital from operations	**20,620**	**15,027**	**27,717**	**10,113**	73,477	21,359	14,809	34,903	7,541	78,612
Invested capital from assets held for sale	**-**	**-**	**-**	**1,214**	**1,214**	-	-	-	1,214	1,214
Net invested capital	**20,620**	**15,027**	**27,717**	**11,327**	**74,691**	21,359	14,809	34,903	8,755	79,826
Shareholders' equity				**69,911**	**69,911**				66,908	66,908
Non-current financial payables				13,933	13,933				16,045	16,045
Current financial payables				14,999	14,999				17,134	17,134
Financial liabilities for derivatives				76	76				220	220
Financial assets for derivatives				(56)	(56)				(4)	(4)
Non-current financial assets				(166)	(166)					-
Cash and cash equivalents and current financial receivables				(24,006)	(24,006)				(20,477)	(20,477)
Net debt relating to operations	**-**	**-**	**-**	**4,780**	**4,780**	-	-	-	12,918	12,918
Total sources of financing	**-**	**-**	**-**	**74,691**	**74,691**	-	-	-	79,826	79,826

Secondary segment - revenues by geographical region

Geographical region	31 December 2017	31 December 2016	Change	%
(EUR /.000)				
Italy	36,925	34,365	2,560	7.4%
European Union	34,295	32,923	1,372	4.2%
Europe non-EU	7,181	6,662	519	7.8%
North America	13,775	13,929	(154)	-1.1%
South America	4,392	3,883	509	13.1%
Asia	30,142	25,694	4,448	17.3%
Rest of the World	753	610	143	23.4%
Total	**127,463**	**118,066**	**9,397**	**8.0%**

Secondary segment - investments by geographical region

	31 December 2017		31 December 2016	
Geographical region	intangible assets and goodwill	tangible assets	intangible assets and goodwill	tangible assets
(EUR / 000)				
Italy	938	4,372	1,398	1,217
European Union	4	66	0	26
Europe non-EU	7	8	1	38
North America	4	37	0	16
South America	3	136	0	113
Asia	4	62	0	154
Rest of the World	-1	1	0	2
Total	959	4,682	1,399	1,566

Secondary segment - non-current assets by geographical region

Geographical region	31 December 2017	31 December 2016	Change	%
(EUR /.000)				
Italy	45,561	46,548	(987)	-2.1%
European Union	2,345	2,118	227	10.7%
Europe non-EU	2,507	2,703	(196)	-7.3%
North America	3,761	4,410	(649)	-14.7%
South America	367	364	3	0.8%
Asia	5,525	5,317	208	3.9%
Rest of the World	0	0	0	n.s.
Total	**60,066**	**61,460**	**(1,394)**	**-2%**

14. Goodwill

"Goodwill" totalled EUR 5,753 thousand at 31 December 2017, a decrease of EUR 340 thousand compared with 31 December 2016, and breaks down as follows:

(EUR /.000)	31 December 2016	Increases	Decreases	Exchange rate differences	31 December 2017
Gefran France SA	1,310	-	-	-	1,310
Gefran India	44	-	-	(3)	41
Gefran Inc.	2,785	-	-	(337)	2,448
Sensormate AG	1,954	-	-	-	1,954
	6,093	-	-	(340)	5,753

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

The carrying values of goodwill are shown below.

Description	Year	Goodwill France	Goodwill India	Goodwill USA	Goodwill Switzerland	Total
(EUR /.000)						
Sensors	2017	1,310	-	2,448	1,954	5,712
	2016	1,310	-	2,785	1,954	6,049
Motion Control	2017	-	41	-	-	41
	2016	-	44	-	-	44
Total	**2017**	**1,310**	**41**	**2,448**	**1,954**	**5,753**
	2016	**1,310**	**44**	**2,785**	**1,954**	**6,093**

In examining the possible impairment indicators and in developing its valuations, management also took into account, among other things, the relation between the market capitalisation and the carrying value of the Group shareholders' equity, which was very positive at 31 December 2017.

As part of the analysis on the recoverability of the goodwill values, in accordance with the main instructions of IAS 36, the values in use of the Group and of the CGUs mentioned above, to which the tested assets were allocated, were determined. This exercise was based on the forecast discounted cash flows, produced by the CGUs subject to analysis, appropriately discounted by means of the rates that reflect the risk.

Goodwill relating to the France, USA and Switzerland CGUs has been assigned to the sensors business unit, that relating to the India CGU to the motion control business unit. For impairment testing purposes, all goodwill is examined on the basis of data from the specific CGUs, which correspond to the subsidiaries operating in the aforesaid geographical regions.

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

Description	Net invested capital 31/12/2017	Net invested capital 31/12/2016	Explicit forecast	WACC (%)	Value in use 31/12/2017	Risk free (%)	Risk premium (%)	Theoretical tax rate (%)
(EUR /.000)								
Consolidated	74,691	85,038	2018 - 2020	9.8%	170,623	2.8%	6.2%	29.0%

Description	Net invested capital 31/12/2017	Net invested capital 31/12/2016	Explicit forecast	WACC (%)	Value in use 31/12/2017	Risk free (%)	Risk premium (%)	Theoretical tax rate (%)
(EUR /.000)								
France	1,310	1,310	2018 - 2020	7.2%	3,980	0.9%	6.0%	34.4%
India	41	44	2018 - 2020	12.2%	772	7.3%	7.3%	27.6%
USA	2,448	2,785	2018 - 2020	6.9%	36,972	2.7%	5.1%	21.0%
Switzerland	1,954	1,954	2018 - 2020	6.4%	6,749	0.1%	6.0%	16.0%
Total	**5,753**	**6,093**						

When determining the value in use, the specific cash flows relating to the period 2018 - 2020 were considered, deriving from the Group Plan, along with the terminal value, which represents the ability to generate cash flows beyond the explicit forecast time scale.

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

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

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

The return on risk-free assets was benchmarked to the yield on government bonds of countries in which the Group and the CGUs operate.

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

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

An impairment test sensitivity analysis shows that the break-even WACC, i.e. the discount rate that would bring the value in use into line with the net invested capital value, is 17.9%, significantly higher than the current discount rate.

The recoverable amount of goodwill was determined according to the calculation of the value in use, which used projections of the three-year cash flow based on the 2018 - 2020 Plan, approved by management. The impairment test of the above assets did not reveal any lasting loss of value.

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

Description *(Euro /.000)*	**"g" rate %**	**WACC %**	**A**	**B**
Goodwill - *STEADY CASE*				
France	1.8%	7.2%	-14%	25.8%
India	4.9%	12.2%	-2.1%	20.4%
USA	2.3%	6.9%	-67.4%	n.s.
Switzerland	1.0%	6.4%	-7.5%	15.9%

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

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

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

In this scenario, a "worst case" version was prepared, in which flows from new products in the 2018 – 2020 Plan have been completely excluded, a 3% deterioration of added value on the existing products in the same period was assumed, and the growth rate was zeroed in nominal terms (negative in real terms in the presence of inflation), both for Consolidated figures and for goodwill.

In the case of the impairment test on the Group Consolidated figures, the break-even WACC would be equal to 12% and always higher than the discount rate used. Also, in the "worst case" impairment activities of the four sets of goodwill, the break-even WACCs would be higher than the respective discount rates, and specifically France 11%, USA 65% and Switzerland 9%.

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

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

15. Intangible assets

"Intangible assets" exclusively comprise assets with a finite life, and decreased from EUR 8,260 thousand at 31 December 2016 to EUR 6,852 thousand at 31 December 2017. The changes during the period are shown below.

Historical cost	31 December 2016	Increases	Decreases	Reclassifica-tions	Exchange rate differences	31 December 2017
(EUR /.000)						
Development costs	16,716	479	-	565	-	17,760
Intellectual property rights	1,669	127	(3)	5,045	(51)	6,787
Assets in progress and payments on account	836	248	-	(712)	-	372
Other assets	7,404	105	-	1,908	(33)	9,384
Total	26,625	959	(3)	6,806	(84)	34,303

Accumulated amortisation	31 December 2016	Increases	Decreases	Reclassifica-tions	Exchange rate differences	31 December 2017
(EUR /.000)						
Development costs	11,981	1,508	-	-	-	13,489
Intellectual property rights	736	326	(3)	5,008	(34)	6,032
Other assets	5,648	490	-	1,799	(7)	7,930
Total	18,365	2,324	(3)	6,807	(41)	27,451

Net value	31 December 2016	31 December 2017	Change
(EUR /.000)			
Development costs	4,735	4,271	(464)
Intellectual property rights	933	755	(178)
Assets in progress and payments on account	836	372	(464)
Other assets	1,756	1,454	(302)
Total	8,260	6,852	(1,408)

The table of changes relating to 2016 follows:

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

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

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

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

- EUR 1,019 thousand relating to new lines for mobile hydraulics, melt sensors, pressure transducers (KS) and contactless linear position transducers (MK–IK and RK);
- EUR 1,942 thousand for component lines for the new range of regulators and static units, GF Project VX, G Cube Performa and G Cube Fit;
- EUR 1,310 thousand relating to the new range of ADV 200 drives, lift and power supplies.

These assets are estimated to have a useful life of five years.

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

Assets in progress and payments on account include payments on account made to suppliers to purchase software programs and licences expected to be delivered during the next year. They also include EUR 106 thousand of development costs, allocated to the motion control business, whose benefits will be included in the income statement for the following year, so they are not amortised.

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

The increases in historical value of "Intangible assets", amounting to EUR 959 thousand in 2017, include EUR 594 thousand linked to the capitalisation of internal costs.

16. Property, plant, machinery and tools

"*Property, plant, equipment and tools*" fell from EUR 36,931 thousand at 31 December 2016 to EUR 35,563 thousand at 31 December 2017. The changes are shown in the table below:

Historical cost	31 December 2016	Increases	Decreases	Reclassifica-tions	Exchange rate differences	31 December 2017
(EUR /.000)						
Land	4,535	-	-	-	(32)	4,503
Industrial buildings	39,826	74	(2)	25	(382)	39,541
Plant and machinery	37,336	1,976	(1,301)	298	(484)	37,825
Industrial and commercial equipment	19,488	489	(207)	61	(67)	19,764
Other assets	8,171	319	(428)	23	(227)	7,858
Assets in progress and payments on account	531	1,824	(7)	(404)	(4)	1,940
Total	109,887	4,682	(1,945)	3	(1,196)	111,431

Accumulated depreciation	31 December 2016	Increases	Decreases	Reclassificat ions	Exchange rate differences	31 December 2017
(EUR /.000)						
Industrial buildings	16,313	2,836	(2)	-	(147)	19,000
Plant and machinery	31,518	1,597	(1,281)	5	(376)	31,463
Industrial and commercial equipment	17,906	790	(193)	-	(60)	18,443
Other assets	7,219	343	(409)	(3)	(188)	6,962
Total	72,956	5,566	(1,885)	2	(771)	75,868

Net value	31 December 2016	31 December 2017	Change
(EUR /.000)			
Land	4,535	4,503	(32)
Industrial buildings	23,513	20,541	(2,972)
Plant and machinery	5,818	6,362	544
Industrial and commercial equipment	1,582	1,321	(261)
Other assets	952	896	(56)
Assets in progress and payments on account	531	1,940	1,409
Total	36,931	35,563	(1,368)

By contrast, the table of changes relating to 2016 follows:

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

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

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

During 2017, impairments for loss of value were made on buildings amounting to EUR 1,916 thousand, whereas fluctuations in exchange rates had a negative impact of approximately EUR 425 thousand.

The biggest changes during the year related to:

- investments in plant and production equipment of EUR 3,943 thousand in the Italian plants;

- EUR 355 thousand in the other Group subsidiaries, for production equipment and building upgrades;
- investments to upgrade the industrial buildings of the Parent Company, which totalled approximately EUR 329 thousand.

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

The increases in historical value of "*Property, plant, machinery and tools*", amounting to EUR 4,682 thousand in total in 2017, include EUR 16 thousand linked to the capitalisation of internal costs.

17. Shareholdings valued at equity

Description		31 December 2017	31 December 2016	Change
(EUR /.000)				
Ensun S.r.l.	*Shareholding*	*50.00%*	*50.00%*	
Via Stacca, 1	Investment value	1,451	1,451	0
Rodengo Saiano (BS)	Adjustment provision	(518)	(670)	152
	Net value	933	781	152
Axel S.r.l.	*Shareholding*	*15.00%*	*30.00%*	
Via Dandolo, 5	Investment value	138	273	(136)
Varese (VA)	Adjustment provision	0	(3)	4
	Net value	138	270	(132)
Total		1,071	1,051	

The adjustment provision booked at 31 December 2017 decreased during the year due to the valuation of the equity investment in Ensun S.r.l., thanks to the positive results achieved by its wholly-owned subsidiary BS Energia 2 S.r.l. and due to the valuation of Axel S.r.l.

18. Equity investments in other companies

"*Equity investments in other companies*" totalled EUR 2,006 thousand, showing an increase of EUR 50 thousand compared with the figure at 31 December 2016. The balance breaks down as follows:

(EUR /.000)	Shareholding	31 December 2017	31 December 2016	Change
Colombera S.p.A.	16.56%	1,416	1,416	0
Woojin Plaimm Co Ltd	2.00%	159	159	0
UBI Banca S.p.A.	n.s.	203	203	0
Other	-	28	27	1
Adjustment provision	-	200	151	49
Total		2,006	1,956	50

The equity investments in Colombera S.p.A. and those summarised in "Other" are valued at cost, as specified in note 11 "*Financial instruments: disclosures pursuant to IFRS 7*".

Equity investments are classed as held for sale and are recognised at fair value, derived from the stock market quotation, for Woojin Machinery Co. Ltd. (Seoul Stock Exchange) and for UBI Banca S.p.A. (Italian Stock Exchange).

The adjustment provision is due to the fair value adjustment and breaks down as follows:

(EUR /.000)	Shareholding	31 December 2017	31 December 2016	Change
Colombera S.p.A.	16.56%			0
Woojin Plaimm Co Ltd	2.00%	345	312	33
UBI Banca S.p.A.	n.s.	(145)	(161)	16
Other	-			0
Total		200	151	49

19. Receivables and other non-current assets

"Receivables and other non-current assets" are made up of cautionary deposits paid by Group companies and show a balance of EUR 89 thousand, compared with EUR 148 thousand last year.

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Cautionary deposits	89	148	(59)
Total	**89**	**148**	**(59)**

20. Net working capital

Net working capital totalled EUR 30,621 thousand, compared with EUR 35,754 thousand at 31 December 2016, and breaks down as follows:

(EUR /.000)	31 December 2017	31 December 2016	Change
Inventories	20,264	21,589	(1,325)
Trade receivables	29,386	30,745	(1,359)
Trade payables	(19,029)	(16,580)	(2,449)
Net amount	**30,621**	**35,754**	**(5,133)**

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

The value of the "*Inventories*" at 31 December 2017 is equal to EUR 20,264 thousand, down by EUR 1,325 thousand with respect to 31 December 2016. The balance breaks down as follows:

(EUR /.000)	**31 December 2017**	**31 December 2016**	**Change**
Raw materials, consumables and supplies	12,095	13,734	(1,639)
provision for raw materials	*(3,406)*	*(4,660)*	1,254
Work in progress and semi-finished products	7,406	6,678	728
provision for work in progress	*(1,280)*	*(1,040)*	(240)
Finished products and goods	7,802	9,845	(2,043)
provision for finished products	*(2,353)*	*(2,968)*	615
Total	**20,264**	**21,589**	**(1,325)**

The decrease in inventories is mainly attributable to the significant allocations made during the year to the obsolete and slow-moving inventories provision. The economic impact of the reduction of inventories amounts to EUR 531 thousand, as the average exchange rate for the period is used for the economic reporting of events.

The provision for obsolete and slow-moving inventories was adjusted for requirements through specific allocations amounting to EUR 2,940 thousand in 2017 (EUR 1,931 thousand in 2016).

"*Trade receivables*" totalled totalled EUR 29,386 thousand compared with EUR 30,745 thousand at 31 December 2016, a reduction of EUR 1,359 thousand, thanks to the reduction in the average collection days for receivables at Group level and the decrease in the incidence of payment delays compared with the contractual conditions; they are made up as follows:

(EUR /.000)	**31 December 2017**	**31 December 2016**	**Change**
Receivables from customers	32,288	35,129	(2,841)
Provision for doubtful receivables	*(2,902)*	*(4,384)*	1,482
Net amount	**29,386**	**30,745**	**(1,359)**

This includes receivables subject to recourse factoring transferred to a leading factoring company, by the Parent Company, for a total amount of EUR 44 thousand (EUR 44 thousand as at 31 December 2016). During the year no receivables subject to recourse factoring were transferred to factoring companies (EUR 5,053 thousand at 31 December 2016).

Receivables were adjusted to their estimated realisable value through the provision of a specific provision for doubtful receivables calculated on the basis of an examination of individual debtor positions. The provision at 31 December 2017 represents a prudential estimate of the current risk, and registered the following changes:

(EUR /.000)	**31 December 2016**	**Provisions**	**Uses**	**Releases**	**Exchange rate differences**	**31 December 2017**
Provision for doubtful receivables	**4,384**	**313**	**(1,632)**	**(10)**	**(154)**	**2,902**

Changes in the provision at 31 December 2016 were by contrast as follows:

(EUR /.000)	31 December 2015	Provisions	Uses	Releases	Exchange rate differences	31 December 2016
Provision for doubtful receivables	**3,812**	**911**	**(182)**	**(131)**	**(26)**	**4,384**

Uses of the provision include covering losses on unrecoverable receivables. The Group monitors the situation of the receivables most at risk and initiates the appropriate legal action. The carrying value of trade receivables is considered to approximate to their fair value.

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

"*Trade payables*" came to EUR 19,029 thousand compared with EUR 16,580 thousand at 31 December 2016.

They break down as follows:

(EUR / 000)	31 December 2017	31 December 2016	Change
Payables to suppliers	15,528	12,531	2,997
Payables to suppliers for invoices to be received	3,158	3,912	(754)
Payments on account received from customers	343	137	206
Total	**19,029**	**16,580**	**2,449**

The increase in trade payables is linked to the increase in investments made specifically during the last quarter and to the increase in purchases of materials both for inventories and for services.

21. Other assets

"*Other assets*" totalled EUR 4,859 thousand, compared with EUR 3,512 thousand at 31 December 2016. The item breaks down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Insurance	19	40	(21)
Rents and leasing	14	23	(9)
Services and maintenance	461	434	27
Receivables from employees	40	49	(9)
Advance payments to suppliers	251	147	104
Bank transaction fees	0	237	(237)
VAT reimbursements on vehicles LD 258/2006	0	128	(128)
IRES receivable IRAP non-deductibility	0	56	(56)
Other tax receivables	2,696	1,261	1,435
Other	1,378	1,137	241
Total	**4,859**	**3,512**	**1,347**

The overall increase is due mainly to the VAT receivable, included in "Other tax receivables"; the carrying value of "Other current assets" is considered to be approximately the fair value.

22. Current tax receivables and payables

At 31 December 2017 *"Current tax receivables"* amounted to EUR 668 thousand, in line with the amount at 31 December 2016 of EUR 734 thousand. The balance breaks down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Foreign tax receivables	668	734	(66)
Total	**668**	**734**	**(66)**

"Current tax payables" totalled EUR 2,502 thousand at 31 December 2017, up by EUR 1,154 thousand compared to the balance of EUR 1,348 thousand at 31 December 2016, and breaks down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
IRES (corporate income tax)	287	406	(119)
IRAP (regional production tax)	104	277	(173)
Foreign tax payables	2,111	665	1,446
Total	**2,502**	**1,348**	**1,154**

The increase in foreign tax payables is attributable to the taxes booked in the last quarter of 2017 for taxes on previous years.

23. Operating assets held for sale

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

The economic impacts specifically attributable to the photovoltaic business in 2017 are for the completion of the transfer of know-how, under the agreement to sell the licence for the production and sale of the string inverters to an Indian group, entered into in 2016.

The amount of EUR 187 thousand relates to the recognition of the remaining ancillary costs for the sale of the user licence and resulting release of the previous provision made based on an estimate of the necessary costs. The agreement royalties have not been valued, since tangible elements that enable pertinent valuations are not available.

24. Net financial position

The table below shows a breakdown of the net financial position:

(EUR /.000)	**31 December 2017**	**31 December 2016**	**Change**
Cash and cash equivalents and current financial receivables	24,006	20,477	3,529
Financial assets for derivatives	56	4	52
Non-current financial assets	166	-	166
Non-current financial payables	(13,933)	(16,045)	2,112
Current financial payables	(14,999)	(17,134)	2,135
Financial liabilities for derivatives	(76)	(220)	144
Total	**(4,780)**	**(12,918)**	**8,138**

The following table breaks down the net financial position by maturity:

(EUR /.000)	**31 December 2017**	**31 December 2016**	**Change**
A. Cash on hand	34	24	10
B. Cash in bank deposits	23,972	20,450	3,522
Term deposits – less than 3 months	-	3	(3)
C. Securities held for trading	-	3	(3)
D. Cash And cash equivalents (A+B+C)	**24,006**	**20,477**	**3,529**
Financial liabilities for derivatives	(76)	(220)	144
Financial assets for derivatives	56	4	52
E. Fair value hedging derivatives	(20)	(216)	196
F. Current portion of long-term debt	(9,462)	(9,857)	395
G. Other current financial payables	(5,537)	(7,277)	1,740
H. Total current financial payables (F+G)	**(14,999)**	**(17,134)**	**2,135**
I. Total current payables (E+H)	**(15,019)**	**(17,350)**	**2,331**
J. Net current financial debt (I+D)	**8,987**	**3,127**	**5,860**
L. Non-current financial assets	**166**	**0**	**166**
M. Non-current financial debt	**(13,933)**	**(16,045)**	**2,112**
N. Net financial debt (J+L+M)	**(4,780)**	**(12,918)**	**8,138**
of which to minorities:	*(4,780)*	*(12,918)*	*8,138*

The net financial position at 31 December 2017 is negative by EUR 4,780 thousand, an improvement over 31 December 2016 of EUR 8,138 thousand.

The change in net financial position was mainly due to positive cash flows from ordinary operations (EUR 21,337 thousand), partially mitigated by technical investments (EUR 5,641 thousand) and by dividends paid (EUR 3,600 thousand).

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

The free cash flow is positive by EUR 15,982 thousand compared with a positive flow of EUR 12,923 thousand in 2016, and thus it has improved by EUR 3,059 thousand, mainly due to the additional flows generated by operations during the year, the dynamics of which were illustrated above.

Cash and cash equivalents amounted to EUR 24,006 thousand at 31 December 2017, compared with EUR 20,477 thousand at 31 December 2016.

They break down as follows:

(EUR / 000)	**31 December 2017**	**31 December 2016**	**Change**
Cash in bank deposits	23,913	20,388	3,525
Cash	34	24	10
Term deposits – less than 3 months	-	3	(3)
Other cash	59	62	(3)
Total	**24,006**	**20,477**	**3,529**

The technical forms used at 31 December 2017 are shown below:
- maturities: payable on demand;
- counterparty risk: deposits are made at leading banks;
- country risk: deposits are held in countries in which Group companies have their registered offices.

The increase in cash on hand is attributable to cash and cash equivalents derived from the two loans taken out and the three loans paid off in November 2017.

Current financial payables decreased by EUR 2,135 thousand at 31 December 2017 compared with 2016, and break down as follows:

(EUR /.000)	**31 December 2017**	**31 December 2016**	**Change**
Current portion of debt	9,462	9,857	(395)
Current overdrafts	5,490	7,226	(1,736)
Factoring	39	43	(4)
Other payables	8	8	-
Total	**14,999**	**17,134**	**(2,135)**

"Factoring", which is in line with the amount in 2016, comprises payables to factoring companies, for the payment extension period following the original maturity of the payable with certain suppliers, for which the Parent Company has accepted non-recourse assignment.

Bank overdrafts at 31 December 2017 totalled EUR 5,490 thousand, compared to a balance at 31 December 2016 of EUR 7,226 thousand. The item relates almost entirely to Gefran S.p.A. and has the following characteristics:

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

Non-current financial payables break down as follows:

Bank	31 December 2017	31 December 2016	Change
Centrobanca	-	1,456	(1,456)
Banco di Brescia	-	657	(657)
Unicredit SACE	-	750	(750)
Banco di Brescia	-	702	(702)
BNL	666	1,333	(667)
Banca Pop. Sondrio	195	964	(769)
Unicredit	-	900	(900)
Unicredit	-	2,000	(2,000)
Banca Pop. Emilia Romagna	1,272	2,283	(1,011)
Mediocredito	3,000	5,000	(2,000)
Unicredit	4,800	-	4,800
BNL	4,000	-	4,000
Total	**13,933**	**16,045**	**(2,112)**

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

Bank	Amount disbursed (€/000)	Signing date	Balance at 31 December 2017	Of which within 12 months	Of which over 12 months	Interest rate	Maturity	Repayment method
Centrobanca	EUR 10,976	04/09/2008	1,463	1,463	-	Euribor 6m + 0.85%	01/10/2018	half-yearly
Banco di Brescia	EUR 6,000	31/05/2013	656	656	-	Euribor 3m + 3.90%	31/05/2018	quarterly
Banco di Brescia	EUR 3,000	28/11/2014	703	703	-	Euribor 3m + 1.75%	30/11/2018	monthly
BNL	EUR 3,000	19/12/2014	1,334	668	666	Euribor 6m + 1.35%	18/12/2019	half-yearly
Banca Pop. Sondrio	EUR 3,000	23/12/2014	964	769	195	Euribor 3m + 2.00%	22/12/2018	quarterly
Banca Pop. Emilia Romagna	EUR 4,000	06/08/2015	2,275	1,003	1,272	Euribor 3m + 1.25%	03/02/2020	quarterly
Mediocredito	EUR 10,000	07/08/2015	5,000	2,000	3,000	Euribor 3m + 1.35%	30/06/2020	quarterly
Unicredit	EUR 6,000	14/11/2017	6,000	1,200	4,800	Euribor 3m + 0.90%	30/11/2022	quarterly
BNL	EUR 5,000	23/11/2017	5,000	1,000	4,000	Euribor 3m + 0.85%	23/11/2022	quarterly
Total			**23,395**	**9,462**	**13,933**			

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

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

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

- consolidated net financial debt to equity ratio of ≤ 0.7.

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

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

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

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

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

- consolidated net financial debt to equity ratio of ≤ 0.7;
- Shareholders' Equity to Total Assets > 30%.

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

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

- consolidated net financial debt to EBITDA ratio of ≤ 3.5.

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

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

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

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

The Administration, Finance and Control Director is responsible for checking these contractual restrictions every quarter: the ratios calculated on the data at 31 December 2017 are fully observed and the loans have been distributed in the table of the maturities according to the forms originally envisaged by the agreements.

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

Financial assets for derivatives totalled EUR 56 thousand at 31 December 2017 and consist of the positive fair value recorded at the year-end of certain CAP contracts entered into by the Parent Company to hedge interest rate risks. **Financial liabilities for derivatives** totalled EUR 76 thousand, owing to the negative fair value of certain IRS contracts, also entered into by the Parent Company to hedge interest rate risks.

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

Bank *(Euro/000)*	Notional principal	Signing date	Notional at 31 December 2017	Derivative	Fair Value as at 31 December 2017	Long position rate	Short position rate
Banco di Brescia	EUR 3,000	28/11/2014	703	CAP	0	Strike Price 0.10%	Euribor 3m
BNL	EUR 3,000	19/12/2014	1,334	CAP	0	Strike Price 0.20%	Euribor 6m
Unicredit	EUR 6,000	14/11/2017	6,000	CAP	31	Strike Price 0%	Euribor 3m
BNL	EUR 5,000	23/11/2017	5,000	CAP	25	Strike Price 0%	Euribor 3m
Total financial assets for derivatives – interest rate risk					**56**		

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

Bank *(Euro/000)*	Notional principal	Signing date	Notional at 31 December 2017	Derivative	Fair Value as at 31 December 2017	Long position rate	Short position rate
Centrobanca	EUR 9,550	31/03/2010	1,463	IRS	(30)	Fixed 3.11%	Euribor 6m
Banca Pop. Emilia Romagna	EUR 4,000	01/10/2015	2,275	IRS + Floor	(20)	Fixed 0.15%	Euribor 3m
Intesa	EUR 10,000	05/10/2015	5,000	IRS	(26)	Fixed 0.16%	Euribor 3m
Total financial liabilities for derivatives – interest rate risk					**(76)**		

At 31 December 2017, no derivatives have been taken out to hedge exchange rate risk.

All the contracts described above are booked at fair value:

	at 31 December 2017		at 31 December 2016	
(EUR/000)	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Exchange rate risk	0	0	0	(5)
Interest rate risk	56	(76)	4	(215)
Total cash flow hedge	**56**	**(76)**	**4**	**(220)**

All derivatives were tested for effectiveness, with positive outcomes.

In order to support its operations, the Group has various credit lines granted by banks and other financial institutions available, mainly in the form of invoice factoring credit lines, cash flexibility and mixed credit lines for a total of EUR 44,339 thousand. Overall use of these lines at 31 December 2017 totalled EUR 5,535 thousand, with a residual available amount of EUR 38,804 thousand.

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

25. Shareholders' equity

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

(EUR /.000)	31 December 2017	31 December 2016	Change
Portion pertaining to the Group	69,911	66,908	3,003
Portion pertaining to minority interests	-	-	-
Net amount	**69,911**	**66,908**	**3,003**

Group shareholders' equity increased compared with 31 December 2016 by EUR 3,003 thousand, mainly due to the profit for the period of EUR 6,864 thousand, which was partially absorbed by the payment of dividends on the 2016 profit of EUR 3,600 thousand.

In consideration of the result for the year, the Board of Directors proposed, subject to approval of the shareholders' meeting, to pay a dividend of EUR 0.35 per unrestricted share.

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

At 31 December 2016 Gefran S.p.A. held 227,394 shares, amounting to 1.58% of the total, which were all sold during the first quarter of 2017 at an average price of EUR 4.96, for an overall total of EUR 1,129 thousand; at 31 December 2017 there were no own shares in the portfolio.

The Company has not issued convertible bonds.

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

- the share premium reserve, amounting to EUR 19,046 thousand, which is a capital reserve that includes the amounts received by the Company for the issue of shares at a price higher than their nominal value;
- the legal reserve, amounting to EUR 2,880 thousand, which is populated by the mandatory allocation of an amount not less than one-twentieth of annual net profits, until an amount equal to one-fifth of the share capital has been reached (which has already occurred);
- Share fair value measurement reserve (EUR 198 thousand), which includes effects recognised directly under shareholders' equity of the measurement at fair value of shares;
- the cash flow hedge reserve, which includes effects recognised directly under shareholders' equity as deriving from the measurement at fair value of financial derivatives to hedge cash flows from changes in interest rates and exchange rates, and is negative at EUR 9 thousand;
- the extraordinary reserve (EUR 9,255 thousand), which is recognised under "other reserves";
- the merger surplus reserve (EUR 858 thousand), which was set up in 2006 after the merger by incorporation of Siei S.p.A. and Sensori S.r.l. and is included under "other reserves";
- the reserve for conversion to IAS/IFRS (EUR 137 thousand), which is included under "other reserves";
- the employee benefits valuation reserve pursuant to IAS 19, which is negative at EUR 551 thousand and is included under "other reserves".

For details on the changes in equity reserves during the year, see the schedule showing changes in shareholders' equity.

Changes in the *"Fair value measurement reserve"* are shown in the table below:

(EUR /.000)	31 December 2017	31 December 2016	Change
Balance at 1 January	151	(10)	161
UBI Banca S.p.A. shares	16	(57)	73
Woojin Plaimm Co Ltd shares	33	218	(185)
Tax effect	(2)	-	(2)
Net amount	**198**	**151**	**47**

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

(EUR /.000)	31 December 2017	31 December 2016	Change
Balance at 1 January	(216)	(249)	33
Change in fair value of derivatives	204	33	171
Tax effect	3	-	3
Net amount	**(9)**	**(216)**	**204**

26. Earnings per share

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

	2017	2016
Basic earnings per share		
- Profit (loss) for the period pertaining to the Group *(EUR/000)*	6,864	3,948
- Average no. of ordinary shares *(no./000,000)*	14.36	14.17
- Basic earnings per ordinary share	0.478	0.279
Diluted earnings per share		
- Profit (loss) for the period pertaining to the Group *(EUR/000)*	6,864	3,948
- Average no. of ordinary shares *(no./000,000)*	14.36	14.17
- Basic earnings per ordinary share	0.478	0.279
Average number of ordinary shares	**14,362,101**	**14,173,583**

27. Employee benefits

Liabilities relating to *"Employee benefits"* decreased by EUR 120 thousand and changed as follows:

Description	31 December 2016	Increases	Decreases	Discounting	Other changes	Exchange rate differences	31 December 2017
(EUR /.000)							
Post-employment benefits	5,212	71	(815)	(48)	-	(1)	4,419
Non-competition agreements	-	357	(8)	324	-	-	673
Total	**5,212**	**420**	**(815)**	**276**	**0**	**(1)**	**5,092**

Changes relating to 2016 were as follows:

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

This item mainly comprises the post-employment benefit reserve for the employees of the Parent Company Gefran S.p.A. and Gefran Soluzioni S.r.l. The change during the year was due to an increase of EUR 71 thousand, resulting from disbursements to employees of EUR 815 thousand and from the discounting of the liability existing at 31 December 2017 pursuant to IAS, which was positive and equal to EUR 48 thousand (interest costs of EUR 7 thousand and actuarial gains of EUR 55 thousand).

"*Non-competition agreements*" refer to the amount of the obligation to certain employees, all of Italian subsidiaries, who have signed such agreements to protect the company from any competitive activities. The discounting of the obligation was equal to EUR 324 thousand, due exclusively to the valuation of the actuarial loss.

Pursuant to IAS 19, the post-employment benefit reserve and the non-competition agreements were valued using the "traditional unit credit" method.

The post-employment benefit reserve valuation breaks down as follows:

- any future benefits that might be paid out to each employee registered with the scheme in the event of retirement, death, disability, resignations, etc. are projected using a series of financial assumptions. The estimate of future benefits does not include any increases for further service periods accrued or any presumed increase in pay at the valuation date, as any future increases in the post-employment benefit reserve are fully transferred to supplementary pension funds;
- at the valuation date, based on the annual interest rate used and the probability that every benefit has to be effectively paid, the *average current value of future benefits* is calculated;
- the liability for the Company is defined by identifying, in proportion to the length of service accrued, the portion of the *average current value of future benefits* that relates to the service already accrued by the employee at the valuation date;
- based on the liability calculated as per the previous point and the reserve created in the financial statements for Italian statutory purposes, the reserve recognised as valid for IAS purposes is identified.

More specifically, the following assumptions were used:

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

Financial assumptions	Managers	Non-managers
Increase in the cost of living	1.5% annually	1.5% annually
Discount rate	1.5% annually	1.5% annually
Pay increase		
- equal to or less than 40 years of age	0%	0%
- over 40, but equal to or less than 55 years of age	0%	0%
- over 55 years of age	0%	0%

However, this is the method applied to valuing non-competition agreements:

- any future benefits that might be paid out to each employee registered with the scheme in the event of retirement, death, disability, resignations, etc. are projected using a series of financial assumptions;
- at the valuation date, based on the annual interest rate used and the probability that every benefit has to be effectively paid, the *average current value of future benefits* is calculated;
- the liability for the Company is defined by identifying, in proportion to the length of service accrued, the portion of the *average current value of future benefits* that relates to the service already accrued by the employee at the valuation date;
- based on the liability calculated as per the previous point and the reserve created in the financial statements for Italian statutory purposes, the reserve recognised as valid for IAS purposes is identified.

More specifically, the following assumptions were used:

Demographic assumptions	
Probability of death	ISTAT 2014 Mortality tables
Probability of disability	Unisex tables drawn up by the CNR (National Research Council) reduced by 80%
Probability of resignation - up to 67 years of age - subsequently	 4.0% in each year Nil
Probability of retirement	Calculated according to the rules set forth in the Monti-Fornero law.

Financial assumptions	
Increase in the cost of living	1.5% annually
Discount rate	1.5% annually
Annual pay increase	1.5% annually

The sensitivity analysis carried out on the assumptions of 1% and 0.5% changes in the discount rate used is shown below:

Description	**31 December 2017**		**31 December**	
(EUR /.000)	-1.0%	1.0%	-1.0%	1.0%
Post-employment benefit reserve	(461)	413	(568)	506
Non-competition agreements	(32)	29	-	-
Total	(493)	442	(568)	506

Description	**31 December 2017**		**31 December**	
(EUR /.000)	-0.5%	0.5%	-0.5%	0.5%
Post-employment benefit reserve	(224)	212	(276)	260
Non-competition agreements	(16)	15	-	-
Total	(240)	227	(276)	260

28. Current and non-current provisions

"Non-current provisions" decreased by EUR 1,038 thousand compared with 31 December 2016, and break down as follows:

(EUR /.000)	31 December 2016	Provisions	Uses	Releases	Exchange rate differences	31 December 2017
Gefran S.p.A. risk provisions						
- for legal disputes	1,030	-	(555)	(401)	-	74
- other provisions	85	-	-	-	-	85
Gefran Brasil risk provisions						
- for legal disputes	3	-	-	-	-	3
Gefran France risk provisions						
- for restructuring	96	119	(213)	-	-	2
Gefran GmbH risk provisions						
- for restructuring	103	251	(243)	-	-	111
Gefran Siei Drives Technology risk provisions						
- for restructuring	-	64	(59)	-	(1)	4
Total	**1,317**	**434**	**(1,070)**	**(401)**	**(1)**	**279**

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

"Current provisions" totalled EUR 1,473 thousand at 31 December 2017, up by EUR 330 thousand compared with 31 December 2016, and break down as follows:

(EUR /.000)	31 December 2016	Provisions	Uses	Releases	Exchange rate differences	31 December 2017
FISC	124	46	(15)	-	-	155
Product warranty	1,019	805	(511)	-	(20)	1,293
Other provisions	-	25	-		-	25
Total	**1,143**	**876**	**(526)**	**0**	**(20)**	**1,473**

The item referring to anticipated charges for repairs of products under warranty increased by EUR 274 thousand, mainly due to the adjustment of the provision during the year; at year-end, the adequacy of the provision was checked, with a positive outcome.

The *"FISC"* item mainly includes contractual treatments existing at the German subsidiaries Gefran Deutschland GmbH and Siei Areg.

29. Other liabilities

"Other liabilities" at 31 December 2017 came to EUR 12,579 thousand, compared with EUR 12,823 thousand at 31 December 2016. They break down as follows:

(EUR / 000)	31 December 2017	31 December 2016	Change
Payables to personnel	5,856	6,303	(447)
Social security payables	2,753	2,977	(224)
Accrued interest on loans	40	60	(20)
Payables to directors and statutory auditors	290	180	110
Other accruals	1,696	745	951
Other payables for taxes	1,531	2,223	(692)
Other current liabilities	413	335	78
Total	**12,579**	**12,823**	**(244)**

"Other accruals" increased by EUR 951 thousand compared with 31 December 2016 due to interest to pay on foreign taxes relating to previous years.

"Other payables for taxes" fell by EUR 692 thousand compared with the balance for 2016 for withholdings.

30. Revenues from product sales

"Revenues from product sales" totalled EUR 127,463 thousand in 2017, an increase of EUR 9,397 thousand on 2016. The following table provides a breakdown of sales and service revenues by business:

Sector	31 December 2017	31 December 2016	Change	%
(EUR /.000)				
Sensors	57,787	49,332	8,455	17.1%
Automation Components	32,167	29,643	2,524	8.5%
Motion Control	37,509	39,091	(1,582)	-4.0%
Total	**127,463**	**118,066**	**9,397**	**8.0%**

The amount shown under total revenues includes service revenues of EUR 2,965 thousand (EUR 2,949 thousand in 2016); see the Report on Operations for comments on the performance of the various businesses and geographical regions.

31. Other operating revenues and income

"Other operating revenues and income" totalled EUR 1,176 thousand, compared with revenues of EUR 1,264 thousand in 2016, as shown in the following table:

Description	31 December 2017	31 December 2016	Change	%
(EUR /.000)				
Recovery of company canteen expenses	19	21	(2)	-9.5%
Insurance reimbursements	3	71	(68)	-95.8%
Fees	(3)	0	(3)	n.s.
Government grants	88	684	(596)	-87.1%
Other income	1,069	488	581	119.1%
Total	**1,176**	**1,264**	**(88)**	**-7%**

The most significant changes concern the government grants to the Chinese affiliate, which fell by EUR 596 thousand and "*Other income*", which increased by EUR 581 thousand and includes charges for R&D developments specifically required by customers.

32. Costs of raw materials and accessories

"Costs of raw materials and accessories" came to EUR 43,214 thousand, compared with EUR 40,686 thousand at 31 December 2016. They break down as:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Raw materials and accessories	43,214	40,686	2,528

The item increased during the year by 6% and is related to the growth of revenues, although by a smaller percentage thanks to purchasing efficiency.

33. Service costs

"Service costs" totalled EUR 21,646 thousand, an increase on the value at the end of 2016 of EUR 19,635 thousand and are broken down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Services	19,695	17,559	2,136
Use of third-party assets	1,951	2,076	(125)
Total	**21,646**	**19,635**	**2,011**

34. Personnel costs

"Personnel costs" totalled EUR 44,300 thousand, up EUR 1,047 thousand compared to 31 December 2016, and are broken down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Salaries and wages	32,587	32,540	47
Social security contributions	8,592	8,881	(289)
Post-employment benefit reserve	2,484	1,960	524
Other costs	637	1,966	(1,329)
Total	**44,300**	**45,347**	**(1,047)**

"Social security contributions" include costs for defined contribution plans for management (Previndai pension plan) amounting to EUR 64 thousand (EUR 76 thousand at 31 December 2016).

The average number of Group employees in 2017 is shown below:

	31 December 2017	31 December 2016	Change
Managers	19	19	-
Clerical staff	468	504	(36)
Manual workers	244	247	(3)
Total	**731**	**770**	**(39)**

The average number of employees fell by 39 compared with 2016; the precise number at the end of 2017 was 730, in line with 31 December 2016. For more information, see the "Human Resources" section of the Report on Operations.

35. Miscellaneous management costs and other operating income

"Miscellaneous management costs" came to EUR 786 thousand, compared with EUR 1,726 thousand in 2016. The breakdown is as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Capital losses on the sale of assets	(22)	(119)	97
Losses on other receivables	-	(1)	1
Other taxes and duties	(505)	(505)	-
Membership fees	(207)	(186)	(21)
Miscellaneous	(52)	(915)	863
Total	(786)	(1,726)	940

"Miscellaneous" at 31 December 2016 included provisions for risks for a total of EUR 850 thousand.

"Other operating income" amounted to EUR 570 thousand, compared with EUR 89 thousand in 2016. They break down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Capital gains on the sale of assets	56	18	38
Collection of doubtful receivables	22	12	10
Release of risk provisions	401	-	401
Miscellaneous	91	59	32
Total	570	89	481

The change relates to the release of provisions during previous years.

36. Depreciation/amortisation

It amounts to EUR 7,890 thousand, compared with EUR 6,209 thousand for the same period in 2016; it includes EUR 1,916 thousand for adjusting tangible assets to fair value.

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Amortisation	2,324	2,344	(20)
Depreciation	5,566	3,865	1,701
Total	7,890	6,209	1,681

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

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Sensors	3,072	2,238	834
Automation Components	2,337	1,824	513
Motion Control	2,481	2,147	334
Total	7,890	6,209	1,681

37. Gains (losses) from financial assets/liabilities

The item had a negative balance of EUR 2,400 thousand; this compares with a negative balance of EUR 823 thousand in 2016, and breaks down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Cash management			
Income from cash management	71	40	31
Other financial income	54	199	(145)
Medium-/long-term interest	(439)	(743)	304
Short-term interest	(25)	(36)	11
Factoring interest and fees	(1)	(8)	7
Other financial charges	(1,084)	(43)	(1,041)
Total income (charges) from cash management	**(1,424)**	**(591)**	**(833)**
Currency transactions			
Exchange rate gains	1,266	871	395
Positive currency valuation differences	231	588	(357)
Exchange rate losses	(1,618)	(1,505)	(113)
Negative currency valuation differences	(855)	(188)	(667)
Total other income (charges) from currency transactions	**(976)**	**(234)**	**(742)**
Other			
Income from the sale of financial assets	-	2	(2)
Total other financial income (charges)	**-**	**2**	**(2)**
Gains (losses) from financial assets/liabilities	**(2,400)**	**(823)**	**(1,577)**

"Cash management charges" increased by EUR 833 thousand compared with the balance for 2016, due to financial charges for late payment of foreign taxes of EUR 1,049 thousand, without which the item in question would have had a balance down EUR 216 thousand.

The balance of the differences on currency transactions presented a negative value of EUR 976 thousand, compared with a negative value of EUR 234 thousand in 2016. The negative result for 2017 was mainly due to the appreciation of the Euro against the major currencies affecting the Group.

38. Gains (losses) from shareholdings valued at equity

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Result of companies valued at equity	156	5	151
Total	**156**	**5**	**151**

Gains from shareholdings valued at equity were EUR 156 thousand, an increase of EUR 151 thousand compared with the figure in 2016. This increase mainly relates to the pro-rata result of the Ensun S.r.l. Group.

39. Income taxes, deferred tax assets and deferred tax liabilities

"*Taxes*" were negative at EUR 2,228 thousand; this compares with a negative balance of EUR 835 thousand in 2016, and breaks down as follows:

(EUR /.000)	31 December 2017	31 December 2016	Change
Current taxes			
IRES (corporate income tax)	(136)	(438)	302
IRAP (regional production tax)	(571)	(282)	(289)
Foreign taxes	(3,360)	(1,360)	(2,000)
Total current taxes	**(4,067)**	**(2,080)**	**(1,987)**
Deferred taxes			
Deferred tax liabilities	271	(108)	379
Deferred tax assets	1,568	1,353	215
Total deferred tax liabilities	**1,839**	**1,245**	**594**
Total taxes	**(2,228)**	**(835)**	**(1,393)**

Current taxes grew by EUR 1,987 thousand compared with 2016 mainly due to the EUR 1,839 thousand recorded for foreign taxes on previous years.

The positive deferred taxes mainly originate from the recognition of deferred tax assets calculated on previous tax losses, further to the updating of the estimates on recoverability of the same based on the three-year plan for the period 2018-2020.

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

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

(EUR /.000)	31 December 2017	31 December 2016
Profit (loss) before tax	9,093	4,783
Theoretical income tax	(2,182)	(1,316)
Effect from use of losses carried forward	1,423	1,142
Rate effect for affiliates	(22)	(351)
Net effect of permanent differences	449	(877)
Net effect of permanent differences for affiliates	(872)	(510)
Net effect of temporary deductible and taxable differences	(793)	114
Effect of taxes from previous years	(1,499)	-
Current taxes	**(3,496)**	**(1,798)**
Income tax – deferred tax assets/liabilities	1,769	1,253
Recognised income taxes (excluding current and deferred IRAP)	**(1,727)**	**(545)**
IRAP - current taxes	(571)	(282)
IRAP – deferred tax assets/liabilities	70	(8)
Recognised income taxes (current and deferred)	**(2,228)**	**(835)**

For a greater understanding of the difference between tax charges recorded in the financial statements and the theoretical tax charge, it should be noted that the theoretical tax charge does not take IRAP into account, since this tax has a different taxable base from pre-tax profit and would therefore generate discrepancies from one year to the next. Theoretical taxes were therefore calculated solely by applying the current tax rate in Italy (IRES at 24% for in 2017 and 27.5% in 2016) to the pre-tax result.

The table below shows a breakdown of deferred tax assets and deferred tax liabilities for the year 2017:

(EUR /.000)	31 December 2016	Posted to the income statement	Recognised in shareholders' equity	Exchange rate differences	31 December 2017
Deferred tax assets					
Devaluation of inventories	1,358	86		(8)	1,436
Impairment of trade receivables	362	56		(1)	417
Impairment of assets	-	535		-	535
Deductible losses to be brought forward	3,617	1,538		(64)	5,091
Exchange rate differences	8	(8)		-	-
Elimination of unrealised margins on inventories	534	(90)		-	444
Provision for product warranty risk	204	81		-	285
Provision for sundry risks	938	(630)	65	(17)	356
Fair value hedging	-	-	3	-	3
Total deferred tax assets	7,021	1,568	68	(90)	8,567
Deferred tax liabilities					
Currency valuation differences	-	(10)		-	(10)
Other deferred tax liabilities	(1,005)	281	3	84	(637)
Total deferred tax liabilities	(1,005)	271	3	84	(647)
Net total	6,016	1,839	71	(6)	7,920

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

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

40. Guarantees granted, commitments and other contingent liabilities

Guarantees granted

At 31 December 2017, the Group had granted guarantees on payables or commitments of third parties or subsidiaries equal to EUR 10,558 thousand, in line with the figure for 31 December 2016, as summarised in the table below:

(EUR /.000)	2017	2016
UBI Leasing	5,918	5,918
BNL	-	2
Banca Intesa	1,100	1,100
Banca Passadore	2,750	2,750
Banco di Brescia	790	790
Total	10,558	10,560

A surety in favour of UBI Leasing was issued for a total of EUR 5,918 thousand, expiring in 2029, to guarantee financial requirements for the construction of photovoltaic systems by BS Energia 2 S.r.l. The residual liability at 31 December 2016 guaranteed by this surety amounts to EUR 2,704 thousand (EUR 2,907 thousand at 31 December 2016).

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

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

Legal proceedings and disputes

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

Commitments

The main operating lease contracts relate to property rentals, electronic equipment and company vehicles. At the reporting date, the payments still owed by the Group on irrevocable operating leases amounted to EUR 2,245 thousand, all falling due within the next five years.

41. Dealings with related parties

In accordance with IAS 24, information relating to dealings with related parties for 2017 and the previous year is provided below.

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

The Board of Directors of Gefran S.p.A. has adopted Regulations for transactions with related parties, the current version of which was approved on 3 August 2017 and published on the website www.gefran.com in the "corporate governance" section.

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

- Elettropiemme S.r.l., a subsidiary of Ensun S.r.l.: a company of which Ennio Franceschetti (Chairman and Chief Executive Officer of Gefran S.p.A.) is Chairman and Marco Giacometti (general manager of the Gefran S.p.A. motion control business units) is general manager;
- Climat S.r.l.: a company whose director and shareholder is a relative of Maria Chiara Franceschetti (CEO of Gefran S.p.A.);
- Francesco Franceschetti Elastomeri S.r.l.: a company of which Ennio Franceschetti (Chairman and Chief Executive Officer of Gefran S.p.A.) is a member of the Board of Directors;
- Ensun S.r.l., a company of which Ennio Franceschetti (Chairman and Chief Executive Officer of Gefran S.p.A.) is Chairman, and Giovanna Franceschetti (Executive Director of Gefran S.p.A.) is Managing Director.
- Axel S.r.l.: 15% of its share capital was sold in 2017 so it is no longer a related party; the data in the table refers only to 2016.

These dealings, summarised below, have no material impact on the Group's economic and financial structure. They are summarised in the following tables:

(EUR /.000)	Elettropiemme S.r.l.	Climat S.r.l.	Ensun S.r.l.	Axel S.r.l.	Francesco Franceschetti Elastomeri S.r.l.	Total
Revenues from product sales						
2016	55	0	52	4	54	165
2017	42	0	0	0	122	164
Service costs						
2016	-106	-151	0	-73	0	-330
2017	-57	-123	0	0	0	-180

(EUR /.000)	Elettropiemme S.r.l.	Climat S.r.l.	Ensun S.r.l.	Axel S.r.l.	Francesco Franceschetti Elastomeri S.r.l.	Total
Intangible assets						
2016	0	0	0	39	0	39
2017	0	0	0	0	0	0
Property, plant, machinery and tools						
2016	0	105	0	0	0	105
2017	0	168	0	0	0	168
Trade receivables						
2016	13	0	50	0	51	114
2017	12	0	0	0	43	55
Trade payables						
2016	0	38	0	8	0	46
2017	2	88	0	0	0	90

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

With regard to dealings with subsidiaries, the Parent Company Gefran S.p.A. provided technical, administrative and management services as well as royalties to the Group's operating subsidiaries amounting to around EUR 2.4 million, governed by specific contracts.

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

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

In 2017, the Parent Company Gefran S.p.A. recognised dividends from subsidiaries amounting to EUR 2,443 thousand (EUR 5,742 thousand in 2016).

Members of the Board of Directors and the Board of Statutory Auditors and managers with strategic responsibilities were paid the following aggregate remuneration: EUR 909 thousand included in personnel costs and EUR 938 thousand included in service costs.

Persons of strategic importance have been identified as executive members of the Board of Directors, the general managers of the business units and the director with strategic responsibilities, identified as the Group CFO/Financial Reporting Officer.

42. Information pursuant to Article 149 *duodecies* of the Consob Issuers' Regulations

The following schedule shows fees for 2017 for auditing services and services other than auditing provided by the external auditor and entities within its network.

Description	Party that provided the service	Recipient	Fees for 2017
(EUR / 000)			
External audit	PwC S.p.A.	Parent Company Gefran S.p.A.	86
	PwC network	Subsidiaries	217
External audit Non-Financial disclosure	PwC S.p.A.	Parent Company Gefran S.p.A.	19
Certification services	PwC S.p.A.	Parent Company Gefran S.p.A.	30
Total			352

43. Events after 31 December 2017

For information on operational performance in early 2018, please see the "Outlook" section.

No other significant events took place after the year-end.

44. Other information

Pursuant to Article 70, paragraph 8, and article 71, paragraph 1-*bis*, of Consob's Issuers' Regulations, the Board of Directors decided to take advantage of the option to derogate from the obligations to publish the information documents prescribed in relation to significant mergers, spin-offs, capital increases through contribution in kind, acquisitions and disposals.

Provaglio d'Iseo, 13 March 2018

For the Board of Directors

The Chairman

Ennio Franceschetti

The Chief Executive Officer

Alberto Bartoli

ANNEXES

1. Consolidated income statement by quarter

	(EUR /.000)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	TOT 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	TOT 2017
a	Revenues	29,524	30,138	28,905	30,763	**119,330**	32,278	32,772	29,101	34,488	**128,639**
b	Increases for internal work	408	292	179	240	**1,119**	168	142	113	187	**610**
c	Consumption of materials and products	9,539	10,526	10,416	11,245	**41,726**	11,121	11,446	9,600	11,578	**43,745**
d	Added value (a+b-c)	20,393	19,904	18,668	19,758	**78,723**	21,325	21,468	19,614	23,097	**85,504**
e	Other operating costs	5,563	5,628	5,688	5,173	**22,052**	5,584	5,744	5,220	5,617	**22,165**
f	Personnel costs	13,116	11,364	10,009	10,858	**45,347**	11,445	10,962	9,889	12,004	**44,300**
g	EBITDA (d-e-f)	1,714	2,912	2,971	3,727	**11,324**	4,296	4,762	4,505	5,476	**19,039**
h	Depreciation, amortisation and impairment	1,557	1,557	1,560	1,535	**6,209**	1,494	1,473	2,336	2,587	**7,890**
i	EBIT (g-h)	157	1,355	1,411	2,192	**5,115**	2,802	3,289	2,169	2,889	**11,149**
l	Gains (losses) from financial assets/liabilities	(761)	139	(378)	177	**(823)**	(237)	(756)	(169)	(1,238)	**(2,400)**
m	Gains (losses) from shareholdings valued at equity	(78)	34	59	(10)	**5**	(6)	(69)	58	173	**156**
n	Profit (loss) before tax (i±l±m)	(682)	1,528	1,092	2,359	**4,297**	2,559	2,464	2,058	1,824	**8,905**
o	Taxes	(516)	(275)	(632)	588	**(835)**	(751)	171	(419)	(1,229)	**(2,228)**
p	Result from operating activities (n±o)	(1,198)	1,253	460	2,947	**3,462**	1,808	2,635	1,639	595	**6,677**
q	Profit (loss) from assets held for sale	486	0	0	0	**486**	0	0	0	187	**187**
r	Group net profit (loss) (p±q)	(712)	1,253	460	2,947	**3,948**	1,808	2,635	1,639	782	**6,864**

2. Consolidated income statement by quarter – excluding non-recurring items

	(EUR /.000)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	TOT 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	TOT 2017
a	Revenues	29,003	30,138	28,905	30,609	**118,655**	32,278	32,772	29,101	34,488	**128,639**
b	Increases for internal work	408	292	179	240	**1,119**	168	142	113	187	**610**
c	Consumption of materials and products	9,539	10,526	10,416	11,245	**41,726**	11,121	11,446	9,600	11,578	**43,745**
d	Added Value (a+b-c)	19,872	19,904	18,668	19,604	**78,048**	21,325	21,468	19,614	23,097	**85,504**
e	Other operating costs	5,563	5,628	5,688	5,173	**22,052**	5,584	5,744	5,220	5,617	**22,165**
f	Personnel costs	11,224	11,217	10,009	11,033	**43,483**	11,124	10,962	9,889	12,004	**43,979**
g	EBITDA (d-e-f)	3,085	3,059	2,971	3,398	**12,513**	4,617	4,762	4,505	5,476	**19,360**
h	Depreciation, amortisation and impairment	1,557	1,557	1,560	1,535	**6,209**	1,494	1,473	2,336	2,587	**7,890**
i	EBIT (g-h)	1,528	1,502	1,411	1,863	**6,304**	3,123	3,289	2,169	2,889	**11,470**
l	Gains (losses) from financial assets/liabilities	(761)	139	(378)	177	**(823)**	(237)	(756)	(169)	(1,238)	**(2,400)**
m	Gains (losses) from shareholdings valued at equity	(78)	34	59	(10)	**5**	(6)	(69)	58	173	**156**
n	Profit (loss) before tax (i±l±m)	689	1,675	1,092	2,030	**5,486**	2,880	2,464	2,058	1,824	**9,226**
o	Taxes	(516)	(275)	(632)	588	**(835)**	(751)	171	(419)	(1,229)	**(2,228)**
p	Result from operating activities (n±o)	173	1,400	460	2,618	**4,651**	2,129	2,635	1,639	595	**6,998**
q	Profit (loss) from assets held for sale	486	0	0	0	**486**	0	0	0	187	**187**
r	Group net profit (loss) (p±q)	659	1,400	460	2,618	**5,137**	2,129	2,635	1,639	782	**7,185**

3. Exchange rates used to translate the financial statements of foreign companies

End-of-period exchange rates

Currency	31 December 2017	31 December 2016
Swiss franc	1.1702	1.0739
Pound sterling	0.8872	0.8562
US dollar	1.1993	1.0541
Brazilian real	3.9729	3.4305
Chinese renminbi	7.8044	7.3202
Indian rupee	76.6055	71.5935
Turkish lira	4.5464	3.7072

Average exchange rates in the period

Currency	2017	2016	Q4 2017	Q4 2016
Swiss franc	1.1116	1.0902	1.1625	1.0798
Pound sterling	0.8762	0.8189	0.8871	0.8691
US dollar	1.1293	1.1066	1.1777	1.0789
Brazilian real	3.6041	3.8616	3.8230	3.5540
Chinese renminbi	7.6264	7.3496	7.7896	7.3688
Indian rupee	73.4980	74.3553	76.2296	72.7238
Turkish lira	4.1214	3.3427	4.4820	3.5443

4. List of companies included in the scope of consolidation

Name	Registered office	Country	Currency	Share capital	Parent Company	% of direct ownership
Gefran UK Ltd	Warrington	UK	GBP	4,096,000	Gefran S.p.A.	100.00
Gefran Deutschland GmbH	Seligenstadt	Germany	EUR	365,000	Gefran S.p.A.	100.00
Siei Areg GmbH	Pleidelsheim	Germany	EUR	150,000	Gefran S.p.A.	100.00
Gefran France S.A.	Saint-Priest	France	EUR	800,000	Gefran S.p.A.	99.99
Gefran Benelux NV	Geel	Belgium	EUR	344,000	Gefran S.p.A.	100.00
Gefran Inc.	Winchester	US	USD	1,900,070	Gefran S.p.A.	100.00
Gefran Brasil Eletroel. Ltda	Sao Paolo	Brazil	BRL	450,000	Gefran S.p.A.	99.90
					Gefran UK	0.10
Gefran India Private Ltd	Pune	India	INR	100,000,000	Gefran S.p.A.	95.00
					Gefran UK	5.00
Gefran Siei Asia Pte Ltd	Singapore	Singapore	EUR	3,359,369	Gefran S.p.A.	100.00
Gefran Siei Drives Tech. Pte Ltd	Shanghai	China (PRC)	RMB	28,940,000	Gefran Siei Asia	100.00
Gefran Siei Electric Pte Ltd	Shanghai	China (PRC)	RMB	1,005,625	Gefran Siei Asia	100.00
Sensormate AG	Aadorf	Switzerland	CHF	100,000	Gefran S.p.A.	100.00
Gefran Middle East Ltd Sti	Istanbul	Turkey	TRY	1,030,000	Gefran S.p.A.	100.00
Gefran Soluzioni S.r.l.	Provaglio d'Iseo	Italy	EUR	100,000	Gefran S.p.A.	100.00

5. List of companies consolidated at equity

Name	Registered office	Country	Currency	Share capital	Parent Company	% of direct ownership
Ensun S.r.l.	Brescia	Italy	EUR	30,000	Gefran S.p.A.	50
BS Energia 2 S.r.l.	Rodengo Saiano	Italy	EUR	1,000,000	Ensun S.r.l.	50
Elettropiemme S.r.l.	Trento	Italy	EUR	70,000	Ensun S.r.l.	50
Axel S.r.l.	Dandolo	Italy	EUR	26,008	Gefran S.p.A.	15

6. List of other subsidiaries

Name	Registered office	Country	Currency	Share capital	Parent Company	% of direct ownership
Colombera S.p.A.	Iseo	Italy	EUR	8,098,958	Gefran S.p.A.	16.56
Woojin Plaimm Co Ltd	Seoul	South Korea	KRW	3,200,000,000	Gefran S.p.A.	2.00
UBI Banca S.p.A.	Bergamo	Italy	EUR	2,254,368,000	Gefran S.p.A.	n/s

CERTIFICATION OF CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION 11971 OF 14 MAY 1999 AS AMENDED

The undersigned **Alberto Bartoli**, in his capacity as Chief Executive Officer, and **Fausta Coffano**, in her capacity as Executive in charge of financial reporting of Gefran S.p.A. hereby certify, with due regard for the provisions of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:

- the adequacy, with respect to the Company's characteristics,

  and

- the effective application of the administrative and accounting procedures applied in the preparation of the consolidated financial statements in 2016.

There are no significant events to report in this regard.

They further certify that:

1. the consolidated financial statements:

- were prepared in accordance with applicable international accounting standards recognised in the European Union pursuant to EC Parliament and Council Regulation 1606/2002 of 19 July 2002;
- correspond to entries made in accounting ledgers and records;
- provide a true and accurate representation of the financial situation of the issuer and all companies included in the scope of consolidation.

2. The Report on Operations contains a reliable analysis of operating performance and results and of the condition of the issuer and all companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Provaglio d'Iseo, 13 March 2018

The Chief Executive Officer	The Executive in charge of financial reporting
Alberto Bartoli	***Fausta Coffano***

GEFRAN

GEFRAN GROUP CONSOLIDATED NON-FINANCIAL DISCLOSURE

AT 31 DECEMBER 2017

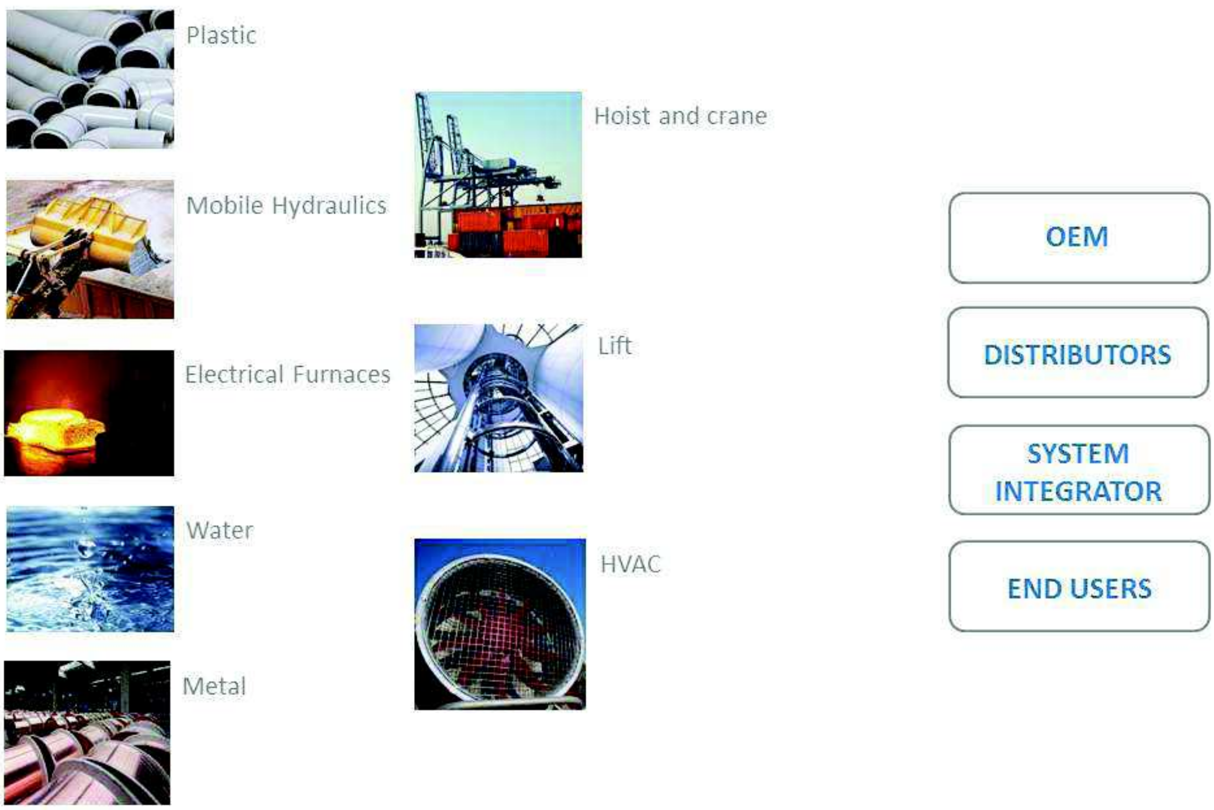
1. DESCRIPTION OF THE BUSINESS MODEL

Group profile

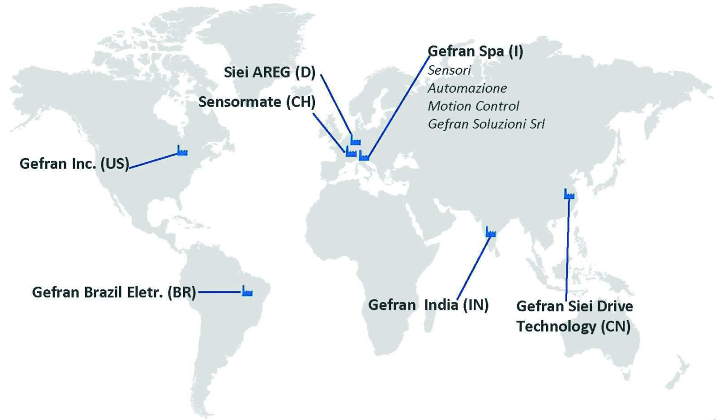
The Gefran Group was set up out of an entrepreneurial idea at the end of the sixties and made its mark immediately in Italy and abroad with the concept of an adjustment tool that would dictate standards in its sector. In the eighties, the company expanded its production to include sensors and then, having acquired a historic company in the electrical drives sector in the two thousands, widened its technological range. Since 1998 the Parent Company Gefran S.p.A. has been listed on the Milan Stock Exchange.

Today Gefran designs, produces and sells products in three main business lines: industrial sensors, automation components and drives for electronic control of electric motors.

The entire product range, which is unique in its breadth, quality and specialisation, provides tailored turnkey solutions in multiple automation sectors, through various channels:



Over the years Gefran has consolidated its presence on international markets; today the Group has 11 production sites and 13 sales branches, located across the world.



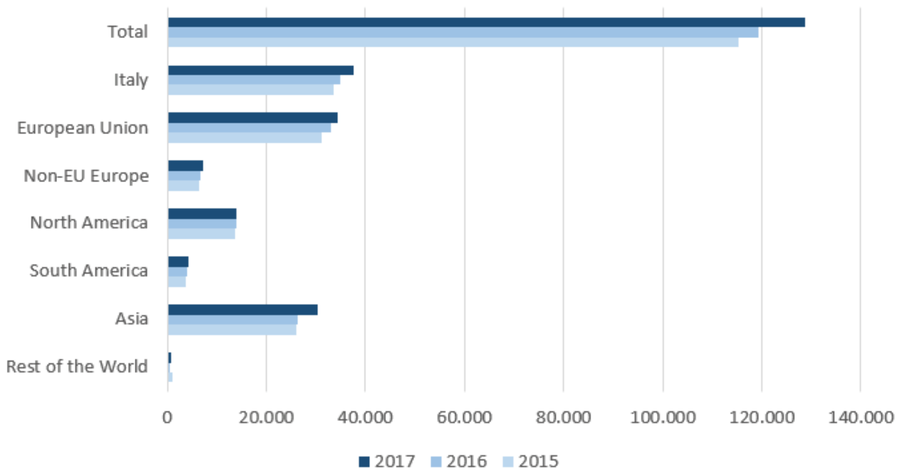
11 production sites

- 4 Sensors factory
- 2 Automation components
- 4 Motion Control
- 1 Solutions

13 trade organisations

- 6 subsidiaries in Europe
- 4 subsidiaries in Asia
- 1 subsidiary in Latin America
- 1 subsidiary in US

Sales breakdown by geographic region (values in Euro/.000)



Market share

The Group operates in 12 countries and its products are sold in around 70 countries worldwide. In particular, the Group operates mainly in international markets, both within the EU (26.7%) and outside the EU (44.1%); the remaining market share (29.2%) is in Italy.

Total Revenues 2017	Total Revenues 2016	Total Revenues 2015
128,639	119,330	115,352

(Values in EUR /.000)

Key performance indicators

KPIs - Economic indicators		2017	2016	2015
Revenues	(EUR /.000)	128,639	119,330	115,352
EBITDA	(EUR /.000)	19,039	11,324	5,681
	%	14.8%	9.5%	4.9%
EBIT	(EUR /.000)	11,149	5,115	(630)
	%	8.7%	4.3%	-0.5%
Profit (loss) before tax	(EUR /.000)	8,905	4,297	(1,634)
Result from operating activities	(EUR /.000)	6,677	3,462	(4,582)
Profit (loss) from assets held for sale	(EUR /.000)	187	486	(187)
Group net profit (loss)	(EUR /.000)	6,864	3,948	(4,769)
	%	5.3%	3.3%	-4.1%

KPIs - Equity and financial indicators		2017	2016	2015
Invested capital from operations	(EUR /.000)	73,477	78,612	86,508
Net working capital	(EUR /.000)	30,621	35,754	40,166
Shareholders' equity	(EUR /.000)	69,911	66,908	62,984
Net financial position	(EUR /.000)	(4,780)	(12,918)	(24,878)
Operating cash flow	(EUR /.000)	21,337	15,449	7,285
Investments	(EUR /.000)	5,641	2,965	4,733
Return on investment ROI (EBIT/net invested capital)	%	15.2%	6.5%	-0.7%

KPIs - Human capital		2017	2016	2015
Total employees	no.	730	730	809
of whom Women	no.	232	236	259
	%	31.8%	32.3%	32.0%
of whom Men	no.	498	494	550
	%	68.2%	67.7%	68.0%

Group activities

Sensors

The Group offers a full range of products for measuring the four physical parameters of position, pressure, force and temperature, which are used in many industrial sectors.

Gefran stands out for its technological leadership. It produces primary components internally and boasts a comprehensive product range that is unique worldwide. In certain product families, Gefran is world leader.

The sensors business line has 4 production sites: one in Italy, at the Group's historic base at Provaglio d'Iseo (IT), whereas the others are located abroad, respectively in Winchester (US), Aadorf (CH) and Shanghai (CN).

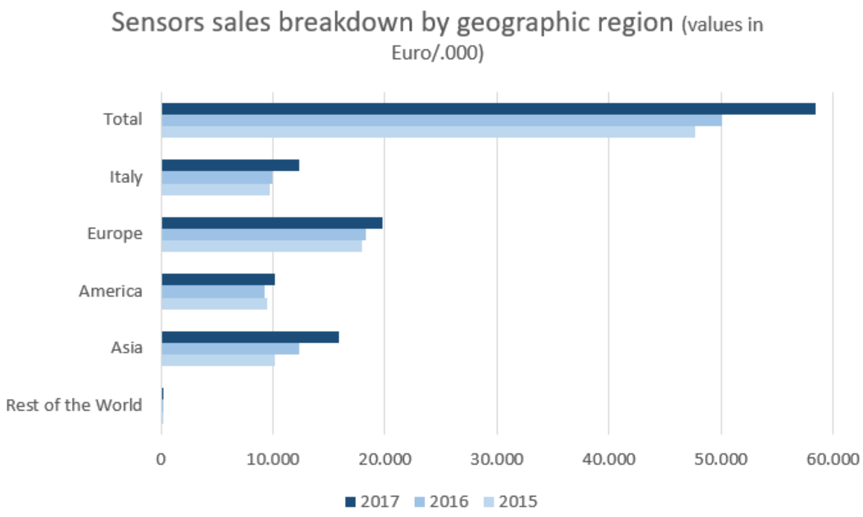
In recent year, growth has been in double figures, thanks to positive performance in strategic sectors for the business, in particular the plastics sector, as well as to the strategic choices made by the Group, such as the acquisition of the production company Sensormate and the strong emphasis on research and development, which have enabled it to expand the product range and, as a result, market share.

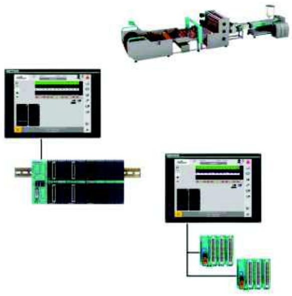
+16.7% 2017 vs 2016

+22.8% 2017 vs 2015

Sensors Revenues 2017	Sensors Revenues 2016	Sensors Revenues 2015
58,437	50,069	47,630

(Values in EUR /.000)





Automation components

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

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

The technical and production activity is concentrated in Italy, at the Group's historic base at Provaglio d'Iseo (IT), and it has a second assembly line at San Paolo (BR), to serve the local market.

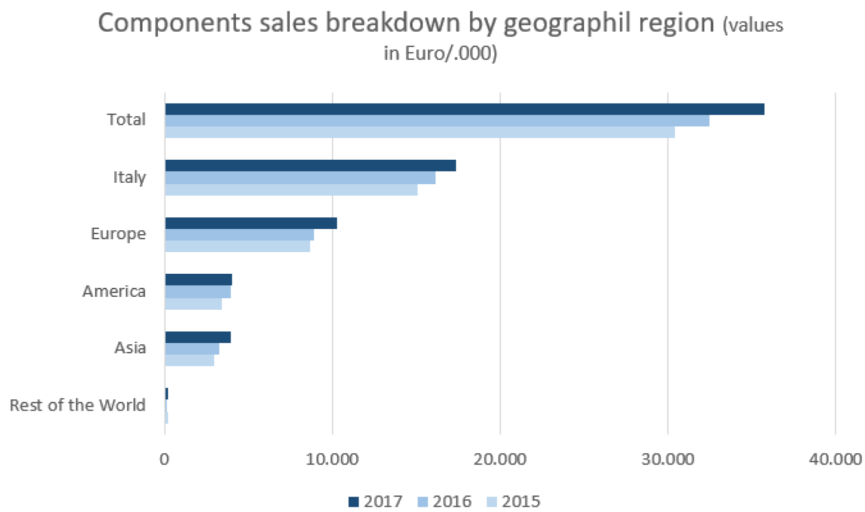
+10.2% 2017 vs 2016

+17.5% 2017 vs 2015

Growth is constant and spread across all regions.

Automation Components Revenues 2017	Automation Components Revenues 2016	Automation Components Revenues 2015
35,743	32,435	30,432

(Values in EUR /.000)



Motion control

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

Through the integration of advanced capabilities and flexible hardware and software configurations, Gefran provides advantageous solutions for customers and target markets, optimising both technology and costs.

The motion control design work is concentrated at the Gerenzano plant (IT), whereas production is distributed across various plants, with the aim of serving the regions well and fully meeting customer requirements. The production plants are at Gerenzano (IT), Pleidelsheim (DE), Pune (IN) and Shanghai (CN).

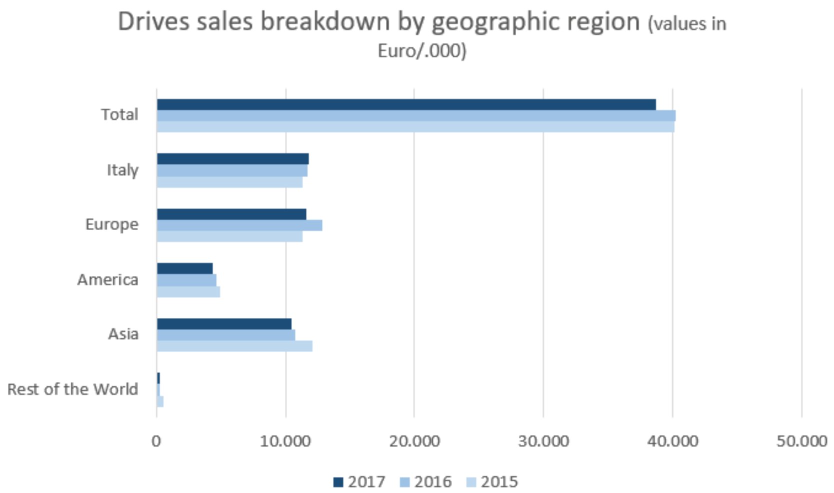
-3.8% 2017 vs 2016

-3.6% 2017 vs 2015

This contraction is almost entirely attributable to the sales performance of lifting products, used for lifting applications mainly in the Asian market. During 2017 a strategic policy was identified to grow the proportion of revenues from custom projects, which ensure stable volumes over time and more manufacturing efficiency.

Motion Control Revenues 2017	Motion Control Revenues 2016	Motion Control Revenues 2015
38,675	40,217	40,134

(Values in EUR /.000)



Group relations

Gefran encourages collaborative relations with other industrial companies in the sectors in which it operates and is a member of various sector-based associations and technical consortia, at local and international level:

- A.I.B. Associazione Industriale Bresciana e Gruppo Giovani Imprenditori (Brescia Industrial Association and Young Entrepreneurs Group): this association represents industrial companies in Brescia province; it is one of the largest Italian associations of associated companies, with more than 1,200 corporate members, and is a member of the Confindustria System.
- A.N.I.P.L.A. Associazione Nazionale Italiana per L'Automazione (Italian National Automation Association): its aim is to encourage and spread knowledge, studies and application of automation in Italy, in its technological, economic and social aspects.
- Federazione ANIE – Assoautomazione e Ascensori (ANIE Federation - Automation Axis and Lifts): it plays a leading role in technological and regulatory monitoring, promoting initiatives to standardise products and systems, taking know-how and skills into the area of the decision-making processes of standardisation agencies at all levels.
- AMAPLAST: national association for manufacturers of machines and moulds for plastics and rubber; it carries out activities to promote the transformation of plastics and rubber in the Italian technology world.
- ASSONIME: it represents Italian public limited companies and studies and deals with issues concerning the interests and development of the Italian economy.
- GISI Associazione Imprese Italiane di Strumentazione (Association of Italian Instrumentation Companies): it brings together companies operating in the production process instrumentation and automation field, whether manufacturers or economic operators.
- PROPLAST Consortium: it supports companies in the plastics sector with applied research, technological innovation and the selection and training of human resources, preparing them technically to operate in the sector.
- C.E.I. Comitato Elettrotecnico Italiano (Italian Electrotechnical Committee): it publishes regulatory documents on good practice in Italy, is involved in drawing up the corresponding European and international standards, ensures that they are accepted with specific regard to European regulatory documents harmonised with EU directives and regulations, disseminates the technical and scientific culture in general and that of technical standards in particular.
- UNI Italian standardisation organisation: UNI represents Italy at the European (CEN) and global (ISO) standardisation organisations and organises the involvement of national delegations in supranational standardisation work, to promote the harmonisation of standards needed for the single market to operate, and to support and transpose the distinctive features of Italian production into technical specifications that enhance the national experience and production tradition.
- CAN in Automation (CiA): it brings together at international level users and producers of the CAN (Controller Area Network) protocol, to provide a transparent platform for future developments of the CAN protocol and promote the image of CAN technology.
- PROFIBUS and PROFINET: the consortium works closely with other organisations in the automation world to promote the use of the PROFIBUS and PROFINET technologies.
- ODVA: it supports the network of technologies built on the Common Industrial Protocol (CIP™) — EtherNet/IP™, DeviceNet™, CompoNet™, and ControlNet™.
- Hart Communication Foundation: Organisation that supports and develops standards for the Hart communication protocol.

The Group also takes part in various international protocols for industrial communication, such as:

- Ethercat;
- Ethernet IP;

- LonWorks.

The organisational model adopted by Gefran

The Parent Company Gefran S.p.A. is organised internally in three divisions (sensors, components and motion control); in addition, there are centralised functions such as administration, finance, control, purchasing, legal, external relations, information systems and human resources.

The work of the divisions, which represent the business lines, is focused directly on the products of the relevant business, and includes;

- Production departments
- R&D and design
- Engineering
- Production services
- Logistics

The divisions also use specific sales structures to distribute the products, and their structure includes:

- Sales network
- Order processing
- Finished product warehouse

Information about the sensors and components divisions is shown together below as they are located in the same production site.

Workforce per division		**at 31.12.2017**
Sensors and Components	Production	127
	Logistics	39
	Technical	33
	Sales and Marketing	56
	Management and services	7
Sensors and Components Divisions - Provaglio d'Iseo (BS)		**262**
Motion Control	Production	56
	Logistics	23
	Technical	37
	Sales and Marketing	22
	Management and services	4
Motion Control Division - Gerenzano (VA)		**142**
Holding		42
TOTAL GEFRAN S.p.A.		**446**

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

This model was subsequently updated in light of changes to the law mentioned above. The Organisational Model was updated under a resolution passed by the Board of Directors on 3 August 2017, based on the Confindustria Guidelines, in response to the need for continuous update of the corporate governance system, the structure of which was based in turn on the recommendations and regulations in the "Code of Conduct for Listed Companies" promoted by Borsa Italiana S.p.A., with which the Company complies.

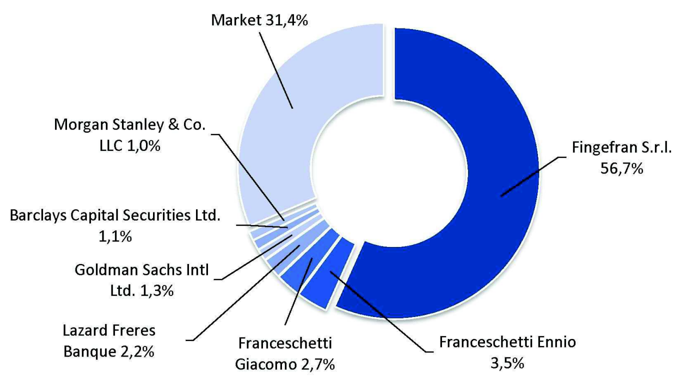
The Group also has a "Code of Ethics and Conduct", updated by the Board of Directors on 11 February 2016. Through the application of the "Code of Ethics and Conduct" in its own activities in full compliance with the laws in force in the countries where it pursues its mission, Gefran undertakes to comply with strict ethical and moral principles that are universally recognised:

- INTEGRITY
- HONESTY and PROFESSIONALISM
- ENTHUSIASM e PASSION
- PRACTICALITY and RELIABILITY
- FLEXIBILITY
- SUSTAINABILITY

The Group believes that ethics in business management must be pursued alongside financial growth, so the Code becomes an explicit point of reference for everyone working with the Company. Compliance with these principles is therefore a fundamental condition for starting and/or continuing collaborative relations with Gefran and the operational application of these principles is guaranteed by corporate procedures, which ensure that they are made known and disseminated. The Code of Ethics is continually updated, is available on the company's website and is given to each new employee.

If anyone becomes aware of possible omissions, falsifications or breaches of the standards and principles in the Code of Ethics, they are required to report it to the Supervisory Board. They should use the methods set out in the Model, namely anonymously, sending the report to the offices at Provaglio di Iseo, or to a dedicated email address.

Gefran S.p.A. shareholder structure



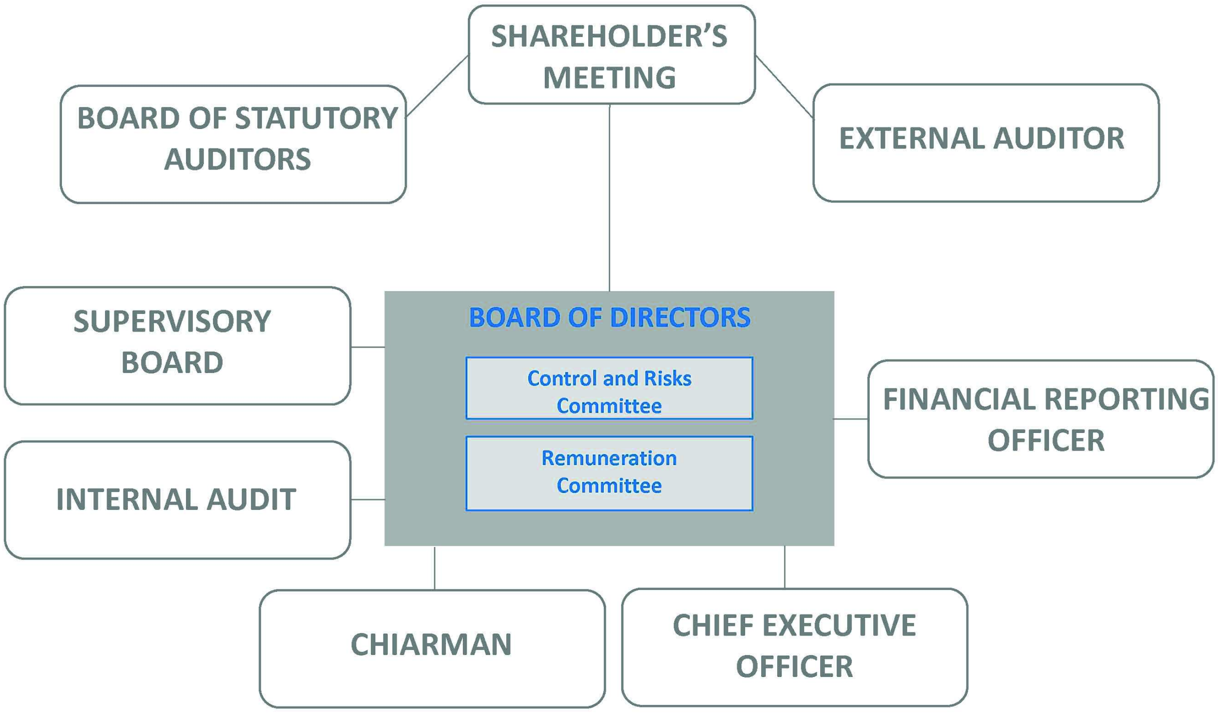
The Company has been listed on the Italian Stock Exchange since 9 June 1998, and since 2001, it has been part of the FTSE Italia STAR segment, dedicated to companies with small and medium-sized capitalisations that meet specific requirements on transparency, liquidity and corporate governance.

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

Administration and control activities

The Company's corporate governance structure is based on the recommendations and standards in the "Code of Conduct for Listed Companies" promoted by Borsa Italiana S.p.A., with which the Company complies. In 2008 it adopted an Organisational Management and Control Model ("Organisational Model") to prevent the offences under Legislative Decree 231/01 from being committed.

This "Organisational Model" was then revised as the aforementioned regulation was amended and to respond to the need to keep the Company's corporate governance system up to date, in line with the Confindustria guidelines.

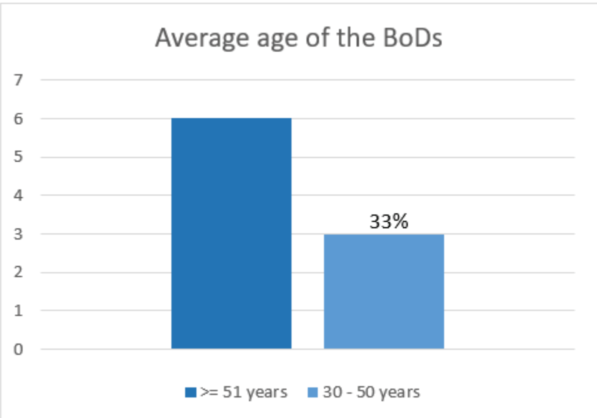


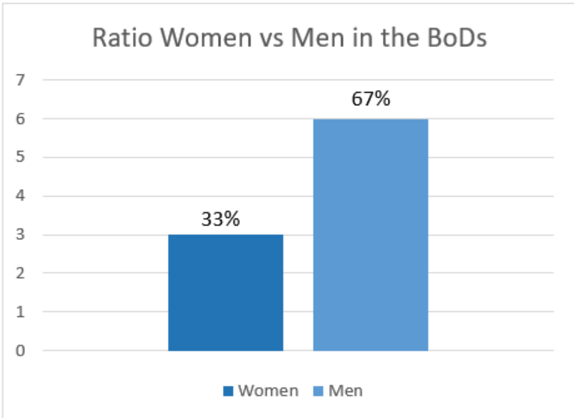
On 9 March 2017, pursuant to application criteria 1.C.1, letters g) and i) of the Code of Conduct, the Board of Directors gave a positive assessment of the size, composition and functioning of the Board itself and its committees, based on the results of the self-assessment questionnaire completed by the directors. Two Advisory Committees were appointed: the Control and Risks Committee, made up of three independent directors, and the Remuneration Committee, made up of two independent directors and one non-independent director.

The **Board of Directors** currently in office is made up of 9 members (3 women and 6 men), three of whom are Independent Directors:

OFFICE	MEMBERS
Presidente e Amministratore Delegato	Ennio Franceschetti
Amministratore Delegato	Alberto Bartoli
Vice presidente	Maria Chiara Franceschetti
Consigliere	Andrea Franceschetti
Consigliere	Giovanna Franceschetti
Consigliere	Romano Gallus
Consigliere	Mario Benito Mazzoleni (*)
Consigliere	Daniele Piccolo (*)
Consigliere	Monica Vecchiati (*)

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





Number of Board Meetings:

	2017	2016	2015
no. meetings	8	6	7
average attendance %	94.5%	96.8%	100.0%

Its membership is given in detail below:

Ennio Franceschetti
Chairman

Founder of the Group, and CEO of Gefran SpA until 2004. Today he holds the office of Chairman.

Maria Chiara Franceschetti
Vice-Chairman

Having graduated in Mechanical Engineering, she joined Gefran as Information Systems Manager, and subsequently became Group HR Director. She was appointed Chief Executive Officer in 2014, and Vice-Chairman in 2017. She is currently Chairman of Fingefran Srl, the parent company of Gefran SpA.

Alberto Bartoli
Chief Executive Officer

He graduated in Economics and Commerce at Parma University in 1983. He obtained authorisation to practice the profession of Chartered Accountant in 1994. He was a member of the SABAF SpA Board of Directors between 1997 and 2017, holding the position of CEO from 2012 to 2017.

Giovanna Franceschetti
Director

She graduated in Public Relations, and has a Master's Degree in Business Administration. She is currently in charge of Communication and Image at Gefran and has also been the Group's Investor Relations Manager since 2004. She is a member of the Board of Directors of Ensun Srl and BS Energia 2 Srl (both of which operate in the photovoltaic sector), and of Elettropiemme Srl and Fingefran Srl (parent company of Gefran SpA).

Andrea Franceschetti
Director

He began working for Gefran SpA in 2002, holding a number of positions: Production Manager, Head of Quality Control and of the Test Laboratory, Export Director South America, International Sales Director and Sales Director of the Motion Control Business Unit. He is currently Chairman of Gefran Soluzioni Srl.

Daniele Piccolo
Independent Director

He completed his professional training on financial markets and marketing at leading international institutes. From 1982 to 2007, he held numerous positions of increasing seniority within the Credito Emiliano Group. From 2001 to 2006, he was also Chief Executive Officer of Istifid SpA, Milan. From 2015 to 2017, he was General Manager of Banca Cesare Ponti SpA. He is now Private Banking Manager in Northern Italy for Banca Finnat Euramerica.

Monica Vecchiati
Independent Director

She has been a Chartered Accountant since 1988, registered in the Order of Chartered Accountants and Tax Advisors in Rome, and is a statutory auditor, registered in the Register of Auditors since its establishment in 1995. She is a member of the Board of Statutory Auditors, an external auditor and member of the Supervisory Committee, pursuant to Legislative Decree 231/2001 of numerous organisations, companies and foundations.

Mario Benito Mazzoleni
Independent Director

Associate Professor of Business Administration at the University of Brescia since 1992. At the same university, he has served as Head of the strategy programme and coordinator of the teaching programme in the "University&Enterprise" Master's programme for small and medium enterprises since 2010, and coordinator of the "Italian Start Up" Master's programme of the Industrialists' Association of Brescia since 2012.

Romano Gallus
Non-Executive Director

Entrepreneur and founder of "GV Stamperie SpA", a brass heat-moulding company in which he is Chief Executive Officer. He has been a member of the Board of Directors of Gefran SpA since 2000.

The **Control and Risks Committee** of the Board is currently made up of three independent directors (1 woman and 2 men), all accounting and financial and/or risk management experts; this membership was considered adequate by the Board of Directors, which appointed it.

OFFICE	MEMBERS
Presidente del Comitato	Daniele Piccolo
Amministratore Indipendente	Mario Benito Mazzoleni
Amministratore Indipendente	Monica Vecchiati

Number of Control and Risks Committee Meetings:

	2017	2016	2015
no. meetings	5	5	5
average attendance %	86.6%	93.3%	93.3%

The **Remuneration Committee** of the Board of Directors is currently made up of three directors (1 woman and 2 men), two of whom are independent.

OFFICE	MEMBERS
Presidente del Comitato	Romano Gallus
Amministratore Indipendente	Daniele Piccolo
Amministratore Indipendente	Monica Vecchiati

Number of Remuneration Committee Meetings:

	2017	2016	2015
no. meetings	4	2	1
average attendance %	100%	100%	100%

The **Board of Statutory Auditors**, appointed by the Shareholders' Meeting on 29 April 2015, and in office until the financial statements for 2017 are approved, is made up of three standing auditors and two deputy auditors.

OFFICE	MEMBERS
Presidente	Marco Gregorini
Sindaco effettivo	Primo Ceppellini
Sindaco effettivo	Roberta Dell'Apa
Sindaco supplente	Guido Ballerio
Sindaco supplente	Rossella Rinaldi

Number of Board of Statutory Auditors Meetings:

	2017	2016	2015
no. meetings	10	13	10
average attendance %	93.3%	93.3%	83.3%

The **external auditor** appointed to carry out the external audit of the consolidated and separate financial statements is a company appointed by the Shareholders' Meeting from those included in the register kept by Consob.

The current external auditor is PricewaterhouseCoopers S.p.A., which was appointed by the shareholders' meeting on 21 April 2016, for the financial periods from 2016 to 2024, based on a reasoned proposal by the Board of Statutory Auditors.

As set forth in Legislative Decree 231/2001, the Board of Directors has also appointed a **Supervisory Board** made up of one external member (Nicla Picchi, Chair) and an internal member (Marzia Stanzani, Head of Legal and Corporate Affairs) and provided it with regulations and suitable means to enable it to operate. The Supervisory Board may use external consultants to perform the necessary risk assessments and audits.

The **Internal Audit function** is entrusted to Emma Marcandalli, a person from outside the company who is autonomous and independent; she was appointed by the Board of Directors, based on a favourable opinion from the Control and Risks Committee and having consulted the Board of Statutory Auditors. Protiviti S.r.l. was tasked with conducting internal audit activities.

On 27 September 2013, based on a favourable opinion from the Board of Statutory Auditors, the Board of Directors appointed Fausta Coffano as **Financial Reporting Officer**; she directly supervises the control model pursuant to Law 262/2005 and the related administrative and accounting procedures.

The activities of the various bodies and their membership are described in detail in paragraph 1 of the "Annual Financial Report of the Gefran Group" and in the "Report on Corporate Governance and Ownership Structure".

Risk management in the Group

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

The aforementioned "Organisational Model" is kept up to date as regulations change. The Company most recently updated the Organisational Model with a Board resolution of 3 August 2017, to bring it into line with Confindustria Guidelines and to meet the need to constantly update the Company's corporate governance system. The Company's corporate governance structure is based in turn on the recommendations and regulations set out in the "Code of Conduct for Listed Companies" promoted by Borsa Italiana S.p.A., with which the Company complies.

The company has also identified the relevant corporate entities for the purposes of the internal control and risk management system:

- the Risk Control Committee (RCC), which has the task of supporting, with adequate preliminary investigation activity, evaluations and decisions of the Board of Directors regarding the internal control and risk management system, as well as of checking the proper application of accounting standards and their consistency for the purposes of preparing the consolidated financial statements;

- the Executive Director responsible for the internal control and risk management system, with the task of identifying the main corporate risks, implementing the risk management guidelines and checking their adequacy;
- the Financial Reporting Officer, who has direct supervision of the control model pursuant to Law 262/2005 and of the related administrative and accounting procedures, in connection with the constant updating of the same;
- the Internal Audit function, with the task of checking, both continuously as well as in relation to specific requirements and in compliance with international standards, the operation and appropriateness of the internal control and risk management system, via an audit plan approved by the Board of Directors, which is based on a structured analysis of the main risks.

The main strategic and operating risks are identified and assessed through a risk assessment, the results of which are described and discussed with all relevant bodies for the internal control and risk management system and with the Board of Directors.

This activity enables specific actions to be identified to mitigate the risks identified.

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

Key events that occurred during the reference year and after the year-end are reported respectively in paragraphs 14 and 15 of the "Annual Financial Report of the Gefran Group".

Relations with stakeholders and analysis of materiality

During 2017, in relation to the entry into force of the new regulatory obligations on non-financial reporting, the Group conducted an analysis of materiality, to identify and evaluate topics connected to non-financial aspects covered by this Statement. This activity identified the most relevant aspects for the Group, on which to concentrate non-financial disclosure.

In the preliminary phase of the project, carried out by an internal working group, with management involvement, the available information was collected and analysed.

From this analysis of Group information, which was representative of its strategy and approach, and from analysis of the context in which the Group operates, a list of 20 potentially material topics for Gefran emerged.

These topics were considered potentially relevant, as they have a direct economic, social and/or environmental impact for Gefran and because they may influence stakeholders' valuations and decisions.

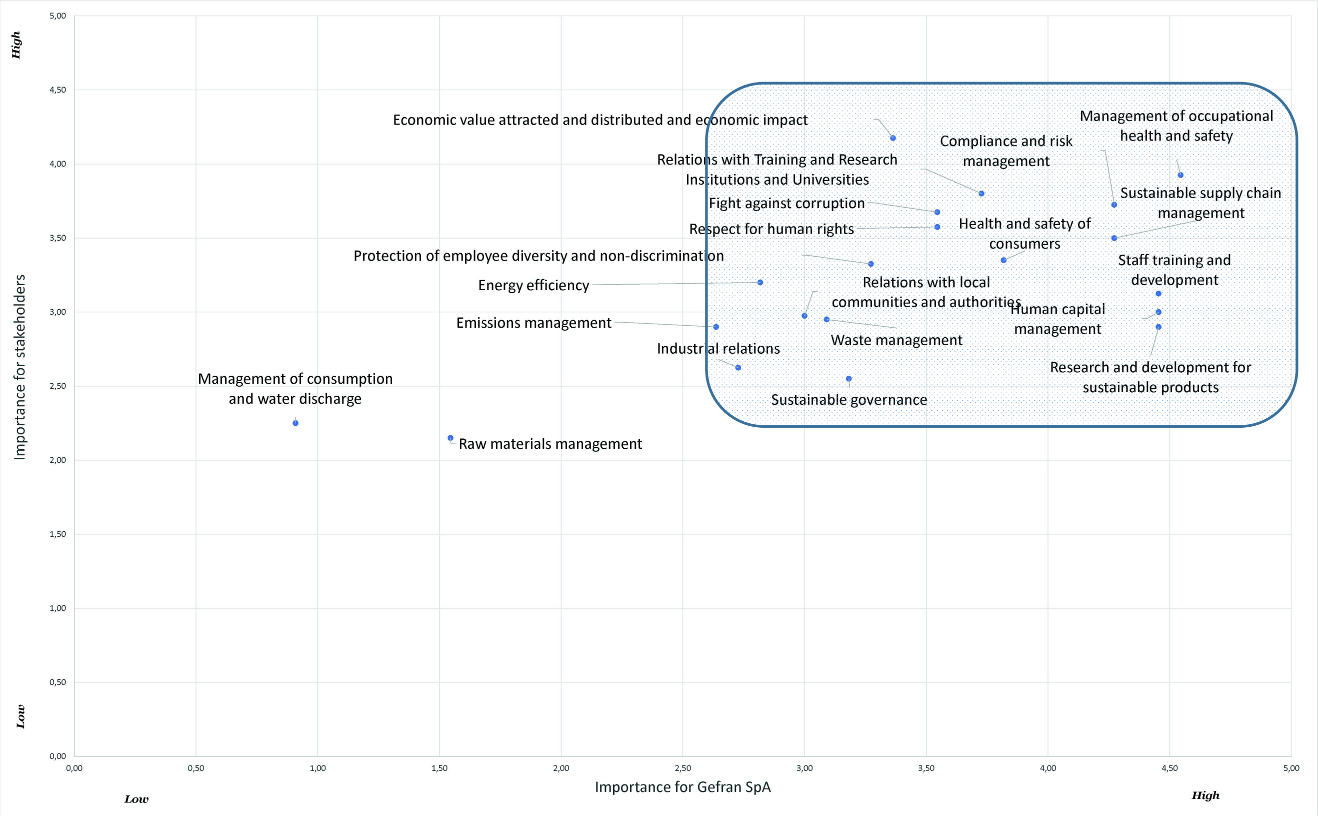
Economic	Environmental	Social – Working practices	Social – Local and international communities	Social – Product liability	Cross-functional
Economic value attracted and distributed and economic impact	Raw materials management	Human capital management	Relations with local communities and organisations	Consumer health and safety	Sustainable management of supply chain
	Energy efficiency	Industrial relations	Relations with training and research bodies and universities		Compliance and risk management
	Management of water usage and discharge	Employee health and safety management	Fight against corruption		Sustainable governance
	Emissions management	Personnel training and development			
	Waste management	Protection of employee diversity and non-discrimination			
	Research and development into sustainable products	Respect for human rights			

To produce the Gefran materiality matrix, the following categories were also identified as main stakeholders:

- Shareholders
- Employees
- Customers
- Institutions
- Suppliers
- Training and research bodies
- Local communities

During the second phase, the topics were evaluated by assigning a score to each, to gather the point of view of management and that of the main stakeholders.

Having evaluated the topics, the materiality matrix shown below was drawn up as the starting point for the reporting in this Statement.



The x-axis of the materiality matrix reflects the significance of the topics for the company, whereas the y-axis represents their importance for the stakeholders.

The topics considered most relevant, and highlighted in the matrix shown above, are those that are reported in this Statement. They can be grouped into:

- Management of environmental topics;
- Management of health and safety;
- Management of social topics;
- Management of the fight against corruption.

Gefran's Sustainable Governance Model

A company that wishes to have a global dimension must also pay attention to social and environmental matters. Protection of the people who work for it, protection of the surrounding land and synergy with the community where it is established are the foundational values for Gefran's success and growth. These principles are the cornerstones of the company's Code of Ethics whose 'Good Practices' have also won awards from the Lombardy Chambers of Commerce.

Sustainable management of the supply chain

The electronics sector in which Gefran operates has a strong technological component, which is also reflected in the supplier base, made up of large multinational groups. Most suppliers used by Gefran can be put in one of two categories:

- Suppliers of materials used in bills of materials;
- Suppliers of materials not used in bills of materials and of services.

In both cases there is a qualification process with a procedure applied in different ways depending on whether the suppliers supply raw materials or indirect materials/services.

In the first case, information is gathered on the supplier's structure through evaluation questionnaires and information from other companies. If it is considered necessary for the type of goods or services offered or the importance of the goods offered, the supplier is audited by the quality function, which certifies its suitability. The qualification procedure is simpler for indirect materials and services, as the strategic nature and importance of suppliers is different. An exception to this is waste disposal suppliers, who are asked to produce all the documentation required under current regulations.

Local suppliers mean suppliers in the same country as the production plant. The market in which Gefran operates has variable demand and very quick delivery times. This, together with the fact that most Gefran production can be classified as "high mix-low volume", with many finished product codes in the catalogue, each with small recurring production volumes, means that a short supply chain is needed, which can react quickly and flexibly. This is why local suppliers are involved in drawing up specific procurement plans in order to support the variable demand in short periods of time. It is also often the case that some suppliers, thanks to their specific skills and know-how, are involved from the development phase of new products in jointly designing components and specific or custom parts.

With reference to the value of procurement expenditure, we give below data for each of the Group's production plants, highlighting the % of expenditure from "local" suppliers (from the same country as the production site in question).

The analysis was conducted for all the production companies whereas, for the sales companies, it was conducted in a marginal way, as 95% of their procurement comes from intercompany purchases and the remaining 5% from local supplies.

procurement expenditure (Euro /.000)	**2017**	2016	2015
Gefran S.p.A. plants (IT)	**49,318**	**44,745**	**41,290**
from the market	47,255	42,851	39,256
of which from local suppliers	42,501	37,926	34,359
% expenditure from market	89.9%	88.5%	87.5%
Gefran Soluzioni S.r.l. plant (IT)	**5,839**	**5,707**	**2,332**
from the market	2,286	1,797	1,104
of which from local suppliers	2,100	1,680	1,104
% expenditure from market	91.9%	93.5%	100.0%
Gefran Inc plant (US)	**7,091**	**7,671**	**9,895**
from the market	3,231	3,017	3,214
of which from local suppliers	3,087	2,938	3,037
% expenditure from market	95.5%	97.4%	94.5%
Gefran Brasil Eletroel. Ltda plant (BR)	**2,283**	**1,836**	**2,076**
from the market	1,127	985	1,105
of which from local suppliers (*)	1,127	985	1,105
% expenditure from market (*)	100.0%	100.0%	100.0%
Gefran Siei Drives Tech. Pte Ltd plant (CN)	**9,839**	**11,904**	**12,562**
from the market	3,524	6,443	8,205
of which from local suppliers	3,410	6,316	8,173
% expenditure from market	96.8%	98.0%	99.6%
Siei Areg GmbH plant (DE)	**5,236**	**4,008**	**2,530**
from the market	2,910	2,630	2,395
of which from local suppliers	2,176	2,630	2,395
% expenditure from market	74.8%	100.0%	100.0%
Sensormate AG plant (CH)	**2,384**	**2,269**	**2,072**
from the market	1,387	1,265	1,233
of which from local suppliers (*)	1,387	1,265	1,233
% expenditure from market (*)	100.0%	100.0%	100.0%
Gefran India Private Ltd plant (IN)	**4,229**	**3,051**	**3,814**
from the market	1,590	895	542
of which from local suppliers (*)	1,117	778	537
% expenditure from market (*)	70.3%	86.9%	99.1%

(*) estimate of local procurement, based on known purchasing habits.

In the analysis of consolidated figures, Group procurement expenditure is EUR 69.6 million (EUR 65 million in 2016 and EUR 63.3 million in 2015), with local supplies accounting in total for 88.4% of total purchases (90.2% in 2016 and 89.8% in 2015).

Group procurement expenditure (Euro /.000)	2017	2016	2015
Group procurement expenditure	**63,310**	**59,883**	**57,054**
of which from local suppliers	56,905	54,518	51,943
% expenditure from market	89.9%	91.0%	91.0%

2. MANAGEMENT OF ENVIRONMENTAL TOPICS

2.1. RISKS AND OPPORTUNITIES

With regard to environmental aspects, the Group is continuously looking at ways to improve energy performance and protect resources, in order to encourage the reduction of greenhouse gas emissions. This is possible thanks to continuous innovation in Gefran's production and management processes and to an investment plan aimed at improving the energy efficiency of its plants.

The Group’s operational activities do not include the manufacture or processing of materials or components that could generate a significant risk of pollution or environmental damage. Gefran has introduced a series of controls and monitoring to detect and prevent this risk increasing. Furthermore, it has taken out an insurance policy to cover potential liabilities arising from environmental damage to third parties.

New regulations that apply to the Group or its products, or changes in the regulations currently in force in the sectors in which the Group operates, including internationally, could force the Group to adopt more rigorous standards or limit its freedom of action in its areas of operation. These factors could entail costs to adapt the production facilities or product characteristics; Gefran’s commitment in its research activity is to develop new, ethically sustainable products.

Parent Company’s mapping of risks and actions

In 2015 the Parent Company Gefran S.p.A. carried out an energy audit of the three plants to check, among other things, their use of energy resources; specifically, the audit showed that the most significant data referred to electricity consumption, which accounts for over 80% of total consumption, in terms of both quantity and emissions.

To identify the corporate areas where most electricity was used, and to be able to implement actions to improve energy performance and reduce emissions, a consumption monitoring system was set up, by installing control monitors (data loggers). By analysing the data gathered and the resulting graphs and by comparing them with fixed reference parameters, critical energy points were identified in processes and in how machines are used, and inefficient machinery/equipment was also identified, with the aim of improving performance.

From the monitoring carried out to date, it is clear that the most significant electricity consumption is by machinery in the production departments, the cold/ventilation circuits and, in particular, lighting (over 50%). The company has therefore drawn up a series of energy efficiency actions in these sectors, some of which have already been implemented and some scheduled for the coming periods. The main activities implemented are reported below:

- the replacement of the refrigerating unit in the Provaglio plant in Via Sebina, in 2017, improved the performance of the air conditioning system;
- the replacement of the lighting elements, which was started in 2017 and will continue in 2018 (investment included in the industrial plan approved in December 2017 and scheduled for the first quarter of 2018), with a move to LED technology and a DALI integrated control system is estimated to reduce consumption by at least 60% to 70%;
- the replacement of welding units in the Components division, in two stages:
  - in 2018 investments to replace the first furnace are scheduled
  - on completion, the existing second furnace and welding machine will be replaced in 2019 (investments included in the industrial plan approved in December 2017); this action will provide an estimated saving of 20%.

The energy audit also showed that around 15% of energy consumption is linked to thermal energy (methane gas) used almost exclusively for heating. Analysis of the current systems highlighted the need to replace the heating units (boilers) in the Provaglio plant in Via Sebina, to improve energy performance (investment included in the industrial plan approved in December 2017 and scheduled for the first quarter of 2018).

Finally, as the Company pursues its aim of improving energy performance and reducing the environmental impact generated by its activity, it is careful in scheduling its investments: photovoltaic systems have been installed to produce solar energy on the roofs of the Provaglio d'Iseo and Gerenzano plants (170 kWp and 90 kWp respectively), and various bits of work have been included in the industrial plan for the next three years.

On top of the above, a EUR 1.5-million project, described in the box, is planned, aimed at improving the energy efficiency of the sensors division production plant in Provaglio.

ENERGY EFFICIENCY Project 2018 -
Via Cave Provaglio d'Iseo

Insulation of external walls with a ventilated façade
Replacement of existing doors and windows
Installation of shading devices in the office area
Adjustment of the entrance area façade
Insulation of the roof and renovation of the waterproofing sheath
Trigeneration plant (generating heat, cold and electricity)

2.2. GEFRAN GROUP POLICIES

Gefran is committed to contribute actively to an environmental responsibility policy to reduce greenhouse gas emissions in the atmosphere, through continuous improvement of the energy efficiency of its plants and to see sustainable solutions in various areas, through practical initiatives.

The packaging used for its products is made from entirely recyclable materials and the manuals, which in the past were distributed in paper form, have been replaced since 2012 by CDs; it is reckoned that this has reduced the quantity of printed pages by 45%.

Internally also, changes have been made gradually to processes to reduce the use of printed paper, especially with regard to information management in HR. Specifically, since 1 January 2014, all Italian employees' pay slips, which were previously printed and distributed, are now saved in a special area reserved for employees, where the Single Certification forms have been put since 2015. In addition, all supporting documents for absences or overtime and travel expenses claims, which were previously filled in on paper forms, are now tracked with special authorisation flows within the attendance management software.

The Group has also looked at Research and Development activities regarding new products, with a focus on identifying "ecological" solutions for new products; for example, we could mention Impact, the melt sensor without filling fluid, which was developed from 2007 and put on the market in 2009 ahead of the European RoHS directive 2011/65/EU, which came into force in June 2011 and which since 22 July 2017 has regulated the entry on the market of industrial monitoring and control devices containing mercury. The trend toward environmental compatibility then saw the addition to the melt sensors range of NaK sensors, filled with mixtures of sodium and potassium.

Over the years EUR 625 thousand has been invested in photovoltaic systems to produce electricity to operate the Parent Company's production plants, and specifically:

- in 2011 at Provaglio d'Iseo a 170.1 kWp system;
- in 2011 at Gerenzano three smaller systems of, respectively, 6.912 kWp, 6.912 kWp and 7.36 kWp;
- in 2013 at Provaglio d'Iseo an 89.67 kWp system;

where kWp (kilowatts peak) is the unit of measurement used in the photovoltaic sector to indicate the instant power provided by a photovoltaic cell or panel, in defined standard conditions.

The Group's Italian plants have separate waste collection systems for all employees, using different coloured containers and clear information about the type of waste to be put in each of them.

As well as this there is the energy efficiency project, as described in more detail in the previous paragraph.

The Group's concern for the environmental impact of its operations is also confirmed by the new company function, called the "Safety & Environment Department", which has specific responsibilities for environmental and energy-saving matters. Its tasks include in particular:

- Complete management of industrial waste (storage and disposal), in accordance with current regulations;
- Organising the company's separate waste collection system;
- Checking workstations/chimneys for emissions into the atmosphere;
- Monitoring energy consumption;
- Collecting data on energy consumption.

The Safety & Environment Department uses professional consultants for the various areas of its work (legal formalities, personnel training and drawing up procedures for the correct handling and management of waste).

Specifically, for the Group's Italian plants (the Parent Company Gefran S.p.A. and Gefran Soluzioni S.r.l.), we give below a report on data relating to waste produced, drawn up by the Safety & Environment Department.

in kg	**2017**	**2016**	**2015**
Total waste produced	**373,571**	**406,605**	**304,813**
of which hazardous	21,481	46,160	35,518
% of total	5.8%	11.4%	11.7%
of which non-hazardous	352,090	360,445	269,295
% of total	94.2%	88.6%	88.3%

in kg, by destination	**2017**	**2016**	**2015**
Total waste to be recovered (reuse or recycle)	**206,355**	**153,476**	**139,351**
% of total	55.2%	37.7%	45.7%
of which hazardous	1,170	2,880	1,250
of which non-hazardous	205,185	150,596	138,101
Total waste to be disposed of (landfill or waste-to-energy)	**167,216**	**24,769**	**18,958**
% of total	44.8%	6.1%	6.2%
of which hazardous	20,311	43,280	34,268
of which non-hazardous	146,905	209,849	131,194

In addition to this practice, Gefran has not so far formalised policies on this subject, but the Group wishes to do so and will formalise an appropriate set of policies as soon as possible. The project will be starting during 2018, in order to finalize it within 2019.

2.3. NON-FINANCIAL PERFORMANCE

In 2017 Gefran set up a system to report energy consumption, covering all the Group's production sites:

- Gefran S.p.A., plants in Provaglio d'Iseo (BS)
- Gefran S.p.A., plants in Gerenzano (VA)
- Gefran Soluzioni S.r.l. (IT)
- Gefran Inc. (US)
- Gefran Brasil Eletroel. Ltda (BR)
- Gefran Siei Drives Tech. Pte Ltd (CN)
- Siei Areg GmbH (DE)
- Sensormate AG (CH)
- Gefran India Private Ltd (IN)

and its main sales branches:

- Gefran Deutschland GmbH (DE)
- Gefran Siei Asia Pte Ltd (SG)

The following foreing subsidiaries have been omitted from the scope:

- Gefran Uk Ltd (UK)
- Gefran France S.A. (FR)
- Gefran Benelux Nv (BE)
- Gefran Middle East Lyd Sti (TR)

being commercial companies with limited turnover and a small number of employees, their impact was considered marginal.

The results confirmed that the main **energy sources** used by the Group are:

- Electricity, used in production processes, for the cold/ventilation circuit and for lighting; a portion of the electricity consumed (about 4%) is self-generated, via the photovoltaic panels installed in the Parent Company Gefran S.p.A.'s plants and those of the subsidiary Gefran Soluzioni S.r.l.

Electricity in GJ	**2017**	**2016**	**2015**
Self-generated electricity	991	933	975
Mains electricity	24,727	24,164	23,488
Total Electricity	**25,717**	**25,097**	**24,464**
Percentage of total energy consumption	52.8%	49.3%	48.7%

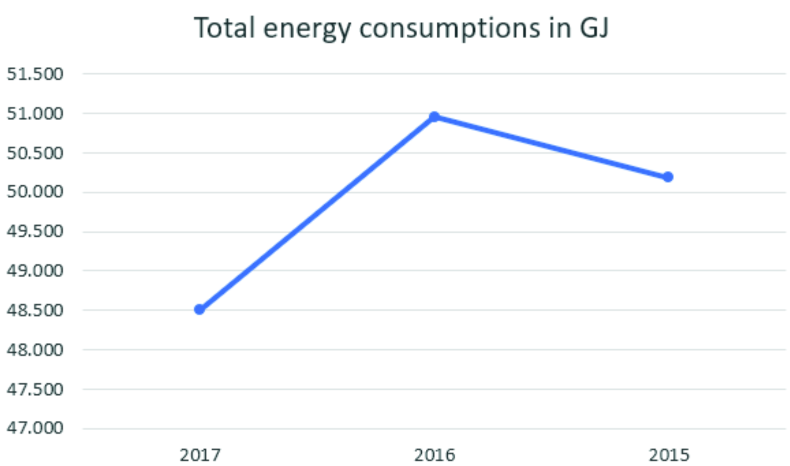
- Fuel, mainly diesel fuel for company vehicles; the diesel for "other uses" is used to supply the fire pumps and generator (the figure is an estimate)

Fuel in GJ	**2017**	**2016**	**2015**
Diesel for company vehicles	7,817	10,964	10,101
Diesel for other uses	35	18	15
Petrol for company vehicles	1,288	1,270	1,653
Total Fuel	**9,139**	**12,253**	**11,769**
Percentage of total energy consumption	18.8%	24.0%	23.5%

- Natural gas, used to heat the workplaces; no gas is used in the production process

Natural gas in GJ	**2017**	**2016**	**2015**
Total Natural gas for heating	**13,646**	**13,604**	**13,954**
Percentage of total energy consumption	28.1%	26.7%	27.8%

In 2017 the trend in energy consumption saw a saving in the use of energy sources compared to the previous periods.



-4.8% 2017 vs 2016

-3.4% 2017 vs 2015

Gefran's commitment to reduce energy consumption is also shown in the Energy Intensity indicator, calculated as the ratio between energy used and revenues, limited to the companies in the reporting scope:

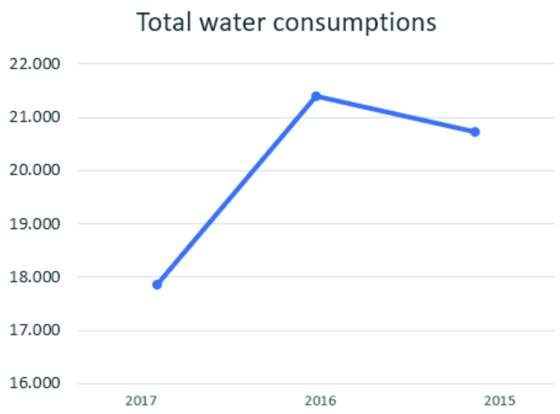
Energy intensity	**2017**	**2016**	**2015**
GJ over revenues	0.412	0.475	0.486

-13.2% 2017 vs 2016

-15.3% 2017 vs 2015

With regard to **water consumption**, it must be stressed that water is not used in the production processes so there are no industrial discharges; water consumption is modest, and all water is taken from the mains water supply.

in m3	**2017**	**2016**	**2015**
From mains	17,852	21,394	20,722
Total water consumption	**17,852**	**21,394**	**20,722**



-16.6% 2017 vs 2016

-13.9% 2017 vs 2015

Energy consumption by purpose of use

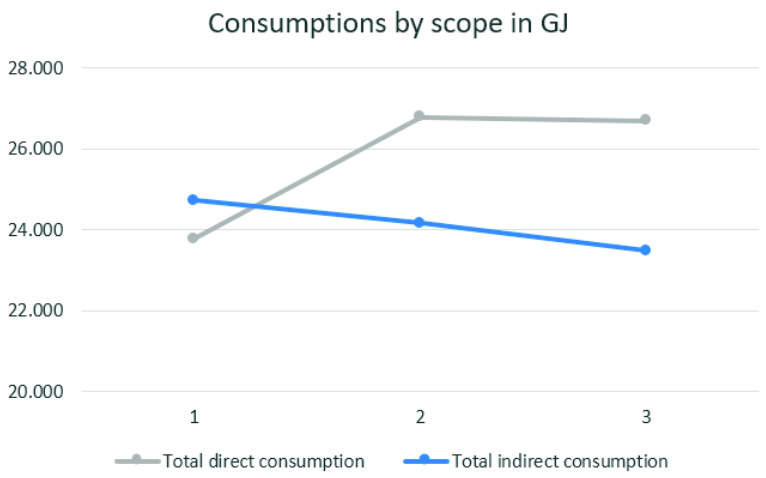
When analysing the Group's activities and the energy consumption related to these, Gefran considers "*direct*" consumption to include the use of fuel, for company vehicles and the emergency generators that are used only if there is a power cut, the electricity self-generated by the photovoltaic panels installed on the factory roofs and used to operate the systems, and the natural gas bought and used to heat the workplaces.

A summary is given in the table below:

Direct energy consumption in GJ	**2017**	**2016**	**2015**
Diesel	7,852	10,982	10,116
Petrol	1,288	1,270	1,653
Self-generated electricity	991	933	975
Natural gas	13,646	13,604	13,954
Total direct consumption	**23,776**	**26,790**	**26,699**

The Group's "*indirect*" energy consumption refers to electricity (from the mains), used mainly by the offices. The "*indirect*" consumption is summarised here:

Indirect energy consumption in GJ	**2017**	**2016**	**2015**
Mains electricity	24,727	24,164	23,488
Total indirect consumption	**24,727**	**24,164**	**23,488**

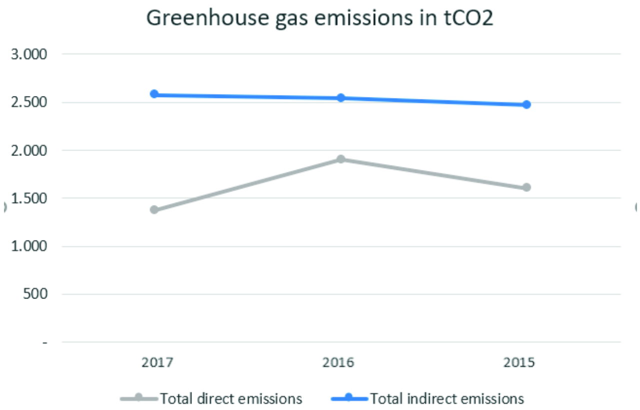


Emissions into the atmosphere

After gathering the energy consumption data, greenhouse gas emissions were calculated per purpose of use. Greenhouse gas emissions connected to Gefran's activities arise from the direct and indirect consumption of energy, and from losses linked to the consumption of refrigerant gas (F Gas).

Emissions in tCO2	**2017**	**2016**	**2015**
Diesel for company vehicles	580	814	749
Diesel for other uses	3	1	1
Petrol for company vehicles	87	86	112
Natural gas	659	657	674
F Gas	0	340	67
Total direct emissions	**1,329**	**1,899**	**1,604**

Emissions in tCO2	**2017**	**2016**	**2015**
Mains electricity	2,575	2,541	2,470
Total indirect emissions	**2,575**	**2,541**	**2,470**



Consistent with the reduction in energy consumption, there has also been an improvement in the emissions intensity indicator, calculated as the ratio between emissions produced and revenues for the plants included in the reporting scope.

Emissions intensity	**2017**	**2016**	**2015**
tCO2 over revenues	0.034	0.041	0.039

-18.9% 2017 vs 2016

-15% 2017 vs 2015

Finally, it is estimated that, based on the yields from the photovoltaic systems installed on the roofs of the Provaglio d'Iseo and Gerenzano plants and shown in the table below, emissions not emitted into the atmosphere are equal to 99 tCO2 (86 tCO2 in 2016 and 89 tCO2 in 2015).

	2017	**2016**	**2015**
Yield of PV systems (in MWh)	275	239	249
Emissions not emitted into the atmosphere (in tCO2)	99	86	89

With regard to **NOx, SOx, and other significant emissions**, the values for the companies in the reporting scope are given below:

Emissions in t	**2017**	**2016**	**2015**
NOx	2.373	3.293	3.065
SO2	0.003	0.004	0.004
PM10	0.153	0.211	0.197
VOC	0.316	0.331	0.406

3. MANAGEMENT OF HEALTH AND SAFETY

3.1. RISKS AND OPPORTUNITIES

Workers' health and safety

Risk assessment is essential to protect the health and safety of our workers.
Gefran is constantly committed to mapping the operating risks that could be manifested in the various company sectors, to define opportunities and actions to minimise them, where possible.
Accident data is periodically collected, and situations are analysed by the relevant bodies (Health & Environment Department, Company Doctor and Employer).

The risks identified can be essentially attributed to:

- Risks in the production/logistics context: risk of injury to staff in particular assembly phases or risk of loads falling from height;
- Risks on the way to and from work;
- Risks of internal falls/slips.

Following this analysis, Gefran assessed whether it was appropriate to implement an internal system of best practices, for all Group companies, to disseminate and reinforce a culture of occupational health and safety which, as well as being a regulatory obligation, is an important value of corporate responsibility.

Again, in the production context, an "increased operating risk" was identified from incorrect handling of materials and their storage in inappropriate areas. Secondary risks were also identified, such as the risk that small components could get into operators' eyes when smoothing circuits.

User health and safety - Risks connected to compliance with the regulatory framework

Since the Group makes and sells electronic components used in electrical applications, it is subject to specific legal and regulatory requirements in the various countries in which it operates, and to technical standards on safety that are applicable to the products made and sold.
The Research and Development sector is therefore continually seeking to adapt product characteristics, to comply with the safety requirements of the various application sectors and to fully meet customers' needs.
This is one of the sustainable values promoted by Gefran to enable the Group to maintain and increase its market share.

User health and safety - Risks associated with product development, management and quality

The Group's value chain covers all activities, including R&D, production, marketing, sales and technical support. Defects or errors in these processes may cause product quality problems that could potentially affect the Group's results and financial position.
In line with the practices of many operators in the sector, the Company has taken out insurance policies that it considers sufficient to protect itself from the risks resulting from this liability. Furthermore, it has set up a specific product warranty provision to meet these risks, in line with the volume of activities and the historical occurrence of these phenomena.

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

User health and safety - Legal risks and product liability

Within the scope of Gefran's core business, the manufacture and sale of products may give rise to issues linked to defects and consequent liability in respect of its customers or third parties. Like other operators in the industry, the Group is therefore exposed to the risk of product liability litigation in the countries in which it operates.
In line with the practices of many operators in the sector, the Company has taken out insurance policies that it considers sufficient to protect itself from the risks resulting from this liability and has also set up a specific provision for these risks.
However, should the insurance cover and risk provisions prove inadequate, the Group's results could be negatively affected. In addition, the Group's involvement in this type of dispute and any ruling against it could expose the Group to reputational damage, which also has potential consequences for the Group's results and financial position.

3.2. GEFRAN GROUP POLICIES

Workers' health and safety

From the point of view of health and safety connected to the company's activities, the company's general approach is to provide its employees with all the tools needed to do their work with a reasonable degree of safety, whether in the form of safety devices or constant training.
In preparing its investment plan, Gefran is aware of certification; not only do individual elements have appropriate certification, but it has sought CE certification for the new production line in the components division, which was installed in 2017, to check and certify that the contact points between the various items of equipment are compliant with regulations.
In the mapping of risks in the production and logistics contexts, the risk of loads falling from height was identified; following this assessment, company practices were adopted to limit this risk, such as the use of safety shoes in all production and logistics areas and restricting access to these areas for those not working there.
To minimise the "increased operating risk" caused by the incorrect handling of materials and storing them in appropriate areas, and to reduce the possible risk of accumulation, a "lean" approach has been adopted, organising the workstations according to their specific function and clearly defining materials handling spaces and storage spaces.
To control and limit operating risks in the Group's foreign production sites, the Parent Company supervises the implementation of new lines, firstly when they are made - they are assembled in Italy following the Italian model and then sent to the overseas plants - and then in the organisation of the production process, structured using the "lean" process described above. When the lines have been implemented, Parent Company personnel check that these organisational and production principles are complied with, through periodic inspections.
Finally, with regard to the risk of internal falls/slips in plants, Gefran has implemented constant monitoring of floors and stairs, as well as entrances, where weather conditions can further increase this type of risk; this monitoring leads to work to restore safe conditions, where considered necessary.

In addition to these practices, Gefran has not so far formalised policies on this subject, except for the "Health and Safety Procedure" for internal management and communication about accidents, but the Group wishes to do so and will formalise an appropriate set of policies as soon as possible.

User health and safety

The Gefran Group's mission is to support customers in improving the performance of their technological processes, by ensuring continuity and dedication and maximising sustainable value.
Thanks to its passion, energy and skills with technology and innovation, Gefran is able to provide effective, targeted responses.
Gefran owns and develops proprietary technologies that enable it to keep its promises in terms of reliability, quality and safety, thus combining the values of a family-run business with an international management structure.

One of the requirements that enables Gefran to maintain its leadership in user health and safety matters is maintaining an effective and up-to-date Quality Management System compliant with UNI EN ISO 9001:2015; its purposes are:

- To create and maintain its identity consistent with the values and mission in the Code of Ethics;
- To satisfy its customers, effectively interpreting their needs and ensuring the best service to support their use of the product;
- To develop its employees professionally;
- To promote continuous improvement in the organisation;
- To check objectives set in the quality plan are achieved;
- To develop and make products, ensuring that they comply with applicable, binding regulations and those adopted voluntarily;
- To ensure that products comply with specified requirements and applicable, binding regulations and those adopted voluntarily;
- To manage any customer complaints promptly, responding with effective solutions.

With regard to user health and safety matters, in the aforementioned statement on quality policy, the Group's desire to design, develop, produce and sell only products compliant with applicable, binding regulations is clear to see.

The safety and quality of Gefran's products is considered a distinctive feature and a significant competitive lever in the market. With this aim in mind, a special working group has been set up to discern which certifications are appropriate for the various products, consistent with the approach to the core applications and geographical end markets. In addition, the processes to develop new products include analysis and identification of binding regulations and subsequent steps of certifying performance and compliance with the identified regulations.

Backing up the Group's commitment to provide cutting-edge products in terms of safety, Gefran has put some employees on the CEI technical committees, to become aware, anticipate and influence future product standards and, where necessary, use specialist advisers working in the product certification sector.

The processes involved in the field of application of the Quality Management System are cross-functional:

1. Strategic processes:	2. Operating processes:	3. Support processes:
• Strategy; • Product plan approval; • Budget.	• Commercial; • Innovation; • Operations; • Procurement.	• Management control; • Information systems; • Human resources; • Measurement, analysis and improvement.

For each of the processes listed above, the inputs/outputs, specific activities and responsibilities, the sequence and interactions with other processes have all been identified to ensure product quality and therefore safety:

- top management draws up the strategic plan (whether compliance with a standard impacts strategy or is a driver of it will be appropriately considered);
- the product manager and commercial department determine the customer's or reference market's requirements (the product requirements and binding regulations and non-mandatory certifications that are useful for competitive advantage are defined ahead of the product development process);
- R&D develops the product and certifies that it complies with all the characteristics and standards in the technical specifications put together by the product managers, including any additional certifications;
- Engineering industrialises the product;
- The operations area looks after manufacturing: the necessary control points will be included in the manufacturing process to ensure compliance with the product characteristics; currently Gefran carries out production process controls on 100% of products and is moving towards including automated control steps, to eliminate the uncertainty of manual tests;

> The products made in Gefran's plants undergo the controls specified for the production cycle: when accepting the materials, during the intermediate production steps and in final testing.
> In particular, when there are safety requirements, the necessary final testing is arranged and the results are recorded in accordance with regulations.
> The controls on each product serial number are tracked.

- Quality measures and analyses performance to guide continuous improvement.

As the Group believes it can create sustainable value, it is constantly looking at ways to adapt and renew its products, including with regard to safety directives. We give two significant examples of activities on this front carried out in recent years:

1. Since 22 July 2017, the RoHS directive has also applied to industrial measurement and control devices; in our case, pressure sensors for high temperatures can use mercury as a filling liquid. Gefran has responded to this by developing, since 2007, a range of products and alternative technologies, which is now fully able to meet the common requirement to reduce the negative effects on the environment and on people.

2. Again, with the aim of providing our customers or end users with high-standard products in terms of safety, and with specific reference to the pressure sensor range, both those for high temperatures and those not, Gefran offers products certified for functional safety (PL-Performance Level and SIL-Safety Integrity Level), as well as sensors that can operate in potentially explosive areas (ATEX).

Supply chain

With regard to minerals from conflict zones (conflict minerals), Gefran is committed to responsible procurement and considers mining activities that feed conflicts as unacceptable. Gefran's commitment is in line with the activity of the Electronic Industry Citizenship Coalition® (EICC®) and Global and Sustainability Initiative (GeSI) to improve the transparency and traceability of metals in the supply chain.
During 2014, it mapped the bills of materials of Gefran products, to identify what minerals might be present; the analysis showed that, of the four minerals covered by the regulations, tungsten is not present in the components used, whereas tantalum, gold and tin are.
As a result of this check, suppliers who might use these minerals in their production process were then identified and they were asked to certify that their supplies do not come from conflict zones.
Following this analysis, Gefran prepared ad-hoc certification for customers requesting it and published a certification on its official website, on a special page found here http://www.gefran.com/it/it/pages/85-conflict-minerals.

Gefran is not concerned by the obligations arising from the application of the European REACH regulation as the Group:
- does not produce or import chemicals;
- does not use substances of very high concern (SVHC) in its processes;
- is a "downstream" user of chemicals but ensures that the supply chain complies with the tasks established by REACH, to ensure sustainable continuity in supplies.

3.3. NON-FINANCIAL PERFORMANCE

The Group's policies and practices, with sustainable aims in terms of health and safety, have been confirmed with the lower number of accidents in the last three-year period.
The reporting of accident data, like that on energy performance, covers all the Group's production sites:

- Gefran S.p.A., plants in Provaglio d'Iseo (BS)
- Gefran S.p.A., plants in Gerenzano (VA)
- Gefran Soluzioni S.r.l. (IT)
- Gefran Inc. (US)
- Gefran Brasil Eletroel. Ltda (BR)
- Gefran Siei Drives Tech. Pte Ltd (CN)
- Siei Areg GmbH (DE)
- Sensormate AG (CH)
- Gefran India Private Ltd (IN)

and its main sales branches:

- Gefran Deutschland GmbH (DE)
- Gefran Siei Asia Pte Ltd (SG)

At the moment data from the Subsidiaries currently not included in the reporting scope is considered negligible as they are small commercial companies with limited turnover.
Data is collected on a one-off basis, with the help of the company functions that manage this type of information (HR Department, Safety & Environment Department, Employer).

We refer below to the number of workplace accidents during the last three years; the accident identified as "serious" was at the Chinese plant and can be classified as on the way to or from work.

In detail:

accidents	2017	2016	2015
No. accidents	**1**	**4**	**4**
of which serious	-	-	1
% of total	0.0%	0.0%	25.0%
of which fatal	-	-	-
% of total	0.0%	0.0%	0.0%
Working days lost due to accidents	**61**	**57**	**220**

of which accidents on the way to or from work	2017	2016	2015
Accidents on the way to or from work	**-**	**2**	**2**
% of total	0.0%	50.0%	50.0%
Working days lost due to accidents on the way to or from work	**-**	**26**	**132**

accident rates	2017	2016	2015
Accident frequency rate (no. accidents, excluding accidents on the way to or from work, x 1,000,000 / hours worked)	0.77	1.50	1.39
Accident severity rate (working days lost, excluding accidents on the way to or from, x 1,000 / hours worked)	0.05	0.02	0.06

This result confirms Gefran's commitment to health and safety, with regard to its employees and in the area of product technology, which is consistently high, making it one of the core corporate values disseminated throughout the Group.

4. MANAGEMENT OF SOCIAL TOPICS

4.1. RISKS AND OPPORTUNITIES

Human capital management

From its earliest days, Gefran has included protecting diversity and equal opportunities as well as respect for human rights among its core values, set out in the Code of Ethics and Conduct.
Cultural and gender diversity are not perceived as a source of risk or problem to overcome, rather as a natural fact and an opportunity for growth, to generate sustainable value.

In relation to social topics, in the context of personnel management, two potential areas of risk for the Group have been identified, namely:

1. The loss of specified technical and specific skills for the sector, which could compromise process quality, and the loss of competitiveness of products, including with regard to sustainability topics The management methods adopted by Gefran to contain the risk are linked to resource engagement and loyalty plans, which include various initiatives, both general (company welfare plans) and personal (Total Reward, international transfer opportunities), as well as skills development (specific training plans);

2. At the end of 2017 non-competition agreements were signed with some employees deemed key for the Group, to protect the company from any competitive activities.

With a view to improving information and resource management, the Company wishes to acquire global, integrated IT platforms; the project, which started during 2017 and will continue in 2018, has various phases, including the creation of a database to manage CVs and personal details, at Group level.

Supply chain

The main risks that the Group has identified in supply chain management concern guaranteeing continuity of supplies and reliable quality of materials.
However, Gefran is not able to fully assess the potential risk that human rights are not fully respected in its supply chain, or that suppliers' activities may be subject to a significant risk of incidents related to employment of minors, forced labour and violations of the freedom of association and collective bargaining.
Most suppliers are large, multinational groups, and Gefran explicitly requests compliance with the Group's Code of Ethics and Conduct in its purchase conditions.

With a view to continuously improving sustainability performance, the Group sees the opportunity of promoting initiatives to minimise this risk.

4.2. GEFRAN GROUP POLICIES

Human capital management

Gefran recognises the centrality of human capital and, in particular, it considers the level of professionalism a critical factor in the company's success.
In the light of this consideration, initiatives have been organised to increase the ability to communicate and understand different cultural characteristics and outlooks: for example, it has circulated the text "The Culture map", which offers tools and views of the distinctive elements of the cultures of the main countries that are useful to work with.
Gefran News was launched with the aim of greater sharing and cooperation at Group level; it is a digital publication exclusively for employees, which aims to provide continuous information, news and features about the Gefran world. The Gefran News portal is international in its scope: every article is available in Italian and English and every subsidiary has the opportunity to share and tell stories within it.
After formalising it in the supplementary company agreement signed for the Provaglio plants, at the end of 2017 Gefran started an organisational innovation plan developing models for working hours, using advanced participation methods, which will be carried out during 2018.
The aim of the plan is to identify, check the feasibility and apply working hours that are flexible, transparent and approved and which, on the one hand, meet the company's technical and organisational requirements, ensuring timeliness, efficiency and production quality, while at the same time also meeting the needs for work/life balance. The plan will be implemented with the involvement of workers who, as well as expressing their own ideas and proposing solutions, will take part in training workshops and will be supported by experts (teaching staff from the Milan Politecnico).
As well as involving workers in an innovative participatory approach that is also focused on sharing experiences with a view to improvement, the plan will mature new skills needed to develop a gradual transferability of tasks, which is useful for the company and for its staff.
In addition, for the innovative purposes of the project and for the advanced methods for involving workers in the process, it will be possible to make use of the opportunities for tax exemptions and contributions reductions offered for performance-related pay, connected to the innovation actions.
A structured plan has been initiated to integrate young people into the organisation (new graduates from various faculties) to renew the workforce and cope with generational change. The recruitment process is carried out by HR and by the product lines in conjunction with universities.
The second half of 2017 saw the start of *FLY, Gefran's Talent Academy*, which is a new stage of the Group's policy of valuing individuals' attitudes, developing skills and building growth pathways consistent with corporate values and strategies. Gefran has always invested in people's professional development through many initiatives such as partnerships with engineering faculties, sponsoring master's degrees in innovation, involvement in EMBAs and specialist master's degrees, and setting up and organising internal focus groups.

The FLY methodology involves the use of various tools to design specific training courses, identified after an initial assessment. These tools include activities such as:

- inter-departmental training: technical and commercial, operations, economic and financial, branding, self and people management;
- reverse mentoring, where a senior member of staff comes alongside a junior member to help them acquire knowledge and experience with the possibility of new graduates making their skills available to their mentors in a system of exchange and mutual growth;
- on-the-job training using the STAR model (Situation, Task, Action, Result) aimed at providing tools to assess company situations, decide what actions to take, even in pressurised or difficult situations, and analyse the results;
- experience abroad, made possible by the Group's international presence through many branches.

Gender equality is promoted at all levels of the company; any disparity is due to the nature of the company and the specific features of the business sector. The company has started using a report (incoming/outgoing workforce) which is updated monthly.

The measures adopted to prevent any discriminatory behaviour are: leading by example and the values expressed in the Code of Ethics, which demonstrate the Group's position on this matter. All Group employees are required to adhere to this position and these principles when they join the company. The possibility of communicating cross-functionally thanks to the matrix organisational structure makes it possible to identify any discriminatory behaviour; so far, there has not been any need for intervention.

The Company arranges periodic meetings attended by the company-level union bodies or provincial union representatives to check company performance and forecasts (including performance indicators linked to performance-related pay) and the related occupational data. Workers and unions are also involved, though ad-hoc and permanent committees and focus groups, in team work programmes to improve the organisation of work, quality and competitiveness. If significant decisions are made, written minutes of the meeting are produced.
The Company offers training courses on company welfare topics to union representatives as well.

Gefran does not provide a standardised career path but instead is aware of the potential of its employees and undertakes to support them as individuals in their professional development. Assessment plans are prepared based on seniority levels, and development plans are defined for those intended for a new role. During this phase and for several months after promotion, employees are monitored by a tutor or mentor to ensure they are properly integrated in their new position.
The Company constantly offers opportunities to students, school-leavers and new graduates. It has various collaborative ventures with universities and technical colleges. It offers traditional work placements of 2/3 weeks, opportunities for students to work in their skill area and, where compatible with the Company's possibilities and the talent shown, to be subsequently given a job. New employees go through a special induction process to help them become familiar with processes, products/services and people in their own department and in interdependent functions.

Gefran has always promoted welfare initiatives and offers:

- flexible working hours in departments where the technical and organisational requirements permit it;
- the possibility of working part-time until children are three years old (post-parental leave);
- places in the local nursery for employees' children;
- canteen with a balanced menu that uses organic raw materials, and recreation rooms with magazines, newspapers and books;
- ten hours' paid leave for medical appointments.

In 2014 an experimental welfare plan was started where non-managerial employees were each assigned EUR 250 in goods and services such as petrol, expenses, pension allocations or the Cometa pension fund.
Gefran takes part in the medical fund self-managed by the employees, the Faig fund and the fund provided by the Metasalute national collective bargaining agreement.

Since 2017, the supplementary company agreement was renewed, the welfare programme called "WELLFRAN people in Gefran" was started. In addition to the above, it provides a platform for delivering flexible benefits linked to work/life balance through the use of the performance-related pay.

In addition to the above practices, at the moment Gefran has not formalised specific policies on this subject, but the Group wishes to do so and will formalise a document that sets out the reference framework, which can be adapted by individual General Managers to local needs, thereby ensuring the flexibility that is essential in these matters.

Supply chain

In its general terms and conditions of purchase, Gefran explicitly requires compliance with the “Code of Ethics and Conduct” used throughout the Group. However, the Company is not able to fully assess the potential risk that human rights are not fully respected in its supply chain, or that suppliers’ activities may be subject to a significant risk of incidents related to employment of minors, forced labour and violations of the freedom of association and collective bargaining.
It recognises therefore that there may be areas of improvement to mitigate these risks, so it is proposing interventions to be evaluated during 2018:

1. Possibility of adding to the supplier evaluation and qualification form a specific section on risks linked to employment of minors, forced labour and freedom of association and collective bargaining; as well as the self-assessment provided by the supplier, the subject will be included in the areas covered by the audit carried out by Gefran, where provided.
2. Request for self-declaration by selected suppliers on the aforementioned subjects, to be made through the E-Procurement platform (which is already in operation, but currently only used to share documentation).
3. The possible implementation of new functionality for the E-Procurement platform to enable preliminary registration and accreditation of new suppliers and provide a specific section dedicated to the above topics.

Support for social activities

Gefran promotes a number of social initiatives, aimed in particular at local associations established in the country; in particular, the Parent Company Gefran S.p.A. supports social initiatives and belongs to various organisations operating in the academic, educational, social and medical worlds.

Some of the main partnerships, which have developed over the years and continued in 2017, support international projects:

- S.F.E.R.A. Onlus: an association that encourages development, fraternity, education, responsibility and welcome, through the “Maison de Paix” project to build a multi-purpose centre for human development in the city of Kikwit, in Congo;
- I.S.E.O. Summer School: an academic course on matters relating to the global economy, organised by the Istituto di Studi Economici e per l'Occupazione I.S.E.O. (Institute for Studies on Economics and Employment), currently chaired by Professor Robert Solow, the winner of the 1987 Nobel Prize for Economics.

Also in 2017, the Parent Company Gefran S.p.A. renewed its partnership with local associations and financed new projects, in particular:

- Ambra Onlus: with the aim of supporting the Clinical Laboratory for Biomedical Teaching and Research of the Brescia Children's Hospital; the results of the laboratory’s scientific work over the year, supported by the Association, led to the creation of a model for education and treatment of chronic diseases in young people that Ambra Onlus is committed to disseminating and supporting as it develops;
- HET VIERKANT: a Belgian association working with the disabled, to help them integrate and be independent.

4.3. NON-FINANCIAL PERFORMANCE

Reporting on data on personnel management, gender equality, discussions with social partners and respect for human rights, where not expressly indicated, involved all Gefran Group companies.

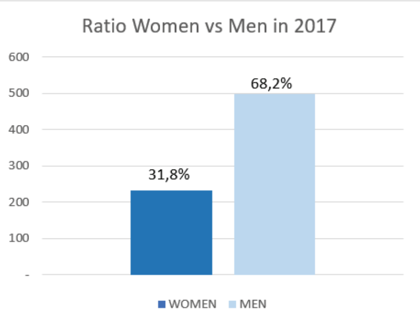
Data was collected on a one-off basis, with the help of the company functions that manage this type of information, specifically the HR Department.

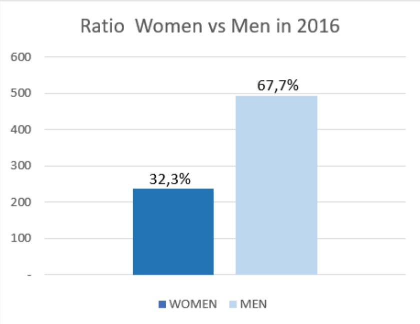
Breakdown of personnel, diversity and equal opportunities

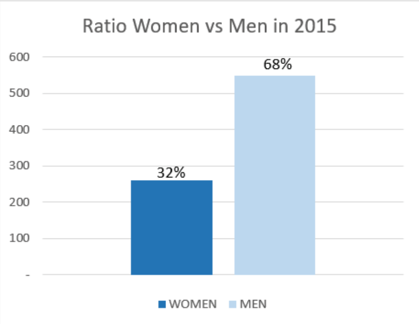
At 31 December 2017 the Group had 730 employees, the same as at the end of 2016 and down on the end of 2015 (-9.8%).
We give the breakdown in the Group companies below:

no. employees per company		2017			2016			2015		
		W	M	T	W	M	T	W	M	T
GEFRAN S.p.A.	Italy	159	287	446	159	287	446	180	333	513
Gefran Soluzioni S.r.l.	Italy	4	39	43	4	39	43	2	27	29
GEFRAN S.p.A. Spain branch	Italy	-	-	-	-	-	-	1	4	5
Gefran Benelux NV	Belgium	3	11	14	3	11	14	3	12	15
Gefran France S.A.	France	2	6	8	2	7	9	3	9	12
Gefran Deutschland GmbH	Germany	5	13	18	9	14	23	9	15	24
Siei Areg GmbH	Germany	2	14	16	2	14	16	2	12	14
Gefran UK Ltd	UK	1	1	2	1	1	2	1	1	2
Sensormate AG	Switzerland	3	13	16	3	11	14	4	14	18
Gefran Middle East Ltd Sti	Turkey	-	3	3	2	3	5	1	4	5
Gefran South Africa (Pty) Ltd	Rep. of South Africa	-	-	-	-	-	-	1	1	2
Gefran Inc.	US	8	21	29	9	20	29	10	22	32
Gefran Brasil Eletroel. Ltda	Brazil	7	21	28	6	19	25	6	19	25
Gefran Siei Asia Pte Ltd	Singapore	6	3	9	6	3	9	6	8	14
Gefran Siei Drives Tech. Pte Ltd	China (PRC)	28	42	70	27	46	73	26	45	71
Gefran India Private Ltd	India	4	24	28	3	19	22	4	24	28
TOTAL GROUP		**232**	**498**	**730**	**236**	**494**	**730**	**259**	**550**	**809**

The Women/Men ratio stayed constant in the three-year period 2015-2017.







The breakdown of employees by age band, for 2017, shows that around 9% of staff are in the under 30s band, 68% in the band between 30 and 50, and only 24% in the over 50s band; analysing the same data for 2016, respectively 8%, 42% and 50%, the trend to employ younger workers, encouraging internal development paths, can be seen.

division by age	2017			2016			2015		
	W	M	T	W	M	T	W	M	T
<= 29 years	22	41	63	20	39	59	20	37	57
30 - 50 years	165	328	493	83	223	306	198	382	580
>= 51 years	45	129	174	133	232	365	41	131	172
TOTAL GROUP	**232**	**498**	**730**	**236**	**494**	**730**	**259**	**550**	**809**

From the analysis of contract type, nearly all contracts are open-ended contracts (in 2017, 99.5% of the total, all in the Parent Company Gefran S.p.A.).

contract type	2017			2016			2015		
	W	M	T	W	M	T	W	M	T
Open-ended	229	497	726	236	492	728	256	549	805
Fixed term	3	1	4	-	2	2	3	1	4
TOTAL GROUP	**232**	**498**	**730**	**236**	**494**	**730**	**259**	**550**	**809**

In the breakdown by job type, around 6.2% of employees, predominantly Women, have part-time contracts (5.3% in 2016 and 6.2% in 2015).

job type	2017			2016			2015		
	W	M	T	W	M	T	W	M	T
No. full time employees	196	489	685	206	485	691	218	541	759
No. part-time employees	36	9	45	30	9	39	41	9	50
TOTAL GROUP	**232**	**498**	**730**	**236**	**494**	**730**	**259**	**550**	**809**

Below we show the breakdown of Group employees by job classification:

classification	2017			2016			2015		
	W	M	T	W	M	T	W	M	T
Managers	4	23	27	4	25	29	5	27	32
Middle managers	14	57	71	11	56	67	12	71	83
Clerical staff	101	280	381	108	274	382	125	307	432
Manual workers	113	138	251	113	139	252	117	145	262
TOTAL GROUP	**232**	**498**	**730**	**236**	**494**	**730**	**259**	**550**	**809**

Personnel movements

The tables below show personnel movements, in the Parent Company and in the Subsidiaries:

2017 movements		No. EMPLOYEES 31.12.2016	JOINERS			LEAVERS			No. EMPLOYEES 31.12.2017
			W	M	T	W	M	T	
GEFRAN S.p.A.	Italy	446	7	17	24	(7)	(17)	(24)	446
Gefran Soluzioni S.r.l.	Italy	43	-	2	2	-	(2)	(2)	43
GEFRAN S.p.A. Spain branch	Italy	-	-	-	-	-	-	-	0
Gefran Benelux NV	Belgium	14	-	-	-	-	-	-	14
Gefran France S.A.	France	9	-	-	-	-	(1)	(1)	8
Gefran Deutschland GmbH	Germany	23	-	2	2	(4)	(3)	(7)	18
Siei Areg GmbH	Germany	16	1	-	1	(1)	-	(1)	16
Gefran UK Ltd	UK	2	1	-	1	(1)	-	(1)	2
Sensormate AG	Switzerland	14	1	3	4	(1)	(1)	(2)	16
Gefran Middle East Ltd Sti	Turkey	5	-	-	-	(2)	-	(2)	3
Gefran South Africa (Pty) Ltd	Rep. of South Africa	-	-	-	-	-	-	-	0
Gefran Inc.	US	29	-	4	4	(1)	(3)	(4)	29
Gefran Brasil Eletroel. Ltda	Brazil	25	2	4	6	(1)	(2)	(3)	28
Gefran Siei Asia Pte Ltd	Singapore	9	1	-	1	(1)	-	(1)	9
Gefran Siei Drives Tech. Pte Ltd	China (PRC)	73	5	3	8	(4)	(7)	(11)	70
Gefran India Private Ltd	India	22	1	7	8	-	(2)	(2)	28
TOTAL GROUP		**730**	**19**	**42**	**61**	**(23)**	**(38)**	**(61)**	**730**

2016 movements		No. EMPLOYEES 31.12.2015	JOINERS			LEAVERS			No. EMPLOYEES 31.12.2016
			W	M	T	W	M	T	
GEFRAN S.p.A.	Italy	513	6	6	12	(27)	(52)	(79)	446
Gefran Soluzioni S.r.l.	Italy	29	2	13	15	-	(1)	(1)	43
GEFRAN S.p.A. Spain branch	Italy	5	-	-	-	(1)	(4)	(5)	0
Gefran Benelux NV	Belgium	15	-	-	-	-	(1)	(1)	14
Gefran France S.A.	France	12	-	-	-	(1)	(2)	(3)	9
Gefran Deutschland GmbH	Germany	24	-	2	2	-	(3)	(3)	23
Siei Areg GmbH	Germany	14	-	3	3	-	(1)	(1)	16
Gefran UK Ltd	UK	2	-	-	-	-	-	-	2
Sensormate AG	Switzerland	18	-	1	1	(1)	(4)	(5)	14
Gefran Middle East Ltd Sti	Turkey	5	1	1	2	-	(2)	(2)	5
Gefran South Africa (Pty) Ltd	Rep. of South Africa	2	-	-	-	(1)	(1)	(2)	0
Gefran Inc.	US	32	-	3	3	(1)	(5)	(6)	29
Gefran Brasil Eletroel. Ltda	Brazil	25	2	7	9	(2)	(7)	(9)	25
Gefran Siei Asia Pte Ltd	Singapore	14	2	2	4	(2)	(7)	(9)	9
Gefran Siei Drives Tech. Pte Ltd	China (PRC)	71	9	17	26	(8)	(16)	(24)	73
Gefran India Private Ltd	India	28	3	5	8	(4)	(10)	(14)	22
TOTAL GROUP		**809**	**25**	**60**	**85**	**(48)**	**(116)**	**(164)**	**730**

2015 movements		No. EMPLOYEES 31.12.2014	JOINERS			LEAVERS			No. EMPLOYEES 31.12.2015
			W	M	T	W	M	T	
GEFRAN S.p.A.	Italy	547	5	16	21	(8)	(47)	(55)	513
Gefran Soluzioni S.r.l.	Italy	-	2	28	30	-	(1)	(1)	29
GEFRAN S.p.A. Spain branch	Italy	5	-	-	-	-	-	-	5
Gefran Benelux NV	Belgium	15	-	1	1	-	(1)	(1)	15
Gefran France S.A.	France	14	-	-	-	-	(2)	(2)	12
Gefran Deutschland GmbH	Germany	24	1	3	4	(3)	(1)	(4)	24
Siei Areg GmbH	Germany	14	-	3	3	-	(3)	(3)	14
Gefran UK Ltd	UK	2	1	1	2	-	(2)	(2)	2
Sensormate AG	Switzerland	17	-	4	4	(2)	(1)	(3)	18
Gefran Middle East Ltd Sti	Turkey	5	2	1	3	(2)	(1)	(3)	5
Gefran South Africa (Pty) Ltd	Rep. of South Africa	2	-	-	-	-	-	-	2
Gefran Inc.	US	36	1	3	4	(2)	(6)	(8)	32
Gefran Brasil Eletroel. Ltda	Brazil	32	-	6	6	(4)	(9)	(13)	25
Gefran Siei Asia Pte Ltd	Singapore	19	3	3	6	(7)	(4)	(11)	14
Gefran Siei Drives Tech. Pte Ltd	China (PRC)	87	9	22	31	(15)	(32)	(47)	71
Gefran India Private Ltd	India	23	5	13	18	(4)	(9)	(13)	28
TOTAL GROUP		**842**	**29**	**104**	**133**	**(47)**	**(119)**	**(166)**	**809**

The turnover rate of leavers, calculated as the ratio between leavers and the number of employees at 31.12, is shown to be falling:

no. leavers/no. employees 31.12	2017			2016			2015		
	W	M	T	W	M	T	W	M	T
Turnover rate of leavers	9.9%	7.6%	8.4%	20.3%	23.5%	22.5%	18.1%	21.6%	20.5%

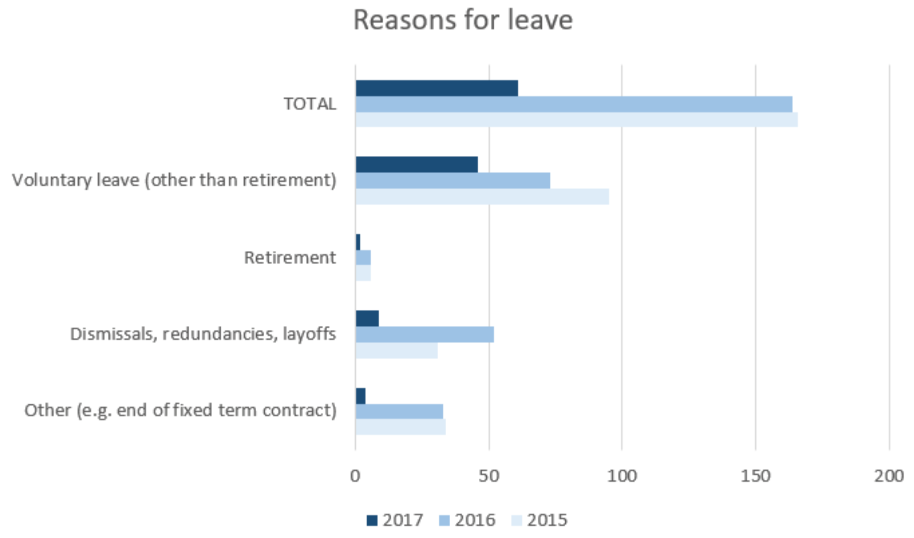
Below we summarise the reasons for people leaving in the last three years:

reasons for leaving	2017			2016			2015		
	W	M	T	W	M	T	W	M	T
Voluntary leavers	17	29	46	17	56	73	34	61	95
Retirement	1	1	2	1	5	6	2	4	6
Dismissal	4	5	9	18	34	52	9	22	31
Other	1	3	4	12	21	33	2	32	34
TOTAL LEAVERS	**23**	**38**	**61**	**48**	**116**	**164**	**47**	**119**	**166**

The "Other" reason includes those leaving at the end of fixed-term contracts and as a result of the restructuring plan implemented in 2016 and 2015.

Gender pay ratio

With regard only to the Parent Company Gefran S.p.A., which accounts for 61% of the Group's employees, and 64.1% of the consolidated personnel costs, we give the ratio between the average basic salary of female staff and the average basic salary of male staff, broken down by job classification:



Gender pay ratio Parent Company Gefran S.p.A.	2017	2016	2015
average Gefran S.p.A.	**87%**	**95%**	**90%**
Managers	108%	99%	89%
Middle managers	89%	86%	86%
Clerical staff	82%	94%	85%
Manual workers	91%	98%	97%

From the Group point of view:

Gender pay ratio Group	2017	2016	2015
GROUP average	**85%**	**91%**	**87%**
Managers	108%	99%	89%
Middle managers	80%	90%	91%
Clerical staff	81%	87%	82%
Manual workers	91%	97%	96%

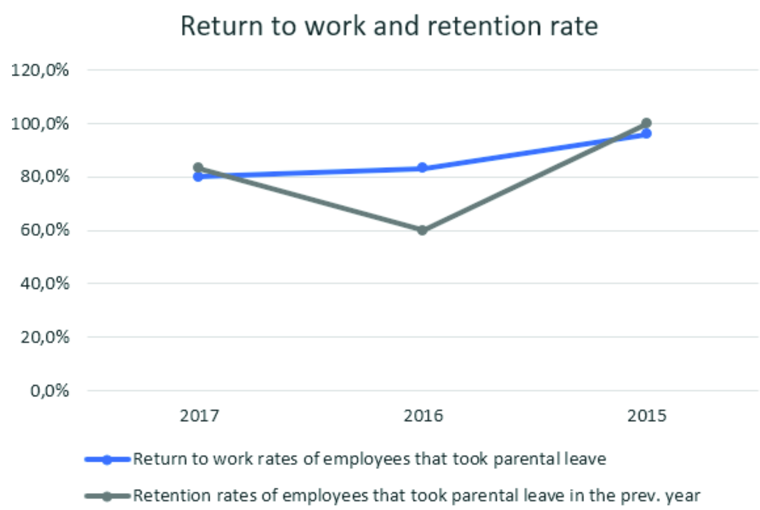
The ratios were determined as the ratio between the gross annual average basic salary of female employees and that of male employees, in the individual Group companies, for each job classification. The Group indicators are calculated weighting the ratios of the individual companies by the number of employees in each, for each job classification, where the calculation was applicable. The Group average is determined as the average of the ratios of each job classification, weighted by number of employees, where the calculation was applicable.

Parental leave

The number of Group employees who used the right to parental leave in 2017 was 10 (12 in 2016 and 25 in 2015).

Parental leave rate		2017		
		Parent Company Gefran S.p.A.	Subsidiaries	TOTAL GROUP
Employees using the right to parental leave	**no.**	**7**	**3**	**10**
of whom returned to work after using the right to parental leave	no.	5	3	8
Rate of return after parental leave	**%**	**71.4%**	**100.0%**	**80.0%**
Employees working at Gefran 12 months after using the right to parental leave the previous year	no.	10	-	10
Rate of jobs retained after parental leave (ref. previous year)	**%**	**83.3%**	**n.a.**	**83.3%**

Parental leave rate		2016		
		Parent Company Gefran S.p.A.	Subsidiaries	TOTAL GROUP
Employees using the right to parental leave	**no.**	**12**	**-**	**12**
of whom returned to work after using the right to parental leave	no.	10	-	10
Rate of return after parental leave	**%**	**83.3%**	**n.a.**	**83.3%**
Employees working at Gefran 12 months after using the right to parental leave the previous year	no.	15	-	15
Rate of jobs retained after parental leave (ref. previous year)	**%**	**65.2%**	**0.0%**	**60.0%**



Parental leave rate		2015		
		Parent Company Gefran S.p.A.	Subsidiaries	TOTAL GROUP
Employees using the right to parental leave	**no.**	**23**	**2**	**25**
of whom returned to work after using the right to parental leave	no.	22	2	24
Rate of return after parental leave	**%**	**95.7%**	**100.0%**	**96.0%**
Employees working at Gefran 12 months after using the right to parental leave the previous year	no.	9	-	9
Rate of jobs retained after parental leave (ref. previous year)	**%**	**100.0%**	**n.a.**	**100.0%**

The rate of employees who took parental leave returning to work at Group level was 100% in 2017 (100% also in 2016, 96% in 2015), and the rate of jobs retained 12 months after returning to work was 83.3% in 2017 (60% in 2016 and 100% in 2015).

Training

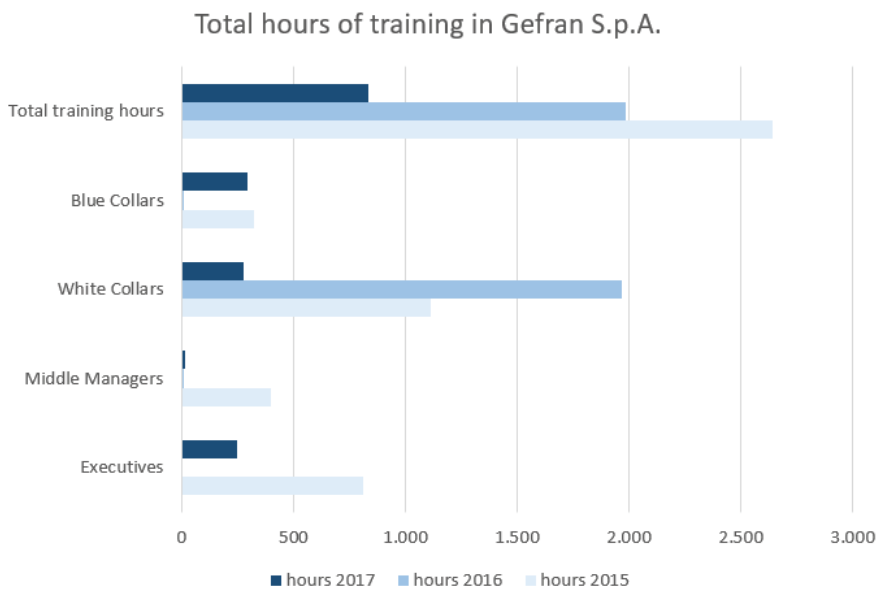
With regard to the Parent Company Gefran S.p.A., using analysis of attendance registers, the hours invested in training employees was reported; a summary is given below by sex and job classification:

training hours	2017			2016			2015		
	W	M	T	W	M	T	W	M	T
Managers	-	250	250	-	-	-	224	587	811
Middle managers	-	16	16	4	4	8	68	330	398
Clerical staff	-	278	278	984	984	1,968	352	761	1,113
Manual workers	40	252	292	8	-	8	192	129	321
TOTAL TRAINING HOURS	**40**	**796**	**836**	**996**	**988**	**1,984**	**836**	**1,807**	**2,643**
AVERAGE NUMBER OF HOURS (hours/no. employees)	**0.3**	**2.8**	**1.9**	**6.3**	**3.4**	**4.4**	**4.6**	**5.4**	**5.2**

The breakdown is as follows:

Technical training hours	2017			2016			2015		
	W	M	T	W	M	T	W	M	T
Managers	-	-	-	-	-	-	24	97	121
Middle managers	-	-	-	4	-	4	8	220	228
Clerical staff	-	112	112	28	352	380	272	741	1,013
Manual workers	-	-	-	8	-	8	192	129	321
TOTAL TECHNICAL TRAINING HOURS	**-**	**112**	**112**	**40**	**352**	**392**	**496**	**1,187**	**1,683**

Training hours on cross-functional skills development	2017			2016			2015		
	W	M	T	W	M	T	W	M	T
Managers	-	250	250	-	-	-	200	490	690
Middle managers	-	16	16	-	4	4	60	110	170
Clerical staff	-	166	166	956	632	1,588	80	20	100
Manual workers	40	252	292	-	-	-	-	-	-
TOTAL CROSS-FUNCTIONAL TRAINING HOURS	**40**	**684**	**724**	**956**	**636**	**1,592**	**340**	**620**	**960**



5. MANAGEMENT OF THE FIGHT AGAINST CORRUPTION

5.1. RISKS AND OPPORTUNITIES

Risk mapping

Gefran is an industrial Group that works and has commercial interests across the whole world.
The Group conducts its business in various markets, complying with the principles of honesty, transparency and integrity and in full compliance with laws in force.
In particular, Gefran fights against all forms of corruption, applying Italian and international laws on the subject and voluntarily adopting ethical principles in the conduct of its affairs.

The main risk profiles linked to the Group's activity, with regard to corruption, are identified and mapped in the risk assessments carried out periodically by the Company in line with the Organisational Model referred to in Legislative Decree 231/2001.
In this context, the potential offences associated with the company's activities and processes are identified and a risk profile is set out for each offence; this consists of the theoretical way the corruption could be committed and the impact that such conduct could have.
The analysis also highlights the protective measures that the Company has put in place to prevent these offences being committed, the assessment of the residual risk and further improvement actions that can be adopted to mitigate the risk.
With regard to the Gefran Group, the analysis showed moderate exposure to the risk of corruption, due to the characteristics of the sector in which the Group operates, typically focused on private companies with few relations with public sector bodies.
The potential risks applicable to the Group fall into the categories described below:

- Payment of cash or other benefit (including through consultants managing relations on behalf of the Company) to public officials or public service employees to:
    - obtain advantages and/or favourable treatment;
    - influence their independence of judgement and incite the body to ignore any failure to comply with the law.

- Payment of cash or other benefit to a member of the Board of Statutory Auditors or to the external auditors so that they omit to highlight records of operations that do not correspond to the truth / wrong accounting entries and/or so that they certify financial statements without the relevant requirements or without carrying out appropriate procedures. Concealment in full or in part and/or falsification by fraudulent means, of information, communications and documents that should have been provided to the Board of Statutory Auditors or the external auditors regarding the Company's economic, equity and/or financial situation.
- Non-transparent management of monetary and financial flows, including with reference to intercompany operations, which are instrumental to setting up funds for illicit purposes, such as corruptive activities.
- Provision of gifts or other benefits that are not of modest value to private individuals (for example customers, suppliers or consultants) and/or public operators, public service employees or parties "close" to public operators, in exchange for undue advantages or favourable treatment, in situations of particular interest to the Company.
- Sponsorship of sporting or cultural initiatives that are completely or partly fictitious in order to pay private individuals sums of money in exchange for advantages and/or favourable treatment.
- Selection of candidates close to or favoured by a public official, customer or supplier in order to obtain advantages for the Company or the Group, granting of bonuses, promotions and pay increases to personnel "close" to public operators or private individuals not made in accordance

with strictly meritocratic criteria, in order to obtain advantages and/or favourable treatment for the Company.

- Payment of money or other benefit to trade union representatives, in order to promote company policies (in terms of collective agreements, company agreements, internal regulations, working hours, company services, etc.) to the Company's advantage and the Union's (and its members') detriment.
- Payment of expense claims, in full or in part, in order to make sums of money available that can be used to bribe public operators or those close to them.
- Selection of suppliers close to or favoured by a public official in order to obtain advantages for the Company or the Group.
  Payment of money or other benefit to suppliers, in order to obtain advantages and/or favourable treatment for the Company.
- Approval of suppliers' invoices for services that are non-existent in full or in part, thereby creating "liquidity" that can be used for corrupt purposes.
- Payment of cash or other benefit to an individual belonging to a certification body (e.g. system certification, environmental certification, quality certification, etc.), in order to induce him to grant or confirm certification even when the requirements are not met.
- In terms of management of agents and dealers, the activities could be instrumental in corruption:
  - Agents close to or favoured by public operators could be selected and used, in order to obtain benefits for the Company;
  - Commission higher than that actually owed or the market rate could be paid, or commission paid for non-existent services, to create liquidity to use for corrupt purposes;
  - Agents could behave illegally to acquire orders from public-sector customers.

  The activity could be instrumental in corruption between private individuals if the Company bribes an agent or retailer, pushing them to breach their own official obligations so that Gefran gains economic or other advantages.
- When scouting for sales and managing them, with both public and private customers, the activity could involve the corruption of the public service official when, for example, money or another benefit is offered to the purchasing managers of a public agency, for the sole purpose of inducing them to buy the Company's product or accept purchase conditions that are unfavourable for that agency.
- Payment of unjustifiably favourable contractual conditions (e.g. reduced considerations) or supply of more/better quality goods than that specified in the contract with the counterparty to obtain advantages and/or favourable treatment in return.
- Payment of cash or other benefit to employees of authorised waste disposal companies, to enable waste (e.g. special, hazardous, etc.) to be deposited even without the necessary authorisations or in bigger quantities than those declared.

Risk areas

With regard to corruption related to **public authorities**, all company areas are at risk where, to carry out their activities, they:

- have relations with public-sector bodies or manage financial resources that could be used to give advantages and benefits to public-sector officials (known as "indirect risk");
- can be involved in criminal proceedings and disputes (tax, administrative, employment law, etc.).

In particular, as a result of the risk assessment carried out in the company, the following company activities were identified as being at direct risk:

1. Management of relations with public-sector bodies during formalities and inspections;
2. Applying for and reporting on loans and government grants;
3. Relations with the judicial authorities;
4. Management of relations with parties asked to release statements that can be used in criminal proceedings;
5. Management of personnel in protected categories.

The areas concerned by indirect risk are mainly those relating to:

- Administration, Finance and Control with regard to those areas where the allocation of sums of money for corrupt purposes or concealed funds must be prevented;
- Personnel management if used merely as an instrument of corruption with regard to someone “close” to or favoured by a public operator;
- Management of purchases of goods and services and consultancy agreements with regard to those areas where it is necessary to prevent the risk that suppliers are selected for the sole purpose of supporting public operators or those close to them to obtain future benefits/advantages for the Company, or which are assigned tasks likely to conceal illegal allocations of benefits;
- Management of contracts for receivables with regard to the reverse of what was described above.

With regard to offences of corruption and incitement to corruption between **private individuals**, the main areas involved are those relating to:

- Management of relations with the External Auditors in the context of the control activities attributed to them by law;
- Management of deposits and payments and of bank accounts;
- Management of petty cash;
- Management of gifts;
- Management of sponsorships and donations;
- Selection and recruitment of personnel;
- Determination of pay and bonuses, promotions and pay increases;
- Management of relations with trade unions;
- Management of employees’ expenses claims;
- Selection and qualification of suppliers and management of purchases;
- Management of consultancy work and professional services;
- Quality control and relations with certification bodies;
- Management of relations with distributors;
- Scouting for and management of sales to private customers;
- Management of waste and decontamination of polluted sites.

5.2. GEFRAN GROUP POLICIES

To prevent the commission of corrupt activities, the Company has adopted, in the context of the 231 Organisational Model, a Group Code of Ethics and a Procedures Manual, which contain the principles of conduct that the Company’s employees, contract staff, customers and suppliers are required to comply with; there are also procedures defined in the context of the 262 model.

The procedures relevant to the topic in question are:

Organizational Model pursuant to Legislative Decree 231/2001	✓ Procedure on inspections and visits of public authorities ✓ Procedure on accounting, preparation of financial statements and other related activities ✓ General principles for the management of relations with the board of statutory auditors and the auditing company ✓ Procedure for financial management and treasury ✓ Procedure on cash advance, reimbursement of expenses and credit card management ✓ Procedure for sponsorships, gifts and donations ✓ Procedure on HR selection and recruitment ✓ Procedure on the management of external assignments ✓ Procedure on the management of certifications ✓ Principles concerning crimes against industry and commerce ✓ Procedure for the recharge of air conditioning systems ✓ Procedure on the management of industrial waste
Ex L.262/05	✓ Procedura finanza e tesoreria ✓ Procedura di gestione ed amministrazione del personale ✓ Procedura di gestione del ciclo passivo ✓ Procedura di gestione del ciclo attivo

Group anti-corruption guidelines have also been adopted; they contain an overview of typical hypothetical situations in which corruption could occur. They have been shared with all the subsidiaries, and ad-hoc training on them has been given to their managers to show them how to deal with such situations.
Monitoring of compliance with the fight against corruption is typically done during audits conducted in Italy and at the foreign sites.

5.3. NON-FINANCIAL PERFORMANCE

With regard to audits done in the Group companies, which include checking compliance with the procedures and guidelines referred to above in the conduct of the company's activities, we give below information about audits conducted in the last three years of the Parent Company Gefran S.p.A. and the Subsidiaries, and the areas of interest:

audit activity	**2017**	**2016**	**2015**
in the Parent Company Gefran S.p.A.	8	13	14
in the Subsidiaries	5	4	2
TOTAL AUDITS	**13**	**17**	**16**

areas of interest	**2017**	**2016**	**2015**
Under Law 262	4	7	7
231 Organisational Model	2	2	3
Other (*)	7	8	6
TOTAL AUDITS	**13**	**17**	**16**

(*) Other indicates integrated audits (e.g. under Law 262 and the 231 Organisational Model), IT and general review of Subsidiaries.

During the audits, the following irregularities were identified, which are classified below by severity level and type, with specific reference to the corruption offences described above:

no. irregularities by severity level	**2017**	**2016**	**2015**
High	5	11	21
Medium	30	32	44
Low	16	27	47
TOTAL IRREGULARITIES	**51**	**70**	**112**

type of irregularity	**2017**	**2016**	**2015**
Related to corruption offences	-	-	-
Other	51	70	112
TOTAL IRREGULARITIES	**51**	**70**	**112**

The Company has implemented various channels of communication to the Supervisory Board, through which any violations of the principles and procedures listed above can be reported; to date no reports have ever been made.

6. NOTE ON METHODOLOGY

The Gefran Group's Consolidated Non-Financial Declaration was drawn up pursuant to Legislative Decree 254/2016 using as reference the guidelines of the Global Reporting Initiative "Sustainability Reporting Standards" published in October 2016. The GRI Standards state that the Statement should contain information about aspects considered material, which reflect the significant impacts for the organisation from an economic, environmental and social point of view and which can substantially influence the stakeholders' evaluations and decisions.
The process of collecting the data and information for preparing this Statement was managed in conjunction with the various company functions, in accordance with the following principles set out in the GRI Standards:

- comparability and clarity: to make the Statement usable by all stakeholders, clear and concise language was used together with tables and charts. The information in the report refers to the period between 1st January 2017 and 31st December 2017. Where possible, data relating to previous years was recorded for comparison purposes so that the trend of the Group's activities can be evaluated over several time periods. However, the absence of such a comparison is due either to the trend over the years not being important or to the impossibility of recovering information about previous years, due also to the fact that this document is the Group's first non-financial report. Finally, with regard to the quantitative information in this document for which estimates were used, this detail is appropriately indicated in the various sections;

- balance: the data and information in the Statement are represented objectively and meticulously; the indicators reflect the Group's performance in the reporting period;

- accuracy: the data and information in the Statement were checked by the respective function heads to confirm their accuracy and authenticity;

- timeliness: the Consolidated Non-Financial Declaration will be published annually at the same time as the Annual Financial Report;

- reliability: the Consolidated Non-Financial Declaration was drafted by an ad-hoc working group whose members were chosen from the Group's various departments and who validated the contents relating to their areas of responsibility. The final document, in its entirety, was presented and discussed by the Board of Directors.

The Consolidated Non-Financial Declaration was reviewed by the independent external auditor PricewaterhouseCoopers S.p.A.

In general terms, the data and information in this Declaration refer to the Companies consolidated using the line-by-line method in the Gefran Group's Annual Financial Report, at 31 December 2017.
Specifically, based on the distribution of personnel within the Gefran Group (where 92% of the workforce is concentrated in the Group's production companies), the sales companies are excluded from the reporting scope for some aspects where, given the nature of their activities, their contribution was not significant.
Refer to Section 1 for details of the composition of the Group.

In summary, based on the information about the scope given in each section:

- for the “human resources” and “occupational health and safety” areas, all of the Group companies are included in the scope;

- for the “consumer health and safety” area, the policies and practices implemented by the production companies and the Parent Company are analysed;

- with regard to the environment, the analysis was conducted for all the production companies and two sales companies (Gefran Siei Asia Pte Ltd and Gefran Deutschland GmbH);

- the aspects about the involvement of local communities and governance were dealt with based on the initiatives/policies and practices implemented by the production companies and Corporate;

- with regard to the supply chain, the analysis was conducted for all the production companies whereas, for the sales companies, it was conducted in a marginal way, as 95% of their procurement comes from intercompany purchases and the remaining 5% from local supplies.

7. TABLE OF CORRELATION WITH LEGISLATIVE DECREE 254

Topic of L.D. 254/2016	**Environmental**			
Material topic *(from materiality matrix)*	**Energy efficiency**	**Emissions management**	**Waste management**	**Research and development for sustainable products**
Identified risks *(paragraph reference)*	2.1	2.1	2.1	2.1
Implemented policies *(paragraph reference)*	2.1, 2.2 The policies implemented by the Group have not currently been formalized. The company is considering adopting formal policies starting from 2019.	2.1, 2.2 The policies implemented by the Group have not currently been formalized. The company is considering adopting formal policies starting from 2019.	2.2 The policies implemented by the Group have not currently been formalized. The company is considering adopting formal policies starting from 2019.	2.2 and 4.2 The policies implemented by the Group have not currently been formalized.
GRI - Referenced Topic-specific standard/disclosure *(reported reference disclosure)*	*302-1: Energy consumption within the organization* *302-3: Energy intensity* *305-5: Reduction of greenhouse gas emissions* *303-1: Water withdrawals by source*	*305-1: Direct greenhouse gas emissions (Scope 1)* *305-2: Indirect greenhouse gas emissions generated by energy consumption (Scope 2)* *305-4: Carbon intensity (GHG)*	*306-2: Total weight of waste by type and method of disposal*	*103-1, 103-2 and 103-3 of the Management Approach*
Paragraph reference	para. 2.3, p. 157-160	para. 2.3, p. 160-161	para. 2.2, p. 156-157	para. 2.2, p. 156
Reporting scope *(taking into account the indications of L.D. no. 254/2016)*	The Parent Company Gefran SpA, all the Group's production plants and the two main commercial companies, as defined in the *"Methodology Note"*.	The Parent Company Gefran SpA, all the Group's production plants and the two main commercial companies, as defined in the *"Methodology Note"*.	Only the Italian companies, the Parent Company Gefran SpA and the subsidiary Gefran Soluzioni Srl.	Parent Company Gefran S.p.A.
NB:	The following foreign subsidiaries have been omitted from the scope: - Gefran Uk Ltd, - Gefran France S.A., - Gefran Benelux Nv, - Gefran Middle East Ltd Sti Being commercial companies with limited turnover and a small number of employees, their impact was considered marginal.	The following foreign subsidiaries have been omitted from the scope: - Gefran Uk Ltd, - Gefran France S.A., - Gefran Benelux Nv, - Gefran Middle East Ltd Sti Being commercial companies with limited turnover and a small number of employees, their impact was considered marginal.	Information not available for foreign subsidiaries.	Subsidiaries are omitted from the scope, as Research and Development is carried out exclusively by the Parent Company.
Actions			Precise reporting will be organised for the year 2018.	Precise reporting will be organised for the year 2018.

Topic of L.D. 254/2016	**Staff related**				
Material topic *(from materiality matrix)*	**Human capital management**	**Industrial relations**	**Management of occupational health and safety**	**Staff training and development**	**Protection of employee diversity and non-discrimination**
Identified risks *(paragraph reference)*	4.1	----	3.1	4.1	4.1
Implemented policies *(paragraph reference)*	4.2 The policies implemented by the Group have not currently been formalized. The company is considering extending them to the entire Group, which process is to be completed by 2019.	4.2	3.2 The policies implemented by the Group have not currently been formalized.	4.2 The policies implemented by the Group have not currently been formalized. The company is considering extending them to the entire Group, which process is to be completed by 2019.	4.2 The policies implemented by the Group have not currently been formalized. The company is considering adopting policies to be formalised by 2019.
GRI - Referenced Topic-specific standard/disclosure *(reported reference disclosure)*	*401-1: New hires and employee turnover by age, gender and geographic area* *401-3: Employees entitled to parental leave and re-entry rates post parental leave by gender*	*103-2 of the Management Approach*	*403-2: Type of accident and accident rate, occupational diseases, lost work days, absenteeism and number of deaths related to work, by region and by gender*	*404-1: Average training hours by employee, gender and employee category* *404-2: Programmes to update skills and to promote ongoing learning so as to aid the continuous employment of employees and assist them in managing the final phase of their career*	*406-1: Episodes of discrimination and actions taken* *405-1: Composition of governing bodies and division of employees by category with respect to gender, age, membership in protected groups and other diversity indicators* *405-2: Ratio of the basic salary and remuneration of women compared to that of men*
Paragraph reference	para. 4.3, p. 172-178	para. 4.2, p. 170	para. 3.3, p. 166-167	para. 4.3, p. 178-179	para. 1, p.145-148 para. 4.3, p. 172-176
Reporting scope *(taking into account the indications of L.D. no. 254/2016)*	Gefran Group, all companies consolidated on a line-by-line basis, as defined in the *"Methodology Note"*.	Parent Company Gefran S.p.A.	All the Group's production plants and the two main commercial companies, as defined in the *"Methodology Note"*.	Parent Company Gefran S.p.A.	Gefran Group, all companies consolidated on a line-by-line basis, as defined in the *"Methodologyl Note"*.
NB:		Information not available for foreign subsidiaries. The analysis carried out does not reveal any risks connected with this topic.	The following foreign subsidiaries have been omitted from the scope: - Gefran Uk Ltd, - Gefran France S.A., - Gefran Benelux Nv, - Gefran Middle East Ltd Sti Being commercial companies with limited turnover and a small number of employees, their impact was considered marginal.	Information not available for subsidiaries. However their impact was considered marginal, as the most important activities are carried out in the Parent Company.	
Actions				Precise reporting will be organised for the year 2018.	

Topic of L.D. 254/2016	**Social**			
Material topic *(from materiality matrix)*	**Relations with local communities and authorities**	**Relations with Training and Research Institutions and Universities**	**Sustainable supply chain management / Economic value attracted and distributed and economic impact**	**Health and safety of consumers**
Identified risks *(paragraph reference)*	-----	-----	1 and 4.1	3.1
Implemented policies *(paragraph reference)*	4.2 The policies implemented by the Group have not currently been formalized.	4.2 The policies implemented by the Group have not currently been formalized.	3.2 and 4.2 The policies implemented by the Group have not currently been formalized. The company is considering adopting formal policies in 2018.	3.2
GRI - Referenced Topic-specific standard/disclosure *(reported reference disclosure)*	*413-1: Areas of operation with implementation of engagement programmes, impact assessment and local community development*	*413-1: Areas of operation with implementation of engagement programmes, impact assessment and local community development*	*103-2 of the Management Approach* *204-1: Percentage of expenditure concentrated on local suppliers in relation to the most significant operational sites* *308-2: Significant, current and potential negative environmental impact in the supply chain, and actions taken*	*103-1, 103-2 and 103-3 of the Management Approach*
Paragraph reference	para. 4.2, p. 171	para. 1, p. 141 para. 4.2, p. 169-170	para. 1, p. 152-154	para 3.1, p. 162-163 para. 3.2, p. 164-166
Reporting scope *(taking into account the indications of L.D. no. 254/2016)*	Parent Company Gefran S.p.A.	Parent Company Gefran S.p.A.	The Parent Company Gefran SpA and all the Group's production plants, as defined in the *"Methodology Note"*.	The Parent Company Gefran SpA and all the Group's production plants, as defined in the *"Methodology Note"*.
NB:	The activities in question focus solely on the Parent Company Gefran SpA. The analysis carried out does not reveal any risks connected with this topic.	The activities in question focus solely on the Parent Company Gefran SpA. The analysis carried out does not reveal any risks connected with this topic.	Commercial companies have been omitted from the scope, as local supplies only account for 5% of their overall supplies. Therefore, their impact was considered marginal.	Commercial companies have been omitted from the scope, as the responsibility for designing and producing a product in compliance with safety standards lies with the manufacturer.
Actions			Gefran has begun updating the current procedure regarding supply chain management, with the aim of integrating supplier evaluation criteria that take into account social and environmental aspects. The procedure update should be completed by 2018.	

Topic of L.D. 254/2016	**Respect for human rights**	**Fight against corruption**
Material topic *(from materiality matrix)*	**Respect for human rights**	**Fight against corruption**
Identified risks *(paragraph reference)*	4.1	5.1
Implemented policies *(paragraph reference)*	4.2 The policies implemented by the Group have not currently been formalized. The company is considering adopting formal policies in 2018.	5.2
GRI - Referenced Topic-specific standard/disclosure *(reported reference disclosure)*	*406-1: Discriminatory incidents and corrective actions taken 103-1, 103-2 and 103-3 of the Management Approach*	*205-1: Activities subject to risks related to corruption* *205-3: Episodes of corruption and actions taken 103-1, 103-2 and 103-3 of the Management Approach*
Paragraph reference	para. 4.2, p. 171	para 5.1, p. 180-182 para. 5.3, p. 184
Reporting scope (*taking into account the indications of L.D. no. 254/2016)*	Gefran Group, all companies consolidated on a line-by-line basis, as defined in the *"Methodologyl Note"*.	Gefran Group, all companies consolidated on a line-by-line basis, as defined in the *"Methodologyl Note"*.
NB:		
Actions		

GEFRAN S.p.A.
SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

KEY INCOME STATEMENT AND STATEMENT OF FINANCIAL POSITION FIGURES of GEFRAN S.p.A.

Gefran S.p.A. income statement highlights

(EUR /.000)	31 December 2017		31 December 2016	
Revenues	86,032	100.0%	78,020	100.0%
EBITDA	13,991	16.3%	7,500	9.6%
EBIT	7,110	8.3%	2,410	3.1%
Profit (loss) before tax	8,372	9.7%	6,336	8.1%
Result from operating activities	8,261	9.6%	7,710	9.9%
Profit (loss) from assets held for sale	187	0.2%	486	0.6%
Net profit (loss)	8,448	9.8%	8,196	10.5%

Gefran S.p.A. income statement highlights, excluding non-recurring items

(EUR /.000)	31 December 2017		31 December 2016	
Revenues	86,032	100.0%	78,020	100.0%
EBITDA	13,991	16.3%	9,120	11.7%
EBIT	7,110	8.3%	4,030	5.2%
Profit (loss) before tax	8,372	9.7%	7,956	10.2%
Result from operating activities	8,261	9.6%	9,330	12.0%
Profit (loss) from assets held for sale	187	0.2%	486	0.6%
Net profit (loss)	8,448	9.8%	9,816	12.6%

Gefran S.p.A. statement of financial position highlights

(EUR /.000)	31 December 2017	31 December 2016
Invested capital from operations	81,045	79,946
Working capital	20,926	21,966
Shareholders' equity	61,398	55,059
Net financial position	(20,854)	(26,094)
Operating cash flow	11,046	7,221
Investments	5,205	2,600

ALTERNATIVE PERFORMANCE INDICATORS

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

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

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

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

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

REPORT ON OPERATIONS

1. GEFRAN S.p.A. RESULTS

The Group closed 2017 with revenues of EUR 86,032 thousand, up 10.3% from 2016.

Along with revenues, margins also grew during the year, bringing added value to EUR 56,297 thousand, equal to 65.4% of revenues, compared with EUR 51,305 thousand in 2016, an increase of EUR 4,992 thousand (+9.7%).

EBITDA was 16.3% of revenues, while EBIT margin was 8.3%. Both of these have improved as a result of the growth of revenues and the improved margins on various products and business lines.

The reorganisation of internal processes in 2016 made the structure more efficient, leading to a decrease in personnel costs and a smaller use of resources in the form of services and operating costs.

The following table shows the operating results for the year, reclassified and compared with those of the previous period:

	(EUR /.000)	31 December 2017			31 December 2016			Change 2017-2016	
		Excl. non-rec.	Incl. non-rec.	Total	Excl. non-rec.	Incl. non-rec.	Total	Value excl. non-rec.	%
a	Revenues	86,032	0	86,032	78,020	0	78,020	8,012	10.3%
b	Increases for internal work	596		596	1,114		1,114	(518)	46.5%
c	Consumption of materials and products	30,331		30,331	27,829		27,829	2,502	9.0%
d	Added Value (a+b-c)	56,297	0	56,297	51,305	0	51,305	4,992	9.7%
e	Other operating costs	13,896		13,896	13,767		13,767	129	0.9%
f	Personnel costs	28,410	0	28,410	28,418	(1,620)	30,038	(8)	0.0%
g	EBITDA (d-e-f)	13,991	0	13,991	9,120	1,620	7,500	4,871	53.4%
h	Depreciation, amortisation and impairment	6,881		6,881	5,090		5,090	1,791	35.2%
i	EBIT (g-h)	7,110	0	7,110	4,030	1,620	2,410	3,080	76.4%
l	Gains (losses) from financial assets/liabilities	1,262		1,262	3,926		3,926	(2,664)	67.9%
n	Profit (loss) before tax (i±l)	8,372	0	8,372	7,956	1,620	6,336	416	5.2%
o	Taxes	(111)		(111)	1,374		1,374	(1,485)	108.1%
p	Result from operating activities (n±o)	8,261	0	8,261	9,330	1,620	7,710	(1,069)	11.5%
q	Profit (loss) from assets held for sale	187		187	486		486	(299)	61.5%
r	Net profit (loss) (p±q)	8,448	0	8,448	9,816	1,620	8,196	(1,368)	13.9%

Revenues for the year came to EUR 86,032 thousand, up by EUR 8,012 thousand compared with the previous year, mainly due to the increase in sales in all geographical regions and especially in Italy (EUR 2,415 thousand, 7.4%), Asia (EUR 2,494 thousand, 20.1%) and the EU region (EUR 1,158 thousand, 5.9%). From the business area point of view as well, growth was widespread: sensors increased by EUR 5,683 thousand (18.1%), automation components by EUR 560 thousand (3.1%) and motion control by EUR 1,186 thousand (4.6%).

Added value was EUR 56,297 thousand for the year, representing 65.4% of revenues, in line in terms of proportion of revenues but up in absolute value compared with the added value in 2016. In detail, the growth in sales volumes generated value of EUR 5,266 thousand while the greater margins realised led to an additional EUR 808 thousand; these positive effects are partly countered by the reduction in capitalisations of development costs for new products, down EUR 518 thousand compared with 2016, and by the increase in the inventory write-down provision, of EUR 564 thousand.

Other operating costs in 2017 amounted to EUR 13,896 thousand compared with EUR 13,767 thousand at 31 December 2016; although the absolute value was the same as the previous year, there was a fall as a percentage of revenues, from 17.6% at the end of 2016 to 16.2% in 2017, confirming the efficiency of internal processes, which made it possible to absorb the increase in revenues without a corresponding increase in management costs.

Personnel costs at 31 December 2017 amounted to EUR 28,410 thousand, compared with EUR 30,038 thousand for 2016, which included non-recurring charges for restructuring of EUR 1,620 thousand. Net of these charges, personnel costs continued at the same level in absolute value, but as a proportion of revenues fell from 38.5% in 2016 to 33% in 2017, confirming that the reorganisation of internal processes led to better use of resources. The 2017 amount includes EUR 587 thousand for recognising the obligation arising from signing non-competition agreements with some employees.

Depreciation/amortisation for 2017 amounted to EUR 6,881 thousand, up EUR 1,791 thousand compared with 31 December 2016; the increase reflects the investments made during the period and the impairment of assets to adjust the carrying value to their fair value.

In 2017 **EBIT** was positive at EUR 7,110 thousand (8.3% of revenues), compared with a positive EBIT of EUR 2,410 thousand in December 2016; stripping out the non-recurring items included in 2016, EBIT improved by EUR 3,080 thousand.

Financial income was EUR 1,262 thousand, down by EUR 2,664 thousand on the previous year. It includes dividends from equity investments of EUR 2,443 thousand, compared with dividends of EUR 5,742 thousand in 2016, the devaluation of shareholdings in the Subsidiaries Gefran Middle East, Gefran UK and Gefran India and the revaluation of the shareholding in Gefran France, which amounted in total to EUR 390 thousand; during 2016 the shareholding in Gefran Brasil Eletroel. Ltda was devalued by EUR 1,252 thousand.

Current and deferred **tax** assets and liabilities were negative and amounted to EUR 111 thousand, compared with an overall positive figure of EUR 1,374 thousand at 31 December 2016. They comprise negative current taxes of EUR 496 thousand, (negative and amounting to EUR 537 thousand in 2016) and positive deferred taxes amounting to EUR 385 thousand (positive and amounting to EUR 1,911 thousand at the end of 2016) for recognition of deferred tax assets calculated on previous tax losses, after updating the estimated recoverability of these based on the three-year plan for 2018-2020.

The **result from operating activities** at 31 December 2017 was positive at EUR 8,261 thousand, compared with a positive result of EUR 7,710 thousand in 2016; stripping out all the non-recurring items, which were negative at EUR 1,620 thousand, recognised in 2016, the result from operating activities worsened by EUR 1,069 thousand, attributable to the cost of the non-competition agreements and the increase in depreciation/amortisation.

The **profit from assets held for sale** at 31 December 2017 was positive and amounted to EUR 187 thousand; it relates to the recognition of the remaining ancillary costs for the sale of the user licence and resulting release of the previous provision made based on an estimate of the necessary costs. The agreement royalties have not been valued, since tangible elements that enable pertinent valuations are not available.

The figure compares with the positive result of EUR 486 thousand in 2016, which included the profit from the sale of the company branch distributing sensors and automation components in Spain and Portugal to a Spanish dealer of EUR 486 thousand and the net effect of entering into the agreement to sell the licence for the production and sale of string inverters to an Indian group. In detail, this income, derived from the sale of the licence, amounted to EUR 400 thousand and is recorded net of the costs incurred by Gefran for the sale, which at 31 December 2016, were estimated at EUR 400 thousand.

The **net profit (loss)** at 31 December 2017 was positive at EUR 8,448 thousand, compared with the negative figure of EUR 8,196 thousand in 2016.

Research and development costs, which are particularly substantial for Gefran S.p.A. due to the type of business it conducts, at nearly 9% of revenues, are recognised in the income statement. More specifically, the cost of technical personnel involved in the activities, consultancy and materials used is fully charged to the income statement, except for costs capitalised for the year that meet the requirements of IAS 38. Costs identified for capitalisation according to the above requirements are indirectly suspended by a revenue entry under a specific income statement item: *"Increases for internal work"*.

EUR 596 thousand was capitalised during 2017, in relation to projects meeting the requirements of IFRS.

Intangible assets with a finite life and equity investments in subsidiaries, for which there were impairment indicators, underwent impairment tests, which showed the need to devalue the equity investments in the subsidiaries Gefran Middle East (EUR 1,081 thousand), Gefran India (EUR 712 thousand) and Gefran UK (EUR 597 thousand), while the equity investment in the subsidiary Gefran France was revalued by EUR 2,000 thousand.

The main items in the statement of financial position are summarised in the following table:

GEFRAN SPA *(EUR /.000)*	31 December 2017 value	 %	31 December 2016 value	 %
Intangible assets	5,872	7.1	7,043	8.7
Tangible assets	30,315	36.9	30,847	38.0
Other non-current assets	34,826	42.3	33,824	41.7
Net non-current assets	71,013	86.3	71,714	88.4
Inventories	11,688	14.2	11,221	13.8
Trade receivables	25,860	31.4	25,035	30.8
Trade payables	(16,622)	(20.2)	(14,290)	(17.6)
Other assets/liabilities	(5,358)	(6.5)	(7,390)	(9.1)
Working capital	15,568	18.9	14,576	18.0
Provisions for risks and future liabilities	(1,171)	(1.4)	(1,831)	(2.3)
Deferred tax provisions	(9)	(0.0)	-	-
Employee benefits	(4,356)	(5.3)	(4,513)	(5.6)
Invested capital from operations	81,045	98.5	79,946	98.5
Invested capital from assets held for sale	1,207	1.5	1,207	1.5
Net invested capital	**82,252**	**100.0**	**81,153**	**100.0**
Shareholders' equity	61,398	74.6	55,059	67.8
Non-current financial payables	13,933	16.9	16,045	19.8
Current financial payables	18,699	22.7	23,357	28.8
Financial liabilities for derivatives	76	0.1	220	0.3
Financial assets for derivatives	(56)	(0.1)	(4)	(0.0)
Non-current financial assets	(166)	(0.2)	-	-
Cash and cash equivalents and current financial receivables	(11,632)	(14.1)	(13,524)	(16.7)
Net debt relating to operations	20,854	25.4	26,094	32.2
Total sources of financing	**82,252**	**100.0**	**81,153**	**100.0**

Net non-current assets decreased by EUR 701 thousand compared with 31 December 2016 and showed the following trends:

- tangible and intangible assets included increases for new investments of EUR 5,205 thousand, depreciation/amortisation of EUR 4,965 thousand and impairments to adjust the carrying value to the fair value of EUR 1,916 thousand;
- other non-current assets showed an overall change of EUR 1,002 thousand, derived from additional deferred tax asset receivables (EUR 454 thousand), the overall effect of adjusting the value of equity investments (EUR 691 thousand) and the reduction of the value of the other equity investments (EUR 87 thousand).

Working capital amounted to EUR 15,568 thousand, essentially in line with 31 December 2016; the changes in the individual items concerned:

- inventories totalled EUR 11,688 thousand at 31 December 2017, up EUR 467 thousand compared with the same period in 2016;
- trade receivables totalled EUR 25,860 thousand, an increase of EUR 825 thousand compared with 31 December 2016. The increase in revenues is not reflected completely in the increase in receivables, due to the reduction of the proportion of late payments compared with the contractual conditions and of the average collection days. Receivables from the Turkish subsidiary of EUR 1,081 thousand were also written off;
- trade payables amounted to EUR 16,622 thousand, compared with EUR 14,290 thousand at 31 December 2016, up EUR 2,332 thousand, due to an increase in purchases for warehouse material, services and investments;
- Other net assets and liabilities were negative at EUR 5,358 thousand at 31 December 2017, compared with EUR 7,390 thousand at 31 December 2016; the change of EUR 2,032 thousand relates mainly to the increase in indirect tax receivables.

Provisions for risks and future liabilities were EUR 1,171 thousand, a decrease of EUR 660 thousand from 31 December 2016. They include provisions for legal disputes in progress and miscellaneous risks and the reduction for the year relates both to the use and the release to the income statement of the part surplus to requirements.

Shareholders' equity increased by EUR 6,339 thousand compared with 31 December 2016, due to the recognition of the profit for the period (EUR 8,448 thousand) and decreased by EUR 3,600 thousand due to the payment of dividends on the 2016 profit.

Net debt at 31 December 2017 was EUR 20,854 thousand, an improvement of EUR 5,240 thousand on 31 December 2016. This change was essentially originated by the positive cash flows from normal operations (EUR 11,045 thousand) mitigated by the negative flows of the technical investments (EUR 5,205 thousand).

With reference to current financial payables, the updated checks on the contractual restrictions at the time of closing this Annual Financial Report at 31 December 2017 show that the ratios of all the financial covenants have been observed and accordingly the non-current financial payables are recorded in the financial statements according to their contractual maturity.

(EUR /.000)	**31 December 2017**	**31 December 2016**
A) Cash and cash equivalents at the start of the period	10,840	17,549
B) Cash flow generated by (used in) operations in the period:	11,046	7,221
C) Cash flow generated by (used in) investment activities	(4,947)	(2,598)
D) Free cash flow (B+C)	6,099	4,623
E) Cash flow generated by (used in) financing activities	(5,574)	(11,958)
F) Cash flow from continuing operations (D+E)	525	(7,335)
G) Cash flow from assets held for sale	0	626
H) Net change in cash at hand (F+G)	525	(6,709)
I) Cash and cash equivalents at the end of the period (A+H)	11,365	10,840

Cash flow from operations for the period was positive at EUR 11,046 thousand and relates entirely to operations in 2017 which, net of the inflow of allocations, depreciation/amortisation and financial items, generated cash of EUR 11,086 thousand.

Technical and financial investments, net of disposals, absorbed resources of EUR 4,947 thousand compared with investments of EUR 2,598 thousand in 2016.

Free cash flow (operating cash flow excluding investment activities) was positive at EUR 6,099 thousand, compared with an again positive figure of EUR 4,623 thousand in 2016, an improvement of EUR 1,472 thousand mainly owing to the additional flows generated by operations during the period.

Financing activities absorbed cash amounting to EUR 5,573 thousand, for repayment of instalments due on outstanding loans (EUR 9,507 thousand), the early repayment of three loans (EUR 4,000 thousand), taking out of two new loans (EUR 11,000 thousand) and the reduction in short-term debt (EUR 2,398 thousand).

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

2. SIGNIFICANT EVENTS DURING THE YEAR

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

- The administrative procedure to close the sales office in Russia was completed on 31 March 2017.

- On 20 April 2017, the Ordinary Shareholders' Meeting voted to:
    - Approve the Financial Statements for the financial year 2016 and pay a dividend of EUR 0.25 per share;
    - Appoint for the three-year period 2017 - 2019 as members of the Board of Directors: Ennio Franceschetti, Maria Chiara Franceschetti, Giovanna Franceschetti, Andrea Franceschetti, Alberto Bartoli, Daniele Piccolo, Monica Vecchiati, Mario Benito Mazzoleni and Romano Gallus;
    - Authorise the Board of Directors to purchase up to a maximum of 1,440,000 own shares for a period of 18 months from the date of the Shareholders' Meeting.

  The shareholders also expressed a favourable opinion of the general Group remuneration policy adopted by Gefran, pursuant to Article 123-*ter* of the TUF.
  At the end of the Shareholders' Meeting, the new Board of Directors met and appointed Ennio Franceschetti Chairman and Managing Director, Maria Chiara Franceschetti, Vice-Chairman and Alberto Bartoli Chief Executive Officer. Board members Daniele Piccolo, Monica Vecchiati and Mario Benito Mazzoleni were appointed members of the Control and Risk Committee, while Romano Gallus, Daniele Piccolo and Monica Vecchiati were appointed members of the Remuneration Committee.
  At the board meeting the independence requirements of the newly appointed board were verified. The non-executive directors Daniele Piccolo, Monica Vecchiati and Mario Benito Mazzoleni declared they were in possession of the independence requirements. The executive directors are Ennio Franceschetti, Maria Chiara Franceschetti, Giovanna Franceschetti, Andrea Franceschetti and Alberto Bartoli, while Romano Gallus is a non-independent, non-executive director.

- On 12 June 2017, the Company signed a contract with a major international lift construction group; the agreement provides for the supply of inverters for the American market, with a total value of approx. EUR 23 million and a duration of three years.

- The operational procedure to close the sales office in Mexico was completed on 21 July 2017.

- On 26 July 2017, the Company formalised the sale of 50% of the shares it owned in Axel S.r.l., equal to 15% of the total.

- The Shareholders' Meeting held on 17 October 2017 approved, in extraordinary session, the proposal to amend Articles 11, 14, 15 and 16 of the Articles of Association and, in ordinary session, to update the Regulations for meetings: the changes introduced are an important stage in developing the Company's governance and concern, specifically, the provision of the possibility to appoint an Honorary Chairman (chosen from people who have contributed to the company's success and development) and to appoint several Vice Chairmen, up to a maximum of three.

3. SIGNIFICANT EVENTS AFTER YEAR END

Nothing to report.

4. OUTLOOK

The recovery of the global economy seen in 2017, with GDP up 3.7%, will continue in 2018, thanks to emerging markets and the developed economies. The growth seems to be distributed across the Eurozone, the US and Japan, but not the UK. In the emerging economies, growth is forecast in India, Russia and Brazil, whereas China is seen as facing problems.

During 2017, Italian GDP grew by 1.5%, which was higher than expected, thanks to the growth in domestic demand, supported by better employment figures and the recovery of the trusted indices; tax cuts and favourable credit conditions also boosted investments. Despite this, in 2018 GDP is expected to grow only by +1.1%, because of the elections in March.

In this context, Gefran is seeing encouraging signs in all its core geographical regions and is seeing a good number of new orders in all its business lines.

2018 started with new orders and a backlog, which suggest positive results both in terms of sales revenues and margins from as early as the first quarter and the factories are coping easily with the growth in volumes. The investments made in 2017 and which will continue at a high rate in the coming years have already started to bear fruit, in terms of improved lead times and production efficiency.

From the business lines' point of view, in the coming year, the Gefran portfolio will see the share of revenues from motion control increase, as custom products and orders account for a greater proportion; sensors and automation components will focus on consolidating their presence in known markets and developing new regions and products.

5. OWN SHARES

During the first six months of 2017, 227,394 own shares were sold at an average selling price of EUR 4.96.

At 31 December 2017 Gefran S.p.A. did not hold any own shares in its portfolio and at the reporting date the situation is unchanged.

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

6. DEALINGS WITH RELATED PARTIES

During its meeting on 12 November 2010, the Gefran Board of Directors approved the “Regulation for transactions with related parties” in application of Consob resolution No. 17221 dated 12 March 2010. This regulation is published in the “Investor Relations” section of the website www.gefran.com and was updated in 2012 to improve some of the definitions contained therein. Information about it is also provided in the Report on Corporate Governance and Ownership Structure.

During its meeting on 12 November 2010, the Gefran Board of Directors approved the *”Regulation for transactions with related parties*” in application of Consob resolution 17221 dated 12 March 2010.

See note 35 of these notes to the accounts for details of transactions with related parties. The procedure in question was updated by the Board of Directors on 3 August 2017 to bring the content in line with current regulations, specifically the entry into force of the “Market Abuse” regulation, EU 596/2014.

7. ENVIRONMENT, HEALTH AND SAFETY

In 2017, Gefran S.p.A. continued with its commitment to promote initiatives and activities to protect the environment as a primary asset and the health and safety of all staff.

An energy monitoring system was agreed for the production sites at Provaglio d’Iseo, in the plants in Via Sebina and Via Cave, with the aim of being able to measure at least 70% of the consumption (compared with the 40% in the Enea guidelines) of each of the three functional areas in the companies: core activities, ancillary services and general services.

Detailed monitoring is planned for some utilities, for which it is considered that major improvement opportunities can be identified.

With the data that can be analysed in the coming year, improvements to energy performance of a management and/or technical nature can be assessed and scheduled.

8. HUMAN RESOURCES

In 2017 two strategic objectives were identified and pursued, from which the plans and initiatives implemented were derived. These objectives are: strengthen workers’ commitment and develop the Company’s ability to attract and retain the critical talent and skills that are vital for the business’s medium- to long-term growth and sustainability. The aim was to build the company of tomorrow, creating value for the Company and its people today.

From the processes point of view, work was done on organisational innovation plans that included training on lean manufacturing and the lean office, analysis of current processes and design and implementation of new processes aimed at improving effectiveness, efficiency and quality.

The aim of building the company of tomorrow also guided the structured plan for integrating new graduates from various faculties and specialisms into the organisation, to renew the workforce and deal with the generational shift. The search process is carried out by HR and the product lines in conjunction with universities and higher education establishments. Development pathways have been designed for new staff as explained in more detail in the section on FLY, Gefran's Talent Academy, in the Report on Operations in the consolidated financial statements.

As a result of signing a supplementary company agreement with the union organisations Fim and Fiom on performance-related pay and welfare for the workers in the Provaglio d'Iseo and Gerenzano plants, valid for 2017-2019, some significant changes have been introduced and all the opportunities offered by the most recent and innovative regulations on the subject have been included.

To respond quickly to opportunities for growth and changing market requirements and to be able to carry out improvements and innovations quickly, agreement was also reached on the need to encourage workers' participation at every level through focus teams of a technical nature, with the aim of analysing specific themes and proposing ways to improve effectiveness and efficiency.

In November a participative organisational innovation project was started, implemented in the sensors and motion control production plants, both in Provaglio d'Iseo; this project, which also involves the social partners, uses joint focus teams to design a way of organising work, in terms of hours and workforce composition, that helps to optimise processes and reduce delivery times, while taking account of sustainability for the company and work-life balance for the workers.

9. MAIN RISKS AND UNCERTAINTIES

For information on the main risks and uncertainties faced by the Company, please see the section "Main risks and uncertainties to which the Gefran Group is exposed" in the consolidated financial statements.
With regard to risk management objectives and policies, including the hedging policy and the exposure of Gefran S.p.A. to credit, price, liquidity, interest rate and exchange rate risks, please see the full description in the comments on the financial statement items. With regard to "Financial risk management", please see note 9 of the notes to the accounts.

10. SIMPLIFIED INFORMATION

On 1 October 2012, the Gefran S.p.A. Board of Directors voted to use the option to provide simplified disclosure pursuant to article 70, paragraph 8, and article 71, paragraph 1-*bis*, of Consob Regulation 11971/1999 as amended.

11. PROPOSED RESOLUTION

Dear Shareholders,
We hereby submit for your approval the annual financial statements for the period ending 31 December 2017, which show a net profit for the period of EUR 8,448,442.

Note that the legal reserve reached the limit set by the Italian Civil Code some time ago, and that the available reserves amply cover the development costs recorded under non-current assets.

We therefore submit for your approval the following resolution:

"The Ordinary Shareholders' Meeting of Gefran S.p.A., having taken note of the Board of Statutory Auditors' Report and the External Auditors' Report, votes:

1. *to approve the Board of Directors' Report on Operations and the annual financial statements for the period ending 31 December 2017, which show a profit of EUR 8,448,442, as presented by the Board of Directors;*

2. *to distribute to the shareholders, by way of dividend, gross of the legal withholdings, EUR 0.35 for each of the outstanding shares (net of the own shares), using, for the necessary amount, the net profit for the year;*

3. *to allocate to Retained earnings, the amount corresponding to the portion of the net profit for the year which remains net of the distribution as per point 2."*

The dividend, in compliance with the provisions of the "Regulation of the markets organised and managed by Borsa Italiana S.p.A.", will be paid as follows: ex-dividend date 07 May 2018, in payment as from 09 May 2018.

The amount of the dividend is fully covered by the profit for the period and sufficient financial funds are already available for the payment.

Provaglio d'Iseo, Italy, 13 March 2018

For the Board of Directors

The Chairman

Ennio Franceschetti

The Chief Executive Officer

Alberto Bartoli

FINANCIAL STATEMENTS OF GEFRAN S.p.A

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

(Euro)		Year-to-date at 31 December	
	Notes	2017	2016
Revenues from product sales	25	82,478,670	75,049,687
of which related parties:	*25,35*	*35,375,740*	*33,968,278*
Other revenues and income	26	3,553,510	2,969,664
of which related parties:	*26,35*	*2,592,470*	*2,504,285*
Increases for internal work	11,12	595,915	1,114,059
TOTAL REVENUES		**86,628,095**	**79,133,410**
Change in inventories	17	467,162	(530)
Costs of raw materials and accessories	27	(30,797,692)	(27,827,146)
of which related parties:	*27,35*	*(1,791,268)*	*(1,570,999)*
Service costs	28	(13,831,405)	(12,112,253)
of which related parties:	*28,35*	*(274,559)*	*(197,777)*
Miscellaneous management costs	30	(448,702)	(1,363,071)
Other operating income	30	561,452	11,994
Personnel costs	29	(28,410,445)	(30,037,547)
of which non-recurring:		*0*	*(1,620,149)*
Impairment of trade and other receivables	17	(176,920)	(304,274)
Amortisation	31	(2,106,204)	(2,115,696)
Depreciation	31	(4,775,426)	(2,974,447)
EBIT		**7,109,915**	**2,410,440**
of which non-recurring:		*0*	*(1,620,149)*
Gains from financial assets	32	2,860,944	6,328,397
of which related parties:	*32*	*2,448,789*	*5,745,289*
Losses from financial liabilities	32	(1,209,310)	(1,150,659)
of which related parties:	*32*	*(194)*	*(389)*
Value adjustments on non-current assets	32	(389,546)	(1,252,000)
PROFIT (LOSS) BEFORE TAX		**8,372,003**	**6,336,178**
of which non-recurring:		*0*	*(1,620,149)*
Current taxes	33	(495,576)	(536,601)
Deferred taxes	33	384,735	1,910,535
TOTAL TAXES		**(110,841)**	**1,373,934**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**8,261,162**	**7,710,112**
of which non-recurring:		*0*	*(1,620,149)*
Net profit (loss) from assets held for sale	9	187,280	485,550
of which non-recurring:		*0*	*0*
NET PROFIT (LOSS) FOR THE YEAR		**8,448,442**	**8,195,662**
of which non-recurring:		*0*	*(1,620,149)*

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

	note	Year-to-date at 31 December 2017	2016
PROFIT (LOSS) FOR THE YEAR		**8,448,442**	**8,195,662**
Items that will not subsequently be reclassified in the statement of profit/(loss) for the year			
- revaluation of employee benefits: IAS 19	*22*	49,751	(33,480)
- overall tax effect	*22*	59,833	17,066
Items that will or could subsequently be reclassified in the statement of profit/(loss) for the year			
- equity investments in other companies	*21*	49,000	160,579
- fair value of cash flow hedging derivatives	*21*	204,000	33,201
Total changes, net of tax effect		**362,584**	**177,366**
Comprehensive result for the period		**8,811,026**	**8,373,028**

3. STATEMENT OF FINANCIAL POSITION

(Euro)	*Notes*	**31 December 2017**	**31 December 2016**
NON-CURRENT ASSETS			
Intangible assets	*11*	5,871,803	7,043,859
of which related parties:	*35*	*-*	*39,000*
Property, plant, machinery and tools	*12*	30,315,594	30,847,118
of which related parties:	*35*	*168,315*	*102,860*
Equity investments in subsidiaries	*13*	25,330,625	24,639,625
Equity investments valued at purchase cost	*14*	1,587,153	1,723,705
Equity investments in other companies	*15*	2,005,670	1,956,072
Receivables and other non-current assets	*16*	2,800	58,197
Deferred tax assets	*33*	5,899,461	5,445,569
Non-current financial assets	*20*	166,241	-
TOTAL NON-CURRENT ASSETS		**71,179,347**	**71,714,145**
CURRENT ASSETS			
Inventories	*17*	11,688,336	11,221,174
Trade receivables	*17*	14,971,289	13,605,931
of which related parties:	*35*	*11,552*	*62,797*
Trade receivables from subsidiaries	*17*	10,888,421	11,429,804
Other receivables and assets	*18*	2,679,950	1,611,596
Current tax receivables	*19*	461,299	338,717
Cash and cash equivalents	*20*	11,365,199	10,839,912
Financial assets for derivatives	*20*	55,707	3,941
Financial receivables from subsidiaries	*20*	267,309	2,684,156
TOTAL CURRENT ASSETS		**52,377,510**	**51,735,231**
ASSETS HELD FOR SALE	***9***	**1,207,020**	**1,207,020**
TOTAL ASSETS		**124,763,877**	**124,656,396**
SHAREHOLDERS' EQUITY			
Share capital	*21*	14,400,000	14,400,000
Reserves	*21*	38,549,452	32,463,493
Profit/(loss) for the year	*21*	8,448,442	8,195,662
Total Group Shareholders' Equity	***21***	**61,397,894**	**55,059,155**
Shareholders' equity of minority interests		-	-
TOTAL SHAREHOLDERS' EQUITY		**61,397,894**	**55,059,155**
NON-CURRENT LIABILITIES			
Non-current financial payables	*20*	13,933,137	16,045,160
Employee benefits	*22*	4,356,205	4,512,499
Non-current provisions	*23*	159,000	1,115,000
Deferred tax provisions	*33*	8,726	-
TOTAL NON-CURRENT LIABILITIES		**18,457,068**	**21,672,659**
CURRENT LIABILITIES			
Current financial payables	*20*	13,997,759	16,010,747
Financial payables to subsidiaries	*20*	4,701,144	7,346,107
Trade payables	*17*	15,779,693	13,272,364
of which related parties:	*35*	*87,813*	*46,390*
Trade payables to subsidiaries	17	842,247	1,017,630
Financial liabilities for derivatives	20	76,101	220,089
Current provisions	23	1,011,944	715,961
Current tax payables	19	359,878	539,289
Other payables and liabilities	24	8,140,149	8,802,395
TOTAL CURRENT LIABILITIES		**44,908,915**	**47,924,582**
TOTAL LIABILITIES		**63,365,983**	**69,597,241**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**124,763,877**	**124,656,396**

4. CASH FLOW STATEMENT

(EUR /.000)		*note*	**31 December 2017**	**31 December 2016**
A) CASH AND CASH EQUIVALENTS AT THE START OF THE PERIOD			**10,840**	**17,549**
B) CASH FLOW GENERATED BY (USED IN) OPERATIONS IN THE PERIOD:				
Net profit (loss) for the period			8,448	8,196
Depreciation/amortisation		*31*	6,882	5,090
Capital (gains) losses on the sale of non-current assets		*30*	(39)	5
Capital gains (losses) on the sale of assets held for sale		*9*	(187)	(486)
Net result from financial operations		*32*	(1,262)	(3,926)
Taxes		*33*	496	537
Change in provisions for risks and future liabilities		*22,23*	(816)	316
Change in other assets and liabilities		*18,19,24*	(1,990)	1,063
Change in deferred taxes		*33*	(445)	(1,928)
Change in trade receivables		*17*	(1,905)	(2,006)
	of which related parties:	*35*	*51*	*51*
Change in inventories		*17*	(467)	1
Change in trade payables		*17*	2,332	359
	of which related parties:	*35*	*50*	*41*
TOTAL			**11,046**	**7,221**
C) CASH FLOW GENERATED BY (USED IN) INVESTMENT ACTIVITIES				
Investments in:				
- Property, plant & equipment and intangible assets		*11,12*	(5,205)	(2,599)
	of which related parties:	*35*	*(168)*	*(202)*
- Equity investments and securities		*14*	136	0
- Financial receivables		*16*	55	0
Disposal of non-current assets		*11,12*	66	1
TOTAL			**(4,947)**	**(2,598)**
D) FREE CASH FLOW (B+C)			**6,099**	**4,623**
E) CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES				
New financial payables		*20*	11,000	0
Repayment of financial payables		*20*	(13,507)	(11,853)
Increase (decrease) in current financial payables		*20*	(2,398)	(5,206)
Taxes paid		*33*	(705)	0
Interest (paid)		*32*	(480)	(835)
Interest received		*32*	45	184
Change in shareholders’ equity reserves		*21*	1,629	10
Dividends received		*32*	2,443	5,742
Dividends paid		*21*	(3,600)	0
TOTAL			**(5,574)**	**(11,958)**
F) CASH FLOW FROM CONTINUING OPERATIONS (D+E)			**525**	**(7,335)**
G CASH FLOW FROM OPERATING ASSETS HELD FOR SALE		*9*	**-**	**626**
I) NET CHANGE IN CASH AT HAND (F+G)			**525**	**(6,709)**
J) CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+I)			**11,365**	**10,840**

5. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

					overall EC reserves				
(EUR / 000)	Note	Share capital	Capital reserves	Other reserves	Fair value measurement reserve	Other reserves	Retained profit /(loss)	Profit/(loss) for the year	Total shareholders' equity
Balances at 1 January 2016		14,400	21,926	9,651	(351)	(550)	3,370	(318)	48,128
Destination of 2016 profit									
- Other reserves and provisions	*21*			0			(1,346)	1,346	0
- Dividends	*21*								0
Income/(expenses) recognised at equity	*21*			-2	194	(16)			176
Other changes	*21*			(11)					(11)
2016 profit								8,196	8,196
Balance at 31 December 2016		14,400	21,926	9,557	(65)	(661)	1,706	8,196	55,059
Allocation of 2016 profit									
- Other reserves and provisions	*21*			0			8,196	(8,196)	0
- Dividends	*21*						(3,600)		(3,600)
Income/(expenses) recognised at equity	*21*				254	110			364
Other changes	*21*			694			433		1,127
2017 profit								8,448	8,448
Balances at 31 December 2017		14,400	21,926	10,251	189	(551)	6,735	8,448	61,398

NOTES TO THE ACCOUNTS

1. Company information

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

Publication of the financial statements of Gefran S.p.A. for the year ended 31 December 2017 was authorised by resolution of the Board of Directors on 13 March 2018, and they were made available to the public on the company website www.gefran.com on 30 March 2018.

Please note that the information required pursuant to Article 123 bis of Italian Legislative Decree No. 58/1998 is contained in a separate document, the "Report on Corporate Governance and Ownership Structure", which refers for some information to the "Remuneration Report", prepared pursuant to article 123 ter of Italian Legislative Decree No. 58/1998. Both of these reports have been published in the investor relations/corporate governance section of the Company's website.

2. Form and content

The 2017 financial statements were prepared in accordance with the International Financial Reporting Standards adopted by the European Union.

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

These financial statements are presented in euros, which is also the functional currency used for the Group consolidated financial statements. Unless otherwise indicated, all the amounts included in the notes are expressed in euros.

3. Accounting schedules

Gefran S.p.A. has used:

- a statement of financial position, according to which assets and liabilities are separated into current and non-current categories;
- a statement of profit/(loss) for the year, in which costs are categorised by nature;
- a statement of profit (loss) for the year and other items of comprehensive income, which includes charges and income recognised directly in shareholders' equity, net of tax charges;
- a cash flow statement according to the indirect method, whereby the operating result is adjusted for the effects of non-monetary transactions, any deferrals or accruals of past or future operating receipts or payments, and items of revenues or costs associated with the cash flows from investing or financing activities.

It should be noted that, with regard to Consob resolution 15519 of 27 July 2006, in the statement of financial position and the income statement, amounts for positions with related parties are shown separately from the items in question.

4. Valuation criteria

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

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

With reference to Consob Communication No. 0003907 of 19 January 2015, note 13 “Equity investments in subsidiaries” includes the required information, and specifically the references to the external information and the sensitivity analysis.

With reference to Consob Communication 0007780 of 28 January 2016, we note that the impact of market conditions on the information in the financial statements was included in the Directors’ Report on Operations. We also note that the application of IFRS 13 “Fair value measurement” does not involve significant changes to items in the financial statements for Gefran.

This section summarises the most significant measurement criteria used by the Company.

Revenues

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the relative amount can be reliably measured. The following specific criteria for recognition of revenues must always be complied with before recognition in the income statement.

Sale of goods

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

Provision of services

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

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

Interest

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

Dividends

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

Costs

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

Financial charges

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

Income tax

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

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

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

Tangible assets

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

If significant parts of tangible assets in use have different useful lives, the components identified are recognised and depreciated separately.

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

Costs for maintenance and ordinary repairs are charged to the income statement in the year in which they are incurred.

Extraordinary maintenance costs that entail significant and tangible improvements to plant production capacity or safety or their economically useful lives are capitalised.

Leases

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

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

Leases where the lessor essentially retains all the typical risks and benefits of ownership are classified as operating leases. The initial negotiation costs incurred for operating leases are regarded as increasing the cost of the leased asset and are recognised over the term of the lease so as to be netted against the revenues generated by the lease. Operating lease payments are charged to the income statement on a straight-line basis throughout the term of the lease agreement.

Research and development costs

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

- the costs can be reliably determined;
- the technical feasibility of the product can be demonstrated;
- the anticipated volumes and prices indicate that the costs incurred in the development phase will generate future economic benefits;
- adequate technical and financial resources are available to complete the development of the project.

Capitalised development costs are amortised on a systematic basis from the start of production and throughout the anticipated life of the product. All other development costs are recognised in the income statement when they are incurred.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method, whereby the identifiable assets, liabilities and contingent liabilities of the acquired company, which meet the conditions for recognition under IFRS 3, are recognised at their present value at the acquisition date. Deferred taxes are then allocated on the adjustments made to the previous carrying values to align them with the present value.

Because of its complexity, application of the acquisition method includes an initial provisional calculation of the value of the assets, liabilities and contingent liabilities acquired, to allow for a first recognition of the transaction in the financial statements for the financial year in which the business combination was carried out. This initial recognition is completed and adjusted within twelve months of the acquisition date.

Changes to the initial consideration due to events or circumstances occurring after the acquisition date are recognised in the statement of profit (loss) for the year.

Goodwill is recognised as the difference between:

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

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

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

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

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

Other intangible assets

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

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

Non-current assets held for sale

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

Equity investments in subsidiaries and affiliates

Investments in subsidiaries, affiliates and joint ventures are accounted for using the cost method.

Asset impairment

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

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

Inventories

Inventories are valued at the lower of the acquisition or production cost and the market value. Ancillary costs are included in the acquisition cost.

The following cost configuration is used:

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

Production cost includes the cost of raw materials, materials, labour and all other direct production expenses, including depreciation and amortisation. Production cost does not include distribution costs. Obsolete or slow-moving inventories are written down according to the possibility of using or realising them.

Trade receivables and payables and other receivables/payables

Receivables are recognised in the financial statements at their estimated realisable value, which comprises the nominal value, adjusted if necessary by specific write-down provisions. Trade receivables have due dates that fall within normal contractual periods (60 to 120 days) and are therefore not discounted. An estimate of the risk of uncollectibility is made when collection of the full amount is no longer probable. Uncollectible receivables are written down when they are identified.

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

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

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

Payables are recognised at nominal value. Trade payables have due dates that fall within normal contractual periods (30 to 120 days) and are therefore not discounted.

Financial derivatives

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

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

- the valuation of "Financial liabilities at fair value with changes recognised in the income statement" is carried out using the market value at the close of the reporting period; in the case of unlisted instruments (e.g. financial derivatives) it is carried out using financial valuation techniques based on market data. Gains or losses arising from fair value measurement relating to assets and liabilities held for trading are posted to the income statement.

- the valuation of "Financial liabilities valued at amortised cost", carried out at amortised cost, in the case of instruments maturing within 12 months uses the nominal value as an approximation of amortised cost.

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

Own shares

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

Provisions for risks and future liabilities

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

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

Employee benefits

The post-employment benefit reserve, which is mandatory for Italian companies pursuant to Italian Law 297/1982, is considered a defined benefit plan and is based, *inter alia*, on the working lives of employees and the remuneration earned by the employee over a predetermined period of service. The post-employment benefit reserve is calculated by independent actuaries using the "*Traditional Unit Credit*" method. The Company has opted to recognise all cumulative actuarial gains and losses both on first-time adoption of IFRS and subsequently.

This item is also used to recognise non-competition agreements, signed with some employees to protect the company from any competitive activities; the value of the obligation is the subject of actuarial valuation and, when first recognised, the portion of the provision determined by actuarial methods is posted to the statement of profit/(loss) for the year.

Translation of foreign currency items

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

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

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

5. Accounting standards, amendments and interpretations applicable from 1 January 2017

Please see note 7 in the "notes to the accounts" of the consolidated financial statements for this analysis.

6. Accounting standards, amendments and interpretations not yet applied

Please see note 8 in the "notes to the accounts" of the consolidated financial statements for this analysis.

7. Accounting standards, amendments and interpretations not yet applicable

Please see note 9 in the "notes to the accounts" of the consolidated financial statements for this analysis.

8. Main decisions in the application of accounting standards and uncertainties in making estimates

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

Provision for inventory write-down

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

Provision for doubtful receivables

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

Goodwill and intangible assets with a finite life

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

Employee benefits and non-competition agreements

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

Deferred tax assets

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

Current and non-current provisions

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

9. Operating assets held for sale

Operating assets held for sale include the assets related to the know-how of the photovoltaic business.

The economic impacts specifically attributable to the photovoltaic business in 2017 are for the completion of the transfer of know-how, under the agreement to sell the licence for the production and sale of the string inverters to an Indian group, entered into in 2016.

The amount of EUR 187 thousand relates to the recognition of the remaining ancillary costs for the sale of the user licence and resulting release of the previous provision made based on an estimate of the necessary costs. The agreement royalties have not been valued, since tangible elements that enable pertinent valuations are not available.

10. Management of financial risks

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

Exchange rate risks

Gefran S.p.A. is exposed to the risk of changes in the EUR/USD exchange rate for business transactions and cash held in a currency other than the functional currency of the Company (euro). Less than 1% of revenues is in a currency other than the functional currency.

Gefran S.p.A. hedges some of its foreign currency transactions by trading exchange rate derivatives (currency forward purchases and sales), the maturity dates of which coincide with those of the hedged transaction, in order to maximise its effectiveness. The main exchange rate risk hedging activity is conducted through forward exchange rate option sale and purchase transactions. At 31 December 2017, the Company did not have any exchange rate hedging in progress.

Sensitivity to a hypothetical, unfavourable and immediate change of 5% and 10% in exchange rates, with other variables remaining unchanged, would have the following impact on the fair value of financial assets and liabilities held in USD:

Description	31 December 2017		31 December 2016	
(EUR /.000)	-5%	+5%	-5%	+5%
US dollar	(30)	27	(21)	19
Total	(30)	27	(21)	19

Description	31 December 2017		31 December 2016	
(EUR /.000)	-10%	+10%	-10%	+10%
US dollar	(64)	52	(45)	37
Total	(64)	52	(45)	37

Interest rate risk

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

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

The table below shows a sensitivity analysis of the impact that an interest rate increase/decrease of 100 basis points would have on net operating profit (loss), comparing interest rates at 31 December 2017 and 31 December 2016, while keeping other variables unchanged.

(EUR /.000)	2017		2016	
	-100	100	-100	100
EUR	68	(6)	(78)	41
Total	**68**	**(6)**	**(78)**	**41**

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

The net liabilities considered in this analysis include variable-rate financial receivables and payables, cash and cash equivalents and financial derivatives, the value of which is affected by interest rate fluctuations.

The table below shows the carrying value at 31 December 2017, broken down by maturity, of the Company's financial instruments exposed to interest rate risk:

Variable rate	<1 year	1 - 5 years	>5 years	Total
(EUR /.000)				
Loans due	9,462	13,933	-	23,395
Other accounts payable	39	-	-	39
Account overdrafts	4,497	-	-	4,497
Cash pooling current account overdrafts	4,701	-	-	4,701
Total liabilities	**18,699**	**13,933**	**-**	**32,632**
Cash in current accounts	11,356	-	-	11,356
Cash in cash pooling current accounts	267	-	-	267
Total assets	**11,623**	**-**	**-**	**11,623**
Total variable rate	**(7,076)**	**(13,933)**	**-**	**(21,009)**

Unlike net financial position figures, the amounts shown in the table above do not include the fair value of derivatives (negative at EUR 20 thousand), cash on hand (positive at EUR 9 thousand) or deferred financial income (positive at EUR 166 thousand).

Liquidity risk

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

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

Description	2017	2016	Change
(EUR /.000)			
Cash and cash equivalents	9	9	-
Cash in bank deposits	11,356	10,831	525
Total liquidity	**11,365**	**10,840**	**525**
Multiple mixed credit lines	17,404	15,000	2,404
Cash flexibility credit lines	8,835	8,785	50
Invoice factoring credit lines	12,565	12,934	(369)
Total credit lines available	**38,804**	**36,719**	**2,085**
Total liquidity available	**50,169**	**47,559**	**2,610**

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

	Note	Level 1	Level 2	Level 3	Total
(EUR /.000)					
Available-for-sale assets valued at fair value:					
Shareholdings valued at fair value with a balancing item in other overall profit/(loss)		362	-	1,444	1,806
Hedging transactions		-	56	-	56
Total assets		**362**	**56**	**1,444**	**1,862**
Hedging transactions		-	(76)	-	(76)
Total liabilities		**-**	**(76)**	**-**	**(76)**

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

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

Level 3: Fair values determined using evaluation techniques based on variables that may not be observed, and in particular the values of equity investments in other companies that are not listed on international markets whose overall value has not suffered overall changes compared to 31 December 2016.
Below is a reconciliation of financial asset and liability classes, as identified in the Gefran S.p.A. statement of financial position, and the types of financial assets and liabilities identified on the basis of IFRS 7 requirements, for the year 2016:

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

Credit risk

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

The Group has adopted a policy of monitoring outstanding receivables and the write-down process, carried out in accordance with the Company's procedures, establishes that credit positions are written down in percentage terms based on the overdue period of time; individual trade positions are written down individually following ad-hoc analysis.

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

The Company has not assigned portions of its trade receivables to factoring companies, transferring the insolvency risk.

Risk of change in raw material prices

The Company's exposure to price risk is minimal. Purchases of materials and components subject to fluctuations in raw material prices are not significant. The purchase costs of the main components are usually set with counterparties for the full year and reflected in the budget.

Gefran S.p.A. has in place structured and formalised governance systems that it uses to regularly analyse its margins. Commercial operations are coordinated by business area, so as to monitor sales and manage discounts.

Fair value of financial instruments

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

The table below summarises Gefran's net financial position, comparing fair value and carrying value:

	carrying value		fair value	
(EUR /.000)	**2017**	**2016**	**2017**	**2016**
Financial assets				
Cash and cash equivalents	9	9	9	9
Cash in bank deposits	11,623	13,515	11,623	13,515
Financial assets for derivatives	56	4	56	4
Non-current financial assets	166	-	-	-
Total financial assets	**11,854**	**13,528**	**11,854**	**13,528**
Financial liabilities				
Current portion of long-term debt	(9,462)	(9,857)	(9,462)	(9,857)
Short-term bank debt	(4,497)	(6,111)	(4,497)	(6,111)
Financial liabilities for derivatives	(76)	(220)	(76)	(220)
Factoring	(39)	(43)	(39)	(43)
Other financial payables	(4,701)	(7,346)	(4,701)	(7,346)
Non-current financial debt	(13,933)	(16,045)	(13,933)	(16,045)
Total financial liabilities	**(32,708)**	**(39,622)**	**(32,708)**	**(39,622)**
Total net debt	**(20,854)**	**(26,094)**	**(20,854)**	**(26,094)**

11. Intangible assets

"Intangible assets" exclusively comprise assets with a finite life and decreased from EUR 7,043 thousand at 31 December 2016 to EUR 5,872 thousand at 31 December 2017. The changes during the period are shown below.

Historical cost	31 December 2016	Increases	Decreases	Reclassifications	31 December 2017
(EUR /.000)					
Development costs	16,732	479	-	565	17,776
Intellectual property rights	3,939	106	(3)	1,050	5,092
Assets in progress and payments on account	836	243	-	(712)	367
Other assets	6,477	106	-	1,908	8,491
Total	27,984	934	(3)	2,811	31,726

Accumulated amortisation	31 December 2016	Increases	Decreases	Reclassifications	31 December 2017
(EUR /.000)					
Development costs	11,990	1,508	-	-	13,498
Intellectual property rights	3,655	193	(3)	1,011	4,856
Other assets	5,296	405	-	1,799	7,500
Total	20,941	2,106	(3)	2,810	25,854

Net value	31 December 2016	31 December 2017	Change
(EUR /.000)			
Development costs	4,742	4,278	(464)
Intellectual property rights	284	236	(48)
Assets in progress and payments on account	836	367	(469)
Other assets	1,181	991	(190)
Total	7,043	5,872	(1,171)

The changes relating to 2016 are as follows:

Historical cost	31 December 2015	Increases	Decreases	Other changes	31 December 2016
(EUR /.000)					
Development costs	14,669	771	-	1,292	16,732
Intellectual property rights	3,810	93	(2)	38	3,939
Assets in progress and payments on account	1,972	426	-	(1,562)	836
Other assets	6,184	97	(39)	235	6,477
Total	26,635	1,387	(41)	3	27,984

Accumulated amortisation	31 December 2015	Increases	Decreases	Other changes	31 December 2016
(EUR /.000)					
Development costs	10,434	1,556	-	-	11,990
Intellectual property rights	3,458	198	(1)	-	3,655
Other assets	4,972	363	(39)	-	5,296
Total	18,864	2,117	(40)	-	20,941

Net value	31 December 2015	31 December 2016	Change
(EUR /.000)			
Development costs	4,235	4,742	507
Intellectual property rights	352	284	(68)
Assets in progress and payments on account	1,972	836	(1,136)
Other assets	1,212	1,181	(31)
Total	7,771	7,043	(728)

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

- EUR 1,019 thousand relating to new lines for mobile hydraulics, melt sensors, pressure transducers (KS) and contactless linear position transducers (MK–IK and RK);
- EUR 1,942 thousand for component lines for the new range of regulators and static units, GF Project VX, G Cube Performa and G Cube Fit;
- EUR 1,317 thousand relating to the new range of ADV 200 drives, lift and power supplies.

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

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

Assets in progress and payments on account include payments on account made to suppliers to purchase software programs and licences expected to be delivered during the next year. They also include EUR 106 thousand of development costs, allocated to the motion control business, whose benefits will be included in the income statement for the following year, so they are not amortised.

Other assets include, almost entirely, all the costs incurred to implement ERP SAP/R3, Business Intelligence (BW), Customer Relationship Management (CRM) and management software in previous years and in the current year. These assets have a useful life of five years.

The increases in historical value of “Intangible assets”, amounting to EUR 934 thousand in 2017, include EUR 584 thousand linked to the capitalisation of internal costs.

12. Property, plant, machinery and tools

“*Property, plant, machinery and equipment*” came to EUR 30,315 thousand, compared with EUR 30,847 thousand at 31 December 2016. The change is shown in the table below:

Historical cost	31 December 2016	Increases	Decreases	Reclassifications	31 December 2017
(EUR /.000)					
Land	4,068	-	-	-	4,068
Industrial buildings	34,535	37	-	24	34,596
Plant and machinery	30,495	1,872	(1,278)	240	31,329
Industrial and commercial equipment	17,813	368	(196)	80	18,065
Other assets	4,639	173	(42)	3	4,773
Assets in progress and payments on account	463	1,821	(7)	(347)	1,930
Total	92,013	4,271	(1,523)	-	94,761

Accumulated depreciation	31 December 2016	Increases	Decreases	Reclassifications	31 December 2017
(EUR /.000)					
Industrial buildings	14,230	2,690	-	-	16,920
Plant and machinery	26,178	1,271	(1,271)	-	26,178
Industrial and commercial equipment	16,458	672	(186)	-	16,944
Other assets	4,300	143	(39)	-	4,404
Total	61,166	4,776	(1,496)	-	64,446

Net value	31 December 2016	31 December 2017	Change
(EUR /.000)			
Land	4,068	4,068	-
Industrial buildings	20,305	17,676	(2,629)
Plant and machinery	4,317	5,151	834
Industrial and commercial equipment	1,355	1,121	(234)
Other assets	339	369	30
Assets in progress and payments on account	463	1,930	1,467
Total	30,847	30,315	(532)

Changes in tangible assets relating to 2016 were as follows:

Historical cost	31 December 2015	Increases	Decreases	Other changes	31 December 2016
(EUR /.000)					
Land	4,068	-	-	-	4,068
Industrial buildings	34,474	61	(1)	1	34,535
Plant and machinery	31,690	329	(1,835)	311	30,495
Industrial and commercial equipment	19,894	489	(2,629)	59	17,813
Other assets	7,794	35	(3,195)	5	4,639
Assets in progress and payments on account	543	298	-	(378)	463
Total	98,463	1,212	(7,660)	(2)	92,013

Accumulated depreciation	31 December 2015	Increases	Decreases	Other changes	31 December 2016
(EUR /.000)					
Industrial buildings	13,453	777	(1)	1	14,230
Plant and machinery	26,769	1,244	(1,834)	(1)	26,178
Industrial and commercial equipment	18,329	755	(2,626)	-	16,458
Other assets	7,296	199	(3,194)	(1)	4,300
Total	65,847	2,975	(7,655)	(1)	61,166

Net value	31 December 2015	31 December 2016	Change
(EUR /.000)			
Land	4,068	4,068	-
Industrial buildings	21,021	20,305	(716)
Plant and machinery	4,921	4,317	(604)
Industrial and commercial equipment	1,565	1,355	(210)
Other assets	498	339	(159)
Assets in progress and payments on account	543	463	(80)
Total	32,616	30,847	(1,769)

During 2017, impairments of EUR 1,916 thousand were made for loss of value of buildings.

The biggest changes during the current period related to:

- investments in plant and production equipment of EUR 3,673 thousand;
- investments to upgrade industrial buildings of approximately EUR 329 thousand.

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

The increases in historical value of the "*Property, plant, machinery and tools*", amounting to EUR 4,271 thousand in total in 2017, include EUR 11 thousand linked to the capitalisation of internal costs, all for the sensors business.

13. Equity investments in subsidiaries

"Equity investments in subsidiaries" amounted to EUR 25,331 thousand at 31 December 2017, up EUR 691 thousand on the previous year, when the balance was EUR 24,640 thousand. The balance breaks down as follows:

Description *(EUR /.000)*	**Shareholding**	**31 December 2017**	**31 December 2016**	**Change**
Gefran GmbH (Germany)	100.00%	365	365	-
Gefran Brasil Ltda (Brazil)	100.00%	2,924	2,924	-
Gefran UK Ltd (UK)	100.00%	5,141	5,141	-
Gefran Soluzioni S.r.l. (Italy)	100.00%	1,012	1,012	-
Sensormate AG (Switzerland)	100.00%	4,123	4,123	-
Gefran Benelux BVBA (Belgium)	100.00%	344	344	-
Gefran Inc. (USA)	100.00%	7,848	7,848	-
Gefran France SA (France)	99.00%	4,338	4,338	-
Siei Areg GmbH (Germany)	100.00%	1,032	1,032	-
Gefran Siei Asia Pte (Singapore)	100.00%	2,883	2,883	-
Gefran India Ltd (India)	100.00%	1,722	1,722	-
Gefran Middle East (Turkey)	100.00%	1,457	377	1,081
Gefran South Africa SA (South Africa)	100.00%	-	152	(152)
Adjustment provision		(7,860)	(7,622)	(238)
Total		25,331	24,640	691

The changes relate to:

- Gefran Middle East (Turkey): the Company has written off trade receivables related to the subsidiary, recognising the total amount of EUR 1,081 thousand as an increase in the equity investment.
- Gefran South Africa (South Africa): the equity investment was reduced to zero when the elimination of the subsidiary became effective in January 2017.

The following is a breakdown of the adjustment provision:

Description *(EUR /.000)*	**31 December 2017**	**31 December 2016**	**Change**
Gefran Brasil Ltda (Brazil)	1,252	1,252	-
Gefran UK Ltd (UK)	4,438	3,841	597
Gefran France SA (France)	0	2,000	(2,000)
Gefran India Ltd (India)	712	0	712
Gefran Middle East (Turkey)	1,457	377	1,081
Gefran South Africa SA (South Africa)	0	152	(152)
Total	7,860	7,622	238

Pursuant to IAS 36, the amount recognised in the financial statements is reviewed if any indicators of potential impairment appear.

The discount rate used for discounting cash flows (WACC) was analytically calculated on the basis of specific key assumptions.

When determining the value in use, the specific cash flows relating to the period 2018 - 2020 were considered, deriving from the Plan of the individual investment, along with the terminal value, which represents the ability to generate cash flows beyond the explicit forecast time scale.

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

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

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

The return from risk-free assets has been parameterised to the yield of the individual 10-year government securities.

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

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

With regard to the equity investments whose value was adjusted during 2017, the occurrence of the impairment indicators, such as the need to write off receivables with regard to the Turkish subsidiary, the worsening of forecast free cash flow for Gefran India or the forecast thinning of EBIT for Gefran UK (including as a result of greater uncertainty arising from Brexit), showed the need for further investigation.

Description	Net book value 31/12/2017	Net book value 31/12/2016	Explicit forecast	WACC (%)	Equity value 31/12/2017	Risk free (%)	Risk premium (%)	Theoretical tax rate (%)
(EUR /.000)								
Gefran France	4,338	2,338	2018 - 2020	21.2%	4,533	7.2%	0.9%	34.4%
Gefran India	1,010	1,722	2018 - 2020	21.2%	1,011	12.2%	7.3%	27.6%
Gefran UK	703	1,300	2018 - 2020	7.7%	703	1.4%	6.0%	19.0%
Gefran Middle East	-	-	2018 - 2020	20.5%	275	11.8%	7.1%	20.0%

The final outcome of the impairment testing on the book values of the equity investments was an equity value (enterprise value net of the corresponding net financial position) lower than the book value, therefore steps were taken to adjust the book value of the investment.

The impairment test carried out on the equity investment in Gefran Middle East showed an equity value of EUR 275 thousand; as it became necessary during the year to write off the investee company's receivables, stress tests were carried out to check the equity value. These tests showed that the test would have been failed even changing one variable marginally. It was therefore decided to impair the entire equity investment.

With regard to the investee company Gefran France, the impairment test carried out first in a steady-case situation and then subjected to a stress test showed an equity value above the net book value, therefore the value adjustment made in previous years was restored.

With reference to the other equity investments in subsidiaries, the related book values recorded in the financial statements have been maintained.

14. Equity investments valued at purchase cost

This item stood at EUR 1,588 thousand at 31 December 2017, a reduction of EUR 136 thousand compared with the same period in 2016, following the sale of 15% of the share capital of Axel S.r.l. The balance breaks down as follows:

Description		31 December 2017	31 December 2016	Change
(EUR /.000)				
Ensun S.r.l.	*Shareholding*	*50.00%*	*50.00%*	
Via Stacca, 1	Investment value	1,466	1,466	0
Rodengo Saiano (BS)	Adjustment provision	(15)	(15)	0
	Net value	1,451	1,451	0
Axel S.r.l.	*Shareholding*	*15.00%*	*30.00%*	
Via Dandolo, 5	Investment value	137	273	(136)
Varese (VA)	Adjustment provision	0	0	0
	Net value	137	273	(136)
Total		1,588	1,724	

15. Equity investments in other companies

"*Equity investments in other companies*" totalled EUR 2,006 thousand, showing an increase of EUR 50 thousand compared with the figure at 31 December 2016. The balance breaks down as follows:

(EUR /.000)	Shareholding	31 December 2017	31 December 2016	Change
Colombera S.p.A.	16.56%	1,416	1,416	0
Woojin Plaimm Co Ltd	2.00%	159	159	0
UBI Banca S.p.A.	n.s.	203	203	0
Other	-	28	27	1
Adjustment provision	-	200	151	49
Total		2,006	1,956	50

Equity investments are classed as held for sale and are recognised at fair value, derived from the stock market quotation, for Woojin Machinery Co. Ltd. (Seoul Stock Exchange) and for UBI Banca S.p.A. (Italian Stock Exchange). The adjustment provision is due to the fair value adjustment and breaks down as follows:

(EUR /.000)	Shareholding	31 December 2017	31 December 2016	Change
Colombera S.p.A.	16.56%			0
Woojin Plaimm Co Ltd	2.00%	345	312	33
UBI Banca S.p.A.	n.s.	(145)	(161)	16
Total		200	151	49

16. Receivables and other non-current assets

"Receivables and other non-current assets" stood at EUR 3 thousand, and break down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Cautionary deposits	3	58	(55)
Total	**3**	**58**	**(55)**

17. Net working capital

Net working capital totalled EUR 20,926 thousand, compared with EUR 21,966 thousand at 31 December 2016, and breaks down as follows:

(EUR /.000)	31 December 2017	31 December 2016	Change
Inventories	11,688	11,221	467
Trade receivables	14,972	13,605	1,367
Trade payables to subsidiaries	10,888	11,430	(542)
Trade payables	(15,780)	(13,272)	(2,508)
Trade payables to subsidiaries	(842)	(1,018)	176
Net amount	**20,926**	**21,966**	**(1,040)**

Specifically, net working capital generated from dealings with subsidiaries was EUR 10,046 thousand, down by EUR 366 thousand compared with 2016, while net working capital vis-à-vis third parties came to EUR 10,880 thousand, down EUR 674 thousand on the previous year.

"Inventories" amounted to EUR 11,688 thousand and break down as follows:

(EUR /.000)	31 December 2017	31 December 2016	Change
Raw materials, consumables and supplies	8,524	8,901	(377)
provision for raw materials	*(1,859)*	*(2,500)*	641
Work in progress and semi-finished products	4,634	4,331	303
provision for work in progress	*(1,176)*	*(973)*	(203)
Finished products and goods	2,326	2,779	(453)
provision for finished products	*(761)*	*(1,317)*	556
Total	**11,688**	**11,221**	**467**

"Trade receivables" increased by EUR 1,367 thousand during the year and break down as follows:

(EUR /.000)	31 December 2017	31 December 2016	Change
Receivables from customers due within 12 months	16,596	15,074	1,522
Provision for doubtful receivables	*(1,624)*	*(1,469)*	(155)
Net amount	**14,972**	**13,605**	**1,367**

This includes receivables assigned with recourse to a leading factoring company for EUR 30 thousand (EUR 44 thousand at 31 December 2016). During the year no receivables subject to recourse factoring were transferred to factoring companies (EUR 5,053 thousand in 2016).

Receivables were adjusted to their estimated realisable value through the provision of a specific allowance calculated on the basis of an examination of individual debtor positions. The provision at 31 December 2017 represents a prudential estimate of the current risk, and registered the following changes:

(EUR /.000)	31 December 2016	Provisions	Uses	Releases	31 December 2017
Provision for doubtful receivables	**1,469**	**177**	**(22)**	**0**	**1,624**

The changes in the provision for doubtful receivables relating to 2016 are as follows:

(EUR /.000)	31 December 2015	Provisions	Uses	Releases	31 December 2016
Provision for doubtful receivables	**1,279**	**304**	**(114)**	**0**	**1,469**

Decreases include the use of the provision to cover losses on unrecoverable receivables. The Company monitors the riskiest receivables and also implements specific legal measures.

The carrying value of trade receivables is considered to approximate to their fair value.

"*Trade receivables from subsidiaries*" amounted to EUR 10,888 thousand compared with a balance of EUR 11,430 thousand at 31 December 2016. The item relates to receivables from the sale of products and from service contracts carried out by Gefran S.p.A. in favour of the subsidiaries. During 2017 receivables related to the subsidiary Gefran Middle East of EUR 1,081 thousand were written off. The carrying value of intercompany receivables is believed to approximate to the fair value.

"Trade payables" were up EUR 2,508 thousand at 31 December 2017 compared with 31 December 2016, as shown below:

(EUR /.000)	31 December 2017	31 December 2016	Change
Payables to suppliers	12,955	9,561	3,394
Payables to suppliers for invoices to be received	2,718	3,703	(985)
Payments on account received from customers	107	8	99
Total	**15,780**	**13,272**	**2,508**

"*Trade payables to subsidiaries*" amounted to EUR 842 thousand, compared with EUR 1,018 thousand at 31 December 2016. This item refers to payables from the purchases of products and services by the Parent Company.

The carrying value of trade payables and intercompany trade payables is believed to approximate to the fair value.

18. Other current assets

"*Other current assets*" totalled EUR 2,681 thousand at 31 December 2017, compared with EUR 1,612 thousand at 31 December 2016. The balance breaks down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Services and maintenance	188	313	(125)
Receivables from employees	20	21	(1)
Bank transaction fees	166	237	(71)
VAT reimbursements on vehicles LD 258/2006	0	128	(128)
IRES receivable IRAP non-deductibility	0	56	(56)
Other tax receivables	1,459	145	1,314
Other	848	712	136
Total	**2,681**	**1,612**	**1,069**

The main change relates to the indirect tax receivables; the carrying value of the item is believed to approximate to the fair value.

19. Current tax receivables and payables

"Current tax receivables" comprise taxes paid abroad, up by EUR 122 thousand in 2017, broken down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Other taxes	461	339	122
Total	**461**	**339**	**122**

"Current tax payables" totalled EUR 360 thousand at 31 December 2017, as follows:

(EUR /.000)	31 December 2017	31 December 2016	Change
IRES (corporate income tax)	259	285	(26)
IRAP (regional production tax)	101	254	(153)
Total	**360**	**539**	**(179)**

IRAP (regional production tax) and IRES (corporate income tax) are recognised on taxable income, for which the prior tax losses can only be partly used, in accordance with current legislation.

20. Net financial position

The table below shows a breakdown of the net financial position:

(EUR /.000)	31 December 2017	31 December 2016	Change
Cash and cash equivalents and current financial receivables	11,365	10,840	525
Financial assets for derivatives	56	4	52
Non-current financial assets	166	-	166
Intercompany financial receivables	267	2,684	(2,417)
Non-current financial payables	(13,933)	(16,045)	2,112
Current financial payables	(13,998)	(16,011)	2,013
Intercompany financial payables	(4,701)	(7,346)	2,645
Financial liabilities for derivatives	(76)	(220)	144
Total	**(20,854)**	**(26,094)**	**5,240**

The following table breaks down the net financial position by maturity:

(EUR /.000)	31 December 2017	31 December 2016	Change
A. Cash on hand	9	9	-
B. Cash in bank deposits	11,356	10,831	525
Term deposits – less than 3 months	-	-	-
C. Securities held for trading	-	-	-
D. Cash and cash equivalents (A+B+C)	**11,365**	**10,840**	**525**
E. Current financial receivables from subsidiaries	267	2,684	(2,417)
F. Current financial payables to subsidiaries	(4,701)	(7,346)	2,645
Financial liabilities for derivatives	(76)	(220)	144
Financial assets for derivatives	56	4	52
G. Fair value hedging derivatives	(20)	(216)	196
H. Current portion of long-term debt	(9,462)	(9,857)	395
I. Other current financial payables	(4,536)	(6,154)	1,618
J. Total current financial payables (I+H)	**(13,998)**	**(16,011)**	**2,013**
L. Total current payables (F+G+J)	**(18,719)**	**(23,573)**	**2,209**
M. Net current financial debt (D+E+L)	**(7,087)**	**(10,049)**	**2,962**
N. Non-current financial assets	**166**	**0**	**166**
O. Non-current financial debt	**(13,933)**	**(16,045)**	**2,112**
P. Net financial debt (M+N+O)	**(20,854)**	**(26,094)**	**5,074**
of which to minorities:	*(16,420)*	*(21,432)*	*5,012*

The net debt at 31 December 2017 is equal to EUR 20,854 thousand, an improvement over 31 December 2016 of EUR 5,074 thousand. This change was essentially originated by the positive cash flows from normal operations (EUR 11,046 thousand) mitigated by the negative flows of the technical investments (EUR 5,205 thousand).

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

Cash and cash equivalents amounted to EUR 11,365 thousand at 31 December 2017, up by EUR 525 thousand compared to the balance at 31 December 2016:

(EUR /.000)	31 December 2017	31 December 2016	Change
Cash in bank deposits	11,356	10,831	525
Cash	9	9	-
Total	**11,365**	**10,840**	**525**

The technical forms used at 31 December 2017 are shown below:
- maturities: payable on demand;
- counterparty risk: deposits are made at leading banks;
- country risk: the deposits are made in Italy.

Financial receivables from subsidiaries refer to the balances of individual debt positions of the subsidiaries, generated by cash transfers by means of the cash pooling system, and present a balance of EUR 267 thousand, compared with EUR 2,684 thousand at 31 December 2016.

In the cash flow statement and the breakdown of the net financial position, this item is classed as "*Current financial payables*".

Current financial payables decreased by EUR 2,013 thousand at 31 December 2017 compared with 2016, and break down as follows:

(EUR /.000)	31 December 2017	31 December 2016	Change
Current portion of debt	9,462	9,857	(395)
Current overdrafts	4,497	6,111	(1,614)
Factoring	39	43	(4)
Total	**13,998**	**16,011**	**(2,013)**

The current portion of loans decreased by EUR 395 thousand compared to December 2016, of which EUR 9,857 thousand was for the reimbursements specified in the repayment plans of the individual loans, with an increase of EUR 9,462 thousand due to the recognition of the portions of loans whose maturity is envisaged in the next 12 months under short-term loans.

The financial covenants were checked as at 31 December 2017 and are fully compliant.

"Factoring" amounted to EUR 39 thousand and comprised payables to factoring companies, for the payment extension period from the original maturity of the payable with certain suppliers, for which the Gefran has accepted non-recourse assignment.

Bank overdrafts at 31 December 2017 totalled EUR 4,497 thousand, compared to a balance at 31 December 2016 of EUR 6,111 thousand. The item has the following characteristics:

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

Financial payables to subsidiaries at 31 December 2017 amounted to EUR 4,701 thousand and refer to the balance of the individual creditor positions of the subsidiaries, generated from transfers to the Parent Company of cash on hand through the cash pooling system for European subsidiaries.

In the cash flow statement and the breakdown of net financial position, this item is classed as "*Current financial payables*".

Non-current financial payables break down as follows:

Bank	31 December 2017	31 December 2016	Change
Centrobanca	-	1,456	(1,456)
Banco di Brescia	-	657	(657)
Unicredit SACE	-	750	(750)
Banco di Brescia	-	702	(702)
BNL	666	1,333	(667)
Banca Pop. Sondrio	195	964	(769)
Unicredit	-	900	(900)
Unicredit	-	2,000	(2,000)
Banca Pop. Emilia Romagna	1,272	2,283	(1,011)
Mediocredito	3,000	5,000	(2,000)
Unicredit	4,800	-	4,800
BNL	4,000	-	4,000
Total	**13,933**	**16,045**	**(2,112)**

The loans listed in the table are all variable-rate contracts and have the following characteristics:

Bank	Amount disbursed (€/000)	Signing date	Balance at 31 December 2017	Of which within 12 months	Of which over 12 months	Interest rate	Maturity	Repayment method
Centrobanca	EUR 10,976	04/09/2008	1,463	1,463	-	Euribor 6m + 0.85%	01/10/2018	half-yearly
Banco di Brescia	EUR 6,000	31/05/2013	656	656	-	Euribor 3m + 3.90%	31/05/2018	quarterly
Banco di Brescia	EUR 3,000	28/11/2014	703	703	-	Euribor 3m + 1.75%	30/11/2018	monthly
BNL	EUR 3,000	19/12/2014	1,334	667	666	Euribor 6m + 1.35%	18/12/2019	half-yearly
Banca Pop. Sondrio	EUR 3,000	23/12/2014	964	770	195	Euribor 3m + 2.00%	22/12/2018	quarterly
Banca Pop. Emilia Romagna	EUR 4,000	06/08/2015	2,275	1,003	1,272	Euribor 3m + 1.25%	03/02/2020	quarterly
Mediocredito	EUR 10,000	07/08/2015	5,000	2,000	3,000	Euribor 3m + 1.35%	30/06/2020	quarterly
Unicredit	EUR 6,000	14/11/2017	6,000	1,200	4,800	Euribor 3m + 0.90%	30/11/2022	quarterly
BNL	EUR 5,000	23/11/2017	5,000	1,000	4,000	Euribor 3m + 0.85%	23/11/2022	quarterly
Total			**23,395**	**9,462**	**13,933**			

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

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

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

  - consolidated net financial debt to equity ratio of ≤ 0.7.

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

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

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

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

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

  - consolidated net financial debt to equity ratio of ≤ 0.7;
  - Shareholders' Equity to Total Assets > 30%.

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

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

  - consolidated net financial debt to EBITDA ratio of ≤ 3.5.

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

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

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

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

The Administration, Finance and Control Director is responsible for checking these contractual restrictions every quarter: the ratios calculated on the data at 31 December 2017 are fully observed and the loans have been distributed in the table of the maturities according to the forms originally envisaged by the agreements.

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

Financial assets for derivatives totalled EUR 56 thousand at 31 December 2017 and consist of the positive fair value recorded at the year-end of certain CAP contracts entered into by the Parent Company to hedge interest rate risks. **Financial liabilities for derivatives** totalled EUR 76 thousand, owing to the negative fair value of certain IRS contracts, also entered into by the Parent Company to hedge interest rate risks.

To mitigate the financial risk associated with variable-rate loans, which could arise in the event of an increase in the Euribor, the Parent Company decided to hedge its variable-rate loans through CAPs (interest rate caps), as set out below:

Bank *(Euro/000)*	Notional principal	Signing date	Notional at 31 December 2017	Derivative	Fair Value at 31 December 2017	Long position rate	Short position rate
Banco di Brescia	EUR 3,000	28/11/2014	703	CAP	0	Strike Price 0.10%	Euribor 3m
BNL	EUR 3,000	19/12/2014	1,334	CAP	0	Strike Price 0.20%	Euribor 6m
Unicredit	EUR 10,000	07/08/2015	6,000	CAP	31	Strike Price 0%	Euribor 3m
BNL	EUR 6,000	14/11/2017	5,000	CAP	25	Strike Price 0%	Euribor 3m
Total financial assets for derivatives – interest rate risk					**56**		

Gefran S.p.A. has also taken out IRS (Interest Rate Swap) contracts, as set out in the table below:

Bank *(EUR/000)*	Notional principal	Signing date	Notional at 31 December 2017	Derivative	Fair Value at 31 December 2017	Long position rate	Short position rate
Centrobanca	EUR 9,550	31/03/2010	1,463	IRS	(30)	Fixed 3.11%	Euribor 6m
Banca Pop. Emilia Romagna	EUR 4,000	01/10/2015	2,275	IRS + Floor	(20)	Fixed 0.15%	Euribor 3m
Intesa	EUR 10,000	05/10/2015	5,000	IRS	(26)	Fixed 0.16%	Euribor 3m
Total financial liabilities for derivatives – interest rate risk					**(76)**		

All the contracts described above are booked at fair value:

	at 31 December 2017		at 31 December 2016	
(EUR/000)	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Exchange rate risk	0	0	0	(5)
Interest rate risk	56	(76)	4	(215)
Total cash flow hedge	**56**	**(76)**	**4**	**(220)**

All derivatives were tested for effectiveness, with positive outcomes.

In order to support its current operations, Gefran has various credit lines granted by banks and other financial institutions available, mainly in the form of loans for advances on invoices, cash flexibility and mixed loans for a total of EUR 44,339 thousand. Overall use of these lines at 31 December 2017 totalled EUR 5,535 thousand, with a residual available amount of EUR 36,804 thousand.

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

21. Shareholders' equity

"Shareholders' equity" at 31 December 2017 amounted to EUR 61,398 thousand, up by EUR 6,333 thousand from 31 December 2016. The main changes relate to the recognition of the profit for the year (EUR 8,448 thousand) and the payment of dividends on the 2016 profit (EUR 3,600 thousand).

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

At 31 December 2016 Gefran S.p.A. held 227,394 shares, amounting to 1.58% of the total, which were all sold during the first half of 2017 at an average price of EUR 4.96, for an overall total of EUR 1,129 thousand; at 31 December 2017 there were no own shares in the portfolio.

The Company has not issued convertible bonds.

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

- the share premium reserve, amounting to EUR 19,046 thousand, which is a capital reserve that includes the amounts received by the Company for the issue of shares at a price higher than their nominal value;
- the legal reserve, amounting to EUR 2,880 thousand, which is populated by the mandatory allocation of an amount not less than one-twentieth of annual net profits, until an amount equal to one-fifth of the share capital has been reached (which has already occurred);
- Share fair value measurement reserve (EUR 198 thousand), which includes effects recognised directly under shareholders' equity of the measurement at fair value of shares;
- the cash flow hedge reserve, which includes effects recognised directly under shareholders' equity as deriving from the measurement at fair value of financial derivatives to hedge cash flows from changes in interest rates and exchange rates, and is negative at EUR 10 thousand;
- the extraordinary reserve (EUR 9,255 thousand), which is recognised under "other reserves";
- the merger surplus reserve (EUR 858 thousand), which was set up in 2006 after the merger by incorporation of Siei S.p.A. and Sensori S.r.l. and is included under "other reserves";
- the reserve for conversion to IAS/IFRS (EUR 137 thousand), which is included under "other reserves";
- the employee benefits valuation reserve pursuant to IAS 19, which is negative at EUR 550 thousand and is included under "other reserves".

For details on the changes in equity reserves during the year, see the schedule showing changes in shareholders' equity.

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

(EUR /.000)	**31 December 2017**	**31 December 2016**	**Change**
Balance at 1 January	151	(10)	161
UBI Banca S.p.A. shares	16	(57)	73
Woojin Plaimm Co Ltd shares	33	218	(185)
Tax effect	(2)	-	(2)
Net amount	**200**	**151**	**49**

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

(EUR /.000)	31 December 2017	31 December 2016	Change
Balance at 1 January	(216)	(249)	33
Change in fair value of derivatives	204	33	171
Tax effect	3	-	3
Net amount	**(12)**	**(216)**	**204**

Shareholder's equity breaks down as follows:

(EUR / 000)	Amount	Possibility of utilisation	Portion available
Share capital	14,400		
Capital reserves			
Share premium reserve	19,046	A-B-C	19,046
Retained earnings			
- legal reserve	2,880	B	
- extraordinary reserve	9,255	A-B-C	9,255
- IFRS conversion reserve	137		
- reserve for the measurement of securities at fair value	198		
- reserve for unrealised exchange rate gains	-		
- cash flow hedging reserve	(10)		
- IAS 19 reserve	(550)		
- own shares reserve	-		
- merger surplus reserve	858	A-B-C	858
- retained earnings/losses	6,736	A-B-C	6,736
- profit/(loss) for the period	8,448		
Total	**61,398**		**35,895**
Restricted portion			4,838
Residual portion available			31,057

NB: A = for capital increase, B = to hedge losses, C = for distribution to shareholders

22. Employee benefits

Liabilities for *"Employee benefits"* showed the following changes:

Description	31 December 2016	Increases	Decreases	Discounting	Other changes	31 December 2017
(EUR /.000)						
Post-employment benefits	4,513	7	(710)	(40)	-	3,769
Non-competition agreements	-	312	(7)	283	-	587
Total	**4,513**	**319**	**(717)**	**243**		**4,356**

Changes relating to 2016 were as follows:

Description	31 December 2015	Increases	Decreases	Discounting	Other changes	31 December 2016
(EUR /.000)						
Post-employment benefits	4,880	70	(333)	71	(175)	4,513

The item mainly comprises the post-employment benefits reserve for the Company's employees. The change during the year was due to an increase of EUR 7 thousand, resulting from disbursements to employees of EUR 710 thousand (as a result of company employees leaving the company under the mobility plan completed in 2016) and from the discounting of the liability existing at 31 December 2017 pursuant to IAS, equal to EUR 40 thousand (interest costs of EUR 10 thousand and actuarial gains of EUR 50 thousand).

"*Non-competition agreements*" refer to the amount of the obligation to certain employees, all of Italian subsidiaries, who have signed such agreements to protect the company from any competitive activities. The discounting of the obligation was equal to EUR 283 thousand, due exclusively to the valuation of the actuarial loss.

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

- any future benefits that might be paid out to each employee registered with the scheme in the event of retirement, death, disability, resignations, etc. are projected using a series of financial assumptions. The estimate of future benefits does not include any increases for further service periods accrued or any presumed increase in pay at the valuation date, as any future increases in the post-employment benefit reserve are fully transferred to supplementary pension funds;
- at the valuation date, based on the annual interest rate used and the probability that every benefit has to be effectively paid, the *average current value of future benefits* is calculated;
- the liability for the Company is defined by identifying, in proportion to the length of service accrued, the portion of the *average current value of future benefits* that relates to the service already accrued by the employee at the valuation date;
- based on the liability calculated as per the previous point and the reserve created in the financial statements for Italian statutory purposes, the reserve recognised as valid for IAS purposes is identified.

More specifically, the following assumptions were used:

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

Financial assumptions	Managers	Non-managers
Increase in the cost of living	1.5% annually	1.5% annually
Discount rate	1.5% annually	1.5% annually
Pay increase		
- equal to or less than 40 years of age	0%	0%
- over 40, but equal to or less than 55 years of age	0%	0%
- over 55 years of age	0%	0%

With regard to the non-competition agreements, in accordance with IAS 19, the so-called "Traditional Unit Credit" method was used, which is broken down into the following stages:

- any future benefits that might be paid out to each employee registered with the scheme in the event of retirement, death, disability, resignations, etc. are projected using a series of financial assumptions;
- at the valuation date, based on the annual interest rate used and the probability that every benefit has to be effectively paid, the *average current value of future benefits* is calculated;
- the liability for the Company is defined by identifying, in proportion to the length of service accrued, the portion of the *average current value of future benefits* that relates to the service already accrued by the employee at the valuation date;
- based on the liability calculated as per the previous point and the reserve created in the financial statements for Italian statutory purposes, the reserve recognised as valid for IAS purposes is identified.

More specifically, the following assumptions were used:

Demographic assumptions	
Probability of death	ISTAT 2014 Mortality tables
Probability of disability	Unisex tables drawn up by the CNR (National Research Council) reduced by 80%
Probability of resignation	
- up to 67 years of age	4.0% in each year
- subsequently	Nil
Probability of retirement	Calculated according to the rules set forth in the Monti-Fornero law.

Financial assumptions	
Increase in the cost of living	1.5% annually
Discount rate	1.5% annually
Annual pay increase	1.5% annually

The sensitivity analysis carried out on the assumptions of 1% and 0.5% changes in the discount rate used is shown below:

Description	31/12/2017		31/12/2016	
(EUR /.000)	-1.0%	1.0%	-1.0%	1.0%
Post-employment benefit reserve	(461)	413	(568)	506
Non-competition agreements	(32)	29	-	-
Total	(493)	442	(568)	506

Description	31/12/2017		31/12/2016	
(EUR /.000)	-0.5%	0.5%	-0.5%	0.5%
Post-employment benefit reserve	(224)	212	(276)	260
Non-competition agreements	(16)	15	-	-
Total	(240)	227	(276)	260

23. Current and non-current provisions

"Non-current provisions" fell by EUR 956 thousand compared with 31 December 2016, and break down as follows:

Description	31 December 2016	Provisions	Uses	Releases	31 December 2017
(EUR /.000)					
- for legal disputes	1,030	-	(555)	(401)	74
- other provisions	85	-	-	-	85
Total	**1,115**	**0**	**(555)**	**(401)**	**159**

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

"Current provisions" totalled EUR 1,012 thousand at 31 December 2017, compared with provisions of EUR 716 thousand at 31 December 2016. The item breaks down as follows:

Description	31 December 2016	Provisions	Uses	Releases	31 December 2017
(EUR /.000)					
FISC	4	3	-	-	7
Product warranty	712	690	(397)	-	1,005
Total	**716**	**693**	**(397)**	**0**	**1,012**

The item refers to envisaged charges for repairs on products under warranty and increased mainly due to the allocations to the provision during the year; at year-end, the adequacy of the provision was checked, with a positive outcome. The provision was EUR 690 thousand and is in line with the volume of revenues and the regularity with which events have historically occurred.

24. Other liabilities

"Other liabilities" at 31 December 2017 amounted to EUR 8,140 thousand and break down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Payables to personnel	3,980	4,564	(584)
Social security payables	2,306	2,526	(220)
Accrued interest on loans	60	130	(70)
Payables to directors and statutory auditors	160	42	118
Other accruals	138	99	39
Other payables for taxes	1,087	1,287	(200)
Other current liabilities	409	154	255
Total	**8,140**	**8,802**	**(662)**

25. Revenues from sales of products and services

"Revenues" for 2017 totalled EUR 82,479 thousand, compared with EUR 75,050 thousand in 2016. The following table provides a breakdown of sales and service revenues by business and geographical region.

Sector	31 December 2017	31 December 2016	Change	%
(EUR /.000)				
Sensors	37,046	31,363	5,683	18.1%
Automation Components	18,507	17,947	560	3.1%
Motion Control	26,926	25,740	1,186	4.6%
Total	**82,479**	**75,050**	**7,429**	**10%**

Total revenues include revenues from services provided for EUR 1,016 thousand (EUR 1,014 thousand in the previous year).

26. Other operating revenues and income

"*Other operating revenues and income*" amounted to EUR 3,553 thousand, up on 31 December 2016 by EUR 583 thousand, as the following table shows:

Description	31 December 2017	31 December 2016	Change	%
(EUR /.000)				
Royalty income	190	171	19	11.1%
Services to Group companies	2,201	2,121	80	3.8%
Recovery of company canteen expenses	34	37	(3)	-8.1%
Insurance reimbursements	3	71	(68)	-95.8%
Rental income	147	147	0	0.0%
Other income	978	423	555	131.2%
Total	**3,553**	**2,970**	**583**	**20%**

"*Other income*" increased by EUR 555 thousand and includes charges for R&D developments specifically required by customers.

27. Costs of raw materials and accessories

"*Costs of raw materials and accessories*" increased by EUR 2,971 thousand, from EUR 27,827 thousand in 2016 to EUR 30,978 thousand in 2017.

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Raw materials and accessories	30,798	27,827	2,971

28. Service costs

"Service costs" amounted to EUR 13,831 thousand, compared with EUR 12,112 thousand in 2016, and break down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Services	12,881	11,039	1,842
Use of third-party assets	950	1,073	(123)
Total	**13,831**	**12,112**	**1,719**

29. Personnel costs

"Personnel costs" amounted to EUR 28,410 thousand, down by EUR 1,628 thousand compared with 2016, and break down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Salaries and wages	20,462	20,638	(176)
Social security contributions	5,910	6,241	(331)
Post-employment benefit reserve	2,038	1,563	475
Other costs	-	1,596	(1,596)
Total	**28,410**	**30,038**	**(1,628)**

"*Social security contributions*" include costs for defined contribution benefit plans for management (Previndai pension plan) of EUR 60 thousand (EUR 76 thousand at 31 December 2016).

The "Post-employment benefit reserve" includes EUR 587 thousand for the obligation to some employees, who have signed non-competition agreements, to protect the Company from any competitive activity.

The item *"Other costs"* includes non-recurring charges relating to the restructuring plan implemented in 2016, totalling EUR 1,620 thousand.

The average number of employees in 2017 is shown below:

	2017	2016	Change
Managers	17	18	(1)
Clerical staff	254	281	(27)
Manual workers	176	182	(6)
Total	**447**	**481**	**(34)**

The average number of employees has decreased by 34 individuals compared to 2016. The exact number at the end of 2017 was 446 individuals, compared with 446 individuals at 31 December 2016.

30. Miscellaneous management costs and other operating income

"*Miscellaneous management costs*" presented a balance of EUR 450 thousand, compared with EUR 1,363 thousand in 2016, and break down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Capital losses on the sale of assets	(17)	(6)	(11)
Losses on other receivables	-	(1)	1
Other taxes and duties	(278)	(312)	34
Membership fees	(155)	(152)	(3)
Miscellaneous	-	(892)	892
Total	(450)	(1,363)	913

"Miscellaneous" at 31 December 2016 included provisions for risks for a total of EUR 850 thousand.

"Other operating income" amounted to EUR 561 thousand, compared with EUR 12 thousand in the previous year, and breaks down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Capital gains on the sale of assets	56	-	56
Collection of doubtful receivables	22	12	10
Release of risk provisions	401	-	401
Miscellaneous	82	-	82
Total	561	12	549

The change relates to the release of provisions during previous years.

31. Depreciation/amortisation

Depreciation and amortisation amounted to EUR 6,881 thousand, compared with EUR 5,090 thousand recorded in the previous year.

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Amortisation	2,106	2,116	(10)
Depreciation	4,775	2,974	1,801
Total	6,881	5,090	1,791

The rise was due to the increase from investments made in 2017 and to impairments of assets to adjust the carrying value to their fair value.

32. Gains and losses from financial assets/liabilities

"Gains from financial assets" totalled EUR 1,262 thousand, compared with EUR 3,926 thousand in 2016, and break down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Cash management			
Income from cash management	6	16	(10)
Other financial income	33	165	(132)
Medium-/long-term interest	(424)	(725)	301
Short-term interest	(25)	(22)	(3)
Interest from subsidiaries	-	-	-
Factoring interest and fees	(1)	(2)	1
Other financial charges	(10)	(17)	7
Total income (charges) from cash management	**(415)**	**(582)**	**167**
Currency transactions			
Exchange rate gains	347	303	44
Currency valuation differences	26	98	(72)
Exchange rate losses	(246)	(352)	106
Currency valuation differences	(503)	(32)	(471)
Total other income (charges) from currency transactions	**(376)**	**17**	**(393)**
Other			
Income from the sale of financial assets	-	1	(1)
Dividends from equity investments	2,443	5,742	(3,299)
Value adjustments of non-current assets	(390)	(1,252)	862
Total other financial income (charges)	**2,053**	**4,491**	**(2,438)**
Total	**1,262**	**3,926**	**(2,664)**

The item includes dividends received by Gefran Group companies totalling EUR 2,443 thousand (EUR 5,742 thousand in 2016), broken down as follows:

Company	31 December 2017	31 December 2016	Change
(EUR /.000)			
Gefran Siei Asia (Singapore)	1,000	4,000	(3,000)
Gefran Inc. (USA)	1,018	1,102	(84)
Gefran Deutschland GmbH (Germany)	300	500	(200)
Siei Areg GmbH (Germany)	50	50	-
Gefran Benelux NV	75	90	(15)
Total	**2,443**	**5,742**	**(3,299)**

Medium-/long-term financial charges decreased by EUR 306 thousand, mainly due to the downsizing of the medium-/long-term financial debt and the reduction in the average spread.

The balance of the currency transaction differences has a negative value of EUR 376 thousand, compared with the positive value of EUR 17 thousand in 2016. The worsening of the balance of currency transactions is mainly due to how the euro behaved against other currencies.

"Value adjustments of non-current assets" totalled EUR 390 thousand and break down as follows:

Description	31 December 2017	31 December 2016	Change
(EUR /.000)			
Gefran Brasil Ltda (Brazil)	-	(1,252)	1,252
Gefran UK Ltd (UK)	(597)	-	(597)
Gefran France SA (France)	2,000	-	2,000
Gefran India Ltd (India)	(712)	-	(712)
Gefran Middle East Ltd Sti (Turkey)	(1,081)	-	(1,081)
Total	**(390)**	**(1,252)**	**862**

For further details, see note 12 of these notes to the accounts.

33. Income taxes, deferred tax assets and deferred tax liabilities

"*Taxes*" were negative at EUR 111 thousand, compared with a positive balance of EUR 1,374 thousand in 2016, and break down as follows:

(EUR /.000)	31 December 2017	31 December 2016
Current taxes		
IRES (corporate income tax)	41	(286)
IRAP (regional production tax)	(537)	(251)
Total current taxes	**(496)**	**(537)**

(EUR /.000)	31 December 2017	31 December 2016
Deferred taxes		
Deferred tax liabilities	(6)	28
Deferred tax assets	391	1,883
Total deferred tax liabilities	**385**	**1,911**
Total taxes	**(111)**	**1,374**

Current taxes amounted to EUR 496 thousand and were for the recognition of the IRES and RAP taxable amounts, which can be offset only in part by prior tax losses, in accordance with current legislation.

Deferred taxes and deferred tax assets were positive and amounted to EUR 385 thousand, compared with EUR 1,911 thousand at 31 December 2016, when deferred tax assets were booked, calculated on previous tax losses, further to the updating of the estimates on recoverability of the same based on the three-year plan for the period 2017-2019.

The reconciliation of income taxes recognised and theoretical taxes, resulting from the application to profit before tax of the corporate income tax rate in force (24% for the current year and 27.5% for 2016), is as follows:

(EUR /.000)	**31 December 2017**	**31 December 2016**
Profit (loss) before tax	8,559	6,822
Theoretical income tax	(2,054)	(1,876)
Effect from use of losses carried forward	1,423	1,142
Net effect of permanent differences	449	679
Net effect of temporary deductible and taxable differences	(116)	(231)
Effect of taxes from previous years	339	-
Current taxes	**41**	**(286)**
Income tax – deferred tax assets/liabilities	315	1,919
Recognised income taxes (excluding current and deferred IRAP)	**356**	**1,633**
IRAP - current taxes	(537)	(251)
IRAP – deferred tax assets/liabilities	70	(8)
Recognised income taxes (current and deferred)	**(111)**	**1,374**

The net effect of permanent differences mainly refers to dividends received during the year.

Deferred tax assets and deferred tax liabilities break down as follows:

(EUR /.000)	**31 December 2016**	**Posted to the income statement**	**Recognised in shareholders' equity**	**31 December 2017**
Deferred tax assets				
Devaluation of inventories	1,336	(277)		1,059
Impairment of trade receivables	345	(3)		342
Impairment of assets	-	535		535
Deductible losses to be brought forward	3,197	197		3,394
Exchange rate differences	8	(8)		-
Elimination of unrealised margins on inventories	-	-		-
Provision for product warranty risk	199	81		280
Provision for sundry risks	361	(134)	59	286
Fair value hedging	-		3	3
Total deferred tax assets	5,446	391	62	5,899

(EUR /.000)	**31 December 2016**	**Posted to the income statement**	**Recognised in shareholders' equity**	**31 December 2017**
Deferred tax liabilities				
Currency valuation differences	-	(6)	3	(9)
Total deferred tax liabilities	-	(6)	3	(9)
Net total	5,446	385	65	5,890

The IRES tax losses recognised among deferred tax assets refer to all tax losses and it is assumed that this amount will be recovered in the next three financial years.

Deferred tax assets and deferred tax liabilities for the year 2016 break down as follows:

(EUR /.000)	31 December 2015	Posted to the income statement	Recognised in shareholders' equity	31 December 2016
Deferred tax assets				
Devaluation of inventories	1,108	228		1,336
Impairment of trade receivables	290	55		345
Deductible losses to be brought forward	1,727	1,470		3,197
Exchange rate differences	15	(7)		8
Elimination of unrealised margins on inventories	-	-		-
Provision for product warranty risk	199	-		199
Provision for sundry risks	207	137	17	361
Total deferred tax assets	3,546	1,883	17	5,446

(EUR /.000)	31 December 2015	Posted to the income statement	Recognised in shareholders' equity	31 December 2016
Deferred tax liabilities				
Currency valuation differences	(28)	28		-
Other deferred tax liabilities	-	-		-
Total deferred tax liabilities	(28)	28	-	-
Net total	3,518	1,911	17	5,446

34. Guarantees granted, commitments and other contingent liabilities

Guarantees granted

At 31 December 2017, Gefran granted guarantees on the liabilities and commitments of third parties or subsidiaries amounting to EUR 10,558 thousand, as shown in the table below:

Description	2017	2016
(EUR /.000)		
UBI Leasing	5,918	5,918
BNL	-	2
Banca Intesa	1,100	1,100
Banca Passadore	2,750	2,750
Banco di Brescia	790	790
Total	10,558	10,560

A surety in favour of UBI Leasing was issued for a total of EUR 5,918 thousand, expiring in 2029, to guarantee financial requirements for the construction of photovoltaic systems by BS Energia 2 S.r.l. The residual liability at 31 December 2017 guaranteed by this surety amounts to EUR 2,704 thousand (EUR 2,907 thousand at 31 December 2016).

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

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

Legal proceedings and disputes

Gefran is involved in various legal proceedings and disputes. It is, however, considered unlikely that the resolution of these disputes will generate significant liabilities for which provisions have not already been made.

Commitments

The main operating lease contracts relate to property rentals, electronic equipment and company vehicles. At the reporting date, the payments still owed by the Group on irrevocable operating leases amounted to EUR 1,660 thousand, all falling due within the next five years.

35. Dealings with related parties

In accordance with IAS 24, information relating to dealings with related parties for 2017 and the previous year is provided below.

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

The Board of Directors of Gefran S.p.A. has adopted Regulations for transactions with related parties, the current version of which was approved on 3 August 2017 and published on the website www.gefran.com in the “corporate governance” section.

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

- Elettropiemme S.r.l., a subsidiary of Ensun S.r.l.: a company of which Ennio Franceschetti (Chairman and Chief Executive Officer of Gefran S.p.A.) is Chairman and Marco Giacometti (general manager of the Gefran S.p.A. motion control business units) is general manager;
- Climat S.r.l.: a company whose director and shareholder is a relative of Maria Chiara Franceschetti (CEO of Gefran S.p.A.);
- Francesco Franceschetti Elastomeri S.r.l.: a company of which Ennio Franceschetti (Chairman and Chief Executive Officer of Gefran S.p.A.) is a member of the Board of Directors;
- Ensun S.r.l., a company of which Ennio Franceschetti (Chairman and Chief Executive Officer of Gefran S.p.A.) is Chairman, and Giovanna Franceschetti (Executive Director of Gefran S.p.A.) is Managing Director.
- Axel S.r.l.: 15% of its share capital was sold in 2017 so it is no longer a related party; the data in the table refers only to 2016.

These dealings, summarised below, have no material impact on the Group's economic and financial structure. They are summarised in the following tables:

(EUR /.000)	Elettropiemme S.r.l.	Climat S.r.l.	Ensun S.r.l.	Axel S.r.l.	Francesco Franceschetti Elastomeri S.r.l.	Total
Revenues from product sales						
2016	54,716	0	52,436	3,688	0	110,839
2017	41,847	0	0	0	2,027	43,874
Service costs						
2016	-106,153	-150,536	0	-65,892	0	-322,581
2017	-55,582	-123,848	0	0	0	-179,429

(EUR /.000)	Elettropiemme S.r.l.	Climat S.r.l.	Ensun S.r.l.	Axel S.r.l.	Francesco Franceschetti Elastomeri S.r.l.	Total
Intangible assets						
2016	0	0	39,000	0	0	39,000
2017	0	0	0	0	0	0
Property, plant, machinery and tools						
2016	0	102,860	0	0	0	102,860
2017	0	168,315	0	0	0	168,315
Trade receivables						
2016	12,733	0	50,064	50,064	0	62,797
2017	11,552	0	0	0	0	11,552
Trade payables						
2016	0	38,155	0	8,235	0	46,390
2017	0	87,813	0	0	0	87,813

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

Members of the Board of Directors and the Board of Statutory Auditors and managers with strategic responsibilities were paid the following aggregate remuneration: EUR 899 thousand included in personnel costs and EUR 938 thousand included in service costs.

Persons of strategic importance have been identified as executive members of the Board of Directors, the general managers of the business units and the director with strategic responsibilities, identified as the Group CFO/Financial Reporting Officer.

Gefran S.p.A.'s relations with subsidiaries and affiliates are set out in the Company's notes to individual items in the statement of financial position and the income statement, and mainly pertain to:

- relations in connection with sales of products and services;

- service contracts (communication, legal, corporate, finance and cash, IT, product marketing, personnel management) in favour of subsidiaries;
- relations of a financial nature, represented by current account relations for cash pooling purposes.

All these relations were created in the normal course of operations, taking account of the level of service provided or received and in compliance with procedures to ensure the material correctness of the transaction.

With regard to relations with the subsidiaries, Gefran also rendered technical, administrative and managerial services as well as royalties to the Group's operating subsidiaries for around EUR 2.4 million under specific contracts.

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

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

In 2017, Gefran S.p.A. recognised dividends from subsidiaries of EUR 2,443 thousand.

36. Information pursuant to Article 149-*duodecies* of the Consob Issuers' Regulation

The following schedule shows fees for 2017 for auditing services and services other than auditing provided by the external auditor and entities within its network.

Description	Party that provided the service	Fees for 2017
(EUR / 000)		
External audit	PwC S.p.A.	86
External audit on Non-Financial Disclosure	PwC S.p.A.	19
Certification services	PwC S.p.A.	30
Total		135

37. Events after 31 December 2017

Please see the Report on Operations for the operating performance in early 2018.

38. Other information

Pursuant to Article 70, paragraph 8, and article 71, paragraph 1-*bis*, of Consob's Issuers' Regulations, the Board of Directors decided to take advantage of the option to derogate from the obligations to publish the information documents prescribed in relation to significant mergers, spin-offs, capital increases through contribution in kind, acquisitions and disposals.

Provaglio d'Iseo, 13 March 2018

For the Board of Directors

The Chairman

Ennio Franceschetti

The Chief Executive Officer

Alberto Bartoli

CERTIFICATION OF CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION 11971 OF 14 MAY 1999 AS AMENDED

The undersigned **Alberto Bartoli**, in his capacity as Chief Executive Officer, and **Fausta Coffano**, in her capacity as Executive in charge of financial reporting of Gefran S.p.A. hereby certify, with due regard for the provisions of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:

- the adequacy, with respect to the Company's characteristics,

  and

- the effective application of the administrative and accounting procedures applied in the preparation of the annual financial statements in the period from 1 January 2017 to 31 December 2017.

There are no significant events to report in this regard.

They further certify that:

1. the annual financial statements at 31 December 2017 of Gefran S.p.A.:

- were prepared in accordance with applicable international accounting standards recognised in the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to entries made in accounting ledgers and records;
- provide a true and accurate representation of the financial situation of the issuer;

2. The Report on Operations contains reliable analysis of operating performance and results and of the condition of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Provaglio d'Iseo, 13 March 2018

The Legal Representative and
Chief Executive Officer

Alberto Bartoli

The Executive in charge
of financial reporting

Fausta Coffano

GEFRAN

EXTERNAL AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Gefran SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Gefran Group (the Group), which comprise the statement of financial position as of 31 December 2017, the statement of profit/(loss) for the year, statement of profit/(loss) for the year and other items of comprehensive income, statement of changes in shareholders' equity, consolidated cash flow statement for the year then ended, and specific explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance 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. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Gefran Group (the Group) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverability of Goodwill	
Note 14 to the specific explanatory notes to the accounts "Goodwill" The carrying amount of goodwill as at 31 December 2017 is Euro 5,753 thousand (4,1% of total assets) and impairment testing is required at least once a year. Goodwill is allocated to specific Cash Generating Units (CGU) identified on a geographical basis (France, India, USA and Switzerland). The recoverability of goodwill is assessed by comparing the book value recognised in the consolidated financial statements with the value in use. Value in use is the discounted value of the expected cash flows from use of the asset (*Unlevered Discounted Cash Flows Method*). The valuation of the recoverable amount of goodwill is a key audit matter considering the significant carrying amount and the complexity of the valuation process that requires significant Management estimation, based on economic and market assumptions, including cash flow forecast and the discount rate applied.	We evaluated the allocation process of goodwill to the Cash Generating Units and we obtained an understanding of the valuation process adopted by the Group in order to determine the recoverability of the carrying amount of goodwill. We obtained and examined the impairment tests prepared by the Management of the parent Company. We analysed the main assumptions adopted focusing on revenues forecast in order to obtain evidence on the development of revenues over the period of the plan, and on the reasonableness of estimated operating costs. Experts from the PwC network have been involved to conduct a critical examination of the model used and the calculation of the Weighted average cost of capital (Wacc). In addition, in order to assess the ability of the Management to make reliable forecasts, we compared the final figures as at 31 December 2017 with the related budget data. We compared the forecasts approved by the Boards of Directors of the subsidiaries with the assumptions used in the context of the impairment tests. An independent sensitivity analysis was developed on the main assumptions underlying the impairment models, in order to assess the impact, on the results of the tests, of variations produced in the main parameters adopted. We assessed the accuracy and completeness of the disclosures in the specific explanatory notes.
Recoverability of Deferred tax assets	
Note 39 to the specific explanatory notes to the accounts "Deferred tax assets" Deferred tax assets recorded in the consolidated	We obtained an understanding of the valuation process adopted by the Group in order to determine the recoverability of deferred tax assets and to examine the

Key Audit Matters	Auditing procedures performed in response to key audit matters
financial statements of Gefran Group as at 31 December 2017 amounted to Euro 8,567 thousand (6.1% of total assets) and are recorded mainly for previous tax losses, as well as for temporary differences mainly related to provisions and other temporary differences. The assessment of the recoverability of deferred tax assets is a key audit matter due to the significant carrying amount and to the complexity of the valuation process that requires significant Management estimation, influenced by forecasts for the future economic and market scenario, in order to estimate the company's future taxable income results.	reasonableness of the Management estimations as part of the forecasting process for the Group future taxable income. To this end, we examined the consistency of the forecasts taxable results over the next three years, compared to the economic results set by the plan prepared by the Management. We focused on revenue forecasts, on the consistency of estimated operating costs and on the reasonableness of the main tax adjustments considered to estimate future taxable income for the next three financial years. In addition, in order to assess the ability of the Management to make reliable forecasts, we compared the final figures as at 31 December 2017 with the related budget data. We assessed the accuracy and completeness of the disclosures in the specific explanatory notes with specific reference to the description of the nature of deferred tax assets and the results of the assessment of their recoverability.
Valuation of assets held for sale *Note 23 to the specific explanatory notes to the accounts "Operating assets held for sale"* The carrying amount of assets held for sale as at 31 December 2017 is Euro 1,214 thousand (1% of total assets) and it consists of capitalized development costs related to the string inverter product, with reference to which the transfer of the license is currently underway. Assets classified as held for sale are valued, according to the International Accounting Standard IFRS 5 adopted by the European Union, at the lower of the book value and the fair value less costs to sell. The valuation of assets held for sale is a key audit matter due to the complexity involved in the estimate of their fair value.	We verified the fulfilment of the conditions required by the International Accounting Standard IFRS 5 adopted by the European Union, for the purposes of classifying the asset as "available for sale". We focused on the negotiations in progress related to the transfer of the string inverter know-how. We obtained and examined the license sale contract, signed with an Indian group, on which the Management evaluation is based, in order to estimate the fair value and the selling costs associated with assets held for sale.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance 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. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Gefran SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit 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 Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 21 April 2016, the shareholders of Gefran SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2016 to 31 December 2024.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 4 of Consob Regulation implementing the Legislative Decree No. 254/16

Management of Gefran SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.
We have verified that Management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Gefran SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Gefran Group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Gefran Group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Gefran Group as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Brescia, 29 March 2018

PricewaterhouseCoopers SpA

Signed by

Alessandro Mazzetti
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

EXTERNAL AUDITORS' REPORT ON THE CONSOLIDATED NON-FINANCIAL DISCLOSURE

Independent auditor's report on the consolidated non-financial statement

pursuant to art. 3, paragraph 10 of Legislative Decree 254/2016 and to art. 5 of Consob Regulation 20267

To the Board of Directors of Gefran SpA

Pursuant to article 3, paragraph 10 of the Legislative Decree 254 of 30 December 2016 (the Decree) and to article 5 of CONSOB Regulation 20267, we have performed a limited assurance engagement on the Consolidated non-financial disclosure of Gefran SpA and its subsidiaries (the Gefran group) as of and for the year ended 31 December 2017, in accordance with article 4 of the Decree, approved by the Board of Directors of Gefran SpA on 13 March 2018 (the NFS).

Responsibility of the directors and of the Board of Statutory Auditors for the NFS

The directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the Sustainability Reporting Standards, issued by Global Reporting Initiative in 2016 (GRI Standards), with reference to selected GRI Standards, as laid down in paragraph "Note on methodology" of the NFS, identified by them as the reporting standard.

The directors are responsible, in accordance with the law, for the implementation of internal controls necessary to ensure that the NFS is free from material misstatement, whether due to fraud or unintentional errors.

The directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the group and to the extent necessary to ensure the understanding of the group activities, its trends, its results and related impacts.

The directors are responsible for defining the business and organisational model of the group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the group and for the identification and management of risks generated or faced by the group.

The Board of Statutory Auditors is responsible for overseeing, in accordance with the law, the compliance with the Decree.

Auditors' independence and quality control

We are independent in accordance with the principles of ethics and independence disclosed in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, privacy and professional behaviour. Our audit firm adopts the International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains an overall quality control system which includes processes and procedures for the compliance with ethical and professional standards and with applicable laws and regulations.

Auditors' responsibility

We are responsible for expressing, on the basis of the work performed, a conclusion regarding the compliance of the NFS with the Decree, with the GRI Standards. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB), for limited assurance engagements. The standard requires that we plan and perform procedures to obtain a limited assurance that the NFS does not contain material errors. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised and, therefore, do not provide us with a sufficient level of assurance to become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS are based on our professional judgement and consisted of interviews, primarily with company personnel responsible for the preparation of the NFS, in the analysis of documents, recalculations and other procedures aimed at obtaining evidence as appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree, with the reporting standard adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, to assess its compliance with the Decree;
3. comparing the financial information reported in the NFS with the information reported in the group consolidated financial statements;
4. understanding of the following matters:
    - business and organisational model of the group, with reference to the management of the matters specified by article 3 of the Decree;
    - policies adopted by the group with reference to the matters specified by article 3 of the Decree, actual results and related key performance indicators;
    - main risks, generated or faced by the group, with reference to the matters specified in article 3 of the Decree.

    With reference to such matters, we have carried out some validation procedures on the information presented in the NFS and some controls as described under point 5 below;
5. understanding of the processes underlying the preparation, collection and management of the qualitative and quantitative material information included in the NFS. In particular, we have held meetings and interviews with the management of Gefran SpA and we have performed limited analysis and validation procedures, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

Moreover, for significant information, considering the activities and characteristics of the group:

- at a group level,
    a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and obtained supporting documentation to verify its consistency with available evidence;
    b) with reference to quantitative information, we performed analytical procedures and limited tests, in order to assess, on a sample basis, the consolidation of the information;
- for the production site of Gefran SpA which was selected on the basis of its activities, its contribution to the performance indicators at consolidated level and its location, was carried out testing procedures and gathered supporting documentation regarding the compliance with procedures and calculation methods used for the key performance indicators.

Conclusions

Based on the work performed, nothing has come to our attention that caused us to believe that the NFS of the Gefran group as of 31 December 2017 and for the year then ended has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards, with reference to selected GRI Standards, as laid down in paragraph “Note on methodology” of the NFS.

Other aspects

The comparative data presented in the NFS in relation to previous years has not been subjected to any procedures.

Brescia, 29 March 2018

Signed by	*Signed by*
Alessandro Mazzetti (Partner)	Paolo Bersani (Authorised signatory)

This report has been translated into English from the original version, which was issued in Italian, solely for the convenience of international readers.

EXTERNAL AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF GEFRAN S.p.A.

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Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Gefran SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Gefran SpA (the Company), which comprise the statement of financial position as of 31 December 2017, statement of profit/(loss) for the year, statement of profit/(loss) for the year and other items of comprehensive income, statement of changes in shareholders' equity, cash flow statement for the year then ended, and specific explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance 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. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverability of Equity investments in subsidiaries	
Note 13 to the specific explanatory notes to the accounts "Equity investments in subsidiaries" Investments in subsidiaries are accounted for using the cost method. The carrying amount as at 31 December 2017 is Euro 25,331 thousand (20,3% of total assets) and impairment testing of equity investments is required if there are indicators suggesting that such a problem might exist. The recoverability of the asset is assessed by comparing the book value recognised in the financial statements with the value in use. Value in use is the discounted value of the expected cash flows from use of the asset (*Unlevered Discounted Cash Flows Method*). The valuation of the recoverable amount of equity investments in subsidiaries is a key audit matter considering the significant carrying amount and the complexity of the valuation process that requires significant Management estimation, based on economic and market assumptions, including cash flow forecast and the discount rate applied.	We obtained an understanding of the valuation process adopted by the Company in order to determine the recoverability of the carrying amount of investments in subsidiaries and we examined the impairment tests prepared by the Management. We compared the forecasts approved by the Boards of Directors of the subsidiaries with the assumptions used in the context of the impairment tests. We analysed the main assumptions adopted focusing on revenues forecast in order to obtain evidence on the development of revenues over the period of the plan, and on the reasonableness of estimated operating costs. Experts from the PwC network have been involved to conduct a critical examination of the model used and the calculation of the Weighted average cost of capital (Wacc). In addition, in order to assess the ability of the Management to make reliable forecasts, we compared the final figures as at 31 December 2017 with the related budget data. An independent sensitivity analysis was developed on the main assumptions underlying the impairment models, in order to assess the impact, on the results of the tests, of variations produced in the main parameters adopted. We assessed the accuracy and completeness of the disclosures in the specific explanatory notes.
Recoverability of Deferred tax assets	
Note 33 to the specific explanatory notes to the accounts "Deferred tax assets" Deferred tax assets recorded in the financial statements of Gefran SpA as at 31 December 2017	We obtained an understanding of the valuation process adopted by the Company in order to determine the recoverability of deferred tax assets and to examine the reasonableness of the Management

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
amounted to Euro 5,899 thousand (4.7% of total assets) and are recorded mainly for previous tax losses, as well as for temporary differences mainly related to provisions and other temporary differences. The assessment of the recoverability of deferred tax assets is a key audit matter due to the significant carrying amount and to the complexity of the valuation process that requires significant Management estimation, influenced by forecasts for the future economic and market scenario, in order to estimate the company's future taxable income results.	estimations as part of the forecasting process for the Company future taxable income. To this end, we examined the consistency of the forecasts taxable results over the next three years, compared to the economic results set by the plan prepared by the Management. We focused on revenue forecasts, on the consistency of estimated operating costs and on the reasonableness of the main tax adjustments considered to estimate future taxable income for the next three financial years. In addition, in order to assess the ability of the Management to make reliable forecasts, we compared the final figures as at 31 December 2017 with the related budget data. We assessed the accuracy and completeness of the disclosures in the specific explanatory notes with specific reference to the description of the nature of deferred tax assets and the results of the assessment of their recoverability.
Valuation of assets held for sale	
Note 9 to the specific explanatory notes to the accounts "Operating assets held for sale" The carrying amount of assets held for sale as at 31 December 2017 is Euro 1,207 thousand (1% of total assets) and it consists of capitalized development costs related to the string inverter product, with reference to which the transfer of the license is currently underway. Assets classified as held for sale are valued, according to the International Accounting Standard IFRS 5 adopted by the European Union, at the lower of the book value and the fair value less costs to sell. The valuation of assets held for sale is a key audit matter due to the complexity involved in the estimate of their fair value.	We verified the fulfilment of the conditions required by the International Accounting Standard IFRS 5 adopted by the European Union, for the purposes of classifying the asset as "available for sale". We focused on the negotiations in progress related to the transfer of the string inverter know-how. We obtained and examined the license sale contract, signed with an Indian group, on which the Management evaluation is based, in order to estimate the fair value and the selling costs associated with assets held for sale.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance 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. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit 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 Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 21 April 2016, the shareholders of Gefran SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2016 to 31 December 2024.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Gefran SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Gefran SpA as of 31 December 2017, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Gefran SpA as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Gefran SpA as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Brescia, 29 March 2018

PricewaterhouseCoopers SpA

Signed by

Alessandro Mazzetti
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING OF GEFRAN S.p.A.

Board of Statutory Auditors' Report to the Shareholders' Meeting of Gefran S.p.A. pursuant to article no. 153 of Legislative Decree no. 58 of 24 February 1998 (TUF) and article 2429, third paragraph, of the Italian Civil Code

Dear Shareholders,

In the year ended 31 December 2017, we carried out supervisory activities in compliance with the Law, aligning our operations with the rules of conduct applied to the Boards of Statutory Auditors of listed companies, issued by the National Council of Chartered Accountants and Accounting Experts (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), with the recommendations issued by the National Commission for companies and the Stock Exchange (Consob) as regards corporate auditing and the activities of the Board of Statutory Auditors as well as with the guidelines contained in the Code of Conduct issued by the Italian Stock Exchange.

As regards the regulatory auditing tasks, pursuant to Legislative Decree no. 39 of 27 January 2010 (Legislative Decree 39/2010), they have been assigned to the external auditors PricewaterhouseCoopers SpA, appointed by the Shareholders' Meeting of 21 April 2016 for a nine year period, from 2016 to 2024.

The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting held on 29 April 2015, and on 20 April 2017 the Statutory Auditor Alessandra Zunino de Pignier was replaced by Roberta Dell'Apa.

Also pursuant to the recommendations issued by Consob with Communication DEM/1025564 of 6 April 2001, as amended, we wish to inform you and report about the following:

- We have monitored compliance with the Law and with the Articles of Association.
- We have attended the meetings of the Board of Directors and specific preparatory meetings about the agenda items, as well as the meetings held by the Control and Risk Committee and the Remuneration Committee, and we have obtained from the Directors periodic information on the general performance of the company, its anticipated evolution, as well as on the most significant business, financial and equity transactions carried out by the Company; moreover, we have ensured that the resolutions issued and implemented were compliant with the Law and the Articles of Association and that they were clearly not imprudent, risky, in potential conflict of interest and in contrast with the resolutions issued by the Shareholders' Meeting or such as to jeopardise the integrity of the company's assets. During the auditing carried out, the existence of atypical and/or unusual transactions did not emerge. In order to execute our mandate, we have analysed the information flows originating from different corporate structures, from the Internal Audit function, outsourced, and we have also conducted auditing on the management of the company and on the external auditors.

- The Board of Directors, on 13 March 2018, upon proposal submitted by the Remuneration Committee, has approved the “Annual Remuneration Report”, prepared pursuant to article 123-ter of TUF and in compliance with the provisions of article 6 of the Code of Conduct.
- We have monitored the compliance and the correct application of the “Regulations for transactions with related parties” adopted by the Board of Directors on 12 November 2010, pursuant to article 4 of the Consob Regulations, under Resolution no. 17221 of 12 March 2010, as amended.
- The Company has prepared the 2017 financial statements according to the international accounting standards (IAS/IFRS). These financial statements were submitted for an audit to be conducted by PricewaterhouseCoopers SpA, which issued its Report on 29 March 2018.
- The Company has also prepared the 2017 consolidated financial statements of the Gefran Group in compliance with the international accounting standards (IAS/IFRS). These financial statements were also submitted for an audit to be conducted by PricewaterhouseCoopers SpA, which issued its Report on 29 March 2018.
- The Company has also prepared the non-financial Consolidated Statement as of 31/12/2017 pursuant to Legislative Decree 254/2016 and referring to the international reporting standards issued by the Global Reporting Initiative "Substainability Reporting Standards" in the GRI-Referenced version. This Statement was also submitted for an audit to be conducted by PricewaterhouseCoopers SpA, which issued its Report on 29 March 2018.
- The text of the Audit Report has been profoundly revised as a result of the changes made to the audit reform implemented in the Italian legal system through Legislative Decree no. 135/2016, which amends the provisions contained in Legislative Decree no. 39/2010. The form and content of the new Report have changed, both in terms of declarations and information. With regard to opinions and declarations, the external auditors, in the financial statements audit report, have:

  - expressed the opinion that Gefran's separate and consolidated financial statements provide a truthful and correct representation of the equity and financial situation of Gefran and of the Group at 31 December 2017 and of the net result and cash flows for the year closed on that date, in accordance with the international financial reporting standards adopted by the European Union and the provisions issued pursuant to Article 9 of Legislative Decree 38/05 and Article 43 of Legislative Decree 135/15.

  - expressed the opinion that the Reports on Operations accompanying the separate and consolidated financial statements as at 31 December 2017 and certain specific information contained in the "Report on corporate governance and ownership structure" specified in article 123-bis, paragraph 4, of the TUF - the responsibility for which falls to the directors - are drafted in compliance with the law.

- declared that they have nothing to report regarding any significant errors in the Report on Operations, based on the knowledge and understanding of the company and of the related context acquired in the course of the audit.
- On 29 March 2018 the external auditors also submitted to the Board of Statutory Auditors the Additional Report required by Article 11 of EU Regulation no. 537/2014, which reports no significant deficiencies in the internal control system, with reference to the financial reporting process, worthy of being brought to the attention of those responsible for corporate governance.

Enclosed with the additional report, the external auditors also submitted to the Board of Statutory Auditors a declaration relating to their independence, as required by article 6 of EU regulation no. 537/2014, from which no situations emerge that could compromise their independence.

Furthermore, the Board has also taken due account of the transparency report prepared by the external auditors and published on their website pursuant to article 18 of Legislative Decree 39/2010.

Based on the activities carried out and considering the evolving nature of the Internal Control System, the Board of Statutory Auditors has expressed an assessment of the overall adequacy of the same and acknowledged, in its capacity as Internal Control and Auditing Committee, that there are no relevant findings to report to the Shareholders' meeting.

The external auditors PricewaterhouseCoopers SpA have communicated the fees for the auditing of the annual and consolidated financial statements of Gefran S.p.A. at 31 December 2017 and of the Gefran Group, as well as for the limited auditing of the half year reports, for the performance of control activities on the keeping of accounting records and all additional assigned tasks. The fees are broken down as follows, referencing the Directors' Report on Operations for additional details:

External audit	Pwc Spa	Parent Company	86,000
External audit	Pwc network	Subsidiaries	217,000
External audit Non-Financial Statement	Pwc Spa	Parent Company	19,000
Certification services	Pwc Spa	Parent Company	30,000
Total Euro			352,000

Taking into account the tasks assigned to same and to their network by Gefran and by the Group companies, the Board of Statutory Auditors does not believe that there are any critical issues concerning the independence of the external auditors.

- Among the most relevant transactions reported for 2017, the following, referencing the Directors' Report on Operations for additional details, should be noted:

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

-The administrative procedure to close the sales office in Russia was completed on 31 March 2017.

- On 20 April 2017, the ordinary Shareholders' Meeting of Gefran SpA resolved to approve the 2016 financial statements and to distribute a dividend of EUR 0.25 per share, to appoint the current new members of the Board of Directors for the three-year period 2017-2019, and to authorize the Board of Directors to purchase up to a maximum of 1,440,000 treasury shares for a period of 18 months from the date of the Shareholders' Meeting. The shareholders also expressed a favourable opinion of the general Group remuneration policy adopted by Gefran, pursuant to Article 123-ter of the TUF. At the end of the Shareholders’ Meeting, the new Board of Directors met and appointed Ennio Franceschetti Chairman and Managing Director, Maria Chiara Franceschetti, Vice-Chairman and Alberto Bartoli Chief Executive Officer.

-On 12 June 2017, the Parent Company Gefran S.p.A. signed a contract with a major international lift construction group; the agreement provides for the supply of inverters for the American market, with a total value of approx. EUR 23 million and a duration of 3 years.

-The operational procedure to close the sales office in Mexico was completed on 21 July 2017.

-On 26 July 2017, the Parent Company Gefran S.p.A. formalised the sale of 50% of the shares of Axel S.r.l., equal to 15% of the total.

- On 17 October 2017, the Shareholders' Meeting of Gefran SpA approved, in extraordinary session, the proposal to amend articles 11, 14, 15, 16 of the Articles of Association and, in ordinary session, to update the Rules of said Meetings.

- We have acquired knowledge and we have monitored, within our area of competence, over the appropriateness of the Company's organisational structure, the compliance with the correct administration principles, the alignment with the provisions applicable to the subsidiaries pursuant to article 114, second paragraph, of TUF, by acquiring information from the managers of the company's functions and by meeting with the external auditors.
- We have assessed and monitored over the adequacy of the administrative-accounting system, as well as on the reliability thereof, in representing correctly the operational facts; this was accomplished by obtaining information from the Director in charge of preparing the accounting and corporate documents, by reviewing the company's documentation and analysing the results of the work carried out by the external auditors PricewaterhouseCoopers SpA. The CEO and the Director in charge of preparing the accounting and corporate documents have declared, with an appropriate report attached to the 2017 financial statements: a) the adequacy and the actual application of the administrative accounting procedures; b) the

compliance of the content of the accounting documents with international accounting standards; c) the consistency of the documents with the results of the accounting ledgers and records and their accuracy in correctly representing the equity, economic and financial position of the Company. A similar declaration is attached to the consolidated financial statements of the Gefran Group.

- We have assessed and monitored the adequacy of the internal control system through: a) a review of the report from the Manager of the Internal Audit about the internal control system; b) a review of the reports from the Internal Audit as well as the reporting on the results from monitoring activities; c) the attendance at the meetings of the Control and Risk Committee and the acquisition of related documentation; d) the meetings with the Director in charge of preparing the accounting and corporate documents. Participation in the Control and Risk Committee has allowed the Board of Statutory Auditors to coordinate, together with the Committee itself, the performance of its functions in the capacity of "Internal Control and Auditing Committee" pursuant to article 19 of Legislative Decree 39/2010 and, in particular, to monitor: a) the processes related to financial reporting; b) the efficacy of the internal control system, internal auditing and risk management; c) the regulatory auditing of the accounts; d) all aspects related to the independence of the external auditors.
- We have held periodic meetings with the staff of the external auditors PricewaterhouseCoopers SpA, pursuant to article 150, third paragraph, of TUF and no significant data or information that needs to be included in this Report has emerged. Moreover, no significant matters nor significant deficiencies in the internal control system, with reference to the financial reporting process, have emerged during the auditing.
- We have monitored the methods applied to the enactment of the Code of Conduct adopted by the Company, in accordance with the Report on Corporate Governance and Ownership Structure approved by the Board of Directors on 13 March 2018. With reference to the specific recommendations, within the area of competence of the Board of Statutory Auditors, please be informed that:

  -we have checked the correct application of the criteria and procedures, for the assessment of independence, adopted by the Board of Directors;

  -as regards the self-assessment of the independence requirement applied to the members of the Board of Statutory Auditors, we have verified compliance with it initially, after our appointment, and subsequently during the Board of Statutory Auditors meetings of 11 February 2016, 3 March 2017 and 8 March 2018, using methods compliant with those adopted by the Directors;

  - we have observed the provisions set forth in the regulations for the management and the treatment of corporate confidential and privileged information.

- With reference to Legislative Decree no. 231 of 8 June 2001, the Company has adopted, for some time, an organisational and management model, the contents of which are compliant with the best practices. -. During the year, the Board of Statutory Auditors has always maintained a constant information flow with the members of the Supervisory Body. From the information acquired, no criticalities regarding the correct implementation of the organisational model that would need to be included in this report, have emerged.
- We have not received any complaints pursuant to article 2408 of the Italian Civil Code, nor have we any knowledge of facts or claims that need to be brought to the attention of the Shareholders' meeting.
- We have verified compliance with the laws concerning the preparation of the separate and consolidated financial statements and the Directors' Report on Operations, both directly and with the assistance of the managers of the company's functions and through information obtained by the external auditors, and we do not have any particular observations to report.
- The members of the Board of Statutory Auditors have met the communication requirements applied to the assignment of administration and auditing of Italian corporations, within the time frames and the methods set forth in article 148-bis of TUF and the articles under Section II of Title V-bis of the already mentioned Issuers' Regulation.
- During 2017, the Board of Statutory Auditors, appointed on 29 April 2015, has met 10 times and has attended 8 meetings held by the Board of Directors, 5 meetings held by the Control and Risk Committee, and 4 meetings held by the Remuneration Committee.

Based on its own activity and on the acquired information, the Board of Statutory Auditors has found no omissions, reprehensible facts, irregularities, or any circumstance that would require reporting to the supervisory body or mentioning in this Report.

The Board of Statutory Auditors, acknowledging the financial statements at 31 December 2017, has no objections regarding the proposal for resolutions submitted by the Board of Directors.

Having reached the end of its mandate, the Board wishes to express its gratitude for the trust shown.

Provaglio d'Iseo, Italy, 29 March 2018