IMMSI Società per Azioni

Share capital 178,464,000 euros fully paid up

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

Mantova Register of Companies – Tax Code and VAT number 07918540019

Directors' Report and Financial Statements of the Immsi Group at 31 December 2017

This Annual Financial Report as of 31 December 2017 has been translated into English solely for the convenience of the international reader.
In the event of conflict or inconsistency between the terms used in the Italian version of the report and the English version, the Italian version shall prevail, as the Italian version constitutes the sole official document.

Contents:

This document was approved by the Board of Directors of Immsi S.p.A. on 21 March 2018 and is available for the public to consult at the Registered Office of the Company, on the website of the Borsa Italiana S.p.A. www.borsaitaliana.it, in the centralised storage system www.emarketstorage.com and on the Issuer's website www.immsi.it (section: "Investors/Financial statements and reports/2018") according to legislation

COMPANY BOARDS

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

BOARD OF DIRECTORS

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

BOARD OF STATUTORY AUDITORS

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

EXTERNAL AUDITORS

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

GENERAL MANAGER

Michele Colaninno

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

REMUNERATION COMMITTEE

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

NOMINATIONS COMMITTEE

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

CONTROL AND RISKS COMMITTEE

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

RELATED-PARTIES COMMITTEE

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

COMPLIANCE COMMITTEE

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

LEAD INDEPENDENT DIRECTOR

Daniele Discepolo

CEO AND GENERAL MANAGER

Michele Colaninno

INTERNAL AUDIT MANAGER

Maurizio Strozzi

FINANCIAL REPORTING OFFICER

Andrea Paroli

INVESTOR RELATIONS

Andrea Paroli

All information on powers reserved for the Board of Directors, the authority granted to the Chairman and CEO, as well as functions of various Committees of the Board of Directors, is available in the Governance section of the Issuer's website www.immsi.it.

Directors' Report on Operations

The present Financial Statements of the Immsi Group at 31 December 2017 have been drafted in compliance with International Accounting Standards (IAS/IFRS) in force at that date, issued by the International Accounting Standards Board and approved by the European Commission pursuant to (EC) Regulation no. 1606/2002, as well as in compliance with the provisions established in Section 9 of Italian Legislative Decree no. 38/2005. The interpretations of the *Standing Interpretation Committee* ("SIC") and of the *International Financial Reporting Interpretations Committee* ("IFRIC") were also taken into account.

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

Information on operations and activities of the Immsi Group

In 2017, the operating results of the Immsi Group improved strongly compared to the previous year, both in operating and financial terms. In particular, the profit margin indicators increased, driven by higher sales and the greater contributions from the various sectors in which the Group operates. There was also an improvement in the Group's net debt, primarily thanks to the significant reduction in the debt for the industrial and marine sector.

Referring to explanations given later in this document for a more detailed description, the following are noted on a preliminary basis:

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

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

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

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

Alternative non-GAAP performance measures

In accordance with Consob Communication No. DEM/6064293 of 28 July 2006, as subsequently amended and supplemented (Consob Communication no. 0092543 of 3 December 2015, implementing the ESMA/2015/1415 guidelines on alternative performance indicators), this Report includes some indicators which - although still not contemplated by IFRS ("Non-GAAP Measures") – derive from the financial parameters adopted by IFRS.

These measures – which are presented to allow a better assessment of the Group's operating performance – should not be considered as an alternative to IFRS measures. They are identical to those contained in the Annual Report and Financial Statements at 31 December 2016 and in the periodical quarterly reports of the Immsi Group.

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

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

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

- **Net financial debt**: represented by (current and non-current) financial liabilities, minus cash on hand and other cash and cash equivalents, as well as other current financial receivables. The other financial assets and liabilities arising from the valuation at fair value of the derivative financial instruments designated as hedges, the fair value adjustment of the related hedged items, and the interest payable and enforceable, due on loans received, do not, however, enter into determining net financial debt. The tables in this Report include a table with items of the Statement of Financial Position used to determine this indicator. In this respect, in conformity with the CESR recommendation of 10 February 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", the indicator, as formulated, represents the items and activities monitored by the Group's management.

Immsi Group at 31 December 2017

In thousands of euros	*Property and holding sector*	*as a %*	*Industrial sector*	*as a %*	*Marine sector*	*as a %*	*Immsi Group*	*as a %*
Net revenues	4,751		1,342,450		107,738		1,454,939	
Operating income before depreciation and amortisation (EBITDA)	-3,273	n/m	192,327	14.3%	20,568	19.1%	209,622	14.4%
Operating income (EBIT)	-3,754	n/m	72,329	5.4%	17,858	16.6%	86,433	5.9%
Profit before tax	-15,804	n/m	39,720	3.0%	15,100	14.0%	39,016	2.7%
Earnings for the period including non-controlling interests	-15,012	n/m	19,730	1.5%	10,166	9.4%	14,884	1.0%
Group earnings for the period (which may be consolidated)	-9,061	n/m	9,879	0.7%	7,371	6.8%	8,189	0.6%
Net debt	-363,593		-451,984		-43,343		-858,920	
Personnel (number)	69		6,620		275		6,964	

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

Immsi Group at 31 December 2016

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

It should be noted that the data given in the preceding tables refer to results eligible for consolidation, i.e. net of the intergroup revenues and costs and dividends from subsidiaries.

The property and holding sector

In thousands of euros	*31.12.2017*	*as a %*	*31.12.2016*	*as a %*	*Change*	*as a %*
Net revenues	4,751		5,066		-315	-6.2%
Operating income before depreciation and amortisation (EBITDA)	-3,273	n/m	-4,924	n/m	1,651	33.5%
Operating income (EBIT)	-3,754	n/m	-5,412	n/m	1,658	30.6%
Profit before tax	-15,804	n/m	-19,854	n/m	4,050	20.4%
Earnings for the period including non-controlling interests	-15,012	n/m	-20,610	n/m	5,598	27.2%
Group earnings for the period (which may be consolidated)	-9,061	n/m	-14,465	n/m	5,404	37.4%
Net debt	-363,593		-348,554		-15,039	-4.3%
Personnel (number)	69		71		-2	-2.8%

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

Overall, the **property and holding sector** reported a net loss for consolidation purposes of approximately 9.1 million euros in 2017, improving on figures for the same period of the previous year, mainly due to financial income of 3.35 million euros in February 2017 arising from the sale of option rights assigned to Immsi as part of the UniCredit capital increase which the Parent Company did not take part in.

The Net Debt of the sector was negative by 363.6 million euros, compared to 348.6 million euros at the end of the previous year.

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

The Parent **Company Immsi S.p.A.** recorded, in its separate financial statements, (gross of intergroup eliminations) a net profit for the period of approximately 3 million euros, compared to a net profit of approximately 5.5 million euros at 31 December 2016. In 2017 the Company posted a negative EBIT of about 1 million euros (in line with the previous year) and a net profit amounting to about 4.3 million euros, given by the difference between financial income and charges, which in 2017 benefited from the recognition of 3.35 million euros resulting from the sale of the option rights attributable to the Company in the UniCredit capital increase in which Immsi S.p.A. did not participate, plus the recognition of the 1.6 million euros gain realised on the sale of 1.5 million Piaggio shares together with dividends from the same subsidiary amounting to 9.9 million euros (compared with 9 million euros the previous year). Net financial income also includes the adjustments following the impairment tests carried out at 31 December 2017 in regard to the carrying amount of investments, which led to the recovery of the value of the investment in RCN Finanziaria S.p.A. of 5 million euros, and a write-down of 15 million euros of the investment ISM Investimenti S.p.A..

Lastly, as regards non-financial income components, net revenues realised by Immsi S.p.A. during 2017 arising from property management and services amounted to 4.5 million euros, up from the

previous year (when this figure stood at 4.3 million euros).
Financial debt as at 31 December 2017 amounted to 73.5 million euros, down by approximately 6.1 million euros compared to 31 December 2016, mainly as a result of the financial items mentioned above.

With regard to the initiatives in the **property sector,** and in particular in regard to the subsidiary **Is Molas S.p.A.**, it should be noted that the company has basically completed the works relating both to the villas in the first residential sector and the first section of the urban infrastructure works. By March 2018, the contracting company shall hand over the 4 show villas and the remaining 11 villas in a state of advanced basic construction in order to enable potential clients to choose the flooring and internal finishings in general. At the same time, the marketing activities aimed at identifying buyers are in progress also at the international level.

As regards earnings for the period, during 2017 net revenues of approximately 2.7 million euros were posted, in line with the previous year. In terms of margins, the company recorded a negative result (EBIT) for 2017 of 2.2 million euros, up considerably compared to the figure of -3.6 million euros of the previous year.
Consequently, the net loss for the Immsi Group that may be consolidated amounted to 1.9 million euros, compared to -2.3 million euros in the previous year.

The company’s Net Debt stands at 56.5 million euros, compared to -42.9 million euros at 31 December 2016. This increase in debt, entirely financed by the Parent Company Immsi S.p.A., is mainly attributable to net cash flows used in operations, in particular for building work in the property segment.

With reference to the **Pietra Ligure** project, the Final Design of Infrastructure Works required by area town planning was filed with the Municipality of Pietra Ligure, and activities continued to identify potential parties interested in project development.
For consolidation purposes, **Pietra S.r.l.** Basically broke even in 2017, and this result was substantially in line with the same period of the previous year, while net financial debt remained unchanged from 31 December 2016, amounting to 2.7 million euros. **Pietra Ligure S.r.l.**, a subsidiary of Pietra S.r.l. and which incorporates the property complex of Pietra Ligure with related Planning Permissions and Agreements, recorded an operating loss of 0.2 million euros (as in 2016), and net financial debt amounted to 0.9 million euros (compared with 0.5 million euros at 31 December 2016).

With reference to the subsidiary **Apuliae S.p.A**., renovation work that began in March 2005 is still suspended, following investigations by the legal authorities and pending the final decision of outstanding matters. For updates on the matter, see the section "Disputes in progress" below. At 31 December 2017, the company showed a slight loss in earnings (0.1 million euros) and a net financial debt of 0.6 million euros, up by approximately 0.2 million euros compared to 31 December 2016 as a result of the negative contribution of cash generated internally.

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

- **RCN Finanziaria S.p.A.**, in which Immsi S.p.A. holds a 72.51% stake, and sole shareholder of Intermarine S.p.A., reported a net loss for consolidation purposes for the Immsi Group equal to approximately 3.9 million euros (-4 million euros in 2016) and net financial debt as of 31 December 2017 amounting to 122.3 million euros, an increase of approximately 0.8 million euros compared to 31 December 2016 (figure equal to 121.5 million euros).

- **ISM Investimenti S.p.A.**, in which Immsi S.p.A. holds a 72.64% stake in terms of voting rights, and which controls Is Molas S.p.A. with a 92.59% stake as at 31 December 2017, posted a net loss for consolidation purposes for the Immsi Group equal to approximately 4.4 million euros (-4.1 million euros in 2016) and net financial debt as at 31 December 2017 amounting to 107.1 million euros, up by around 6.1 million euros compared to 31 December 2016, mainly due to the capitalisation of interest payable on some outstanding loans.

Industrial sector: Piaggio group

In thousands of euros	*31.12.2017*	*as a %*	*31.12.2016*	*as a %*	*Change*	*as a %*
Net revenues	1,342,450		1,313,109		29,341	2.2%
Operating income before depreciation and amortisation (EBITDA)	192,327	14.3%	170,743	13.0%	21,584	12.6%
Operating income (EBIT)	72,329	5.4%	60,905	4.6%	11,424	18.8%
Profit before tax	39,720	3.0%	25,503	1.9%	14,217	55.7%
Earnings for the period including non-controlling interests	19,730	1.5%	14,040	1.1%	5,690	40.5%
Group earnings for the period (which may be consolidated)	9,879	0.7%	7,089	0.5%	2,790	39.4%
Net debt	-451,984		-490,956		38,972	7.9%
Personnel (number)	6,620		6,706		-86	-1.3%

As regards the **industrial sector**, in 2017 the Piaggio group sold 552,800 vehicles worldwide, with a rise in volumes of approximately 3.9% compared to the previous year, when 532,000 vehicles were sold. Sales in India (+7.4%) were up, where the increase in sales of two-wheeler vehicles (+71.1%) offset the decrease in sales of Commercial Vehicles (-7.1%), and also performed well in EMEA and the Americas (+3.5%) boosted by volumes sold on the Italian market (+2.6%) and European market (+4.4%). Sales of vehicles in the Americas (-2.1%) and Asia Pacific 2W (-4.2%) were down.
As regards product types in overall terms, the increase in sales mainly referred to two-wheeler vehicles (+9.3%), while figures for commercial vehicles decreased (-6%).
In terms of consolidated turnover, the Piaggio group ended 2017 with net revenues up compared to 2016 (+2.2%). At a geographic level, growth in revenues in India (+5%) and EMEA and the Americas (+2.9%) more than offset the downturn in Asia Pacific. With regard to product type, the increase in turnover was concentrated in the two-wheeler vehicles (+3.7%) while commercial vehicles posted a fall (-1.2%).
As a result, the percentage of two-wheeler vehicles accounting for overall turnover dropped from 69.8% in 2016 to the current figure of 70.8%, while the percentage of commercial vehicles fell from 30.2% for 2016 to 29.2% for 2017.

Operating income including amortisation, depreciation and impairment costs of intangible assets and plant, property and equipment (EBITDA) for the year 2017 amounted to approximately 192.3 million euros (170.7 million euros in 2016). In relation to turnover, EBITDA was equal to 14.3% (13% in 2016). In terms of Operating Income (EBIT), performance 2017 was better compared to 2016, with a consolidated EBIT equal to 72.3 million euros, up by 11.4 million euros compared to 2016; in relation to turnover, EBIT was equal to 5.4%, (4.6% in 2016).

The result of financing activities improved compared to the previous year by 2.8 million euros, with Net Charges amounting to 32.6 million euros (35.4 million euros in 2016). This improvement is related to the positive contribution of currency operations, the decrease in average debt for the period and reduction in the cost of funding, partially offset by the lower capitalisation of borrowing costs.

Adjusted net profit stood at 19,7 million euros (1.5% of turnover), up on the figure for the previous year of 14 million euros (1.1% of turnover).
Taxes for the period were equal to 20 million euros, while they amounted to 11.5 million euros in 2016. In 2017 the impact of taxes on profit before tax was estimated as equal to 50.3% (44.9% in 2016). This increase is related to the reduction of the tax rate in the USA, which has entailed the recalculation of deferred tax assets and liabilities allocated by the subsidiary Piaggio Group Americas, on the basis of the new tax rate (which has fallen from 35% last year to 21%), and to the rise in the tax rate applicable in Vietnam as a consequence of a reduction in the tax concessions that the Group enjoyed in the past.

Net financial debt at 31 December 2017 amounted to 452 million euros, down 491 million euros compared to 31 December 2016. The reduction of 39 million euros is mainly attributable to the positive performance of operations and greater efficiency in managing working capital. Overall, cash generation resulted in the payment of dividends (19.7 million euros) and funding for the investments programme.

Two-wheeler business
Two-wheeler vehicles can mainly be grouped into two product segments, scooters and motorcycles, in addition to the related spare parts and accessories business, the sale of engines to third parties, involvement in main two-wheeler sports championships and technical service.
The world two-wheeler market comprises two macro areas, which clearly differ in terms of characteristics and scale of demand: economically advanced countries (Europe, United States, Japan) and emerging nations (Asia Pacific, China, India, Latin America).
In the first macro area, which is a minority segment in terms of volumes, the Piaggio group has a historical presence, with scooters meeting the need for mobility in urban areas and motorcycles for recreational purposes.
In the second macro area, which in terms of sales, accounts for most of the world market and is the Group's target for expanding operations, two-wheeler vehicles are the primary mode of transport.

In 2017, the world two-wheeler market (scooters and motorcycles), based on figures from monitored markets, recorded sales of nearly 48 million vehicles, with an overall increase of 4.2% compared to the previous year, but with different dynamics anchored to the geographic segment.
India, the most important two-wheeler market, continued its growth trend in 2017, ending the year with just under 19.2 million vehicles sold, up by 8.4% compared to 2016.
In 2017 the People's Republic of China, after years of falling figures, witnessed a trend reversal, with sales rising once again (+0.13% compared to the previous year), closing at just over 8 million vehicles sold.
The Asian area, termed Asean 5, reported an increase in 2017 (+3.2% compared to 2016) ending the period with 12.7 million units sold. In Indonesia, the main market in this area, there was a slight downturn in sales in 2017, with a drop of 0.8% compared to 2016, and just under 5.9 million vehicles sold. Thailand also recorded an upwards trend in 2017 (1.8 million units sold; +3.8% compared to 2016); Malaysia reported a considerable increase compared to the previous year (435 thousand units sold; +9.7% compared to 2016). The sales trend in Vietnam remained buoyant in 2017 (3.3 million units sold; +4.8% compared to 2016). The Philippines reported the strongest growth in this area in 2017 (1.32 million units sold; +15.7% compared to 2016).
Volumes of other Asian area countries (Singapore, Hong Kong, South Korea, Japan, Taiwan, New

Zealand and Australia) increased considerably, in overall terms, compared to the previous year, with 1.5 million units sold (+8.2%). The largest increase was in Taiwan, with 910 thousand units sold (+15.5% compared to 2016). Japan witnessed a trend reversal, with sales rising once again, closing at 384 thousand units sold (+1% compared to 2016).
The North American market recorded a downturn of 3.3% compared to 2016 (510,000 vehicles sold in 2017).
Brazil, the leading market in South America, recorded a further downturn (-5.1%), with 814.5 thousand vehicles sold in 2017.
Europe, the reference area for Piaggio group operations, reported a steady trend in 2017, with a very slight fall in sales compared to 2016 (-0.37%; -3.7% in the motorcycle segment and +2.6% in the *scooter* segment) closing the period with 1.3 million units sold.

In this international scenario, the Piaggio group maintained its leadership position on the European market in 2017, closing the year with a 15.1% market share (15.4% in 2016) thanks to the strong presence in the scooter segment where it reached a share of 24.2% (25.4% in 2016). In Italy, the Group has historically been a leader in the scooter segment (30%) and an important player in the two-wheeler industry as a whole (20.1% in 2017 and 21.8% in 2016).
The Group, with its own production plants in India and Vietnam, also operates in the premium" segment of the Indian market and in Asia Pacific countries. In particular, Piaggio is one of the leading segment operators in Vietnam, which is the Group's main market in the Asian area.
The Group retained its strong position in the North American scooter market, where it closed the year with a market share of 22.1%, and where it is committed to increasing its profile in the motorcycle segment, through the Aprilia and Moto Guzzi brands.
In terms of turnover, increases in India (+69.6%) were particularly important, thanks to the success of the Aprilia SR 150, which was unveiled in July 2016.
Revenues in EMEA and the Americas also went up (+3.1%), driven above all by performance in Italy (+6.5%) and the Americas (5.6%), while revenues in Asia Pacific (-5.4%) recorded a downturn. Similar trends were recorded for volumes. The increase in sales of two-wheeler vehicles in India (+71.1%) and EMEA and the Americas (+3.3%) more than offset the fall in sales in Asia Pacific (-4.2%).

Commercial Vehicles business

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

In 2017, the European market for light commercial vehicles (vehicles with a maximum mass of up to 3.5 tons) where the Piaggio group operates, accounted for 2 million units sold, up 3.9% compared to 2016 (source ACEA data). In detail, the trends of main European reference markets are as follows: Germany (+4.9%), France (+7.1%), Italy (-3.4%) and Spain (+15.5%).
Sales on the Indian three-wheeler market, where Piaggio Vehicles Private Limited, a subsidiary of Piaggio & C. S.p.A. operates, fell from 546,000 units in 2016 to 544,000 in 2017, registering a 0.4% decrease.
Within this market, the passenger vehicle sub-segment reported a positive trend (+7.3%), closing with 114,700 units (up from 107,000 units in 2016). The passenger segment reported a decrease (-2.2%), from 439,000 units in 2016 to 429,100 units in 2017.
Through its Indian affiliate, the Piaggio group also operates in the four-wheeler light commercial vehicles (LCV) market (cargo vehicles for goods transport). The LCV cargo market, with vehicles

with a maximum mass below 2 tons and on which various versions of the Porter are sold, accounted for 141,500 units in 2017, going up by 21.5% compared to 2016.
In 2017, sales of Commercial Vehicles generated a turnover of approximately 391.9 million euros, including approximately 46.6 million euros relative to spare parts and accessories, down by 1.2% over the previous year. During the year, 176,800 units were sold, down by 6% compared to 2016.
On the Emea and Americas market, the Piaggio group sold 15,800 units, generating a total net turnover of approximately 90 million euros, including spare parts and accessories for 17.9 million euros. The 7.4% increase in sales was supported by the good performance of the reference EMEA market.
On the Indian three-wheeler market, Group sales went down from 157,750 units in 2016 to 144,377 units in 2017, registering an 8.5% decrease, only partially offset by a good performance from exports (14,097 three wheeler vehicles; 11,786 in 2016).
On the four-wheeler market, sales of Piaggio Vehicles Private Limited decreased by 34% in 2017 compared to 2016, closing with 2,475 units.

The Marine sector: Intermarine

In thousands of euros	*31.12.2017*	*as a %*	*31.12.2016*	*as a %*	*Change*	*as a %*
Net revenues	107,738		65,673		42,065	64.1%
Operating income before depreciation and amortisation (EBITDA)	20,568	19.1%	2,650	4.0%	17,918	676.2%
Operating income (EBIT)	17,858	16.6%	1,515	2.3%	16,343	n/m
Profit before tax	15,100	14.0%	-1,153	-1.8%	16,253	n/m
Earnings for the period including non-controlling interests	10,166	9.4%	-1,775	-2.7%	11,941	n/m
Group earnings for the period (which may be consolidated)	7,371	6.8%	-1,287	-2.0%	8,658	n/m
Net debt	-43,343		-67,342		23,999	35.6%
Personnel (number)	275		277		-2	-0.7%

As regards the **marine sector**, net sales revenues went up in 2017 (comprising turnover and changes in works in progress to order), compared to the same period of the previous year, with an increase of 64.1%, and figures at 107.7 million euros compared to 65.7 million euros compared to 2016. Production progress, including research and development, and the completion of constructions and deliveries, concerned in particular:

- the *Defence* division, with 95.5 million euros (63.6 million euros in 2016), for the construction of the units and the logistic package for the Guardia di Finanza [Italian financial police] (4.6 million euros), for the Gaeta MMI operations (9.4 million euros), for the construction of integrated platforms for the Italian group operating in the sector (33.2 million euros), for the contract with an Asian shipyard for a naval platform (45 million euros), for the implementation of the MMI contract in the Sarzana and Messina shipyards for 2 special high-speed vessels (3.3 million euros);

- the *Fast Ferries and Yacht* Division, with 12.2 million euros (2.1 million euros in 2016), mainly for repair work on vessels currently in operation belonging to the fleet operating in southern Italy, and for the MMI contract for 2 special high-speed vessels.

The figures for the year 2017 show a positive EBITDA of 20.6 million euros, a positive EBIT of 17.9 million euros, pre-tax earnings of 15.1 million euros, and net profit of 10.2 million euros.

More specifically, from an economic point of view the 2017 financial statements reveal the effects of significant progress of production of contracts acquired, with adequate margins and in accordance with contractual deadlines, and with structural costs slightly up from the previous year, with the weight of this item as a percentage of income down from the previous year.

From the financial viewpoint, the 2017 financial statements reveal a significant reduction in net financial exposure, down from 67.3 million euros at 31 December 2016 to 43.3 million euros - an improvement of 24 million euros - in view of the contribution of cash generated internally and of the positive variation in net working capital. The previous year had also seen a significant reduction in financial debt, amounting to more than 32.5 million euros.

The total value of the order book at 31 December 2017 is 209 million euros (remaining part of the contracts in place that still needs to be implemented in terms of value of production) and may broken down as follows:

- Italian Navy, Refitting and TS Gaeta Programme for 32 million euros,
- Italian Navy, Contract for 2 very high-speed Naval Vessels for 27 million euros,
- Guardia di Finanza, Logistics Package for 11 million euros,
- Italian Operator, Contract for 2 Integrated minesweeping platforms for 55 million euros,
- Asian Shipyard, Naval platform, transfer of technologies and royalties for 83 million euros.

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

Financial position and performance of the Group

As already mentioned in this report, during 2017 the operating results of the Immsi Group improved generally compared to the previous year, in a macroeconomic context characterised by growth in the world economy, albeit subject to dynamics that differed considerably from one geographical area to another.

The scope of consolidation has changed as follows compared to the consolidated financial statements at 31 December 2016: i) the portion of consolidated shareholders' equity of the Piaggio group, which as at 31 December 2017 stood at 50.07%, was 50.49% as at 31 December 2016: The decrease was mainly due to the sale of 1.5 million Piaggio shares by Immsi S.p.A. In July; ii) with reference to the holding of the Parent Company Immsi S.p.A. in ISM Investimenti S.p.A., in light of the different rights derived from ownership of the two shareholders and the analysis of the impairment test, the portion of consolidated shareholders' equity of ISM Investimenti S.p.A. is estimated at 51.55% as at 31 December 2017, down from 60.39% on 31 December 2016.

Net revenues realised in 2017, equal to 1,454.9 million euros and increasing over the previous year (+5.1%), mainly refer to the industrial sector (1,342.5 million euros), with 107.7 million euros relative to the Marine sector and the remaining part relative to the property and holding sector.

Operating income gross of amortisation, depreciation and impairment costs of intangible assets and plant, property and equipment (EBITDA) amounted to 209.6 million euros as of 31 December 2017, equal to 14.4% of net revenues, and increasing in absolute terms and as a percentage compared to the previous year's figure of 168.5 million euros, equal to 12.2% of revenues; the operating income (EBIT) came to 86.4 million euros (5.9% of net revenues), up by 29.4 million euros compared to 57 million euros for the previous year (when corresponded to 4,1% of net revenues).

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

Profit before tax for 2017 amounted to 39 million euros, compared to a profit before tax at 31 December 2016 of 4.5 million euros: this improvement (34.5 million euros) was produced by all sectors, and in particular:

- by the property and holding sector, which reduced losses to 15.8 million euros (from 19.9 million euros in 2016);
- by the industrial sector (the Piaggio group) which with a profit of 39.7 million euros significantly improved its result for the previous year, which amounted to 14.2 million euros;
- by the marine sector which in 2017 recovered approximately 16.3 million euros compared to the loss of 1.2 million euros in 2016, making a profit for the year of 15.1 million euros.

The Parent Company Immsi S.p.A. Recorded income of 3.35 million euros from the transfer of option rights arising from the UniCredit capital increase, in which Immsi S.p.A. did not participate, at the start of 2017. The contribution made by the subsidiaries Piaggio group and Intermarine was the result of the positive performance of operations, which saw a significant growth in revenues and operating margins, in a more than proportionate measure thanks to the improved absorption of structural costs and to the rationalisation of productive strategies over the course of previous years.

Taxes for the period amounted to 24.1 million euros, up by 11.3 million euros compared to 12.8 million euros in 2016, with a tax rate of 61.9%. During the course of 2017, the Group did not recognise deferred tax assets in respect of losses of the Group companies totalling 14.4 million euros. This choice was a result of a prudential assessment of the recoverability of the losses accumulated by the Group companies, particularly those participating in the Group tax consolidation, based on the forecasts of expected future taxable income. If the taxable income in future years is higher than the current forecasts, the deferred tax assets not recognised may be recovered, because the Italian tax legislation allows for the losses to be carried forward without any expiry date.

Lastly, following the above dynamics, the Group recorded a net profit for the period of 8.2 million euros, compared to the loss of 8.7 million euros as of 31 December 2016. Moreover, the year 2017 saw a profit being made, after 5 consecutive years of losses.

Net financial debt of the Group at 31 December 2017 totalled 858.9 million euros, a considerable improvement (approximately 47.9 million euros) on the figure of 906.9 million euros at 31 December 2016, due mainly to the net cash flow generated by operations, equal to around 134.9 million euros, permitting net investments in plant, property and equipment and intangible assets for the period, equal to a total of 85 million euros, and the payment of dividends to third parties for 9.8 million euros.

Group gross investments in the year totalled 87.8 million euros, divided as follows:

- 58 million euros in intangible assets, referring nearly entirely to the Piaggio group;
- 29.8 million euros in intangible assets, referring nearly entirely to the Piaggio group.

Total shareholders' equity of the Immsi Group at 31 December 2017 was equal to 370.7 million euros; excluding the portion attributable to non-controlling interests, shareholders' equity attributable to the Group was equal to 221.6 million euros.

Finally, at the end of 2017, total interest of 3,126 thousand euros, due on loans from the Group's non-controlling interests, was posted. This item was posted at 31 December 2017 among current financial payables rather than among current trade payables as had been the case in previous financial statements. This reclassification, designed to offer a better representation of the Group's debts, has no impact on income figures, and was also performed in regard to the comparable balances at 31 December 2016 for 2,948 thousand euros in order to render figures duly comparable. The Group believes that notwithstanding the financial nature of the aforesaid debt, said item makes no contribution to the determination of net financial debt.

For more details on items in the statements, see the Notes. Specific notes referring to mandatory items are omitted as the main aggregates coincide.

Financial performance of the Group

The Group prepares reclassified figures as well as the financial statement schedules required by law. A short description of the main balance sheet and income statement items is provided below the reclassified schedules.

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

In thousands of euros	*31.12.2017*		*31.12.2016*		*Change*	
Net revenues	**1,454,939**	**100%**	**1,383,848**	**100%**	**71,091**	**5.1%**
Costs for materials	825,168	56.7%	786,766	56.9%	38,402	4.9%
Costs for services, leases and rentals	265,069	18.2%	272,674	19.7%	-7,605	-2.8%
Employee costs	234,493	16.1%	232,808	16.8%	1,685	0.7%
Other operating income	109,929	7.6%	110,675	8.0%	-746	-0.7%
Other operating costs	30,516	2.1%	33,806	2.4%	-3,290	-9.7%
OPERATING EARNINGS BEFORE AMORTISATION AND DEPRECIATION (EBITDA)	**209,622**	**14.4%**	**168,469**	**12.2%**	**41,153**	**24.4%**
Depreciation and write-downs of plant, property and equipment	46,537	3.2%	47,337	3.4%	-800	-1.7%
Amortisation of goodwill	0	-	0	-	0	-
Amortisation and impairment of intangible assets with a definite useful life	76,652	5.3%	64,124	4.6%	12,528	19.5%
OPERATING INCOME	**86,433**	**5.9%**	**57,008**	**4.1%**	**29,425**	**51.6%**
Earnings on investments	716	0.0%	568	0.0%	148	-
Financial income	21,093	1.4%	15,612	1.1%	5,481	35.1%
Borrowing costs	69,226	4.8%	68,692	5.0%	534	0.8%
PROFIT BEFORE TAX	**39,016**	**2.7%**	**4,496**	**0.3%**	**34,520**	**767.8%**
Taxes	24,132	1.7%	12,841	0.9%	11,291	87.9%
EARNINGS AFTER TAXES FROM CONTINUING OPERATIONS	**14,884**	**1.0%**	**-8,345**	**-0.6%**	**23,229**	**278.4%**
Gain (loss) from assets held for disposal or sale	0	-	0	-	0	-
EARNINGS FOR THE PERIOD INCLUDING NON-CONTROLLING INTERESTS	**14,884**	**1.0%**	**-8,345**	**-0.6%**	**23,229**	**278.4%**
Earnings for the period attributable to non-controlling interests	6,695	0.5%	318	0.0%	6,377	2005.3%
EARNINGS FOR THE PERIOD ATTRIBUTABLE TO THE GROUP	**8,189**	**0.6%**	**-8,663**	**-0.6%**	**16,852**	**194.5%**

The consolidated net revenues of the Immsi Group have increased by approximately 71.1 million euros (+5.1%) to around 1,454.9 million euros, mainly due to the industrial sector, which contributed about 1,342.5 million euros, and the marine sector, which contributed around 107.7 million euros. Net revenues of the property and holding sector, amounting to approximately 4.8 million euros, were basically unchanged compared to the same period of the previous year.
Net revenues of the marine sector have grown considerably, rising from 65.7 million euros at 31 December 2016 to 107.7 million euros in 2017, an increase of 42.1 million euros (+64.1%). The industrial sector also grew significantly, up by 29.3 million euros (+2.2%) to 1,342.5 million euros, from 1,313.1 million euros the previous year.

Operating costs and other net consolidated expenses of the Group in 2017 amounted to 1.245,3 million euros (85.6% of net revenues), with 1.150,1 million euros (equal to approximately 85.7% of net revenues of the sector) relative to the Piaggio group. The cost of materials amounted to 825.2 million euros, accounting for 56.7% of net revenues; the cost referred to the industrial sector alone amounted to 791.1 million euros, equal to 58.9% of net revenues of the sector. Personnel costs totalled 234.5 million euros, accounting for 16.1% of net revenues. The largest portion, amounting to 215.5 million euros (16% of net revenues of the sector), refers to the Piaggio group.

Operating income including amortisation, depreciation and impairment costs of intangible assets and plant, property and equipment (EBITDA) amounted to 209.6 million euros, equal to 14.4% of net revenues, of which 192.3 million euros referred to the industrial sector. In percentage terms this was the Groups' best ever result, and represents the fourth consecutive year of growth.
Depreciation and amortisation for the period stood at 123.2 million euros (of which 120 million euros relates to the industrial sector), representing 8,5% of turnover, up by around 11.7 million euros compared to 2016 (+10.5%). Depreciation charges of plant, property and equipment amounted to 46.5 million euros (-0.8 million euros compared to the figure for 2016), while amortisation charges for intangible assets, which does not include amortisation on goodwill, totalled 76.7 million euros (64.1 million in 2016).

Operating income (EBIT) was equal to 86.4 million euros (+29.4 million euros, or +51.6%, compared to 31 December 2016), accounting for 5.9% of net revenues (compared to 4.1% recorded in 2016).

The net balance of financial activities - including investments - was negative by 47.4 million euros, comprising a net negative balance of 32.6 million euros for the industrial sector and a net negative balance of 2.8 million euros relative to the Marine sector, while the property and holding sector registered a negative balance of approximately 12.1 million euros.

In consideration of the above, a profit before taxes of 39 million euros was recorded, with a positive contribution from the industrial sector of 39.7 million euros, while the contribution from the naval sector was 15.1 million euros, and from the property and holding sector 15.8 million euros negative.

After taxation for the period of 24.1 million euros, and net of the non-controlling interests' share of profits amounting to 6.7 million euros, a consolidated profit of 8.2 million euros was recorded, compared to a loss of 8.7 million euros posted at 31 December 2016. Once again, 2017 marked a return to the making of a profit, after 5 years of losses.

Reclassified financial situation of the Group

In thousands of euros	***31.12.2017***	***as a %***	***31.12.2016***	***as a %***
Current assets:				
Cash and cash equivalents	138,949	6.8%	197,919	9.1%
Financial assets	0	0.0%	0	0.0%
Operating activities	484,439	23.7%	472,518	21.8%
Total current assets	**623,388**	**30.5%**	**670,437**	**31.0%**
Non-current assets:				
Financial assets	0	0.0%	0	0.0%
Intangible assets	826,198	40.5%	847,059	39.1%
Plant, property and equipment	307,343	15.1%	336,467	15.5%
Other assets	284,650	13.9%	311,524	14.4%
Total non-current assets	**1,418,191**	**69.5%**	**1,495,050**	**69.0%**
TOTAL ASSETS	**2,041,579**	**100.0%**	**2,165,487**	**100.0%**
Current liabilities:				
Financial liabilities	426,527	20.9%	575,022	26.5%
Operating liabilities	577,028	28.3%	554,157	25.6%
Total current liabilities	**1,003,555**	**49.2%**	**1,129,179**	**52.1%**
Non-current liabilities:				
Financial liabilities	571,342	28.0%	529,749	24.5%
Other non-current liabilities	95,993	4.7%	114,001	5.3%
Total non-current liabilities	**667,335**	**32.7%**	**643,750**	**29.7%**
TOTAL LIABILITIES	**1,670,890**	**81.8%**	**1,772,929**	**81.9%**
TOTAL SHAREHOLDERS' EQUITY	**370,689**	**18.2%**	**392,558**	**18.1%**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,041,579**	**100.0%**	**2,165,487**	**100.0%**

Current assets at 31 December 2017 amounted to 623.4 million euros, a decrease over 31 December 2016 of 47 million euros. This decrease is due in full to changes in cash and cash equivalents, equal to 59 million euros partly offset by an increase in operating assets of 11.9 million euros. Non-current assets as of 31 December 2017 (including assets for disposal) amounted to 1,418.2 million euros compared to 1,495.1 million euros as of 31 December 2016, with a decrease of 76.9 million euros.
In particular, non-current assets include intangible assets amounting to 826.2 million euros, down compared to 31 December 2016 by 20.9 million euros, plant, property and equipment amounting to 307.3 million euros (336.5 million euros at the end of 2016) and other assets amounting to 284.6 million euros (compared to 311.5 million euros at the end of 2016).

Current liabilities at 31 December 2017 amounted to 1,003.6 million euros, down by 125.6 million euros compared to 31 December 2016, as a result of a reduction in financial liabilities (148.5 million euros) partially offset by a growth in current operating liabilities (22.9 million euros).
Non-current liabilities at 31 December 2017 totalled 667.3 million euros compared to 643.8 million euros at 31 December 2016. The increase was mainly due to the growth in financial liabilities (+41.6 million euros).

Consolidated shareholders' equity attributable to the Group and non-controlling interests amounted to 370.7 million euros at 31 December 2017, of which 149.1 million euros attributable to non-controlling interests.

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

In thousands of euros	***31.12.2017***	***as a %***	***31.12.2016***	***as a %***
Current operating assets	484,439	36.5%	472,518	33.4%
Current operating liabilities	-577,028	-43.5%	-554,157	-39.2%
Net operating working capital	**-92,589**	**-7.0%**	**-81,639**	**-5.8%**
Intangible assets	826,198	62.3%	847,059	59.9%
Plant, property and equipment	307,343	23.2%	336,467	23.8%
Other assets	284,650	21.5%	311,524	22.0%
Capital employed	**1,325,602**	**100.0%**	**1,413,411**	**100.0%**
Non-current non-financial liabilities	95,993	7.2%	114,001	8.1%
Capital and reserves of non-controlling interests	149,066	11.3%	159,771	11.3%
Consolidated shareholders' equity attributable to the Group	221,623	16.7%	232,787	16.5%
Total non-financial sources	**466,682**	**35.2%**	**506,559**	**35.8%**
Net financial debt	**858,920**	**64.8%**	**906,852**	**64.2%**

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

In thousands of euros	*31.12.2017*	*31.12.2016*
Cash generated internally	166,643	113,975
Change in net working capital	-31,727	30,237
Net cash flow generated from operations	**134,916**	**144,212**
Payment of dividends by the Parent Company	0	-5,107
Payment of dividends to non-controlling interests by Group companies	-9,752	-8,921
Acquisition of intangible assets	-58,040	-58,678
Purchase of plant, property and equipment	-29,800	-39,247
Net decrease from property disposals	2,836	287
Acquisition of non-controlling investments, net of disposal	2,556	-1,881
Acquisition of controlling investments and business complexes, net of disposals	3,567	-5,612
Other net movements	1,649	-5,253
Change in net debt	**47,932**	**19,800**
Initial net debt	**-906,852**	**-926,652**
Closing net debt	**-858,920**	**-906,852**

Net financial debt, equal to 858.9 million euros at 31 December 2017, was analysed below and compared with the same data at 31 December 2016.

In thousands of euros	*31.12.2017*	*31.12.2016*
Short-term financial assets		
Cash and cash equivalents	-138,949	-197,919
Financial assets	0	0
Total short-term financial assets	**-138,949**	**-197,919**
Short-term financial payables		
Bonds	9,625	9,617
Payables due to banks	357,917	512,778
Amounts due for finance leases	1,144	1,114
Amounts due to other lenders	57,841	51,513
Total short-term financial payables	**426,527**	**575,022**
Total short-term financial debt	**287,578**	**377,103**
Medium/long-term financial assets		
Receivables for loans	0	0
Other financial assets	0	0
Total medium/long-term financial assets	**0**	**0**
Medium/long-term financial payables		
Bonds	309,880	282,442
Payables due to banks	251,950	236,319
Amounts due for finance leases	9,168	10,311
Amounts due to other lenders	344	677
Total medium/long-term financial payables	**571,342**	**529,749**
Total medium-/long-term financial debt	**571,342**	**529,749**
Net financial debt *)	**858,920**	**906,852**

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

Financial position and performance of the Parent Company

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

In thousands of euros	*2017*	*2016*
Earnings on financial operations	4,254	8,210
Profit before tax	3,219	7,131
Income for the period	3,044	5,492
Net operating working capital	64,856	59,722
Capital employed	449,374	470,231
Non-financial sources	375,890	390,623
Net debt	-73,484	-79,607
Shareholders' equity	355,989	370,771
Personnel (number)	11	10

During 2017, the Company recorded a profit from financing activities of 4,254 thousand euros mainly attributable to approximately 9.9 million euros of dividends distributed by the subsidiary Piaggio & C. S.p.A. (9 million euros in 2016), to the collection of 3.35 million euros deriving from the sale of option rights assigned to Immsi S.p.A. as part of the UniCredit capital increase, which the Company did not take part in, and finally to the 1.6 million euros gain realised on the sale of 1.5 million Piaggio & C. S.p.A. shares in August 2017. The negative difference compared to the previous year is attributable to the adjustments following the impairment tests carried out at 31 December 2017 in regard to the carrying amount of investments, which led to the recovery of the value of the investment in RCN Finanziaria S.p.A. of 5 million euros, and a write-down of 15 million euros of the investment ISM Investimenti S.p.A..
Profit before tax accounted for a minimum part of taxable income as regards income tax, because most components comprise financial statement items, which are tax-neutral.
In 2017, a profit of 3,044 thousand euros was recorded, down from the previous year's figure of 5,492 thousand euros, this decrease being the exclusive result of the measurement components related to the impairment tests carried out in regard to the carrying amount of the aforementioned investments.

Net operating working capital went from 59,722 thousand euros at 31 December 2016 to 64,856 thousand euros at the end of 2017, mainly because of the increase in receivables due from Group companies.

Invested capital amounted to 449,374 thousand euros, down compared to 31 December 2016, and mainly comprised the investment property situated in Rome amounting to 74,114 thousand euros, investments in subsidiaries amounting to 310,330 thousand euros.

Non-financial sources, consisting of 19,901 thousand euros relative to non-current non-financial liabilities (mainly deferred tax liabilities) and 355,989 thousand euros relative to shareholders' equity, decreased compared to 31 December 2016, due to the change of the latter item.

Net debt at 31 December 2017 stood at 73,484 thousand euros, down by 6,123 thousand euros compared to 31 December 2016, as a result of the specific cash flow generated by collection of the financial income mentioned above.

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

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

In thousands of euros	***Shareholders' equity***	***Earnings for the period***
Shareholders’ equity and earnings for the period as recorded in the financial statements of the Parent Company Immsi S.p.A.	355,989	3,044
De-recognition of dividends from subsidiaries of the Parent Company	n/a	(9,946)
Elimination of capital gains on sale of stakes in subsidiaries of the Parent company	n/a	(1,565)
Pro rata earnings and shareholders’ equity of investee companies	455,119	6,656
Elimination of the carrying amount of investments	(589,485)	10,000
TOTAL	**221,623**	**8,189**

Research & development

The Immsi Group carries out research and development activities through the Piaggio group, which in 2017 continued its policy of consolidating technological leadership in the sector, and through the subsidiary Intermarine S.p.A., whose R&D activities mainly concern new projects for vessels and prototypes, production technologies, systems innovation and innovative materials.
For further details of the projects supported by the Group, and of the resources allocated to such projects, see the section entitled Products and Services contained in the Consolidated non-financial statement of the Immsi Group, drawn up pursuant to Italian Legislative Decree no. 254/2016, included in the present Report and in the Products section of the Piaggio Corporate Social Responsibility Report 2017.

Risk factors

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

Strategic risks

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

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

Market risks related to business sectors

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

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

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

Risks related to the protection of trademark, licence and patent rights – The Group legally protects its products and brands throughout the world. In some countries where the Group operates, laws do not offer certain standards of protection for intellectual property rights. This circumstance could therefore render the measures adopted by the Group to protect itself from the unlawful use of these rights by third parties inadequate. Unlawful plagiarism by competitors could have a negative effect on the Group's sales.

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

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

Risks related to the macroeconomic and sector situation - All the Group’s business sectors are affected moreover by the general conditions of the economy, that can occur with diversified effects in the various markets in which it operates. The global economic crisis of the last few years has led to a significant downturn in consumption, and consequently, to a decline in demand from markets where the Group operates. The persistence or worsening of the weakness of global and national markets, despite measures taken by Governments and monetary authorities, could compromise the strategy, prospects and financial position and performance of the Group.

To offset the negative effects of the decline in demand, Group companies have introduced innovative products to the market, to enable it to obtain higher market shares, and also adopted a flexible organisational structure which, through the use of fixed term employment contracts, can match production capacity to market requirements.

Country risk – The Group operates in an international arena and is therefore exposed to risks connected with a high level of internationalisation, such as exposure to local economic conditions and policies, compliance with different tax systems, customs barriers or more in general the introduction of laws or regulations which are more stringent than the current regulatory framework. All these factors may have a negative impact on the financial position and performance of the Group.

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

Operating risks

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

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

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

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

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

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

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

Risks linked to the management of talent, recruitment and retention – These are the risks connected to:
- the adoption of an adequate human resources management policy in terms of motivation, remuneration, development and growth;
- any loss of key competencies and know-how due to strategic employees no longer working for the Group;
- any inadequate management of these organisational changes.

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

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

Financial risks

Risks connected with financial debt – At the date of the financial statements the main sources of Group financing were:
- debenture loans for a nominal amount of approximately 322.1 million euros issued by Piaggio & C. S.p.A.;
- bank loans for a nominal amount of approximately 612.3 million euros. The type, rates and maturities of these loans are discussed in the Notes.

In addition, the Group has outstanding debts for financial leases, payables to subsidiary but not fully consolidated companies and amounts due to other lenders for an overall amount of approx. 71.6 million euros.
This debt could in future negatively affect Group operations, limiting its capacity to obtain further financing or to obtain it at more favourable conditions.

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

Exchange rate risks – The Group, primarily through the companies of Piaggio group and Intermarine, undertakes operations in currencies other than the euro and this exposes it to the risk of fluctuating exchange rates of different currencies. Exposure to business risk consists of envisaged payables and receivables in foreign currency, taken from the budget for sales and purchases reclassified by currency and accrued on a monthly basis. With reference to the Piaggio group, the policy is to hedge at least 66% of the exposure of each reference month. Exposure to the settlement risk consists of receivables and payables in foreign currency acquired in the accounting system at any moment. The hedge must at all times be equal to 100% of the import, export or net settlement exposure for each currency. In 2017, the exchange risk was managed in line with the current policy, which aims to neutralise the possible negative effects of exchange rate changes on company cash-flow, by hedging the business risk, which concerns changes in company profitability in relation to the annual business budget on the basis of a key change (the so-called “budget change”) and of the settlement risk, which concerns the differences between the exchange rate recorded in the financial statements for receivables or payables in foreign currency and that recorded in the related receipt or payment.

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

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

Legal risks

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

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

Risks connected with trade union relations – The employees of Group companies are protected by laws and collective labour contracts that guarantee them - through local and national

representation - the right to be consulted on specific matters, including programmes related to the use of staff in accordance with ongoing orders. In particular, in Europe, the Piaggio group operates in an industrial context with a strong trade union presence, and is potentially exposed to the risk of strikes and interruptions to production activities. In the recent past, the Group was not affected by any major interruptions to production because of strikes.
To avoid the risk of interruptions to production activities, as far as possible, Immsi Group companies have always engaged with trade union organisations.

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

Human resources

At 31 December 2017, Immsi Group employed 6,964 staff members, of which 69 in the property and holding sector, 6,620 in the industrial sector (Piaggio group) and 275 in the naval sector (Intermarine S.p.A.).
The following tables divide resources by category and geographic segment:

Human resources by category

numbers	31.12.2017			
	Property and holding sector	Industrial sector	Marine sector	Group total
Senior management	6	97	7	110
Middle managers and white collars	36	2,336	150	2,522
Manual workers	27	4,187	118	4,332
TOTAL	**69**	**6,620**	**275**	**6,964**

numbers	31.12.2016			
	Property and holding sector	Industrial sector	Marine sector	Group total
Senior management	5	97	8	110
Middle managers and white collars	36	2,330	148	2,514
Manual workers	30	4,279	121	4,430
TOTAL	**71**	**6,706**	**277**	**7,054**

numbers	Changes			
	Property and holding sector	Industrial sector	Marine sector	Group total
Senior management	1	0	-1	0
Middle managers and white collars	0	6	2	8
Manual workers	-3	-92	-3	-98
TOTAL	**-2**	**-86**	**-2**	**-90**

Human resources by geographic segment

numbers	31.12.2017			
	Property and holding sector	Industrial sector	Marine sector	Group total
Italy	69	3,444	275	3,788
Rest of Europe	0	177	0	177
Rest of the World	0	2,999	0	2,999
TOTAL	**69**	**6,620**	**275**	**6,964**

numbers	31.12.2016			
	Property and holding sector	Industrial sector	Marine sector	Group total
Italy	71	3,518	277	3,866
Rest of Europe	0	174	0	174
Rest of the World	0	3,014	0	3,014
TOTAL	**71**	**6,706**	**277**	**7,054**

numbers	Changes			
	Property and holding sector	Industrial sector	Marine sector	Group total
Italy	-2	-74	-2	-78
Rest of Europe	0	3	0	3
Rest of the World	0	-15	0	-15
TOTAL	**-2**	**-86**	**-2**	**-90**

The decrease in personnel (-90 units compared to 2016) is almost entirely attributable to the Piaggio group (-86 units) which continued streamlining and reorganisation operations in 2017.
At 31 December 2017 Group staff also included seasonal staff (with fixed-term contracts), mainly relating to the industrial sector.
For further information concerning the Group's labour force (in regard to pay and training policy, diversity and equal opportunities, health and safety, etc.) see the ample information provided in the Social section of the Consolidated non-financial statement drawn up pursuant to Italian Legislative Decree no. 254/2016.

Group and Related-Party Transactions

As regards information concerning related-party transactions in accordance with *IAS 24 - Related Parties Disclosures*, undertaken by Group companies, such transactions took place as part of normal operations in market conditions or as established by specific laws. No atypical or unusual transactions were carried out during the period to 31 December 2017. It should be noted that, in compliance with CONSOB Regulation no. 17221 on related party transactions, issued on 12 March 2010 and subsequently amended and supplemented, the Company has adopted a procedure aimed at regulating the approval of related party transactions, available from the issuer's website www.immsi.it in the "*Governance/Procedure*" section.

The main economic and financial effects of Related-Party transactions and their impact on financial statement items, resulting from consolidated data of the Immsi Group at 31 December 2017 are shown below: the financial effects arising from consolidated intergroup operations were eliminated during consolidation.

Main economic and financial items	amounts in thousands of euros 2017	% accounting for financial statement items	Description of the nature of transactions	Amounts in thousands of euro 2016
Transactions with Related Parties:				
Current trade payables	*149*	*0.0%*	*Tax advisory services provided by St. Girelli & Ass. and by Trevi S.r.l. to the Group*	*187*
Costs for services, leases and rentals	*222*	*0.1%*	*Tax advisory services provided by St. Girelli & Ass. and by Trevi S.r.l. to the Group*	*224*
Transactions with Parent companies:				
Non-current financial liabilities	*2,900*	*0.5%*	*Piaggio debenture loan (PO) undersigned by Omniaholding S.p.A.*	*2,900*
Current trade payables	*359*	*0.1%*	*Rental of offices provided by Omniaholding S.p.A. to the Group*	*248*
Costs for services, leases and rentals	*566*	*0.2%*	*Rental of offices provided by Omniaholding S.p.A. to the Group*	*532*
Borrowing costs	*152*	*0.2%*	*Charges related to the Piaggio PO subscribed by Omniaholding S.p.A. and the securities loan to Immsi*	*134*
Transactions with Subsidiaries, Affiliated Companies, Joint Ventures:				
Trade receivables and other non-current	*115*	*0.8%*	*Receivables from Fondazione Piaggio*	*133*
Current trade receivables and other receivables	*2,826* *3,052*	*1.9%* *2.0%*	*Trade receivables from Rodr. do Brasil and Consorzio CTMI* *Trade receivables from Piaggio Foshan*	*3,176* *4,306*
Trade payables and other non-current payables	*12*	*0.1%*	*Payables to Piaggio Foshan*	*162*
Current financial liabilities	*9*	*0.0%*	*Financial payables to Rodriquez Pietra Ligure S.r.l.*	*12*
Current trade payables	*8,811*	*1.8%*	*Trade payables by Piaggio & C. S.p.A. to Piaggio Foshan*	*9,777*
Other current payables	*214*	*0.4%*	*Payables to Fondazione Piaggio and Piaggio Foshan*	*215*
Net revenues	*1,777*	*0.1%*	*Sales to Piaggio Foshan*	*855*
Costs for materials	*23,508*	*2.8%*	*Purchases of Piaggio & C. S.p.A. from Piaggio Foshan*	*23,289*
Costs for services, leases and rentals	*150* *24*	*0.1%* *0.0%*	*Costs for services rendered by Consorzio CTMI* *Costs for services from Fondazione Piaggio*	*165* *34*
Other operating income	*254*	*0.2%*	*Income from Piaggio Foshan*	*3,042*

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

Stock options

At the end of 2017, no stock option plans were adopted by the Immsi Group.

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

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

Other information

Treasury shares

At 31 December 2017, Immsi S.p.A. held no treasury shares. The share capital of Immsi S.p.A. is unchanged at 178,464,000.00 euro, represented by 340,530,000 ordinary shares with no nominal value.

It should also be noted that by resolution passed on 12 May 2017, the Ordinary Shareholders' Meeting authorised the purchase and disposal of ordinary shares of the Company, in accordance with the combined provisions of Articles 2357 and 2357-*ter* of the Italian Civil Code, and Section 132 of the Consolidated Law on Finance and related implementing provisions, subject to revocation of the resolution authorising the purchase and disposal of treasury shares, passed on 29 April 2016. Purchase authorisation was granted for the 18 month period as of the date of the above resolution, whereas authorisation for placing was granted with no time limits. For more details see section 2, subparagraph i), of the Report on Corporate Governance and Ownership at 31 December 2017.

With reference to the subsidiary Piaggio & C. S.p.A., on 12 April 2017, the Extraordinary Shareholders' Meeting resolved to cancel 3,054,736 treasury shares. Therefore, as of 31 December 2017, Piaggio & C. did not hold any treasury shares.

Disclosure of payments

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

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

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

Disclosure of payments referred to the 2017			
Type of service	**Company providing the service**	**Recipient**	**Payments in Euro**
Auditing services			
	PwC S.p.A.	Parent Company - Immsi S.p.A.	54,139
	PwC S.p.A.	Subsidiaries	568,613
	PwC network	Subsidiaries	369,874
Certification services			
	PwC S.p.A.	Subsidiaries	10,000
	PwC network	Subsidiaries	45,520
Review of the *Corporate Social Responsibility Report* and Non-Financial Statement			
	PwC S.p.A.	Parent Company - Immsi S.p.A.	15,000
	PwC S.p.A.	Subsidiaries	54,000
Other services			
	PwC S.p.A.	Subsidiaries	192,000
	PwC network	Parent Company - Immsi S.p.A.	170,000
	PwC network	Subsidiaries	14,000
Total			**1.493.146**

The payments of subsidiaries operating in currencies other than the euro and agreed in local currency have been translated at the average exchange rate for 2017.

During 2012, the Ordinary Shareholders' Meetings of companies belonging to the Immsi Group appointed PricewaterhouseCoopers S.p.A. as independent auditors for the period 2012-2020.

Corporate ownership

Information on corporate ownership is given in section 2 of the Report on Corporate Governance and Ownership at 31 December 2017, which is referred to.

Management and coordination

The Company gives reasons why management and coordination activities were not performed by the parent company, in section 2, letter l), of the Report on Corporate Governance and Ownership at 31 December 2017, which is referred to.

Personal data processing – Legislative Decree no. 196 of 30 June 2003 – Regulation (EU) 679 of 27 April 2016 (GDPR – *General Data Protection Regulation)*

As regards the “Personal data protection code” (Testo Unico sulla Privacy), and Legislative

Decree no. 196 of 30 June 2003 – Annex B “Technical specifications”, Immsi S.p.A., as data controller, has adopted the various security measures set out in said Decree.
In view of the coming into force of the GDPR, which is foreseen in May 2018, the Company is completing the process of adjustment required in order that it may comply with the provisions of said regulation.

Disputes in progress

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

With regard to the **property sector** (Is Molas S.p.A.), it should be noted that with regard to the dispute relating to the “Le Ginestre” property, on 2 January 2012 the Court of Mantua upheld the promissory buyers’ application for repayment of double the deposit paid in 2007 when the preliminary purchase agreement for the property was signed. An appeal was lodged against that ruling, and in May 2016 the Brescia Court of Appeal upheld the validity of the expert opinion of the first instance, rejecting the appeal lodged by Is Molas. However, given that there were valid reasons to believe that an appeal could be upheld, on 19 June 2017 the Company lodged an appeal with the Supreme Court of Cassation. On 31 July 2017, one of the promissory buyers field a counter-appeal requesting that the Company’s appeal be deemed inadmissible, or in any case be rejected due to the alleged groundlessness of the arguments set out therein. As things stand, the date of the Supreme Court of Cassation hearing has yet to be fixed. It should also be pointed out that, pending the term for challenging the appeal ruling, IH ROMA EST was declared bankrupt. Is Molas thus served notice of the appeal on the bankruptcy as well, and also filed proof of debt in the bankruptcy proceedings, and unsecured debts of 543 thousand euros were admitted subject to the outcome of the aforementioned appeal before the Supreme Court of Cassation.

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

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

► regarding the enforcement order served by Is Molas on the counterparty on 18 June 2015 concerning the costs incurred for the clearing of the site, the counterparty filed an appeal requesting suspension of enforcement of said order. On 8 January 2016 the judge rejected the request for suspension of enforcement, and on 8 March 2016 the counterparty made the payment of the entire sum. In the continuation of the dispute, at the hearing of 26 October 2016 the Judge proposed a settlement between the parties forgoing the ruling and with the parties paying legal fees, and fixed a hearing for the submission of closing arguments for 15 June 2017. When the Parties agreed to the proposed settlement, as formulated above, the Judge declared the proceedings terminated.

- ► On 20 May 2015 Is Molas filed its summons for compensation for contract damages arising from the other party defaulting on its obligations under the contracts signed. During the hearing to discuss the case, held on 4 May 2017, the Judge invited the Parties to settle the matter, and postponed the hearing to 23 November 2017, where the Parties failed to come to an agreement, and thus a further hearing was set for 11 April 2018.
- ► By order of 21 May 2014, the Administrative Appeals Court rejected the suspension requested made by Italiana Costruzioni against the measure issued by the Municipality of Pula. The Administrative Appeals Court, in its ruling of 9 June 2016, also dismissed the application brought by Italiana Costruzioni, ordering the applicant to pay costs in favour of the accused parties. This decision was appealed against by Italiana Costruzioni, whereby it lodged an appeal for the quashing of the ruling given by the Administrative Appeals Court; while on 14 February 2017, the Company filed an entry of appearance with the Council of State opposing the appeal ruling.

With reference to the **property sector** (Apuliae S.p.A), it should be noted that in the proceedings filed by the Company against the Province of Lecce with the Lecce Court in 2011, for reimbursement of the costs borne for the work carried out in regard to the property complex known as the former Scarciglia Colony, at the hearing of 23 March 2016 the Judge, deeming that the other proceedings pending before the State Property Agency and the Province of Lecce had to be settled, adjourned the case for discussion at a hearing to be held on 11 April 2018. In fact, in those other proceedings dating from 2005, between the State Property Agency and the Province of Lecce, and which Apuliae was also joined as a party to the action, the Lecce Court, with its decision of 25 October 2017, upheld the State Property Agency's counter-claim designed to obtain the declaration of termination, by law, of the agreement for the sale of the property complex in question, and also rejected Apuliae's application for contractual damages to be paid by the State Property Agency or the Province of Lecce. In this regard, it should be noted that the provisions set out in the aforementioned first instance ruling, against which an appeal has been filed with the Lecce Court of Appeal (initial hearing 3 April 2018), do not affect the legitimacy of the claim filed by Apuliae against the Province of Lecce, in the 2011 lawsuit.

As regards the **industrial sector** (Piaggio group): Piaggio filed an appearance in the proceedings brought by Altroconsumo opposing: the alleged existence of a design defect and hazardous nature of the Gilera Runner first series, which was manufactured and sold by Piaggio from 1997 to 2005. The trial judge rejected the claim, ordering Altroconsumo to pay Piaggio's legal fees. Following the appeal made by Altroconsumo, a technical appraisal was ordered. On 29 January 2013, the Board informed the parties that Altroconsumo's appeal had been upheld, ruling Piaggio to (i) inform owners of the hazardous nature of the product, to (ii) publish the Board's ruling in a number of newspapers and specialised magazines, and to (iii) recall the product. The effects of the ruling were subsequently suspended by the Court of Pontedera with a ruling of 28 March 2013, concerning the appeal made by Piaggio, in accordance with Article 700 of the Italian Code of Civil Proceedings. Altroconsumo appealed against the suspension ruling before the Board at the Court of Pisa. Consequently, the Court ordered a new technical appraisal. The results of the expert witness report were discussed at the hearing of 19 January 2015, at the end of which the Court of Pisa upheld the judgement issued on 29 January 2013. Piaggio has therefore executed the measure, by publishing the notice on the daily newspapers and preparing a recall campaign on the vehicles still in circulation, pending the outcome of the proceedings on the merits.
Piaggio has also taken action before the Court of Pontedera for a final dismissal of the ruling of the Court of Pisa of 29 January 2013. Upholding Piaggio's appeal, the Judge ordered a new expert witness report of the product. The hearing was set for 6 April 2017. The judge subsequently adjourned the case to the hearing of 3 October 2017 for the submission of closing arguments. The proceedings ended with a settlement agreement signed by the parties on 8 September 2017, under which each of the parties withdrew their claims.

The Canadian Scooter Corp (CSC), the sole distributor of Piaggio for Canada, summoned Piaggio & C. S.p.A., Piaggio Group Americas Inc. and Nacional Motor S.A to appear before the Court of Toronto (Canada) in August 2009, to obtain compensation for damages sustained due to the alleged infringement of regulations established by Canadian law on franchising (the Arthur Wishart Act). The proceedings have been suspended at present, as attempts at settlement are still pending, due to no action being taken by the other party.

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

Da Lio S.p.A., by means of a writ served on 15 April 2009, summoned Piaggio & C. S.p.A. to appear before the Court of Pisa to claim compensation for the alleged damage sustained for various reasons as a result of the termination of supply relationships. The Company appeared in court requesting the rejection of all opposing requests. Da Lio requested a joinder with the opposition concerning the injunction obtained by Piaggio to return the moulds retained by the supplier at the end of the supply agreement. Proceedings thus took place and a ruling was issued on 7 June 2011, ordering Piaggio to pay 109 thousand euros, in addition to interest, relative to sums which were not disputed. Subsequently, the Judge admitted a technical/accounting court-appointed expert requested by Da Lio to quantify the amount of interest claimed and the value of the inventory stock. The technical appraisal was completed at the end of 2014. The case was adjourned to 23 September 2016 for specification of the pleadings and was then ruled on. Subsequently, the Pisa Court reassigned the duties of the Judge who was to preside over the case, which shall thus be assigned to another Judge.

In June 2011 Elma srl, a Piaggio dealer since 1995, started two separate proceedings against the company, claiming the payment of approximately 2 million euros for alleged breach of the sole agency ensured by Piaggio for the Rome area and an additional 5 million euros as damages for alleged breach and abuse of economic dependence by the Company. Piaggio opposed the proceedings, disputing the claims and requesting a ruling for it to pay the outstanding sums owing of approximately 966 thousand euros.
During the case, Piaggio requested the payment of bank guarantees amounting to more than 400 thousand euros, issued in its favour against the risk of default by the dealer. With regard to the dispute, a hearing was set for 24 April 2013 to examine evidence, and then for 17 December 2015 for the presentation of the closing arguments, which was subsequently postponed to 3 March 2016, but was never held due to the transfer of the Judge. The case has been reassigned to another Judge, who has fixed a hearing to discuss the case for 19 July 2018.
As regards the matter, Elma has also brought a case against a former senior manager of the Company before the Court of Rome, claiming compensation for alleged damages. Piaggio appeared in the proceedings, requesting, among others, that the case be moved to the Court of Pisa. The hearing to present the conclusions was not held because the Judge, on request from Elma, reopened the preliminary phase. Subsequently the Judge set the hearing for 11 April 2017 to reach a settlement between the parties, which was not successful. The Judge therefore admitted an expert accounting appraisal requested by Elma, albeit with a subject matter that was far more limited than the petition of the other party. The appraisal is underway.

In a writ received on 29 May 2007, Gammamoto S.r.l. in liquidation, an Aprilia licensee in Rome, brought a case against the Parent Company before the Court of Rome for contractual and non-contractual liability. The Company entered an appearance, fully opposing the validity of

Gammamoto's claims and objecting to the lack of jurisdiction of the appointed Judge. The Judge, accepting the petition formulated by the Company, declared its lack of jurisdiction with regards to the dispute. Gammamoto has continued proceedings through the Court of Venice. The Judge admitted the testimonial evidence requested by the parties, setting the hearing of 12 November 2012 for the beginning of the investigation phase. Following submission of the final arguments at the hearing of 26 June 2013, the Court deferred its decision. The Court of Venice issued a ruling in favour of Piaggio, filed on 17 February 2014. Gammamoto appealed and at the first hearing on 23 October 2014 the Court decide to rule without proceeding with the preliminary investigation requested by the other party. The hearing for closing arguments has been set for 1 April 2019.

The company Taizhou Zhongneng summoned Piaggio before the Court of Turin, requesting the annulment of the Italian part of the 3D mark registered in Italy protecting the form of the Vespa, as well as a ruling dismissing the offence of the counterfeiting of the 3D mark in relation to scooter models seized by the Guardia di Finanza at the 2013 EICMA trade show, based on the petition filed by Piaggio, in addition to compensation for damages. In a ruling of 6 April 2017, the Court of Turin upheld in full the validity of the 3D Vespa mark of Piaggio, and the counterfeiting of said by the "VES" scooter by Znen. The Court of Turin also recognised the protection of Vespa in accordance with copyright, confirming the creative nature and artistic value of its form, declaring that the scooter "VES" by Znen infringes Piaggio copyright. The other party appealed against the sentence at the Appeal Court of Turin, where the first hearing took place on 24 January 2018. The case has been adjourned to 13 June 2018 for closing arguments.

In a writ of 27 October 2014 Piaggio summoned the companies Peugeot Motocycles Italia S.p.A., Motorkit S.a.s. e C., Gi.Pi. Motor and GMR Motor S.r.l. before the Court of Milan to obtain the recall of Peugeot "Metropolis" motorcycles from the market, to establish the infringement of some European patents and designs owned by Piaggio, as well as a ruling for the compensation of damages for unfair competition, and the publication of the ruling in some newspapers.
At the first hearing the Judge ordered the appointment of an expert witness. On 23 December 2016, the expert submitted his provisional report to the parties and the final report was filed on 2 May 2017. During the hearing of 28 February 2018, the Judge ordered an addition to the technical appraisal, arranging for a new hearing for 20 March 2018.
Piaggio brought a similar action against Peugeot Motocycles SAS before the *Tribunal de Grande Instance* in Paris. As a result of this action by Piaggio, several documents were acquired and several tests were carried out to demonstrate the infringement of the MP3 motorcycle by the Peugeot "Metropolis" motorcycle. The hearing took place on 8 October 2015 for the appointment of the expert witness, who will examine the findings of the *Saisie Contrefaçon*. On 3 February 2016 the hearing took place to discuss the preliminary briefs exchanged between the parties, while the hearing for the assessment of the results of the investigation phase was adjourned to 6 September 2017. At the end of 2018, the court expert's appraisal report was submitted, in order that the documents on the basis of which the ruling is to be based could be decided on.
Peugeot Motocycles SAS served a writ against Piaggio before the Court of Milan, claiming that the patent on which the claim of infringement was based was annullable as a result of a pre-existing Japanese patent application. The Company entered an appearance, claiming that the action filed by Peugeot was procedurally inadmissible and that the patent application mentioned by Peugeot was irrelevant. At the hearing of 20 February 2018, the Judge established the deadlines for submission of preliminary briefs, and proceedings were adjourned to the hearing to discuss the preliminary briefs set for 22 May 2018.

In November 2017, Piaggio & C. S.p.A. lodged two appeals before the Peking Court in order that said court establish the infringement of several ornamental trademarks and models pertaining to the "Scarabeo" vehicle, on the part of Chinese companies belonging to Jincheng Group Co. Ltd. The petitions were served to the other parties and the preliminary investigation is taking place.

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

As regards tax claim rulings involving the Parent Company Piaggio & C. S.p.A., two appeals are on-going against two tax assessments notified to the Company and relative to the 2002 and 2003 tax years respectively. These assessments originate from an access conducted by the Italian Revenue Agency in 2007 at Piaggio's offices, following information filed in the Report of Verification issued in 2002 following a general verification.
Piaggio has obtained a favourable ruling concerning these verification notice, in both the first and second instance, and with reference to both tax periods. The Revenue Agency filed an appeal with the Court of Cassation and the Company filed its own counter-appeals. The dates for the hearings still have to be set.

Furthermore, the Company has successfully lodged appeals before the Income Tax Appellate Tribunal against the assessments orders received following the audits on the income generated by Piaggio & C. S.p.A. in India during the Indian tax periods of 2009-2010 and 2010-2011, concerning figures of approximately 1.3 million euros and 1.1 million euros, respectively. The Company is awaiting a possible challenge, or the forgoing of litigation, on the part of the local tax authorities. In regard to the appeal lodged with the Income Tax Appellate Tribunal against the assessment order received following the tax audit for the Indian tax period 2011-2012, the subject of which being the same as that of the dispute, and concerning the figure of approximately 1 million euros, including interest, the Company is waiting for the date of the hearing to be established. In regard to the appeal lodged with the Income Tax Appellate Tribunal against the assessment order received following the tax audit for the Indian tax period 2012-2013, the subject of which being the same as that of the dispute, and concerning the figure of approximately 0.9 million euros, including interest, the Company is waiting once again for the date of the hearing to be established.
In accordance with local regulations, Piaggio has already paid the Indian Tax Authorities part of the amounts subject of dispute for a total of 0.7 million euros; these amounts will be repaid to the company if the disputes are concluded in its favour.

The Company has not considered allocating provisions for these disputes, in view of the positive opinions expressed by consultants appointed as counsel, who believe that the outcome of the disputes will be positive.

The main tax disputes of other group companies concern Piaggio Vehicles PVT Ltd, Piaggio France S.A. and Piaggio Hellas S.A..

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

As regards the French company, a favourable ruling was issued in December 2012 by the *Commission Nationale des Impots directes et des taxes sur le chiffre d'affaires*, the decision-making body ruling prior to legal proceedings in disputes with the French tax authorities concerning a general audit of the 2006 and 2007 periods. However, the French Tax authorities decided to uphold the complaints made against the Company, requesting repayment of the amounts identified and issuing the related demands (one for withholding tax, and the other relating to corporate income tax and VAT). The amount concerned, equal to approximately 3.7 million euros inclusive of interest, was paid in full to the French tax authorities.
The Company appealed against the notices and appeals were filed against the findings on

withholding tax and corporate income tax, before the *Tribunal Administratif*. In both cases, a ruling was issued against the company. An appeal was lodged against those decisions with the *Cour Administrative d'Appel de Versailles*; the hearing was set for 23 January 2018.
The Company has not considered allocating provisions necessary, in view of the positive opinions expressed by consultants appointed as counsel, as well as the opinion of the aforementioned Commission.

On 8 April 2015, the Greek company Piaggio Hellas S.A. received a Tax Report following a general audit for the 2008 tax period, with findings for approximately 0.5 million euros inclusive of penalties. The Company appealed against said Tax Report with the Tax Center – Dispute Resolution Department. Following the successful outcome of said appeal, the company lodged an appeal with the Administrative Court of Appeal which, with its decision of 27 April 2017, ruled in favour of the local tax authorities. The Company therefore appealed before the Supreme Court, and the amount in question was paid in full to the Greek tax authorities. However, based on positive opinions from professionals appointed as counsel, the Company considers a positive outcome as likely and the subsequent reimbursement of amounts paid.

Finally, it should be noted that on 22 December 2017, Piaggio & C. S.p.A. Was served a Verification Notice by the Revenue Agency - Tuscany Regional Department - Major Taxpayers Office, regarding the tax year 2012, and concerning IRES (Corporate Income Tax) and IRAP (Regional Production Tax) in relation to transfer pricing. The Company and its advisors are assessing the course of action to be take in this regard, in the conviction that the Company has always acted in full accordance with the law and in strict compliance with the OECD guidelines, without trying to exploit matters from the fiscal viewpoint.

As regards the **marine sector** (Intermarine), the following disputes of a legal and fiscal character should be noted.

With regard to the ships of the Finland contract, in 2017 the legal dispute continued with the original contractor for the air conditioning system, and the work on the expert witness report requested by the Judge was completed, and the expert witness' final report has been submitted.
At the hearing held on 24 January 2018, Intermarine submitted its request for a new expert witness appraisal, with the appointment of a new expert witness specialised in shipbuilding, or alternatively, an additional appraisal and/or clarification of the expert witness' report.
The Judge set the deadline of 30 March 2018 for the submission of briefs in support of the aforementioned applications, assigned the counterparty the deadline of 30 May 2018 for the submission of reply briefs, and fixed the hearing for 4 July 2018 for the discussion of and ruling on the applications.
Given the complexity and the specific technical nature of the dispute, the Company's lawyers are not in a position to foresee the likely outcome of the proceedings.

The Court of Rome had ordered Rodriquez Cantieri Navali S.p.A. (now Intermarine S.p.A.) to pay a total of 693 thousand euros to Yachitaly, together with legal fees and the expert witness' fees. In February 2012, Rodriquez Cantieri Navali lodged an appeal against the ruling and requested suspension of the provisional enforcement order. Despite the appeal, in January 2013 the Company paid the full sum of 761 thousand euros, with "the right of repetition". A ruling in Intermarine's favour was issued on 4 January 2018, whereby the Judge quantified the sum chargeable to Intermarine as amounting to only 120 thousand euros, as it granted said company the right to the reimbursement of around 600 thousand euros. The Company's lawyers are taking appropriate action to recover the aforementioned sum.

With reference to the legal dispute with the Municipality of Messina, for which on 28 January 2013 a favourable ruling was issued rejecting all claims of the Municipality and recognising the

ownership of the areas owned by the State and the right of the Port Authority to operate them, Intermarine was served notice of the appeal lodged by the Autonomous Port Authority of Messina, which requested the suspension of the effects of the sentence. The appeals proceedings were interrupted in 2016 and resumed by the Municipality in January 2017. The hearing for verification of notices has been set for 12 July 2018.
According to the lawyers advising the company, given that in his ruling the Judge had offered full reasons for his decision, it seems unlikely that the first instance ruling will be overturned by the Appeal Court.

With reference to the summons by the Court of Naples of the company Scoppa Charter S.r.l. - purchaser, through UniCredit Leasing, of the vessel Conam 75 WB Alvadis II delivered on 2010 for a sum of 2 million euros - through which the Shipping Company had appealed against the alleged nonconformity of the asset to sales specifications and the owner manual and the unsafe nature of the unit. In this dispute, the Court of Naples issued the first instance ruling, at the end of September 2016, with a primarily favourable outcome for Intermarine with respect to the opposing party's request, but ordering the company to pay 0.6 million euros in damages.
In 2017, Scoppa Charter filed an appeal against said ruling, while Intermarine filed an appeal for an anti-enforcement injunction. The Naples Appeal Court ordered suspension of the enforcement of the first instance ruling, and set a hearing for submission of final pleadings for 10 September 2020. According to the Company's lawyers, the outcome of the appeal cannot be foreseen.

With regard to the legal dispute relating to the Pietra Ligure contract, concerning the injunction presented by Como S.r.l. for the enforcement of the surety of 2.7 million euros, the Judge rejected provisional enforcement. Following the filing of the briefs by the parties, the Judge took the documentary case under examination and set the hearing for the presentation of the conclusions at 4 July 2018.
With regard to the writ of summons served by the company on Como S.r.l. for the request for damage compensation, the Judge set the hearing the submission of final pleadings for 2 October 2018.

Intermarine has been summoned for the payment of damages totalling over 1.5 million euros, for alleged moral and biological damage as a result of the illnesses of its former employees. In 2017, hearings were held for the examination of witnesses, and the next hearings have been set for March and May 2018. According to the Company's lawyers, the outcome of such proceedings cannot be foreseen.

Other disputes are in progress with suppliers and customers as well as labour disputes, for which on the basis of the opinions of the attorneys that assist the Company, no significant liabilities or costs should emerge that exceed the risk funds already allocated in the financial statements.

As regards tax litigation, in May 2013, the Italian Finance Police of La Spezia began a tax inspection concerning direct taxes and VAT for the 2011 and 2012 tax years (subsequently extended to 2010) of the company "Rodriquez Cantieri Navali S.p.A.", resulting in the issue of the Formal Notice of Assessment on 25 July 2013. As regards direct taxes, the inspectors mainly identified (alleged) violations of the principle of accrual. As regards the tax years 2010 and 2011, the Tax Assessments issued by the Messina Revenue Agency and the La Spezia Revenue Agency, respectively, were settled through the verification with acceptance procedure which ended without the payment of any amount as tax, fines and/or interest. As regards the tax year 2012, during the course of 2017 the Genoa Revenue Agency asked for a number of explanations supported by appropriate documentation. The preliminary investigation ended by 31 December 2017 without any Assessment Notice being issued.

In July 2013, the Customs Agency of Messina served a Payment Notice on Intermarine for approximately 51 thousand euros and Penalties of 9 thousand euros as regards assessments made from October 2012 to February 2013. In particular, the Customs Agency of Messina had claimed the failure to pay excise duties relative to fuelling operations involving diesel fuel used in 2009 and 2010 for tests at sea of some vessels being built. In reality, this infringement, which is administrative, basically depends on a failure to perform correctly of the supplier and the tax deposit of contractual agreements reached concerning the status and payment of excise. In fact, the supplier acknowledged its mistake, and reimbursed the Company all resulting charges. Moreover, the Customs Agency of Messina also claimed an alleged use in the Territory of the State of fuel constituting stock on board two vessels to be exported. This finding has no legal grounds. In fact, the appointed Provincial Tax Commission upheld the appeal lodged by the Company, and ordered the reimbursement of around 15 thousand euros plus interest and accessory costs. At the same time that tax inspection activities were completed, the Customs Agency notified competent Legal Authorities of the criminal offence concerning the case. In September 2014, the Public Prosecutor of the Court of Messina sent notice of the completion of preliminary investigations and of defence rights in relation to claims made. The legal representative and a solicitor submitted defence briefs and a request for the case to be dismissed. However, during 2015, the Court of Messina served the writ of summons for proceedings on the legal representative and the solicitor. It is noted that in the meantime the recent legislative decrees 7 and 8 of 2016 have introduced the decriminalisation of various criminal offences, including the offence pursuant to article 292 of Presidential Decree no. 43/1973, concerning one of the two charges brought. On 27 June 2017, the Court of Milan acquitted the defendants of the one remaining charge brought against them, pursuant to Article 530 of the Italian Code of Criminal Procedure "*because no crime has been committed*". This ruling has become irrevocable.

In regard to the appeals lodged by the Company against the refusal notices, served on 25 May 2010 by the Revenue Agency - Genoa Office, the claims for partial reimbursement of the registration tax and the property assessment taxes in relation to the sale of 18 December 2007 of the property complex situated in the Municipality of Pietra Ligure, it should be noted that the Genoa Province Tax Commission issued a ruling on 28 May 2013. In particular, the Judges upheld the appeal lodged by the Company regarding registration tax, and consequently ordered the Revenue Agency to reimburse the amount of 264 thousand euros. An appeal was lodged against this ruling by the Genoa Office of the Revenue Agency, and the Company filed an appearance with responses and counterarguments. The Regional Tax Commission issued a ruling confirming the Company's entitlement to the repayment of the registration tax. On 19 April 2016, the Genoa Office of the Revenue Agency submitted an appeal to the Supreme Court of Cassation, against which the Company submitted a counter appeal. A date for the hearing still has to be set.

In May 2008, the Customs Agency of La Spezia served a Formal Notice of Assessment to Intermarine, relative to the inspection which had started in 2008 and which concerned excise duties on mineral oils. Based on the above Formal Notice of Assessment, in June 2008 the Tax Authorities served the Company a Notice of Payment for the above mentioned excise duties amounting to 38 thousand euros. The Company submitted an appeal to the La Spezia Provincial Tax Commission against the aforesaid Notice of Payment, and in January 2012 the Commission rejected the initial appeal. The Company filed an appeal with the Genoa Regional Tax commission against the aforesaid ruling, and in February 2016 a ruling upholding such appeal was filed. On 6 July 2016, the Customs Office submitted an appeal to the Supreme Court of Cassation, against which the Company submitted a counter appeal. A date for the hearing still has to be set.

As regards the tax proceedings brought by the subsidiary Rodriquez Cantieri Navali S.p.A. for the 2003 tax year, on 16 January 2017 the merits were discussed of the appeal lodged by the Company against the sentence partially upholding the initial appeal. In February 2017, the Messina Regional Tax Commission filed the ruling rejecting the appeal and ordering the company to pay 2 thousand euros in legal costs of the proceedings. On 7 September 2017, the Company filed an application for concessionary settlement of the dispute pursuant to, and for the purposes of, Section 11 of Italian Decree Law no 50/2017. Therefore, following the controls conducted by the Tax Authorities, the present dispute shall be terminated with total savings, in terms of tax, penalties and interest, of approximately 40 thousand euros, a cost that has already been allocated in the financial statements in previous years.

On 13 May 2015, Intermarine was served a Notice of Payment issued by the Revenue Agency - Provincial Department of Savona - Territorial Unit of Albenga, concerning the additional registration tax claimed in relation to the registration of the long-term Maritime Concession Agreement stipulated on 30 December 2014 registered with the Revenue Agency of Albenga on 14 January 2015 for a total amount of 463 thousand euros.
In essence, the recovery of the higher registration tax due on the Deed of Concession resulted from the failure by the Office to apply the provisions of Section 3, paragraph 16, of Italian Decree Law 95 of 6 July 2012, based on which, in accordance with the provisions for long-term leases on urban properties, also for the concessions of properties belonging to the State, it was possible to pay the registration tax annually on the amount of the lease fee for each year, instead of as a single payment on the total amount of the State lease fees agreed for the entire duration of the concession.
The Company submitted an appeal against the aforesaid Notice with the Provincial Tax Commission, which in April 2016 issued a ruling upholding the complaints by the company and cancelling the challenged notice, and ordering the Tax Authorities to bear the legal costs of the proceedings in the amount of 5 thousand euros. In December 2016, the Company was served a Notice of Appeal by the Albenga Office of the Revenue Agency against that ruling, following which the Company entered an appearance. A date for the hearing still has to be set.

Regarding the tax dispute of the subsidiary Rodriquez do Brasil, for a total value of approximately 2.8 million euros (taxes, penalties, interest and charges), in June 2017 the Brazilian tax authorities published a tax regularisation programme. Consequently, on 23 August 2017, the Company completed the formalities for the final closing of said proceedings at a reduced cost of 50% of the total value, in virtue of the concessions granted in regard to penalties, interest and legal costs, by opting for the less onerous payment consisting in 5 instalments at 7.5%, payable from August to December 2017, plus a final balance payable in January 2018. The total amount to be paid was calculated at 5.2 million Brazilian reais (around 1.4 million euros at the exchange rate at that time), and Intermarine undertook to guarantee the subsidiary that it would cover the amount to be paid to the tax authorities. In October 2017, the Brazilian authorities issued a second tax regularisation order, which was even more convenient than the previous one, which the subsidiary was able to take advantage of in virtue of the previous acceptance procedure in August. In January 2018 the Company paid the final instalment of the tax amnesty, thus regularising the outstanding tax matters. The procedures have now been commenced for the voluntary winding up of the Brazilian company.

Significant events occurring after the reporting period and outlook of operations for 2018

As far as regards the foreseeable performance of the Immsi Group, with reference to the subsidiary **Is Molas S.p.A.**, completion of the first lot of 15 holidays villas and the first section of primary works is scheduled for 2018, together with the testing of market feedback by signing the first preliminary sales agreements, which will boost development of the Is Molas project.

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

- confirm its leadership position on the European two-wheeler market, optimally levering expected recovery by:
  - an additional strengthening of the product range;
  - current positions on the European commercial vehicles market will be maintained;
- consolidating operations in Asia Pacific, thanks also to the opening of new Motoplex stores, exploring new opportunities in countries in the area, always paying particular attention to the premium segment of the market;
- boosting sales of the scooters on the Indian market, thanks to the Vespa range and success of the new Aprilia SR 150;
- increasing penetration of the commercial vehicles market in India, thanks also to newly registered vehicles, and sales of such vehicles in emerging countries, and by targeting the further development of exports to African and Latin American markets.

In terms of technology, the Piaggio group will continue to seek new solutions for the problems of current and future mobility, through the work of Piaggio Fast Forward (Boston) and the new frontiers of the design by the PADc (Piaggio Advanced Design Center) in Pasadena.
More in general, the Group is committed - as in recent years and for operations in 2018 - to increasing productivity, with a strong focus on cost-efficiency and investments, while complying with its own business ethics.

With regard to the **Marine Sector** (Intermarine S.p.A.), in 2018 advancements in production will be further developed in relation to the orders received, with the aim of consolidating the recent strengthening of the Company’s asset base.
In addition, the company is involved in various negotiations, particularly in the Defence sector, aimed at requiring more contracts that will allow to increase the purchase order book and consequently provide the conditions to enable the company to optimise its production capacity over the coming years.

CONSOLIDATED NON-FINANCIAL STATEMENT

pursuant to Italian Legislative Decree 254/16

Immsi
Società per Azioni

CONTENTS

The Immsi Group's Consolidated non-financial statement (drawn up pursuant to Italian Legislative Decree no. 254 of 30 December 2016)

Reporting period	Financial year 2017 (from 1 January to 31 December 2017).
Reporting cycle	Annual.
Date of publication	This document was published on 9 April 2018.
Document formats	The Non-Financial Statement (NFS) is included in the "Directors' Report on Operations" published together with the Immsi Group's Consolidated Financial Statements at 31 December 2017, available in PDF format, in Italian, on the website www.immsi.it (in the "Investors/Financial reports/2018" section)
Scope of the document	The information and data refer to the companies in the Immsi Group falling within the scope of consolidation at 31 December 2017.
Contents of the NFS	The contents of the 2017 NFS are based on the requirements of the *Global Reporting Initiative Standards* (hereinafter "GRI Standards"), "core" option.
Statement	The NFS 2017 has been subjected to limited auditing by PricewaterhouseCoopers Advisory SpA, the independent auditors who have carried out their audit in accordance with the principles set out in the "*International Standard on Assurance Engagements 3000 – Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000")*, issued by the *International Auditing and Assurance Standards Board* for verification of the compliance of the NFS with the requirements of the GRI *Standards* established in 2016 by the GRI - *Global Reporting Initiative*.
Contacts	INVESTOR RELATIONS Andrea Paroli – Investor Relator of Immsi S.p.A. Tel.: +39 0376 2541 Email: andrea.paroli@immsi.it

Letter from the Chairman

With the introduction of Italian Legislative Decree no. 254 of 30 December 2016, Immsi S.p.A. Is bound to publish a non-financial document designed to illustrate the Group's operations, performance, results, together with its impact in environmental, social and personal terms, and in terms of respect for human rights and of the fight against corruption. This Legislative Decree represents a novelty for the Company, requiring it to draw up, during the course of 2017, a document meeting the legal requirements in question.

Thus the Consolidated non-financial statement has been drawn up according to a clear, simple vision of the three businesses constituting the Immsi Group, and focusing on information and data that are not present in the traditional financial statements.

Within the Immsi Group, the subsidiary Piaggio & C. S.p.A. Has considerable experience of non-financial reporting, as each since 2009 it has published its annual Corporate Social Responsibility Report. The CSR Report illustrates the Piaggio group's sustainability strategies together with the results achieved over the course of the years. More specifically, it focuses on the Piaggio group's commitment to designing and producing environmentally sustainable ("green") vehicles, while launching a series of social projects, ranging from the management of human resources to the cultural development of local communities.

The new non-financial statement provides the Group's stakeholders with an updated picture of the CSR logics implemented in the various companies, in that the concept of "sustainability" is no longer limited to Piaggio, but is now expressed with regard to the Group's other areas of business: naval sector (through the subsidiary Intermarine S.p.A.) and the real estate sector (through the company Is Molas S.p.A.).

The Chairman

Roberto Colaninno

Methodological note

Immsi Group has been committed since 2017 to preparing consolidated non-financial statements (hereinafter "NFS" or "Statements"), as required by the European Directive 2014/95/EU, adopted in Italian law with Legislative Decree no. 254/16. The NFS constitutes an instrument to communicate with stakeholders for disclosures not contained in the Consolidated Financial Statements.

Foundations

The NFS is prepared in compliance with the GRI Standards (“core” options), published in 2016 by GRI – Global Reporting Initiative. The contents are based on principles of materiality, stakeholder inclusiveness, sustainability context and completeness. The quality of information and adequacy of its presentation is guaranteed by principles of balance, clarity, accuracy, timeliness, comparability and reliability.
The reporting activity cut across the functions and companies of the Immsi Group, coordinated by the Immsi S.p.A. Administration, Finance and Control Director and the related function.
In reference to the principle of materiality in particular, the depth to which the different topics were looked into in the reporting was determined based on their weight in the objectives and strategies of Group companies and the relevance to the stakeholders, selected by a structured materiality analysis process.

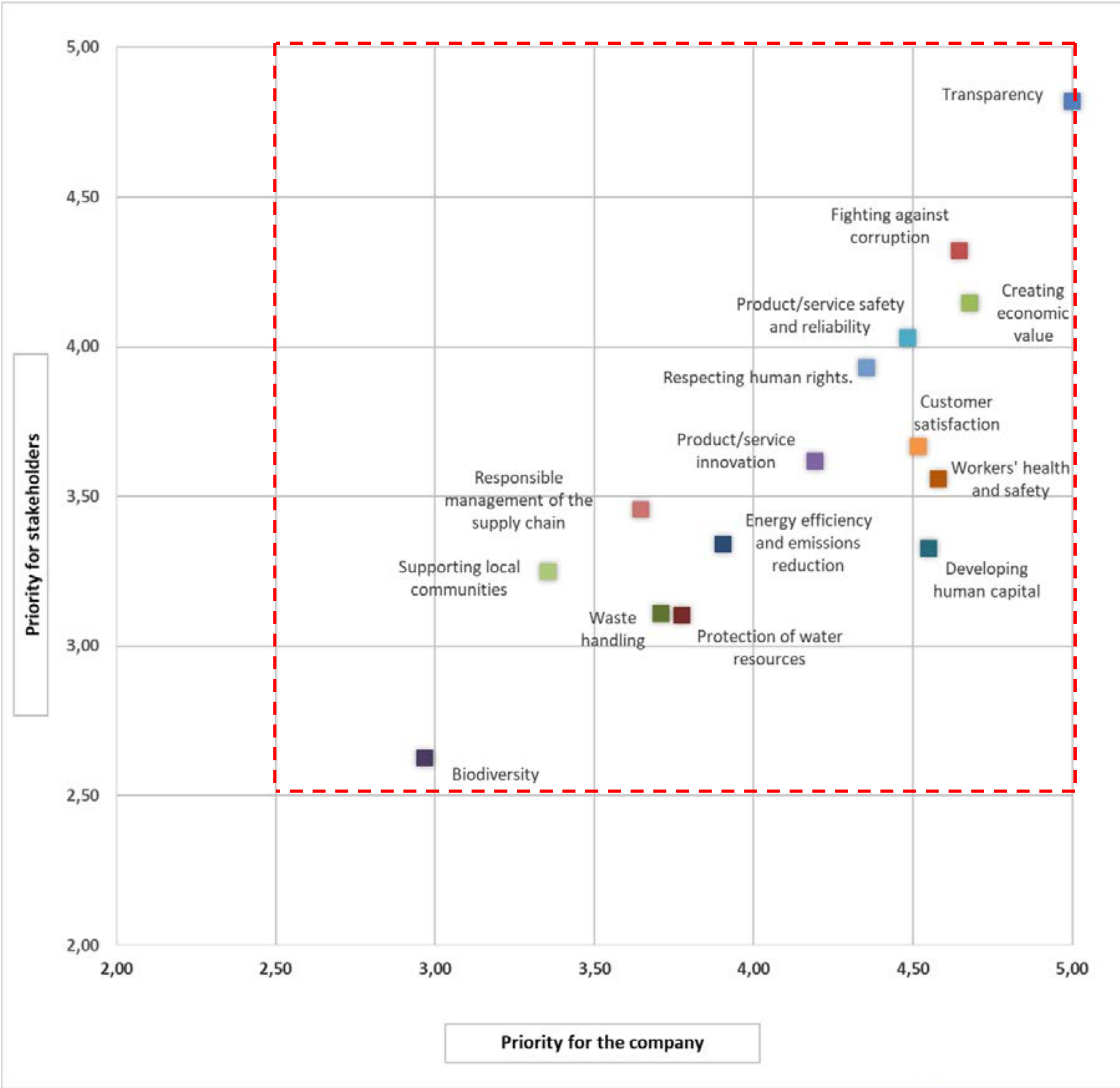
Materiality analysis

The analysis of materiality was conducted based on the GRI Standards with respect to the definition of the relevant topics and application of the principle of materiality. The analysis involved the parent company Immsi S.p.A. and the operating subsidiaries considered significant in terms of relations with stakeholders.
The analysis was based on a structured mapping and prioritising process of stakeholders relevant for the Group, which involved the company structures dedicated to the various stakeholders. The relevance of the different stakeholders was evaluated and pondered in relation to the following parameters: dependency (taken as the importance of the relationship to the stakeholder), influence (importance of the relationship to the Company) and urgency (temporal dimension of the relationship).
The parent company, considering the significance of the Piaggio & C. S.p.A. Group within the Immsi Group, decided to adopt the same material issues, since they are also adaptable to the other Group companies covered by the analysis of materiality.
Two dimensions were looked into on these topics:

- on the stakeholder side, the relative importance of each topic as perceived by the company function in relation to the stakeholders;
- on the company's side, the topics on which the Group has determined to focus its efforts and the "level" of commitment.

The analysis of the two dimensions made it possible to prioritise the topics and position them on a materiality matrix. It provides an overview of the aspects that may potentially affect the Group's actions and performance, its stakeholders' decision, as well as the level of "alignment" or "misalignment" between intervention priorities attributed by the stakeholders to various issues and the level of commitment that the Group undertakes on them.

The materiality matrix is shown below:



For the purposes of the NFS, the material issues "creation of economic value" and "customer satisfaction" were not analysed since they are not considered pertinent for the minimum requirements set out by Legislative Decree no. 254/16.

Contents of the Statements

The structure of the NFS for the year 2017 was defined through the performed materiality analysis. The most salient aspects revealed by the analysis were further examined by treating the individual sub-issues and appropriate KPIs, the latter taken from the GRI Standards. See the Immsi Group Management Report and Financial Statements for the year closed 31 December 2017 for additional discussion of the economic, financial and corporate governance aspects.
The table below summarises the material issues associated with the specific chapter.

<table>
<tr><th>DIMENSION</th><th>TOPIC</th><th>IMPACT ON</th><th>CHAPTER OF REFERENCE</th></tr>
<tr><td>CORPORATE GOVERNANCE</td><td>➢ Fighting against corruption
➢ Transparency
➢ Respecting human rights.</td><td>Internal:
- All Immsi Group companies

External:
- Human Resources;
- Suppliers</td><td>Corporate Governance</td></tr>
<tr><td>PRODUCTS AND SERVICES</td><td>➢ Product/service innovation
➢ Product/service safety and reliability</td><td>Internal:
- Piaggio & C. S.p.A.;
- Piaggio Vietnam Co. Ltd;
- Piaggio Vehicles Private Ltd;
- Piaggio Advance Design Center;
- Piaggio Fast Forward Inc.;
- Foshan Piaggio Vehicles Technologies Co. Ltd;
- Intermarine S.p.A.;
- Is Molas S.p.A.

External:
- Customers</td><td>The products and services dimension</td></tr>
<tr><td>ENVIRONMENTAL</td><td>➢ Energy efficiency and emissions reduction
➢ Protection of water resources
➢ Waste handling
➢ Biodiversity</td><td>Internal:
- Piaggio & C. Group;
- Intermarine S.p.A.;
- Is Molas S.p.A.;
- Pietra Ligure S.r.l.

External:
- Local Communities
- P.A.</td><td>The environmental dimension</td></tr>
<tr><td rowspan="2">SOCIAL</td><td>➢ Developing human capital
➢ Workers' health and safety</td><td>Internal:
- Piaggio & C. S.p.A.;
- Piaggio Vietnam Co. Ltd;
- Piaggio Vehicles Private Ltd;
- Intermarine S.p.A.;
- Is Molas S.p.A.

External:
- Employees;
- Trade unions;
- Local Communities</td><td>The social dimension - Developing human resources</td></tr>
<tr><td>➢ Supporting local communities</td><td>Internal:
All Immsi Group companies

External:
- Local Communities</td><td>The social dimension - Supporting local communities</td></tr>
<tr><td>SUPPLY CHAIN</td><td>➢ Responsible management of the supply chain</td><td>Internal:
- Piaggio & C. S.p.A.
- Piaggio Vietnam Co. Ltd
- Piaggio Vehicles Private Ltd
- Piaggio Advance Design Center;
- Piaggio Fast Forward; Inc.
- Foshan Piaggio Vehicles Technologies Co. Ltd.;
- Intermarine S.p.A.;
- Is Molas.S.p.A.;
- Immsi S.p.A.

External:

- Suppliers;
- Local Communities</td><td>Supply chain</td></tr>
</table>

The NFS is divided into five macro sections, each revolving around a specific dimension.

The scope of the NFS

The disclosures and figures contained in the NFS refer to Immsi Group Italian and foreign companies, reported at 31 December 2017. Given the nature of some of the figures presented in the Statements, the companies considered in the reporting scope are specified in the various dimensions.
Where possible, a decision was made to provide a comparison with the years 2015 and 2016, to permit an assessment of the dynamic performance over time.
Financial figures are taken from the Consolidated Group Financial Statements of the Immsi Group, which have already been audited. Some figures, where not possible to obtain them from reporting instruments, are the result of estimates and appropriately indicated.

Process of drawing up and *assurance*

The reporting process for Key Performance Indicators (KPI) relevant for sustainability involved the Immsi holding company (for issues cutting across all areas) and the Group Companies (for issues and specific indicators of different activity sectors). Moreover, data collection managers were identified within each company within the reporting perimeter. Calculation of the KPIs was performed by Immsi S.p.A., which is responsible for coordinating the information collection process, processing the quantity indicators and preparing the NFS.
The document is first approved by the Board of Directors and later presented at the General Shareholders' Meeting at the same time as the Group's Consolidated Financial Statements.
The consolidated non-financial statements for the year 2017 were audited by PricewterhouseCoopers Advisory SpA. This activity concluded with the issue a “Independent report on the limited audit of the consolidated non-financial statements” based on indications provided by ASSIREVI, the Italian Association of Auditors (Research document no. 153). The report that describes the principles adopted the activities carried out and the relative conclusions is in the Appendix.

Group profile

Immsi Group

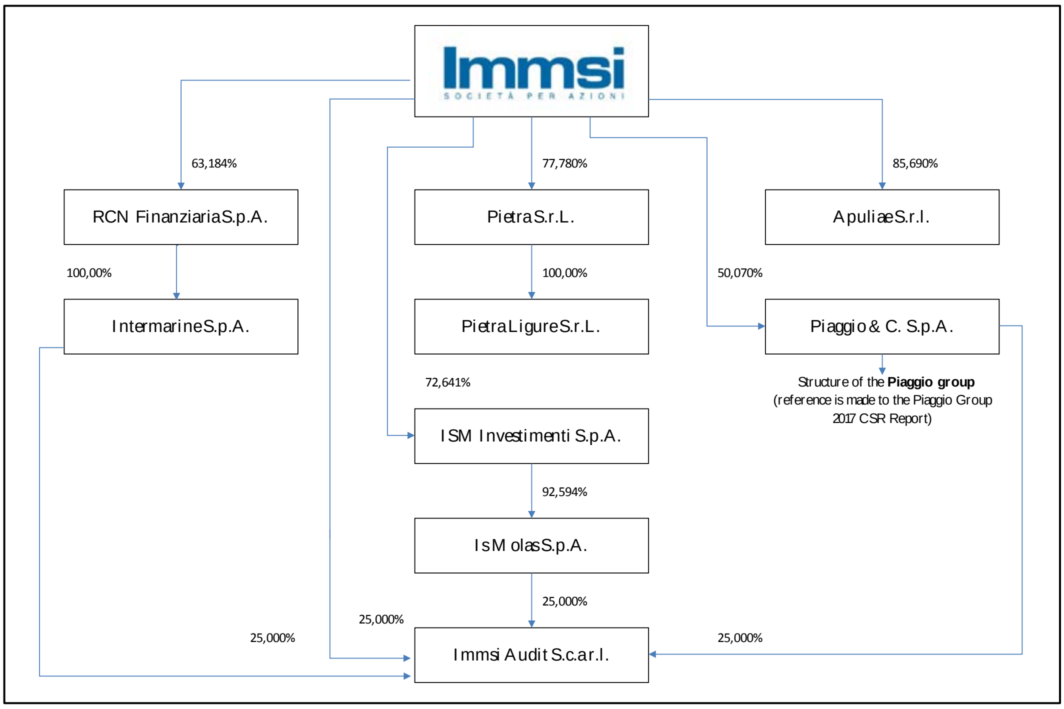
Immsi S.p.A. is the holding company of a Group of around 40 companies operating in diversified activity sectors. Its registered office is located in Mantua.

The Company's investment portfolio includes businesses related to:

- the real estate sector (hospitality and hotel businesses), through the subsidiaries Is Molas S.p.A. and Pietra Ligure S.r.l.;
- the industrial sector (production and distribution of motorcycles, scooters, motorbikes and light commercial vehicles), through the companies belonging to the Piaggio group;
- the naval sector (production and distribution of Navy vessels, pleasure boats, hydrofoils and ferries) through the subsidiary Intermarine S.p.A.

The Immsi S.p.A. Group includes Immsi Audit S.c. a r.l., a consortium that handles internal auditing for the Group companies.

The Group's structure at 31 December 2017 was as follows:



The Immsi Group is significantly diversified both in terms of geography and core business. The Group's business sectors are briefly discussed below.
The sub-holdings RCN Finanziaria S.p.A., ISM Investimenti S.p.A., and Pietra S.r.l. and the non-operating companies of the Group (Apuliae S.r.l.) are not taken into consideration in the NFS. The project related to Pietra Ligure S.r.l. will only be discussed in relation to specific material aspects.

The real estate sector: Is Molas and Pietra Ligure

Immsi S.p.A. works in the real estate sector directly, with the management of a company-owned building located in Rome, and indirectly through subsidiaries and relative investment projects. The most significant of the investment properties is the Is Molas resort complex, located in southern Sardinia. This complex was purchased in 2004 and includes:

- a 4-star hotel with 80 rooms, restaurant and pool;
- a 27-hole golf course, with club house, and other service facilities.

After the purchase of the resort complex, a major development project was prepared which involves the expansion of hotel services and construction of buildings.

The Pietra Ligure project refers to the construction site area located in Pietra Ligure (Savona) which, based on the submitted project, will be transformed into a real estate complex. The concerned area (approximately 162,000 sqm) was purchased by the Immsi Group through a public auction in 2007.
The aim is to transform the area and part of the existing structures to reorganise the construction site activities, integrate the property into the surrounding urban fabric, build a new marina and develop emerging tourism and hospitality.

Industrial sector: Piaggio group

The Group's registered office is in Pontedera (Pisa). It operates on an international level with plants located in Italy and abroad. There are four production sites located in Italy, specifically:

- Pontedera, where two-wheeler Piaggio, Vespa and Gilera brand vehicles, light transport vehicles for the European market and engines for scooters and motorbikes are manufactured;
- Noale (Venice) with a technical centre for the development of motorcycles for the entire Group and the headquarters of Aprilia Racing;
- Scorzè (Venice), a factory for the production of two-wheeler vehicles for the brands Aprilia, Scarabeo and Derbi, and for Piaggio Wi-bikes;
- Mandello del Lario (Lecco), which produces Moto Guzzi vehicles and engines;

The Piaggio group also possesses two other production sites: in Baramati (in the Indian state of Maharashtra), which manufactures three- and four-wheeler light transport vehicles for the Indian market and exports, the Vespa for the Indian market and engines for the Group's commercial vehicles; in Vinh Phuc (Vietnam), which manufactures scooters and engines for the local market and Asean area.
The Piaggio group also has a joint venture in China (in Foshan, in Guangdong province), where Piaggio holds a 45% interest. In the USA, Pasadena, California, is home to the Piaggio Group Advanced Design Center for R&D. In addition, Piaggio Fast Forward Inc. was set up in Cambridge, Massachusetts in June 2015, a subsidiary of Piaggio & C. S.p.A., for research into innovative solutions in the mobility and transport sector.

The Group's products are distributed in more than 100 countries, thanks to Piaggio & C.'s internationalised structure.

The product range includes scooters, motorcycles and motorbikes with horse powers from 50 to 1,400cc, 3 and 4-wheeler vehicles and a new electric bicycle (Wi-Bike). The Piaggio group brands are listed below:

For more information on the Piaggio group, see the Piaggio 2017 NFS and the Corporate Social Responsibility Report (hereinafter, "CSR Report") for the year 2017.

The Marine sector: Intermarine

Intermarine S.p.A. is a shipyard specialised in designing and building ships in steel, aluminium and composites for both civil and defence applications.
In the composite material (or FRP, Fiber Reinforced Plastic) Navy ship sector, Intermarine is the largest and most important Italian shipyard, and one of the biggest in the world.
Specialised in the ship sector for mine countermeasures vessels, where it holds an indisputable worldwide leadership, Intermarine currently manufactures various types of vessels for the defence sector.
The excellence of the technical and design choices developed by Intermarine and continually fine tuned and improved over time is demonstrated by the fact that navies from 8 countries, including major ones (Italy, Australia and the United States among others) have selected Intermarine products for their fleets of mine countermeasures vessels.
Intermarine has three production sites located in Sarzana, La Spezia and Messina.

Stakeholder engagement

The stakeholders (both internal and external) with which the Group companies interact have been identified. These companies must take into account the single stakeholders in terms of their various interests and expectations (social, economic, professional and human) in relation to the Group.
It was also considered necessary to indicate how stakeholders were involved in the relation with Group companies and how an attempt was made to meet their expectations.
Listed below are the stakeholders for which the company has created a materiality matrix, specifying the involvement procedures, expectations and actions undertaken for each business sector.

Property and holding sector

- ***Customers***: customers of the tourist-hotel facility, of the sports facilities and potential buyers of the villas (Is Molas); tenants of the building (Immsi)
- ***Dealer***: travel agencies and *tour operators* operating in the tourism and hotel sector; *real estate* agencies and *broker* for the real estate sector (Is Molas)
- ***Suppliers***: consultants, specialists, lawyers, construction and HO.RE.CA companies (Is Molas); service and maintenance companies (Immsi)
- ***Institutions and Public Administration:*** Local Health Authority, Municipality of Pula, Sardinia Region, schools and training providers, SIAE (Is Molas); Consob and Borsa Italiana (Immsi)
- ***Media***
- ***Employees***
- ***Shareholders***
- ***Lending and financial system:*** banks and rating agencies (Immsi)
- ***Local Communities:*** inhabitants of the Municipality of Pula and the Sardinia Region, local NPOs (Is Molas); Local NPOS and companies (Immsi)

Industrial sector

- ***Customers***
- ***Dealer***: authorised dealers and Motoplex stores
- ***Suppliers***: raw materials, semi-finished products, consumables, mechanical components
- ***Institutions and Public Administration***
- ***Media***
- ***Shareholders and lenders***
- ***Local communities***: where the Piaggio group has its production plants
- ***Universities and Research Centres***

Marine sector

- ***Trade associations***: Confindustria and AIAD (Federation of Italian Companies for Aerospace, Defense and Security)
- ***Suppliers***: materials, products and technical and design services. Contracts with employment agencies and training companies
- ***Customers***: Ministries of Defence; private groups (Italian and foreign)
- ***Dealer***: agents and brokers
- ***Institutions and Public Administration:***: Environmental and safety inspection bodies; Government (UAMA - Armament Materials Authorisation Unit; Ministry of Defence; Ministry of Labour); Social Security institutions; Ente Parco del Magra
- ***Trade unions***: provincial trade union organisations; Joint Trade Union representatives
- ***Media***
- ***Employees***
- ***Shareholders***
- ***Lending and financial system***
- ***Local communities***: Municipalities of Sarzana, La Spezia and Messina; Liguria and Sicily Regions; Local NPOs

NB: the stakeholders identified for the real estate and property sector refer to the parent company Immsi S.p.A. and subsidiary Is Molas S.p.A..

Customers and dealers			
Sector	**Engagement methods**	**Stakeholder expectations**	**Actions undertaken**
Real estate and holding	➢ Written communications at the time of works and related to facility management ➢ Frequent relations ➢ Customer contacts: direct; via T.O. (tour operators) and agencies; P.R. ➢ Dealer contacts: direct; trade fairs; P.R. ➢ Involvement with marketing actions through the website	• Provide tenants of buildings with adequate service for rented premises • Transparency and fairness in relationships • Compliance with contractual conditions • Service quality	- Upgrade to existing standards and laws - Commitment to ensure safety of the buildings - Meetings/request to participate in updates - Internal organisational procedures in compliance with customer expectations - Compliance with contractual conditions - Guarantee of transparency and the quality desired by the customer
Naval	➢ Periodic meetings and scheduled technical tests ➢ Company presentation (website, trade fairs and events) ➢ Proposal and negotiation of offers; exchange of correspondence; direct meetings ➢ Dealer support for marketing and sales activities	• Reliability, competence, service, quality and value • Confidentiality • Timeliness and precision • Transparency, fairness and creation of business	- Service and compliance with quality - Organisation, R&D and reliability - Timeliness and accuracy, fairness, transparency and completeness
Industrial	➢ Contact centre ➢ Customer satisfaction surveys ➢ Communication outlets (websites, social media) ➢ Events (travelling tests, trade fairs) ➢ Dealer website ➢ Dealer support services/Help desk ➢ Motoplex (new sales format)	• Quality, safety and reliability of the products • Low consumption and emissions • Rapid response and problem solving • Sales support	- Investment in ever safer and more reliable products - Obtaining quality certification - Study of innovative engines with low consumption and emissions - Effort to improve professionalism, timeliness and courtesy of the contact centre personnel and dealers - Development of a dedicated website and a new sales format

Suppliers			
Sector	**Engagement methods**	**Stakeholder expectations**	**Actions undertaken**
Real estate and holding	➢ Involvement at the time of formalising property maintenance contracts	• Regular payment of invoices • Clarity of contractual relationship	- Transparent management of the relationship - Payment to suppliers within the established terms and conditions - Supplier selection and result monitoring
	➢ Daily relations	• Continuous supplies • Compliance with contractual conditions • Collaboration including based on the supplier's historical relations with the Company	- Internal procedures aimed at regulating relations with suppliers (supplier selection, supply guarantees, compliance with payment due dates, etc.)
Naval	➢ Tender contracts; meetings on technical specifications; professional and technical adequacy ➢ Framework agreements; temporary work contracts; agreements for financed training ➢ Meetings, operating involvement ➢ Management of financial administrative relations ➢ Direct contacts through meetings, emails and website	• Compliance with the contract and current laws and regulations • Compliance with partnership agreements • Reliability, competence and promptness • Technical support, clarity for quality and timeframes • Transparency, planning and economic value:	- Ensure transparency and perform good coordination of activities. Compliance with contractual terms - Planning - Collaboration aimed at product improvement - Reduction in execution times and technical/quality improvements
Industrial	➢ Daily relations ➢ Supplier Portal	• Continuity of the supply • Collaboration and sharing of best practices	- Implementation of Supplier Portal - Vendor Rating campaigns - Appropriate conduct guidelines to prevent incidents of corruption

Local Communities			
Sector	**Engagement methods**	**Stakeholder expectations**	**Actions undertaken**
Real estate and holding	➢ Charity activities ➢ Targeted communication in the local community ➢ Occasional direct contacts ➢ Events and sponsorship and charity activity	• Charity • Local hiring and training • Collaboration and attention to needs • Respecting the environment • Support to local community/initiatives	- Local hiring and training - Contributions in favour of local and NPO initiatives/events - Attainment of required authorisations
Naval	➢ Informational meetings and press releases ➢ Meetings with local authorities (mayors, councillors, etc.) ➢ Meetings for CIGS (Cassa Integrazione Guadagni Straordinaria - Italian temporary redundancy benefits) procedures ➢ Meetings for single projects	• Direct company involvement • Listening to community needs • Compliance with the role covered by Institutions	- Continual search for a balance between compliance with community needs and company goals - Involvement of personnel in company decisions
Industrial	➢ Meetings, exhibitions and events ➢ Rallies ➢ Charity activities	• Organisation of get-togethers and events for connoisseurs • Contributions to supporting charity initiatives • Development of local communities • Respecting the environment	- Through the Vespa World Club and the Moto Guzzi World Club, the Group organises shows, get-togethers and contests for its customers - Support for numerous charity initiatives - The Piaggio Foundation and the Piaggio Museum serve as a meeting place and cultural reference for the territory - Attainment of the environmental certification for production establishments

Institutions and Public Administration			
Sector	**Engagement methods**	**Stakeholder expectations**	**Actions undertaken**
Property and holding sector	➢ Official channels and website ➢ SDIR-NIS ➢ Ongoing dialogue on the regulatory developments ➢ Occasional direct contact or through HCCP - Human Resources Office Manager ➢ Continual relations based on the Company, in relation to technical and administrative requests ➢ Ordinary controls by Agencies ➢ Contacts through the web portals of Public Agencies and in-house audits	• Transparency, fairness, punctuality and completeness • Involvement • Collaboration and transparency • Compliance with laws and established procedures • Compliance with existing conventions	- Transparency - Internal personnel training - Compliance with laws - Adequate conduct guidelines - Collaborative relations - Compliance with current laws and existing agreements - Internal procedures governing relations with the P.A. in order to prevent corruption or similar crimes - Compliance with procedures for meeting legal obligations related to personnel
Naval	➢ Requests for authorisations ➢ Attendance at informational meetings ➢ Involvement of Institutions in contractual negotiations with other countries and associated practices ➢ Statements and audits ➢ Tax, insurance and social security requirements ➢ Inspections and surveys	• Clarity and transparency • Compliance with laws; • Collaboration • Accuracy and completeness of supplied information; responsible and honest attitude • Compliance with obligations and rules • Regular compliance with tax, insurance and social security requirements	- Formalisation of authorisation requests with all the information related to supplies in the military framework - Press releases; - Collaboration and transparency - Accuracy and completeness of supplied information - Compliance with obligations and rules - Proactive discussion
Industrial	➢ Ongoing dialogue on the regulatory developments ➢ Periodic ad hoc meetings ➢ Participation in the parliamentary committees tasked with discussing and formulating new regulations ➢ Meetings and presentations	• Compliance with laws and regulations; Receptive and proactive attitude regarding environmental and social themes • Support on specific technical themes • Pursuing common objectives	- Appropriate conduct guidelines to prevent incidents of corruption; Investments in R&D of innovative products that are abreast of any restrictions of current regulations - Proactive participation in the parliamentary committees tasked with discussing and formulating new regulations - Participating in trade associations

Media			
Sector	**Engagement methods**	**Stakeholder expectations**	**Actions undertaken**
Real estate and holding	➢ Website and press channel ➢ SDIR-NIS ➢ Frequent and direct contacts	• Timely, transparent, correct and comprehensive information • Continual collaboration	- Transparency and clarity - Openness to dialogue
Industrial	➢ Press releases ➢ Events and company communication initiatives ➢ Wide - Piaggio Magazine ➢ Websites ➢ Press product launches ➢ Product test rides	• Availability, transparency and timeliness of information on the company and its products	- Abiding by the self-regulatory code of business communications - Consolidation of relations with the media in the different countries where the Group is active
Naval	➢ Through Press Office and website ➢ Participation in trade fairs and conventions ➢ Contacts with specialised press	• Correct, transparent, complete and timely information	- Company communication - Information supplied to protect customers

Shareholders, lending system and financial markets			
Sector	**Engagement methods**	**Stakeholder expectations**	**Actions undertaken**
Real estate and holding	➢ Meetings, shareholders' meetings, Board of Directors meeting, website, press, official documentation ➢ Constant communication with Management	• Complete, timely and correct information • Company growth • Transparency • Collaboration • Results • Attention to company values	- Transparency and clarity - Sharing of future programmes and achieved results - Openness to dialogue - Compliance with laws - Collaboration - Commitment to actions to achieve goals - Attention to company values
Naval	➢ Meetings, shareholders' meetings, dialogue ➢ Financial statements and reports; company requirements	• Constant disclosure; • Creation and integrity of company value • Compliance with commitments	- Transparency - Company growth - Definition of shared goals
Industrial	➢ Conference call/Road show ➢ Piaggio Analyst and Investor Meeting ➢ Corporate website	• Clear and timely information • Remuneration and defence of the asset value of the investment	- Promotion of ongoing dialogue with analysts and lenders - Treasury shares purchasing policy

Employees and Trade Unions			
Sector	**Engagement methods**	**Stakeholder expectations**	**Actions undertaken**
Real estate and holding	➢ Frequent communication ➢ Collective decisions ➢ Involvement of trade union organisations if requested ➢ Possibility of contact with the Human Resource Office, Function manager. Periodic meetings by department are planned and meetings for specific needs ➢ Periodic coordination meetings with building technicians and builders	• Participation • Involvement • Meritocracy • Respecting human rights. • Clear and transparent communication with own managers • Possibility for professional development and training. • Safe work environment • Collaboration	- Involvement - Promotion of dialogue - Professional growth - Compliance with laws - Personnel selection in compliance with the Code of Ethics adopted by the Company and with no discrimination - Open and constructive dialogue - Professional training courses based on company needs - Guarantee a safe, healthy and productive environment, including by disseminating a culture of safety and risk awareness - Periodic coordination meetings
Naval	➢ Company communications on the environment and safety ➢ Requests through RLS (workers' health and safety representative) ➢ Periodic coordination/planning meetings ➢ Periodic individual meetings ➢ Training courses ➢ Trade union negotiations	• Collaboration and organisation • Transparency and participation • Comprehension of emergencies and needs • Economic recognitions • Professional growth opportunities	- Dialogue and search for understanding - Discussion with Trade Unions - Answers in accordance with the law and regulations - Participation and involvement - Compliance with arrangements made, meeting employees' needs if possible - Correct application of laws and contracts - Granting the right recognitions - Accountability for projects of a special nature
industrial	➢ Company intranet ➢ Piaggio InfoPoint ➢ Piaggio Net International ➢ Web Mail ➢ Evaluation Management System ➢ Wide – Piaggio Magazine ➢ Meetings with trade unions	• Clear and timely company communication • Safe and healthy work environment • Opportunity for professional development and training • Transparent reward policies • Respect for human rights and diversity • Open and constructive dialogue	- Promotion of open, constructive dialogue with employees. - Attainment of health and safety certifications for Group plants - Preparation of professional and managerial career paths for young talents - Remuneration policy characterised by meritocracy and fairness - Abiding by a code of ethics that expressly prohibits any discrimination or forced labour - Piaggio promotes ongoing, constructive dialogue with trade unions

Corporate Social Responsibility risks

Risks connected with Corporate Social Responsibility (hereinafter "CSR") based on Italian Legislative Decree 254/16 were identified during 2017 within the Group's business sectors.
Specifically, a risk analysis performed with the assistance of the company Immsi Audit S.c. a r.l., involved the following companies:

- Immsi S.p.A. and Is Molas S.p.A. for the real estate sector;
- Intermarine S.p.A. for the naval sector.

The inherent risks identified in these companies are shown in the following tables, broken down by reference dimension. The mitigation actions adopted by the companies, described in the relative NFS dimensions, made it possible to keep the residual risks within the established acceptance thresholds.
In terms of the companies Is Molas and Intermarine the management procedures for such risks are described to also be developed in a medium-term perspective. These management procedures were indicated by the management of the companies when preparing the NFS.
It should also be noted that no significant risks emerged for Immsi S.p.A. from the analysis.

An Enterprise Risk Management (ERM) project was started by the Piaggio group in 2017. It is aimed at defining and implementing a structured and integrated system for detecting, measuring and managing company risks in line with existing relevant best practices. In this framework, issues concerning environmental and social aspects, human resources, human rights and the fight against corruption were all analysed.

The findings for the aforesaid companies are provided below.

The following inherent risks were identified for the real estate sector, associated with management procedures to adopt, including in the medium term.

IDENTIFIED INHERENT RISKS	REFERENCE DIMENSION	RISK MANAGEMENT PROCEDURES
• Risk of insufficient assessment of possible detrimental situations related to the commercial and professional integrity and reliability of business counterparties (e.g., suppliers, consultants, customers, intermediaries, etc.)	**Corporate Governance**	– Maintenance of specific procedures to mitigate the risk of possible corrupt practices
• Risks connected with failure to comply with the quality/safety standards of distributed products/services (e.g., harmful or dangerous for customers) and relative legal requirements, with consequent liability that could expose the company to claims for damages.	**The products and services dimension**	– Construction of villas and continuation of the Is Molas real estate project, with implementation of the planned project specifications, including architectural and energy saving. – Maintenance of the compliance requirements for the services offered by the Is Molas hospitality-hotel complex
• Risk connected with administrative restrictions in terms of the use of water (in the presence of climate change which leads to rationing of water) which could result in limitations to the managed business activities. • Risk connected with climate change liable of affecting the need for irrigation of green spaces and the availability of water reservoirs for supply. • Risk of negative environmental impact on the area resulting from failure to comply with environmental requirements based on administrative authorisations for property development activities (including with reference to counterparties involved in contracted works) and maintenance activities of the green areas for the management of sports and hotel activities. • Environmental impact risk resulting from inadequate management of waste generated by property development activities (including with reference to the counterparties involved in contracted works) and management of hospitality and sports activities. • Reputational risk for possible involvement of the company in polluting events (and specifically environmental crime), including in association with others, or for use of suppliers or sub-suppliers that do not adequately comply with environmental sustainability standards	**The environmental dimension**	– Attainment of the authorisations necessary for property development activities (including with reference to activities by counterparties involved in contracted works) – Constant control of changes in environmental laws – Optimisation of water consumption in the Is Molas hospitality-hotel complex, ensuring a lower impact on the area

IDENTIFIED INHERENT RISKS	REFERENCE DIMENSION	RISK MANAGEMENT PROCEDURES
• Risk resulting from unsuitable working conditions in terms of worker health and safety or inadequate control for monitoring the concrete compliance of the provided procedures or instructions by employees and supplier or sub-supplier workers, with the possibility of occupational accident impacts and potential negative impacts (e.g., lawsuits, loss of reputation, payment of damages, fines) • Risk of possible loss of key expertise and know-how due to interruption of professional relations • Risk of lack of or insufficient control of materials and components used to ascertain compliance with regulations regarding their composition and ban on the use of hazardous substances	**The social dimension - Developing human resources**	– Continual improvement of safety systems inside plants (reduction of occupational accidents and diseases) – Monitoring on the use of PPE, as required by safety procedures – Compliance with applied healthcare protocols and continual control/improvement thereof – Guarantee workers fair treatment based on merit – Improve the representation of all genders in personnel, along with equal pay and rights – Attract talented and motivated young people – Improvement of human resource management policies, especially in terms of motivational, training and growth aspects – Prevent personnel with key expertise from leaving the Group – Guarantee women flexibility in terms of leave, including maternity leave, reconciling specific needs – Maintain a systematic control on materials and components used throughout the entire production cycle, in particular for those considered hazardous or toxic – Prevent cases of discrimination from occurring inside the production sites – Prompt changes in the event of changes to employment laws – Compliance with and adapting to employment and human rights protection laws – Ensure compliance with all fundamental human rights through a clear and strict disciplinary policy
• Risk related to possible changes in the legal and regulatory framework on a local basis which could result in burdensome changes in strategic or operating approaches of the Company • Risk connected with insufficient or ineffective "framework" relations (e.g.: related to institutions, local agencies, sociocultural groups of the territory) with local communities	**The social dimension - Relations with local communities**	– Maintenance of dialogue and relations with local communities
• Risk connected with the possible use of suppliers or sub-suppliers that do not comply with the ethical and conduct standards in relations with workers that are required by the company • Risk connected with the difficulty of obtaining specialised local workers or qualified local suppliers and, consequently, tensions in relations with local communities/stakeholders due to the level of involvement in the supply chain and development of projects in partnerships	**Supply chain**	– Maintenance and implementation of the current internal supplier selection and management procedures

The following inherent risks were identified for the naval sector, associated with management procedures to implement, including in the medium term.

IDENTIFIED INHERENT RISKS	REFERENCE DIMENSION	RISK MANAGEMENT PROCEDURES
• Risk of possible corruption or unfair competition practices in the event of an inadequate company approach for prevention of at-risk operations or any detrimental situations related to the commercial and professional integrity of business counterparties (e.g.: suppliers, consultants, customers, intermediaries, etc.) taking into account the relative risk profiles of the countries where the Company works	**Corporate Governance**	– Maintenance of specific procedures to mitigate the risk of possible corrupt practices
• Risk of water pollution caused by failure to comply with the ban of releasing waste water (on the ground, in the ground, in ground water, in the sea) or negative effects on management activities due to a need to protect water • Risk connected to the occurrence of natural disasters or catastrophic events (e.g.: floods), preventing the company from performing its operating activities • Risk of events harming natural species, caused by the impact of the managed activities, due to the possibility of altering biodiversity in the areas where the company works • Risk of air pollution in the event of failure to comply with allowed values or adapting to regulatory provisions due to emissions with a "greenhouse" effect resulting from the managed activities • Risk of pollution caused by waste, generated by company activities, in the event of inadequate monitoring of their "life cycle" in order to prevent their unlawful disposal, abandonment or storage • Risk of negative effects on the managed activities for needs to limit discharges and waste and/or for insufficient prior adoption of environmental protection measures, with possible damages due, fines received and reputational damages • Risk of failure to issue/maintain environmental certificates for the involved production sites	**The environmental dimension**	– Maintenance of all authorisations necessary for production activities (water discharges, polluting emissions, waste treatment) – Maintenance of environmental certificates, upgrading and improving the internal procedures to the requirements – Maintenance of quality control of water released into the sewage system and polluting emissions into the atmosphere – Company commitment not to impact the ecosystem with future activities. Improvement of production processes aimed at reduction of pollutants released into the atmosphere (the creation of extraction systems for emissions from cutting and welding activities is planned) – Constant maintenance of suction systems present at shipyards, including through the replacement of filters – Investments in machinery that permit the reduction of hull processing scrap – Maintenance of control on the waste storage area inside the shipyard – Constant control of changes in environmental laws
• Risks connected with failure to comply with the quality/safety standards of realised goods and relative legal and contractual requirements, with consequent liability that could expose the company to claims for damages and expensive re-processing or repairs	**The products and services dimension**	– Design of vessels aimed at improvement of performance (maximum speed and weight), with a consequent reduction in fuel consumption and lower emissions into the atmosphere – Constant improvement of the safety of vessel final users during use of instruments – Ensure constant, accurate training for safer use of vessels – Guarantee the best resistance possible of hulls in the event of attacks and/or external explosions

IDENTIFIED INHERENT RISKS	REFERENCE DIMENSION	RISK MANAGEMENT PROCEDURES
• Risk related to the working conditions and health and safety of workers in the event of inadequate creation of safe work environments and/or inadequate oversight for monitoring concrete compliance with the relevant procedures and instructions provided by the company • Risk connected with the possibility of tensions or termination of relations that the company has with workers and trade union representatives, with consequent recourse to strikes and interruptions of production activity • Risk of possible loss of key expertise and know-how due to interruption of professional relations	**The social dimension - Developing human resources**	- Continual improvement of safety systems inside plants (reduction of occupational accidents and diseases) - Monitoring on the use of PPE, as required by safety procedures - Compliance with applied healthcare protocols and continual control/improvement thereof - Guarantee workers fair treatment based on merit - Improve the representation of all genders in personnel, along with equal pay and rights - Attract talented and motivated young people - Improvement of human resource management policies, especially in terms of motivational, training and growth aspects - Prevent personnel with key expertise from leaving the Group - Guarantee women flexibility in terms of leave, including maternity leave, reconciling specific needs - Maintain a systematic control on materials and components used throughout the entire production cycle, in particular for those considered hazardous or toxic - Prevent cases of discrimination from occurring inside the production sites - Prompt changes in the event of changes to employment laws - Compliance with and adapting to employment and human rights protection laws - Ensure compliance with all fundamental human rights through a clear and strict disciplinary policy
• Risk connected with the possible use of suppliers, sub-suppliers or third-party independent contractors (consultants, etc.) that do not comply with the environmental sustainability standards, ethical and conduct standards in relations with workers, or human rights and responsible conduct principles for the business with impacts not in line with the company's relative strategy.	**Supply chain**	– Search and selection of suppliers in possession of ISO 14001 (environmental management system) certification, among the requested requirements. In-depth audit for those not in possession thereof; – Search and selection of suppliers that have not been fined or sentenced based on application of Legislative Decree 231/01. A self-certification of compliance will be requested starting in 2018 related to the absence of fines, bankruptcy proceedings and sentence for corruption.

The risk issues which emerged in the industrial sector following the 2017 Risk Assessment campaign are listed below.

ASPECTS	IDENTIFIED RISKS	REFERENCE DIMENSION
Environment	The analysis refers to the actual and potential effects of the Group's operations on the environment considering, for example, atmospheric emissions, waste management practices, the use and conservation of natural resources, etc. Greenhouse gases (mainly CO_2) and Volatile Organic Compounds (VOCs), released by solvents used in painting, are some of the most hazardous substances for air pollution generated by automotive operators. The structural operations implemented in past years at the Group's production plants have led to reductions in polluting emissions at some of these, while at others, levels of these emissions have remained stable. Although the structure of the Company's production sites has been designed to run on fossil fuels, Piaggio is engaged in optimising the management of existing sites to cut consumption. Operations to clean up sites were necessary because of historical site contamination: the pollutants removed had not been used for several decades by the sites, proving the historical nature of the contamination. Other cases of ground contamination (spills or other significant pollution episodes) have never concerned Group operations. Piaggio has ISO 14001 environmental certification and invests each year to reduce the environmental impact of its production sites. Despite a considerable risk level, in line with other industry operators, control measures adopted significantly reduce environmental risks.	**The environmental dimension**
Employees	Risks concerning personnel include all aspects of an inadequate management of the Group's human capital, including career paths, remuneration and training, diversity (age, gender, sexual orientation, disability, religious beliefs, ethnic background, etc.) as well as risks relating to occupational health and safety and industrial relations. Piaggio operates globally with employees in Europe, the Americas and Asia. It promotes diversity of gender, age, nationality, ethnic background, ideology and religious beliefs, as it endorses different ways of pursuing and achieving maximum performance within a single and broad-ranging Group organisational framework. The integration of disabled people into the workforce is also made possible in practice by the accessibility of company facilities and the existence of a relative company procedure. Piaggio adopts a system of recruitment, development and salary packages for personnel which recognises and rewards merit and performance. Development tools are used to build on and continually improve skills, while empowering potential, recognising and rewarding outstanding performance. Reward policies are designed to reward individuals and recognise their contribution to the company, according to the criteria of competitiveness, fairness and meritocracy. The above mechanisms reduce potential risks related to these aspects to a residual level which is not significant. The Piaggio group acknowledges the role of trade union organisations and workers' representatives and is committed to establishing relations with them focussed on attention, dialogue and a common understanding; in fact, assessment and continual engagement are considered essential for identifying the best solutions for the company's specific needs. For these reasons and despite the high number of employees with trade union membership, strikes are infrequent. As regards occupational health and safety, testing motorcycles with a medium and large engine capacity entails the highest risk levels. Generally, the risk of accidents/injuries to personnel is mitigated by adapting processes, adopting procedures and structures in line with applicable occupational safety laws and international best standards, and promoting safe behaviour, through targeted training.	**The social dimension - Developing human resources**
Social sphere	The social sphere includes aspects concerning Piaggio's relations with consumers, as well as the effects of the business on the community. In the first case, product quality and reliability are essential and key to obtaining and guaranteeing customer satisfaction and safety. In the “Product – Operational Risk" category, risk scenarios relating to potential product defects have been mapped. To mitigate these risks, Piaggio has established a Quality Control system. It tests products during various stages of the production process and carefully sources its suppliers based on technical/professional standards. The Group is also committed to being awarded and maintaining certification of its quality management systems at global level (ISO 9001 or ISO/TS 16949).	**The products and services dimension / The social dimension - Relations with local communities**

ASPECTS	IDENTIFIED RISKS	REFERENCE DIMENSION
Human rights	As set out in the Code of Ethics, adopted in 2004, Piaggio specifically prohibits any form of discrimination or forced labour. This Code has been distributed to all subsidiaries and clearly states the principles and values the entire organisation takes inspiration from. Based on the significant and specific nature of the Indian market, the following have been adopted: the Code of Business Conduct & Ethics and Whistle Blower Policy in 2016; the latter is designed to protect people reporting infringements of the Code, and therefore to guarantee the Code's validity; a Policy on the Prevention of Sexual Harassment of women at the workplace. Based on prevention and control mechanisms established in the Code of Ethics and adopted by all Group subsidiaries, no risk scenarios relative to the violation of human rights were identified.	**Corporate Governance / The social dimension - Developing human resources / The supply chain**
Fighting against corruption	The fight against both active and passive corruption comes under the risk categories "Internal/external offences" of the Group's risk model. In its Code of Ethics, Piaggio strictly prohibits any practice of corruption, request for and/or provision of preferential treatment, of any collusive behaviour, solicitation, whether direct/indirect and/or through third parties, of personal benefits of any kind for oneself and/or for others, of material benefits and/or any other advantage of any extent in favour of third parties. A number of processes, procedures, roles and responsibilities have been defined to achieve the above objective, as regards business negotiations/relations with the public administration sector and with private entities. The controls briefly described above decrease residual risk relative to episodes of active/passive corruption to a negligible level.	***Corporate Governance***

Corporate Governance

Corporate Governance Model

Immsi S.p.A. (henceforth "Immsi" or the "Company" or the "Issuer") has adopted a corporate governance system that complies with the principles of the Corporate Governance Code - drafted by the corporate governance committee of listed companies (most recently amended in July 2015) - as well as with national and international best practices in order to most effectively and responsibly meet the interests of all its stakeholders.
Neither Immsi nor its strategically significant subsidiaries are subject to non-Italian legal provisions which influence the Company's corporate governance structure; the latter is based on a traditional administration and control system: please refer to the 2017 Report on Corporate Governance and Ownership for more information.

Organizational, management and control model pursuant to Legislative Decree 231/01

As of 2004, the Issuer has adopted an Organizational, Management and Control Model (the "Model") for the prevention of offenses pursuant to Legislative Decree 231/01 as amended. This strategy has also been adopted by subsidiaries with strategic importance, which in turn resolved to adopt their own Models, all of which were constantly monitored and updated during the course of the first quarter of 2018.
For a description of the Immsi Model, refer to the 2017 Report on Corporate Governance and Ownership.

Code of Ethics

The role played by Immsi on the national and international market, as well as the nature and importance of its operations, requires a commitment - on the part of those who work at Immsi or, in any case, on behalf of the latter for any reason - to operate with loyalty, seriousness, honesty, good faith, competence and transparency as well as in strict compliance with laws, market rules, and the principles of fair competition, all while respecting the legitimate interests and expectations of customers, suppliers, shareholders and any party affected by its operations.
In order for relations to develop correctly both inside and outside the Company and Group, it is necessary that all company bodies, as well as Company management and employees and external collaborators such as consultants, agents, suppliers, etc., develop and make available to the Company their cultural, technical, operational and ethical expertise in order to pursue the specified objectives, each within the scope of his/her functions and responsibilities and while respecting the functions and responsibilities of others.
For these reasons, Immsi considered it important to clearly define the set of values that the Company recognises, accepts and shares, as well as the set of rules and principles of conduct which- as of the time of its incorporation - form the foundation for the company's relations with its personnel as well as with third parties and which, more generally, characterise the conduct of its activities.
These principles are contained in the Code of Ethics (the "Code") which the Company, on the one hand, hopes is spontaneously shared, agreed with and spread while, on the other hand, requiring compliance with it by every individual who works on behalf of Immsi or that comes in contact with the latter. As a result, all actions, operations and transactions relating to Immsi must be undertaken and pursued in full compliance with the principles of legality, impartiality and fair competition; they must be managed with the utmost fairness and with completeness and transparency of information in addition to being supported by documentary evidence and capable of being subject to audits and controls. Employees - both top management and their subordinates - as well as third-party

counterparties are informed of the adoption of the Code and of the relevant Code of Conduct; when signing contracts, specific clauses are added which refer to the adopted ethical/behavioral principles.
The Code, availabe on the website of the Company in the "*Governance / Procedure*" section, has been widely distributed, defining in a clear and transparent way the principles and values on which the entire corporate organization is based. In addition, Immsi presents its Code to its subsidiaries as well so that the latter - after having adjusted it to their specific needs - formally adopt it as a management tool and effective element for company organization. In fact, Immsi requests and expects - from all associated and subsidiary companies - conduct which is in line with the principles of the Code.
The Code of Immsi and of the companies belonging to the Group was most recently updated in 2017 in order to more effectively align it with the ethical and social values on which the Group's activities are based. In particular, this revision reiterated - through the introduction of a specific Article - that the Company recognises and ensures respect for the principles that protect internationally-shared human rights and workers' rights, as expressed in the conventions, including the Universal Declaration of Human Rights of the United Nations and the Declaration on Fundamental Principles and Rights at Work and its Follow-up of the International Labour Organisation, in both its operations as well as in the supply chain.
The Company undertakes to ensure respect for the personal dignity, privacy and personality rights of every individual, as well as to ensure the conditions necessary for a non-hostile work environment and to prevent any form of exploitation, discrimination or harassment in accordance with the above conventions. In particular, the Company rejects and dissociates itself from any conduct that may constitute a threat of any kind, determined by reasons of a racial or sexual nature or related to other personal characteristics, and requires compliance with all laws prohibiting any form of discrimination based on race, gender, religion, language, ideology, ethnicity or political opinion; The Company also prohibits any form of slavery, torture, forced labour, child labour, cruel, inhuman or degrading treatment and working conditions that may pose a threat to life or health. In addition, the Company recognises and respects the rights of employees to be represented by unions or by other representatives established in accordance with legislation.

Fighting against corruption

As stated in the Code of Ethics, in pursuing its mission the Group ensures, through the adoption of appropriate tools, including organisational tools, compliance with the absolute prohibition of any practice of corruption, request for and/or provision of preferential treatment, of any collusive behaviour, solicitation, whether direct/indirect and/or through third parties, of personal benefits of any kind for oneself and/or for others, of material benefits and/or any other advantage of any extent in favour of third parties, whether they be private and/or public entities or government representatives, either Italian and foreign.
When participating in public tenders or competitions called by the Public Administration as well as in any negotiations or contracts entered into with both Public Administration and private entities, all those involved must behave according to good faith and in accordance with the law, correct commercial practice and current regulations, as well as with the corresponding company procedures, avoiding any situation from which violation of laws and/or principles of fairness and transparency in the conduct of negotiations may arise. These relationships must only be carried on by those persons previously and expressly authorised to do so, in accordance with allocated roles and corporate procedures; adequate mechanisms for traceability of information flows towards the contracting party must also be put in place. Any request for advantages, any intimidating and/or constrictive or oppressive behaviour on the part of Public Administration officials or third contracting parties or which one has merely come to learn of, must be immediately reported.
The functional managers who are commonly in touch with the Public Administration must:

- Provide their partners with guidelines regarding which operative conduct to follow in formal and informal contacts with the various public subjects, according to the characteristics of each individual area of activity, sharing their knowledge of regulations and their awareness of situations liable to crime;
- Provide for adequate tracing mechanisms as regards official information channels with the Public Administration;
- Maintain and request on the part of those having relations with Public Administration conduct characterised by fairness, transparency, traceability and in good faith, respecting the roles and responsibilities attributed; Strictly observe and enforce therefore, also with specific reference to relations with Public Administration, company procedures aimed at abstractly identifying and tracing the functions and positions responsible and appointed for relations with Public Administration, in compliance therefore with corporate roles;
- Make clear, truthful, complete and traceable statements to public authorities and exhibit complete, truthful and unaltered documents and data;
- act in a consistently correct and clear manner in order to avoid inducing the counterparty into an error or potential error. All consultants, suppliers, customers, and whoever is related to the Group, are committed to the observance of the laws and regulations in force in all the countries where the Group operates. No relation will be initiated or continued with those who do not intend to comply with such principles. When appointing these subjects to operate as representatives and/or in the interest of the Group towards Public Administration, the appointment must be in writing, with a specific binding clause requiring compliance with the principles of ethics and conduct adopted by the Group.

Identical conduct guidelines to those indicated for relations with Public Administration must also be adopted with regard to relations with any private third party, such as suppliers, customers, competitors, partners and/or any contractual counterparty.

When contributions, grants or financial support are requested from the State, the public corporations or the European Union, all the employees involved in such procedures must:

- Be correct and truthful when using and presenting documents and declarations that are complete and pertinent to the activities for which such benefits can be legitimately requested and obtained;
- Once the requested outpayment has been obtained, the sum should be employed for the goals to which it was originally requested and obtained. The people in charge of administrative/accounting functions must verify that each operation and transaction is: legitimate, consistent, congruous, authorised, verifiable; correctly and adequately registered, so that the process of decision, authorisation and implementation can be verified; supported by correct, authentic and appropriate documentation, so that careful inspections can be carried out at any time regarding the characteristics and the motivations of the operation, and the individuation of those who have authorised, carried out, registered and verified the operation itself.

Please note that no incidents of corruption occurred in the reporting year.

With reference to the naval sector, the company Intermarine S.p.A. - given the nature of the manufactured products - utilises agents and intermediaries for marketing activities and for subsequent contacts with customers during the phases of preparation of offers and stipulation of contracts. The use of these intermediaries exposes the company to a potential risk of corruption given that the agents primarily interface with public administrations The company has therefore specific procedure in place which regulates the identification of agents/intermediaries as well as the stipulation of the contract in addition to the control and evaluation of these parties.
With regard to the identification and selection of the professional, the potential agent/intermediary is initially reviewed in terms of professionalism, integrity, honesty and reliability. Subsequently, the stipulation of the contract with the selected agent/intermediary is subject to their acceptance of the

Code of Ethics and of the Intermarine Code of Conduct. These contracts must provide for the following:

- commission percentages that are in line with market averages (also recorded by the Ministry of Defence);
- a specific clause which binds agents and intermediaries to comply with the ethical/behavioral principles of the company. Violation of this clause can serve as a potential cause for cancellation of the contractual relationship.

The company Is Molas S.p.A. adopts a specific procedure for personnel involved - in any capacity - in the process of awarding contracts to third parties that are used for the real estate development project. The adoption of this procedure allows the company to mitigate the risk of potential corruption during the phase of selection of business counterparties.
This procedure specifies the primary criteria that are adopted for identifying potential suppliers from which to request offers. Evaluation of the received offers is carried out by the Manager of the Real Estate department on the basis of technical and economic criteria; this evaluation is also supported by the opinion of internal/external experts with specific technical and legal know-how.
When drafting the contract, clauses relating to compliance with the relevant regulations - as well as with Legislative Decree 231/01, the Code of Ethics and company procedures - must be expressly inserted.
In addition to the above, it should be noted that the company Is Molas applies a specific procedure for the management of real estate property marketing and sales activities. In addition to defining the process for identifying potential customers and the subsequent sale, the procedure provides that - in the case of mediation of the relationship by an intermediary/external professional/agency - the contract must contain a specific declaration of knowledge of legislation pursuant to Legislative Decree 231/01.

With reference to the Piaggio group, please refer to the 2017 CSR Report for the discussion of specific aspects relating to the fight against corruption.

Compliance with laws and regulations

During the course of 2017, none of the Immsi Group companies reported episodes concerning employee discrimination or the breach of employee rights. In addition, no infringement procedures have been filed against the Immsi Group for the breach of anti-competitive or anti-trust laws.
At 31 December 2017, there were no sanctions relative to non-compliance with laws and regulations for marketing, advertising, promotional, sponsorship and supply activities or for the use of its products. Finally, no cases regarding the breach of consumer privacy or loss of consumer data were reported in 2017.
Finally, no environmental penalties considered relevant were charged to the Immsi Group during the year.

The products and services dimension

The scope of consolidation applicable for "products and services" is as follows:

- Real estate sector: Is Molas S.p.A.;
- Industrial sector: Piaggio & C. S.p.A, Piaggio Vietnam Co. Ltd., Piaggio Vehicles Private Ltd., Piaggio Advance Design Center, Piaggio Fast Forward Inc., Foshan Piaggio Vehicles Tecnologies Co. Ltd;
- Naval sector: Intermarine S.p.A..

The scope of consolidation does not include the companies Immsi S.p.A., ISM Investimenti S.p.A., RCN Finanziaria S.p.A., Pietra S.r.l., Pietra Ligure S.r.l. and Apuliae S.r.l..

Real estate sector: the Is Molas resort

In 2017, the project of real estate expansion - consisting in the construction of new villas - continued. These activities were offered simultaneously with the standard offer of hotel and golf services at the resort.
The projects involve elements to reduce the environmental impact of the new properties. For example, the use of water necessary for air conditioning as well as for sanitary purposes is based on the design of a heat pump connected to the water circuit of the surrounding lakes, thereby resulting in:

- a high level of savings due to the favourable energy exchange with the water of the lakes;
- the absence of fuels for heating, thereby eliminating the need for supplies and the relative risks of fire and explosions.

In addition to these technical choices, a decision was made to integrate solar cells into the pergola roof of the homes, thereby reducing energy consumption.

Also with regard to the management of the "Is Molas" hotel and golf complex, the company applies practices which aim at reducing the environmental impact caused by its operations, in particular the exploitation of water resources. In this regard, refer to the chapter on environmental factors where additional details are provided
In order to mitigate risk associated with non-compliance of the quality and safety standards of the delivered services, a series of control protocols relative to the quality of the restaurant and hotel services were implemented, particularly with reference to compliance with hygienic norms and standards for auditing supply goods and the preservation of perishable goods (Hazard Analysis and Critical Control Points or HACCP).

Industrial sector: Piaggio Vehicles

With reference to the Piaggio group, the policy aimed at technological leadership in the sector continued even in 2017 by allocating 35.3 million euros in R&D activities for the Two Wheel Vehicle business as well as 8.6 million euros for the Commercial Vehicle business.
Anticipating customer requirements, creating products that are innovative in terms of technology, style and functionality, and pursuing research for a better quality of life are all fields of excellence in which the Piaggio group excels, as well as a means for measuring its leadership position on the market.
The group develops these areas through research and development at seven centres in Italy, India, Vietnam, the United States and China.
In particular, the main objective of the Piaggio group is to meet the most advanced needs for mobility, while reducing the environmental impact and consumption of its vehicles, guaranteeing their performance and levels of excellence.

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

For more information on the guidelines of research activity and its applications, please refer to the information provided in the 2017 CSR Report published by Piaggio & C. S.p.A.

FUNDED NATIONAL AND EUROPEAN PROJECTS

Piaggio group promotes funding applications at the regional, national and European locations, in a nod to the quality of its research. The primary projects that are currently being executed are listed below. For a more extensive description of these projects, please refer to the 2017 CSR Report published by Piaggio & C S.p.A..

Regional Projects
During the course of 2017, Piaggio participated in the following regional projects:
- ADAMo (Aerodinamica Digitale Adattativa per Motocicli - Adaptive Digital Aerodynamics for Motorcycles). The project is co-financed within the framework of the Regional Tender for ICT and Photonics, Engineering of components and integrated advanced and intelligent systems (devices / manufactured items / processes). Piaggio is the leader of the Consortium composed of companies and research entities based in Tuscany;
- CENTAURO (Colavoro, Efficienza e preveNzione nell'industria dei motoveicoli mediante Tecnologie di AUtomazione Robotica - Co-working, Efficiency and prevention within the motorcycle industry through Robotic Automation Technologies). This project is coordinated by Piaggio;

HORIZON 2020 and CEF (Connecting Europe Facilities) European Projects
During 2017, activities continued as part of the European projects approved under the Horizon2020 tenders – namely the Smart Green and Integrated Transport programme: RESOLVE (call GV5-2014) of which Piaggio is the leader, and eCAIMAN (call GV1-2014) in which Piaggio is participating as a partner. The SAFESTRIP projects (MG3.4-2016 tender) and C-MOBILE (MG6.2-2016 tender) have also begun, and also fall under H2020. The activities of the i_HeERO project were finally completed (CEF tender).

Reported below are the European projects in which Piaggio participated during the course of 2017:

- RESOLVE (Range of Electric SOlutions for L-CAtegory VEhicles);
- eCAIMAN (Electrolyte, Cathode and Anode Improvements for Market Near next generation of Li-ion Batteries);
- i_HeERO;
- Future Radar;
- C-Mobile (Accelerating C-ITS Mobility Innovation and depLoyment in Europe);
- Safestrip (Safe and green Sensor Technologies for self-explaining and forgiving Road Interactive applications).

CUSTOMER SAFETY

Piaggio has a comprehensive quality management system to monitor product quality levels in the various phases of the production process and prior to dispatch to the customer. The standard procedures introduced in all plants of the Piaggio group allow for monitoring of the quality of manufactured vehicles, thereby ensuring product standards that are in compliance with regulatory/certification specifications. Each vehicle manufactured at Piaggio Group sites is subject to multiple quality controls throughout the assembly process and at the end of the line.
Staff select a sample of vehicles each day, from finished/approved products, before these are dispatched to the end customer. These vehicles undergo rigorous testing and inspections on test benches and on the road, based on a standard check list. Any anomalies detected are classified according to a score based on the severity of the defect and the impact this could have on the end customer.
In the event that serious anomalies are found, an immediate diagnosis is made, based on which the shipments of all the vehicles belonging to the batch in question, together with a sample number of vehicles of the previous batch, are immediately halted. All vehicles are then carefully rechecked and where necessary, are repaired, before they are approved and subsequently authorised for shipment.

The traceability of the vehicles and their main components is essential in order to enable Piaggio to promptly identify and limit batches characterised by presumed or observed defects, preventing the sale of potentially defective products on the one hand and implementing any necessary interventions in the field on the other. The Piaggio group has implemented a system that allows the identification of components and materials, considered significant, at all stages of the production cycle: all components manufactured internally and externally that have a direct impact on user health and safety, the environment and compliance with type approval are identified.
The system therefore traces all identified components, maintaining records of tests, controls and inspections, certifying product quality in view of the processes it has undergone in the various stages of the production cycle. In the event that anomalies / defects are detected, this allows for their causes to be promptly and systematically identified and for corrective actions to be implemented, thereby identifying vehicles that have components coming from a defective batch and promptly initiating activities to protect the customer.

The Piaggio group is subject to numerous national and international regulations that govern information on its products, both in the field of advertising communication and in the field of manuals related to each individual vehicle. Each vehicle is sold with a UMM (User and Maintenance Manual) containing information on the correct use of the vehicle, thereby promoting safe and responsible driving.

The Marine sector: Intermarine vessels

Intermarine has always aimed to build vessels that comply with all specifications requested by clientele, the latter being primarily composed of navies. Intermarine products are internationally recognized for their reliability and high technological content as well as the continuous pursuit of quality throughout the production process.

It is possible to subdivide company activities into three different business units:

1) *Commercial products*, i.e., fast ferries and hydrofoils built in aluminium
2) *Defence*. This business unit is the field of excellence of Intermarine. Production is primarily concentrated in:
    - Mine countermeasure vessels in composite materials (FRP – Fibre Reinforced Plastic);
    - Fast Patrol Boats – FPBs in FRP and aluminium;
    - Hydro-oceanographic units in FRP;

- Support and work units in FRP and aluminium;

Mine countermeasure vessels should be briefly described. The MCMVs (Mine Countermeasure Vessels) of Intermarine are unique in the world given that they are built with a process that involves the construction of the hull in a monolithic fiberglass shell, devoid of any longitudinal or transverse reinforcement. This design choice makes it possible to maximise the flexibility and elasticity characteristics of fiberglass: in the case of a nearby explosion of a mine, the hull is able to absorb the energy of the explosion, transmitting only a limited portion of the force to the installed equipment and internal structures.

Intermarine products also include fast patrol boats. Since the beginning of its operations, Intermarine has built hundreds of patrol boats for Navies, the Coast Guard, and Maritime Police in Italy and abroad. The project for these patrol boats is characterised by a high level of flexibility, thereby adapting each ship construction to the specific requirements of each customer. Built both in composite materials and in aluminium - in sizes between 13 and 40 meters - the patrol boats are characterised by high speed and excellent performance.

3) *Marine systems*. These units include various products such as: fins and stabilizers auxiliary stern / bow thrusters; governance systems; T-foils monitoring systems; intruders; garage and platform portals.

Given the nature of the products, the phase of the life cycle that most characterises the finished product is the design. During this phase, the designers' aim at guaranteeing all the specifications requested by the client, researching the most suitable materials and technologies on the market.

Another phase which distinguishes Intermarine brand products is the purchase of raw materials and components: the fiberglass used for the construction of the hull is one of the aspects underlying the resistance and flexibility of the ships. During this phase, the Design department works in close and continuous contact with the Purchasing Department and with Quality Control in order to quickly obtain the necessary material that meets the specifications.

CUSTOMER SAFETY

The nature of the Intermarine product must ensure the safety of end users. Even with regard to this aspect - and during the phases of design, construction and supply of materials - the degree of safety for the users of the vessels is monitored, both in the use of the equipment located on board and in the event of potential external explosions. At the end of the process of construction of the boat, the RINA ("Registro Navale Italiano", Italian Naval Registry) certifies the suitability of the ship and that it is in compliance with all safety requirements.

Quality control and testing activities for Intermarine distinguish between "hull" and "completing" parts, each with specific inspection and testing plans. For each test reported in the plans, Intermarine prepares (with the contribution of suppliers) specific testing procedures (test memoranda) for FAT, HAT are/or SAT tests, in accordance with provisions.

The test procedures also specify the following:

- the procedures for executing the tests;
- the technical and functional performance levels with which the various components must comply.

At the end of each test, the specific testing report is drafted. These reports, completed and accompanied by the required attachments (e.g., calibration reports of utilized instruments), constitute the test minutes of equipment, system arrangements and services.

The Integrated Management System adopted by Intermarine makes it possible to identify the materials and components used for the construction and fitting out of the ships; these are identified in order to determine their allocation and allow them to be traced back to the completed tests.

Intermarine, in compliance with the requirements of the AQAP 2110 standard, has prepared and implemented a process for managing the configuration of products in order to know the physical, interface and functional characteristics of each part of the product itself at any time.

R&D ACTIVITIES

Intermarine carries out R&D activities by also accessing the funding provided by the Ministry of University Education and Research (MIUR "Ministero della Università e della Ricerca"), the Ministry of Transport, the Ministry of Economic Development and the Liguria Region (FILSE). To develop some issues concerning research, the company partners with universities and public research organisations. In particular, it actively collaborates with the universities of Pisa and Genoa, particularly as regards the resolution of technical problems that emerge during the design phase. Moreover, and in relation to participation in the Ligurian District of Marine Technologies (DLTM, "Distretto Ligure delle Tecnologie Marine"), Intermarine had previously presented the "Usvpermare" study project, i.e., a swath with "unmanned" technology (no human presence on board) for coastal and port monitoring purposes.
During 2017, "Ibrihydro" scientific activities continued; their objective is the study of a new type of hydrofoil with a hybrid wing configuration.
Certain projects implemented by Intermarine were made possible through collaboration with numerous organizations:

- CNR ("Centro Nazionale delle Ricerche" - National Research Center);
- ISSIA ("Istituto di Studi sui Sistemi Intelligenti per l'Automazione" - Institute for Studies on Intelligent Systems and Automation);
- NAVTEC district (Technological District for Commercial and Recreational Naval Shipping in Sicily, of which Intermarine is a member);
- CTMI (Consortium for R&D of Intermodal Sea Transport) of Messina;
- CETMA (European Research Center for Technologies, Design and Materials) of Brindisi.

Intermarine, as a company operating in the defense sector, adheres to the AIAD, the Federation of Italian Companies for Aerospace, Defense and Security. This association includes 120 national high-tech companies which carry out design, production, research and service activities in their sectors: civilian and military aerospace technologies as well as naval and terrestrial military products and the related electronic systems.
In addition, Intermarine is a member of Confindustria, the primary association representing manufacturing and service companies in Italy.

Research and development activities are currently primarily focused on the development of new ships and prototypes.
This includes the Aliscafi ad Ala Immersa (Hydrofoils with Submerged Foils) project which was developed with the aim of studying, designing and developing two prototypes (with two different propulsion systems) on a new type of hydrofoil with immersed foils. The prototypes, which are highly innovative in relation to traditional hydrofoils, provide technological benefits, are competitive in terms of fuel consumption compared to similar ferries, ensure greater comfort, and the possibility to increase the number of days of use, thanks to the possibility to operate with stronger wave wash, a 25% greater speed for more efficient engines and so, overall, lower operating costs.
The project "Enviroaliswath" aims to study, design and build the prototype of a fast ship, the Aliswath. The main characteristic of Aliswath consists in the combined use of foils and a submerged body (so-called swath); The ship has innovative characteristics which can be summarised as follows: better seafaring ability; consumption that is 50% lower than a conventional ship with the same weight and speed; significant wave reduction and pollution minimization. The company is developing a potential variation to change this prototype into a "wave piercing" vessel, to meet the needs of foreign shipping companies that have expressed an interest.

At 31 December 2017, the "Hydrofoils with Submerged Foils" and "Enviroaliswath" projects are fully capitalized in terms of intangible assets for 7.0 million euros. With regard to the other projects in progress, there were capitalised costs of 0.1 million euros at 31 December 2017.

Immsi Group certifications

With specific reference to the industrial and naval sector, the Immsi Group is committed to obtaining and maintaining certifications for the management systems pertaining to quality, work safety and the environment, given that these are considered a part of the Group's culture.

	Industrial sector							Marine sector		
	Pontedera	Noale and Scorzè	Mandello Del Lario	Baramati (engine plant)	Baramati (two wheel plant)	Baramati (comm. vehicles plant)	Vinh Phuc	Sarzana	La Spezia	Messina
ISO 9001 Quality management systems	since 1995	since 2006	since 2010	-	since 2013	-	since 2009	since 1996	since 1996	since 1998
ISO 14001 Environmental management systems	since 2008	since 2008	since 2010	since 2015	since 2013	since 2015	since 2011	since 2000		since 2005
BS OHSAS 18001 Worker health and safety management systems	since 2007	since 2007	since 2010	since 2015	since 2013	since 2015	since 2013			
ISO/TS 16949 Supplier quality systems				since 2012		since 2013				
ISO 50001 Energy management systems					since 2015					

The Italian, Indian and Vietnamese plants of the Piaggio group have - for several years - been certified for Quality (ISO 9001 or ISO / TS 16949) as well as for the Environment (ISO 14001) and for Health and Safety (BS OHSAS 18001).
It should be noted that - following the publication in late 2015 of the new editions of the ISO 9001 and ISO 14001 standards - Piaggio decided, for the Italian facilities of the Group, to comply with the new standard already in 2016, despite a three-year adjustment period is permitted.

As of the 1990s, the Intermarine shipyards of Sarzana, La Spezia and Messina have been certified with the Quality Management System (ISO 9001) issued by the Italian Naval Registry (RINA); the System also incorporates the additional NATO requirements pursuant to the AQAP 2110 standard, with specific criteria for quality systems to be applied in military programmes.
The shipyards of Sarzana and Messina are also certified for the Environment (ISO 14001), again by RINA; the La Spezia site, though not certified, adopts the same procedures as the Integrated Management System of the company.
Though not yet certified, all sites still adopt the same Integrated Management System, including for health and safety (OHSAS 18001).
The audits conducted by RINA in 2017 have had positive results in all the workyards, without any detected non-compliance.

The environmental dimension

The reported scope for the environmental dimension is the following:

- Real estate sector: Is Molas S.p.A. and Pietra Ligure S.r.l (the report concerned the latter company only as regards the waste management matters);
- Industrial sector: The companies of Piaggio group;
- Naval sector: Intermarine S.p.A..

The remaining companies of the Group (Immsi S.p.A., Immsi Audit S.c. a r.l., ISM Investimenti S.p.A. and RCN Finanziaria S.p.A., Pietra S.r.l.) were excluded from the reporting of the environmental figures, because their contribution was deemed marginal (their operations are confined within premises used as offices).
As regards the industrial sector, if required, the figures concerning the commercial companies and the research centres of Gruppo Piaggio were specified for year 2017.

The companies of Immsi Group perform actions intended to reduce the environmental impact of their operations, both through the reduction in the use of natural resources (energy and water), and allowing the ecosystem to absorb any direct and indirect impacts produced. Said actions are established based on a number of procedures and practices which are specific for each business sector of the Group.
The associated environmental risks are relevant mainly for the industrial and naval sector of Gruppo Immsi, in consideration of the fact that their direct activity leads to the use of resources and the emission of pollutants into the atmosphere. The activities of the real estate sector, though more limited than the other two businesses, imply a use of water resources, with an impact on the surrounding areas. The actions implemented by the Companies of the Group enabled to keep the residual risks within a non-significant level.

Piaggio & C. S.p.A. is engaged in minimising environmental impact through a careful definition of the design of the product, of the transformation technological cycle and the use of the best technology and the most modern production methods. Seeking such environmental compatibility goals leads to a constant improvement in environmental performance, which is not limited only to the production stages, but encompasses the whole life cycle of the product.

Please note that Intermarine applies an Integrated Quality Environment and Safety Management System by promoting corporate processes intended for the protection of the environment and workers' health and safety. The adoption of the procedural system and of the internal communication methods are both intended to prevent any possible form of pollution, accidents and professional diseases.
As regards Is Molas, monitoring of compliance with environmental requirements provided under the administrative permits for the real estate development operations is carried out (also as regards to the activities of the counterparties involved in the contracted works) and the growing use of eco-friendly maintenance works/methods for the sports-hotel activities.

The commitment to the environmental protection is implemented in a specific article of the Code of Ethics adopted by the companies of the Group. Attainment of the UNI EN ISO 14001:2015 environmental certification by Piaggio and Intermarine production sites is one of the most concrete aspects of this commitment.
In this regard, please note that Piaggio, for the Italian branches of the group, decided to comply, as early as 2016, with the new UNI EN ISO 14001:2015 standard, which was published in September 2015. As regards Intermarine, the Messina shipyard received the new certification in December 2017, while the Sarzana one in February 2018.

The following paragraphs report, from a quantity and quality perspective, the efforts made by the Group in mitigating the environmental risks arising from the performance of its activities, together with the environmental impacts related to the activities of the sectors.

In addition to the comments on the reporting scope, please note that the production sites of Immsi Group taken in consideration for the environmental figures are the following:

- Real estate sector: Pula (CA) for Is Molas;
- Industrial sector: Pontedera (PI), Noale (VE), Scorzè (VE), Mandello del Lario (LC), Baramati (India), Vinh Phuc (Vietnam) for Piaggio group;
- Naval sector: Sarzana (SP), La Spezia (SP), Messina (ME) for Intermarine S.p.A..

As already reported, the figures for the Pietra Ligure (SV) site, which concerns Pietra Ligure S.r.l., are reported only as regards the waste management matters.

Energy consumption

The operations of the production sites of Immsi Groupare based on the use of non-renewable (fossil) and renewable energy sources, the latter represented by the consumption of electricity with a production *mix* which partially comes from "sustainable" resources.
Over the years, the Group companies have sought to optimise and improve the management of the existing plants in order to cut their consumption. As regards to Piaggio group, during the reconfiguration or renovation of plants, assessments and studies are carried out in order to introduce equipment and methods which can minimise the environmental impact.

Consumption recorded between 2015 and 2017 is reported below, highlighting the changes in percent during 2016-2017.

Energy consumption of Immsi Group by source

		Property sector	Industrial sector	Marine sector	Total
Electricity (Thousand KWh)	**2017**	731	78,735	3,571	**83,037**
	2016	751	83,945	3,047	**87,743**
	Change 2017 - 2016	-2.7%	-6.2%	17.2%	**-5.4%**
	2015	747	82,912	2,416	**86,075**
Methane/Natural Gas (Sm^3)	**2017**	0	6,070,139	88,980	**6,159,119**
	2016	0	6,597,922	57,038	**6,654,960**
	Change 2017 - 2016	-	-8.0%	56.0%	**-7.5%**
	2015	0	6,194,665	65,108	**6,259,773**
LPG (Ton.)[1]	**2017**	2.27	552	12.20	**566**
	2016	1.95	398	11.96	**412**
	Change 2017-2016	16.4%	38.7%	2.0%	**37.5%**
	2015	3.48	178	9.55	**191**
Diesel[2] (Litres)	**2017**	9,750	2,242,299	10,768	**2,262,817**
	2016	10,000	2,293,795	6,512	**2,310,307**
	Change 2017 - 2016	-2.5%	-2.2%	65.4%	**-2.1%**
	2015	9,000	3,025,813	3,258	**3,038,071**

[1] The quantity of LPG used in the "real estate" and "naval" sector was established through the conversion parameters stated by Api Group (1 m^3 of LPG = 4.16 litres; 1 m^3 of LPG = 2.16 kg).

[2] Light Diesel Oil and High Speed Diesel will be considered as diesel.

Turning to Piaggio, starting from 2016, the company's decisions were firmly driven towards research and reduction of energy waste, by implementing the Smart Metering system, which makes the consumption measurements by the over 90 meters at the plant, usable, observable, comparable in almost real time (with a 3 hour delay) and analysable. The soundness of the undertaken activity is highlighted by the reduction of energy consumption against increased production (the increase in diesel consumption, considering the negligible quantity, is not significant). Changes in consumption at other Italian sites are due to decreases in production volumes and heating system management based on recorded outdoor temperatures.
Consumptions remained basically stable in Asia. Finally, at Baramati, in addition to having considerably reduced the consumption of diesel fuel, the factory uses a product obtained from vegetable oils (bio-diesel) that does not contribute to the consumption of fossil resources.
Piaggio group works also though commercial companies (distributors and selling agencies) and research centres located in the different reference markets. Energy consumption of these offices cannot always be measured, due to the fact that they are located in properties that are not directly owned and in which they share the supplies with other tenants. Piaggio tries to monitor the electricity consumption of non-production sites, which are estimated to be below 600 thousand Kwh.

In Intermarine, a 26% increase in electricity consumption was recorded and it can be tracked back to the higher quantity of work on the contracts. Actions aimed at energy efficiency were carried out during the last two years, among which the installation of inverters on aspiration filters and the tapering of the aspiration line ducts, in order to maximise their aspiration capacity. This trend was confirmed in 2017 with a 17.2% increase in electricity consumption over the previous year.
During 2017 the lamination and assembly works of the vessel for Taiwan's Military Navy continued. Furthermore, during that same year the construction process of the mine hunter of the Algerian Navy kicked off (hull, deck and bulkheads).
Compared to 2016, during the year, the consumption of methane which is used for heating the production building and the administration offices raised significantly (+56%). Said increase is basically due to the hard winter weather.
A significant increase of the diesel used at the Messina site was recorded in 2017 over 2016 (+65.4%).
From 2016, Intermarine updated, as agreed with Ente Provincia della Spezia, the energy efficiency goals to be achieved in the medium term (within year 2020). Please note that, in December 2015, a specialised firm was appointed to carry out an energy assessment at the Sarzana and Messina sites, enabling the company to identify the required improvement plans, with the following planning and adoption of actions aiming at the reduction in consumption.
Namely, the company has set the goal of replacing the outdoor lighting system with a LED system, leading to an expected saving of 50% in consumption (from 62 MWh to 27 MWh).

Energy consumption in the previous table was converted in gigajoule (GJ):

Energy consumption of Immsi Group by source (in GJ)

		Electricity	Methane / Natural gas	LPG	Diesel fuel	Total
GJ[1]	2017	298,933	240,267	26,114	82,393	**647,707**
	2016	315,875	259,610	18,989	84,122	**678,596**
	2015	309,868	244,194	8,807	110,621	**673,490**

1) the figures were calculated by using the conversion standards set out by GRI-G3 guidelines (1 gallon of diesel = 0.138 GJ; 1,000 m^3 of natural gas = 39.01 GJ; 1 kwh = 0.0036 GJ). As regards LPG, the conversion standard 1 kg of LPG = 46.1 MJ was used.

Around 80% of the energy used at the production sites comes from electricity and natural gas, leaving a limited incidence to LPG and diesel.

As regards the electricity used at the Italian production sites, it comes in part from renewable sources, based on the data reported by the energy mixes of the supply companies.
Energy consumption was then reclassified in two categories: “from renewable sources” and “from non-renewable sources”. The results of the last three years is summarised in the table.

Breakdown of energy consumption between renewable and non-renewable sources (in GJ)

GJ		Property sector	%	Industrial sector[1]	%	Marine sector	%	Group total	%
2017	Renewable[2]	1,287	41.6%	71,099	18.6%	1,800	10.4%	74,186	18.4%
	Non-renewable[3]	1,804	58.4%	311,185	81.4%	15,481	89.6%	328,471	81.6%
2016	Renewable[2]	1,322	41.9%	79,771	19.0%	1,536	11.0%	82,629	18.9%
	Non-renewable[3]	1,836	58.1%	340,804	81.0%	12,447	89.0%	355,087	81.1%
2015	Renewable[2]	1,582	49.8%	59,117	14.8%	1,739	14.7%	62,438	15.1%
	Non-renewable[3]	1,596	50.2%	339,957	85.2%	10,055	85.3%	351,608	84.9%

1) Only the Piaggio group plants located in Italy were taken in consideration, since it was not possible to establish the composition of the energy mix related to the electricity supplied to foreign plants;
2) The figure was determined by multiplying the consumption of electricity by the share of the energy mix from renewable sources;
3) The value was determined by multiplying the consumption by the share of the energy mix from non-renewable sources, adding also the direct consumptions of fossil fuel converted according to the standards defined by GRI.

Emissions of CO_2 and other pollutants

The environmental impact generated by the production activities of the Immsi Group (which is mainly linked to the industrial sector) implies the greenhouse gas emissions (mainly, CO_2) and Volatile Organic Compounds (VOC) into the atmosphere.
The following table shows the direct and indirect emissions of the Group’s three sectors during 2015 – 2017.

Emissions of CO_2 of Immsi Group production sites (in tons of CO_2)

Ton		Property sector	Industrial sector	Marine sector	Group total
2017	direct [1]	25.8	18,281.0	204.6	**18,511**
	indirect [2]	241.7	42,642.0	1,180.5	**44,064**
2016	direct [1]	26.5	19,253.0	130.3	**19,410**
	indirect [2]	245.4	42,227.0	995.7	**43,468**
Change 2017-2016	direct [1]	-2.3%	-5.0%	57.1%	**-4.6%**
	indirect [2]	-1.5%	1.0%	18.6%	**1.4%**
2015	direct [1]	24.1	20,388.0	137.2	**20,549**
	indirect [2]	244.1	41,010.0	789.3	**42,043**

Note: the GWP (global warming potential) ratio associated to CO_2 is 1.
1) Means the CO_2 emissions from the combustion of methane, natural gas, diesel and LPG. The conversion factors published by the Italian Ministry for the Environment (UNFCCC National Inventory) were used for said values and are valid for the calculation of emissions over the 2015 - 2017 three-year period.
2) Means the CO_2 emissions from electricity consumption. The conversion factor used for years 2015 and 2016 is the one published by Ispra as regards year 2013 (326.78 g. CO_2/Kwh). The Ispra data updated at 2016 were used for 2017 (330.6 g CO_2/Kwh).

The structural actions carried out by Piaggio over time (replacement of boilers and restructuring of the distribution networks) highlight the soundness of said modifications. Indeed, in 2017 emission levels were substantially in line with those already detected in previous years..
Still as regards to 2016 - 2017, the reduction in overall emissions recorded in the industrial sector (-557 ton of CO_2 below 2016) largely balances the increase occurred in the naval sector (+259.1 tons of CO_2 over 2016). The emissions recorded for the real estate sector remained virtually constant.

Regarding the VOC (Volatile Organic Compounds) emissions, whose figures for the real estate and naval sectors are not available, because it is not mandatory under the relevant provisions, please note that Piaggio constantly monitors their diffusion outside the production plants. During the last two years, VOC emissions from the Pontedera plant reduced by 58.6% (from 111.2 tons in 2016 to 46.1 tons in 2017), thanks to the use of the new painting facility for scooters to full potential. With regard to the other plants, evaluations are currently in progress on the use of technologies with a lower impact on air and water pollution.
The increase in VOC emissions from the Baramati plant (from 336 tons in 2016 to 433 tons in 2017, an increase of 28.9%) can be attributed to the significant increase in the number of scooters produced.

Intermarine's shipyard operations are based on the use of fibreglass (resin and glass fibre), the plastic material for building the hulls and their superstructures. The company adopts specific procedures and operations instructions regarding the use of acetone (for cleaning the tools) and styrene (used for laminating the hulls and/or flow coater equipped resin machines). Namely, in order to achieve a lower consumption of acetone, the preliminary use of recycled acetone from the internal distillation plant is required, limiting the collection of pure solvent only to the case of non-availability of the former. The use of "pure" raw materials is constantly monitored by the Maintenance Manager by filling out specific collection forms.
Furthermore, based on the production requirements, the procedures require that the FRP (Fibre Reinforced Plastic) department should request the Maintenance departments to activate the aspirators required for collecting from the extraction points located in the different areas of the yard. Moreover, the same department monitors the hours of engine operation, replacing the active carbon filters when the planned hours are reached, complying with the provisions of the permits.
During 2016, Ente Provincia della Spezia updated the environmental improvement goals to be achieved within 2020 and intended to reduce emissions. They include:

a) The construction of a fixed extraction facility for the cutting, welding and other works carried out in the mechanical workshops, intended to duct the produced emissions.
b) The integration of a mobile extraction facility for any occasional cutting and welding works carried out in the shipyard and on the vessels under construction.

As regards the permit-related matters for emissions, Intermarine has held the Autorizzazione Integrata Ambientale (A.I.A. - Integrated Environmental Permit) for the Sarzana production unit since 2008. Said plant complies with IPPC regulations, based on the substances used in production.
Moreover, the monitoring of emissions is carried out both through self-checks and internal inspections intended to assess the environmental impact of the corporate works, both through inspections by external entities (ARPAL and RINA), promoting the suggested improvements.

Conserving water resources

Conserving water resources is a significant aspect of the activities of the Group. The existence of a risk associated to water consumption in production processes due to possible waste, inefficiencies and pollution of water sources was identified.

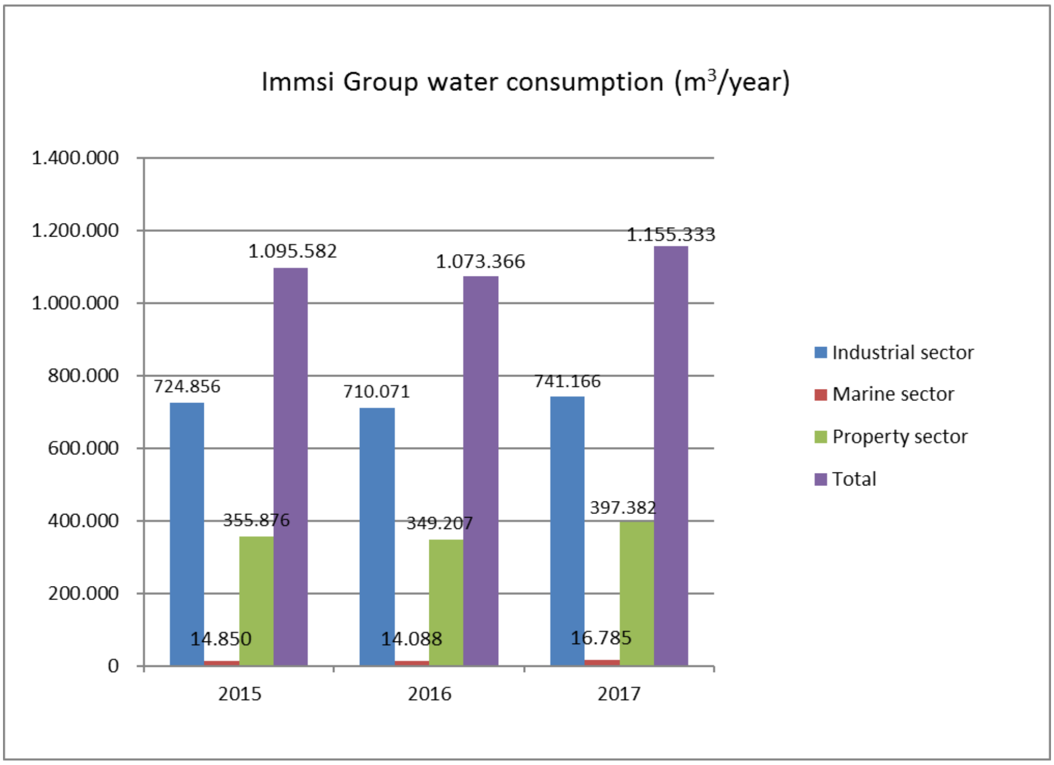
Water consumption at the production sites of Immsi Group (in m^3)

m^3		Property sector	Industrial sector	Naval sector[1]	Group total
2017	Water from wells	17,594[2]	278,140	-	295,734
	Water from the mains	-	463,026	16,785	479,811
	Other (rivers)[3]	379,788[4]	-	-	379,788
	Total	**397,382**	**741,166**	**16,785**	**1,155,333**
2016	Water from wells	12,802[2]	261,712	-	274,514
	Water from the mains	-	448,359	14,088	462,447
	Other (rivers)[3]	336,405[4]	-	-	336,405
	Total	**349,207**	**710,071**	**14,088**	**1,073,366**
% Chg 2017-2016		13.8%	4.4%	19.1%	7.6%
2015	Water from wells	16,278[2]	255,776	-	272,054
	Water from the mains	-	469,080	14,850	483,930
	Other (rivers)[3]	339,598[4]	-	-	339,598
	Total	**355,876**	**724,856**	**14,850**	**1,095,582**

1) The figures for 2017 are based on an estimation, because, during the consolidation of the data, the supporting documents for the last months for the Messina site were not available;
2) Water from the drinking water tank of the Is Molas consortium, collected underground. Used for heated water supply in residences and hotels;
3) Reference is made to Rio Pula, close to the Is Molas resort;
4) The figure is the sum of the measurements made before irrigation use.

Over the years, Piaggio has developed production processes designed to reduce water consumption. For example, the wells serving the Pontedera site are equipped with inverters, that can regulate system flow rates based on the amount of water required by the hydraulic loop.
At Piaggio plants, water consumption rose slightly, due to the increased production volumes recorded during last year. As this regards, Piaggio will continue to undertake activities and tests aimed at additional reductions.

Water consumption at Is Molas covers a significant part of the overall consumption of Immsi Group (in 2017 they were around 34% of the total, 32% in 2016). This can be traced back to the irrigation of the golf courses. In order to avoid that the water requirements of the resort conflict with those of the Pula municipality, operational procedures were implemented seeking to achieve an efficient use of reservoirs (owned by Consorzio Is Molas) which collect water from the nearby Rio Pula during winter. Furthermore, the water collected from two of said reservoirs comes in part from the treatment station owned by the Consortium.



As regards waste water, environmental respect is ensured with processes to treat and purify waste water.

As regards to Piaggio group, waste water is estimated to be equal to the collected quantity. In this regard, below we report the destination of waste water produced for each production site:

- Pontedera: all industrial and most non-industrial waste water is conveyed to a chemical/physical treatment plant outside the site and from it, after biological treatment, the waste is discharged into an open channel. A small part of the waste-water coming from the toilets located in two areas of the factory, is directly discharged into the public sewer system;
- Noale: all buildings are connected to the public sewer system. The waste water is of a non-industrial origin only (from toilets and the site canteen);
- Scorzè: the plant is not served by the public sewer system, so waste water is biologically purified at the site and then conveyed to the local Rio Desolino canal;
- Mandello del Lario: the plant discharges a part of waste water directly into the public sewer system (non-industrial waste water, canteen waste water, etc.), while waters used in the cooling plants are discharged into the Torrente Valletta stream;
- Baramati: waste water is treated and used for irrigation purposes;
- Vinh Phuc**:** the site has a chemical and physical treatment plant to purify pre-treated waste from painting operations before it is conveyed to the public sewage system, where all other site waste (non-industrial waste) is sent. The final destination is in the public sewer system.

Only the sites of Baramati and Vinh Phuc reuse part of the drawn water. Specifically, approximately 143,342 m³ of water were recycled and reused by the Indian site in 2017, equal to 51.7% of the total amount drawn by the site. In the Vietnamese factory, waste water recovery amounted to 12,985 m³/y or approximately 11%.

As regards the commercial operations (distributors, selling agencies) and research centres of Piaggio group, an overall water collection not exceeding 1,000 m^3 per year is estimated.

As regards the management of waste water at Is Molas, the company established that the waste water from the hotel premises is previously ducted into the treatment station owned by the Consortium. Once treated, said water reaches the reservoirs and are then used to irrigate the golf courses. It is therefore possible to estimate that recycled water is equivalent to the disposed water.

Waste handling and recovering

The waste generated by the production operations of Immsi Group were 10,472 tons in 2017, more than 10% below 2016. The industrial and naval sectors, considering the nature of the produced waste, have been implementing efficient management for their storage and disposal for several years.

Waste generated in the the production sites of Immsi Group

Kg		Real estate sector[1]	Industrial sector	Marine sector	Group total
2017	**Total waste**	**5,170**	**9,753,971**	**713,249**	**10,472,390**
	Hazardous	1,700	1,759,106	173,612	**1,934,418**
	Non-hazardous	3,470	7,994,865	539,637	**8,537,972**
	% Hazardous	32.88%	18.03%	24.34%	18.47%
	% Non-hazardous	67.12%	81.97%	75.66%	81.53%
	Total waste	**5,170**	**9,753,971**	**713,249**	**10,472,390**
	For recycling	0	8,345,090	466,571	**8,811,661**
	Disposed	5,170	1,408,881	246,678	**1,660,729**
	% For Recycling	0.00%	85.56%	65.41%	84.14%
	% Disposed	100.00%	14.44%	34.59%	15.86%
2016	**Total waste**	**1.553.148**	**9,749,729**	**376,216**	**11,679,093**
	Hazardous	518	1,998,310	123,508	**2,122,336**
	Non-hazardous	1,552,630	7,751,419	252,708	**9,556,757**
	% Hazardous	0.03%	20.5%	32.8%	18.17%
	% Non-hazardous	99.97%	79.5%	67.2%	81.83%
	Total waste	**1,553,148**	**9,749,729**	**376,216**	**11,679,093**
	For recycling	1,410,860	8,069,886	335,917	**9,816,663**
	Disposed	142,288	1,679,843	40,299	**1,862,430**
	% For Recycling	90.8%	82.8%	89.3%	84.1%
	% Disposed	9.2%	17.2%	10.7%	15.9%
2015	**Total waste**	**70,131**	**7,339,983**	**451,702**	**7,861,816**
	Hazardous	49,541	1,869,334	184,458	**2,103,333**
	Non-hazardous	20,590	5,470,649	267,244	**5,758,483**
	% Hazardous	70.64%	25.47%	40.84%	26.75%
	% Non-hazardous	29.36%	74.53%	59.16%	73.25%
	Total waste	**70,131**	**7,339,983**	**451,702**	**7,861,816**
	For recycling	16,130	5,740,570	317,206	**6,073,906**
	Disposed	54,001	1,599,413	134,496	**1,787,910**
	% For Recycling	23.00%	78.21%	70.22%	77.26%
	% Disposed	77.00%	21.79%	29.78%	22.74%

1) The real estate sector includes the figures concerning the Is Molas (Pula, CA) and Pietra Ligure S.r.l. (Pietra Ligure, SV) sites.

Where possible, the Piaggio group makes all efforts to recover rather than dispose of waste. and reconditioning and reuse have been a common practice at all sites for several years now. Piaggio is also committed to using environmentally compatible processes and technologies that can reduce production of waste, together with the priority objective of increasing the portion of waste sent to recovery, over the portion of waste to be disposed of.
Sites with an environmental management system have specific procedures in place to facilitate waste disposal and recovery, thus avoiding operations that are harmful for the environment or that may affect activities. In all the other factories, the general indications were obtained from the above procedures and adjusted to reflect locally applicable regulations.
A cut in hazardous waste and an increase in waste sent to recycling in the industrial sector are to be highlighted against an increase of the overall quantity of waste produced between 2016 and 2017.

As regards the naval sector, considering the hazardousness of certain substances generated during production processes, Intermarine’s Environment and Safety Manager and Maintenance Manager are required to comply with specific procedures for identifying, treating and disposing (through specialised firms) of waste, as provided under the current legislation.
The above table shows that a significant increase of the produced quantities was recorded in 2017 if compared to 2016 (+81.9% for the Sarzana and La Spezia sites, +119% for the Messina site), due to the increase in production.
As regards future waste management, the following actions were planned for the production sites:

- Improvement of the management of waste sorting by dividing the waste containers located in specific areas of the plants.
- Improved identification of waste;
- In selecting the specialised firms for the disposal of waste, the management of waste forms, the management of the SISTRI system and the organization of collection are measured.

These actions, together with the future purchase of a machine which re-processes the processing scrap, will enable to reduce and improve the management of the produced waste.

Regarding the real estate sector, please note that, if compared to 2016, no significant restructuring and/or demolition works were carried out during 2017. Therefore, a significant reduction of the waste produced by the Is Molas and Pietra Ligure sites was recorded in 2017.

Avoiding contamination of soil and water sources

We report that in 2017, no significant spills or polluting events occurred at any of the Group’s production sites.
At the Mandello and Pontedera, decontamination initiatives are under way due to historic contaminations of the sites. These situations emerged during demolition work in Mandello and during environmental monitoring campaigns in Pontedera. In both cases, the pollutants found have not been used in the production sites for several decades, providing the historical nature of their origin. In accordance with legal obligations, the two situations have been reported to the relevant authorities and managed according to their instructions.

Intermarine’s production activities are carried out under the applicable legislation on discharge into water bodies. This is complemented by the regulations on the management and operation procedures for the works having the highest risk of pollution and in order to tackle the emergency in case of any toxic substances spilled in water.

As regards the Is Molas site, the resort's golf courses require regular treatments using chemical products and fertilisers in order to keep the grass surface suitable for practising the sport. In this regards, please note that products that comply with the current environmental legislation are used, limiting the risk of a possible pollution of groundwater.
The removal of asbestos in the former shipyard in Pietra Ligure continued during 2017. All the works were performed in full compliance with the environmental and safety legislation.

Biodiversity

Piaggio's production sites are not located in protected areas or areas with high levels of biodiversity. The sole exception is the Scorzè site, which although located in an industrial zone, conveys its waste water into the drainage basin of the Venetian Lagoon. As such the production site is subject to restrictions imposed by specific laws.
Other remarks must be made for the Intermarine shipyard in Sarzana: It is located in the Montemarcello – Magra – Vara Regional Nature Park (Regional Law no. 12 of 22/02/1995), in the

area defined as “production development areas around the river”. Intermarine’s offices and production premises are in the site, covering 0.076 km^2.
The Company is committed to ensuring that its operations are compatible with the protection of the natural area close to its plant in Liguria, thus reducing the risk for damage to animal species.

As regards the real estate sector, the top priority of Is Molas S.p.A. is to ensure that its operations are compatible with the protection of the natural areas and species surrounding its sites of operations, under the provisions of the VIA (Valutazione Impatto Ambientale - environmental impact assessment).

The social dimension

Developing human resources

People are key resources for the Immsi Group, and with their professionalism and passion they contribute each day to the success of our companies, embracing the fundamental values of transparency and ethics. The Group's aim is to empower talent and promote the qualified growth of each person, in a way that is fair and based on merit, within a framework of loyalty and reciprocal trust that are the foundations of a Group organisation that is sustainable and successful.

Immsi feels it is important to clearly define all the values that the Company recognises, accepts and shares, and all the rules and principles of conduct which from the very start, have shaped its relations with the outside world and with its employees. Directors, staff and more generally everyone operating on behalf of Immsi, for any reason and without making any distinctions or exceptions, are committed to these principles and the contents of the Code of Ethics being adopted, as part of their own functions and responsibilities and when carrying out their professional and other activities, also outside the Immsi Group.

For a clear and complete overview, the Group operates in three sectors and more specifically: the “property and holding sector" which comprises the results of Immsi S.p.A., Immsi Audit S.c. a r.l., Is Molas S.p.A. and Apuliae S.r.l., the “industrial sector” which includes companies belonging to the Piaggio group, and the "marine sector", which includes Intermarine S.p.A..
Some information reported in this section is also indicated separately by production site. The sites at Pontedera, Noale, Scorzè and Mandello del Lario are used for industrial activities of the Piaggio group, the sites at Sarzana and Messina are shipyards and the site at Pula refers to the Is Molas resort.

Staff

As of 31 December 2017, Group employees numbered 6,964, down by 90 (-1.3%) compared to 31 December 2016.
The number of employees was affected by seasonal workers in the summer months (with fixed-term contracts and fixed-term service contracts) used to deal with typical peaks in demand in the summer months, particularly in the industrial sector and property business (tourism/hotel industry).

The breakdown by geographic segment and category of Immsi Group employee as of 31 December 2017 is shown below, compared with data recorded as of 31 December of the two previous years, classified by business sector.
Information is also provided on educational background by geographic segment and the (incoming/outgoing) turnover rate of the professional category of Immsi Group employees relative to 2017.

Company employees by geographic segment as of 31 December

numbers	31.12.2017			
	Property and holding sector	Industrial sector	Marine sector	Group total
EMEA and the Americas	69	3,682	275	4,026
of which Italy	*69*	*3,444*	*275*	*3,788*
India		2,090		20,90
Asia Pacific 2W		848		848
TOTAL	**69**	**6,620**	**275**	**6,964**

numbers	31.12.2016			
	Property and holding sector	Industrial sector	Marine sector	Group total
EMEA and the Americas	71	3,752	277	4,040
of which Italy	*71*	*3,518*	*277*	*3,866*
India		2,113		2,113
Asia Pacific 2W		841		841
TOTAL	**71**	**6,706**	**277**	**7,054**

numbers	31/12/2015			
	Property and holding sector	Industrial sector	Marine sector	Group total
EMEA and the Americas	74	3,872	297	4,196
of which Italy	*74*	*3,638*	*297*	*4,009*
India		2,353		2,353
Asia Pacific 2W		828		828
TOTAL	**74**	**7,053**	**297**	**7,424**

Average number of company employees by professional category

numbers	2017			
	Property and holding sector	Industrial sector	Marine sector	Group total
Senior management	5	96	7	108
Middle management	6	593	31	630
White collars	30	1,728	119	1,877
Manual workers	42	4,251	120	4,413
TOTAL	**83**	**6,668**	**277**	**7,028**

numbers	2016			
	Property and holding sector	Industrial sector	Marine sector	Group total
Senior management	6	100	8	114
Middle management	6	581	26	613
White collars	33	1,783	123	1,939
Manual workers	41	4,518	122	4,681
TOTAL	**86**	**6,982**	**279**	**7,347**

numbers	2015			
	Property and holding sector	Industrial sector	Marine sector	Group total
Senior management	7	105	8	120
Middle management	6	579	26	611
White collars	34	2,012	125	2,171
Manual workers	40	4,866	135	5,041
TOTAL	**87**	**7,562**	**294**	**7,943**

Company employees by educational qualifications as of 31 December 2017

Employee/staff numbers	Graduate	High School	Middle School	Primary School	Total
EMEA and Americas	802	2,006	1,153	65	4,026
of which Italy	*661*	*1,930*	*1,137*	*60*	*3,788*
India	568	1,522	-	-	2,090
Asia Pacific 2W	323	525	-	-	848
Total	**1,693**	**4,053**	**1,153**	**65**	**6,964**
%	**24.3%**	**58.2%**	**16.6%**	**0.9%**	

Company employee turnover in Italy as of 31 December 2017

Employee/staff numbers	Staff as of 31 December 2017	Men	Women	< 31	31 - 40	41 - 50	> 50	Total	% Turnover
		Incoming							
Senior management	75	8	0	0	1	3	4	8	10.7%
Middle management	269	11	3	0	7	3	4	14	5.2%
White collars	1,062	48	33	47	17	13	4	81	7.6%
Manual workers	2,382	209	139	155	53	59	81	348	14.6%
Total	**3,788**	**276**	**175**	**202**	**78**	**78**	**93**	**451**	**11.9%**
		Leavers							
Senior management	75	12	0	0	2	3	7	12	16.0%
Middle management	269	13	2	0	5	6	4	15	5.6%
White collars	1,062	39	28	14	22	12	19	67	6.3%
Manual workers	2,382	273	156	154	50	65	160	429	18.0%
Total	**3,788**	**337**	**186**	**168**	**79**	**86**	**190**	**523**	**13.8%**

An entry turnover rate of 11.9% and leaving turnover rate of 13.8% was recorded in Italy in 2017.

Personnel management policies

Immsi and Group companies adopt systems, procedures and practices for personnel recruitment, development and remuneration that reward the merit and commitment of employees, while respecting equal opportunities. Any type of discrimination is explicitly forbidden by the Code of Ethics.
Different companies within the Group have established their own procedures and practices on personnel management geared to the specific nature of their organisation, characteristics and professional requirements. In fact, the Group does not consider standardised personnel management systems as effective or efficient, given the very diverse nature of the business segments of its subsidiaries, despite the common principles of ethics, transparency and meritocracy they all share.

To offset significant employment-related risks for Group companies, specific policies have been established for recruitment, career development, training, remuneration and talent management, which are adopted in all countries where the Group operates according to the same principles of meritocracy, fairness and transparency.

A COMPETITIVE ORGANISATION

The Group pursues an innovative organisation as a way of honing an advantage, while observing - in all circumstances, in relations with its own staff and regardless of the type of work carried out, the principles in the Codes of Ethics adopted by each Group company and laws in effect in the geographic areas where they operate.
Specifically, the Piaggio group's organisation uses "network" logics with all its partners, e.g.: suppliers, dealers) that contribute to the company's value chain, and seizes opportunities from the

digital transformation that has been unfolding in the last few years. The subsidiary Intermarine, with its sights set on customer focus and logics targeting complex projects, pursues an organisational configuration that is functional to its contractual programmes, with specific, multidisciplinary teams assigned to individual contracts, that can generate added professional value to achieve time, cost and quality objectives.
The Group does not resort to child labour according to the age limits in force in various countries or to forced labour and observes main international laws, such as the UN Convention on the Rights of the Child (UNCRC) and the 1998 Human Rights Act.

RECRUITMENT

Personnel recruitment takes place in full compliance with Law, the Code of Ethics, the Compliance Programme pursuant to Italian Legislative Decree no. 231/01 and company procedures, where present.
As part of recruitment, which respects equal opportunities and non-discrimination, Immsi ensures that resources employed match profiles necessary for company requirements, avoiding favouritism or any type of facilitation.
To maximise the effectiveness of the recruitment process, the Group selects recruitment channels based on the specific professional profiles to employ, establishing successful partnerships with schools, universities, training centres, employment agencies, etc.. The Group's bigger companies have been given even greater visibility with a specific section in company websites, for people to register and send in their CVs, which can then be entered in a database.

CAREER DEVELOPMENT

The Group sees the possibility of offering its employees concrete career development paths and the security that they can built up their own career within the Group as fundamental in retaining talent and expertise.
Career and development paths are based primarily on an assessment of skills, behaviours, performance and potential, with the aim of creating a pool of highly motivated people to fill key positions.
The development of the core skills necessary to remain in step with evolving markets and business is a priority.

As regards the Piaggio group, managerial and professional models have been identified and were updated during 2017. The models propose development plans, job rotation, participation in strategic or international projects, managerial and professional training and the Piaggio Way programme for young talent management. Managerial and professional career paths have also been planned for strategic resources, earmarked to hold key positions. For more details, see the 2017 CSR Report published by Piaggio & C. S.p.A..

In the marine sector, Intermarine recruits new graduates with technical/engineering and scientific backgrounds, at regular intervals, to join the company and gradually build up their career. This approach involves an initial extra-curricular work placement, based on specific agreements and training projects stipulated with the province of La Spezia, and a second stage where the person is employed on a professional apprenticeship contract, in order to obtain a specific professional qualification based on a dedicated training plan.

EVALUATION

The Immsi Group ensures that the criteria and procedures adopted to review personnel performance, managerial and professional skills and potential in relation to assigned roles, company requirements and possible development paths, where identified, are made known to personnel.
Performance evaluation influences both development and career paths and rewarding.

As regards the Piaggio group in particular, Piaggio consolidated its "Evaluation Management System" during 2017 - a standard process to review white collar and managerial staff using IT applications that can manage all reviews in real time, in order to develop human capital.

Percentage of employees who received performance and career development reviews in 2017 by geographic segment

	EMEA & Americas	of which Italy	Asia Pacific 2W	India
Senior management	88%	87%	100%	100%
Middle management	90%	88%	100%	100%
White collars	89%	87%	100%	100%
Manual workers	n/a	n/a	n/a	n/a

TRAINING

The Group places considerable attention on technical, operational, safety and specific professional training: during 2017, a total of 65,147 training hours were delivered. Training is designed to meet the needs of all company employees, guaranteeing bespoke solutions.
The main companies of the Immsi Group have their own company training management and organisation procedures.
The Piaggio group has put in place a platform called Piaggio Global Training, which is used to manage and monitor the entire training process. The process methodology, starting from the analysis of training needs, is the same in every geographic area, thereby ensuring a uniform training policy.
Intermarine adopts a specific procedure as part of its Quality System, with an annual review of the professional/technical training needs of staff in each department; this review is used to develop its Training Plan, approved by the Chief Executive Officer. This Training Plan, which includes mandatory occupational health and safety training, is then put in place, with a priority on public training, funded through ongoing and successful partnerships with Training Organisations. Intermarine has provided training through inter-professional and private funding and takes part in intercompany training projects.
In 2018, Group companies will attend a training session on the alignment of Compliance Programmes for the prevention of offences contemplated in Legislative Decree 231/01, with information on issues related to the protection of human rights and workers contained in the Code of Ethics, which is an attachment to the Compliance Programme.

Hours of training by training area

Thematic area	2017				2016				2015			
	EMEA AMERICAS	INDIA	ASIA PACIFIC 2W	TOTAL	EMEA AMERICAS	INDIA	ASIA PACIFIC 2W	TOTAL	EMEA AMERICAS	INDIA	ASIA PACIFIC 2W	TOTAL
Managerial training	6,303	14,098	742	21,143	3,464	11,056	1,108	15,628	4,285	10,160	1,431	15,876
Technical – professional training	11,379	6,762	408	18,549	12,410	13,224	1,086	26,720	10,071	38,281	52	48,404
Language training	5,365	216	640	6,221	4,493	1,400	6	5,899	8,074	939	996	10,009
Health and safety training	8,504	5,186	5,544	19,234	8,040	5,108	4,405	17,553	7,081	7,965	801	15,847
TOTAL	**31,551**	**26,262**	**7,334**	**65,147**	**28,407**	**30,788**	**6,605**	**65,800**	**29,511**	**57,345**	**3,280**	**90,136**

Total training hours by professional category

Professional category	2017	Total per-capita 2017 *	2016	Total per-capita 2016 *	2015	Total per-capita 2015 *
Senior management	1,243	11.3	1,139	10.4	1,194	10.0
Middle management	11,439	17.8	10,695	16.9	9,285	15.2
White collars	35,072	18.6	29,777	15.8	39,095	18.0
Manual workers	13,496	3.1	20,576	4.6	27,100	5.4
Other workers	3,897	n/a	3,613	n/a	13,798	n/a
Total	65,147	9.4	65,800	9.3	90,472	11.4

Training hours by gender

Thematic area	2017			2016			2015		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managerial training	18,836	2,307	21,143	14,268	1,360	15,628	14,435	1,441	15,876
Technical – professional training	16,346	2,203	18,549	23,886	2,834	26,720	44,756	3,684	48,440
Language training	4,114	2,107	6,221	4,227	1,672	5,899	7,575	2,714	10,289
Health and safety training	15,877	3,358	19,235	16,156	1,397	17,553	14,094	1,773	15,867
Total	**55,173**	**9,975**	**65,147**	**58,537**	**7,263**	**65,800**	**80,860**	**9,612**	**90,472**
Total per-capita *	**9.9**	**7.2**	**9.4**	**10.3**	**5.2**	**9.3**	**13.4**	**6.8**	**12.2**

* value determined by assigning all training hours delivered (including internships, project training, etc.) to the numerator, and the work force as of 31 December 2017 to the denominator.

The above data do not consider on-the-job training hours.

REWARDING

The Immsi Group's reward policies are designed to reward individuals and recognise their contribution to the company, according to criteria of competitiveness, fairness and meritocracy.[1]
The Group's reward system differs based on the Group's companies.

Piaggio offers to new recruits and all its employees a salary package in line with the best market practices. This is why a salary review process has been adopted. For details, see the 2017 CSR Report published by Piaggio & C. S.p.A..
The achievement of excellent results in terms of objectives set by the company is rewarded through variable incentive systems, focused on business-related qualitative and quantitative objectives as well as on the internal efficiency of each area of responsibility.
The full process of setting objectives and reviewing results is conducted with employees, using objective criteria.
Piaggio offers a benefits package in line with best practices of local markets, structured on an organisational basis. Benefits include: a company car, supplementary healthcare, a company

[1] For the purposes of the Standard GRI 401-2, "significant locations of operations" means the sites in Pontedera, Noale, Scorzè and Mandello del Lario dedicated to the industrial activity of the Piaggio group, the sites of Sarzana and Messina which are shipyards and the site in Pula which is an Is Molas resort. Also included is the Immsi S.p.A. holding company, with headquarters in Mantova.

medical centre at various sites, agreements with local entities and organisations of interest for employees.
On a national level, benefits are provided to full-time as well as to part-time employees without distinction.

Intermarine remunerates and rewards personnel through salary policies and strategies that recognise the competencies, responsibilities, commitment and contribution made by each person, in compliance with criteria of fairness and competitiveness, and that also recognise the specific and particular economic, financial and productive aspects of the company and its relative contracts. Intermarine reviews personnel salaries on a continual basis and consults with managers of each department at regular intervals to identify any critical aspects as regards professional categories and salary brackets. Intermarine gives all employees who are senior managers and some key staff a company car, regardless of their type of employment contract (full-time, part-time, fixed term).

Salary and performance review policies for personnel of companies in the property and holding sectors are based on organisational logics and principles of meritocracy and impartiality. Reviews at regular intervals make it possible to identify the strengths and weaknesses of each employee and start a process aimed at retaining resources that make the most significant contributions.
Benefits are also provided as per contract provisions, covering supplementary pension schemes, accident/life/disability insurance, parental leave and healthcare, regardless of whether contracts are full or part-time.

Ratio between the average remuneration of women and men in the same professional category[2]

	Italy	EMEA (excluding Italy)	Asia Pacific	India
Senior management	0.88			
Middle management	0.90	1.03	0.79	1.09
White collars	0.92	0.81	0.96	0.82
Manual workers	0.90		0.96	0.71

On the basis of internal analyses of salary conditions, no significant differences were detected within the Immsi Group between the basic salary and the remuneration of men compared to women with the same category, experience and assigned duties.
The ratio between the standard minimum salary for new recruits and the local minimum wage in Italy in 2017 was 1.37 for middle management, 1.14 for white collars and 1.28 for blue collars. [3]
An equivalent comparison made in Vietnam and India for the Piaggio group and blue collars alone showed a ratio of 1.32 and 1 respectively.

Diversity and equal opportunities

In relations with its staff and regardless of the type of work carried out, the Immsi Group respects, in all circumstances, the principles set out in the Code of Ethics adopted by each Group company, which has been updated with the introduction of an article specifically on the protection of human rights and workers' rights.
As provided for by the Code of Ethics, the Group undertakes to ensure respect for the personal dignity, privacy and personality rights of every individual, as well as ensure the conditions necessary for a non-hostile work environment and to prevent any form of exploitation, discrimination or harassment in accordance with the above conventions. In particular, the Group

[2] Categories not reported in individual geographic segments do not have any female employees.
[3] For the purposes of Standard GRI 202-1, “significant locations of operations” means the sites in Pontedera, Noale, Scorzè and Mandello del Lario dedicated to the industrial activity of the Piaggio group, the sites in Sarzana and Messina which are shipyards and the site in Pula which is an Is Molas resort. Also included is the Immsi S.p.A. holding company, with headquarters in Mantova.

rejects and dissociates itself from any conduct that may constitute a threat of any kind, determined by reasons of a racial or sexual nature or related to other personal characteristics, and requires compliance with all laws prohibiting any form of discrimination based on race, gender, religion, language, ideology, ethnicity or political opinion and prohibits any form of slavery, torture, forced labour, child labour, cruel, inhuman or degrading treatment and working conditions that may pose a threat to life or health.
Directors, staff and more generally everyone operating on behalf of Immsi, for any reason and without making any distinctions or exceptions, are committed to these principles and the contents of the Code of Ethics being adopted, as part of their functions and responsibilities and when carrying out their professional and other activities. This commitment is made by each party by signing contracts (of employment, sale, purchase, etc.), that include clauses on respecting the Code.
Immsi and its subsidiaries do not resort to child labour according to the age limits in force in various countries or to forced labour and observe laws in effect in the areas where they operate.

No infringements of the above principles have been reported.

For further details on diversity management in the Piaggio group, which operates on a global scale with employees in Europe, America and Asia and considerable age/gender distinctions, see the 2017 CSR Report published by Piaggio & C. S.p.A..
As regards the composition and promotion of diversity of Immsi S.p.A. company boards, see the Report on Corporate Governance and Ownership.

FEMALE EMPLOYMENT

Female employees in the Group play a fundamental role at all levels of the organisational structure. They account for 19.8% of the total workforce, in line with 2016 figures.

Company employees by gender and geographic segment as of 31 December 2017

	2017		2016		2015	
	Men	Women	Men	Women	Men	Women
EMEA and Americas	2,834	1,192	2,902	1,198	3,025	1,218
of which Italy	*2,649*	*1,139*	*2,719*	*1,147*	*2,845*	*1,164*
India	2,044	46	2,067	46	2,306	47
Asia Pacific	704	144	698	143	681	147
Total	**5,582**	**1,382**	**5,667**	**1,387**	**6,012**	**1,412**

Number of women employees as of 31 December 2017 per professional category

	Fixed-term contract		Open-ended contract		Total		% of women
	Men	Women	Men	Women	Men	Women	
Senior management	3	0	101	6	104	6	5.5%
Middle management	10	4	560	67	570	71	11.1%
White collars	41	40	1,353	447	1,394	487	25.9%
Manual workers	981	29	2,533	789	3,514	818	18.9%
Total	**1,035**	**73**	**4,547**	**1,309**	**5,582**	**1,382**	19.8%

Number of women employees as of 31 December 2017 per geographic segment

	Fixed-term contract		Open-ended contract		Total		% of women
	Men	Women	Men	Women	Men	Women	
EMEA and Americas	18	14	2,816	1,178	2,834	1,192	29.6%
of which Italy	15	13	2,634	1,126	2,649	1,139	30.1%
India	761	21	1,283	25	2,044	46	2.2%
Asia Pacific	256	38	448	106	704	144	17.0%
Total	**1,035**	**73**	**4,547**	**1,309**	**5,582**	**1,382**	19.8%

Equal opportunities are offered to employees of both genders, with concrete initiatives in place to help people strike a balance between work and domestic life. Such initiatives include alternatives to full time work.

Company employees by profession, gender and geographical segment as of 31 December 2017

	Full time			Part time			% Part time
Employee/staff numbers	Men	Women	Total	Men	Women	Total	
EMEA and Americas	2,750	878	3,628	86	312	398	10%
of which Italy	*2,566*	*829*	*3,395*	*85*	*308*	*393*	10%
India	2,044	46	2,090	0	0	0	0%
Asia Pacific	704	144	848	0	0	0	0%
Total	**5,498**	**1,068**	**6,566**	**86**	**312**	**398**	6%

YOUNG EMPLOYEES

Within the Group, the company's largest population is in the 41-50 age group, as shown below.

Company employees by professional category and age bracket as of 31 December 2017

2017	**up to 30**	**31-40**	**41-50**	**> 50**	**Total**
Senior management	0	5	39	66	110
Middle management	3	188	265	185	641
White collars	264	657	563	397	1,881
Manual workers	1,271	732	1,341	988	4,332
Total	**1,538**	**1,582**	**2,208**	**1,636**	**6,964**
2016	**up to 30**	**31-40**	**41-50**	**> 50**	**Total**
Senior management	0	4	41	65	110
Middle management	0	181	287	163	631
White collars	245	694	570	374	1,883
Manual workers	1,343	744	1,376	967	4,430
Total	**1,588**	**1,623**	**2,274**	**1,569**	**7,054**

Company employees up to 30 years of age by geographical segment as of 31 December 2017

Employee/staff numbers	up to 30	%
EMEA and Americas	114	3%
India	922	44%
Asia Pacific 2W	502	59%
Total	**1,538**	22%

PEOPLE WITH DISABILITIES

In accordance with trade union organisations and based on applicable laws, which require companies to employ a certain number of people with disabilities, the Group gives disabled persons the chance to work.

Employee/staff numbers	2017	2016	2015
Middle management	0	0	0
White collars	15	15	19
Manual workers	137	142	149
Total	**152**	**157**	**168**
Percentage out of total employees	**4.0%**	**4.1%**	**4.2%**

PARENTAL/MATERNITY LEAVE

Our companies apply the laws passed by pertinent national legislation.
The Group does not discriminate in any way against women who take maternity leave.
To demonstrate the above, the following information has been provided for companies for which the phenomenon is more numerically significant.

	Italy			Vietnam			EMEA&Americas		
	M	D	Total	M	D	Total	M	D	Total
Employees on maternity leave during 2017	31	37	**68**	74	29	**103**	2	4	**6**
Employees returning in 2017 after maternity leave	30	15	**45**	74	23	**97**	2	1	**3**
Employees returning in 2016 after maternity leave	32	32	**64**	86	23	**109**	2	5	**7**
Employees returning to work and on the payroll 12 months after returning from maternity leave	31	32	**63**	81	23	**104**	1	4	**5**
Retention rate (%)	97%	1	**98%**	94%	100%	**95%**	50%	80%	71%

STAFF ENGAGEMENT

The Immsi Group aims to keep its employees up to date about its business performance and prospects, and to bring them closer to the strategies of senior management.

In particular, Piaggio uses communication and information tools which respect and empower social and cultural realities within the Group. For further details on these tools, which include the national "PiaggioNet" portal and the "PiaggioNet International" portal, which are in English, see the 2017 CSR Report published by Piaggio & C. S.p.A..

Industrial relations

The Immsi Group acknowledges the role of trade union organisations and workers' representatives and is committed to establishing relations with them focussed on attention, dialogue and a common understanding.

Italy

During 2017, dialogue and exchange of views with the trade unions and with employee representatives continued with the aim to find shared solutions to the market crisis and deal with its impact on workers. Through collective bargaining, shared management tools were identified that can adequately address the long-term crisis in the sector, while safeguarding the skills present in the company by promoting their reuse.

With regard to the Pontedera site, which is now fully established as a centre of excellence in innovation, research and design and in the production of vehicles and engines, a new trade union agreement was signed in November 2016 for the use of the Solidarity Contract from November 2016 to April 2017. Subsequently, after a residual recourse to the Cassa Integrazione Guadagni Ordinaria during the period between August and October 2017, the Solidarity Contract was reactivated from October 2017 to April 2018. In February 2017, a mobility procedure was launched for 180 employees in order to downsize staff activities and structurally rebalance the production workforce.

As regards the Noale site, following a trade union agreement signed at the end of April 2016, a new trade union agreement was signed for the use of the Solidarity Contract for the period from June 2016 to January 2017, extended until October 2017. The streamlining of staff activities and the downsizing of the overall workforce continued through a new redundancy procedure for 7 employees.

With regard to the Scorzè plant, with the trade union agreement signed in January 2016, the Solidarity Contract was envisaged to run until January 2017; subsequent agreements signed in January 2017 and October 2017 have now extended the deadline until March 2018. In January 2017, a mobility procedure was started for 70 people, with the aim of structurally rebalancing the production workforce; this was renewed in October 2017 with a new trade union agreement.

Lastly, as regards Piaggio group's sites in Italy, the increase in production during summer 2017 at the Mandello del Lario production site was addressed with temporary employment contracts and flexible weekly working hours. The ordinary redundancy fund was only residually used in the months of October and November 2017.

With reference to the marine sector and in particular the Messina shipyard, on 14 December 2016 a trade union agreement was reached at the Provincial Department of Labour of Messina, for use of the Redundancy Fund for 12 months, starting from 2 January 2017. Based on ministerial decree no. 99714 of 19 July 2017, this Redundancy Fund procedure ended on 1 July 2017.
Membership of trade union organisations at Italian sites (as of 31 December 2017) is shown in the table below:

Employees registered with Trade Union Organisations as of 31 December 2017

	FIOM	UILM	FIM	UGL	USB	CGIL/CISL/UIL	Other	**Total**	**% of employees who are members of a trade union**
Industrial sector									
Pontedera	267	280	321	8	35	2		913	34.8%
Noale and Scorzè / Quinto	127	1	139					267	50.1%
Mandello del Lario	41	2	23					66	66.7%
Marine sector									
Sarzana						78		78	29.0%
Messina						12	41	53	89.9%
Property sector									
Pula						3		3	7.0%

The table below summarises the hours lost due to strikes in 2017 and 2016 at various company sites in Italy:

Piaggio

		2017	2016	2015
N° HOURS LOST DUE TO STRIKES	*general/category*	1,100	19,151	144
	company	9,877	9,913	6,807
	TOTAL	10,977	29,064	6,951
% HOURS LOST compared to HOURS WORKED	*general/category*	0.05%	1%	0%
	company	0.5%	0.5%	0.34%
	of which Pontedera compared to hours worked at Pontedera	0.58%	0.61%	0.41%
	TOTAL	0.55%	1.50%	0.34%
NO. OF DAYS LOST DUE TO STRIKES	*general/category*	138	2,394	18
	company	1,235	1,239	851
	TOTAL	1,373	3,633	869

As regards industrial action, the trend of strikes in 2017 showed an overall decrease in the hours lost for this reason; in particular, the number of hours lost due to causes related to general/specific category strikes has drastically decreased, while corporate micro-conflicts are essentially the same as the previous year.
All the micro-disputes within the company were at the Pontedera site.
For more details on trade union representation of the Piaggio group in Vietnam and India, see the 2017 CSR Report published by Piaggio & C. S.p.A..

Intermarine

		2017	2016	2015
N° HOURS LOST DUE TO STRIKES	*general/category*	0	0	0
	company	0	1,096	1,124
	TOTAL	0	1,096	1,124
% HOURS LOST compared to HOURS WORKED	*general/category*	0%	0%	0%
	company	0%	0.24%	0.25%
	TOTAL	0%	0.24%	0.25%
NO. OF DAYS LOST DUE TO STRIKES	*general/category*	0	0	0
	company	0	137	141
	TOTAL	0	137	141

Similarly to Intermarine, no industrial unrest during 2017 was reported for other companies.

Occupational health and safety

Immsi and the Group are committed to guaranteeing a safe, healthy and productive working environment for employees, also by disseminating a safety culture and awareness of risks and encouraging the responsible behaviour of its employees.
The extensive industrial segments in which the Group operates pose a risk related to suitable health and safety conditions in the work place, and imply an impact also as regards accidents, occupational diseases, loss of reputation and the payment of compensation.
The Group considers safety training as a key driver for disseminating a safety culture and promoting a conduct that ensures appropriate working conditions, and encourages people to behave responsibly and appropriately. This strategy and the monitoring of workers and staff and their compliance with occupational health and safety procedures and instructions are essential for mitigating and adequately dealing with risks concerning the work force (as listed above).
For information about concrete actions targeting occupational health and safety taken by the Piaggio group, as well as standards and policies of its Indian and Vietnamese subsidiaries, see the 2017 CSR Report published by Piaggio & C. S.p.A..
Accident statistics (frequency and severity) by production site for Group companies in Italy are reported below. The sites at Pontedera, Noale, Scorzè and Mandello del Lario are used for industrial activities of the Piaggio group, the sites at Sarzana and Messina are shipyards and the site at Pula refers to the Is Molas resort.

Accident Frequency Index[4] in Italy

	2017	2016	2015
Industrial sector			
Pontedera	1.4	1.5	2.4
Noale and Scorzè / Quinto	0.3	1.1	1.4
Mandello del Lario	0	0.5	1.6
Marine sector			
Sarzana	0.8	1.9	1.9
Messina	7.1	3.2	2.6
Property sector			
Pula	4.1	1.0	1.1

Accident Severity index[5] in Italy

	2017	2016	2015
Industrial sector			
Pontedera	72.5	82.1	73.1
Noale and Scorzè / Quinto	6.3	23.6	65.5
Mandello del Lario	32.2	9.4	19.5
Marine sector			
Sarzana	37.6	61.4	49.3
Messina	369.2	26.4	118.9
Property sector			
Pula	64.6	7.0	22.7

Most of the sites in Italy reported a decrease in accident statistics for 2017. The only exception concerns the Messina shipyard where, among others, two episodes of long-term injuries were recorded. Lastly, the Mandello del Lario site achieved the coveted objective of "zero accidents"[6].

Relations with local communities

This reporting parameter refers to the following companies:

- Real estate sector: Immsi S.p.A. and Is Molas S.p.A.;
- Industrial sector: Museo e Fondazione Piaggio, Piaggio & C. S.p.A., Piaggio Vietnam Co. Ltd., Piaggio Vehicles Private Ltd.;
- Naval sector: Intermarine S.p.A..

For the purposes of non-financial disclosure, the sub-holdings of the Group (ISM Investimenti S.p.A., RCN Finanziaria S.p.A., Pietra S.r.l.) and other companies such as Pietra Ligure S.r.l., Immsi Audit S.c. a r.l and Apuliae S.r.l. were not considered as significant.

Immsi Group companies are committed to initiatives that support local communities, also through sponsorships and donations to external projects, the aim being to foster the social, cultural and sporting achievements of communities.

In the industrial sector, Piaggio is strongly committed through its Foundation, the Piaggio Museum (Museo Piaggio) and Archive (Archivio Storico).

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[4] The Frequency Index is: I_f = *(No. of accidents * 100,000) / Hours worked.*
The No. of accidents is obtained taking into consideration only accidents in the workplace, excluding accidents reported pursuant to section 53 of Presidential Decree 1124/65. Accidents as of article 53 include both commuting accidents and accidents not considered reliable (due to the lack of a specific, short-term external cause of the injury or the lack of a causal link).

[5] The severity index is calculated as I_g = (working days lost / hours worked) x 100,000. In calculating the Index, working days lost because of all events that resulted in absence from work were calculated; so accidents reported pursuant to article 53 of Presidential Decree no. 1124/65 (commuting accidents and accidents not considered reliable due to the lack of a specific, short-term external cause of the injury or the lack of a causal link) were also considered.

[6] The severity index is greater than zero (in spite of the frequency index being zero), due to the fact that in the calculation of the frequency index, in itinere incidents are not counted, while they are taken into account in the calculation of the severity index.

In 2017, the Piaggio Foundation continued to develop its cultural initiatives, which see the organisation of scientific and artistic events and the production of high-level scientific publications. Activities were carried out in close collaboration with the partners Piaggio & C. and the Municipality of Pontedera, and involved institutions, universities, schools and Vespa Clubs. In particular, growing attention has been dedicated to activities related to training and engagement of young people.
The various events celebrating the 70th birthday of Vespa in 2016 served to increase visits to the Piaggio Museum, with numbers up by around 30% compared to the previous year. Thanks to the growing appeal of the collections and its increasingly international reputation, more than 56,000 people visited the Museum in 2017.

In 2017, as has been the case in recent years, the Piaggio Historical Archive contributed significantly to many of the activities of the Piaggio Foundation. It continued its valuable role in supporting research and in managing requests for meetings and consultations from scholars and researchers (with a significant increase in requests for advice regarding high-profile scientific research within the academic sector), as well as assisting with the Museum's teaching activities and the iconographic and documentary research for books and publications and for the preparation of exhibitions and internal and external events.

The activities and events organised or promoted by the Piaggio Foundation during the year are part of a wider cultural project designed to convey the historical and current values of the Piaggio group to visitors, and to transform the Museum into a scientific and artistic meeting place. The activities and events described, along with charity and sponsorship initiatives taken by the Piaggio group in Italy, India and Vietnam are described in the 2017 CSR Report.

Intermarine S.p.A. is committed to engaging with local communities, through donations and sponsorships, and with specific stakeholders..
In 2017, Intermarine was a sponsor of events concerning the Golfo della Spezia Sailing Club Committee, and of cultural, scientific and organisational initiatives organised by the Italian Embassy in Finland. It also made donations to local social welfare associations.
Intermarine is also committed to engaging with institutions and the local communities near its shipyards. For the Sarzana site in particular, Intermarine liaises with the directors of the Montemarcello – Magra Park Authorities about activities carried out at its shipyard that could affect the ecosystem of the Magra river. The company also notifies local authorities in advance of dredging activities to move finished vessels out to sea.

During 2017, the company Is Molas contributed to some events organised near the resort.

For the last few years, the Immsi Group, through the Parent Company, has supported educational and rehabilitation activities for children with disabilities from cerebral palsy, making donations to the "Casa del Sole Onlus" association, on behalf of all employees. In forty years of activities, the Casa del Sole has helped more than 5,000 children, offering valuable support to their families.

Supply chain

This reporting parameter refers to the following companies:

- Real estate sector: Immsi S.p.A. and Is Molas S.p.A.;
- Industrial sector: Piaggio & C. S.p.A., Piaggio Vietnam Co. Ltd., Piaggio Vehicles Private Ltd., Piaggio Advance Design Center, Piaggio Fast Forward Inc., Foshan Piaggio Vehicles Technologies Co. Ltd.;
- Naval sector: Intermarine S.p.A..

The inclusion of Group companies with an advisory or financial role, or with limited operations such as Immsi Audit S.c. a r.l., RCN Finanziaria S.p.A., ISM Investimenti S.p.A., Pietra S.r.l., Pietra Ligure S.r.l. and Apuliae S.r.l. is not considered significant, due to the low volume of purchases made.

Immsi Group companies adopt specific procedures to select and manage their own suppliers. Besides typical supply chain drivers, concerning the quality and cost of purchased goods/services, issues relating to environmental and social sustainability (with reference to workers and human rights) are also assessed.

Main data on the geographic distribution of purchases of commodities, goods, spare parts and services in the last three years are indicated for each sector (intergroup eliminations were not considered significant).
Main actions adopted by the company as regards supply chain sustainability are then described.

Property sector[7]

In 2017, the company Immsi S.p.A worked with 165 suppliers, purchasing commodities, materials, goods, products and services for approximately 3.7 million euros. Total payments made in the previous year amounted to approximately 2.7 million euros.
The geographic distribution of purchases is as follows:

Geographic location of purchases from suppliers

Geographical segment	2017	2016	2015
Italy	99%	99%	99%
Abroad	1%	1%	1%

NB: the geographic area "Italy" corresponds to the definition "local" of the GRI Standard 204-1. "Significant locations of operations" mean the registered office of Mantova (Mantova) and the property in Rome (Rome).

Immsi S.p.A is assisted by specialist maintenance service companies, to manage the property situated in Rome, entering in contracts in specific cases.

In 2017, the company Immsi S.p.A worked with 343 suppliers, purchasing commodities, materials, goods, products and services for approximately 9.4 million euros. Total payments made in the previous year amounted to approximately 19 million euros.
The geographic distribution of purchases is as follows:

[7] The geographical area of "Italy" corresponds, for the purposes of the Standard GRI 204-1, to the definition of "local". In addition, with reference to the real estate sector, the definition of "significant locations of operation" required by the Standard GRI corresponds to the following locations:

- Immsi S.p.A.: with registered office in Mantova (MN) and property in Rome (RM);
- Is Molas S.p.A.: registered office in Mantova (MN) and Is Molas resort in Pula (CA).

Geographic location of purchases from suppliers

Geographical segment	2017	2016	2015
Italy[1]	97%	97%	99%
Abroad	3%	3%	1%

NB: the geographic area “Italy” corresponds to the definition “local” of the GRI Standard 204-1. “Significant locations of operations” mean the registered office of Mantova (Mantova) and the resort Is Molas di Pula (Cagliari).

As regards Is Molas S.p.A., hotel industry supplies concerned three main areas: food and beverages; laundry services (for rooms and restaurants); maintenance of the hotel and sports' facilities, with the relative supply of golf course products.
To mitigate the risk of possible tensions in relations with local stakeholder communities, due to the failed engagement of the supply chain, the company works and cooperate with local suppliers, guaranteeing local employment opportunities. Suppliers are selected and purchase conditions are determined based on a common, objective assessment of all suppliers, with reference to quality, the price and capacity to supply and guarantee goods/services of an adequate level.

The companies Immsi S.p.A. and Is Molas S.p.A have established specific procedures to regulate supplier selection and the goods and services procurement process. In addition, a specific general clause is included in each purchase order/contract in which the supplier and partners acknowledge and undertake to observe provisions in Legislative Decree no. 231/01 and the Code of Ethics adopted by the company.

Industrial sector[8]

The Piaggio group produces vehicles are its own sites that are sold under its brand on various markets around the world. The only exception regards vehicles purchased by the Chinese subsidiary Zongshen Piaggio Foshan (approximately 31,500 units in 2017, equivalent to 5.7% of vehicles sold). Piaggio is a leader in engine technology and produces engines at its plants both for internal production and to meet the demand of other manufacturers.
All the other components that constitute a vehicle are purchased externally and assembled in-company.

In 2017, Italian plants purchased goods and spare parts for an overall value of 400 million euros (excluding complete vehicles) from nearly 750 suppliers. The first ten suppliers accounted for 20% of purchases. The geographic breakdown of purchases is shown below. Payments to suppliers amounted to approximately 608 million euros.

Geographic location of purchases from suppliers for Italian sites

Geographical segment	2017	2016	2015
EMEA	68%	70%	71%
China+Taiwan	19%	19%	18%
Vietnam	5%	3%	2%
India	7%	7%	7%
Japan	1%	1%	1%
Other	-	-	1%

NB: the geographic area “EMEA” corresponds to the definition “local” of the GRI Standard 204-1. “Significant locations of operations” mean the production sites of the Piaggio group in Italy: Pontedera (Pisa), Noale (Venice), Scorzè (Venice), Mandello del Lario (Lecco).

[8] For the industrial sector only tangible acquisitions and components were considered. Service acquisitions were excluded.

In 2017, plants in India purchased commodities, goods and spare parts for an overall value of 254 million euros from 590 suppliers. The first ten suppliers made up 37% of the total purchases. Total payments amounted to 352 million euros.

Geographic location of purchases from suppliers for Indian sites

Geographical segment	2017	2016	2015
India	97%	98%	99%
Other	3%	2%	1%

NB: the geographic area "India" corresponds to the definition "local" of the GRI Standard 204-1. "Significant locations of operations" mean the production site in Baramati (India).

In 2017, plants in Vietnam purchased goods and spare parts for an overall value of 151 million euros from around 220 suppliers. The first ten suppliers accounted for 42% of purchases. Total payments amounted to 159 million euros.

Geographic location of purchases from suppliers for Vietnamese sites

Geographical segment	2017	2016	2015
Vietnam	47%	47%	56%
China+Taiwan	20%	22%	27%
EMEA	27%	24%	11%
India	2%	2%	2%
Other	4%	5%	4%

NB: the geographic area "Vietnam" corresponds to the definition "local" of the GRI Standard 204-1. "Significant locations of operations" mean the production site at Vihn Phuc (Vietnam).

Group relations with suppliers are based on loyalty, impartiality and respect of equal opportunities of all parties concerned.
The Piaggio group is convinced that responsibility is a commitment that must proactively involve everyone in the company/supplier chain; this is why suppliers worldwide that wish to do business with Piaggio have to sign the general conditions of supply of the Piaggio group which include the Code of Ethics and Guidelines for doing business. Audits are regularly conducted on suppliers of direct materials to ensure their effective compliance.

In July 2017, Piaggio & C. S.p.A. published the Group's "Modern Slavery Statement", a document which sets out steps taken in the past and actions for the next three years targeting the prevention of modern slavery and human trafficking between Piaggio group companies and its supply chain.
The group endorses and upholds the UN's "Guiding Principles on business and human rights", along with the ILO's core labour standards. Piaggio recognises its own responsibility in respecting human rights, and continues to supplement and improve policies and controls to fight any form of slavery, human trafficking and forced labour in its companies and supply chain.
Piaggio group companies must observe the laws and regulations of the countries where they operate, bringing their own activities in line with the Code of Ethics and its values of fairness, integrity and respect for people. In 2017, a specific article on the protection of human rights was added to the Code of Ethics, with the aim of preventing "modern slavery".

To maintain the highest ethical, moral and legal standards, Piaggio encourages its employees to report possible inappropriate behaviour, without fear of any repercussion in the form of punishments or unfair treatment. Its "Whistleblowing Policy", initially developed for the Indian subsidiarity, provides a safe way for employees and other stakeholders to report possible violations. Piaggio has committed to extending its "Whistleblowing Policy" over the next three years to include human rights, adopting the policy in all Group companies.

In its “Modern Slavery Statement”, Piaggio also states that the greatest risk to protecting human rights can be tracked back to the Group's supply chain. The Group has committed to "mapping" its chain, over the next three years, conducting a risk assessment of its production sites and the supply chain, in order to identify areas most at risk as regards respect for human rights. This will make it possible to prioritise future due diligence activities for suppliers and develop an "Audit action plan".
Piaggio's relations with its own suppliers are governed y specific processes and procedures for the selection, qualification, management and monitoring/evaluation of suppliers. In this regard, it has set up "Vendor Rating” campaigns, to evaluate suppliers (twice a year) based on commercial and qualitative criteria.
Piaggio's objectives include the introduction of new evaluation criteria for current and future suppliers, over the next three years, which are specific to human rights' issues (including modern slavery and human trafficking).

To assess the effectiveness of measures adopted, specific KPIs will be used in the next three years. These indicators include:

- The number of employee training hours on human rights;
- Whistleblowing procedures (within sites) also extended to the violation of human rights;
- The number of investigations carried out following whistleblowing events;
- The percentage and total number of supply chain audits concerning respect for human rights and the number of nonconformities identified.

For specific information about the functions and processes interacting with the supply chain, see the Piaggio group's 2017 CSR Report.

Marine sector

In 2017, Intermarine worked with around a thousand suppliers, purchasing commodities, goods, products and services for a value of approximately 67 million euros. Total payments made in the previous year amounted to approximately 64 million euros.
The geographic distribution of purchases is as follows:

Geographic location of purchases from suppliers

Geographical segment	2017	2016	2015
Italy	76%	80%	66%
EMEA (excluding Italy)	23%	17%	33%
Other	1%	3%	1%

NB: the geographic area “Italy” corresponds to the definition “local” of the GRI Standard 204-1. “Significant locations of operations” mean the Intermarine shipyards at Sarzana (La Spezia), La Spezia (La Spezia) and Messina (Messina).

Suppliers are selected based on the prior evaluation of their reliability and dependability in guaranteeing products and services of a quality that meets Intermarine S.p.A.'s technical and planning requirements, as well as
an internal procedure overseen in conjunction with the Quality, Environment and Safety Department and Purchasing Department, which applies to suppliers of goods and services necessary to manufacture company products, such as:

- Components, apparatus and machinery for plants;
- Labour (contracts);
- Design services;
- Advisory services.

Intermarine endeavours to prevent the use of its economic and financial system for the purpose of money laundering and financing terrorism by its customers and suppliers, verifying with utmost diligence the respectability of its commercial partners prior to establishing business relationships with them. Potential suppliers must guarantee compliance with laws and regulations applicable in all countries where Intermarine operates, with particular reference to specific legislation on the environment, health and safety. In fact, Intermarine does not work with organisations that do not intend observing the above.

With particular reference to the selection of suppliers for ship construction contracts, the following are considered strategic:

- ISO 9001 certification (of the company quality management system) and AQAP 2110 (NATO quality certification);
- Willingness to be audited by Intermarine S.p.A.'s Quality Assurance Department;
- Willingness to take part in scheduled audits, if supplies are contractually covered by AQAP regulations.

Intermarine does not adopt specific policies on the sustainability of its supply chain. However its selection process considers a number of aspects, such as:

- ISO 14001 certification of the environmental management system adopted. If the supplier does not hold this certification, the Quality Department conducts an in-depth audit (Environmental Prescription Compliance). In addition, for the selection of suppliers of shipyard services, OHSAS 18001 (*Occupational Health and Safety Assessment Series* 18001) certification is considered as strategic.
- The absence of sanctions or convictions pursuant to Legislative Decree 231/01, also with reference to the exploitation of workers, violation of human rights and corruption. As from 2018, suppliers will be requested to produce self-certification that they have not been involved in any previous cases of corruption.

Suppliers are evaluated at regular intervals to assess their ongoing commercial and professional reliability, based on information from various company functions working with them.

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10, OF LEGISLATIVE DECREE NO. 254/2016 AND ARTICLE 5 OF CONSOB REGULATION NO. 20267

IMMSI SPA

YEAR ENDED 31 DECEMBER 2017

Independent auditor's report on the consolidated non-financial statement

pursuant to article 3, paragraph 10, of Legislative Decree No. 254/2016 and article 5 of CONSOB Regulation No. 20267

To the Board of Directors of Immsi SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation No. 20267, we have performed a limited assurance engagement on the Consolidated non-financial statement of Immsi SpA and its subsidiaries (hereafter the "Group") for the year ended 31 December 2017 prepared in accordance with article 4 of the Decree and approved by the Board of Directors on 21 March 2018 (hereafter the "NFS").

Responsibility of the directors and of the Board of Statutory Auditors for the NFS

Directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by the GRI - Global Reporting Initiative ("GRI Standards"), identified by them as the reporting standard.

Directors are responsible, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

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 an understanding of the Group's activities, its performance, its results and related impacts.

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 and/or faced by the Group.

The Board of Statutory Auditors is responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

Auditor's Independence and Quality Control

We are independent in accordance with the principles of ethics and independence set out 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, confidentiality and professional behaviour. Our audit firm adopts International Standard on Quality Control 1 (ISQC Italy 1) and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

Auditor's responsibilities

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree and 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 (hereafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. 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 that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily of company personnel responsible for the preparation of the information presented in the NFS, analyses of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we 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 and the with the reporting standard adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;
3. 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 in article 3 of the Decree, actual results and related key performance indicators;
   - main risks, generated and/or faced by the Group, with reference to the matters specified in article 3 of the Decree;

   with reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 4 a) below;
4. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS.

   In particular, we held meetings and interviews with the management of Immsi SpA and Piaggio & C. SpA, and with the personnel of Intermarine SpA and Piaggio Vietnam Co. Ltd. we performed limited analyses of documentary evidence, 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 material 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 acquired supporting documentation to verify their consistency with available evidence;
  b) with reference to quantitative information, we performed analytical procedures as well as limited tests, in order to assess, on a sample basis, the accuracy of consolidation of the information;
- for the following plants Mandello del Lario (Piaggio Group, Italy) and Vinh Phuc (Piaggio Group, Vietnam) and for the site of Sarzana (Intermarine SpA), which were selected on the basis of their activities, their contribution to the performance indicators at a consolidated level and their location, we carried out site visits during which we met local management and gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators.

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Immsi Group as of 31 December 2017 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards.

Other aspects

The comparative data presented in the NFS in relation to previous years has not been subjected to any procedures.

Brescia, 6 April 2018

PricewaterhouseCoopers SpA

Signed by

Alessandro Mazzetti
(Partner)

Paolo Bersani
(Authorized signatory)

This report has been translated from the Italian original solely for the convenience of international readers.

GRI Content Index

GRI STANDARD INDEX FOR "IN ACCORDANCE" – CORE			
GRI Standard	**#**	**Disclosure Title**	**References**
GENERAL DISCLOSURE			
ORGANIZATIONAL PROFILE			
GRI 102: General Disclosures 2016	**102-1**	Name of the organization	Group profile
	102-2	Activities, brands, products, and services	Group profile The products and services dimension
	102-3	Location of headquarters	Group profile
	102-4	Location of operations	Group profile
	102-5	Ownership and legal form	Group profile Corporate Governance
	102-6	Markets served	Group profile The products and services dimension
	102-7	Scale of the organization	Directors' Report and Financial Statements of the Immsi Group at 31 December 2017 (http://www.immsi.it/it/investors/bilanci-relazioni) Directors' Report and Consolidated Financial Statements of the Piaggio Group as of 31 December 2017 (http://www.piaggiogroup.com/it/investor/bilanci-e-relazioni)
	102-8	Information on employees and other workers	The social dimension - Developing human resources *Outsourced staff and contractors are not considered*
	102-9	Supply chain	Supply chain
	102-10	Significant changes to the organization and its supply chain	The Group profile Supply chain
	102-11	Precautionary Principle or approach	Corporate Social Responsibility risks
	102-12	External initiatives	The products and services dimension - Piaggio vehicles; The products and services dimension - Intermarine vessels
	102-13	Membership of associations	The products and services dimension - Piaggio vehicles; The products and services dimension - Intermarine vessels
STRATEGY			
GRI 102: General Disclosures 2016	**102-14**	Statement from senior decision-maker	Letter from the Chairman
ETHICS AND INTEGRITY			
GRI 102: General Disclosures 2016	**102-16**	Values, principles, standards, and norms of behaviour	Corporate Governance - Code of Ethics
GOVERNANCE			
GRI 102: General Disclosures 2016	**102-18**	Governance structure	Corporate Governance Report on Corporate Governance and Ownership (http://www.immsi.it/it/governance-ita)
STAKEHOLDER ENGAGEMENT			
GRI 102: General Disclosures 2016	**102-40**	List of stakeholder groups	Stakeholder engagement
	102-41	Collective bargaining agreements	The social dimension - Developing human resources - Industrial relations *All employment relations at the Group's Italian sites are governed by the applicable Collective Bargaining Agreement. For the Group's non-Italian sites, regulations and/or collective agreements are applied. Local regulations and collective agreements, if any, are applied to 100% of the Group's employees.*
	102-42	Identifying and selecting stakeholders	Methodological note - Materiality analysis Stakeholder engagement
	102-43	Approach to stakeholder engagement	Stakeholder engagement

GRI Standard	#	Disclosure Title	References
GRI 102: General Disclosures 2016	**102-44**	Key topics and concerns raised	Stakeholder engagement
REPORTING PRACTICE			
GRI 102: General Disclosures 2016	**102-45**	Entities included in the consolidated financial statements	The Immsi Group's Consolidated non-financial statement (drawn up pursuant to Italian Legislative Decree no. 254 of 30 December 2016) Directors' Report and Financial Statements of the Immsi Group at 31 December 2017 (http://www.immsi.it/it/investors/bilanci-relazioni)
	102-46	Defining report content and topic Boundaries	Methodological note
	102-47	List of material topics	Methodological note - Contents of Disclosure
	102-48	Restatements of information	*The standard is not applicable as this is the first year of disclosure*
	102-49	Changes in reporting	*The standard is not applicable as this is the first year of disclosure*
	102-50	Reporting period	The Immsi Group's Consolidated non-financial statement (drawn up pursuant to Italian Legislative Decree no. 254 of 30 December 2016)
	102-51	Date of most recent report	*The standard is not applicable as this is the first year of disclosure*
	102-52	Reporting cycle	The Immsi Group's Consolidated non-financial statement (drawn up pursuant to Italian Legislative Decree no. 254 of 30 December 2016)
	102-53	Contact point for questions regarding the report	The Immsi Group's Consolidated non-financial statement (drawn up pursuant to Italian Legislative Decree no. 254 of 30 December 2016)
	102-54	Claims of reporting in accordance with the GRI Standards	Methodological note - Basis
	102-55	GRI content index	GRI Content Index
	102-56	External Assurance	Report on the limited auditing of Consolidated Non-financial Disclosure

MATERIAL TOPICS				
GRI Standard	**#**	**Disclosure**	**References**	**Omissions/Notes**
Note: The Group is committed, where possible, to providing missing information in its 2018 disclosure.				
The social dimension - Developing human resources				
MARKET PRESENCE				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure The social dimension - Developing human resources - Personnel management policies	
GRI 202: Market Presence 2016	**202-1**	Ratios of standard entry level wage by gender compared to local minimum wage	The social dimension - Developing human resources - Personnel management policies - Rewarding	*For employees in Italy, the ratio relative to the categories: middle management, white collars and blue collars has been indicated. For employees in India and Vietnam (Piaggio group), the ratio is only provided for blue collars. No breakdown of the data by gender has been provided.*
Supply chain				
PROCUREMENT PRACTICES				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure Supply chain	
GRI 204: Procurement Practices 2016	**204-1**	Proportion of spending on local suppliers	Supply chain	*With reference to this standard, the inclusion of Group companies with an advisory or financial role, or with limited operations such as Immsi Audit S.c. a r.l., RCN Finanziaria S.p.A., ISM Investimenti S.p.A., Pietra S.r.l., Pietra Ligure S.r.l. and Apuliae S.r.l. is not considered significant, due to the low volume of purchases made.*

GRI Standard	#	Disclosure	References	Omissions/Notes
Corporate Governance				
ANTI-CORRUPTION				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure Corporate Governance – The fight against corruption	
GRI 205: Anti-corruption 2016	**205-3**	Confirmed incidents of corruption and actions taken	Corporate Governance – The fight against corruption	
ANTI-COMPETITIVE BEHAVIOUR				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure Corporate Governance – The fight against corruption	
GRI 206: Anti-competitive Behaviour 2016	**206-1**	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Corporate Governance - Compliance with laws and regulations	
The environmental dimension **Note**: The companies Immsi S.p.A., Immsi Audit S.c. a r.l., ISM Investimenti S.p.A., RCN Finanziaria S.p.A. e Pietra S.r.l. were not included in environmental data reporting, as their contribution is considered as marginal (operations take place in office buildings).				
ENERGY				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure The environmental dimension The environmental dimension - Energy consumption	
GRI 302: Energy 2016	**302-1**	Energy consumption within the organization	The environmental dimension - Energy consumption	*The Immsi Group does not sell energy.*
	302-4	Reduction of energy consumption	The environmental dimension - Energy consumption	*Data on this standard are mainly provided as qualitative data and estimates and refer to the Piaggio group and Intermarine.*
WATER				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure The environmental dimension The environmental dimension - Conserving water resources	
GRI 303: Water 2016	**303-1**	Water withdrawal by source	The environmental dimension - Conserving water resources	
	303-3	Water recycled and reused	The environmental dimension - Conserving water resources	*As regards this standard, available data only refer to the Indian and Vietnamese sites of the Piaggio group. Data have been estimated for the company Is Molas.*
BIODIVERSITY				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure The environmental dimension The environmental dimension - Biodiversity	
GRI 304: Biodiversity 2016	**304-1**	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	The environmental dimension - Biodiversity	

GRI Standard	#	Disclosure	References	Omissions/Notes
EMISSIONS				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure The environmental dimension The environmental dimension – Emissions of CO_2 and other pollutants	
GRI 305: Emissions 2016	**305-1**	Energy direct (Scope 1) GHG emissions	The environmental dimension – Emissions of CO_2 and other pollutants	*No Group company trades in GHG emissions*
	305-2	Energy indirect (Scope 2) GHG emissions	The environmental dimension – Emissions of CO_2 and other pollutants	*No Group company trades in GHG emissions*
	305-7	Nitrogen oxides (NO_X), sulfur oxides (SO_X), and other significant air emissions	The environmental dimension – Emissions of CO_2 and other pollutants	*Only emissions of VOC (volatile organic compounds) from the Piaggio group's sites are reported. Data are not available for the property and marine sectors, as the registration of VOC is not required by specific regulations.*
EFFLUENTS AND WASTE				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure The environmental dimension The environmental dimension - Waste handling and recovery	
GRI 306: Effluents and Waste 2016	**306-2**	Waste by type and disposal method	The environmental dimension - Waste handling and recovery	*Data on the destination of waste (recovery or disposal) are not separated by waste category (hazardous or non-hazardous). No information has been provided on the procedure for defining the disposal method adopted.*
	306-3	Significant spills	The Environmental Dimension - Absence of soil contamination and water resources	
The social dimension - Developing human resources				
EMPLOYMENT				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure The social dimension - Developing human resources	
GRI 401: Employment 2016	**401-1**	New employee hires and employee turnover	The social dimension - Developing human resources - The work force	*The reporting for this standard refers to personnel of property and marine sector companies, as well as personnel at the Piaggio group's production sites in Italy. Data on personnel joining and leaving are reported by gender and age (in absolute values), while data on turnover are reported by professional category.*
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	The social dimension - Developing human resources - Personnel management policies - Rewarding	*Data relative to this standard refer to the Italian sites of the Immsi Group.*
	401-3	Parental leave	The social dimension - Developing human resources - Diversity and equal opportunity	*Data refer to companies of the Immsi Group located in Italy, Vietnam, EMEA & the Americas.*

GRI Standard	#	Disclosure	References	Omissions/Notes
OCCUPATIONAL HEALTH AND SAFETY				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure The social dimension - Developing human resources	
GRI 403: Occupational Health and Safety 2016	**403-2**	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Developing human resources - Developing human resources - Occupational health and safety	*This standard is reported only referring to accident statistics (frequency and severity) for the Immsi Group's production sites in Italy.*
TRAINING AND EDUCATION				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure The social dimension - Developing human resources	
GRI 404: Training and Education 2016	**404-1**	Average hours of training per year per employee	The social dimension - Developing human resources - Personnel management policies - Training	
	404-3	Percentage of employees receiving regular performance and career development reviews	The social dimension - Developing human resources - Personnel management policies - Appraisal	*Data are reported by professional category and geographic segment.*
DIVERSITY AND EQUAL OPPORTUNITY				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure The social dimension - Developing human resources	
GRI 405: Diversity and Equal Opportunity 2016	**405-1**	Diversity of governance bodies and employees	The social dimension - Developing human resources - Diversity and equal opportunity	*The information required by this standard is provided in the document "Corporate Governance and Ownership" (http://www.immsi.it/it/governance-ita)*
	405-2	Ratio of basic salary and remuneration of women to men	The social dimension - Developing human resources - Personnel management policies	*Data provided only consider remuneration. On the basis of internal analyses of salary conditions, no significant differences were detected within the Immsi Group between the basic salary and the remuneration of men compared to women with the same category, experience and assigned duties.*
Corporate Governance				
NON-DISCRIMINATION				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure Corporate Governance - Code of Ethics Corporate Governance - Compliance with laws and regulations	
GRI 406: Non-discrimination 2016	**406-1**	Incidents of discrimination and corrective actions taken	Corporate Governance - Compliance with laws and regulations	

GRI Standard	#	Disclosure	References	Omissions/Notes
The social dimension - Relations with local communities				
LOCAL COMMUNITIES				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure The social dimension - Relations with local communities	
GRI 413: Local Communities 2016	**413-1**	Operations with local community engagement, impact assessments, and development programs	The social dimension - Relations with local communities	*The Group only reports main activities carried out with local communities in Italy.*
The products and services dimension				
CUSTOMER HEALTH AND SAFETY				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure The product and services dimension	
GRI 416: Customer Health and Safety 2016	**416-1**	Assessment of the health and safety impacts of product and service categories	The products and services dimension	*The percentage is not provided, but a qualitative contribution is indicated*
Corporate Governance				
MARKETING AND LABELLING				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure Corporate Governance - Compliance with laws and regulations	
GRI 417: Marketing and Labelling 2016	**417-3**	Incidents of non-compliance concerning marketing communications	Corporate Governance - Compliance with laws and regulations	
CUSTOMER PRIVACY				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure Corporate Governance - Compliance with laws and regulations	
GRI 418: Customer Privacy 2016	**418-1**	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Corporate Governance - Compliance with laws and regulations	
SOCIO-ECONOMIC COMPLIANCE				
GRI 103: Management Approach 2016	**103-1** Explanation of the material topic and its Boundary **103-2** The management approach and its components **103-3** Evaluation of the management approach		Methodological note - Contents of Disclosure Corporate Governance - Compliance with laws and regulations	
GRI 419: Socio-economic Compliance 2016	**419-1**	Non-compliance with laws and regulations in the social and economic area	Corporate Governance - Compliance with laws and regulations	

Table of correspondence Legislative Decree 254/16 - material issues - GRI Standards

Topic as of Legislative Decree no. 254/16	Topic	Identified risks	Implemented policies	Topic specific standard/disclosure
Environmental	**Energy efficiency and emissions reduction**	Chapter Corporate Social Responsibility Risks	Chapter The products and services dimension - Certifications of the Immsi Group Chapter The environmental dimension Please note: - the Environmental Management System certified according to UNI EN ISO 14001: 2015 only refers to the industrial and naval sectors as defined in the "Group profile" chapter. For the real estate sector, however, the management of environmental issues is inspired by the management principles adopted by the other companies in the industrial and naval sectors, although they are not set out as a formal policy; - for the industrial sector, a production site is certified according to the ISO 50001 standard.	**302-1**: Energy consumption within the organization
				302-4: Reduction of energy consumption
				305-1: Energy direct (Scope 1) GHG emissions
				305-2: Energy indirect (Scope 2) GHG emissions
				305-7: Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions
	Protection of water resources			**303-1**: Water withdrawal by source
				303-3: water recycled and reused
	Waste handling			**306-2**:Waste by type and disposal method
				306-3: Significant spills
	Biodiversity			**304-1**: Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas
Social sphere	**Responsible management of the supply chain**	Chapter Corporate Social Responsibility Risks	Chapter The products and services dimension - Immsi Group certification section The supply chain section: - the Piaggio group adopts the ISO/TS 16949 quality standard (Supplier Quality Systems) for two production sites; - In Group companies this issue is managed through specific formalised procedures that govern the selection of suppliers and purchasing processes.	**204-1**: Proportion of spending on local suppliers
	Safety and reliability of the product/service **Product/service innovation**		Chapter The products and services dimension Chapter The products and services dimension - Certifications of the Immsi Group Please note that: - the Quality Management System certified according to UNI EN ISO 9001 only refers to the industrial and naval sectors as defined in the "Group profile" chapter. For the real estate sector, however, specific quality control procedures for services have been implemented, where appropriate.	**416-1**: Assessment of the health and safety impacts of product and service categories
	Supporting local communities		Chapter The social dimension - Relations with local communities Please note that: - Within the Group, this issue is managed through the adoption by the companies of specific formalised procedures.	**413-1**: Operations with local community engagement, impact assessments, and development programs

<table>
<tr><th>Topic as of Legislative Decree no. 254/16</th><th>Topic</th><th>Identified risks</th><th>Implemented policies</th><th>Topic specific standard/disclosure</th></tr>
<tr><td rowspan="9">Concerning personnel</td><td rowspan="8">Developing human capital</td><td rowspan="9">Chapter Corporate Social Responsibility Risks</td><td rowspan="8">Chapter The social dimension - Personnel management policies

Please note that:
- the various companies of the Group have individually established procedures and practices for the management of personnel according to their specific organisation and their professional characteristics and needs. The Group believes that uniform personnel management systems are neither effective nor efficient given the profound business diversity that characterises the subsidiaries, despite their uniform principles of ethics, transparency and meritocracy.</td><td>202-1: Ratios of standard entry level wage by gender compared to local minimum wage</td></tr>
<tr><td>401-1: New employee hires and employee turnover</td></tr>
<tr><td>401-2: Benefits provided to full-time employees that are not provided to temporary or part-time employees</td></tr>
<tr><td>401-3: Parental leave</td></tr>
<tr><td>404-1: Average hours of training per year per employee</td></tr>
<tr><td>404-3: Percentage of employees receiving regular performance and career development reviews</td></tr>
<tr><td>405-1:Diversity of governance bodies and employees</td></tr>
<tr><td>405-2: Ratio of basic salary and remuneration of women to men</td></tr>
<tr><td>Worker health and safety</td><td>Chapter The products and services dimension - Certifications of the Immsi Group

Please note that:
- for the industrial sector, the Piaggio group applies a workers' Health and Safety Management System in accordance with the BS OHSAS 18001: 2007 standard;
- for the naval sector, though the production sites are not yet certified according to the BS OHSAS 18001: 2007 standard, they apply the same integrated management system, implementing the related requirements;
- for the real estate sector, internal security systems are in place at the plants.</td><td>403-2: Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities</td></tr>
<tr><td>Respecting human rights.</td><td>Respecting human rights.</td><td>Chapter Corporate Social Responsibility Risks</td><td>Chapter Corporate Governance
Chapter Corporate Social Responsibility Risks

The Code of Ethics of Immsi S.p.A. and of the Group companies was updated in 2017 by introducing a specific article on compliance with the principles of protection of human and workers' rights.
With reference to the Piaggio group, it should also be noted that the Policy on Prevention of Sexual Harassment of women at the workplace is currently in force.</td><td>406-1: Incidents of discrimation and corrective actions taken</td></tr>
<tr><td>Fighting against corruption</td><td>Fighting against corruption</td><td>Chapter Corporate Social Responsibility Risks</td><td>Chapter Corporate Governance

Code of Ethics of each Group company
231 Model of each Group company</td><td>205-3: Confirmed incidents of corruption and actions taken</td></tr>
<tr><td>Topics cutting across all areas</td><td>Transparency</td><td colspan="3">The theme of "Transparency" is considered to affect all the issues covered by Legislative Decree 254/16. Therefore, no specific correlation is presented with the individual elements in this reconciliation table. Please see comments in this table concerning all the other topics dealt with.</td></tr>
</table>

REPORT
ON CORPORATE GOVERNANCE AND OWNERSHIP

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

(Traditional management and control model)

www.immsi.it

Financial year to which the Report refers: 2017
Date of approval of the report: 21 March 2018

CONTENTS

GLOSSARY

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

Civil Code / CC: the Civil Code.

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

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

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

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

Consob Regulation on Markets or Markets Regulation: the Regulations issued by Consob by Resolution no. 20249 of 2017 (and amendments thereto) concerning markets.

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

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

Remuneration Report: the remuneration report prepared pursuant to Article 123-*ter* of the Consolidated Law on Finance and Article 84-*quater* of the Consob Regulation on Issuers, available pursuant to law at the registered office of the Company, on the website of the Issuer at www.immsi.it *Governance/Shareholders' Meeting/Archive* section, and in the authorised storage mechanism "eMarket STORAGE" viewable at the web address www.emarketstorage.com.

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

1. ISSUER PROFILE

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

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

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

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

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

as of 31/12/2017

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

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

See Table 1 in the appendix, which includes information updated at 31/12/2017 and at this Report date.

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

There are no securities transfer restrictions.

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

For indirect or direct material holdings in the share capital, as resulting from disclosure made pursuant to article 120 of the TUF and specific information received by the Issuer, see Table 1, in the appendix, which includes information updated at 31/12/2017 and at this Report date.

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

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

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

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

No system for employees' equity holdings exists.

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

There are no restrictions on voting rights.

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

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

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

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

The Issuer has stipulated some significant agreements that could be amended or terminated in the event of changes in control of Immsi S.p.A., such as: a Bullet - Multi Borrower loan agreement in effect at 31 December 2017 for a total of 130 million euros, of which 77.7 million euros disbursed to Immsi S.p.A., 30 million euros to ISM Investimenti S.p.A. and 22.3 million euros to Intermarine S.p.A.; a mortgage loan agreement for a residual nominal value of approximately 36 million euros; further loan agreements and credit lines for a total nominal value of approximately 120 million euros.

The Piaggio group has signed significant agreements that may be modified or extinguished in the event of changes to the ownership of the contracting company. Specifically the following agreements have been made: a contract for a syndicated term loan and revolving credit facility for a total of 250 million euros; a debenture loan of 250 million euros issued by Piaggio & C. S.p.A.; a debenture loan of 75 million USD issued by Piaggio & C. S.p.A.; a debenture loan of 30 million euros issued by Piaggio & C. S.p.A.; a loan agreement with the European Investment Bank for 60 million euros; a loan agreement with the European Investment Bank for 70 million euros; a loan agreement with the International Finance Corporation to support the Vietnamese subsidiary totalling USD 19.7 million; a syndicated term loan and revolving credit facility with Banca Popolare di Milano totalling 25 million euros; a loan agreement with Banca Popolare Emilia Romagna for 25 million euros; a revolving credit facility with Banca del Mezzogiorno MedioCredito Centrale for 20 million euros; a loan agreement with Banca del Mezzogiorno MedioCredito Centrale totalling 10 million euros; a loan agreement with Banco Popolare for 10 million euros; a loan agreement with Banco IFIS totalling 10 million euros.

With regard to the subsidiary Intermarine S.p.A. [9], the following significant agreements are noted that may be modified or extinguished in the event of changes to the ownership of the contracting company. In particular: an unsecured line of credit (totalling USD 84.5 million and used at 31 December 2017 for USD 3.8 million) valid on the contract with the Sultanate of Oman, guaranteed

[9]Intermarine S.p.A. is wholly owned by RCN Finanziaria S.p.A., which in turn is controlled by the Issuer through a 63.18% interest.

by a bank syndicate; a guarantee for an amount of 2.7 million euros issued by Banco BPM for the Pietra Ligure project and additional credit lines and financing associated with the company's operations for a total amount used at 31 December 2017 of 47.7 million euros, including the aforesaid share of the *Bullet – Multiborrower* loan issued to Intermarine S.p.A. for an amount of 22.3 million euros.

In addition, the subsidiary Is Molas S.p.A. [10]has a loan agreement in place with Banca Monte dei Paschi di Siena for an amount of 20 million euros which provides for mandatory early repayment in the event of change of control of the investee.

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

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

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

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

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

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

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

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

[10] Is Molas S.p.A. is controlled by ISM Investimenti S.p.A., through a 92.59% interest, which in turn is controlled by the Issuer through a 72.64% interest.

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

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

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

By resolution of 12 May 2017, the Shareholders’ Meeting authorized the purchase and use of treasury shares, pursuant to articles 2357 and 2357-*ter* of the Italian Civil Code, as well as article 132 of the TUF and its implementing provisions, subject to withdrawal of the authorisation granted by the Ordinary General Shareholders' Meeting of 29 April 2016. The purchase authorisation was granted for the 18-month period as from the date of the above 2017 resolution, whereas authorisation for disposal was granted with no time limits.

The authorisation for the purchase and disposal of treasury shares is intended to give the Company a strategic investment opportunity for all purposes allowed by applicable regulations, including the purposes referred to in article 5 of Regulation (EU) 596/2014 (*Market Abuse Regulation*, hereinafter “**MAR**”) and according to practices permitted by article 13 of the MAR, including the purchase of treasury shares based on their subsequent annulment, according to terms and procedures to be decided by competent company boards.

This authorisation was requested for the purchase, also in several tranches, of ordinary shares of Immsi up to a maximum number which, considering the ordinary shares of Immsi held from time to time by the Company and by its subsidiaries, is not more than the maximum limit established by applicable *pro tempore* regulations. The purchases can be made according to procedures established in applicable provisions of Consob Regulation 11971/1999 (as amended) implementing article 132 of the Consolidated Law on Finance, in compliance with conditions relative to trading as referred to in article 3 of Regulation 1052 and within a time frame deemed appropriate in the interests of the Company. As regards the consideration, the Board of Directors proposed that the treasury shares be purchased pursuant to the trading conditions established in article 3 of Commission Delegated Regulation (EU) 2016/1052 (“**Regulation 1052**”) in compliance with the MAR, where applicable. More specifically, purchases may be made for an amount that is no higher than the highest price between the price of the last independent transaction and the highest independent offer price in the trading venues where the purchase is made, provided that the unit amount is at least a minimum of 20% and a maximum not exceeding 10% of the arithmetic mean of official Immsi share prices registered in the ten stock exchange days prior to each purchase transaction.

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

During the reporting period, no treasury shares were purchased; at 31 December 2017 and at the date of this Report, the Issuer had no treasury shares in the portfolio.

l) Management and coordination (pursuant to Article 2497 and subsequent of the Italian Civil Code)

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

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

* * *

Please note that:

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

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

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

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

4. BOARD OF DIRECTORS

4.1. APPOINTMENT AND REPLACEMENT

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

The Articles of Association of the Issuer comply with the regulation on gender balance in the composition of governing bodies pursuant to article 147-*ter*, paragraph 1-*ter* of the TUF, as introduced by Law 120/2011, and article 144- *undecies*.1 of the Issuers' Regulation.

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

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

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

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

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

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

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

Shareholders are entitled to present lists only if, alone or with other Shareholders, they hold shares with voting rights representing at least 2.5% of the share capital with voting rights at the Ordinary Shareholders' Meeting, or a different percentage that may be established by law or other regulations. In its ruling no. 20273 of 24 January 2018, Consob established a requirement of 2.5%

of the share capital as necessary for presenting lists of candidates for election to the Board of Directors of the Company.

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

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

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

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

The Board of Directors is appointed as follows:

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

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

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

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

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

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

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

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

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

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

Given the organisational structure of the Issuer, as well as the practice of assigning the position of Executive Director to persons who have gained significant experience within the Company or to persons who have gained experience in sectors in which the Issuer operates, the Board of Directors, finally during the meeting of 21 March 2018, deemed it unnecessary to adopt a plan for the succession of Executive Directors, with the right to make different assessments in the future.

4.2. Composition (pursuant to Article 123-*bis*, paragraph 2, letters d) and d-*bis* of the Consolidated Law on Finance)

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

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

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

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

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

See Table 2 in the appendix.

As regards company policies on diversity concerning members of the Board of Directors in office in reference to aspects such as age, gender and educational and professional background (Article

123-*bis*, letter d-*bis*) of the Consolidated Law on Finance: (i) the Board of Directors of the company comprises 2 directors of the least represented gender, in compliance with laws on gender balance; (ii) Board members vary in age, from 42 to 80 years; (iii) the educational and professional backgrounds of the directors ensure a balanced combination of member profiles and experiences within the administrative body, with members selected in order to ensure that all functions thereof are executed correctly.

Moreover, the Board of Directors currently in office will provide more detailed information for shareholders on the diversity policy adopted for company boards in the reports prepared pursuant to Article 125-*ter* of the Consolidated Law on Finance, with specific reference to the appointment of the Board of Directors and the Board of Statutory Auditors by the Shareholders' Meeting, convened in order to approve the Financial Statements at 31 December 2017, and also pursuant to criterion 1.C.1. letter h) of the Corporate Governance Code.

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

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

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

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

Maximum accumulation of offices held in other companies

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

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

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

In the meeting of 23 March 2017, the Board decided not to define general criteria regarding the maximum number of administration and control positions that may be held in other companies, that may be considered as compatible with effectively holding the position of Director of the Issuer, without prejudice to the fact that each Director shall assess the compatibility of positions of Director and Statutory Auditor held in other companies listed on regulated markets (also abroad), in financial, banking and insurance companies or in companies of a considerable scale, diligently conducting the duties assigned to them as Board Director of the Issuer.

In the meeting of 21 March 2018, the Board, after reviewing positions currently held by its Directors in other companies, confirmed that the number and type of positions held do not cause any interference and are therefore compatible with effectively carrying out duties as Director of the Issuer.

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

The table below lists the administration and control positions held, at 31 December 2017, by the members of the Board of Directors, in other companies listed on regulated markets (also abroad), in financial, banking and insurance companies or in companies of a considerable scale.

Full name	Company	Administration and control positions
Roberto Colaninno	Piaggio & C. S.p.A.* Omniaholding S.p.A.* Omniainvest S.p.A.* Piaggio Fast Forward Inc.* RCN Finanziaria S.p.A.* Intermarine S.p.A.*	Chairman BoD and Chief Executive Officer Chairman of the Board of Directors Chairman of the Board of Directors Member of the Advisory Board Director Director
Michele Colaninno	Omniaholding S.p.A.* Omniainvest S.p.A.* ISM Investimenti S.p.A.* Piaggio Fast Forward Inc.* Piaggio & C. S.p.A.* ACEM (Association des Constructeurs Européens de Motocycles) Intermarine S.p.A.* Is Molas S.p.A.* RCN Finanziaria S.p.A.* Immsi Audit S.c.a r.l.*	Chief Executive Officer Chief Executive Officer Chairman of the Board of Directors Deputy Chairman of the Board Director Deputy Chairman Director Director Director Director
Daniele Discepolo	Ciano Trading & Service S.r.l. Pianoforte Holding S.p.A. Simest S.p.A. Esaote S.p.A. Fondazione Filarete per le Bioscienze e l'Innovazione Gruppo Argenta S.p.A. Credito di Romagna S.p.A. Iniziative Logistiche S.r.l. Illa S.p.A. Manucor S.p.A. Sorgenia S.p.A. Manzoni S.r.l. Melville S.r.l. Savio Macchine Tessili S.p.A. Livingston S.p.A. under Special Administration Meraklon S.p.A. and associated companies Meraklon Yarn S.r.l. Valtur S.p.A. and associated companies Cooperativa Commissionaria Valtrumplina Co.Va.C. – Soc. Coop. a r.l. Gruppo Stabila – De Roma	Chairman of the Board of Directors Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Chairman of the Supervisory Board Chairman of the Supervisory Board Chairman of the Supervisory Board Director Director Director Director Mayor Mayor Mayor Mayor Special Administrator Special Administrator Special Administrator Member of the trio of Special Administrators Official Liquidator Chairman of the Supervisory Committee for the Special Administration Procedure
Matteo Colaninno	Omniaholding S.p.A.* Piaggio & C. S.p.A.* Omniainvest S.p.A.*	Deputy Chairman and Chief Executive Officer Deputy Chairman Director
Rita Ciccone	2i Rete Gas S.p.A. Sagat S.p.A. Infracom S.p.A. MC-Link S.p.A.	Director Director Director Director
Patrizia De Pasquale	-	-

Giovanni Sala	Intermonte Holding SIM S.p.A. Intermonte SIM S.p.A. Lemar S.p.A. Movi S.p.A. Pentax Italia S.r.l. Gewiss S.p.A.	Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Chairman of the Board of Statutory Auditors Director
Ruggero Magnoni	Fondazione Giuliano e Maria Carmen Magnoni Onlus Fondazione Laureus Sport for Good Italia Onlus M&M Capital Ltd Respublica Fondazione di Cultura e Politica Aplomb S.r.l. Raffaele Caruso S.p.A. Compagnie Financiere Richemont SA Intek S.p.A Omniainvest S.p.A.* Fondazione Dynamo - Motore di Filantropia Lehman Brothers Foundation Europe Quattroduedue Holding BV Trilantic Capital Partners Europe Istituto Javotte Bocconi Manca di Villahermosa Associazione “Amici della Bocconi”	Founding Member and Chairman Founding Member and Chairman Chairman Deputy Chairman Director Director Director and Audit Committee member Director Director Director Trustee Supervisor Director Senior Advisor and Advisory Council Member Executive Committee Member
Livio Corghi	Intermarine S.p.A.* RCN Finanziaria S.p.A.*	Chief Executive Officer Director

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

The type of board disclosure allows Directors to have adequate knowledge of the sector in which the Issuer operators, of corporate dynamics and their developments, as well as the regulatory and self-regulatory reference framework. Indeed, during the board meetings concerning the approval of the accounting figures for the period and, therefore, at least quarterly, the Chief Executive Officer updates the Board, on the organisational changes, the strategic development strategies and the outlook for the Group, breaking down the analysis according to the individual *cash generating units*.

With regard to the applicable regulatory and self-regulatory framework, the Directors and the Statutory Auditors had the opportunity to expand their knowledge of the legslative, regulatory and self-regulatory framework by participating, inter alia, in the board meeting of 15 December 2017, in which (i) after thorough discussion concerning the latest updates on market abuse and, especially, the recommendations contained in Guidelines 1/2017 on "Management of price-sensitive information" adopted by Consob on 13 October 2017, the Directors updated the corporate procedures concerning the Market Abuse Regulation; specifically: the “Procedure for Communicating Privileged Information to the General Public”; the "Procedure for managing the Register of Persons who have access to Price Sensitive Information" and the "Procedure for the fulfilment of Internal Dealing obligations", adopted by the Issuer in compliance with the Community provisions on market abuse (the MAR and related European Commission implementing regulations); (i) after thorough examination of the provisions set out in Consob Related Party Regulation, the Directors have updated the Related Party Procedure.

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

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

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

During the year, the Board of Directors held 8 meetings on the following dates: 9 February, 10 March, 17 March, 23 March, 12 May, 1 September, 13 November and 15 December.

The average duration of meetings was one and a half hour, with the Board of Statutory Auditors taking part.

The average attendance of Board Directors at these meetings was equal to 93.06%, while the average attendance of Independent Directors was equal to 90.62%.

The Articles of Association do not establish a minimum number of Board meetings, however the Board is expected to meet at least 6 times in 2018. At the date of this Report, 2 meetings had been held, on 1 and 21 March 2018.

In this regard, it should be noted that, in compliance with article 2.6.2, paragraph 1, letter b) of the Regulation on markets organised and managed by Borsa Italiana S.p.A., on 30 January 2018, Immsi S.p.A. informed Borsa Italiana S.p.A. of its annual schedule of corporate events for 2018. This calendar has also been published on the website of the Issuer, in the section “Investors/Calendar” and in the authorised storage mechanism “eMarket STORAGE” viewable at the web address www.emarketstorage.com.

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

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

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

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

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

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

- mergers and demergers in accordance with articles 2505, 2505-*bis* of the Italian Civil Code, the latter also referred to in article 2506-*ter* of the Italian Civil Code;
- the establishment or closure of secondary offices;
- Directors representing the Company;

- reductions in share capital in the event of Shareholder withdrawal;
- amendments to the Articles of Association to comply with regulatory provisions;
- transfer of the registered office to another location in Italy;

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

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

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

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

c) approve long-term plans;

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

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

Pursuant to article 2381 of the Italian Civil Code and to the application criterion 1, paragraph 1, letter c) of the Code, during the year the Board evaluated the adequacy of the organisational, administrative and general accounting structure of the Issuer and its strategic subsidiaries, with particular reference to the internal control and risk management system, according to procedures adopted by the Issuer for this purpose. In particular, in the meetings of 23 March 2017 and 21 March 2018, the Board considered - among others - the functional company organisation charts of the main strategic companies of the Group, with a particular focus on the charts of the Administration, Finance and Control departments, also considering organisational changes taking place during the year.

Within the framework of this periodic activity the Board has, depending on the case, used the support of the Control and Risks Committee, the Head of Internal Audit, the auditing company Immsi Audit S.c. a r.l. and the Financial reporting manager as well as the procedures and checks implemented also in accordance with Italian Law 262/2005. In particular, the Control and Risks Committee of the Issuer, in its meeting of 12 May 2017, reviewed specific documentation in order to determine operating and significant companies to be included in its controls, pursuant to Italian Law no. 262/2005, agreeing on the methodology to apply and companies to be controlled.

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

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

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

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

On 23 March 2017 and 21 March 2018, the Board of Directors of the Issuer conducted the annual review pursuant to Article 1, paragraph 1, letter g) of the Corporate Governance Code, considering the size, composition and operation of the Board and its Committees to be basically adequate for the management and organisational requirements of the Company, also taking into account the professional competencies, including the expertise and managerial skills of its members, the number of years in office and the fact that the Board is made up of nine directors, of which seven non-executive and four non-executive independent directors, which also ensures the ideal composition of Board committees.

In this regard, the Board decided to carry out self-assessment, to evaluate its abilities to carry out the functions assigned to it by applicable regulations. This assessment was conducted in February 2018. It concerned the financial year and was based on a self-assessment questionnaire sent to all Board Directors. The questionnaire – which was divided into different areas of investigation (e.g. composition, structure, size, functioning and dynamics of the Board, interaction with management, risk governance, and composition and structure of the Committees) and with the possibility of providing comments and suggestions – was completed by all the Directors and examined by the Board in the meeting of 21 March 2018. As stated above, the assessment outcome showed that the Board and Committees are suitable for carrying out their respective functions. In this respect, the Directors also considered that the composition of the Board of Directors adequately reflects diverse profiles as regards aspects such as age, gender, education and professional background.

Under article 18 of the Articles of Association, and unless decided otherwise by the Shareholders' Meeting, Directors are not subject to the prohibition set out in article 2390 of the Italian Civil Code. During the year, the Board of Directors was not presented with situations falling within the cases provided for by article 2390 of the Italian Civil Code.

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

4.4. AUTHORISED BODIES

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

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

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

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

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

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

Chairman of the Board of Directors and Chief Executive Officer

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

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

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

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

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

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

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

Reporting to the Board and the Board of Statutory Auditors

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

In particular, during the 8 board meetings held during the year, the Delegated Bodies promptly and extensively reported to the Board of Directors on activities carried out, on the performance generation operations and their outlook, as well as material transactions, in terms of their scale and characteristics, undertaken by the Company and its subsidiaries, as required by law and by the Articles of Association.

4.5. OTHER EXECUTIVE DIRECTORS

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

4.6. INDEPENDENT DIRECTORS

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

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

The independence requirements as per article 3 of the Code and article 148, paragraph 3, letters b) and c) of the TUF provided for independent directors currently in office were reviewed annually by the Board of Directors, in addition to the first possible occasion after appointment on 13 May 2015, most recently during the meeting of 21 March 2018. During this meeting, the Director Giovanni Sala confirmed that he meets the aforesaid independence requirements, also declaring that he has been a Director of the Company for more than nine financial years in the last twelve years. Considering that the nine years have matured in November 2017 and that the current Governing Body is due to expire shortly, the Board resolved not to consider necessary any exception to criterion 3.C.1 e) of the Governance Code with reference to the Director Giovanni Sala, thereby acknowledging the independence requirements pursuant to article 148, paragraph 3 of the Consolidated Law on Finance and article 3 of the Corporate Governance Code for all the independent Directors. On the same date, the Board of Statutory Auditors acknowledged that the criteria and review procedures used by the Board of Directors to evaluate independence requirements had been correctly adopted.

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

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

During the year, all the independent Directors met on 12 May 2017 and discussed important issues related to the Group's corporate policy; the secretary in charge of taking minutes, the Administration, Finance and Control Director and all the members of the Board of Statutory Auditors also took part in the meeting, which lasted 30 minutes.

For reporting period 2018, the independent Directors are expected to meet at least two times, the first of which was on 1 March 2018.

4.7. LEAD INDEPENDENT DIRECTOR

As already mentioned in section 4.4, the Chairman of the Board of Directors is the person mainly responsible for management of the Issuer (*Chief Executive Officer*). On 13 May 2015, the Board of Directors appointed the non-executive, independent Director Daniele Discepolo as Lead Independent Director, to represent non-executive directors and in particular independent directors.

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

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

As stated above, during the year, the independent directors met on 12 May 2017 in the absence of the other Directors.

5. PROCESSING OF CORPORATE INFORMATION

On 1 July 2016, the Issuer adopted new procedures, effective from 3 July 2016, to align with new EU regulations on market abuse (MAR and relative Commission implementing regulations, and namely:

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

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

These procedures were updated by the Board of Directors on 15 December 2017, and became effective on 1 January 2018, to align with**(i)** the latest guidelines issued by the European Securities and Markets Authority (ESMA) (including the latest version of "Questions and Answers on the Market Abuse Regulation"; **(ii)** recommendations in Guidelines no. 1/2017 on the “Management of Inside Information” adopted by Consob on 13 October 2017 (iii) amendments made by Consob to the Regulation on Issuers with resolution no. 19925 of 22 March 2017, with provisions, among others, on disclosure obligations of shareholders holding at least 10% of the share capital.

The procedures are available on the Issuer's website www.immsi.it - in the “*Governance/Procedure*” section and in the authorised storage system “eMarket STORAGE” which may be consulted at www.emarketstorage.com.

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

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

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

7. NOMINATIONS COMMITTEE

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

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

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

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

After the end of the reporting period and specifically on 21 March 2018, the Appointments Committee, considering the approaching expiry of the term of office of the current Board of Directors, met to put its recommendations on the size and composition of the new Board and on the professional positions considered most appropriate, and will meet again to review documents filed with lists.

The meeting of the Committee, recorded in the minutes, lasted half an hour.

See Table 2 in the appendix.

Functions of the Appointments Committee

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

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

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

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

8. REMUNERATION COMMITTEE

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

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

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

During the year, the Remuneration Committee held 1 meeting on 23 March 2017, lasting 30 minutes, with all members taking part, as well as the secretary taking the minutes and members of the Board of Statutory Auditors, who were informed of all decisions taken by the Committee, before the decisions were put to the Board of Directors of the Issuer in the meeting of 23 March 2017.

The Appointments Committee is expected to meet at least twice during 2018; the first meeting was already held on 21 March 2018.

See Table 2 in the appendix.

Functions of the Remuneration Committee

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

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

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

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

9. DIRECTORS' REMUNERATION

On 21 March 2018, the Board, following a proposal made by the Remuneration Committee, confirmed the "General policy for the remuneration of directors and key managers" (the "**Remuneration Policy**") pursuant to Article 6 of the Code. This policy defines the basic guidelines on which the remunerations must then be concretely established by the competent company bodies.

For a description of the Remuneration Policy and fees paid during the year to Directors, General Directors and Key Senior Management, see the Remuneration Report, available, as established by law, on the website of the Issuer, in the section "*Governance/General Meeting/Archive*" in the authorised storage system "eMarket STORAGE" which may be consulted at www.emarketstorage.com.

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

The incentive mechanisms for the Internal Auditing Supervisor and Executive in Charge of Financial Reporting are consistent with their duties.

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

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

10. CONTROL AND RISKS COMMITTEE

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

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

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

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

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

On request of the Committee and as regards topics of interest, the Board of Statutory Auditors and Financial Reporting Officer took part in meetings, and a representative from the independent auditors took part in the meeting to review the audit plan.

In particular, the Control and Risks Committee operated during the year working with the Board of Statutory Auditors and with continuous information flows on issues in its remit.

In 2018, the Control and Risks Committee is expected to meet at least 7 times; the first three meetings were held on February 1 and 16 and 21 March 2018, discussing matters relating to the year.

See Table 2 in the appendix.

Functions of the Control and Risks Committee

The Control and Risks Committee, in assisting the Board of Directors in its duties concerning internal control and risk management:

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

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

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

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

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

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

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

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

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

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

b) reviewed the progress of the internal auditing work plan, with particular reference to the implementation of measures concerning audits of previous years, the progress of the 2017 Audit Plan, including activities assisting the Risk Analysis unit and compliance audits conducted pursuant to Italian Law no. 262/2005 and Italian Legislative Decree no. 231/2001;

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

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

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

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

In order to carry out its duties, the Committee:

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

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

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

11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

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

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

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

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

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

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

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

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

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

At the meetings of 23 March 2017 and 21 March 2018, the Board of Directors, also considering recommendations from the Control and Risks Committee, evaluated the effectiveness of the internal control and risk management system of the Issuer as adequate, with respect to the characteristics of the company and its risk profile.

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

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

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

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

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

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

11.2. INTERNAL AUDIT DEPARTMENT MANAGER

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

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

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

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

In particular, during the year, the Internal Audit Manager, assisted by Immsi Audit, S.c. a r.l., conducted an audit of the internal control and risk management system, in accordance with the 2017 Internal Audit Plan, as the annual updated to the Plan for the three-year period 2015-2017, and approved by the Board of Directors on 17 March 2017, carrying out risk analysis, financial, operational and compliance auditing (with particular reference to audits carried out in order to comply with provisions of Italian Law no. 262/2005 and Italian Legislative Decree no. 231/2001), verifying the reliability of information systems, including accounting systems, and monitoring adoption of improvement/corrective actions agreed after internal audit activities.

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

Department in 2017, also giving his opinion on the adequacy of the Company's internal control and risk management system.

11.3. ORGANISATIONAL MODEL pursuant to Legislative Decree 231/2001

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

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

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

The Programme is monitored and updated on an ongoing basis. In particular, in September 2017, updates concerned amendments to Legislative Decree 231/2001 on corporate offences (inciting corruption among individuals) and on offences against the individual (unlawful intermediation and exploitation of labour), with suitable information included in the Compliance Programme for cases in which a risk of committing an offence is possible (e.g. regulations, typical conduct, management and control protocols, information flows to supervisory authorities pursuant to Legislative Decree 231/2001). In this context, the Code of Ethics of the Company was also revised, introducing a clause specifically on the protection of human rights and workers' rights.

The latest update to the Compliance Programme in March 2018 also concerned additions to the section on Whistleblowing, and namely: i) procedures for reporting unlawful conduct which is relevant pursuant to Legislative Decree 231/2001 or violations of the Compliance Programme to the Supervisory Board via a specific mailbox that may only be consulted by the Board, which are suitable for guaranteeing the confidentiality of the person reporting the information, ii) sanctions as part of the disciplinary system against people who violate measures to protect whistle-blowers, and against people who wrongfully or intentionally report information which is unfounded.

Company procedures are also updated at the same time, with their correct application monitored through planned compliance activities, recommended and coordinated by the Supervisory Board and carried out by the Internal Audit Department Management. This monitoring process also involves Process Owners, i.e. the parties/entities responsible for company processes that are considered "sensitive" as regards the commission of offences, that periodically report to the

Supervisory Board. Employees - top managers and positions reporting to them - as well as third parties (i.e. suppliers, customers, consultants, etc.) are informed about the adoption of the Code of Ethics and the Code of Conduct and, when signing contracts, specific clauses are included referring to the principles of ethics/conduct adopted.

On 13 May 2015, the Board of Directors confirmed Marco Reboa, selected from external professionals with the necessary requisites, as Chairman of the Supervisory Board and Alessandro Lai, Chairman of the Board of Statutory Auditors and Maurizio Strozzi, Chief Executive Officer of Immsi Audit S.c. a r.l. and Internal Audit Department Manager of the Company, as members.

The Issuer considered the feasibility of assigning supervisory functions to the Board of Statutory Auditors, but considered the supervisory functions of an *ad hoc* organisation, i.e. the Supervisory Board, to be more efficient and effective at monitoring the functioning of and compliance with the Model.

This Board, that will remain in office until the date of the Shareholders' Meeting convened to approve the Financial Statements for the year ending 31 December 2017, operates at the highest company level, and according to principles of independence, autonomy, professionalism and impartiality, and also on the basis of Regulations approved by the Board of Directors, that it reports to periodically on activities carried out, information received and sanctions administered. In this regard, no employees of the Issuer sent information to the mailbox that may only be consulted by the Supervisory Board.

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

During the year, the Supervisory Body of Immsi S.p.A. met 5 times and overall member attendance was 100%.

The Supervisory Board is expected to meet at least 5 times in 2018. The first two meetings were held on 16 and 21 March 2018; the Working Plan for 2018 was approved during the meeting of the Supervisory Board on 10 November 2017.

11.4. EXTERNAL AUDITORS

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

11.5. FINANCIAL REPORTING MANAGER AND OTHER COMPANY ROLES AND FUNCTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

On 21 March 2018, the Board of Directors, in accordance with the provisions of criterion 7.C.1 of the Code, provided its opinion on the adequacy of the aforementioned procedures of coordination between the various parties involved in the internal control and risk management system.

12. INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES

On 15 December 2017, the Board of Directors, during its three-yearly review of the need to revise the Related Parties procedure (as defined herein), and subject to the approval of the Committee for Related-Party Transactions, updated the procedure, which became effective on 1 January 2018, regulating the approval and management of transactions with Related Parties ("**Related-Parties Procedure**"), pursuant to Article 4 of Consob Regulation no. 17221 of 12 March 2010 (as amended), undertaken by Immsi S.p.A., also through its subsidiaries.

Pursuant to Consob Communication DEM/10078683, published on 24 September 2010, containing "Indications and guidelines for the adoption of the Regulation on Related-Party Transactions adopted with resolution no. 17221 of 12 March 2010 as amended", the Issuer established that the Board shall assess at least every three years and as instructed by the Committee for Related-Party Transactions, whether to revise the Related Parties Procedure, considering, among others, legal and regulatory developments, any changes in corporate ownership as well as the effectiveness of the practical application of the procedure.

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

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

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

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

This Committee, which met during the year on 9 February and 9 March 2017, has the functions indicated in the relative Procedure, which is available on the Issuer's website www.immsi.it, in the section "*Governance/Procedure".*

13. APPOINTMENT OF STATUTORY AUDITORS

The Articles of Association of the Issuer conform to regulations on the gender balance of company boards pursuant to Article 148-ter, paragraph 1-*ter* of the TUF, as introduced by Law 120/2011, and Article 144-*undecies*.1 of the Consob Regulation on Issuers.

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

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

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

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

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

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

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

Shareholders are entitled to present lists only if, alone or with other Shareholders, they hold shares with voting rights representing at least 1% of the share capital with voting rights at the Ordinary Shareholders' Meeting, or a different percentage that may be established by law or other regulations. With ruling no. 20273 of 24 January 2018, Consob established a requirement of 2.5% of the share capital as necessary for presenting lists of candidates for election to the Board of Statutory Auditors.

The lists must be presented along with:

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

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

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

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

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

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

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

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

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

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

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

14. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS (pursuant to Article 123-*bis*, paragraph 2, letters d) and d-*bis* of the TUF)

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

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

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

During 2017, the Board of Statutory Auditors held 13 meetings lasting on average 2 hours, with an average overall attendance of 100%.

For the year 2018 the Board of Statutory Auditors is expected to meet at least 8 times. At the date of this Report, the Board had met 3 times on the following dates: 1, 16 and 21 March 2018.

As regards company policies on diversity in relation to the composition of the Board of Statutory Auditors (Article 123-*bis*, letter d-*bis* of the Consolidated Law on Finance): (i) one Statutory Auditor and one Alternate Auditor are of the least represented gender, in compliance with laws on gender balance; (ii) Board members vary in age, from 41 to 58 years; (iii) without prejudice to the professional requirements set out by law, the educational and professional backgrounds of members of the Board of Statutory Auditors currently in office ensure that these individuals have the appropriate profiles and experience to ensure that all functions thereof are executed correctly.

Moreover, the Board of Directors currently in office will provide more detailed information for shareholders on the diversity policy adopted for company boards in the reports prepared pursuant to Article 125-*ter* of the Consolidated Law on Finance, with specific reference to the appointment of the Board of Directors and the Board of Statutory Auditors by the Shareholders' Meeting, convened in order to approve the Financial Statements at 31 December 2017, and also pursuant to criterion 1.C.1. letter h) of the Corporate Governance Code.

See Table 3 in the appendix.

During the meeting of 13 May 2015, on its appointment, and the meetings of 23 March 2017 and 21 March 2018, the Board of Statutory Auditors reviewed the independence requirements of its members, already checked on appointment and annually during their term of office, also on the basis of criteria in the Corporate Code of Governance, with reference to Directors. During the board meeting of 21 March 2018, save for evaluations in the remit of the Board of Statutory Auditors as regards its composition, the Board, favouring a composition based on substance, resolved the following: (i) consider appropriate, in the interest of the Company, the non-application of the criterion 3.C.1 point e) of the Corporate Governance Code with regard to the Auditor Alessandro Lai (possessing high professional profiles that over time have proven valuable to the Issuer), (ii) to recognise the fulfilment of the requirements of independence pursuant to Article 148, paragraph 3, of the TUF and Article 3 of the Corporate Governance Code by all the members of the Board of Statutory Auditors.

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

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

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

Legislative Decree no. 39/2010, as amended by Legislative Decree no. 135/2016, identifies the Board of Statutory Auditors as the Internal Control and Audit Committee, appointed to carry out the following activities in particular:

- to inform the competent body of the audit outcome and send the latter the additional report, as per Article 11 of Regulation No 537/2014, along with any observations;
- to monitor the financial disclosure process and make recommendations or proposals to ensure the integrity of this process;

- to monitor the effectiveness of internal quality control and business risk management systems and, if applicable, of internal auditing activities, as regards financial disclosures by the organisation subject to audit, without affecting its independence;
- to monitor the auditing of the financial statements and consolidated financial statements, in consideration of any results and findings of quality controls conducted by Consob pursuant to Article 26, paragraph 6 of Regulation No 537/2014, where available;
- to verify and monitor the independence of the statutory auditors or independent auditors pursuant to Articles 10, 10-*bis*, 10-*ter*, 10-*quater* and 17 of Legislative Decree no. 39/2010 and of Article 6 of Regulation No 537/2014, in particular as concerns the adequacy of services provided other than those concerned with the auditing of the entity in question, in accordance with Article 5 of the aforementioned Regulation;
- to be responsible for the procedure to appoint the statutory auditors or independent auditors or to recommend the appointment of statutory auditors or independent auditors pursuant to Article 16 of Regulation No 537/2014.

15. RELATIONSHIPS WITH SHAREHOLDERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- establishment or closure of secondary offices;

- which Directors represent the Company;

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

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

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

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

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

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

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

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

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

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

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

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

At the Ordinary Shareholders' Meeting of the Issuer, held on 12 May 2017, 5 Directors took the floor, out of 9 in office on the Board of Directors and the entire Board of Statutory Auditors.

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

In the meeting of 21 March 2018, the Board decided that it was not necessary to propose amendments to the Shareholders' Meeting concerning the percentages established to protect minorities as, in accordance with Article 144-*quater* of the Consob Regulation on Issuers on presenting lists for the appointment of members of the Board of Directors and the Board of Statutory Auditors, Articles 17 and 25 of the Articles of Association of the Issuer have established a requirement of 2.5% and 1% of the share capital with voting rights, or as otherwise required by applicable laws or regulations. With resolution no. 20273 of 24 January 2018, Consob established a requirement of 2.5% of the share capital as necessary for presenting lists of candidates for election to the Board of Directors and Board of Statutory Auditors of the Issuer.

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

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

18. CHANGES AFTER THE FINANCIAL YEAR-END

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

19. CONSIDERATIONS ON THE LETTER FROM THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE, 13 DECEMBER 2017

The letter of 13 December 2017 from the Chairman of the Corporate Governance Committee to the Chairpersons of the Boards of Italian listed companies was brought to the attention of the Board of Directors of the Issuer in the meeting of 21 March 2018.
The Board acknowledged the analyses and recommendations in the letter and the overall adequacy of the Company as regards indications on the quality of pre-board meeting disclosure (see section 4.3 of this Report), the establishment and functions of the appointments committee (see section 7 of this Report), the profiles of independent directors (see section 4.6 of this Report), the contents of the board review (see section 4.3 of this Report), as well as some remuneration profiles (claw-back and variable components, to which reference is made in the Remuneration Report prepared pursuant to Article 123-ter of the TUF).
With reference to the additional profiles referred to in the letter, reference should be made to the succession plans already mentioned in this Report (see section 4.1), and to the Remuneration Report prepared pursuant to Article 123-ter of the TUF as regards claw-back clauses and termination indemnities.

TABLE 1: INFORMATION ON CORPORATE OWNERSHIP

STRUCTURE OF THE SHARE CAPITAL at 31/12/2017				
	N° of Shares	% of share capital	Listed	rights and obligations
Ordinary shares	340,530,000	100%	MTA Standard Segment	Articles 2346 et seq. of the Italian Civil Code
Shares with multiple voting	-	-	-	-
Shares with restricted votes	-	-	-	-
Shares without voting rights	-	-	-	-
Other	-	-	-	-

OTHER FINANCIAL INSTRUMENTS (assigning the right to subscribe newly issued shares) at 31/12/2017				
	Listed (indicate the markets) / not listed	Number of instruments in issue	Class of shares for the conversion / exercise	Number of shares for the conversion / exercise
Bonds bonds	-	-	-	-
Warrants	-	-	-	-

SIGNIFICANT HOLDINGS IN THE SHARE CAPITAL at 31/12/2017			
Declarer	Direct shareholder	% of ordinary share capital	% of shares with voting rights
Omniaholding S.p.A.	Omniaholding S.p.A.	15.69%	15.69%
	Omniainvest S.p.A.	44.14%	44.14%
	Total	59.83%	59.83%

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors													Control and Risks Committee		Remuneration Committee		Nomination Committee		Executive Committee *(as applicable)*	
Position	**Members** ∞	**Year of birth** ►	**Date of first appointment** *	**In office since**	**In office up to**	**List** **	**Exec.**	**Non-exec.**	**Indep. Code**	**Indep. Consolidated Law on Finance**	**No. of other positions** ***	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Chairman ◊	Roberto Colaninno	16/08/1943	31/01/2003	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M	X				6	8/8								
Deputy Chairman ○	Daniele Discepolo	20/07/1947	13/05/2015	Shareholders' Meeting for the Financial Statements 13/05/2015	31/12/2017 Shareholders' Meeting for the Financial Statements	M		X	X	X	20	8/8	8/8	P	1/1	P	0/0	M		
CEO ●	Michele Colaninno	23/11/1976	13/11/2006	Shareholders' Meeting for the Financial Statements 13/05/2015	31/12/2017 Shareholders' Meeting for the Financial Statements	M	X				10	8/8								
Director	Matteo Colaninno	16/10/1970	31/01/2003	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M		X			3	7/8								
Director	Patrizia De Pasquale	02/04/1961	13/05/2015	Shareholders' Meeting for the Financial Statements 13/05/2015	31/12/2017 Shareholders' Meeting for the Financial Statements	M		X	X	X	-	7/8								
Director	Ruggero Magnoni	10/02/1951	27/08/2010	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M		X			14	7/8								
Director	Giovanni Sala	14/04/1938	13/11/2008	Shareholders' Meeting for the Financial Statements 13/05/2015	31/12/2017 Shareholders' Meeting for the Financial Statements	M		X	X	X	6	7/8	8/8	M	1/1	M	0/0	P		
Director	Rita Ciccone	06/06/1960	11/05/2012	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M		X	X	X	4	7/8	6/8	M	1/1	M	0/0	M		
Director	Livio Corghi	15/02/1946	13/05/2015	13/05/2015 Shareholders' Meeting for the Financial Statements	31/12/2017 Shareholders' Meeting for the Financial Statements	M		X			2	8/8								
---------------------------- DIRECTORS NO LONGER IN OFFICE DURING THE REPORTING PERIOD ----------------------------																				
Number of Meetings held during the reporting period – BoD: 8						Control and Risks Committee: 8				Remuneration Committee: 1		Nomination Committee: 0			Executive Committee: -					
Indicate the quorum required by minorities to submit lists to elect one or more members (pursuant to article 147-ter TUF): 2.5%																				

• This symbol indicates the Internal control and Risk Management System Director.
◊ This symbol indicates the main person responsible for managing the issuer (Chief Executive Officer or CEO).
○ This symbol indicates the Lead Independent Director (LID).
∞ 22.2% of Directors are female, while 77.8% are male.
► 22.2% of Directors are aged 30 - 50, while 77.8% are over 50.
* The date of first appointment means the date when the director was appointed for the first time (in absolute terms) to the Board of Directors of the issuer.
** This column indicates the list from which each director was voted ("M": majority list; "m": minority list; "BoD": list presented by the Board of Directors).
*** This column indicates the number of positions held as director or auditor by the person in other companies listed on regulation markets, also abroad, and in financial, banking, insurance or large-scale companies. These positions are indicated in full in the Corporate Governance Report.
(*) This column indicates the participation of directors in meetings of the Board of Directors and committees (indicate the number of meetings attended and the total number of meetings the person could have attended; e.g. 6/8; 8/8 etc.).
(**) This column indicates the position of the director on the Committee: "P": Chairman; "M": member.

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors									
Position	***Members ∞***	***Year of birth ►***	***Date of first appointment ****	***In office since***	***In office up to***	***List *****	***Indep. Code***	***Involvement in Board meetings *******	***No. of other positions *********
Chairman	*Alessandro Lai*	*10/01/1960*	*05/05/2003*	*Shareholders' Meeting for the Financial Statements 13/05/2015*	*Shareholders' Meeting for the Financial Statements 31/12/2017*	*M*	*X*	*13/13*	*7*
Statutory Auditor	*Daniele Girelli*	*16/05/1960*	*11/05/2012*	*Shareholders' Meeting for the Financial Statements 13/05/2015*	*Shareholders' Meeting for the Financial Statements 31/12/2017*	*M*	*X*	*13/13*	*9*
Statutory Auditor	*Silvia Rodi*	*07/12/1977*	*13/05/2015*	*Shareholders' Meeting for the Financial Statements 13/05/2015*	*Shareholders' Meeting for the Financial Statements 31/12/2017*	*M*	*X*	*13/13*	*3*
Alternate Auditor	*Gianmarco Losi*	*22/07/1964*	*29/04/2009*	*Shareholders' Meeting for the Financial Statements 13/05/2015*	*Shareholders' Meeting for the Financial Statements 31/12/2017*	*M*	*X*	--	--
Alternate Auditor	*Elena Fornara*	*31/05/1974*	*29/04/2009*	*Shareholders' Meeting for the Financial Statements 13/05/2015*	*Shareholders' Meeting for the Financial Statements 31/12/2017*	*M*	*X*	--	--
---------------------------- AUDITORS NO LONGER IN OFFICE DURING THE REPORTING PERIOD ----------------------------									
Number of meetings held during the reporting period*: 13*									
Indicate the quorum required by minorities to submit lists to elect one or more members (pursuant to article 148-ter TUF): *2.5%*									

∞ 33.3% of Statutory Auditors are female, while 66.7% are male.
► 33.3% of Statutory Auditors are aged 30 - 50, while 66.7% are over 50.
* The date of the first appointment of each auditor means the date when the auditor was appointed for the first time (in absolute terms) to the Board of Statutory Auditors of the issuer.
** This column indicates the list from which each auditor was voted ("M": majority list; "m": minority list).
(*) This column indicates the participation of auditors in meetings of the Board of Statutory Auditors (indicate the number of meetings attended and the total number of meetings the person could have attended; e.g. 6/8; 8/8 etc.).
****This column indicates the number of position held with companies as of Book V, Part V, Sections V, VI and VII of the Italian Civil Code. For information on the positions of director and auditor held by members of the Board of Statutory Auditors, which are relevant pursuant to articles 144-duodecies et. seq. of the Consob Issuer Regulation, see data published by Consob pursuant to article 144-quinquiesdecies of the Consob Regulation on Issuers, on the website www.sai.consob.it in the section "Company Boards – Information for the public".

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

Introduction

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

Aims and objectives

The risk management and internal control system in relation to Immsi Group financial disclosure was developed using the COSO Report"([11]) as a reference model. According to this report, the Internal Control System, given its broadest meaning, is defined as "*a process, carried out by the Board of Directors, by Senior Management and other subjects of the company structure, intended to provide reasonable certainty as to achieving objectives in the following categories*:

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

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

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

Methodological approach

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

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

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

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

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

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

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

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

b) Identification of controls to minimise risks identified;

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

Elements of the system

a) Identification and assessment of financial disclosure risks

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

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

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

Those criteria are determined by:

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

b) Identification of controls for identified risks;

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

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

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

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

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

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

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

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

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

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

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

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

Roles and departments involved

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

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

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

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

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

Immsi Group

Financial statements at 31 December 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

In thousands of euros

ASSETS		31 December 2017	31 December 2016
NON-CURRENT ASSETS			
Intangible assets	F1	826,198	847,059
Plant, property and equipment	F2	307,343	336,467
Investment property	F3	85,637	85,765
Investments	F4	7,583	7,464
Other financial assets	F5	7,364	33,205
Tax receivables	F6	19,913	15,680
Deferred tax assets	F7	122,984	126,640
Trade receivables and other receivables	F8	13,986	15,587
- of which with Related Parties		*115*	*133*
TOTAL NON-CURRENT ASSETS		1,391,008	1,467,867
ASSETS HELD FOR DISPOSAL	F9	27,183	27,183
CURRENT ASSETS			
Trade receivables and other receivables	F8	154,934	134,382
- of which with Related Parties		*5,878*	*7,487*
Tax receivables	F6	13,656	29,386
Inventories	F10	309,184	294,057
Other financial assets	F5	6,665	14,693
Cash and cash equivalents	F11	138,949	197,919
TOTAL CURRENT ASSETS		623,388	670,437
TOTAL ASSETS		2,041,579	2,165,487

LIABILITIES		31 December 2017	31 December 2016 *Restated*
SHAREHOLDERS' EQUITY			
Consolidated shareholders’ equity attributable to the Group		221,623	232,787
Capital and reserves of non-controlling interests		149,066	159,771
TOTAL SHAREHOLDERS’ EQUITY	G1	370,689	392,558
NON-CURRENT LIABILITIES			
Financial liabilities	G2	578,462	548,512
- of which with Related Parties		*2,900*	*2,900*
Trade payables and other payables	G3	6,829	6,907
- of which with Related Parties		*12*	*162*
Retirement fund and similar obligations	G4	48,628	53,482
Other long-term provisions	G5	10,739	11,739
Deferred tax liabilities	G6	22,677	23,110
TOTAL NON-CURRENT LIABILITIES		667,335	643,750
LIABILITIES RELATED TO ASSETS HELD FOR DISPOSAL		0	0
CURRENT LIABILITIES			
Financial liabilities	G2	432,032	585,044
- of which with Related Parties		*9*	*12*
Trade payables	G3	490,483	466,366
- of which with Related Parties		*9,319*	*10,298*
Current taxes	G7	12,309	9,314
Other payables	G3	47,928	52,267
- of which with Related Parties		*214*	*215*
Current portion of other long-term provisions	G5	20,803	16,188
TOTAL CURRENT LIABILITIES		1,003,555	1,129,179
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY		2,041,579	2,165,487

CONSOLIDATED INCOME STATEMENT AT 31 DECEMBER 2017

In thousands of Euros

		31.12.2017	31.12.2016
Net revenues	H1	1.454.939	1,383,848
- of which with Related Parties		*1,777*	*855*
Costs for materials	H2	825,168	786,766
- of which with Related Parties		*23,508*	*23,289*
Costs for services, leases and rentals	H3	265,069	272,674
- of which with Related Parties		*962*	*955*
Employee costs	H4	234,493	232,808
Depreciation of plant, property and equipment	H5	46,192	46,337
Amortisation of goodwill		0	0
Amortisation of intangible assets with a definite life	H6	72,427	63,745
Other operating income	H7	109,929	110,675
- of which with Related Parties		*254*	*3,042*
Other operating costs	H8	35,086	35,185
OPERATING INCOME		86,433	57,008
Earnings on investments	H9	716	568
Financial income	H10	21,093	15,612
Borrowing costs	H11	69,226	68,692
- of which with Related Parties		*152*	*134*
PROFIT BEFORE TAX		39,016	4,496
Taxes	H12	24,132	12,841
EARNINGS AFTER TAXES FROM CONTINUING OPERATIONS		14,884	(8,345)
Gain (loss) from assets held for disposal or sale	H13	0	0
EARNINGS FOR THE PERIOD INCLUDING NON-CONTROLLING INTERESTS		14,884	(8,345)
Earnings for the period attributable to non-controlling interests		6,695	318
EARNINGS FOR THE PERIOD ATTRIBUTABLE TO THE GROUP	H14	8,189	(8,663)

EARNINGS PER SHARE

Amounts in euro

From continuing and discontinued operations:	31.12.2017	31.12.2016
Basic	0.024	(0.025)
Diluted	0.024	(0.025)

From continuing operations:	31.12.2017	31.12.2016
Basic	0.024	(0.025)
Diluted	0.024	(0.025)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AT 31 DECEMBER 2017

In thousands of Euros

	31.12.2017	31.12.2016
EARNINGS FOR THE PERIOD INCLUDING NON-CONTROLLING INTERESTS	14,884	(8,345)
Items that will not be reclassified to profit or loss		
Profit (losses) arising from the fair value measurement of assets and liabilities included in the statement of comprehensive income	(21,821)	0
Actuarial gains (losses) on defined benefit plans	1,243	(2,756)
Total	(20,578)	(2,756)
Items that may be reclassified to profit or loss		
Gains/(losses) on cash flow hedges	290	473
Profit (loss) deriving from the translation of financial statements of foreign companies denominated in foreign currency	(10,282)	1,429
Gains/(Losses) on evaluation at fair value of assets available for sale and property investments	0	(6,697)
Total	(9,992)	(4,795)
Other Consolidated Comprehensive Income (Expense)	(30,570)	(7,551)
TOTAL COMPREHENSIVE PROFIT (LOSS) FOR THE PERIOD	(15,686)	(15,896)
Comprehensive earnings for the period attributable to non-controlling interests	376	(257)
COMPREHENSIVE EARNINGS FOR THE PERIOD ATTRIBUTABLE TO THE GROUP	(16,062)	(15,639)

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

STATEMENT OF CONSOLIDATED CASH FLOWS AT 31 DECEMBER 2017

In thousands of Euros

		31.12.2017	31.12.2016
Operating activities			
Profit before tax		39,016	4,496
Depreciation of plant, property and equipment (including investment property)	*H5*	46,192	46,337
Amortisation of intangible assets	*H6*	72,427	63,745
Provisions for risks and for severance indemnity and similar obligations	*H4 - H8*	25,109	22,742
Write-downs (reversals of fair value measurements)	*H7 - H8*	8,042	2,747
Losses / (Gains) on the disposal of plant, property and equipment (including investment property)	*H7 - H8*	(558)	(2,295)
Losses / (Gains) on the disposal of securities	*H10 - H11*	(3,350)	0
Interest income	*H10*	(1,808)	(2,705)
Dividend income	*H10*	(109)	(24)
Interest expense	*H11*	50,202	52,034
Amortisation of grants	*H7*	(5,464)	(4,260)
Portion of earnings before taxes of affiliated companies (and other companies valued using the equity method)	*H9*	(716)	(568)
Change in working capital:			
(Increase) / Decrease in trade receivables	*F8*	13,169	110
(Increase)/Decrease in inventories	*F10*	(15,127)	(6,198)
Increase / (Decrease) in trade payables	*G3*	21,019	(2,195)
(Increase) / Decrease in contract work in progress	*F8*	(23,254)	64,856
Increase / (Decrease) in provisions for risks	*G5*	(12,148)	(12,870)
Increase / (Decrease) in reserves for severance indemnity and similar obligations	*G4*	(13,779)	(9,664)
Other changes		6,201	(6,356)
Cash generated from operating activities		205,064	209,932
Interest paid		(44,414)	(45,557)
Taxes paid		(19,186)	(25,850)
Cash flow from operations		141,464	138,525
Investing activities			
Acquisition of subsidiaries, net of cash and cash equivalents	*F1*	0	(5,612)
Sale price of subsidiaries, net of cash and cash equivalents		3,567	0
Investments in plant, property and equipment	*F2*	(29,800)	(39,371)
Sale price, or repayment value, of plant, property and equipment (including investment property)	*F2*	3,394	2,582
Investments in intangible assets	*F1*	(58,040)	(58,678)
Sale price, or repayment value, of intangible assets		62	0
Purchase of non-consolidated investments	*F4*	(13)	0
Purchase of financial assets	*F5*	(781)	(1,881)
Sale price of financial assets		3,350	3
Collected interests		1,452	594
Other flows from assets held for disposal or sale		0	124
Grants received		706	244
Dividends from investments		109	0
Cash flow from investing activities		(75,994)	(101,995)
Financing activities			
Loans received		216,205	328,836
Outflow for repayment of loans		(300,522)	(295,279)
Financing received for leases		0	12,839
Repayment of finance leases		(1,124)	(1,601)
Outflow for dividends paid to Parent Company Shareholders	*G1 - N*	0	(5,107)
Outflow for dividends paid to non-controlling interests		(9,752)	(8,921)
Cash flow from financing activities		(95,193)	30,767
Increase / (Decrease) in cash and cash equivalents		(29,723)	67,297
Opening balance		173,223	104,415
Exchange differences		(8,242)	1,511
Closing balance		135,258	173,223

Changes in working capital include lower trade payables and other payables towards Related Parties amounting to 1,130 thousand euros and lower trade receivables and other receivables due from Related Parties of 1,627 thousand euros. For more detail on Related-Party transactions during 2017, see the paragraph in the Report on Operations.

This table shows the changes in cash and cash equivalents at 31 December 2017, which amount to 138.9 million euros, gross of short-term bank overdrafts equal to 3.7 million euros.

CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31 DECEMBER 2017

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

In thousands of euros	Share capital	Reserves and retained earnings(losses)	Earnings for the period	Shareholders' equity attributable to the Group	Capital and reserves of non-controlling interests	Shareholders' equity attributable to the Group and non-controlling interests
Balances at 31 December 2016	**178,464**	**62,986**	**(8,663)**	**232,787**	**159,771**	**392,558**
Allocation of Group earnings to the Legal Reserve	0	275	(275)	0	0	0
Allocation of Group earnings to Dividends	0	0	0	0	(9,752)	(9,752)
Allocation of Group earnings to Retained Earnings/Losses	0	(8,938)	8,938	0	0	0
Purchase of treasury shares by Piaggio & C. S.p.A.	0	0	0	0	0	0
Other changes	0	4,898	0	4,898	(1,329)	3,569
Overall earnings for the period	0	(24,251)	8,189	(16,062)	376	(15,686)
Balances at 31 December 2017	**178,464**	**34,970**	**8,189**	**221,623**	**149,066**	**370,689**

SUPPLEMENTARY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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L	**Related Party Transactions**
M	**Consolidated debt**
N	**Dividends paid**
O	**Earnings per share**
P	**Information on financial instruments**

- A - GENERAL ASPECTS

Immsi S.p.A. (the “Company”) is a limited company established under Italian law and has registered offices in Mantova - P.zza Vilfredo Pareto, 3 Centro Direzionale Boma. The main activities of the company and its subsidiaries (the “Immsi Group”), the information on relevant events after the end of the reporting period and on operating outlook are described in the Directors’ Report on Operations. At 31 December 2017, pursuant to article 93 of the TUF, Immsi S.p.A. was directly and indirectly controlled by Omniaholding S.p.A., a company wholly owned by the Colaninno family, through the subsidiary Omniainvest S.p.A..

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

COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

The consolidated Financial Statements of the Immsi Group as at 31 December 2017 were drawn up in compliance with International Accounting Principles (IAS/IFRS), as applicable at that date, issued by the *International Accounting Standards Board* and certified by the European Commission pursuant to Regulation (CE) no. 1606/2002, and in compliance with the provisions implementing section 9 of Legislative Decree no. 38/2005 (including Consob Resolution no. 15519 dated 27 July 2006 headed "Provisions regarding the drafting of Financial Statements", Consob Resolution no. 15520 dated 27 July 2006 headed "Amendments and additions to the Regulation on Issuers adopted by Resolution no. 11971/99", Consob Communiqué no. 6064293 dated 28 July 2006 headed "Corporate reporting requirements pursuant to section 114, para. 5 of Legislative Decree 58/98"). Also taken into consideration were the views of the *Standing Interpretation Committee* (“SIC”) and the *International Financial Reporting Interpretations Committee* (“IFRIC”).

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

Financial Statements are drawn up on the basis of historic cost, taking into account, where appropriate, adjustments to value, with the exception of financial statement items which according to IFRS must be shown at fair value, as set out in the valuation criteria, on the basis of a going concern. In fact, despite the difficult economic and financial context, the Group has evaluated that there are no significant doubts about its continuing as a going concern (as defined in section 25 of IAS 1), also in relation to actions already identified to adapt to changing levels in demand, as well as the industrial and financial flexibility of the Group.

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

With reference to Consob Resolution no. 15519 of 27 July 2006, as regards the financial statements, specific Income statement and Statement of financial position tables have been included indicating significant Related-Party transactions and non-recurring transactions. In this regard, in both FY 2016 and FY 2017 there were no significant non-recurrent transactions as defined by Consob in Communiqué no. DEM/6064293 dated 28 July 2006.
Moreover, no atypical or unusual transactions took place in FY 2017 or the corresponding period of the previous year, as defined by Consob in Communiqués no. DEM/6037577 dated 28 April 2006 and no. DEM/6064293 dated 28 July 2006.

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

Consolidated Statement of Comprehensive Income
The Consolidated Statement of Comprehensive Income is presented as provided for in IAS 1 revised. This amended version of the standard requires income attributable to owners of the parent company and to non-controlling interests net of the corresponding fiscal effect. In this respect, it should be noted that on 16 June 2011, the IASB issued an amendment to IAS 1 – *Presentation of financial statements* to require entities to group all items presented in Other comprehensive income based on whether they are potentially reclassifiable to profit or loss.

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

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

Statement of changes in consolidated shareholders' equity
The Statement of Changes in consolidated Shareholders' equity is presented as required by IAS 1

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

- B - SCOPE OF CONSOLIDATION

The scope of consolidation has not changed significantly since the Consolidated Financial Statements at 31 December 2016. The changes are shown below:

- with reference to the holding of the Parent Company Immsi S.p.A. in ISM Investimenti S.p.A., in light of the different rights derived from ownership of the two shareholders and the analysis of the impairment test, the portion of consolidated shareholders' equity of ISM Investimenti S.p.A. is estimated at 51.55% as at 31 December 2017, down from 60.39% on 31 December 2016;
- the portion of consolidated shareholders' equity of the Piaggio group, which as at 31 December 2017 stood at 50.07%, was 50.49% as at 31 December 2016: the decrease was the result of the disposal in August 2017 by the Parent Company of 1.5 million Piaggio shares;
- the investment in Rodriquez Mexico, a non-operating company controlled by Intermarine S.p.A. was disposed of at the end of 2017.

For details of the Immsi Group structure referred to in these Explanatory Notes as at 31 December 2017 see the attached prospectus.

- C - CONSOLIDATION PRINCIPLES

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

Subsidiaries

Subsidiaries are companies in which the Group has a major influence. This influence exists when the Group has direct or indirect power to determine the financial and operational policies of a company in order to gain benefits from its operations. The acquisition of subsidiaries is recognised according to the acquisition method. The cost of acquisition is determined by the sum of present values at the date control of the given assets was obtained, liabilities borne or undertaken and financial instruments issued by the Group in exchange for control of the acquired company.
In the case of acquisitions of companies, acquired and identifiable assets, liabilities and potential liabilities are recognised at the present value at the date of acquisition. The positive difference between the acquisition cost and the share of the Group at the fair value of said assets and liabilities is classified as goodwill and recognised in the financial statements as an intangible asset. Any negative difference ("negative goodwill") is instead recorded in the Income Statement at the time of acquisition.
The financial statements of subsidiaries are included in the Consolidated Financial Statements

starting from the date when control is acquired until control ceases.
The portions of shareholders' equity and income attributable to non-controlling interests are separately indicated in the Consolidated Statement of Financial Position and Consolidated Income Statement respectively.

Associates and Joint Arrangements

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

Investments in other companies

Investments in other companies (usually the percentage held is less than 20%) are entered at cost minus any impairment losses. Dividends received from these companies are included under the item Financial income. Furthermore, the Parent Company Immsi S.p.A. has minority holdings in Alitalia – Compagnia Aerea Italiana S.p.A. and UniCredit S.p.A., both shown under the heading Financial Assets at fair value and in the Statement of comprehensive income, according to the provisions of IFRS 9 adopted in advance as illustrated in the paragraph on accounting standards; profits and losses from variations in fair value are shown directly in OCI.

Transactions eliminated during the consolidation process

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

Transactions in foreign currency

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

Consolidation of foreign companies

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

The exchange rates used to convert foreign currency into euros in the Financial Statements of the companies included in consolidation are set out in the table below:

	Spot exchange rate at 31 December 2017	Average exchange rate 2017	Spot exchange rate at 31 December 2016	Average exchange rate 2016
US Dollar	1.1993	1.12968	1.0541	1.10690
Pounds Sterling	0.88723	0.876674	0.85618	0.819483
Brazilian Real	3.9729	3.60543	3.4305	3.85614
Indian Rupee	76.6055	73.53242	71.5935	74.3717
Singapore Dollars	1.6024	1.55882	1.5234	1.52754
Chinese Renminbi	7.8044	7.629	7.3202	7.35222
Croatian Kuna	7.44	7.4637	7.5597	7.53329
Japanese Yen	135.01	126.71118	123.40	120.197
Vietnamese Dong	26,934.34	25,472.91202	23,894.71	24,566.34911
Indonesian Rupiah	16,260.11	15,119.53357	14,167.10	14,721.43381
Canadian Dollars	1.5039	1.46472	1.4188	1.46588

- D - ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

The accounting standards adopted in the drafting of the consolidated Financial Statements of the Immsi Group are the same as for the Consolidated Financial Statements as at 31 December 2016, which can be consulted for details, excluding the adoption in advance from 1 January 2017 of IFRS 9 "*Financial Instruments*" as decided by the Board of Directors of Immsi S.p.A. last 12 May 2017 in order to eliminate the lack of present and future uniformity between the original and subsequent valuation of financial assets, as illustrated below. In July 2014, the IASB finalised its project to revise the accounting standard for financial instruments, with the issue of the complete version of IFRS 9 "*Financial Instruments*". In particular, the new provisions of IFRS 9: (i) amend the model that classifies and measures financial assets; (ii) introduce a new method for writing down financial assets that takes account of expected credit losses; and (iii) amend hedge accounting provisions. The provisions of IFRS 9 will be applicable for years commencing on or after 1 January 2018, but early adoption is granted on 1 January 2017. The Group availed itself of the opportunity not to

recalculate balances for previous periods.
The main impacts on the financial statements of the Immsi Group arising from the early application of IFRS 9 concern:

- the valuation of financial instruments representing capital not held for trading. The new international principle allows the entity to irrevocably choose to present the changes in the fair value of the above-mentioned investments in other comprehensive income. Moreover, IFRS 9 defines the three categories in which financial assets are classified:
  a) financial assets measured at amortised cost (AC);
  b) financial assets measured at fair-value-through-other comprehensive income (FVTOCI);
  c) financial assets measured at fair-value-through-profit-or-loss (FVTPL).

  IFRS 9 requires the entity to test the business model in relation to financial management and contractual cash flows and classify financial assets accordingly. Under IFRS 9, the requirements for classifying a financial asset at AC or FVTOCI are tested; if a financial asset cannot be classified as either AC or FVTOCI, it is classified as FVTPL. It is also possible to exercise the fair value option, i.e. irrevocably designate a financial asset on initial recognition (which would otherwise be classified at AC or as FVTOCI) as FVTPL, if this classification eliminates or reduces a lack of uniformity in the measurement or recognition that would otherwise result from the measurement of the asset or recognition of relative profit and losses on different bases.

  Investments in UniCredit and Alitalia – Compagnia Aerea Italiana, as financial instruments representing capital not held for trading, are currently held by Immsi S.p.A. within the framework of a business model whose aim is achieved both by collecting contractual cash flows and by selling financial assets and, following the adoption in advance of IFRS 9, are shown among the financial assets at fair value with counterpart in the other items of the statement of comprehensive income, as decided by the Board of Directors of Immsi S.p.A. last 12 May 2017. The amounts presented in other comprehensive income will not be subsequently transferred to operating profit, although the entity may transfer accumulated profit or accumulated loss to equity. If the Company had not opted for the early adoption of IFRS 9, it would have recognised a charge for adjustment of the value of the above investments totalling 26.2 million euros, while recognition in the statement of assets and liabilities would have remained unchanged. Immsi has aligned its own procedure to requirements of the new accounting standards;
- the determination of the amortised cost of financial liabilities subject to subsequent retrading. The new international standard requires this value to be redetermined using the original contractual effective interest rate. The amounts presented in other comprehensive income will not be subsequently transferred to operating profit, although the entity may transfer accumulated profit or accumulated loss to equity. The effects arising from the early adoption concern in particular the determination of the amortised cost of the debenture loan issued by Piaggio & C. S.p.A. in 2009 for a total of 150 million euros and refinanced in 2014. The effects of the application in advance of the new standard were reflected at the asset level by larger financial liabilities totalling 5.3 million euros and at the level of the income statement by larger financial charges of 0.3 million euros (gross tax effect), with overall counterpart in shareholders' equity of 3.8 million euros, net of the related tax effect;
- The adoption of a new receivable impairment model. The IASB replaced the incurred loss model of IAS 39 with the expected loss model of IFRS 9. IFRS 9 introduces the logic of "anticipated loss", so adjustments to receivables can be shown in proportion to the increase in risks. This new model classifies financial assets into three categories, each of which corresponds to a different risk level and specific procedures for calculating value adjustments. In particular: i) exposures with a good credit quality or low risk. Value adjustments correspond to anticipated credit losses resulting from default events within 12 months of the reporting date; ii) exposures resulting from receivables which are significantly impaired, but where losses have not yet occurred. Value adjustments are calculated considering the expected loss of the exposure over its lifetime or the estimate of the current value of losses over the expected life of the financial instrument; iii) all impaired assets, i.e. exposures with objective evidence of

impairment and that must be adjusted using the expected loss model. The early adoption of IFRS 9 has had no impact on the property, holding and marine sectors in particular, as the measurement of risk, given the low number of customers, is already based on a name-centric method. In relation to the industrial sector too no significant effects were recorded insofar as the Piaggio group makes over on a rotational level most of its trade receivables via agreements without recourse; the most significant positions have been promptly evaluated by the Group.

As for hedge accounting, the new international standard has revised provisions in relation to IAS 39, aligning accounting treatment with risk management activities. As part of the early adoption of IFRS 9, the Group opted to use IAS 39 requirements for 2017.

The Group acknowledges payables to minority shareholders of the Group for interest totalling 3,126 thousand euros in relation to loans received. This item was included on 31 December 2017 among current financial liabilities rather than current trade payables as in previous statements of the financial position. Reclassification for the purposes of better representing Group payables was carried out in relation to balances as at 31 December 2016 totalling 2,948 thousand euros, enabling direct comparison.
The Group believes that notwithstanding the financial nature of the aforesaid debt, said item makes no contribution to the determination of net financial debt.
This reclassification of items among the liabilities has no effect on the economic data and therefore only the restated liabilities as at 31 December 2016 are set out below, for the purpose of illustrating the effects of reclassification:

In thousands of euros	*31 December 2016*	*Restatement*	*31 December 2016 restated*
TOTAL SHAREHOLDERS' EQUITY	392,558		392,558
TOTAL NON-CURRENT LIABILITIES	643,750		643,750
LIABILITIES RELATED TO ASSETS HELD FOR DISPOSAL	0		0
CURRENT LIABILITIES			
Financial liabilities	582,096	2,948	585,044
Trade payables	469,314	-2,948	466,366
Current taxes	9,314		9,314
Other payables	52,267		52,267
Current portion of other long-term provisions	16,188		16,188
TOTAL CURRENT LIABILITIES	1,129,179		1,129,179
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,165,487		2,165,487

The most significant valuation criteria used to draw up the Consolidated Financial Statements at 31 December 2017 are outlined below:

INTANGIBLE ASSETS

As provided for in IAS 38, an intangible asset which is purchased or internally generated, is recognised as an asset only if it is identifiable, controllable and future economic benefits are expected and its cost may be measured reliably.
Intangible assets with a finite life are measured at acquisition cost or production cost net of amortisation and accumulated impairment losses. Borrowing costs related to the acquisition, construction or production of certain assets that require a significant period of time before they are ready for use or sale (qualifying assets), are capitalised along with the asset.
Amortisation is referred to the expected useful life and commences when the asset is available for use.

Goodwill

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

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

Development costs

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

Other intangible assets

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

Other intangible assets recognised following the acquisition of a company are accounted for separately from goodwill, if their fair value can be reliably measured. The amortisation period for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period: if the expected useful life proves different from previous estimates, the amortisation period is changed accordingly.
The amortisation periods of intangible assets are shown below:

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

PLANT, PROPERTY AND EQUIPMENT

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

Assets are depreciated by applying the criterion and rates indicated below:

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

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

Lease contracts

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

Impairment

At the end of the reporting period, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that these assets may be impaired (impairment test). If there is an indication that an asset may be impaired, the asset's recoverable amount is estimated to determine the amount of the write-down. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the asset's cash generating unit.

The recoverable amount is the higher of an asset's fair value less costs to sell (if available) and its value in use. In measuring the value in use, estimated future cash flows are discounted at their fair value, using a rate net of taxes, which reflects current market changes in the fair value of money and specific risks of the asset.

If the recoverable amount of an asset (or of a cash generating unit) is estimated to be lower than the relative carrying amount, the carrying amount of the asset is reduced to the lower recoverable value. An impairment loss is immediately recognised in profit or loss, unless the asset is land or buildings other than the property investments recognised at revalued amounts, in which case the loss is charged to the respective revaluation reserve.

When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset (or of a cash generating unit), except for goodwill, is increased to the new value arising from an estimate of its recoverable amount, up to the net carrying amount applicable to the asset if no impairment loss had been recognised. The reversal of the impairment loss is immediately recognised in profit or loss, unless the asset is land or buildings other than the property investments recognised at revalued amounts, in which case the loss is charged to the respective revaluation reserve.

An intangible asset with an indefinite useful life is tested annually for impairment, or more frequently if there is an indication that an asset may be impaired.

INVESTMENT PROPERTY

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

Investment properties are eliminated from the financial statements when they are disposed of or when they may not be used over time and future economic benefits from their sales are not expected.

NON-CURRENT ASSETS HELD FOR SALE

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

FINANCIAL ASSETS

Financial assets are calculated and deleted from the balance sheet on the basis of the date on which they were traded. The new provisions of IFRS 9, adopted in advance by the Groupas previously stated, change the way financial assets are classified and valued. The new international standard allows the irrevocable decision to be taken to include variations in the fair value of the above investments among the other items of the statement of comprehensive income. Moreover, IFRS 9 defines the three categories in which financial assets are classified:

- financial assets measured at amortised cost (AC);
- financial assets measured at fair-value-through-other comprehensive income (FVTOCI);
- financial assets measured at fair-value-through-profit-or-loss (FVTPL).

IFRS 9 requires the entity to test the business model relating to financial management and contractual cash flows and classify financial assets accordingly. IFRS 9 also requires some tests to be carried out to ensure that requirements are met for the classification of financial assets among ACs or FVTOCI, whilst a financial asset cannot be classified among ACs or FVTOCIs and is classified among FVTPLs. It is also possible to exercise the fair value option, i.e. irrevocably designate a financial asset on initial recognition (which would otherwise be classified at AC or as FVTOCI) as FVTPL, if this classification eliminates or reduces a lack of uniformity in the measurement or recognition that would otherwise result from the measurement of the asset or recognition of relative profit and losses on different bases.

INVENTORIES

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

RECEIVABLES

IFRS 9 introduced the logic of “anticipated losses” which allows adjustments to receivables to be shown in proportion to the increase in risks. This new model classifies financial assets into three categories, each of which corresponds to a different risk level and specific procedures for calculating value adjustments. In particular: i) exposures with a good credit quality or low risk. Value adjustments correspond to expected credit losses that result from default events within 12 months after the reporting date; ii) exposures whose credit rating has significantly deteriorated but that do not have objective evidence of impairment Value adjustments are calculated considering the expected loss of the exposure over its lifetime or the estimate of the current value of losses over the expected life of the financial instrument; iii) all impaired assets, i.e. exposures with objective evidence of impairment and that must be adjusted using the expected loss model.

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

- building work for the company’s own account and repair work, valued at the lower value between cost incurred and revenue achievable: To this end, they are entered as assets in the Statement of financial position net of the write-down fund for boats and semi-finished items likely to prove hard to sell;
- building work covered by standard contracts, valued in terms of revenue based on the status reached at the close of the year, calculated, as far as the materials and work contracted out are concerned, with reference to the costs actually incurred compared with the costs forecast on the basis of updated estimates and, with regard to labour, with reference to the direct hours actually worked compared with the direct hours forecast. The price revision is recognised based on a prudent basis taking into account the amounts

recognisable by customers, in proportion to the value of the progress. Due to the features of the works in progress produced by the company, they also include parts of the assets the ownership of which was transferred in guarantee of payments received from customers. In fact assessment of proceeds takes place when the purchaser of the work accepts it, since the order is a unitary indivisible object.

FACTORING AND REVERSE FACTORING

The Group – mainly through the companies of the Piaggio group – sells a significant part of its trade receivables through factoring. Factoring may be without recourse, and in this case no risks of recourse or liquidity exist, as corresponding amounts of the balance of trade receivables are reversed when the receivable is sold to the factor. For factoring with recourse, the risk of non-payment and the liquidity risk are not transferred, and therefore relative receivables remain under the Statement of financial position until payment by the client of the amount due: in this case any advance payments collected by the factor are recognised under payables as amounts due to other lenders.
The Immsi Group - through the Piaggio group - in order to ensure easier access to credit for its suppliers, has established factoring agreements, typically in the technical forms of supply-chain financing or reverse factoring. On the basis of existing contractual structures, the supplier has the option to sell, at its discretion, the amounts due from the group to a lender and cash in the amount before expiry. In some cases, the timing of payment provided in the invoice is subject to further extensions agreed between the supplier and the group: these extensions may be interest or non-interest bearing. In order to assess the nature of these reverse factoring transactions, the group has adopted a specific policy: in relation to contractual features, differentiated by territory of origin, via the Finance function a qualitative analysis of these features is carried out centrally together with legal analysis for the purpose of assessing the impact of the benchmark regulations and the nature of the "assignment" of the transaction (according to the provisions of IFRS 9). In addition, in some cases where payments are in instalments, quantitative analysis is also carried with the aim of verifying whether the change in contractual terms is substantive or not, via a quantitative test. In this context, relations, for which a primary obligation with the supplier is maintained and any deferment, if granted, does not significantly change payment terms, are still classified as trade liabilities.

CASH AND CASH EQUIVALENTS

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

TREASURY SHARES

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

FINANCIAL LIABILITIES

Financial liabilities are recognised at fair value net of relative transaction costs. After initial recognition, loans are measured at amortised cost and calculated using the effective interest rate. Financial liabilities hedged by derivatives are shown at their present value, according to the methods of hedge accounting: profits and losses derived from subsequent valuations are shown in the Income Statement and offset against the effective portion of the profits and losses arising from the subsequent application of the present value of the hedging instrument. At the moment of the

initial assessment, a liability may be designated to the fair value taken from the Income statement (profit & loss) when such designation eliminates or significantly reduces a lack of uniformity in the evaluation or in the assessment (at times defined "accounting asymmetry") that otherwise would appear from the asset or liability evaluation or from the evaluation of the relative profits and losses on different bases. This fair value designation is exclusively applied to some financial liabilities in currency subject to exchange risk hedging.
In relation to hedge accounting, the new international accounting standard, IFRS 9, alters the provisions compared to IAS 39, bringing the accounting into line with risk management activities. As part of the early adoption of IFRS 9, the Group opted to use IAS 39 requirements for 2017.

DERIVATIVES AND MEASUREMENT OF HEDGING OPERATIONS

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

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

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

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

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

LONG-TERM PROVISIONS

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

RETIREMENT FUNDS AND EMPLOYEE BENEFITS

Where the benefit schemes have been clearly defined, the liabilities related to benefits to employees granted at the moment of, or after, termination of employment are determined separately for each scheme on the basis of actuarial assumptions estimating the amount of future benefits accrued by the employee at the reporting date (the so-called "projected unit credit method"). Liabilities, recognised in the financial statements net of any assets serving the plan, are entered for the period when the right accrues. Liabilities are measured by independent actuaries.
The cost components of defined benefits are recognised as follows:

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

TERMINATION BENEFITS

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

TAX ASSETS AND LIABILITIES

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

PAYABLES

Payables are shown at fair value and subsequently valued on the basis of the amortised cost method, which coincides with the nominal value of trade payables with due dates within the norm for commercial transactions.

RECOGNITION OF REVENUES

Revenues for the sale of vehicles and spare parts are recognised to the extent that it is likely the Group will receive the economic benefits and their amount may be measured reliably. Revenues are recognised when the risks and benefits connected with ownership are transferred to the purchaser, the sale price is agreed or may be determined and payment is reasonably certain. Revenues are represented net of discounts, including, among others, sales incentive programmes and bonuses to customers, as well as taxes directly connected with the sale of the goods. Revenues from the provision of services are recognised when the services are provided with reference to the interim payment certificate. Revenues also include lease payments recognised on a straight line basis for the duration of the contract.

GRANTS

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

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

FINANCIAL INCOME

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

BORROWING COSTS

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

DIVIDENDS

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

INCOME TAXES

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

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

EARNINGS PER SHARE

Earnings per share are calculated by dividing the income or loss attributable to parent company shareholders by the weighted average number of ordinary shares outstanding during the period, excluding treasury stock. Diluted earnings per share are calculated dividing the profit or loss attributable to shareholders of the Parent Company by the weighted average of ordinary shares in circulation adjusted to take account of the effects of all potential ordinary shares with a dilutive effect. Any shares related to the stock option plan are considered as shares that may be potentially issued. The adjustment to make to the number of stock options to calculate the number of adjusted shares is determined by multiplying the number of stock options by the subscription cost and dividing it by the share market price.

USE OF ESTIMATES

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

In the current situation of lasting uncertainty in the global economy and financial situation, assumptions about future trends are far from certain. Therefore the possibility in the next reporting period of results that differ from estimates cannot be ruled out, and these could require even significant adjustments which at present cannot be predicted or estimated.

TRANSACTIONS WITH SUBSIDIARIES AND RELATED PARTIES

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

NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS FROM 1 JANUARY 2017

On 24 July 2014, the IASB finalised its project to revise the accounting standard for financial instruments, with the issue of the complete version of IFRS 9 "Financial Instruments". The provisions of IFRS 9 will be applicable for years commencing on or after 1 January 2018. However, it being allowed, in May 2017, the Board of Directors of the Parent Company decided to adopt IFRS 9 in advance. For details of the reasons for, and impacts of, adopting the standard see the opening remarks of the paragraph on Accounting Standards and valuation criteria.

The relevant bodies of the European Union have also approved the following accounting standards and amendments applicable from 1 January 2017, none of which had a significant effect on the Group Financial Statements.

- In January 2016, the IASB issued an amendment to IAS 12 "Income Taxes". These amendments clarify how to account for deferred taxes related to debt instruments calculated at fair value.
- In January 2016, the IASB issued an amendment to IAS 7 "Statement of Cash Flows". These amendments to IAS 7 introduce additional information that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- In December 2016 the IASB issued an amendment to IFRS 2014–2016. The amendment concerns IFRS 12 - Disclosure of Interests in Other Entities (effective date of 1 January 2017); The amendment clarifies that required reporting must be provided for investments classified as available for sale, with the exception of point B12.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLIED

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

- In May 2014, the IASB and FASB jointly published IFRS 15 "Revenue from Contracts with Customers". The new standard is applicable in a retrospective manner for years commencing from or after 1 January 2018. Early adoption is possible. IFRS 15 sets out the requirements for recognising revenues, introducing an approach whereby revenue is only recognised if contractual obligations have been met in full. According to the standard, revenue is shown based on the following five steps:
  - identification of the agreement;
  - identification of individual obligations;
  - determination of the price of the transaction;
  - allocation of the price of the transaction to individual bonds on the basis of their "market price" (the "stand-alone selling price");
  - revenues allocated to the individual bond where regulated, i.e. where the client obtains control of the goods and/or services.

  The Group has carried out an in-depth analysis of the different cases of individual companies. In particular, the Piaggio group has verified the different types of contract relating to the sale of 2/3/4-wheelers, spare parts, accessories and components to dealers, importers or direct clients which represent the most significant portion, as well as the types of contract with less economic impact (e.g. royalties). Following this analysis, the Group concluded that no significant impacts are expected from the adoption of the new standard insofar as the most significant revenue item will continue to be shown in line with the previous accounting policy.

One exception concerns some scheduled maintenance programmes and extended warranty plans after the legal warranty period (sold together with the vehicle) which, according to the new standard, comprise separate performance obligations and, as such, shall be identified and recognised separately from vehicle revenue. As of 31 December 2017, these scheduled maintenance programmes / extended warranty plans were not numerous and were mainly in the Vietnamese market.

Other differences in approach refer to different ways of representing revenues, albeit without impacting results, and refer to a different approach to classifying some types of bonuses paid to dealers, consumer financing plans, procedures for representing funds returned by customers (only applicable for the US market in which there is a legal obligation to buy back the vehicle from dealers where certain conditions are met). The cumulative result of these effects is a reduction in revenues as at 31 December 2017 of about 10 million euros. The effect on results is however negligible, given the current contractual structure.

With reference to the subsidiary Intermarine, the outcome of the analysis carried out on the order book and the economic impact of the adoption of IFRS 15, has shown that nothing significant is anticipated due to the application of the new standard insofar as the most significant revenue items will continue to be shown in line with previous accounting policies. Given the complexity of Intermarine agreements, involving multiple legal, operational and financial aspects, the subsidiary will continue to monitor the above matters and related applications in compliance with IFRS 15.

- In the month of January 2016, the IASB published IFRS 16 "Leases". This new standard will replace the current IAS 17. The main change concerns the accounting by lessees that, according to IAS 17, were required to make a distinction between a finance lease (on balance sheet) and an operating leases (off balance sheet). With IFRS 16, operating leases will be treated for accounting purposes as financial leases. The IASB has provided for the optional exemption for certain lease contracts and low value and short-term leases. This principal will apply from 1 January 2019. Early application will be possible if IFRS 15 "Revenue from contracts with customers" is jointly adopted.

  The Piaggio group, the only environment within the Immsi Group with these types of leasing agreements, is setting up a work team in order to estimate their potential impacts.
- In September 2016, the IASB issued an amendment to IFRS 4 – “Insurance Contracts” as regards application of IFRS 9 – Financial Instruments.

  These amendments will enable companies that issue insurance contracts to recognise the volatility that may arise when IFRS 9 is adopted before the new standard on insurance contracts is issued in the statement of comprehensive income rather than in the income statement. It will also allow companies whose main activity is related to insurance contracts to temporarily defer the adoption of IFRS 9 until 2021. Entities that defer the adoption of IFRS 9 will continue to adopt IAS 39. These amendments will apply from 1 January 2018.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE

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

- In June 2016, the IASB issued an amendment to IFRS 2 “Share-based Payment”. These amendments clarify how some share-based payments are recognised. These amendments will apply from 1 January 2018.
- In December 2016, the IASB issued an amendment to IAS 40 "Investment Property". These amendments clarify change in use, which is a necessary condition for transfer from/to Investment Property. These amendments will be applicable from 1 January 2018.
- In the month of December 2016, the IASB issued a series of annual amendments to IFRS 2014–2016. 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 associated IFRS standards and they are not expected to have a significant impact on the financial statements or the disclosure.
- In December 2016, the IASB issued the Interpretation IFRIC 22 “Foreign currency transactions and advance consideration”. The amendment addresses the exchange rate to be used in transactions and in advances paid or received in foreign currency. The amendment will apply from 1 January 2018.
- In May 2017, IASB issued the new standard IFRS 17 – Insurance Contracts. The new standard will replace IFRS 4 and will be effective from 1 January 2021.
- In June 2017 the IASB published interpretation IFRIC 23 “Uncertainty over Income Tax Treatments" which provides information on how to account for uncertainties over the tax treatment of a given phenomenon in the recognition of income taxes. IFRIC 23 will be effective from 1 January 2019.

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

- E - SEGMENT REPORTING

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

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

Primary sector: business areas

Income statement at 31 December 2017

In thousands of euros	*Property and holding sector*	*Industrial sector*	*Marine sector*	*Immsi Group*
Net revenues to non-controlling interests	4,751	1,342,450	107,738	1,454,939
Intercompany net revenues				0
NET REVENUES	**4,751**	**1,342,450**	**107,738**	**1,454,939**
OPERATING INCOME	**-3,754**	**72,329**	**17,858**	**86,433**
Earnings on investments	0	716	0	716
Financial income				21,093
Borrowing costs				69,226
PROFIT BEFORE TAX				**39,016**
Taxes				24,132
EARNINGS AFTER TAXES FROM CONTINUING OPERATIONS				**14,884**
Gain (loss) from assets held for disposal or sale				0
EARNINGS FOR THE PERIOD INCLUDING NON-CONTROLLING INTERESTS				**14,884**
Earnings for the period attributable to non-controlling interests				6,695
EARNINGS FOR THE PERIOD ATTRIBUTABLE TO THE GROUP				**8,189**

Statement of financial position at 31 December 2017

In thousands of euros	*Property and holding sector*	*Industrial sector*	*Marine sector*	*Immsi Group*
Segment assets	361,784	1,511,270	168,379	2,041,433
Investments in affiliated companies	0	128	18	146
TOTAL ASSETS	**361,784**	**1,511,398**	**168,397**	**2,041,579**
TOTAL LIABILITIES	**368,790**	**1,130,356**	**171,744**	**1,670,890**

Other information at 31 December 2017

In thousands of euros	*Property and holding sector*	*Industrial sector*	*Marine sector*	*Immsi Group*
Investments in plant, property and equipment and intangible assets	**93**	**86,706**	**1,041**	**87,840**
Depreciation, amortisation and write-downs	**1,024**	**122,758**	**2,879**	**126,661**
Cash flow from operating activities	**-31,026**	**148,737**	**23,753**	**141,464**
Cash flow from investing activities	**6,041**	**-82,281**	**246**	**-75,994**
Cash flow from financing activities	**51,784**	**-121,720**	**-25,257**	**-95,193**

Secondary sector: geographic segments

The following table presents the financial position and performance of the Group for 2017 in relation to geographic segments "of origin", that is, with reference to the country of the company which realised the revenues or which owns the assets.

The distribution of revenues by geographic "destination", i.e. the customer's country, is analysed in the Supplementary Notes to the Consolidated Financial Statements at 31 December 2017 under the item net revenues in the Income Statement.

Income statement at 31 December 2017

In thousands of euros	*Italy*	*Rest of Europe*	*India*	*United States*	*Rest of the World*	*Immsi Group*
Net revenues to non-controlling interests	829,608	26,527	355,945	67,173	175,686	1,454,939
NET REVENUES	**829,608**	**26,527**	**355,945**	**67,173**	**175,686**	**1,454,939**

Statement of financial position at 31 December 2017

In thousands of euros	*Italy*	*Rest of Europe*	*India*	*United States*	*Rest of the World*	*Immsi Group*
Segment assets	1.641.639	27,127	208,113	34,070	130,484	2,041,433
Investments in affiliated companies	111	35	0	0	0	146
TOTAL ASSETS	**1.641.750**	**27,162**	**208,113**	**34,070**	**130,484**	**2,041,579**

In thousands of euros	*Italy*	*Rest of Europe*	*India*	*United States*	*Rest of the World*	*Immsi Group*
Total receivables *	**77,435**	**19,871**	**40,611**	**8,162**	**12,988**	**159,067**
Total payables **	**345,132**	**38,577**	**120,562**	**1,853**	**39,116**	**545,240**

*) Contract work in progress and Tax receivables are not included.
**) Payables for Current taxes and Financial liabilities are not included.

Other information at 31 December 2017

In thousands of euros	Italy	Rest of Europe	India	United States	Rest of the World	Immsi Group
Investments in plant, property and equipment and intangible assets	**69,500**	**129**	**11,232**	**1,241**	**5,738**	**87,840**
Depreciation, amortisation and write-downs	**99,590**	**283**	**15,198**	**425**	**11,165**	**126,661**

For comparability, corresponding tables referring to 31 December 2016 are shown below:

Income statement at 31 December 2016

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

Statement of financial position at 31 December 2016

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

Other information at 31 December 2016

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

Secondary sector: geographic segments

Income statement at 31 December 2016

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

Statement of financial position at 31 December 2016

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

In thousands of euros	*Italy*	*Rest of Europe*	*India*	*United States*	*Rest of the World*	*Immsi Group*
Total receivables *	**86,803**	**23,400**	**26,588**	**10,635**	**15,944**	**163,370**
Total payables *Restated* **	**339,156**	**34,713**	**111,070**	**2,971**	**37,630**	**525,540**

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

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

Other information at 31 December 2016

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

- F - INFORMATION ON THE MAIN ASSET ITEMS

Amounts are stated in thousands of euro unless otherwise indicated.

- F1 - INTANGIBLE ASSETS 826,198

Net intangible assets at 31 December 2017 amounted to 826,198 thousand euros, a decrease of 20,861 thousand euros compared to 31 December 2016, as follows:

In thousands of euros	***Development costs***	***Concessions, patents, industrial and similar rights***	***Trademarks and licences***	***Goodwill***	***Other intangible assets***	***TOTAL***
Gross amounts at 31 December 2015	**232,130**	**317,609**	**149,200**	**625,421**	**9,692**	**1,334,052**
Increases	30,909	27,679	0	0	90	58,678
Change in the scope of consolidation	0	0	0	0	0	0
Other changes	1,050	157	0	0	167	1,374
Gross amounts at 31 December 2016	**264,089**	**345,445**	**149,200**	**625,421**	**9,949**	**1,394,104**
Accumulated amortisations at 31 December 2015	**126,600**	**238,417**	**96,142**	**11,439**	**9,243**	**481,841**
Depreciation	31,645	26,992	4,828	0	280	63,745
Change in the scope of consolidation	0	0	0	0	0	0
Other changes	1,149	147	0	0	163	1,459
Accumulated depreciation at 31 December 2016	**159,394**	**265,556**	**100,970**	**11,439**	**9,686**	**547,045**
Net amounts at 31 December 2016	**104,695**	**79,889**	**48,230**	**613,982**	**263**	**847,059**
Gross amounts at 31 December 2016	**264,089**	**345,445**	**149,200**	**625,421**	**9,949**	**1,394,104**
Increases	25,462	32,483	0	0	95	58,040
Change in the scope of consolidation	0	0	0	0	0	0
Other changes	(7,726)	(1,045)	6,000	0	(856)	(3,627)
Gross amounts at 31 December 2017	**281,825**	**376,883**	**155,200**	**625,421**	**9,188**	**1.448.517**
Accumulated depreciation at 31 December 2016	**159,394**	**265,556**	**100,970**	**11,439**	**9,686**	**547,045**
Depreciation	35,816	31,608	4,828	0	175	72,427
Change in the scope of consolidation	0	0	0	0	0	0
Other changes	(3,401)	1,078	6,000	0	(830)	2,847
Accumulated amortisation at 31 December 2017	**191,809**	**298,242**	**111,798**	**11,439**	**9,031**	**622,319**
Net amounts at 31 December 2017	**90,016**	**78,641**	**43,402**	**613,982**	**157**	**826,198**

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

Development costs

Development costs include costs for products, vessels and engines in projects for which there is an expectation, for the period of the useful life of the asset, to realise revenues that will allow for the recovery of the costs incurred. This item includes assets under construction for 14,036 thousand euros, entirely ascribable to the Piaggio group, which instead represent costs for which the conditions for capitalisation exist, but in relation to products that will go into production in future years.

With particular reference to the **industrial sector** (Piaggio group), new projects capitalised during 2017 refer to the study of new vehicles and new engines (two-/three-/four-wheelers which will feature as top-of-the-range products in 2017-2019.
Borrowing costs attributable to the development of products which require a considerable period of time to be realised are capitalised as a part of the cost of the actual assets. Development costs included under this item are amortised on a straight line basis, from 3 to 5 years, in consideration of their remaining useful life.
Lastly, during 2017, development costs of 18,400 thousand euros were incurred directly by the Piaggio group as shown in the Income Statement.

With reference to the **naval sector** (Intermarine S.p.A.), overall development costs capitalised at 31 December 2017 in intangible assets, net of amortisation and deferred income, amount to 9.8 million euros. It should be remembered that in recent periods two important research projects were started, called “Hydrofoil with submerged wing” and “Enviroaliswath”.

For further details about the main research and development activities carried out by Immsi Group companies see the Non-Financial Statement in the Directors Report on Operations.

Concessions, patents, industrial and similar rights

The net balance of this item, equal to 78,641 thousand euros at 31 December 2017, is mainly related to the Piaggio group included software, patents and know-how for a total of 78,228 thousand euros, including assets under construction of 3,431 thousand euros.

Patents and know-how mainly refer to the Vespa, MP3, RSV4 and Aprilia SR 150 vehicles, while increases for the period chiefly concern new calculation, design and production techniques and methodologies developed by the Group for its new products in the 2017-2019 range.

Industrial patent and intellectual property rights costs are amortised over 3-5 years. Other Immsi Group companies included software relating mainly to programmes of naval architecture, design, EDP (Intermarine S.p.A.) and a hotel management programme (Is Molas S.p.A.).

Trademarks and licences

The item trademarks and licences with a finite useful life, totalling 43,402 thousand euros, is broken down as follows:

In thousands of euros	**Net value as of 31 December 2017**	**Net value as of 31 December 2016**	**Change**
Guzzi trademark	14,625	16,250	(1,625)
Aprilia trademark	28,737	31,930	(3,193)
Other	40	50	(10)
Total brands	**43,402**	**48,230**	**(4,828)**

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

Goodwill

The goodwill recognised by the Group was unchanged compared to the balance at the end of 2016. The item in question is broken down in the following table:

In thousands of euros	Net balance at 31.12.2017
Acquisition of 100% of Piaggio & C. S.p.A. by Piaggio Holding N. BV (in 2003)	405,985
Acquisition of 2.81% of Piaggio & C. S.p.A. by Piaggio Holding N. BV (in 2006)	14,620
Acquisition of 31.25% of Piaggio Holding N. BV by Immsi S.p.A. (in 2003)	3,480
Acquisition of 5.23% of Piaggio & C. S.p.A. by Immsi S.p.A. (in 2004) / Sale of 2.32% of Piaggio & C. S.p.A. by Immsi S.p.A. in 2008	3,643
Acquisition of 17.7% of Piaggio Holding N. BV by Immsi S.p.A. (in 2004 and 2006)	64,756
Acquisition of 2.22% of Piaggio & C. S.p.A. by Immsi S.p.A. (in 2007 and 2008)	7,143
Acquisition of 100% of Aprilia S.p.A. by Piaggio & C. S.p.A. (in 2004)	79,705
Acquisition of 66.49% of Rodriquez Cantieri Navali S.p.A. by RCN Finanziaria S.p.A. (in 2004)	30,337
Acquisition of 33.51% of Rodriquez Cantieri Navali S.p.A. by RCN Finanziaria S.p.A. (in 2005)	2,001
Acquisition of 2.37% of RCN Finanziaria S.p.A. by Immsi S.p.A. (in 2007)	1,286
Other acquisitions / changes	1,026
TOTAL	**613,982**
- *of which allocated to Piaggio group cash-generating unit*	*579,492*
- *of which allocated to Intermarine cash-generating unit*	*34,428*

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

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

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

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

As concerns the **Piaggio group**, it has been considered reasonable to consider the Piaggio cash-generating unit coincident with the Piaggio group as a whole (Piaggio & C. S.p.A. and its subsidiaries). Therefore all the considerations related to the estimate of the utilisation value of the cash-generating unit and to its use for the purposes of the impairment test were developed considering the Piaggio group at consolidated level. The carrying amount of the goodwill allocated to the cash-generating unit Piaggio group is equal to approximately 579.5 million euros. The main

hypotheses and assumptions used in determining the recoverable value of the cash generating unit are related to i) the use of forecast economic and asset data of the Piaggio group; ii) the discount rate used for discounting estimated expected cash flows; iii) the use of the expected growth rate for the calculation of the terminal value consistently with the approach of the perpetuity growth.
As regards the figures under point i), analyses were based on predicted financial flows over a four-year period using 2018 budget data supplemented by forecast data for 2019-2021 (approved by the Board of Directors of Piaggio & C. S.p.A. on 26 February 2018).
With reference to the value of point ii), for discounting the estimated expected cash flows, a weighted average discount rate calculated beginning from the discount rates related to the different geographic segments of operation of the Piaggio group for its own *cash-generating units* has been used, that reflect the current market evaluations of the cost of money and that take account of the specific risks of the business and of the geographic segment in which the different cash-generating units of the Piaggio group operate. In particular, to establish the cost of its equity ("K_e") according to the CAPM ("*Capital Asset Pricing Model*") a) a variable long-term risk-free rate for the different areas of operation of the group was considered; b) a market risk premium in an unconditional form (normal long-term premium), in order to avoid the risk of running into a "double counting" of the country risk associated to the group's operational areas; c) Beta coefficients also taking into account the Beta coefficients of main listed companies that are comparable to the Piaggio group. The cost of debt ("K_d") net of taxes was estimated taking account of the target financial structure that can be related to main listed companies comparable to the Piaggio group as well as – prudentially in order to mitigate the positive impact of the current expansive monetary policy – a long-term risk-free rate. The weighted average discount rate ("WACC") used for the purposes of the impairment test net of taxes is therefore estimated at approximately 7.35%: the increase in the WACC compared to the previous period (6.9% as at 31 December 2016) is due mainly to the higher yield expected by lenders.
As regards point iii) when processing the impairment test, the final value was determined using a weighted average perpetual growth rate (*"g rate"*), calculated starting from different *"g rates"*, determined by the Piaggio group for its own internal cash-generating units; this average weighted "*g rate*" is estimated at approximately 1.4% (slightly up on the figure used as at 31 December 2016).

Analyses did not identify any impairment losses: therefore, no impairment loss was reflected in the data of the Consolidated Financial Statements of the Immsi Group at 31 December 2017. With the above values of the basic assumptions considered, the goodwill test regarding the Piaggio group cash-generating unit was passed with a broad margin. In addition, also on the basis of the indications contained in the Document Banca d'Italia/Consob/Isvap no. 2 of 6 February 2009 and in the document Banca d'Italia/Consob/Isvap no. 4 of March 2010, sensitivity analysis was carried out on the test results compared to the basic assumptions used such as the perpetual growth rate used to process the final value ("g rate") and the discount rate ("WACC"), that affect the estimate of the value of use of the cash-generating unit Piaggio group. the impairment test was passed in all reasonably considered cases.

As regards the cash-generating unit **Intermarine** the company coincides with the definition of the "naval sector" identified by the Immsi Group in its own segment reporting, in compliance with *IFRS 8 – Operating segments*: the carrying amount of goodwill allocated to the cash-generating unit is equal to approximately 34.4 million euros. The main hypotheses and assumptions used in determining the recoverable value of the cash generating unit are related to i) the use of forecast financial data of Intermarine; ii) the discount rate used for discounting estimated expected cash flows; iii) the expected growth rate for calculating the terminal value, consistently with the approach of discounting back the "perpetual growth".
As regards values under point i) the analyses were based on a hypothesis of forecast financial flows for a three-year period on the basis of budget data for 2018, supplemented with forecast data

for the period 2019-2012 prepared by the management of Intermarine S.p.A.: The above processed data were approved by the Board of Directors of the Company on 22 February 2018. In this regard, forecast data considered – uncertain and variable by nature – reflect the evolution of the company's order portfolio as well as its future industrial and commercial strategies: these data, specifically, are based significantly on the acquisition of future orders currently under negotiation and at different stages of progress. Updates, revisions or negative developments relative to the aforesaid assumptions and forecasts occurring after the reporting period of this evaluation could influence, even significantly, the results of impairment testing. In addition – during previous periods – the final results of the naval sector had significant discrepancies with the forecast financial data used, partly as a result of exceptional and unforeseeable circumstances: given the intrinsically uncertain nature of the forecast data considered, these deviations may continue in the future, with respect to the forecast data used in the impairment test carried out on 31 December 2017.
As regards the value of point ii), for discounting the estimated expected cash flows of Intermarine, a discount rate was used that reflects current market evaluations of the cost of money and takes account of the specific risks of the business and geographic segment in which the company operates. In particular, the cost of equity ("K_e") was determined according to the CAPM ("*Capital Asset Pricing Model*"). For this purpose, we considered a) a long-term risk-free rate; b) a market risk premium in an unconditional form (normal long-term premium); c) a Beta coefficient calculated by taking into account also the Beta coefficient of a sample of companies comparable to the company, operating in the leisure and defence shipbuilding sector. For the purpose of estimating the aforementioned rate, a specific risk premium equal to 1.5% was also considered. The cost of debt ("K_d") net of taxes was estimated taking account of the expected financial structure of a panel of listed companies comparable to Intermarine as well as – prudentially in order to mitigate the positive impact of the current expansive monetary policy - a long-term risk-free rate. The weighted average discount rate used for the purposes of the impairment test net of taxes is therefore estimated at approximately 7.96% (7.28% as at 31 December 2016).
Regarding point iii), for the impairment test, the end value was determined using a perpetual growth rate ("g rate") prudentially estimated at 0.75%.

The analyses conducted did not highlight any impairment losses with reference to the test of goodwill allocated to the Intermarine cash-generating unit: therefore, no impairment of goodwill is reflected in the data of the Consolidated Financial Statements of the Immsi Group at 31 December 2017. Sensitivity analysis was carried out on the test results compared to the basic assumptions used such as the perpetual growth rate used to process the final value ("*g rate*") and the discount rate ("WACC"), that affect the estimate of the value of use of the cash-generating unit Intermarine: the test concerning goodwill allocated to the cash-generating unit in question was passed in all reasonably considered cases.

Considering that the analyses conducted to estimate the recoverable value both for the Piaggio group cash-generating unit and for Intermarine cash-generating unit has also been determined on the basis of estimates, the Group cannot assure that there will not be a loss in value of the goodwill in future periods.
Given the current uncertainty in reference and financial markets, the various factors – both within and outside the identified cash-generating units – used for estimates may need to be reviewed in the future. The Group will constantly monitor these factors and the possible existence of future impairment losses.

Other intangible assets

The item "Other intangible assets with a finite life" totalling 157 thousand euros, mainly includes expenses incurred by Piaggio Vietnam.

- F2 - PLANT, PROPERTY AND EQUIPMENT 307,343

Net plant, property and equipment at 31 December 2017 amounted to 307,343 thousand euros, compared to 336,467 thousand euros at 31 December 2016, and comprise assets owned by the Piaggio group of 273,013 thousand euros, by Intermarine S.p.A. of 17,424 thousand euros, by Is Molas S.p.A. of 16,831 thousand euros and by Immsi S.p.A. of 68 thousand euros. The following table details this item:

In thousands of euros	*Land*	*Buildings*	*Plant and machinery*	*Industrial and commercial equipment*	*Assets to be given free of charge*	*Other assets*	*TOTAL*
Gross amounts at 31 December 2015	**44,865**	**189,146**	**504,326**	**529,419**	**10,415**	**56,224**	**1,334,395**
Increases	0	2,031	22,302	9,193	78	5,716	39,320
Decreases	0	0	(3,495)	(13,925)	0	(2,228)	(19,648)
Change in the scope of consolidation	0	0	0	0	0	0	0
Other changes	0	454	(83)	(3,089)	5,431	24	2,737
Gross amounts at 31 December 2016	**44,865**	**191,631**	**523,050**	**521,598**	**15,924**	**59,736**	**1,356,804**
Accumulated amortisations at 31 December 2015	**0**	**71,623**	**363,208**	**498,040**	**9,523**	**48,536**	**990,930**
Depreciation	0	5,554	24,041	12,449	70	4,223	46,337
Applications	0	0	(3,442)	(13,847)	0	(15)	(17,304)
Change in the scope of consolidation	0	0	0	0	0	0	0
Other changes	0	201	(1,032)	(1,838)	5,431	(2,388)	374
Accumulated depreciation at 31 December 2016	**0**	**77,378**	**382,775**	**494,804**	**15,024**	**50,356**	**1,020,337**
Net amounts at 31 December 2016	**44,865**	**114,253**	**140,275**	**26,794**	**900**	**9,380**	**336,467**
Gross amounts at 31 December 2016	**44,865**	**191,631**	**523,050**	**521,598**	**15,924**	**59,736**	**1,356,804**
Increases	0	1,910	15,990	6,817	332	4,692	29,741
Decreases	(443)	(524)	(5,990)	(9,177)	0	(845)	(16,979)
Change in the scope of consolidation	0	0	0	0	0	0	0
Other changes	0	(3,031)	(14,584)	(4)	0	(872)	(18,491)
Gross amounts at 31 December 2017	**44,422**	**189,986**	**518,466**	**519,234**	**16,256**	**62,711**	**1,351,075**
Accumulated depreciation at 31 December 2016	**0**	**77,378**	**382,775**	**494,804**	**15,024**	**50,356**	**1,020,337**
Depreciation	0	5,678	24,255	11,220	59	4,980	46,192
Applications	0	(255)	(5,738)	(7,371)	0	(575)	(13,939)
Change in the scope of consolidation	0	0	0	0	0	0	0
Other changes	0	(901)	(7,172)	3	(1)	(787)	(8,858)
Accumulated depreciation at 31 December 2017	**0**	**81,900**	**394,120**	**498,656**	**15,082**	**53,974**	**1,043,732**
Net amounts at 31 December 2017	**44,422**	**108,086**	**124,346**	**20,578**	**1,174**	**8,737**	**307,343**

NB: the "Other movements" item includes the translation differences relating to financial statements in foreign currencies, reclassifications and write-downs.

Plant, property and equipment are depreciated at rates considered suitable for representing their useful life and in any case according to depreciation on a straight line basis, to which reference is made to paragraph *D – Accounting standards and measurement criteria*.

Plant, property and equipment at 31 December 2017 included approximately 1,174 thousand euros relating to freely transferable assets attributable to Intermarine, comprising light constructions, buildings and related renovation costs, built on state-owned land in the Municipality of Messina.

Buildings built on state-owned land are depreciated based on the remaining duration of the concession. These assets, held because of a concession agreement, at its expiry, must be freely and in a perfect state of operation transferred to the granting body.
Furthermore, borrowing costs on loans acquired to finance the building of assets that require a substantial period of time to be ready for use are capitalised as part of the cost of the assets themselves: in this regard, the Group capitalised borrowing costs for 175 thousand euros in the year.

Land and building

Land and industrial buildings include the production facilities of the Piaggio group in Pisa, Pontedera (PI), Noale (VE), Mandello del Lario (LC), Baramati (India) and Vinh Phuc (Vietnam), the industrial complex of Intermarine S.p.A. mainly in Sarzana (SP) and the tourist-hotel facility managed by Is Molas S.p.A. in Pula (CA).
The Group recorded 4,611 thousand euros for assets under construction on its properties.

Plant and machinery

"Plant and machinery" refers essentially to the production facilities of the Piaggio group in Pontedera (Pisa), Noale (Venice), Mandello del Lario (Lecco), Baramati (India) and Vinh Phuc (Vietnam), as well as the facilities owned by Intermarine S.p.A. and the plant located in the tourism/hotel complex managed by Is Molas S.p.A., with a net overall total (excluding assets held under finance leases) of 112,791 thousand euros. The Group recorded 8,646 thousand euros for assets under construction and as a whole uses fully depreciated plant and machinery with a gross value of approximately 28,080 thousand euros.
This item includes the net value of the assets held through finance leases of 11,555 thousand euros, consisting in the Vespa paint plant in Pontedera**.**

Industrial and commercial equipment

The item "Industrial and commercial equipment", totalling 20,578 thousand euros, essentially comprises the production equipment of Piaggio & C. S.p.A., Piaggio Vehicles Private Ltd, Piaggio Vietnam Co. Ltd and Intermarine S.p.A.. The balance includes assets under construction of 3,467 thousand euros shown entirely under the Piaggio group and fully depreciated equipment still in use totalling 6,722 thousand euros, shown entirely for Intermarine S.p.A..
Main investments in equipment were made by the Piaggio group and concerned moulds for new vehicles launched during the year or scheduled to be launched in the first half of next year, moulds for new engines and specific equipment for assembly lines.

Other assets

The "Other assets" item comprises vehicles, furniture, office fittings and EDP systems. Other assets are shown with a total value of 8,737 thousand euros, net of related depreciation. The Group uses fully depreciated assets in this category with a gross value of 5,904 thousand euros and assets under construction amounting to 1,287 thousand euros. This item includes the net value of assets held through finance leases of 61 thousand euros, consisting of auto vehicles supporting the Aprilia Racing Team.

Guarantees

As at 31 December 2017, the Group had land and property encumbered by mortgages or pledges in favour of financial institutions to guarantee bank loans, as illustrated in the section headed *I – Commitments, risks and guarantees*.

- F3 - INVESTMENT PROPERTY 85,637

As at 31 December 2017, the investment property of the Immsi Group amounted to 85,637 thousand euros, attributable to the property of Immsi S.p.A. in Rome – Via Abruzzi totalling 74,114 thousand euros and property, plant and machinery at the Spanish Martorelles facility of the Piaggio group amounting to 11,523 thousand euros.

With reference to the building used by the Parent Company Immsi S.p.A. (in Via Abruzzi, Rome), as previously mentioned, since 2008 the Company has classified this as investment property, as defined in IAS 40: the carrying amount was reassessed to the market value at the date of change of destination (equal to 72.1 million euros), since it was no longer instrumental to the typical activity, but instead an asset usable to finance other ongoing investment activities. The greater value was entered in a specific reserve of shareholders' equity, net of the related tax effect. Subsequent investments led to an increase of the property as periodically confirmed by an independent external appraisal. Moreover, the investment is no longer subject to depreciation, starting from the year 2009, as established by international accounting standards. The value shown in the Financial Statements at 31 December 2017 includes 12 thousand euros for works in progress to be completed and generating profit from 2018.
The valuation of the investment property is based on the appraisal of an external consultant who estimated fair value at the end of 2017 in line with the value set out in the Financial Statements at 31 December 2017. The valuation criteria used in this survey refer to generally accepted valuation methodologies and principles, using discounted cash flow analysis.
The valuation is therefore based on discounting cash flows generated during the period at the estimate date. Revenues and costs were considered at present value, at the time when they arose and were discounted bank using a suitable rate.
The market value of the property complex therefore comprises the discounting of operating costs, revenues from the property according to various uses and revenues from the sale of the property assumed for capitalisation of the rental payment of the last period considered.
In order to determine the rental payment of the property, the comparative synthetic method was used which makes it possible to determine the value corresponding to the sum of money for which the property could be rented, at the time of the estimate, between an owner and lessee both interested in the transaction, in the absence of particular interests and after an adequate sale, assuming that both parties act freely, cautiously and are informed. This comparative procedure estimates the rental value by comparing recent or present transactions, relative to similar assets as regards the type, building and location. The rental payment for the asset may, therefore, be determined taking into account rental prices and making adjustments considered adequate as regards the morphological aspects of the asset, its maintenance, profitability, the qualities of any lessee and any other factor considered relevant.
The continued uncertainty on the real estate market makes it possible for prices and values to be extremely volatile at times, until the market regains stability.
Revenues from the rent of the property, shown under net revenues, amount to 2,437 thousand euros, whilst related costs refer substantially to routine maintenance and management of the building: Most of these costs are then charged to tenants as of building service regulations.
There are also mortgages on this property, for a total of 90 million euros guaranteeing the loan obtained in 2010 and renegotiated at the end of 2015 with Banco BPM (former Banco Popolare) for 45 million euros, which is expected to be settled in 2025.

As regards the property of the Piaggio group, the carrying amount of the Martorelles site at 31 December 2017 was determined by a specific appraisal conducted by an independent expert who measured the "Fair Value less cost of disposal" based on a market approach (as provided for in IFRS 13). This analysis indicated the total value of the investment at 11,523 thousand euros. In this regard, the valuation took account of the current status of the property,and the project to convert the area, for the development of a retail centre prepared by the Piaggio group, together

with comparable transactions. Following the site redevelopment project, an agency management contract was given to a Spanish property company, to seek investors interested in the property.
It should be remembered that the Group applies the fair value model pursuant to IAS 40, so updated valuation involved including in the Income Statement for 2017 a fair value upgrade charge of 187 thousand euros shown among other costs. If the cost criterion had continued to be used rather than fair value, the value of the Martorelles site would have been 6,330 thousand euros.

- F4 - INVESTMENTS 7,583

The table below details Investments as at 31 December 2017:

In thousands of euros	*Balance at 31.12.2016*	*Increases*	*Decreases*	*Revaluations/ Write-downs*	*Reclassification/Exchange differences*	*Balance at 31.12.2017*
Investments in subsidiaries	11	11	0	0	0	22
Investments in affiliated companies and joint ventures	7,453	0	0	716	(608)	7,561
TOTAL	**7,464**	**0**	**0**	**714**	**(608)**	**7,583**

The increase of the above item refers to the equity valuation of the investment in the Zongshen Piaggio Foshan Motorcycles Co. Ltd. joint-venture.

Below is the corresponding table related to changes that occurred during 2016:

In thousands of euros	*Balance at 31.12.2015*	*Increases*	*Decreases*	*Revaluations/ Write-downs*	*Reclassification/Exchange differences*	*Balance at 31.12.2016*
Investments in subsidiaries	14	0	0	(2)	(1)	11
Investments in affiliated companies and joint ventures	9,532	0	0	568	(2,647)	7,453
TOTAL	**9,546**	**0**	**0**	**566**	**(2,648)**	**7,464**

The table below details Investments as at 31 December 2017:

Investments	**% Group**	**Carrying amount as of 31 December 2017**
Accounted for using the equity method:		
Rodriquez Cantieri Navali do Brasil Ltda *)	100.00%	0
Rodriquez Pietra Ligure S.r.l.	100.00%	22
Accounted for using the cost method:		
Total subsidiaries		**22**
Accounted for using the equity method:		
Zongshen Piaggio Foshan Motorcycle Co. LTD.	45.00%	7,415
Total joint-ventures		**7,415**
Accounted for using the equity method:		
S.A.T. Societé d'Automobiles et Triporteurs S.A.	20.00%	0
Depuradora d'Aigües de Martorelles S.C.C.L.	22.00%	32
Pont – Tech, Pontedera & Tecnologia S.c.r.l.	20.44%	96
Accounted for using the cost method:		
Consorzio CTMI – Messina	33.33%	18
Total associates		**146**
TOTAL		**7,583**

*) Inactive companies or companies in liquidation

As regards the investment in Rodriquez Cantieri Navali do Brasil Ltda, a specific provision has been made for risks on investments of 3,456 thousand euros for the hedging of the negative shareholders' equity of the investee.

The investment in Zongshen Piaggio Foshan Motorcycles Co. Ltd was classified under "Joint ventures" in relation to the agreement signed on 15 April 2004 between Piaggio & C. S.p.A. and Foshan Motorcycle Plant, on one side, and the Chinese company Zongshen Industrial Group Company Limited on the other side. Piaggio & C. S.p.A.'s investment in Zongshen Piaggio Foshan Motorcycles is equal to 45%, of which 12.5% through the direct subsidiary Piaggio China Company Ltd. The carrying amount of the investment is equal to 7,415 thousand euros and refers to pro-rata shareholders' equity adjusted on the basis of the valuation criteria adopted by the Group.

The following table summarises the main financial highlights of the joint venture:

figures in thousands of Euros	31.12.2017	31.12.2016
Working capital	3,809	4,857
Consolidated debt	465	0
Total assets	5,413	5,847
NET CAPITAL EMPLOYED	**9,687**	**10,704**
Provisions	85	59
Consolidated debt	0	1,036
Shareholders' equity	9,602	9,609
TOTAL SOURCES OF FINANCING	**9,687**	**10,704**
Shareholders' equity attributable to the Group	9,602	9,609
Elimination of margins on internal transactions	(2,187)	(2,315)
Value of the investment	**7,415**	**7,294**

The reconciliation of Shareholders' Equity at the end of 2016 and as of 31 December 2017 is set out below:

Opening balance at 1 January 2017	7,294
Profit (Loss) for the period	602
Other comprehensive income	(609)
Elimination of margins on internal transactions	128
Closing balance as of 31 December 2017	**7,415**

- F5 - OTHER FINANCIAL ASSETS **14,029**

- Non-current portion

Other non-current financial assets amount to 7,364 thousand euros, and comprise 7,328 thousand euros for the fair value of hedging derivatives held by the Piaggio group and particularly the long-term quota of the fair value of the Cross Currency Swaps associated with the private debenture loan.
The remaining part is attributable to the carrying amount of investments held in other smaller companies by the Piaggio group for an overall amount of approximately 36 thousand euros.

Non-current financial assets include the investment in Alitalia – CAI of Immsi S.p.A. which decreased from 2.77% of the share capital as at 31 December 2016 to 2.18% as at 31 December 2017 following payment of the final tranche for the rights issue of 781 thousand euros, honouring the Stand-by Equity Commitment subscribed in September 2014. In light of the events during 2017 relating to the airline and in particular the temporary receivership in May 2017 and consequent write-off of the investment in Alitalia – SAI by Alitalia – CAI, company management decided to zero out the book value as at 31 December 2017 amounting to 14,778 thousand euros. In compliance with IFRS 9, as commented in on the section on Accounting Standards, the Company recognised this adjustment in the Statement of Comprehensive Income. If the Company had not opted for the early adoption of IFRS 9, it would have recorded the adjustment in the Income Statement.

- Current portion

Other current financial assets amount to 6,665 thousand euros against 14,693 thousand euros at the end of the previous period.

The item includes the investment (via 278,846 shares) of Immsi S.p.A. in UniCredit S.p.A., with a fair value as at 31 December 2017 of 4,344 thousand euros, down on 31 December 2016 by 3,280 thousand euros.
In relation to this investment, shown until 31 December 2016 among financial instruments representing capital classified as Available for Sale (AFS), the Company revised the book value of the shares according to their value as at 31 December 2017, amounting to 4,344 thousand euros, showing the revision among other comprehensive income (expense) at 3,280 thousand euros. Following adoption in advance of IFRS9 from 1 January 2017, details of which are set out in the section in Accounting Standards, these revisions will not be subsequently transferred to profits (losses) for the period, but the Company may transfer the accumulated profits or losses to net shareholders' equity after disposal. If the Company had not adopted IFRS 9 in advance, the cost shown in the Income Statement would have been 11.4 million euros with a positive effect on the Statement of comprehensive income of 0.9 million euros.
In addition, current financial assets include 2,183 thousand euros for the short-term quota of the fair value of the Cross Currency Swaps associated with the private debenture loan, and 138 thousand euros for the short-term quota of the fair value of the Cross Currency Swaps associated with the medium-term loans of the Vietnamese subsidiary.

- F6 - TAX RECEIVABLES 33,569

Current and non-current tax receivables total 33,569 thousand euros as follows:

- Non-current portion

In thousands of euros	Balance at 31.12.2017	Balance at 31.12.2016
VAT receivables	5,588	4,415
Income tax receivables	10,632	7,585
Other tax receivables	3,693	3,680
TOTAL	**19,913**	**15,680**

- Current portion

In thousands of euros	Balance at 31.12.2017	Balance at 31.12.2016
VAT receivables	8,781	23,746
Income tax receivables	2,961	4,447
Other tax receivables	1,914	1,193
TOTAL	**13,656**	**29,386**

Tax receivables due within 12 months mainly comprise the receivables of the Piaggio group for VAT, down on 31 December 2016 chiefly due to the reduction in the VAT receivable from the Indian

subsidiary of the Piaggio group.
It should be remembered that Immsi S.p.A. has ongoing tax consolidation agreements with the subsidiaries Piaggio & C. S.p.A., Piaggio Concept Store Mantova S.r.l., Aprilia Racing S.r.l., Apuliae S.r.l., Intermarine S.p.A., RCN Finanziaria S.p.A., ISM Investimenti S.p.A., Pietra S.r.l. and Pietra Ligure S.r.l.. As regards contracts signed with these companies, the Parent Company Immsi S.p.A., as consolidating entity, recorded tax receivables of 191 thousand euros in its financial statements, relating to withholding taxes transferred from companies in the agreement, shown in the current portion as they concern disposals to subsidiaries pursuant to article 43-*ter* of Italian Presidential Decree no. 602/73, to be offset in 2018. Group taxation calculated for 2017 recorded a consolidated tax loss; therefore, no advance payments on Italian Tax on Corporate Income will be made in 2018.

- F7 - DEFERRED TAX ASSETS **122,984**

As at 31 December 2017, net deferred tax assets due within 12 months totalled 5,743 thousand euros (13,866 thousand euros as at 31 December 2016) while those due beyond 12 months amounted to 117,241 thousand euros (112,774 thousand euros as at 31 December 2016): these values are recorded net of deferred tax liabilities which are uniform as regards maturity and nature. Deferred tax liabilities were determined applying the tax rate in effect in the year when temporary differences occur.

Advance taxation refers mainly to the Piaggio group at 59,871 thousand euros (60,372 thousand euros as at 31 December 2016), to Intermarine S.p.A. at 43,845 thousand euros (compared to 43,640 thousand euros as at 31 December 2016) and to Is Molas S.p.A. at 14,098 thousand euros (13,181 thousand euros as at 31 December 2016). In general, these refer to temporary differences detected in and before 2017, losses in and before 2017 and the excess interest and charges paid assimilated and not deducted in previous periods but carried over into subsequent periods.

As regards the measurements to define the deferred tax assets, the Group mainly took account of i) the tax regulations in the various countries in which it operates; ii) their impact in terms of timing differences and any tax benefits deriving from the use of prior tax losses in consideration of their falling due; iii) the estimated financial results for each individual company; iv) the economic and tax repercussions of the implementation of the reorganisations; and v) of national consolidated tax agreements and plans over a period of five years. In view of the above considerations and also for the sake of prudence, the tax benefits deriving from the losses carried forward and from temporary differences were not fully recognised.

Gross deferred tax assets are as follows:

In thousands of euros

	Total ex VAT	Tax effect	Recognised	Not recognised
Temporary differences for allocations to provisions	85,043	23,588	n/a	n/a
Other differences	59,459	13,542	n/a	n/a
Total of reserves and other changes	**144,502**	**37,130**	**36,542**	**588**
Tax losses	413,360	100,242	86,442	13,800
Grand total at 31 December 2017	**557,862**	**137,372**	**122,984**	**14,388**

Advance taxes not recorded, amounting to 14,388 thousand euros, in view of prior losses and other temporary differences, refer mainly to the Parent Company Immsi S.p.A. in the amount of

1,777 thousand euros and the Piaggio group in the amount of 12,312 thousand euros.

For comparability, the corresponding table as at 31 December 2016 is set out below:

In thousands of euros

	Total ex VAT	Tax effect	Recognised	Not recognised
Temporary differences for allocations to provisions	77,930	20,949	n/a	n/a
Other differences	40,223	11,383	n/a	n/a
Total of reserves and other changes	**118,153**	**32,332**	**31,578**	**754**
Tax losses	416,657	104,098	95,380	8,718
Grand total at 31 December 2016	**534,810**	**136,430**	**126,958**	**9,472**

- F8 - TRADE RECEIVABLES AND OTHER RECEIVABLES 168,920

- Non-current portion

Trade receivables and other receivables included under non-current assets total 13,986 thousand euros against 15,587 thousand euros at 31 December 2016, as follows:

In thousands of euros	*Balance at 31.12.2017*	*Balance at 31.12.2016*
Amounts due from affiliated companies	115	133
Other receivables	13,871	15,454
TOTAL	**13,986**	**15,587**

Receivables due from affiliated companies only comprise receivables from Fondazione Piaggio. Other non-current receivables include 9,312 thousand euros of prepaid expenses, 1,150 thousand euros of guarantee deposits, 50 thousand euros of amounts advanced to employees and other receivables of various kinds. These include in particular the receivable of 1,684 thousand euros for Is Molas from the “Le Ginestre” lawsuit.
The item in question includes trade receivables due after 12 months recognised by Intermarine S.p.A. and to this date entirely written down for 1,203 thousand euros.

- Current portion

Trade receivables and other current receivables are represented by the following:

In thousands of euros	*Balance at 31.12.2017*	*Balance at 31.12.2016*
Trade receivables	106,218	117,760
Receivables due from subsidiaries	2,578	2,613
Amounts due from affiliated companies	248	568
Amounts due from joint ventures	3,052	4,306
Other receivables	42,838	9,135
TOTAL	**154,934**	**134,382**

The item trade receivables comprises amounts for normal sales transactions, shown net of a provision for bad debts equal to 31,640 thousand euros (including 1,203 thousand euros related to non-current receivables); as at 31 December 2017 it was up by 1,417 thousand euros on 31

December 2016.
The following table shows the movements of the provision in question during 2017:

In thousands of euros	
Balance at 31.12.2016	**30,223**
Increases for allocations	1,417
Decreases for use	0
Other changes	0
Balance at 31.12.2017	**31,640**

The Piaggio group transfers on a regular basis a large part of its trading receivables with and without recourse: The Group has signed contracts with some of the most important Italian and foreign factoring companies as a move to optimise the monitoring and the management of its trade receivables, besides offering its customers an instrument for funding their own inventories, for factoring classified as without the substantial transfer of risks and benefits. On the contrary, for factoring without recourse, contracts were formalised for the substantial transfer of risks and benefits. As at 31 December 2017, trade receivables still due, sold without recourse, totalled 89,458 thousand euros: for these receivables, the Piaggio group received payment before their natural expiry amounting to 88,933 thousand euros. As at 31 December 2017, the advances received – both from factoring firms and from banks – for the disposal of trade receivables with recourse totalled 14,613 thousand euros and are offset in the corresponding item under current liabilities.
The balance of the item receivables due from subsidiaries, amounting to 2,578 thousand euros, refers to trade receivables from the subsidiary Rodriquez Cantieri Navali do Brasil Ltda. The balance of receivables due from affiliated companies refers to receivables due from Consorzio CTMI of 248 thousand euros, while receivables due from joint ventures, equal to 3,052 thousand euros as at 31 December 2017, refer to Zongshen Piaggio Foshan Motorcycle Co. Ltd..

Other receivables include advances to suppliers of 17,256 thousand euros, mainly for the subsidiary Intermarine S.p.A., accrued income and deferred charges totalling 5,816 thousand euros, advances to employees of 1,646 thousand euros, guarantee deposits of 331 thousand euros, receivables relating to hedging instruments amounting to 102 thousand euros and other receivables of various kinds.
Finally other receivables include the equivalent value of works in progress to order net of advances received, referring entirely to the subsidiary Intermarine S.p.A., whose composition is given below.

In thousands of euros	***Balance at 31.12.2016***	***Increases***	***Decreases***	***Balance at 31.12.2017***
Contract work in progress gross of advances	**172,150**	93,130	(89,808)	**175,472**
Contractual advances received from customers	185,551			165,619
Contract work in progress net of advances	**(13,401)**			**9,853**
Costs sustained	114,358			115,512
Margins recognised (net of losses)	57,792			59,960

- F9 - ASSETS HELD FOR DISPOSAL 27,183

The net carrying value of assets held for disposal amount to 27,183 thousand euros and refers to the real estate portfolio of Pietra Ligure acquired at public auction from the State in the month of December 2007 for a total of 19.1 million euros and shown in the accounts under buildings held for disposal in relation to agreements and the bonds underwritten by the company. For an update on the progress of the project concerning the property portfolio of Pietra Ligure, see the Report on Operations of the Immsi Group at 31 December 2017.

- F10 - INVENTORIES 309,184

Inventories are shown as the lower value between the purchase cost and market value and totalled 309,184 thousand euros at the end of the period. They comprised:

In thousands of euros	Balance at 31.12.2017			Balance at 31.12.2016		
	Cost	Write-down	Net	Cost	Write-down	Net
Consumables	55	0	55	40	0	40
Raw materials	112,105	(16,680)	95,425	107,401	(17,101)	90,300
Work in progress and semi-finished products	100,560	(1,913)	98,647	91,822	(1,102)	90,720
Finished products	140,709	(25,652)	115,057	136,613	(23,616)	112,997
TOTAL	**353,429**	**(44,245)**	**309,184**	**335,876**	**(41,819)**	**294,057**

The above write-downs were necessary due to stocks of raw materials no longer usable in the production process and obsolete or slow-moving finished products and goods.
As at 31 December 2017, the Piaggio group, net of write-downs, recorded inventories of 218,622 thousand euros for components, accessories, 2, 3 and 4-wheelers. Intermarine S.p.A. contributed 37,311 thousand euros, mainly for raw materials and products in progress for prototypes, in-house construction and repairs. Finally, Is Molas S.p.A. records 53,251 thousand euros in inventories at the end of the reporting period relating to the hotel business, as well as work in progress and semi-finished products comprising land, volumes, costs for services and consultancy for the property development project relating to the allotment located in Is Molas - Cagliari.

- F11 - CASH AND CASH EQUIVALENTS 138,949

Cash and cash equivalents at the end of the reporting period totalled 138,949 thousand euros against 197,919 thousand euros at 31 December 2016, as detailed in the table below:

In thousands of euros	Balance at 31.12.2017	Balance at 31.12.2016
Cheques	5	32
Cash and cash equivalents	124	117
Securities	39,324	25,594
Receivable due from banks within 90 days	99,496	172,176
TOTAL	**138,949**	**197,919**

The aggregate in question refers to cash, current bank accounts, deposits refundable on demand and other short-term high-liquidity financial investments readily convertible into cash and subject to an insignificant risk of change in value.
The item securities refers to deposit agreements carried out by the affiliated Indian company in the Piaggio group for the efficient use of temporary liquidity and the item receivables due from banks due within 90 days (relating to the Piaggio group and amounting to 88,697 thousand euros) mainly refers to bank deposits, down on the previous period due to some medium-term loans obtained in December 2016.

- G - INFORMATION ON THE MAIN LIABILITY ITEMS

Amounts are stated in thousands of euro unless otherwise indicated.

- G1 -	SHAREHOLDERS' EQUITY	370,689

Shareholders' equity as at 31 December 2017 amounted to 370,689 thousand euros, including 221,623 thousand euros for consolidated shareholders' equity attributable to the Group and 149,066 thousand euros for capital and the reserves of non-controlling interests.

Share capital
As at 31 December 2017 the share capital of Immsi S.p.A., fully subscribed and paid-up, comprises 340,530,000 ordinary shares without nominal value, totalling 178,464,000.00 euros.
As already stated, as at 31 December 2017, Immsi S.p.A. held no treasury shares. Each ordinary share entitles the holder to a proportionate part of distributable profits and of the shareholders' equity resulting from any liquidation, as well as unlimited voting rights.

Legal reserve
The legal reserve comprises reserves allocated following the distribution of Immsi S.p.A. profits from the year 2000 to the year 2016, in accordance with the law. The reserve totalled 8,039 thousand euros at the end of 2017.

Other reserves
This item totalled 162,201 thousand euros. The share premium reserve includes the consideration of shares underwritten following the increase in share capital of Immsi S.p.A. in 2005 and 2006, net of uses to cover losses for 342 thousand euros, for a total amount of 94,874 thousand euros. Other reserves also include the reserve generated from the Group's transition to international accounting standards at 1 January 2004, equal to 5,300 thousand euros, details of which are in the Report to the Financial Statements at 31 December 2005, also available on the website www.immsi.it. The reserve fund for the stock option amounts to 6,742 thousand euros, whilst the reserve fund for the valuation of financial instruments was negative in the amount of 27,804 thousand due mainly to: the inclusion in the statement of comprehensive income of the revision of the fair value of financial instruments representing the capital held by the Parent Company including the investment in UniCredit, revised to 10,506 thousand euros and in Alitalia – CAI, revised to 14,778 thousand euros as well as the inclusion of the component attributable to the recalculation by Piaggio of financial liabilities renegotiated in compliance with IFRS 9 in the amount of 3,764 thousand euros. For further details of the Group's early adoption of IFRS 9, reference is made to the Notes and the section on Accounting Standards. Other changes primarily include the effects of redistributing reserves between the Group and non-controlling interest, due to changes in the consolidation portions of shareholders' equity.
The details of the item are shown in the table below:

In thousands of euros	*Extraordinary reserve*	*Share premium reserve / share capital increase*	*IAS transition reserve*	*Reserves as per Law no. 413/91*	*Legal reserves*	*Translation reserves*	*Stock option reserve*	*Reserve for actuarial gains (losses) relative to defined benefit plan*	*Financial instrument measurement reserve*	*Other changes in other reserves*	*Total other reserves*
Balances at 31 December 2016	***0***	***94,874***	***5,300***	***4,602***	***1,153***	***(7,819)***	***6,742***	***(4,740)***	***(8,128)***	***89,570***	***181,554***
Other changes							0	0		4,898	4,898
Overall earnings for the period						(5,183)		608	(19,676)	0	(24,251)
Balances at 31 December 2017	***0***	***94,874***	***5,300***	***4,602***	***1,153***	***(13,002)***	***6,742***	***(4,132)***	***(27,804)***	***94,468***	***162,201***

Retained earnings
Retained earnings amount to 135,270 thousand euros negative and refer to cumulative Group earnings.

Capital and reserves of non-controlling interests
As at 31 December 2017 the balance of share capital and reserves attributable to minority shareholders totalled 149,066 thousand euros, down by 10,705 thousand euros on 31 December 2016.

Statement of Comprehensive Income
As at 31 December 2017 the overall Group result for the period shows a loss of 16,062 thousand euros with the inclusion of negative components which cannot be reclassified in the future in the Income Statement amounting to 20,578 thousand euros, mainly due to the revision of the fair value of the instruments representing the capital held by the Parent Company totalling 18,057 thousand euros, and negative components which can be reclassified in the future in the Income Statement, amounting to 9,992 thousand euros chiefly relating to conversion losses in the Piaggio group accounts.

- G2 - FINANCIAL LIABILITIES 1,010,494

Financial liabilities as at 31 December 2017 amounted to 1,010,494 thousand euros: the portion shown as non-current liabilities amounted to 571,342 thousand euros, compared to 529,749 as of 31 December 2016, while the portion shown as current liabilities amounted to 429,652 thousand euros, compared to 577,970 thousand euros as of 31 December 2016.
Financial liabilities also include the fair value measurement of financial derivatives used to hedge exchange and interest rate risks and the adjustment of related hedged items - underwritten by the Piaggio group – with a total of 9,500 thousand euros, including 7,120 thousand euros shown as non-current liabilities and 2,380 thousand euros as current liabilities. As already stated, net financial debt does not include financial assets and liabilities arising from the fair value measurement of financial derivatives used for hedging, the fair value adjustment of relative hedged items and related accruals.

The following tables show a breakdown of gross financial debt by type. It should be remembered that the comparative data as at 31 December 2016 were reclassified as explained in detail in the section on Accounting Standards and valuation criteria.

- Non-current portion

In thousands of euros	*Balance at 31.12.2017*	*Balance at 31.12.2016*
Bonds	309,880	282,442
Payables due to banks	251,950	236,319
Amounts due for finance leases	9,168	10,311
Amounts due to other lenders	344	677
TOTAL	**571,342**	**529,749**

We point out that in the item Amounts due to bank and in the item Bonds there are financings treated from an accounting point of view according to the criterion of amortised cost. According to this criterion the nominal amount of the liability is decreased by the amount of the relative issuing and/or stipulation costs in addition to any costs linked to refinancing previous liabilities.
The amortisation of these costs is determined on an effective interest rate basis, and namely the rate which discounts the future flows of interest payable and reimbursements of principle at the net carrying amount of the financial liability. Furthermore, some financial liabilities attributable to the Piaggio group are entered at fair value with recognition of the relative effects in the Income Statement.

As stated in the introductory paragraph of the section on Accounting Standards and Valuation criteria, on 31 December 2017 the Group entered under current financial liabilities interest payables of 3,126 thousand euros for minority shareholders in Group companies relating to loans received, shown on 31 December 2016 among current trade payables. Reclassification for the purposes of better representing Group payables was carried out in relation to balances as at 31 December 2016 totalling 2,948 thousand euros, enabling direct comparison. The Group believes that despite the financial nature of the above payable, this item does not contribute to the calculation of net financial debt.

- Current portion

In thousands of euros	***Balance at 31.12.2017***	***Balance at 31.12.2016 Restated***
Bonds	9,625	9,617
Payables due to banks	357,917	512,778
Amounts due for finance leases	1,144	1,114
Amounts due to subsidiaries *)	9	12
Amounts due to other lenders	60,957	54,449
TOTAL	**429,652**	**577,970**

*) not consolidated on a global integration basis

The composition of gross financial debt is as follows:

In thousands of euros	***Book value at 31.12.2017***	***Balance at 31.12.2016 Restated***	***Nominal value at 31.12.2017***	***Nominal value at 31.12.2016 Restated***
Bonds	319,505	292,059	322,130	301,799
Payables due to banks	609,867	749,097	612,299	751,114
Amounts due for finance leases	10,312	11,425	10,325	11,440
Amounts due to subsidiaries *)	9	12	9	12
Amounts due to other lenders	61,301	55,126	61,301	54,958
TOTAL	**1,000,994**	**1,107,719**	**1,006,064**	**1,119,323**

*) not consolidated on a global integration basis

The following table shows the reimbursement plan for Group gross financial debt at 31 December 2017:

In thousands of euros	***Nominal value as of 31.12.2017***	***Amounts falling due within 12 months***	***Amounts falling due within 31.12.2019***	***Amounts falling due within 31.12.2020***	***Amounts falling due within 31.12.2021***	***Amounts falling due within 31.12.2022***	***Portions falling due***
Bonds	322,130	9,669	10,360	11,050	261,051	30,000	0
Payables due to banks	612,299	358,317	114,121	44,234	42,548	28,556	24,523
Amounts due for finance leases	10,325	1,144	1,240	1,148	1,167	1,187	4,439
Amounts due to subsidiaries *)	9	9	0	0	0	0	0
Amounts due to other lenders	61,301	60,957	334	10	0	0	0
TOTAL	**1,006,064**	**430,096**	**126,055**	**56,442**	**304,766**	**59,743**	**28,962**

*) not consolidated on a global integration basis

The following table analyses gross financial debt by currency and interest rate:

In thousands of euros	Book value at 31.12.2016 Restated	Book value at 31.12.2017	Nominal value at 31.12.2017	Interest rate at 31.12.2017
Euro	1,008,475	939,728	944,798	3.61%
Vietnamese Dong	53,668	36,623	36,623	7.05%
Japanese Yen	3,269	2,548	2,548	2.75%
Indian Rupee	13,393	39	39	9.25%
Indonesian Rupiah	2,824	2,459	2,459	8.38%
US Dollar	26,090	19,597	19,597	3.58%
TOTAL	**1,107,719**	**1,000,994**	**1,006,064**	**3.75%**

Amounts due to banks mainly include the following loans:

Immsi S.p.A.

- a loan undersigned in June 2010 by the Company and renegotiated in December 2015 with Banco BPM for a total of 45 million euros maturing at the end of 2025, with repayment in six-monthly instalments at a rate equal to the Euribor increased by a spread. The loan is shown in the financial statements on an amortised cost basis in the amount of 35,487 thousand euros, including 4,500 thousand euros relating to instalments that may be repaid within 12 months. The loan is guaranteed by mortgages on property located in Rome – via Abruzzi for a total of 90 million euros, in addition to the payment of income from lease contracts on the same property being paid into an account subject to special conditions, up to the amount of the interest instalment closest to maturity. The loan agreement has two covenants, which had been met at the date of this report. To cover the risk of interest rate fluctuation for cash flows, Immsi S.p.A. kept on the existing interest rate swap hedging contract, which changes the variable rate into a fixed rate for the entire duration of the contract on 75% of the nominal value of the loan taken out in 2010;
- amortised credit line granted by Monte dei Paschi di Siena for a total nominal amount of 30 million euros (used to the full as at 31 December 2017), expiring in June 2022 and at a benchmark rate of variable Euribor increased by a *spread*. The loan is shown according to the amortised cost method at 29,475 thousand euros, including 5.5 million euros for instalments that may be paid within 12 months. The line includes two covenants, complied with at the date of this Report;
- a revolving credit line granted by Intesa Sanpaolo of 25 million euros. The line expires at the end of December 2018 and has a benchmark rate of Euribor increased by a spread;
- a credit line granted by Intesa Sanpaolo for a total of 15 million euros. The line expires at the end of December 2018 and has a benchmark rate of Euribor increased by a spread;
- a revolving credit line granted by UniCredit for a total of 20 million euros (used to the full as at 31 December 2017), with a benchmark rate of Euribor increased by a spread, expiring in November 2018 and with partial amortisation plan. This line has a quarterly covenant, complied with as at 31 December;
- loan granted by Banca Popolare dell'Emilia Romagna totalling 15 million euros (used to the full as at 31 December 2017), with final expiry at the end of December 2021 and benchmark rate of Euribor increased by a spread. This line has an amortisation plan involving increasing six-monthly payments and two covenants to be verified on 31 December each year, complied with in 2017;
- a revolving credit line granted by Banca Nazionale del Lavoro totalling 25 million euros (used to the full as at 31 December 2017). The line, expiring in June 2019 and with a benchmark rate of variable Euribor increased by a spread, involves two covenants, complied with at the end of 2017;

- an amortised credit line granted by Banco BPM for a total of 20 million euros, expiring in December 2018 with a benchmark rate of variable Euribor increased by a spread. the line is shown at the end of 2017 at 9,961 thousand euros and has an amortisation plan with constant quarterly repayments;
- a Bullet – Multi Borrower loan granted by Intesa Sanpaolo for a total of 130 million euros provided in full at the end of 2017, expiring in December 2018 with a benchmark rate of variable Euribor increased by a spread, including 77.7 million euros granted to Immsi S.p.A., 30 million euros to ISM Investimenti S.p.A. and 22.3 million euros to Intermarine S.p.A.;
- loan received from Banca Ifis with a nominal amount of 10 million euros, expiring on 31 December 2021 and a benchmark rate of Euribor increased by a spread. The agreement includes reimbursement by constant quarterly instalments shown according to the amortised cost method, totalling 9,952 thousand euros, including 770 thousand euros for instalments payable within 12 months. This loan involves two covenants to be verified on 31 December each year, complied with at the end of 2017;
- a securities loan agreement between Immsi S.p.A. and Banca Akros, which - against a loan of 578,847 UniCredit shares and 2,850,000 Piaggio shares, envisages a cash collateral of approximately 7,328 thousand euros and 4,070 thousand euros respectively, represented by the market value of the shares at the date of subscription net of a spread, which takes into account any downward fluctuations in the share. The contract, which expires on withdrawal, envisages a fee equal to 0.05% and interest payable equal to the EONIA increased by a spread, calculated on the cash collateral disbursed by Banca Akros. Immsi received a cash loan without collateral from Omniaholding S.p.A. of 300,000 and 2,850,000 UniCredit and Piaggio shares respectively. These shares were used in loan operations with cash collateral undertaken with Banca Akros.

Further 4.6 million euros relating to a revolving credit line granted by Intesa Sanpaolo and used in the amount of 3.5 million euros at the end of the period.

As collateral for bank borrowing, the Company has deposited a total of 13,353 thousand Piaggio shares and pledged a total of 114,737 thousand Piaggio shares.

Piaggio group

- a medium-term loan for 21,818 thousand euros from the European Investment Bank to finance Research & Development investments planned for the 2013-2015 period. The loan will mature in December 2019 and has a repayment schedule of 11 six-monthly instalments at a fixed rate. The contractual terms envisage loan covenants;
- medium-term loan for 59,908 thousand euros (nominal value of 60,000 thousand euros) from the European Investment Bank to finance Research & Development investments planned for the 2016-2018 period. The loan will mature in February 2023 and has a repayment schedule of 7 fixed-rate annual instalments. The contractual terms envisage loan covenants;
- a sindicated loan of 29,639 thousand euros (nominal value of 30,000 thousand euros), of a total of 250,000 thousand euros in one tranche for four years of 175,000 thousand euros granted in the form of a revolving credit line (used to the full as at 31 December 2017 for a nominal 5,000 thousand euros) and one tranche of 75,000 thousand euros granted in the form of a loan for five years with amortisation (on 31 December 2017 the sum stood at 25,000 thousand euros). The contractual terms envisage loan covenants;
- 3-year loan of 3,330 thousand euros (with nominal value of 3,333 thousand euros) granted by Banco BPM for an original 10,000 thousand euros, expiring in December 2018;
- a medium-term loan of 12,483 thousand euros (with nominal value of 12,505 thousand euros) granted by Banca Popolare Emilia Romagna. The loan, expiring in June 2019, has a six-monthly amortisation plan;

- a loan of 11,364 thousand euros granted by Banco BPM in one tranche of 12,500 thousand euros in the form of a revolving credit line (untouched as at 31 December 2017), expiring in January 2021 and one tranche in the form of a loan with amortisation of 12,500 thousand euros (as at 31 December 2017 it stood at 11,354 thousand euros), expiring in July 2022;
- a medium-term loan of 9,992 thousand euros (with nominal value of 10,000 thousand euros) granted by Banca del Mezzogiorno, expiring in January 2023,with a six-monthly amortisation plan;
- a medium-term loan of 9,451 thousand euros (with nominal value of 9,500 thousand euros) granted by Interbanca-Banca Ifis, expiring in September 2022, with a quarterly amortisation plan;
- a medium-term loan of USD 4,369 thousand granted by International Finance Corporation to the subsidiary Piaggio Vehicles Private Limited with interest at a variable rate. The loan, expiring in July 2018, is repaid in six-monthly instalments. Contract terms provide for a guarantee from Piaggio & C. S.p.A. and compliance with some covenants. Cross currency swaps have been taken out on this loan to hedge the foreign exchange and interest rate risks;
- a medium-term loan of 13,295 thousand euros referring to 358,104,752 thousand VND granted by VietinBank to the affiliated company Piaggio Vietnam in order to finance investments in Research & Development. The loan matures in June 2021, with a repayment schedule in 7 six-monthly instalments, starting from June 2018, with a fixed rate for the first year, followed by a variable rate;
- loans totalling 563 thousand euros from various banks pursuant to Italian Law no. 346/88 governing subsidies to applied research.

All financial liabilities indicated above are unsecured, without mortgage backing, and based on results as at 31 December 2017 all the covenants on loans had been met.

Intermarine S.p.A.

- loan of the remaining 5 million euros relating to an Amortisation Loan granted by Intesa Sanpaolo in November 2012, expiring after six years, with three-year pre-amortisation and joint obligation of the Parent Company Immsi S.p.A.; this line is secured by a first mortgage on property in Sarzana and an insurance obligation;
- a revolving credit line from Intesa Sanpaolo of 18 million euros, 4 million euros of which had been used as at 31 December 2017, guaranteed by a pledge on Piaggio & C. S.p.A. shares held by Immsi S.p.A. and expiring in December 2018;
- credit line from Banca Carige for a maximum of 7 million euros for advances against discounted invoices, available in full as at 31 December 2017, assisted by letter of patronage issued by Immsi S.p.A.;
- unsecured loan of 2.5 million euros issued by Banca Carige in September 2017, expiring at the end of December 2019, with pre-amortisation and subsequent reimbursement in quarterly instalments from March 2018; the credit line is assisted by letter of patronage issued by Immsi S.p.A.;
- financial payables for advances on transactions by Banca IFIS of approximately 7.1 million euros (secured, as regards contract advances, by a letter of patronage issued by RCN Finanziaria S.p.A. and by Immsi S.p.A.);
- credit line of 15.2 million euros granted by Banca Ifis for advances against discounted invoices, available in full as at 31 December 2017;
- credit line used as at 31 December 2017 in the amount of 1.9 million euros granted by Banco BPM for advances on an agreement supported by bank guarantee issued by Immsi;
- loan of 5 million euros granted by Banca Nazionale del Lavoro, issued in September 2017, expiring at the end of September 2019, with pre-amortisation and subsequent quarterly reimbursement in 6 instalments from June 2018; the loan is assisted by letter of patronage issued by Immsi S.p.A.;

- short-term current account overdraft facility with various banks amounting to a total of about 2 million euros, not used as at 31 December 2017.

Is Molas S.p.A.

- loan at a variable rate granted by Monte dei Paschi di Siena of 20 million euros stipulated in December 2017, expiring at the end of December 2022, with pre-amortisation and subsequent reimbursement in six-monthly instalments from December 2018. This loan is assisted by a bank guarantee issued by Immsi S.p.A..

The item Bonds amounting to 314,217 thousand euros (nominal value equal to 322,130 thousand euros) refers to:

- 42,010 thousand euros (nominal value 42,130 thousand euros), a private debenture loan (US Private Placement) issued by Piaggio & C. S.p.A. in July 2011 for USD 75,000 thousand entirely underwritten by an American institutional investor repayable in 5 annual instalments starting in July 2017 with six-monthly coupon. As at 31 December 2017 the fair value measurement of the debenture loan was equal to 51,371 thousand euros (the fair value is determined based on IFRS standards for fair value hedging). A Cross Currency Swap has been taken out on this debenture loan to hedge the exchange risk and interest rate risk;
- 242,361 thousand euros (nominal value equal to 250,000 thousand euros) refers to the high-yield debenture loan issued in April 2014 of 250,000 thousand euros maturing in April 2021 and with six-monthly coupon at a fixed annual nominal rate. The rating agencies Standard & Poor's and Moody's rated the issue respectively B+ with stable outlook and B1 with stable outlook;
- 29,846 thousand euros (nominal value 30,000 thousand euros) for the private debenture loan issued in June 2017 for five years, entirely underwritten by the Export Development Fund. The issue requires no specific *rating* or listing on a regulated market.

The company will be able to reimburse the entire sum or part of it in advance, both for the high-yield debenture loan issued in April 2014 and the private placement issued in June 2017, at the conditions specified in the indenture. The values of these prepayment options have not been separated from the original agreement, insofar as these options were considered "closely related" to the host instrument according to the provisions of IFRS 9.

The amounts due for finance leases of 10,312 thousand euros refer to the finance lease for 10,165 thousand euros (nominal value of 10,179 thousand euros) granted by Albaleasing in the form of a Sale&Lease back on a Piaggio & C. S.p.A. production plant. The contract has a duration of ten years and provides for quarterly repayments (non-current part of 9,057 thousand euros) and a lease granted for 147 thousand euros by VFS Servizi Finanziari for the use of vehicles.

Payables to other lenders totalled 61,301 thousand euros, including 60,957 thousand euros due within a year. Their breakdown was as follows:

- subsidised loans for a total of 636 thousand euros provided by the Italian Ministry of Economic Development and Italian Ministry of Education, University and Research using regulations to encourage exports and investments in research and development (non-current portion of 319 thousand euros);
- loan of 39 thousand euros granted by BMW Finance to the Piaggio group for the purchase of vehicles (non-current portion of 25 thousand euros);
- two shareholders loans of respectively 6,000 and 8,805 thousand euros issued to RCN Finanziaria S.p.A. by Intesa Sanpaolo (a company shareholder), due in 2015. These loans were extensively discussed by shareholders with a view to restoring agreements; the times of these negotiations, with shareholder loans connected to them, meant that the renewal of the loans was deferred;
- shareholder loans for 28,082 thousand euros with a duration of 10 years, maturing in December 2018, granted by IMI Investimenti S.p.A. (a company shareholder) to ISM

Investimenti S.p.A.;

- financial advances from factoring companies and banks for credit sold with recourse relative to trade receivables amounting to 14,613 thousand euros and entirely referred to the Piaggio group.

- G3 - TRADE PAYABLES AND OTHER PAYABLES 545,240

Trade payables to other lenders totalled 545,240 thousand euros, including 538,411 thousand euros due within the year.
It should be remembered that the comparative data as at 31 December 2016 were reclassified as explained in detail in the section on Accounting Standards and valuation criteria.
Trade payables and other current payables are detailed below:

In thousands of euros	*Balance at 31.12.2017*	*Balance at 31.12.2016 Restated*
Trade payables	481,341	456,272
Amounts due to affiliated companies	0	86
Amounts due to parent companies	331	231
Amounts due to *joint ventures*	8,811	9,777
Other payables	47,928	52,267
TOTAL	**538,411**	**518,633**

With particular reference to the Piaggio group, to facilitate credit conditions for its suppliers, the group has used factoring agreements since 2012, mainly supply chain financing and reverse factoring agreements.
These operations did not change the primary obligation, nor substantially changed payment terms, so their nature is the same and they are still classified as trade liabilities.
At 31 December 2017, the value of trade payables covered by reverse factoring or supply chain financing agreements was equal to 183,758 thousand euros (173,058 thousand euros at 31 December 2016).

Payables to joint ventures at 31 December 2017, equal to 8,811 thousand euros, mainly refer to purchases by the Piaggio group through Piaggio Foshan Motorcycles.

The “Other current payables” item is detailed below:

In thousands of euros	*Balance at 31.12.2017*	*Balance at 31.12.2016*
Amounts due to employees	16,519	16,753
Liabilities connected to hedging instruments	6	237
Advances from customers	45	816
Amounts due to partners and shareholders	1	1
Amounts due to company boards	159	726
Amounts due to social security institutions	9,373	10,049
Other amounts due to third parties	443	1,019
Other amounts due to affiliated companies	24	34
Other amounts due to *joint ventures*	190	181
Accrued expenses	6,455	7,213
Deferred income	4,537	5,397
Other payables	10,176	9,841
TOTAL	**47,928**	**52,267**

Amounts due to employees include holidays accrued and not taken and other remuneration to pay, at 31 December 2017, while amounts to social security institutes basically refer to amounts owing for items payable by companies and employees relative to salaries and wages as well as sums accrued and not paid.

- G4 - RESERVES FOR SEVERANCE INDEMNITY AND SIMILAR OBLIGATIONS 48,628

The reserve for pensions and similar obligations at 31 December 2017 amounted to 48,628 thousand euros, down by 4,854 thousand euros on 31 December 2016. Below is the breakdown of its composition and movements:

In thousands of euros	*Balance at 31.12.2016*	*Service cost*	*Actuarial (gain) loss*	*Interest cost*	*Uses and other changes*	*Balance at 31.12.2017*
Termination benefits	52,727	8,925	(1,058)	684	(13,377)	47,901
Other funds	755	0	0	0	(28)	727
TOTAL	**53,482**	**8,925**	**(1,058)**	**684**	**(13,405)**	**48,628**

The item Other funds is mainly attributable to the Piaggio group and includes i) funds for personnel set aside by foreign companies of the group; and ii) the supplementary indemnity fund for customers, that represents the indemnities owing to the agents of the Piaggio group in case of the agency contract winding up due to events not ascribable to them.
Uses refer to the payment of benefits already accrued in previous years, while allocations refer to benefits accrued in the period.
The item Provision for termination benefits comprises termination benefits for employees of Italian companies belonging to the Immsi Group and includes post-employment benefits identified as defined benefit plans.
The economic / technical assumptions used to discount the value by the companies of the Immsi Group operating in Italy are described below:

- Technical annual discount rate 1.11% - 1.61%;
- Annual rate of inflation 1.50% from 2018 onwards;
- Annual increase in severance pay (TFR) 2.625% from 2018 onwards.

As regards the discount rate, the iBoxx Corporates AA rating (Piaggio group) and iBoxx Corporates A rating (other Group companies) with a duration from 7 to 10+ were used for the evaluation.

The table below shows, in absolute terms, as at 31 December 2017, the effects that would have occurred following changes deemed reasonable in the actuarial assumptions:

In thousands of euros	Provision for termination benefits
Turnover rate +2%	47,307
Turnover rate -2%	48,343
Inflation rate + 0.25%	48,425
Inflation rate - 0.25%	47,125
Discount rate + 0.50%	45,756
Discount rate - 0.50%	49,940

The average duration of the bond ranges from 7 to 27 years, while future payments estimated in the Group are equal to:

Year	Future amounts
In thousands of euros	
1	5,402
2	1,292
3	3,672
4	5,007
5	4,765

Being an actuarial valuation, the results depend on the technical bases adopted such as - among others - the interest rate, the inflation rate and the expected turnover. A variation of these parameters could lead to a significant change in the liability estimated to date: similar impacts may be caused by unexpected changes in other technical bases.

The German and Indonesian subsidiaries of the Piaggio group have provisions for employees identified as defined benefit plans. At 31 December 2017, these provisions amounted to 220 thousand euros.

- G5 - OTHER LONG-TERM PROVISIONS 31,542

The balance of other long-term reserves, including the portion due within 12 months, totalled 31,542 thousand euros at the end of December 2017, an increase of 3,615 thousand euros on 31 December 2016. The other reserves recognised in the financial statements are detailed below:

In thousands of euros	***Balance at 31.12.2016***	***Allocations***	***Applications***	***Other changes***	***Balance at 31.12.2017***	***Of which current***
Provision for product warranties	15,662	12,929	(10,060)	(238)	18,293	13,477
Provisions for risk on investments	2,828	0	0	659	3,487	3,456
Provision for contractual risks	5,146	10	(1,805)	(519)	2,832	225
Other provisions for risks and charges	4,291	3,245	(727)	121	6,930	3,645
TOTAL	**27,927**	**16,184**	**(12,592)**	**23**	**31,542**	**20,803**

The product warranty provision refers to allocations made as at 31 December 2017 by the Piaggio group of 13,619 thousand euros and by Intermarine S.p.A. of 4,674 thousand euros for technical work under warranty on products as expected to be carried out during the warranty period. As regards – in particular – the forecasts made by the Piaggio group, this period varies according to the type of goods sold and the market, and is also determined by the customer take-up to commit to planned maintenance. With reference to Intermarine S.p.A., the company allocates this reserve for maintenance under warranty to be carried out in the future years on naval vessels under construction, delivered during the year and/or in previous years, determined on the basis of the estimate of costs incurred in the past for similar vessels.

Regard the other leading provisions, the provision for risks on investments amounts to 3,456 thousand euros for the hedging of the negative shareholders' equity of the investee Rodriquez Cantieri Navali do Brasil Ltda.

The contractual risk fund decreased following the deletion of some items related to a supply agreement within the Piaggio group, whilst other funds for risks and charges include mainly provisions for legal risks by the Piaggio group, totalling 2,013 thousand euros.

- G6 - DEFERRED TAX LIABILITIES 22,677

The item “Deferred tax liabilities” refers to tax payables provisioned by the individual companies on the basis of applicable national laws. The balance was offset by 235 thousand euros by deferred tax assets, of a uniform maturity and type.
Deferred tax assets for the Piaggio group amounted to 3,170 thousand euros, for the Parent Company Immsi S.p.A. to 19,375 thousand euros (mainly from the fair value valuation of the investment property in Rome) and for Intermarine S.p.A. to 132 thousand euros. This item decreased by 433 thousand euros, compared to the figure at 31 December 2016.

- G7 - CURRENT TAXES 12,309

Current taxes – which include the tax payables shown in the financial statements of the individual consolidated companies, allocated in relation to tax charges on the basis of applicable national tax laws – were up on 31 December 2016 by 2,995 thousand euros, as follows:

In thousands of euros	***Balance at 31.12.2017***	***Balance at 31.12.2016***
Amounts due for income tax	4,676	1,231
VAT payables	1,549	2,187
Amounts due for withholding tax	5,355	5,096
Amounts due for local taxes	31	38
Other payables	698	762
TOTAL	**12,309**	**9,314**

Payables for withholding tax refer mainly to taxes on employees' salaries and wages, severance pay and withholding tax for the self-employed.

- H - INFORMATION ON THE MAIN INCOME STATEMENT ITEMS

Amounts are stated in thousands of euro unless otherwise indicated.

Before analysing the individual item, it is pointed out that the general information on costs and revenues is contained in the Report on Operations, in accordance with art.2428 of the Italian civil code.

- H1 - NET REVENUES 1,454,939

Revenues from sales and services as at 31 December 2017 stood at 1,454,939 thousand euros, up 5.1% (+ 71,091 thousand euros) on the previous period. The increase is due to the industrial sector (+ 29,341 thousand euros, +2.2%), the naval sector (+ 42,065 thousand euros, +64.1%), whilst the property sector and holding company was substantially unchanged at 4,751 thousand euros.
This item is stated net of premiums given to the customers of the Piaggio group (dealer) and it does not include transport costs recharged to customers and the recovery of advertising costs invoiced, which are shown under other operating income. Moreover, revenues do not include recharges for building service fees, offset with the related costs incurred by the Parent Company Immsi S.p.A..

Below is a division of net revenues by business sectors and by geographic segment of destination, that is, referring to the nationality of the customer:

By business segment

In thousands of euros	*2017*		*2016*	
	Amount	***%***	***Amount***	***%***
Property and holding sector	4,751	0.3%	5,066	0.4%
Industrial sector (Piaggio group)	1,342,450	92.3%	1,313,109	94.9%
of which Two-Wheeler business	950,600	65.3%	916,500	66.2%
of which Commercial Vehicle business	391,850	26.9%	396,609	28.7%
Shipyard sector (G. Rodriquez)	107,738	7.4%	65,673	4.7%
TOTAL	**1,454,939**	**100.0%**	**1,383,848**	**100.0%**

By geographic segment

In thousands of euros	*2017*		*2016*	
	Amount	***%***	***Amount***	***%***
Italy	320,032	22.0%	193,244	14.0%
Other European countries	530,517	36.5%	595,306	43.0%
Rest of the World	604,390	41.5%	595,298	43.0%
TOTAL	**1,454,939**	**100.0%**	**1,383,848**	**100.0%**

- H2 - COSTS FOR MATERIALS 825,168

Costs for materials totalled 825,168 thousand euros, compared to 786,766 thousand euros for the previous year. The weight of this item as a percentage of net revenues was down on the previous year, from 56.9% in 2016 to 56.7% at the end of the current period.
The item includes 23,508 thousand euros (23,289 thousand euros in 2016) for purchases of scooters from the Chinese subsidiary Zongshen Piaggio Foshan, sold in European and Asian markets.
The item in question does not include costs recharged to customers and tenants, for an equal amount, and costs related to assets held for disposal, which are recognised separately in a specific item in the Income Statement. The following table details the content of this item:

In thousands of euros	*2017*	*2016*
Change in inventories of finished products, work in progress and semi-finished products	(13,897)	(7,238)
Change in capitalised piecework	(742)	(659)
Purchase of raw materials and consumables	846,628	792,702
Change in raw materials and consumables	(6,821)	1,961
TOTAL	**825,168**	**786,766**

- H3 - COSTS FOR SERVICES, LEASES AND RENTALS 265,069

Costs for services, leases and rentals totalled 265,069 thousand euros, down 7,605 thousand euros on the previous period. Below is a breakdown of this item:

In thousands of euros	*2017*	*2016*
Transport costs	35,137	35,248
Product warranty costs	8,674	8,232
Advertising and promotion	35,206	35,266
Outsourced manufacturing	34,092	30,841
External maintenance and cleaning costs	9,819	9,245
Employee costs	16,301	17,133
Technical, legal, tax, administrative consultancy, etc.	19,307	21,066
Sundry commercial expenses	10,132	10,743
Energy, telephone, postage costs, etc.	16,014	17,593
Services provided	5,573	8,998
Insurance	4,711	4,969
Cost of company boards	4,908	4,573
Sales commissions	1,210	1,624
Part-time staff and staff of other companies	3,406	3,815
Bank charges and commission	5,516	5,730
Quality-related events	3,165	5,688
Other expenses	33,767	34,486
TOTAL COSTS FOR SERVICES	**246,938**	**255,250**
Rental instalments of business property	7,583	7,118
Other instalments	10,548	10,306
TOTAL COSTS FOR LEASES AND RENTALS	**18,131**	**17,424**
TOTAL COSTS FOR SERVICES, LEASES AND RENTALS	**265,069**	**272,674**

The item under review includes Related Party Transactions for 962 thousand euros, which are detailed in a paragraph contained within this Report.

- H4 - EMPLOYEE COSTS 234,493

Employee costs are broken down as follows:

In thousands of euros	2017	2016
Salaries and wages	171,563	171,223
Social security contributions	47,540	47,138
Termination benefits	8,925	9,100
Early retirement incentives	4,916	4,409
Other costs	1,549	938
TOTAL	**234,493**	**232,808**

The table below shows the average number of employees by category. For more details on personnel, refer to the specific paragraph in the Report on Operations:

	2017	2016
Senior management	108	114
Middle managers and white collars	2,507	2,552
Manual workers	4,413	4,681
TOTAL	**7,028**	**7,347**

Employee costs increased in absolute terms by 1,685 thousand euros compared to figures for the previous year (+0.7%).
Employee costs include 4,916 thousand euros relating to costs for mobility plans mainly for the Pontedera and Noale production sites, while in 2016 these costs, relating to these production sites, amounted to 4,409 thousand euros.
The average number of employees was affected by seasonal workers in the summer months (with fixed-term contracts and fixed-term service contracts) used to deal with typical peaks in demand in the summer months.
In 2017, the Group reduced employee numbers, continuing its restructuring, streamlining and organisational cutbacks. The average number of Group employees in 2017 was 7,028, down 319 (-4.3%) on 31 December 2016.
As required by international accounting standards, employee costs do not include charges for stock options, as in 2016.

- H5 - DEPRECIATION OF PLANT, PROPERTY AND EQUIPMENT 46,192

Depreciation as at 31 December 2017 for plant, property and equipment is shown below, with depreciation rates specified in the section on the accounting standards adopted by the Group:

In thousands of euros	2017	2016
Depreciation of buildings	5,678	5,554
Depreciation of plant and machinery	24,255	24,041
Depreciation of industrial and commercial equipment	11,220	12,449
Depreciation of assets to be given free of charge	59	70
Depreciation of other assets	4,980	4,223
DEPRECIATION OF PLANT, PROPERTY AND EQUIPMENT	**46,192**	**46,337**

- H6 - AMORTISATION OF FINITE LIFE INTANGIBLE ASSETS 72,427

Amortisation of intangible assets with a finite life shown in 2017 totalled 72,427 thousand euros, broken down as follows:

In thousands of euros	2017	2016
Amortisation of development costs	35,816	31,645
Amortisation of concessions, patents, industrial and similar rights	31,492	26,955
Amortisation of trademarks and licences	4,828	4,828
Amortisation software	116	37
Amortisation of other intangible assets with a finite life	175	280
AMORTISATION OF INTANGIBLE ASSETS	**72,427**	**63,745**

As set out in more detail in the paragraph on intangible assets, as from 1 January 2004, goodwill is no longer amortised, but tested annually for impairment. For further details, readers are referred to Explanatory and Additional Note F1 – Intangible Assets.

Amortisation of intangible assets does not include impairment of goodwill during 2017 or in the previous year, as – based on tests carried out – it was not necessary to carry out impairment because goodwill was considered recoverable through future financial flows relative to the cash generating units the goodwill was allocated to.

- H7 - OTHER OPERATING INCOME 109,929

The “Other operating income” item comprises:

In thousands of euros	2017	2016
Gains on the disposal of plant, property and equipment	957	2,337
Sponsorships	3,949	2,419
Grants	5,464	4,260
Recovery of sundry costs	32,419	31,702
Licence rights	2,534	7,838
Sale of materials and sundry equipment	1,227	830
Insurance settlements	2,674	2,445
Increases in fixed assets from internal work	41,884	44,247
Rents received	4,599	3,702
Other operating income	14,222	10,895
TOTAL	**109,929**	**110,675**

The item Gains on the disposal of plant, property and equipment includes the proceeds from the sale of moulds and projects for vehicles released for production in the Piaggio group.

The item contributions includes 3,020 thousand euros for state and EU contributions to research projects. The grants are recognised in profit or loss, with reference to the amortisation and depreciation of capitalised costs for which the grants were received. The same item includes contributions to exports (1,246 thousand euros) received by the affiliated Indian company in the Piaggio group and contributions received by Intermarine amounting to 1,198 thousand euros for research projects.

“Recovery of sundry costs” (less the amount in reduction of costs incurred) are related to transport costs recharged to customers, the charges for which are classified under “Costs for services and

use of third party assets".
The item under review includes Related Party Transactions for 254 thousand euros euros, which are detailed in a paragraph contained in this Report.

- H8 - OTHER OPERATING COSTS 35,086

The item Other operating costs at 31 December 2017 amounted to 35,086 thousand euros, broken down as follows:

In thousands of euros	*2017*	*2016*
Losses on the disposal of plant, property and equipment	399	42
Duties and taxes not on income	6,054	5,612
Loss in value of plant, property and equipment	345	1,000
Impairment losses of intangible assets	4,225	379
Provisions for product warranty	11,641	10,981
Provisions for litigation	545	85
Provisions for future and other risks	3,998	2,576
Write-down of trade receivables (including provisions to the provision for bad debts)	3,470	1,366
Other operating costs	4,409	13,144
TOTAL	**35,086**	**35,185**

- H9 - EARNINGS ON INVESTMENTS 716

The item shows a positive balance as at 31 December 2017 of 716 thousand euros and refers to the equity valuation of the investment held by the Piaggio group in the joint venture Zongshen Piaggio Foshan Motorcycle Co. Ltd..

- H10 - FINANCIAL INCOME 21,093

Financial income recognised by the Group in 2017 is detailed below:

In thousands of euros	*2017*	*2016*
Interest income	1,808	2,705
Capital gains on the disposal of shares	3,350	0
Exchange gains	15,601	12,545
Income from fair value hedging and interest rates	81	0
Dividends	109	24
Other income	144	338
TOTAL	**21,093**	**15,612**

During 2017, financial income was up 5,481 thousand euros on the previous period: this increase is due mainly to increased profits from foreign exchange, above all for the Piaggio group, substantially offset against foreign exchange losses shown under Borrowing costs, and against the revenue of 3.35 million euros for Immsi from the sale of options within the framework of the UniCredit rights issue, which the company did not take up.

- H11 - BORROWING COSTS 69,226

Borrowing costs at 31 December 2017 are broken down as follows:

In thousands of euros	2017	2016
Interest payable on bank loans	23,831	26,232
Interest payable on loans from third parties	7,303	8,109
Interest payable on debenture loans	16,738	16,020
Other interest payable	2,330	1,673
Commissions payable	2,082	2,106
Exchange losses	14,933	12,560
Fair value and interest rate hedging charges	359	533
Financial component of retirement funds and termination benefits	661	665
Other charges	989	794
TOTAL	**69,226**	**68,692**

Financial charges in 2017 are up 534 thousand euros on the previous period, mainly due to increased losses on foreign exchange, chiefly with reference to the Piaggio group, offset by growth in profits on foreign exchange shown under Financial income. Net of this element, financial charges were down 1.8 million euros.

- H12 - TAXES 24,132

Taxation on the income of companies consolidated on a line-by-line basis set out in the Financial Statements as at 31 December 2017 amounted to 24,132 thousand euros, broken down as follows:

In thousands of euros	2017	2016
Current taxes	21,379	13,435
Deferred tax liabilities	2,753	(594)
TOTAL	**24,132**	**12,841**

Taxes for the period increased by 11,291 thousand euros compared to 31 December 2016. The calculation of the average consolidated tax rate in the two periods, set against each other, is not significant, insofar as Group taxes in 2017 are influenced mainly by the following effects:

- the US Tax Reform (in particular deferred tax assets and liabilities as allocated by the subsidiary Piaggio Group Americas calculated on the basis of the reduction in the Federal tax rate (down from 35% last year to 21% applicable from 22 December 2017),
- the increase in the tax rate applicable in Vietnam due to the reduction in tax benefits previously enjoyed by the Piaggio group,
- non-inclusion of part of deferred tax assets against tax losses in the period for reasons of prudence in relation to their collection.

Adherence to the National Consolidated Tax Convention by the Parent Company Immsi S.p.A., Piaggio & C. S.p.A., Piaggio Concept Store Mantova S.r.l., Intermarine S.p.A., Apuliae S.r.l., RCN Finanziaria S.p.A., ISM Investimenti S.p.A., Pietra S.r.l., Pietra Ligure S.r.l. and Aprilia Racing S.r.l. has enabled the above companies to record comprehensive advance tax in 2017 of 1.3 million euros in light of the preliminary results of the Immsi Group.

Below is a reconciliation between the theoretical tax burden and the actual tax burden:

In thousands of euros	***TOTAL***
Profit before tax	*39,016*
Theoretical rate (24%)	
Theoretical income taxes	***9,364***
Effect arising from tax differences and the difference between foreign tax rates and the theoretical rate.	*3,716*
Tax effect arising from losses for the year not offset	*11,416*
Tax effect arising from deferred tax liabilities	*-2,472*
Taxes on income generated abroad	*24*
Expenses (income) from the Consolidated Tax Convention	*-1,195*
Indian tax on the distribution of dividends	*2,006*
Other differences	*-435*
Income tax recognised in the financial statements (IRES)	***22,424***
Regional production tax (IRAP)	*1,708*
Income taxes recognised in the financial statements	***24,132***

The effect arising from regional production tax was determined separately, as this tax is calculated based on earnings before tax.

- H13 - GAIN/LOSS ON THE DISPOSAL OF ASSETS 0

At the end of the reporting date, there were no gains or losses from assets held for sale or disposal, as well as for the previous year.

- H14 - EARNINGS FOR THE PERIOD 8,189

Earnings for the period of the Immsi Group as at 31 December 2017 are positive in the amount of 8,189 thousand euros, after allocating to third parties profits of 6,695 thousand euros.

- I - COMMITMENTS, RISKS AND GUARANTEES

The main guarantees issued by banks on behalf of **Piaggio & C. S.p.A** in favour of third parties are listed below:

Type	In thousands of euros
BCC-Fornacette bank guarantee in favour of the Pisa Customs Authority for the handling of Piaggio goods in the Pisa docks and Port of Livorno	200
BNL guarantee in favour of FOTON International Trade, for the signing of the FOTON – PIAGGIO contract	1,000
BNL bank guarantee in favour of Aldi Immobiliare covering compliance with the conditions for the sale of a property located in Noale	300
A Banca di Pisa guarantee in favour of Motoride The Second to reimburse VAT following the deductible tax surplus	298
Guarantee of BCC-Fornacette issued for Piaggio & C. S.p.A. in favour of Poste Italiane – Rome to guarantee contract obligations for the supply of vehicles	1,321
Guarantee of Banco di Brescia issued in favour of the Municipality of Scorzè, to guarantee the urbanisation and construction of the plant in Scorzè	166
Guarantee of Banca Intesa Sanpaolo issued to the Ministry of the Interior of Algeria, to guarantee contract obligations for the supply of vehicles	140
Guarantee of Banca Intesa Sanpaolo issued to the Ministry of the Defence National Algeria, to guarantee contract obligations for the supply of vehicles	158

The main guarantees given to third parties recorded by **Intermarine** are detailed below:

Subject	In thousands of euros
Italian public entities for minesweepers and lookouts	17,354
Foreign public entity of the European Community	12,240
Italian operator for the supply of the integrated minesweeper platform	19,145
An Asian operator for a minesweeper platform	17,765
Ministries for research projects	3,383
Foreign public entity of Arab countries	3,169
Como S.r.l.	2,700
Various minor items	557

Guarantees to third parties mainly refer to guarantees issued for contracts ongoing with clients.
Guaranteeing the payables to Intesa Sanpaolo from Intermarine, amounting to 5 million euros, is a first mortgage up to a maximum of 200%.

With reference to the company **Is Molas S.p.A.,** 7.4 million euros were recognised relative to the value of the commitment undertaken with the Municipality of Pula on 26 March 2015, following the stipulation of the New Additional Planning Act. Finally, in December 2017, in light of a loan granted by Monte dei Paschi di Siena of 20 million euros, the Parent Company Immsi became the guarantor for Is Molas S.p.A. in relation to all the obligations arising from the loan up to an overall maximum of 10 million euros.

With reference to the subsidiary **Apuliae S.r.l.** during 2017 the commitment lapsed relating to about 1.3 million euros for a tender agreement stipulated for restructuring work at the property located in S. Maria di Leuca (LE). For further details, see the section on Disputes for the reasons the full investment cannot be carried out.

With reference to the **Parent Company Immsi S.p.A.**, see the section “Commitments, risks and guarantees” in the "Notes to the Financial Statements as at 31 December 2017” among the financial statements of Immsi S.p.A..

- L - TRANSACTIONS WITH RELATED PARTIES

In relation to the main economic/equity relations between Group companies and related entities, see the dedicated section in the Report on Operations.

- M - FINANCIAL POSITION

Net financial debt of the Immsi Group at 31 December 2017 is shown below. Further details of the main components are provided in the tables in the Report on Operations and the related information below them:

(in thousands of Euros)	***31.12.2017***	***31.12.2016***
Cash and cash equivalents	-138,949	-197,919
Other short-term financial assets	0	0
Medium/long-term financial assets	0	0
Short-term financial payables	426,527	575,022
Medium/long-term financial payables	571,342	529,749
Net financial debt *)	**858,920**	**906,852**

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

- N - DIVIDENDS PAID

The Parent Company did not distribute dividends during 2017, and dividends amounting to 5.1 million euros were distributed in 2016.

- O - EARNINGS PER SHARE

Earnings per share

The earnings per share is calculated by dividing the net income/loss for the year attributable to Parent company shareholders by the average weighted number of ordinary shares in issue during the period, from which any own shares held are excluded.

The average number of shares in circulation is calculated by using the principle of retrospectively applying the changes in the number of shares in circulation.

	2017	2016
Net profit attributable to ordinary shareholders (in thousands of euro)	8,189	(8,663)
Average weighted number of shares in circulation during the year	340,530,000	340,530,000
Basic earnings per share	**0.024**	**(0.025)**

Diluted earning per share

Diluted earning per share is calculated by dividing the net income/loss for the year attributable to Parent company Ordinary Shareholders by the average weighted number of shares in issue during the year, taking account of the diluting effect of potential shares. Any treasury shares held are excluded from this calculation.

The Company had no category of potential ordinary shares at 31 December 2017, therefore the diluted income per share coincides with the basic earning per share indicated above.

- P - INFORMATION ON FINANCIAL INSTRUMENTS

Information on financial instruments, the risks connected with them, as well as "sensitivity analysis" in accordance with requirements of IFRS 7 that came into force on 1 January 2007, is given below.

The following table shows the financial instruments of the Immsi Group registered in the financial statements at 31 December 2017 and at 31 December 2016:

In thousands of euros	*31 December 2017*	*31 December 2016 Restated*
ASSETS		
NON-CURRENT ASSETS		
Other financial assets	***7,328***	***33,169***
Financial receivables	0	0
Financial assets	7,328	33,169
CURRENT ASSETS		
Other financial assets	***6,665***	***14,693***
Financial receivables	0	0
Financial assets	6,665	14,693
LIABILITIES		
NON-CURRENT LIABILITIES		
Financial liabilities	***578,462***	***548,512***
Bonds	309,880	282,442
Payables due to banks	251,950	236,319
Amounts due for finance leases	9,168	10,311
Amounts due to other lenders	344	677
Financial liabilities for hedging instruments	7,120	18,763
CURRENT LIABILITIES		
Financial liabilities	***432,032***	***585,044***
Bonds	9,625	9,617
Payables due to banks	357,917	512,778
Amounts due for finance leases	1,144	1,114
Amounts due to subsidiaries	9	12
Amounts due to other lenders	60,957	54,449
Financial liabilities for hedging instruments	2,380	7,074

Financial assets

Current and non-current financial assets are fully commented upon in Note *F5 – Other financial assets*, to which reference is made.

Current and non-current liabilities

Current and non-current liabilities are illustrated in detail in Note G2 – *Financial liabilities*. In this section the debt is divided by type and detailed by maturity.
The main loan agreements entered into by Group companies (fully described in the above note), require – in line with market practices for borrowers with a similar credit standing – compliance with:

- financial covenants, on the basis of which the financed company undertakes to comply with certain levels of contractually defined financial indices, with the most significant - in particular for the Piaggio group - comprising the ratio of net financial debt/gross operating margin (EBITDA), measured on the consolidated perimeter of the Group, according to definitions agreed on with lenders;
- negative pledges according to which the company may not establish collaterals or other constraints on company assets;
- *"pari passu"* clauses, on the basis of which the loans will have the same repayment priority as other financial liabilities;
- change of control clauses, which are effective if the majority shareholder loses control of the company;
- the cross default clauses, based on which, in the event of default on a loan, the default automatically extends to the other lines;
- limitations on the extraordinary operations the company may carry out.

The measurement of financial covenants and other contract commitments is monitored by the Group companies on an ongoing basis. In particular, based on the figures for 31 December 2017 all the parameters were met. Finally, any failure to comply with these covenants and other contractual commitments applied to the loans mentioned above - if not adequately remedied within the agreed time - could result in the requirement of early repayment of the related outstanding debt.
For more details, see the information in Note G2 – *Financial liabilities.*

Lines of credit

At 31 December 2017 the Immsi Group had irrevocable credit lines available until maturity amounting to 1,155.4 million euros. For further details see Note G2 on Financial liabilities.

Management of financial risks

The financial risks to which the Immsi Group believes to be potentially exposed to are:

- the management of capital and the liquidity risk;
- the exchange risk;
- the interest rate risk; and
- the credit risk.

In the **Piaggio group**, management of these risks is centralised and treasury operations are performed in the sphere of policy and formalised guidelines, valid for all the companies in the group.

Capitals management and liquidity risk

The liquidity risk derives from the possibility that available financial resources may not be sufficient to hedge, in the means and times, future disbursements generated by financial and/or commercial bonds.

The **Parent Company Immsi S.p.A.** provides financing for the Group's subsidiaries and/or issues guarantees to facilitate their funding: these operations are regulated under normal market conditions.
With particular reference to the **Piaggio group**, to face such a risk, cash flows and the company's credit line needs are monitored and/or managed centrally under the control of the Group's Treasury Department, in order to guarantee an effective and efficient management of the financial resources as well as optimise the debt's maturity standpoint. Moreover, Piaggio & C. S.p.A. finances the temporary cash requirements of Group companies by providing direct or indirect short-term loans regulated in market conditions or through guarantees. A cash pooling zero balance system is used between Piaggio & C. S.p.A. and European subsidiaries to reset the receivable and payable balances of subsidiaries on a daily basis, for a more effective and efficient management of liquidity in the Eurozone.
For greater coverage of the risk of liquidity, at 31 December 2017 the Immsi Group had unused credit lines available of 388.4 million euros (341.1 million euros at 31 December 2016) including 345.9 million euros maturing within 12 months and 42.5 million euros maturing at a later date.

The Directors believe that the currently available funds, in addition to those that will be generated from operating and financing activities, will enable the Group to meet its own needs arising from investments, management of working capital and repayment of debts when they become due, and will ensure an adequate level of operational and strategic flexibility, on the assumption that the various lines that will become due in the next 12 months, and in particular for the Parent Company Immsi S.p.A., will be fully renewed by the banks. The above also means that the guarantees are available that these contracts required to be able to activate them and also that there are no breaches of the Guarantee Values and financial covenants or if they have been breached the banks are willing to grant an exemption from compliance with them.

Exchange rate risk management

The Immsi Group – particularly through the subsidiaries of the Piaggio group and through the subsidiary Intermarine S.p.A. – operates in an international context where transactions are conducted in currencies different from euros. This exposes the Group to risks arising from exchange rates fluctuations: exchange-risk hedging contracts are entered into solely by companies belonging to the aforementioned groups.

In particular the **Piaggio group** has an exchange rate risk management policy which aims to neutralise the possible negative effects of the changes in exchange rates on company cash-flows. This policy analyses:

- transaction exchange risk: the policy wholly covers this risk, which arises from differences between the exchange rate recorded in the financial statements for receivables or payables in foreign currency and the exchange rate recorded on the related collection or payment. To cover this type of exchange risk, the exposure is naturally offset in the first place (netting between sales and purchases in the same currency) and if necessary, by signing currency future derivatives, as well as advances of receivables denominated in currency;
- translation risk: arises from the conversion into euro of the financial statements of subsidiaries prepared in currencies other than the euro during consolidation: the policy adopted by the group does not impose the hedging of such a kind of exposure;
- economic exchange risk: arises from changes in company profitability in relation to annual

figures planned in the economic budget on the basis of a reference change (the "budget change") and is covered by derivatives. The items of these hedging operations are therefore represented by foreign costs and revenues forecast by the sales and purchases budget. The total of forecast costs and revenues is processed monthly and relative hedging is positioned exactly on the average weighted date of the economic event, recalculated based on historical criteria. The economic occurrence of future receivables and payables will occur during the budget year.

Cash flow hedging related to the Piaggio group

As of 31 December 2017, the Group had undertaken the following futures transactions (recognised based on the regulation date) relative to payables and receivables already recognised to hedge the transaction exchange risk:

In thousands

Company	Operation	Currency	Amount in currency	Value in local currency (forward exchange rate)	Average maturity
Piaggio & C.	Purchase	CAD	400	264	31/01/2018
Piaggio & C.	Purchase	CNY	73,000	9,283	08/02/2018
Piaggio & C.	Purchase	GBP	630	708	29/03/2018
Piaggio & C.	Purchase	JPY	410,000	3,079	17/01/2018
Piaggio & C.	Purchase	SEK	6,700	676	31/01/2018
Piaggio & C.	Purchase	USD	17,100	14,398	25/01/2018
Piaggio & C.	Sale	CAD	680	450	31/01/2018
Piaggio & C.	Sale	INR	500,000	6,514	9/01/2018
Piaggio & C.	Sale	SEK	4,500	453	31/01/2018
Piaggio & C.	Sale	SGD	100	63	31/01/2018
Piaggio & C.	Sale	USD	16,700	14,007	15/02/2018
Piaggio group Americas	Purchase	CAD	1,650	1,306	05/02/2018
Piaggio group Americas	Sale	EUR	175	209	22/02/2018
Piaggio Vietnam	Purchase	EUR	1,000	26,691,500	13/01/2018
Piaggio Vietnam	Sale	USD	10,000	227,690,000	21/01/2018
Piaggio Indonesia	Purchase	USD	3,441	46,993,426	22/01/2018
Piaggio Vehicles Private Limited	Sale	USD	1,747	112,506	06/02/2018
Piaggio Vehicles Private Limited	Sale	EUR	3,075	237,635	11/03/2018
Piaggio Vespa BV	Sale	USD	6,000	5,006	27/04/2018
Piaggio Vespa BV	Sale	SGD	1,250	779	29/01/2018

At 31 December 2017, the group had the following ongoing transactions to hedge foreign exchange risk:

In thousands

Company	Operation	Currency	Amount in local currency	Value in local currency (forward exchange rate)	Average maturity
Piaggio & C.	Purchase	CNY	182,000	22,811	15/06/2018
Piaggio & C.	Sale	GBP	8,175	9,205	2/07/2018

Foreign exchange risk alone is covered by the cash flow hedge accounting method allocating the effective portion of profits and losses to a shareholders' equity fund: Fair value is determined based on market quotations provided by main traders. As at 31 December 2017 the overall fair value of hedging instruments for foreign exchange risks shown using the hedge accounting method was positive at 97 thousand euros. During 2017, profits were recorded for other components in the statement of comprehensive income amounting to 97 thousand euros and losses from other components in the statement of comprehensive income were reclassified under profits/losses for the period in the amount of 163 thousand euros. The net balance of cash flows during 2017 is shown below, divided by main currency:

	Amounts in million of euro *Cash-flow* **2017**
Pound Sterling	19.4
Indian Rupee	50.0
Croatian Kuna	3.3
US Dollar	40.3
Canadian Dollar	7.6
Indonesian Rupiah	16.9
Vietnamese Dong	(25.8)
Chinese Yuan*)	(57.0)
Japanese Yen	(8.3)
Singapore dollar	(2.2)
Total cash flow in foreign currency	**44.2**

**) flow partially settled in euro*

The subsidiary **Intermarine** also hedges risks arising from fluctuating exchange rates through specific operations related to single orders that require invoicing in currencies other than the euro. In particular, the policy concerning the exchange risk adopted by the group totally eliminates any risk by defining a fixed forward exchange rate to hedge fluctuating exchange rates. At 31 December 2017, no forward sales contracts were ongoing.

In light of the above, with a theoretical appreciation/depreciation of 3% of the average euro exchange rate for the portion of exposure in 2017 to leading foreign currencies not hedged, the impact on profits/losses would be about 1.3 million euros.

Management of the interest rate risk

The exposure to interest rate risk arises from the necessity to fund operating activities, both industrial and financial, of Group companies and to use available liquidity. Changes in interest rates may affect the costs and returns of investment and financing operations: this risk arises from fluctuations in interest rates and the impact this may have on future cash flows arising from floating rate financial assets and liabilities. Therefore, the Group regularly measures and controls its exposure to interest rates changes with the aim of reducing the fluctuation of borrowing costs limiting the risk of a potential rise in interest rates: this objective is pursued both through an appropriate mix of fixed rate and floating rate exposure, and through the use of derivative instruments, mainly Interest Rate Swaps and Cross Currency Swaps, also according to practices established by its own management policies.

With reference to the **Piaggio group**, at 31 December 2017, the following hedging derivative instruments were used:

- a Cross Currency Swap to hedge the private debenture loan issued by Piaggio & C. S.p.A. for a nominal amount of 61,000 thousand USD dollars. The purpose of the instrument is to hedge both the exchange risk and interest rate risk, turning the loan from US dollars to euro, and from a fixed rate to a variable rate; in terms of accounting, the fair value hedge accounting method is used with the effects arising from the valuation shown in the Income Statement. At 31 December 2017, the fair value of the instrument was equal to 9,511 thousand euros. The net economic effect arising from the measurement of the instrument and underlying private debenture loan was equal to -359 thousand euros; the sensitivity analysis of the instrument and its underlying asset, assuming a 1% increase and decrease in the shift of the interest rates curve, shows a potential impact on the income statement, net of the related tax effect, of 8 thousand euros and -10 thousand euros respectively, assuming constant exchange rates; assuming a 1% appreciation and depreciation of the exchange rates, the sensitivity analysis identified a potential impact on the income statement, net of the related tax effect, of -20 thousand euros and 20 thousand euros respectively;

- a cross currency swap to hedge the loan relative to the Vietnamese subsidiary for USD 4,369 thousand (at 31 December 3,410 thousand euros) granted by International Finance Corporation. The purpose of the instruments is to hedge the exchange risk and partially hedge the interest rate risk, turning the loan from US dollars at a variable rate into Vietnamese Dong at a fixed rate, except for a minor portion (24%) at a variable rate. At 31 December 2017 the fair value of the instruments was positive, amounting to 138 thousand euros. The sensitivity analysis of the instrument and its underlying asset, assuming a 1% increase and decrease in the shift of the interest rates curve, shows a potential impact on the income statement, net of the related tax effect, of 5 thousand euros and -5 thousand euros respectively, assuming constant exchange rates. Assuming a 1% appreciation and depreciation of the exchange rate of the Vietnamese dong, the sensitivity analysis of the instrument and its underlying identified a potential impact on the income statement, net of the related tax effect, which was entirely negligible.

In thousands of euros	***FAIR VALUE***
Piaggio & C. S.p.A.	
Cross Currency Swap	9,511
Piaggio Vietnam	
Cross Currency Swap	138

In addition, the Parent Company **Immsi S.p.A.** has an ongoing Interest Rate Swap to transform the rate from variable to fixed for 75% of the flows from interest relating to the loan with nominal remainders of 7.7 million euros from Banco BPM (formerly Banco Popolare). at 31 December 2017, the fair value of the instrument amounted to 153 thousand euros. In 2017, profit amounting to 221 thousand euros was shown under other items in the statement of comprehensive income.

Management of the credit risk

The Group considers that its exposure to credit risk is as follows:

In thousands of euros	***31 December 2017***	***31 December 2016***
Bank funds and securities	138,825	197,802
Financial assets	14,029	47,898
Tax receivables	33,569	45,066
Trade receivables and other receivables	168,920	149,969
Total	***355,343***	***440,735***

In particular, the **Piaggio group** monitors or manages credit centrally by using established policies and guidelines. The portfolio of trade receivables shows no signs of concentrated credit risk in light of the broad distribution of its own licensee or distributor network. In addition, most trade receivables are short-term. In order to optimise credit management, Piaggio & C. S.p.A. has established revolving programmes with some primary factoring companies for selling its trade receivables without recourse in Europe and the United States.
With reference to the subsidiary **Intermarine**, whose business typically means that receivables are concentrated with a few customers, the most significant customers in quantitative terms are public organisations: moreover, in general production to order requires substantial advance payments by the customer as works progress, thereby reducing the credit risk.

With reference to the other companies of the Immsi Group, there is currently no significant exposure to credit risk.

Hierarchical fair value valuation levels

IFRS 13 – *Fair value measurement* applies as from 1 January 2013. The Standard defines fair value on the basis of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In the absence of an active market or market that does not operate regularly, fair value is measured by valuation techniques. The standard defines a fair value hierarchy:

- level 1: quoted prices in active markets for assets or liabilities measured;
- level 2: directly (prices) or indirectly (price-derived) observable market inputs other than level 1 inputs;
- level 3: inputs not based on observable market data.

The valuation techniques that refer to levels 2 and 3 must take into account adjustment factors that measure the risk of failure of both parties: to this end, the principle introduces the concepts of Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA). The CVA allows the inclusion, in the determination of the fair value, of the credit risk of the counterparty, while the DVA reflects the insolvency risk of companies.
IFRS 7 also requires the fair value of debts recognised on a amortised cost basis to be measured, for disclosure purposes only. The table below indicates these values:

In thousands of euros	***Nominal value***	***Carrying amount***	***Fair Value Estimate***
Piaggio group - High yield debenture loan	250,000	242,361	256,473
Piaggio group – Private debenture loan	42,130	42,010	55,506
Piaggio group – Private debenture loan	30,000	29,846	28,268
Piaggio group - BPER [Banca Popolare dell'Emilia Romagna] credit line	12,505	12,483	12,539
Piaggio group - EIB (2013-2015 R&D fund)	21,818	21,818	22,025
Piaggio group - EIB (2016-2018 R&D fund)	60,000	59,908	56,573
Piaggio group - Syndicated Revolving Credit line	5,000	4,756	5,026
Piaggio group - Syndicated loan maturing in July 2019	25,000	24,883	25,227
Piaggio group - Banco BPM credit line	11,364	11,364	11,525
Piaggio group - Revolving Credit line B. del Mezzogiorno	10,000	9,992	9,410
Piaggio group – Interbank loan	9,500	9,451	9,559
Immsi S.p.A. – Banco BPM (formerly Banco Popolare) mortgage	36,000	35,487	34,819
Immsi S.p.A. – Credit line maturing in December 2018	10,000	9,961	10,084
Immsi S.p.A. – Credit line expiring in June 2022	30,000	29,475	28,850
Immsi S.p.A. – Credit line maturing in December 2021	15,000	14,868	14,470
Immsi S.p.A. – Credit line maturing in December 2021	10,000	9,952	9,857

For other financial liabilities of the Immsi Group not expressly included in the table provided, the carrying amount is essentially similar to the fair value.
The table below shows assets and liabilities at fair value as at 31 December 2017, by hierarchical level of fair value estimation.

In thousands of euros	*Level 1*	*Level 2*	*Level 3*
Assets measured at fair value	4,344		
Hedging derivatives		9,511	138
Investment property			85,637
Other assets		102	36
Total assets	***4,344***	***9,613***	***85,811***
Liabilities measured at fair value		(55,041)	
Hedging derivatives		(153)	
Other liabilities		(6)	
Total liabilities	***0***	***(55,200)***	***0***

Hierarchical level 1 includes the carrying amount of the investment held by Immsi S.p.A. in UniCredit S.p.A., down by 3,280 thousand euros compared to 31 December 2016 following a sharp decrease in the share price during the year.

Hierarchical level 2 includes among the assets the positive value of the derivative hedging financial instruments attributable to the Piaggio group, while the liabilities include the negative value of the derivative financial instruments (Interest Rate Swap) attributable to the Parent company Immsi S.p.A..

Finally, hierarchical level 3 includes among Investment Property mainly the fair value of the investment property of Immsi S.p.A. (in Via Abruzzi, Rome) and the former Spanish Martorelles facility of the Piaggio group.
The measurement of the Cross Currency Swap in place for the Vietnamese subsidiary of the Piaggio group was classified within hierarchical level 3: this classification reflects the characteristics of illiquidity of the local market that do not allow for measurement with traditional criteria. If the valuation techniques typical of liquid markets had been adopted – a characteristic known to be absent from the Vietnamese market – the derivatives would have expressed a fair value amounting to 165 thousand euros (instead of a positive 138 thousand euros, included in financial derivatives – Level 3) and accrued expenses on hedging derivatives amounting to 203 thousand euros.

The following table highlights changes that occurred within various levels during 2017:

In thousands of euros	*Level 1*	*Level 2*	*Level 3*
Balance at 31 December 2016	*7,624*	(72,845)	*100,269*
Gain and (loss) recognised in profit or loss		(125)	(521)
Increases/(Decreases)	(3,280)	27,383	(13,937)
Balance as of 31 December 2017	***4,344***	***(45,587)***	***85,811***

LIST OF COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS AND INVESTMENTS AT 31 DECEMBER 2017

Pursuant to Consob Resolution no. 11971 of 14 May 1999 as amended (article 126 of the Regulations), a list of Immsi Group companies and its material investments is set out below. The list states the companies, divided according to consolidation procedure.

The following are also given for each company: the company name, registered office and country of establishment, as well as the share capital in the original currency. The percentages held by Immsi S.p.A. or other group companies are also indicated. The percentage of Ordinary Shareholders' Meeting votes is also shown in a separate column, where it differs from the percentage of share capital held.

Company name	Currency	Share Capital (subscribed and paid-up)	% of Share Capital owned	% votes (if different)
LIST OF COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS ON A LINE-BY-LINE BASIS				
Immsi S.p.A. Mantova (MN) – Italy Parent Company	Euro	178,464,000.00		
Apuliae S.r.l. Lecce (LE) – Italy Immsi S.p.A. investment: 85.69%	Euro	500,000.00	85.69%	
ISM Investimenti S.p.A. Mantova (MN) – Italy Immsi S.p.A. investment: 72.64%	Euro	6,654,902.00	72.64%	
Is Molas S.p.A. Pula (CA) – Italy ISM Investimenti S.p.A. investment: 92.59%	Euro	10,398,437.00	92.59%	
Pietra S.r.l. Milan (MI) – Italy Immsi S.p.A. investment: 77.78%	Euro	40,000.00	77.78%	
Pietra Ligure S.r.l. Mantova (MN) – Italy Investment of Pietra S.r.l. 100.00%	Euro	10,000.00	100.00%	
Immsi Audit S.c.a r.l. Mantova (MN) – Italy Immsi S.p.A. investment: 25.00% Is Molas S.p.A. investment: 25.00% Piaggio & C. S.p.A. investment: 25.00% Intermarine S.p.A. investment: 25.00%	Euro	40,000.00	100.00%	
RCN Finanziaria S.p.A. Mantova (MN) – Italy Immsi S.p.A. investment: 63.18%	Euro	1,000,000.00	63.18%	
Intermarine S.p.A. Sarzana (La Spezia) – Italy RCN Finanziaria S.p.A. investment: 100.00%	Euro	2,060,214.00	100.00%	
Piaggio & C. S.p.A. Pontedera (PI) – Italy Immsi S.p.A. investment: 50.07%	Euro	207,613,944.37	50.07%	
Aprilia Brasil Industria de Motociclos S.A.*) Manaus – Brazil Aprilia World Service Holding do Brasil Ltda. investment: 51.00%	R$	2,020,000.00	51.00%	
Aprilia Racing S.r.l. Pontedera (PI) – Italy Piaggio & C. S.p.A. investment: 100.00%	Euro	250,000.00	100.00%	
Aprilia World Service Holding do Brasil Ltda.*) San Paolo – Brazil Piaggio group Americas Inc. investment: 99.99995%	R$	2,028,780.00	99.99995%	
Atlantic 12- Property investment fund Rome – Italy Piaggio & C. S.p.A. investment: 100.00%	Euro	6,060,563.49	100.00%	

Company name	Currency	Share Capital (subscribed and paid-up)	% of Share Capital owned	% votes (if different)
Foshan Piaggio Vehicles Technology Research & Development Co. Ltd Foshan City – China Piaggio Vespa B.V. investment: 100.00%	RMB	10,500,000.00	100.00%	
Nacional Motor S.A. Barcelona – Spain Piaggio & C. S.p.A. investment: 100.00%	Euro	60,000.00	100.00%	
Piaggio Asia Pacific PTE Ltd. Singapore – Singapore Piaggio Vespa B.V. investment: 100.00%	SGD	100,000.00	100.00%	
Piaggio Advanced Design Center Corp. California – USA Piaggio & C. S.p.A. investment: 100.00%	USD	100,000.00	100.00%	
Piaggio China Co. LTD Hong Kong – China Piaggio & C. S.p.A. investment: 99.99999%	USD	12,120,000.00	99.99999%	
Piaggio Concept Store Mantova S.r.l. Mantova – Italy Piaggio & C. S.p.A. investment: 100%	Euro	100,000.00	100.00%	
Piaggio Deutschland GmbH Düsseldorf – Germany Piaggio Vespa B.V. investment: 100.00%	Euro	250,000.00	100.00%	
Piaggio España S.L.U. Alcobendas – Spain Piaggio & C. S.p.A. investment: 100.00%	Euro	426,642.00	100.00%	
Piaggio Fast Forward Inc. Boston – USA Piaggio & C. S.p.A. investment: 86.00%	USD	12,442.00	86.00%	
Piaggio France S.A.S. Clichy Cedex – France Piaggio Vespa B.V. investment: 100.00%	Euro	250,000.00	100.00%	
Piaggio group Americas Inc. New York – USA Piaggio Vespa B.V. investment: 100.00%	USD	2,000.00	100.00%	
Piaggio group Canada, Inc. Toronto – Canada Piaggio group Americas Inc. investment: 100.00%	CAD$	10,000.00	100.00%	
Piaggio group Japan Tokyo – Japan Piaggio Vespa B.V. investment: 100.00%	YEN	99,000,000.00	100.00%	
Piaggio Hellas S.A. Athens – Greece Piaggio Vespa B.V. investment: 100.00%	Euro	1,004,040.00	100.00%	
Piaggio Hrvatska D.o.o. Split – Croatia Piaggio Vespa B.V. investment: 100.00%	HRK	400,000.00	100.00%	
Piaggio Limited Bromley Kent – UK Piaggio Vespa B.V. investment: 99.9996% Piaggio & C. S.p.A. investment: 0.0004%	GBP	250,000.00	100.00%	
Piaggio Vehicles Private Limited Maharashtra – India Piaggio & C. S.p.A. investment: 99.9999971% Piaggio Vespa B.V. investment: 0.0000029%	INR	341,153,300.00	100.00%	
Piaggio Vespa B.V. Breda – Holland Piaggio & C. S.p.A. investment: 100%	Euro	91,000.00	100.00%	
Piaggio Vietnam Co. Ltd. Hanoi – Vietnam Piaggio & C. S.p.A. investment: 63.50% Piaggio Vespa B.V. investment: 36.50%	VND	64,751,000,000.00	100.00%	
PT Piaggio Indonesia Jakarta – Indonesia Piaggio Vespa B.V. investment: 99.00% Piaggio & C. S.p.A. investment: 1.00%	Rupiah	4,458,500,000.00	100.00%	

Company name	Currency	Share Capital (subscribed and paid-up)	% of Share Capital owned	% votes (if different)
INVESTMENTS IN SUBSIDIARIES, ASSOCIATED AND JOINT CONTROL COMPANIES VALUED USING THE EQUITY METHOD				
Zongshen Piaggio Foshan Motorcycle Co. Ltd. Foshan City – China Piaggio & C. S.p.A. investment: 32.50% Piaggio China Co. Ltd. investment: 12.50%	USD	29,800,000.00	45.00%	
Rodriquez Cantieri Navali do Brasil Ltda. *) Rio de Janeiro – Brazil Intermarine S.p.A. investment: 100.00% less one share held by Rodriquez Pietra Ligure S.r.l.	R$	5,156,266.00	100.00%	
Rodriquez Pietra Ligure S.r.l. Milan (MI) – Italy Intermarine S.p.A. investment: 100.00%	Euro	20,000.00	100.00%	
Depuradora d'Aigües de Martorelles S.C.C.L. Barcelona – Spain Nacional Motor S.A. investment: 22.00%	Euro	60,101.21	22.00%	
Pont – Tech, Pontedera & Tecnologia S.c.r.l. Pontedera (PI) – Italy Piaggio & C. S.p.A. investment: 20.45%	Euro	884,160.00	20.45%	
S.A.T. Societé d'Automobiles et Triporteurs S.A. Tunis – Tunisia Piaggio Vespa B.V. investment: 20.00%	TND	210,000.00	20.00%	
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES VALUED USING THE COST METHOD				
Consorzio CTMI – Messina Messina (ME) – Italy Intermarine S.p.A. investment: 33.33%	Euro	53,040.00	33.33%	
Fondazione Piaggio Pontedera (PI) – Italy Piaggio & C. S.p.A. investment: 66.67%	Euro	103,291.38	66.67%	

*** Non-operating company or company in liquidation.

* * *

This document was published on 9 April 2018 by authorisation of the Chairman of the Company, Roberto Colaninno.

Certification of the Consolidated Financial Statements pursuant to article 154-bis of Italian Legislative Decree no. 58/98

The undersigned Roberto Colaninno, as Chairman of the Board of Directors, Michele Colaninno, as Chief Executive Officer and Andrea Paroli, as Financial reporting manager of Immsi S.p.A., certify, also taking into account provisions of article 154-*bis*, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998:

- the appropriateness with regard to the company's characteristics and
- effective application

of the administrative and accounting procedures for drawing up the consolidated financial statements as at 31 December 2017.

With regard to the above, no relevant aspects are to be reported.

In addition, it is certified that the consolidated financial statements at 31 December 2017:

- were drawn up in compliance with applicable international accounting standards recognised by the European Union in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to accounting records;
- are adequate for giving a true and fair view of the financial position, performance and cash flows of the Issuer and of companies included in the scope of consolidation.

The Report on Operations includes reliable analysis of operations, as well as the situation of the Issuer and of companies included in the scope of consolidation, along with a description of the main risks and uncertainties to which they are exposed.

21 March 2018

The Chairman
Roberto Colaninno

Manager in charge of preparing the company accounts and documents
Andrea Paroli

Chief Executive Officer
Michele Colaninno

pwc

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 IMMSI SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of IMMSI Group (the Group), which comprise the consolidated statement of financial position as of 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the changes in consolidated shareholders' equity, the statement of consolidated cash flow for the year then ended, and specific 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 IMMSI 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.

Key Audit Matters	Auditing procedures performed in response to key audit matters
Assessment of the recoverability of deferred tax assets	
Note F7 to the consolidated financial statements "Deferred tax assets" Deferred tax assets in the consolidated financial statements of the IMMSI Group as of 31 December 2017 amounted to Euro 122.984 thousand (6% of total assets) and primarily related to temporary differences mainly due to provisions, as well as prior years tax losses. Assessing the recoverability of deferred tax assets is a key audit matter given the significance of the amounts and the complexity of the valuation process which requires significant accounting estimates to be made by the management of the IMMSI Group, with the objective of forecasting the future taxable results of all companies that are part of the National Consolidated Tax Convention of the IMMSI Group.	We obtained an understanding of the valuation process adopted by the Group in order to determine the recoverability of the carrying amount of deferred tax assets. Our audit procedures consisted of assessing the reasonableness of the estimates made by management in forecasting the future taxable profit of the IMMSI Group companies included in the National Consolidated Tax Convention of the IMMSI Group.
Goodwill	
Note F1 to the consolidated financial statements "Intangible assets" Goodwill, which amounted to Euro 613,982 thousand (30% of total assets) as of 31 December 2017 are allocated to Cash Generating Units identified on a business segment basis and are primarily related to the "industrial" sector – Piaggio Group (Euro 579,492 thousand) and to the "marine" sector – Intermarine SpA (Euro 34,428 thousand). Impairment testing of goodwill is required at least once a year, even if there are no indicators suggesting that such a problem might exist. As at 31 December 2017, the Company carried out specific impairment tests determined on the basis of the discounted value of the expected cash flows from use of the asset related to each single Cash Generating Unit (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	We obtained an understanding of and evaluated the allocation process of goodwill to the Cash Generating Units on the basis of the current organisational structure, which did not change compared with the previous years. We also obtained an understanding of and evaluated the estimates made by management with regard to the expected cash flows inferred from budget data for 2018 and supplemented by forecast data for 2019-2021 as regards goodwill allocated to Cash Generating Unit related to "industrial" sector and forecast data for 2019-2020 as regards goodwill allocated to Cash Generating Unit related to "marine" sector. Furthermore, with the support of PwC network experts, we retraced the methods used to calculate the discount rate and of the steady growth rate of financial cash flows beyond the time period of the plan approved by management. With the support of PwC network experts we also conducted sensitivity analyses in relation to the significant assumptions adopted by

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Management estimation, based on economic and market assumptions, including cash flow forecast and the discount rate applied.	management in order to determine whether there was any impairment of goodwill. 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.
Investments in development costs, industrial patent and intellectual property rights	
Note F1 to the consolidated financial statements "Intangible assets" With reference to the "industrial" sector, during the financial year 2017, the Group made investments amounting to Euro 57.9 million, mainly in relation to the study of new vehicles and new engines which will feature as the future products in the 2017-2019 range. The net book value as of 31 December 2017 of development costs and industrial patent rights amounted to Euro 168.7 million, equal to approximately 8.3% of total assets. Given the size of the annual investments and the high degree of professional judgement required to verify the compliance with the requirements of international accounting standard "IAS 38 – Intangible Assets" adopted by the European Union, we considered it necessary to focus on this specific financial statement area. Management's main estimates relate to the technical feasibility to complete the product being developed, the intention to complete the product for sale, as well as the existence of the future cash flows from the sale of the product that are adequate to support the future recoverability of the costs capitalised and recorded in the financial statements.	We obtained an understanding of and evaluated the procedure adopted by the IMMSI Group for capitalising development costs, industrial patent and intellectual property rights. We then obtained details of the costs capitalised by project, and analysed, on a sample basis, the increases and decreases during the year with particular attention to compliance with the requirements of international accounting standard "IAS 38 – Intangible Assets" adopted by the European Union for the capitalisation of internally generated intangible assets. Our procedures included discussions with management aimed at understanding the characteristics of the various projects. We also verified, on a sample basis, the estimated future cash flows and management's subsequent monitoring of the estimated future cash flows, which occurs at least once a year.

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 IMMSI 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 11 May 2012, the shareholders of IMMSI 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 2012 to 31 December 2020.

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 IMMSI 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 IMMSI SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the IMMSI 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 IMMSI 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 IMMSI 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, 6 April 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

IMMSI S.p.A.

Financial statements at 31 December 2017

Immsi S.p.A. Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Shareholders' Equity, detailing amounts attributable to Related-Party and intergroup transactions:

Statement of Financial Position

In thousands of euro

ASSETS	Notes	31/12/2017	31/12/2016 restated
NON-CURRENT ASSETS			
Intangible assets		0	0
Plant, property and equipment	C1	68	119
- of which related parties and intergroup		*0*	*5*
Investment property	C2	74,114	74,055
Investments in subsidiaries and associates	C3	310,331	322,332
Other financial assets	C4	0	13,996
Tax receivables	C5	0	0
Deferred tax assets	C6	0	0
Trade receivables and other receivables	C7	6	6
TOTAL NON-CURRENT ASSETS		**384,519**	**410,509**
ASSETS HELD FOR DISPOSAL		0	0
CURRENT ASSETS			
Trade receivables and other receivables	C7	26,770	25,592
- of which related parties and intergroup		*26,350*	*25,011*
Tax receivables	C5	191	120
Inventories		0	0
Works in progress to order		0	0
Other financial assets	C4	239,261	215,039
- of which related parties and intergroup		*234,916*	*207,416*
Cash and cash equivalents	C8	5,281	792
TOTAL CURRENT ASSETS		**271,503**	**241,543**
TOTAL ASSETS		**656,022**	**652,052**

LIABILITIES	Notes	31/12/2017	31/12/2016
SHAREHOLDERS' EQUITY			
Share capital		178,464	178,464
Reserves and retained earnings		174,481	186,816
Net profit for the period	E10	3,044	5,492
TOTAL SHAREHOLDERS' EQUITY	D1	**355,989**	**370,771**
NON-CURRENT LIABILITIES			
Financial liabilities	D2	102,017	0
Trade payables and other payables	D5	208	422
Retirement fund and similar obligations	D3	318	302
Other long-term provisions		0	0
Deferred tax liabilities	D4	19,375	19,128
TOTAL NON-CURRENT LIABILITIES		**121,918**	**19,852**
LIABILITIES RELATED TO ASSETS HELD FOR DISPOSAL		0	0
CURRENT LIABILITIES			
Financial liabilities	D2	175,101	257,453
Trade payables	D5	1,450	1,918
- of which related parties and intergroup		*442*	*361*
Current taxes	D6	522	281
Other payables	D5	1,042	1,776
- of which related parties and intergroup		*2*	*2*
Current portion of other long-term provisions		0	0
TOTAL CURRENT LIABILITIES		**178,115**	**261,429**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**656,022**	**652,052**

Income Statement

In thousands of euros

	Notes	2017	2016
Financial income	E1	29,939	18,688
- of which related parties and intergroup		*25,017*	*18,346*
Borrowing costs	E2	(25,685)	(10,478)
- of which related parties and intergroup		*(15,040)*	*0*
Earnings on investments		0	0
Operating income	E3	4,452	4,277
- of which related parties and intergroup		*2,356*	*1,949*
Costs for materials		(37)	(34)
Costs for services, leases and rentals	E4	(3,615)	(3,426)
- of which related parties and intergroup		*(428)*	*(435)*
Employee costs	E5	(1,104)	(1,245)
Depreciation of plant, property and equipment	E6	(67)	(78)
Amortisation of goodwill		0	0
Amortisation of intangible assets with a definite life		0	0
Other operating income	E7	114	124
- of which related parties and intergroup		*83*	*92*
Other operating costs	E8	(778)	(697)
PROFIT BEFORE TAX		**3,219**	**7,131**
Taxes	E9	(175)	(1,639)
- of which related parties and intergroup		*0*	*0*
EARNINGS AFTER TAX FROM OPERATING ACTIVITIES		**3,044**	**5,492**
Gain (loss) from assets held for disposal or sale		0	0
NET PROFIT FOR THE PERIOD	E10	**3,044**	**5,492**

Statement of Comprehensive Income

In thousands of euros

	Notes	2017	2016
NET PROFIT FOR THE PERIOD	E10	**3,044**	**5,492**
Items that may be reclassified to profit or loss:			
Profits (losses) from the fair value measurement of assets available for sale (AFS)		0	(6,695)
Gains/(losses) on cash flow hedges		221	274
Items that cannot be reclassified in the Income statement:			
Profit (loss) due to the fair value estimation of financial assets		(18,057)	0
Actuarial gains (losses) on defined benefit plans		9	(15)
TOTAL GAINS (LOSSES) OF THE PERIOD	D1	**(14,782)**	**(944)**

The figures in the above table are net of the corresponding tax effect.

Statement of Cash Flows

In thousands of euros

This schedule shows the causes of variation in cash and cash equivalents, net of any short-term overdrafts (amounting to 3,518 thousand euros as at 31 December 2017 and 4,393 thousand euros as at 31 December 2016).

	Notes	31/12/2017	31/12/2016 *restated*
Operating activities			
Profit before tax	E10	3,219	7,131
Depreciation of plant, property and equipment	E6	67	78
Amortisation of intangible assets		-	-
Provisions for risks and for severance indemnity and similar obligations	D3	64	71
Write-downs / (Reversals)	C3-C4	10,000	-
Losses / (Gains) on the disposal of property, plant and equipment (including investment property)		-	-
Losses / (Gains) on the disposal of securities		(4,915)	-
Interest receivable (1)	E1	(9,140)	(8,837)
Dividend income (2)		(9,946)	(9,041)
Interest expense	E2	9,290	8,949
Change in working capital			
(Increase) / Decrease in trade receivables (3)	C7	(1,483)	(201)
Increase / (Decrease) in trade payables (4)	D5	(470)	1,007
Increase / (Decrease) in reserves for severance indemnity and similar obligations	D3	(47)	(133)
Other changes (5)		8,641	11,180
Cash generated from operating activities		**5,280**	**10,204**
Interest paid	E2	(8,962)	(8,237)
Taxes paid		-	-
Cash flow from operations		**(3,682)**	**1,967**
Investing activities			
Acquisition of subsidiaries, net of cash and cash equivalents		-	-
Sale price of subsidiaries, net of cash and cash equivalents	E1	3,567	-
Investments in property, plant and equipment (including investment property)	C1-C2	(75)	(73)
Sale price, or repayment value, of plant, property and equipment (including investment property)			6
Collection price or reimbursement value of financial assets	E1	3,350	-
Loans provided and interest accrued (6)	C4	(27,502)	(20,237)
Reimbursement of loans granted and interest accrued	C4		-
Purchase of financial assets	C4	(781)	(1,881)
Collected interests			12
Dividends from investments (2)		9,946	9,041
Cash flow from investing activities		**(11,495)**	**(13,132)**
Financing activities			
Loans received	D2	113,873	184,131
Outflow for repayment of loans	D2	(93,332)	(190,162)
Outflow for dividends paid	H	-	(5,107)
Cash flow from financing activities		**20,541**	**(11,138)**
Increase / (Decrease) in cash and cash equivalents		5,364	(22,303)
Opening balance		(3,601)	18,702
Exchange differences		-	-
Closing balance		**1,763**	**(3,601)**

(1) entirely from loans granted to Group companies;

(2) dividends paid out by Piaggio & C. S.p.A.;

(3) including 1,339 thousand euros, upwardly trending, for receivables due from companies in the Group;

(4) including 81 thousand euros, downward trending, related to payables to Group companies and other Related Parties;

(5) including approximately 38 thousand euros due to the decrease in receivables due from Group companies adhering to fiscal consolidated agreements;

(6) entirely referred to loans to subsidiaries;

Changes in Shareholders' Equity

Note D1

In thousands of euros	Share capital	Extraordinary reserve A - B - C	Share premium reserve A - B	Reserves for the fair value measurement of financial assets available for sale	Reserves for the fair value measurement of hedging instruments	Reserve for the measurement of entities under common control	Investment Property Revaluation reserve	Actuarial evaluation reserve on defined benefit plans	Revaluation reserve A - B - D	Legal reserve TO	Other legal reserves A - B - D	IAS transition reserve	Earnings reserve A - B - C	Earnings for the period	Shareholders' equity
Balances at 31 December 2015	**178,464**	**0**	**94,874**	**(531)**	**(649)**	**65,087**	**42,838**	**(25)**	**4,602**	**6,989**	**1,153**	**(1,614)**	**(29,860)**	**15,496**	**376,823**
Increases in share capital against payment															0
Allocation of earnings to the Legal Reserve										775				(775)	0
Allocation of earnings to Dividends														(5,107)	(5,107)
Allocation of earnings to Retained Earnings/Losses													9,613	(9,613)	0
Purchase of treasury shares															0
Other changes															0
Comprehensive income				(6,696)	274			(15)						5,492	(944)
Balances at 31 December 2016	**178,464**	**0**	**94,874**	**(7,227)**	**(374)**	**65,087**	**42,838**	**(40)**	**4,602**	**7,764**	**1,153**	**(1,614)**	**(20,247)**	**5,492**	**370,771**

In thousands of euros	Share capital	Extraordinary reserve A - B - C	Share premium reserve A - B	Reserves for fair value estimations of financial assets	Reserves for the fair value measurement of hedging instruments	Reserve for the measurement of entities under common control	Investment Property Revaluation reserve	Actuarial evaluation reserve on defined benefit plans	Revaluation reserve A - B - D	Legal reserve TO	Other legal reserves A - B - D	IAS transition reserve	Earnings reserve A - B - C	Earnings for the period	Shareholders' equity
Balances at 31 December 2016	**178,464**	**0**	**94,874**	**(7,227)**	**(374)**	**65,087**	**42,838**	**(40)**	**4,602**	**7,764**	**1,153**	**(1,614)**	**(20,247)**	**5,492**	**370,771**
Increases in share capital against payment															0
Allocation of earnings to the Legal Reserve										275				(275)	0
Allocation of earnings to Dividends															0
Allocation of earnings to Retained Earnings/Losses													5,217	(5,217)	0
Purchase of treasury shares															0
Other changes															0
Comprehensive income				(18,057)	221			9						3,044	(14,782)
Balances at 31 December 2017	**178,464**	**0**	**94,874**	**(25,284)**	**(153)**	**65,087**	**42,838**	**(31)**	**4,602**	**8,039**	**1,153**	**(1,614)**	**(15,030)**	**3,044**	**355,989**

Available for:
A: Cover losses B: Share capital increase
C: Distribution to shareholders D: Distribution to shareholders under tax suspension

Notes to the financial statements at 31 December 2017

Note	Description
TO	**General aspects**
B	**Accounting standards and measurement criteria**
C	**Information on main assets**
C1	Plant, property and equipment
C2	Investment property
C3	Investments in subsidiaries and associates
C4	Other financial assets
C5	Tax receivables
C6	Deferred tax assets
C7	Trade receivables and other receivables
C8	Cash and cash equivalents
D	**Information on main liabilities**
D1	Shareholders' equity
D2	Financial liabilities
D3	Reserves for severance indemnity and similar obligations
D4	Deferred tax liabilities
D5	Trade payables and other payables
D6	Current taxes
E	**Information on main Income Statement items**
E1	Financial income
E2	Borrowing costs
E3	Operating income
E4	Costs for services, leases and rentals
E5	Employee costs
E6	Depreciation of plant, property and equipment
E7	Other operating income
E8	Other operating costs
E9	Taxes
E10	Net profit for the period
F	**Commitments, risks and guarantees**
G	**Net debt**
H	**Dividends paid**
I	**Recommended use of profits for the period**
L	**Group and Related-Party Transactions**
M	**Risks and uncertainties**
N	**Auditing costs**

A – General aspects

Immsi S.p.A. (the Company) is a limited company established under Italian law and has registered offices in Mantova - P.zza Vilfredo Pareto, 3 and sub-offices in via Abruzzi, 25 – Rome and via Broletto, 13 – Milan. The main activities of the company and its subsidiaries (the Group) are described in the first section of the Directors' Report on operation.
At 31 December 2017, pursuant to article 93 of the Consolidated Law on Finance, Immsi S.p.A. was directly and indirectly controlled by Omniaholding S.p.A., a company wholly owned by the Colaninno family, through the subsidiary Omniainvest S.p.A..

Following the coming into force of European Regulation no. 1606 in July 2002, Immsi S.p.A. has adopted the International Financial Reporting Standards (IFRS) issued by the *International Accounting Standards Board* (IASB) and endorsed by the European Commission, the updates of those pre-existing ones (IAS), as well as the documents of the International Financial Reporting Interpretations Committee (IFRIC) deemed applicable to the transactions carried out by the Company.
The financial statements of Immsi S.p.A. are drawn up in compliance with Legislative Decree no. 58/1998, as well as with provisions issued pursuant to section 9 of Italian Legislative Decree no. 38/2005 (Consob Resolution no. 15519 dated 27/07/06 containing "Provisions for the drafting of financial statements", Consob Resolution no. 15520 dated 27/07/06 containing "Amendments and additions to the Regulation on Issuers adopted by Resolution no. 11971/99", Consob communication no. 6064293 dated 28/07/06 specifying "Corporate reporting requirements pursuant to section 114, paragraph 5 of Italian Legislative Decree no. 58/98"). The Company did not consider presentation of segment information, as established in IFRS 8, as significant.
The currency used in preparing these financial statements is the euro and amounts are expressed in thousands of euro (unless otherwise indicated).
Information regarding important events after the close of the period and the foreseeable development of operations is set out in the Directors Report on Operations as at 31 December 2017.
These Financial Statements are audited by PricewaterhouseCoopers S.p.A. pursuant to the appointment granted by the Shareholders' Meeting on 11 May 2012 for the period 2012-2020.

Presentation of the financial statements

The Consolidated Financial Statements consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Shareholders' Equity and the Notes.
As provided for by Consob Ruling no. 15519 of 27 July 2006, the financial statements include specific evidence of related-party and intergroup transactions.

In relation to options in IAS 1 "Presentation of Financial Statements", Immsi S.p.A. opted to present the following types of accounting statements:

- **Statement of Financial Position:** The Statement of Financial Position is presented in sections with Assets, Liabilities and Shareholders' Equity indicated separately. Assets and Liabilities are shown in the financial statements on the basis of their classification as current and non-current;
- **Income Statement:** The Income Statement is presented with the items classified by kind of costs. The Company, in view of the economic importance of the financial component in relation to the real estate and services component, has adopted a format for the Income Statement which shows the main activity of Immsi S.p.A. at the top of the statement;
- **Statement of Comprehensive Income:** The Statement of Comprehensive Income is presented in accordance with the provisions of IAS 1 revised, net of a possible tax component. I components shown under Other overall profits/(losses) are grouped together according to

whether or not they can be reclassified subsequently in the Income Statement;

- **Cash Flow Statement:** The Cash Flow Statement is presented divided into areas generating cash flows, as indicated by international accounting standards. The Statement adopted by Immsi has been prepared using the indirect method;
- **Statement of Changes in Shareholders' Equity:** The Statement of Changes in Shareholders' Equity is presented as required by the IAS 1 revised. It includes the Statement of Comprehensive Income. Reconciliation between the opening and closing balance of each item for the period is presented.

B - Accounting standards and measurement criteria

The Directors drew up the Financial Statements on the basis of the principle of historic cost amended as required for the valuation of some items in the balance sheet and on the basis of a going concern, using as reference a future period of 12 months from 31 December 2017, given that, albeit in the presence of an economic and financial framework characterized by variability, the uncertainties set out in IAS 1 are not significant and do not lead to serious doubts about the future viability of the company.

The accounting standards used to drawn up these financial statements are the same as adopted for the financial statements as at 31 December 2016, except for the adoption in advance, from 1 January 2017 of IFRS 9 "*Financial Instruments*" as decided by the Board of Directors of Immsi S.p.A. on 12 May 2017, in order to eliminate the lack of present and future uniformity between the initial and subsequent valuation of financial assets, as illustrated below. In July 2014, the IASB finalised its project to revise the accounting standard for financial instruments, with the issue of the complete version of IFRS 9 "*Financial Instruments*". In particular, the new provisions of IFRS 9: (i) amend the model that classifies and measures financial assets; (ii) introduce a new method for writing down financial assets that takes account of expected credit losses; and (iii) amend hedge accounting provisions. The provisions of IFRS 9 will be applicable for years commencing on or after 1 January 2018, but early adoption is granted on 1 January 2017. The Company availed itself of the opportunity not to recalculate balances relating to previous periods.
The main impacts on the financial statements of Immsi S.p.A. arising from the application in advance of IFRS 9 regard the valuation of financial instruments representing capital not held for trading. The new international principle allows the entity to irrevocably choose to present the changes in the fair value of the above-mentioned investments in other comprehensive income. Moreover, IFRS 9 defines the three categories in which financial assets are classified:

a) financial assets valued at amortised cost (AC);
financial assets estimated at fair-value-through-other comprehensive income (FVTOCI);
financial assets estimated at fair-value-through-profit-or-loss (FVTPL).

IFRS 9 requires the entity to test the business model relative to financial management and contractual cash flows and classify financial assets accordingly. Under IFRS 9, the requirements for classifying a financial asset at AC or FVTOCI are tested; if a financial asset cannot be classified as either AC or FVTOCI, it is classified as FVTPL. It is also possible to exercise the fair value option, i.e. irrevocably designate a financial asset on initial recognition (which would otherwise be classified at AC or as FVTOCI) as FVTPL, if this classification eliminates or reduces a lack of uniformity in the measurement or recognition that would otherwise result from the measurement of the asset or recognition of relative profit and losses on different bases.
Investments in UniCredit and Alitalia – Compagnia Aerea Italiana, as financial instruments representing capital not held for trading, are currently held by Immsi S.p.A. within the framework of a business model whose aim is achieved both by collecting contractual cash flows and by selling financial assets and, following the adoption in advance of IFRS 9, are shown among the financial assets at fair value with counterpart in the other items of the statement of comprehensive income, as decided by the Board of Directors of Immsi S.p.A. last 12 May 2017. The amounts presented in other comprehensive income will not be subsequently transferred to operating profit, although the

entity may transfer accumulated profit or accumulated loss to equity. If the Company had not opted for the early adoption of IFRS 9, it would have recognised a charge for adjustment of the value of the above investments totalling 26.2 million euros, while recognition in the statement of assets and liabilities would have remained unchanged. Immsi has aligned its procedure with the requirements of the new accounting standards.
Other changes introduced by IFRS 9, without significant impacts for Immsi S.p.A., include:

- the determination of the amortised cost of financial liabilities subject to subsequent retrading. With the introduction of IFRS 9, where financial liabilities are renegotiated and this does not constitute “extinguishing the original debt”, the difference between i) the book value of the liability before the change and ii) the current value of the cash flows of the amended debt, actualised at the original rate (IRR), is shown in the Income Statement;
- The adoption of a new impairment model for receivables. The IASB replaced the incurred loss model of IAS 39 with the expected loss model of IFRS 9. IFRS 9 introduces the "expected loss" logic, which makes it possible to recognise adjustments to receivables in proportion to the increase in risks. This new model classifies financial assets into three categories, each of which corresponds to a different risk level and specific procedures for calculating value adjustments. In particular: i) exposures with a good credit quality or low risk. Value adjustments correspond to expected credit losses that result from default events within 12 months after the reporting date; ii) exposures whose credit rating has significantly deteriorated but that do not have objective evidence of impairment Value adjustments are calculated considering the expected loss of the exposure over its lifetime or the estimate of the current value of losses over the expected life of the financial instrument; iii) all impaired assets, i.e. exposures with objective evidence of impairment and that must be adjusted using the expected loss model. In this regard, for Immsi there were no impacts from the adoption in advance of IFRS 9 insofar as the valuation of risks, given the small number of clients, is already carried out practically on a name basis.

As for hedge accounting, the new international standard has revised provisions in relation to IAS 39, aligning accounting treatment with risk management activities. As part of the early adoption of IFRS 9, the Group opted to use IAS 39 requirements for 2017.

No atypical, unusual or non-recurrent operations were recorded during 2016 and 2017.
No exceptional circumstances occurred requiring departures from legal provisions concerning Financial Statements pursuant to article 2423, section 4 of the Italian Civil Code.

As at 31 December 2017 Immsi S.p.A. held receivables totalling 36,563 thousand euros from subsidiaries for interest accrued on loans provided. In the statement of financial position at the end of 2017 the Parent Company included this item under current financial receivables rather than current trade receivables as in previous balance sheets. The reclassification carried out to better represent Group payables was also applied to comparative balances as at 31 December 2016 in the amount of 30,362 thousand euros, enabling comparison.
Management believes that, although this receivable is of a financial nature, the item does not contribute to net financial debt.
The reclassification under assets has no effect on the economic data and hence below only restated assets are set out as at 31 December 2016 for a better understanding of the effects of the reclassification.

ASSETS	31/12/2016	*restatement*	31/12/2016 *restated*
TOTAL NON-CURRENT ASSETS	**410,509**		**410,509**
ASSETS HELD FOR DISPOSAL	0		0
CURRENT ASSETS			
Trade receivables and other receivables	55,954	-30,362	25,592
Tax receivables	120		120
Inventories	0		0
Works in progress to order	0		0
Other financial assets	184,677	30,362	215,039
Cash and cash equivalents	792		792
TOTAL CURRENT ASSETS	**241,543**		**241,543**
TOTAL ASSETS	**652,052**		**652,052**

The international accounting standards adopted are listed and summarised below.

Intangible assets

An intangible asset is recorded only if it is identifiable, verifiable and it is likely to generate future economic benefits and its costs can be reliably determined.
These assets are recognised at acquisition or production cost and amortised on a straight line basis over their estimated useful life, if they have a finite useful life. Intangible assets with an indefinite useful life are not amortised but are subject to impairment testing.
The amortisation period for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period: if the expected useful life proves different from previous estimates, the amortisation period is changed accordingly.

Plant, property and equipment

Plant, property and equipment are recorded at purchase cost, including directly related charges, net of accumulated depreciation and impairment losses. For an asset that justifies capitalisation, the cost also includes any borrowing costs that are directly attributable to acquisition, construction or production of the asset.
The costs incurred following the purchase are capitalised only if they increase the future economic benefits inherent in the asset to which they refer. All other costs are recorded in the income statement when they are incurred.
Plant, property and equipment in progress are valued at cost and are depreciated from the period in which they come into operation.
Depreciation is determined on a straight-line basis over the estimated useful life of the assets or, in the case of disposal, until the end of the previous year.
Land is not depreciated.
Profits and losses arising from the sale or disposal of assets are measured as the difference between the sale revenue and net carrying amount of the asset and are recognised in profit or loss for the period.
As at 31 December 2017, the Company did not hold any assets under financial lease agreements.
Other plant, property and equipment are depreciated applying the rates indicated below, reduced by half for fixed assets acquired during the year:

Plant and machinery	from 15% to 30%
Furniture and fittings, electrical machines	12%
Personal computers, hardware, EDP and telephone systems	20%
Vehicles	25%
Other equipment	15%

Investment property

As provided for by IAS 40, a non-instrumental property owned in order to obtain rent and/or for the appreciation of the property is measured at fair value.
Investment property is not amortised and is eliminated from the financial statements when sold or when the investment property is unusable in the longer term and no future economic benefits are expected from its sale.
The Company annually revises the carrying amount of investment property held or more frequently if required by facts or circumstances.

Investments

Investments in subsidiaries and affiliated companies are recorded at cost adjusted for any impairment.
Purchase and sale flows relative to investments are based on the FIFO criterion.

Impairment

Plant, property and equipment and investments in subsidiaries and affiliated companies are tested for impairment annually, or more frequently. If there is evidence that such assets have suffered a prolonged or significant loss in value, the asset's recoverable amount is estimated to determine the amount of the impairment and it is immediately observed in the Income Statement. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the asset's cash generating unit. The recoverable amount is the higher of an asset's fair value less costs to sell (if available) and its value in use. In evaluating the value in use, estimated future cash flows are discounted to the present value, which reflects current market valuations of the actual value of money and specific risks of the asset.
If the recoverable amount of an asset (or of a cash generating unit) is estimated to be lower than the relative carrying amount, the carrying amount of the asset is reduced to the lower recoverable value. An impairment loss is immediately recognised in profit or loss, unless the asset is land or buildings other than the property investments recognised at revalued amounts, in which case the loss is charged to the respective revaluation reserve.

As regards the measurement of investments, if any portion belonging to losses of the investee attributable to the Company exceeds the carrying amount of the investment and the Company is liable for them, the value of the investment is reset and the portion of any further losses is recorded as a provision in liabilities.
Should the recorded write-down no longer be valid, the book value of the asset is increased to the new value arising from the estimate made of its recoverable value, but not more than the net carrying amount that the asset would have had if the write-down for impairment losses had not been made. The restored value is posted to the Income statement.

Receivables

Trade receivables and other receivables are initially recognised at fair value and subsequently recognised based on the amortised cost method, net of the provisions for write-downs. This provision is calculated on the basis of the recovery assessments carried out by analysis of the individual positions and of the overall risk of all the receivables, also taking account of any guarantees.
When the payment of the sum due is deferred beyond normal credit terms offered to customers and the financial effect associated with such deferral is significant, it is necessary to discount the receivable.

Cash and cash equivalents

This item includes cash in hand, on demand deposit accounts and other highly-liquid short-term financial investments, which are readily convertible into cash and have an insignificant risk of losing value.

Financial assets

Financial assets are calculated and deleted from the balance sheet on the basis of the date on which they were traded. The new provisions of IFRS 9, adopted in advance by the Groupas previously stated, change the way financial assets are classified and valued. The new international standard allows the irrevocable decision to be taken to include variations in the fair value of the above investments among the other items of the statement of comprehensive income. Moreover, IFRS 9 defines the three categories in which financial assets are classified:

a) financial assets measured at amortised cost (AC);
b) financial assets measured at fair-value-through-other comprehensive income (FVTOCI);
c) financial assets measured at fair-value-through-profit-or-loss (FVTPL).

IFRS 9 requires the entity to test the business model relative to financial management and contractual cash flows and classify financial assets accordingly. Under IFRS 9, the requirements for classifying a financial asset at AC or FVTOCI are tested; if a financial asset cannot be classified as either AC or FVTOCI, it is classified as FVTPL.

Financial liabilities

Financial liabilities include loans that are recognised at the original sums received and are recognised and reversed from the financial statements on the basis of their trade date. Non-current financial liabilities which differ from financial liabilities measured at fair value and recognised in the Income statement, are entered net of the accessory acquisition fees and, subsequently, are measured with the amortised cost method, using the effective interest rate.
The Company's activities are exposed primarily to financial risks from changes in interest rates. The Company uses derivative instruments to hedge risks arising from changes in interest rates on certain irrevocable commitments and planned future transactions. Derivatives are initially measured at fair value represented by the initial amount.
Derivative financial instruments are used solely for hedging purposes, in order to hedge against fluctuations in interest rates. In line with IAS 39, financial derivatives may qualify for hedge accounting, only when the hedging instrument is formally designated and documented, is expected to be highly effective and this effectiveness can be reliably measured and is highly effective throughout the reporting periods for which it is designated.
Financial liabilities hedged with derivative instruments are booked according to the methods established for hedge accounting, applicable to the cash flow hedge: the profit and loss portion on the hedging instrument that is considered actual coverage is charged in the prospectus of the Statement of Comprehensive Income, the aggregate gain or loss is removed from Shareholders' equity and recognised in profit or loss in the same period during which the hedged transaction is recognised. The ineffective portion of the profits and losses on the hedging instrument is entered in the Comprehensive Income.
If a hedging instrument or hedge relationship is terminated, but the hedged transaction has not yet been completed, the aggregate gains and losses, up to that moment recorded in Shareholders' equity, are recognised in profit or loss at the moment when the related transaction takes place. If the hedged transaction is no longer expected to occur, the unrealised gains or losses suspended in Shareholders' equity are recognised immediately in the Income statement.

Payables

Payables are shown at fair value and subsequently valued on the basis of the amortised cost method, which coincides with the nominal value of trade payables due according to normal commercial terms.

Employee benefits

With the adoption of the IFRS, termination benefits accrued up to 31 December 2006, that will now be held by the company, is considered a defined benefit obligation to be recorded in accordance with IAS 19 “Employee Benefits”, consequently, it must be recalculated using the projected unit credit method, by undertaking actuarial valuations at the end of each period.
Liabilities for employee termination benefits recognised in the financial statements represent the present value of liabilities for defined benefit plans adjusted to take account of actuarial gains and losses and unrecorded costs related to previous employment services.
The cost components of defined benefits are recognised as follows:

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

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated on all temporary taxable differences between the carrying amount and their tax value.
Deferred tax assets on tax losses are recognised only to the extent that the existence of adequate future taxable income of the Group against which to use this positive balance is considered likely.
The value of deferred tax assets is revised annually and is reduced to the extent to which the existence of sufficient taxable income to allow the whole or partial recovery of such assets is no longer probable.
Deferred tax assets and the provision for deferred tax liabilities are offset when there is a legal right to offset them and when the taxes are due to the same tax authority.
Deferred taxation is determined on the basis of the tax rates which are expected to be applied in the periods in which such temporary differences will occur or be extinguished.
Deferred taxes may not be discounted and are classified as non-current assets and liabilities.

Financial income and expenses

Financial income and expenses are recorded on an accrual basis.
Financial income includes dividends, interest income on invested funds and income arising from financial instruments.
Interest income is charged to the Income statement as it accrues, considering the effective yield.
Interests due on financial payables are calculated using the effective interest rate method.
Dividends in the Income statement are recognised when, following the resolution by an investee company to distribute a dividend, the relative credit right arises.

Operating revenues and costs

Costs and revenues from the sale of assets are recognised in the financial statements only when the risks and related benefits of ownership of the assets are transferred while, as concerns services, costs and revenues, they are recognised in profit or loss with reference to their progress and the benefits achieved at the date of the financial statements.

The reporting criteria required by IAS 18 are applied to one or more operations as a whole when they are so closely connected that the commercial result cannot be valued without making reference to such operations as to a single whole, therefore the income from re-charging costs for materials and services sustained by Immsi S.p.A. on behalf of companies in the Group or third parties is not recognised in profit or loss as it is offset against the relative costs that generated it.

Current taxes

Income taxes for the year are calculated using the tax rates in force at end of the reporting period and are recognised in profit or loss, except for items directly charged or debited to Shareholders' equity, in which case the tax effect is recognised directly as a reduction or increase in the Shareholders' equity item.
Other taxation unrelated to income is included in other operating costs.
Income tax for regional production tax is recognised in the amounts due to the tax authorities net of advances. While as for Italian Tax on Corporate Income it is noted, that since 2007 the Company has undersigned with some companies of the Group a national fiscal consolidated contract, therefore the payables, advance payments and withholdings suffered were transferred at the end of the year to the fiscal consolidated company. Immsi, as the consolidating company, has recognised in its own financial statements the net effect of the amount due to companies transferring tax losses and tax receivables, and the receivable due from companies transferring a taxable amount with a counter entry of the cumulative receivable or payable vis-à-vis the tax authorities.

Use of estimates

The preparation of the financial statements and notes in compliance with IAS/IFRS requires Management to make estimates and assumptions that have an impact on the values of assets and liabilities in the financial statements and on disclosure relating to contingent assets and liabilities at the reporting date. Actual results could differ from estimates. Estimates are used, among others, to evaluate activities subject to impairment testing, and to identify provisions for bad debts, amortisation and depreciation, impairment losses of assets, employee benefits, taxes and other provisions and reserves. Estimates and assumptions are periodically revised and the effects of any change are recognised in profit or loss.
It should be pointed out that, in particular, considering the current global economic and financial crisis, assumptions about future trends reflect a significant degree of uncertainty. Consequently, the Group cannot rule out the possibility that next year's results will differ from estimates and may require adjustments that are even considerable and which are not foreseeable and cannot be estimated at present.

New accounting standards applicable as from 1 January 2017

At the date of the financial statements, the relevant bodies of the European Union had concluded the approval process required for the adoption of new accounting standards and amendments from 1 January 2017. The adoption of new standards did not have significant effects for Immsi S.p.A. except as mentioned above in relation to the adoption in advance from 1 January 2017 of IFRS 9 "Financial Instruments" as decided by the Board of Directors of Immsi S.p.A. on 12 May 2017.

In addition, the relevant bodies of the European Union terminated the approval process required for the adoption of new accounting standards and amendments applicable for annual periods, starting from, or after, 1 January 2018. In particular:

- In May 2014, the IASB and FASB jointly published IFRS 15 “Revenue from Contracts with Customers”. IFRS 15 dictates the rules for showing revenues, introducing an approach whereby the earnings are shown only if all contractual obligations have been met;
- in January 2016 the IASB published IFRS 16 “Leases”. This new standard will replace the current IAS 17. The main change concerns the accounting by lessees that, according to IAS 17, were required to make a distinction between a finance lease (on balance sheet) and an operating leases (off balance sheet). With IFRS 16, operating leases will be treated for accounting purposes as financial leases.

From the analysis, the adoption of IFRS is not expected to have any significant impact on Immsi S.p.A.

For a brief description of the main amendments to international accounting standards applied and/or applicable as from 1 January 2017, as well as standards for which at the date of these financial statements, the relevant bodies of the European Union have not yet completed the approval process necessary for adoption, see the Notes to the Consolidated Financial Statements of the Immsi Group as at 31 December 2017.

C – Information on main asset items

C1	Plant, property and equipment	68

Changes in plant, property and equipment are broken down as follows:

In thousands of euros	Plant, property and equipment
Assets at 31.12.2016	**119**
- Capital amount	1,397
- Accumulated depreciation	-1,278
Increases for investments	**16**
Decreases for depreciation	**-67**
Decreases for disposals	**0**
- (Capital amount)	-24
- Accumulated depreciation	24
Assets at 31.12.17	**68**
- Capital amount	1,389
- Accumulated depreciation	-1,321

The item includes plant, furniture and fittings, office and electronic machinery, cars and various equipment.

C2	Investment property	74,114

The Company classified the property located in Rome – via Abruzzi as investment property, as defined by IAS 40, revaluing the carrying amount based on the market value at the date of change of destination as equal to 72.1 million euros, since it was no longer instrumental to business operations, but an asset usable to finance other ongoing investment activities. The greater value was entered in a specific reserve of shareholders' equity, net of the related tax effect. Subsequent investments have led to an increase of the property.
The investment is no longer subject to depreciation starting from the year 2009, as required by international accounting standards. The item includes 13 thousand euros for works in progress likely to be completed and coming on stream in 2018.

The valuation of the real estate investment is based on an appraisal of an external consultant that estimated the fair value at the end of 2017. The valuation criteria used in this appraisal refer to generally accepted valuation methodologies and principles, using discounted cash flow analysis.
The valuation is therefore based on discounting cash flows generated during the period at the estimate date. Revenues and costs were considered at present value, at the time when they arose and were discounted bank using a suitable rate.
The market value of the property complex therefore comprises the discounting of operating costs, revenues from the property according to various uses and revenues from the sale of the property assumed for capitalisation of the rental payment of the last period considered.
In order to determine the rental payment of the property, the comparative synthetic method was used which makes it possible to determine the value corresponding to the sum of money for which the property could be rented, at the time of the estimate, between an owner and lessee both interested in the transaction, in the absence of particular interests and after an adequate sale, assuming that both parties act freely, cautiously and are informed. This comparative procedure estimates the rental value by comparing recent or present transactions, relative to similar assets as regards the type, building and location. The rental payment for the asset may, therefore, be

determined taking into account rental prices and making adjustments considered adequate as regards the morphological aspects of the asset, its maintenance, profitability, the qualities of any lessee and any other factor considered relevant.
The continued uncertainty on the real estate market makes it possible for prices and values to be extremely volatile at times, until the market regains stability.

Rental income referred to the property and was shown under operating income, amounting to 2,437 thousand euros. Connected costs mainly refer to ordinary maintenance and management of the building. Most of these costs are then charged to tenants at building service regulations.
The property in Rome is mortgaged for a total of 90 million euros as collateral for the loan obtained in 2010 and renegotiated at the end of 2015 with Banco BPM (formerly Banco Popolare) in the nominal amount of 36 million euros, expiring at the end of 2025.

C3	Investments in subsidiaries and associates	310,331

The overall value of investments in subsidiaries and affiliated companies amounts to 310,331 thousand euros, down on 31 December 2016, at 322,332 million euros, due to the disposal of 1.5 million shares in Piaggio S.p.A. and the net balance of the valuation of the investments, a negative value of 10 million euros.

The main data from the last financial statements approved by the Boards of subsidiaries are given below. The data have been calculated based on the adoption of international accounting standards.

Company Name and Head office	Share capital	Shareholders' equity	Net profit	% of Share Capital owned	Pro rata shareholders' equity	Difference between pro rata shareholders' equity and carrying amount	No. of shares	Carrying amount
Apuliae S.r.l. Lecce	500	387	-117	85.69%	332	-1,007	n/a	1,339
ISM Investimenti S.p.A. Mantova	6,655	14,408	-7,270	72.64%	10,466	-10,994	6,654,902	21,460
Piaggio & C. S.p.A. Pontedera (Pisa)	207,614	306,595	20,338	50.07%	153,513	-89,742	358,153,644	243,255
RCN Finanziaria S.p.A. Mantova *	1,000	10,671	-5,317	72.51%	7,738	-17,768	2,000,000	25,506
Pietra S.r.l. Milan	40	24,832	-163	77.78%	19,314	553	n/a	18,761
Immsi Audit S.C. a R.L. Mantova	40	37	4	25.00%	9	-1	n/a	10

*) percentage net of treasury shares.

APULIAE S.r.l.
The investment in Apuliae S.r.l. is shown at the value subscribed at incorporation in December 2003 increased by advances for a future capital increase in January 2004 of 2 million euros and of 92 thousand euros in December 2012. As a consequence of the extended suspension of the restructuring activities relating to the "ex Colonia Scarciglia" building in Santa Maria di Leuca (Lecce), during 2006 Immsi wrote down its shareholding by 2,453 thousand euros. The Extraordinary Shareholders Meeting of Apuliae in 2008 passed a resolution to partially cover losses up to 31 December 2007 of 2,490 thousand euros by reduction of the share capital and zeroing the reserve of 2 million euros paid by Immsi. The General Meeting in late 2012 resolved to

partially cover the accumulated losses at 30 September 2012 amounting to 620 thousand euros through a reduction of the share capital. In light of the losses due to the continuing suspension of activities, the Extraordinary Shareholders Meeting of Apuliae S.p.A. held in February 2017 decided on a further reduction in share capital by a sum corresponding to the losses as at 31 December 2016 of 497 thousand euros and simultaneously to transform the company into a Private Limited Company pending the potentially positive outcome of ongoing disputes and the resumption of business.

For an update on the progress of the assessment ordered by the Judicial Authorities leading to the suspension of restructuring activities in March 2005, see the sections dealing with the Property sector and holding company as well as Ongoing disputes in the Directors Report as at 31 December 2017.

ISM INVESTIMENTI S.p.A.

The company ISM Investimenti S.p.A. with IMI Investimenti S.p.A. as its minority shareholder, after a capitalisation operation, acquired from Immsi S.p.A. shares, equal to 60% of the capital, relative to the investment in Is Molas S.p.A., previously held directly by Immsi S.p.A., paying an amount equal to 84 million euros. The operation was in line with Immsi's strategy to concentrate some of the Group's tourist-real estate development activities in a specific company, with the objective of associating partners with these initiatives to strengthen the asset base. On the basis of agreements between the shareholders, Immsi S.p.A. has maintained control of Is Molas S.p.A..
After the conversion into shares in 2013 of the convertible financial instruments issued and subscribed by partners in 2010, Immsi S.p.A. holds 4,834,175 category A shares, while IMI Investimenti S.p.A. holds 1,820,727 category B shares, with investments (in terms of voting rights) equal to 72.64% and 27.36% respectively. In this regard – in light of the analysis of the impairment test carried out at the end of 2017 and the various property rights of the two shareholders as set out in the joint investment agreement and shareholders agreement stipulated at the time of the initial investment as integrated and amended in 2013 – the portion of net equity of ISM Investimenti S.p.A. consolidated by Immsi S.p.A. is estimated at 51.55% as at 31 December 2017, down on 60.39% at the end of 2016.

The value of the investment is 10,994 thousand euros more than pro-quota shareholders' equity. The recoverable value of the investment in ISM Investimenti S.p.A. was determined via an impairment test carried out on 31 December 2017 as "value in use", using the Unlevered Discounted Cash Flows Method actualising the anticipated cash flows of Is Molas S.p.A..
As regards the discount rate for the present value discounting of the estimated expected cash flows of Is Molas, a discount rate was used that reflects current market evaluations of the cost of money and takes account of the specific risks of the business segment in which the company operates. In particular, the cost of equity ("Ke") was determined according to the CAPM ("Capital Asset Pricing Model"). For this purpose, we considered a) a long-term risk-free rate; b) a market risk premium in an unconditional form (normal long-term premium); c) a Beta coefficient calculated by taking into account also the Beta coefficient of a sample of companies comparable to the company. For the purpose of estimating the above rate, a specific risk premium was considered reflecting the elements of risk in the forecast assumptions used for the 2018-2024 plan. The cost of debt ("Kd") was estimated taking account of the expected financial structure of a panel of listed companies comparable to Is Molas as well as – prudentially in order to mitigate the positive impact of the current expansive monetary policy - a long-term risk-free rate. The discount rate ("WACC") used for the purposes of the impairment test net of tax was therefore estimated at approximately 7.58%.
The final value was determined calculating the remaining actualised value arising from the sum of flows in perpetuity from tourism/hotel management and the actualised valuation of the villas which are expected to be unsold at the end of 2024 at the list price discounted by 5%.
The impairment testing also considered the shareholder agreements between the two

shareholders of ISM Investimenti S.p.A. (Immsi S.p.A. and IMI Investimenti S.p.A.) in force since 2008, and subsequently modified, which include the provision of a precise hierarchy in the repayment of the company's sources of financing, both with regard to capital and to loans.
This analysis showed that the value used for the investment is lower than the value shown as at 31 December 2017 by about 15 million euros and hence the sum was reduced in the accounts by that amount.
In addition, on the basis of the contents of the joint Bank of Italy/Consob/Isvap document, no. 2 dated 6 February 2009, and Bank of Italy/Consob/Isvap document no. 4 dated March 2010, sensitivity analysis was carried out on the results of the test based on varying assumptions such as the actualisation rate net of tax and the discount rate on the list price used to estimate the value of the unsold villas at the end of the period of the plan, which determine the estimate of the value used for the investment being tested. Sensitivity analysis for both parameters used shows a further loss of value compared to the previous estimate.
The forecast data considered – uncertain and variable by nature – reflect the future real estate and commercial strategies. Updates, revisions or negative developments relative to the aforesaid assumptions and forecasts occurring after the reporting period of this evaluation could influence, even significantly, the results of impairment testing. Given the intrinsically uncertain nature of the forward looking data considered, discrepancies with the forward looking data used for assessments carried out as of 31 December 2017 may continue in the future.
Given that the analyses conducted to determine the recoverable amount were also carried out on the basis of estimates, the existence of adequate cash flows to allow the recovery of the carrying amount of the equity investment and the period within which those flows will be produced, is dependent on the outcome of initiatives provided within the forecast data of Is Molas S.p.A.. Given the current crisis in the reference markets and the financial markets, the Company can not guarantee that there will be no impairment loss of the equity investment in future periods: in view also of the fact that a number of factors - both internal and external to Is Molas - considered in the calculation of the estimates could be revised in the future, the company will constantly monitor these factors and the possible existence of future impairment losses.

For an update on the Is Molas real estate project, see the sections on the Property and holding sector and Ongoing disputes in the Directors Report and Financial Statements of the Immsi Group as at 31 December 2017.

PIAGGIO & C. S.p.A.
The investment of Immsi S.p.A. in Piaggio & C. S.p.A., shown under assets as at 31 December 2017 amounts to 243,255 thousand euros, down on 31 December 2016, due to the sale of 1.5 million shares in August 2017. Following the operations nullifying Treasury shares by Piaggio & C. S.p.A. carried out in 2017, the Immsi stake fell from 50.49% as at 31 December 2016 to 50.07% as at 31 December 2017.
The value of the investment calculated on the basis of the listing as at 31 December 2017 amounted to 412,456 thousand euros.

The portion of share capital at 31 December 2017 was 89,742 thousand euros more than pro-rata shareholders' equity. This difference is considered by the Directors to be recoverable in relation to the development plans of the Piaggio group as backed up by the impairment test carried out on 31 December 2017. Analyses conducted did not highlight any impairment loss as regards the carrying amount of the investment held by Immsi S.p.A. in Piaggio & C. S.p.A..
In particular, based on the values considered for the main assumptions adopted for the impairment test (i.e. weighted average "g rate" for the Piaggio group of approximately 1.40% and average weighted WACC for the Piaggio group of approximately 7.35%), the test concerning the value in use of the investment held in the Piaggio group was passed comfortably. In addition, also on the basis of the indications contained in the Document Banca d'Italia/Consob/Isvap no. 2 of 6 February 2009 and in the document Banca d'Italia/Consob/Isvap no. 4 of March 2010, sensitivity analysis

was carried out on the test results compared to the basic assumptions used such as the perpetual growth rate used to process the final value (“g rate”) and the discount rate (“WACC”), that affect the estimate of the value of use of the cash-generating unit Piaggio group. the impairment test was passed in all reasonably considered cases. In this regard, changes in values assigned to basic assumption considered reached the worst case scenario of a reduction in the perpetual growth rate (“*g rate*”) of one percent, and an increase in the WACC of one percent. For more details on impairment testing and the relative underlying assumptions, see the Notes to the consolidated financial statements of the Immsi Group.

Finally, of the 179,328,621 Piaggio shares held by Immsi S.p.A. as at 31 December 2017, 165,347,621 Piaggio shares were deposited as collateral for loans granted by banks to Group companies.

RCN Finanziaria S.p.A.

The investment in RCN Finanziaria S.p.A., is shown in the financial statements at the end of the period at 25,506 thousand euros, up 5 million euros on 31 December 2016 following reinstatement of the value as described below.

Following the purchase by the RCN Finanziaria of all the ordinary shares of the company held by the minority shareholder GE Capital Equity Holdings LLC finally last August 2016, the stake of Immsi S.p.A. in the subsidiary increased from 63.18% to 72.51%.

The portion of share capital at 31 December 2017 was 17,768 thousand euros more than the pro-rata shareholders' equity. This difference is considered by the Directors to be recoverable in relation to development plans of the indirect subsidiary Intermarine S.p.A. as corroborated by the impairment test carried out on 31 December 2017.

The main hypotheses and assumptions used in determining the recoverable value of the stake, based on the Unlevered Discounted Cash Flows Method, related to i) the use of forecast economic and asset data of Intermarine S.p.A., a 100% subsidiary of RCN Finanziaria S.p.A.; ii) the discount rate used for discounting estimated expected cash flows; and iii) the expected growth rate for calculating the terminal value, consistently with the approach of discounting back the “perpetual growth”. The discount rate (“WACC”) used for the purposes of the impairment test net of taxes is therefore estimated at approximately 7.96% (7.28% as at 31 December 2016). For further details regarding the assumptions underlying the determination of the WACC, readers are referred to the comments made in the Notes on the Immsi Group’s consolidated financial statements. The analysis shows that the value of use for the investment was higher than the value shown as at 31 December 2017 and hence the investment held by Immsi S.p.A. in RCN Finanziaria S.p.A. was reinstated at the Directors' estimate of 5 million euros. In addition, also on the basis of the indications contained in the Banca d'Italia/Consob/Isvap joint document no. 2 of 6 February 2009 and in the Document Banca d'Italia/Consob/Isvap no. 4 of March 2010, sensitivity analysis has been carried out on the results of the test in relation to the change in basic assumptions such as the WACC and the forecast perpetual growth rate (“*g rate*”), which condition the estimate of the value in use of the investment tested. Under improved scenarios, sensitivity analysis indicates further reinstatement opportunities and under worsening scenarios the risk of recovering less value i.e. of a write-down of the investment held in RCN Finanziaria S.p.A.. In light of the above, it seems prudent to limit the write-up according to the scenario with g-*rate* of 0.5% compared to the base assumption used, i.e. 0.75%.

The forecast data considered – uncertain and variable by nature – reflect the evolution of the company’s order portfolio as well as its future industrial and commercial strategies. Such data, in particular for the two-year period 2018-2019, is also based on the acquisition of future contracts, in relation to which negotiations are currently under way. Updates, revisions or negative developments relative to the aforesaid assumptions and forecasts occurring after the reporting period of this evaluation, could influence, even significantly, the results of impairment testing.

In this regard, – in the course of previous periods – the final results of Intermarine S.p.A. were significantly different from the financial forecasts, partly as a result of exceptional, unforeseeable events. Given the intrinsically uncertain nature of the forward looking data considered, discrepancies with the forward looking data used for the assessments carried out as of 31 December 2017 may continue in the future. Final data for 2017 confirm estimates in the 2017 budget and indicate that in 2017 economic and financial balance was maintained, chiefly due to the orders acquired by the Defence business and reductions in indirect costs and overheads.

Lastly, an impairment loss for the investment was recorded in the past amounting to 22,607 thousand euros, based on the results of impairment testing carried out in 2010, 2011, 2012 and 2013, reinstated on 31 December 2017 in the amount of 5 million euros.
Given that the analyses conducted to determine the recoverable amount were also carried out on the basis of estimates, the existence of adequate cash flows to allow the recovery of the carrying amount of the equity investment and the period within which those flows will be produced, is dependent on the outcome of initiatives provided within the forecast data of Intermarine S.p.A.. Given the current difficulties in the reference markets and the financial markets, the management of the Company can not guarantee that there will be no impairment loss of the equity investment in future periods: as a number of factors - both internal and external to Intermarine S.p.A. - considered in the calculation of the estimates could also be revised in the future, the Company will constantly monitor these factors and the possible existence of future impairment losses.

PIETRA S.r.l.
At the end of 2006, Immsi S.p.A. acquired a 77.78% investment in Rodriquez Pietra Ligure S.r.l., which was then transformed into Pietra S.r.l., recognised in the financial statements for a total of 18,761 thousand euros, corresponding to the amount paid on the initial underwriting and at subsequent capital increases.
This company, originally established by Rodriquez Cantieri Navali S.p.A. (now Intermarine S.p.A.), was then sold to the two current shareholders (Immsi S.p.A. and Intesa San Paolo S.p.A.), in order to sign an agreement to sell the future receivable relating to the Pietra Ligure shipyard project with Rodriquez Cantieri Navali S.p.A..
At the same time as the sale of the receivable, Rodriquez Cantieri Navali S.p.A. granted Pietra S.r.l. subscription rights for the acquisition of the entire stake in the Pietra Ligure S.r.l, the newco assigned the industrial complex along with the area transferred from the State, at the price of 300 thousand euros. The option was exercised at the end of May 2015.
This project refers to the shipyard area located in Pietra Ligure (Savona) that – in the intentions of the subsidiary – would be turned into a property complex with apartments, a hotel, mooring places, shops and other services. The area concerned was acquired during a public auction in 2007. For an update on the project, see the section on the Property and holding sector in the Directors Report as at 31 December 2017.

Lastly, in 2008, a company was established called IMMSI Audit Società Consortile di Internal Auditing del Gruppo Immsi a R.L. (IMMSI Audit S.c. a r.l.), Immsi S.p.A. subscribing 25% of the share capital, equal to 10 thousand euros.

C4	Other financial assets	239,261

Below is a breakdown of other financial assets held by Immsi S.p.A.:

In thousands of euro	2017	2016 *Restated*
Other non-current financial assets:	**-**	**13,996**
Financial assets at fair value according to OCI	-	13,996
Other current financial assets:	**239,261**	**215,039**
Financial assets at fair value according to OCI	4,344	7,624
Financial receivables due from Group companies	234,916	207,416
Total other financial assets	**239,261**	**229,035**

Non-current financial assets include the investment in Alitalia – CAI held by Immsi S.p.A., for which the final tranche was paid for the increase in share capital, amounting to 781 thousand euros, pursuant to the Stand-by Equity Commitment signed in September 2014. The related stake fell from 2.77% on 31 December 2016 to 2.18% on 31 December 2017 partly as a result of the conversion to capital of some payables by lenders. In light of the events in the past few months relating to the airline and in particular the temporary receivership in May 2017 and write-off of the holding in Alitalia – SAI by Alitalia – CAI, company management decided to write off the book value as at 31 December 2017 amounting to 14,778 thousand euros. In compliance with IFRS 9, as commented in on the section on Accounting Standards, the Company recognised this adjustment in the Statement of Comprehensive Income. If the Company had not opted for the early adoption of IFRS 9, it would have recorded the adjustment in the Income Statement.

Other current financial assets as at 31 December 2017 stood at 239,261 thousand euros and include the investment in UniCredit and loans granted to subsidiaries, together with the interest arising.

In relation to the investment in UniCredit (278,847 shares), shown as at 31 December 2016 among financial instruments, representing capital classified as Available for Sale (AFS), the Company revised the book value of the shares according to their value as at 31 December 2017, amounting to 4,344 thousand euros, showing the update among other comprehensive income (expense) at 3,280 thousand euros. Following the adoption in advance of IFRS9 from 1 January 2017, details of which are set out in the section on Accounting Standards, these reviews will not be subsequently transferred to profit (loss) for the period, but the Company may transfer the profits or losses accrued to shareholders' equity when disposed of. . If the Company had not adopted IFRS 9 in advance, the cost shown in the Income Statement would have been 11.4 million euros with a positive effect on the Statement of comprehensive income of 0.9 million euros.
Lastly, it should be pointed out that the above UniCredit shares are encumbered until 31 December 2017 as a result of a security loan contract guaranteed by cash collateral signed by the Company with Banca Akros in December 2007 and periodically renewed. Contractually the agreements between the parties only transfer the rights and duties deriving from their possession for the duration of the contract, therefore the shareholding is registered in the assets of Immsi for a liability equal to the liquidity disbursed by the Bank as collateral.

Other current financial assets also include receivables for loans and interest to some Group companies amounting to 234,916 thousand euros. As reported above, these receivables include 36,563 thousand euros representing interest at the end of 2017, shown by Immsi under current financial assets rather than current trade receivables as in previous periods. This reclassification, carried out to better represent the receivables of the Parent company, was also carried out for the comparative balances as at 31 December 2016 amounting to 30,362 thousand euros for comparison purposes.

In particular, the Company has receivables amounting to 132,209 thousand euros due from RCN Finanziaria S.p.A. (including 25,869 thousand euros maturing on agreed loans) which include, among others, two convertible shareholder loans subscribed by the Parent Company, of 27.9 million euros and 12 million euros respectively, which have now expired and which the Company has already stated its intention to renew. The renewal of these loans was extensively discussed by shareholders with a view to restoring agreements. The times of these negotiations, with the above-mentioned loans connected to them, meant that the renewal of the loans was deferred.
The Company has receivables with ISM of 52,067 thousand euros, including 3,052 thousand euros for interest accrued on agreed loans and 26.3 million euros granted to enable the subsidiary to join in the operations to increase the share capital of Is Molas S.p.A..
Lastly, regarding the receivables held by the Parent Company in relation to other subsidiaries, these amount to 45,484 thousand euros (including 38,665 thousand euros for loans and 6,819 thousand euros for interest on agreed loans) for Is Molas S.p.A. and 4,461 thousand euros (including 3,673 thousand euros for loans and 788 thousand euros for interest) for Pietra S.r.l. e Pietra Ligure S.r.l; for Apuliae S.r.l. receivables amount to 695 thousand euros (including 660 thousand euros for loans and 36 thousand euros for interest).

C5	Tax receivables	191

The Company opted to be a part of the Group taxation system, pursuant to sections 117 et seq. of the National Consolidated Tax Convention along with the subsidiaries Piaggio & C.. S.p.A., Aprilia Racing S.r.l., Apuliae S.p.A., Intermarine S.p.A., RCN Finanziaria S.p.A., ISM Investimenti S.p.A., Pietra S.r.l., Pietra Ligure S.r.l. and Piaggio Concept Store Mantova S.r.l.. For the agreements underwritten with these companies, as the consolidating company, Immsi S.p.A., included in its financial statements current tax receivables of 191 thousand euros and the withholding tax paid and transferred by the companies involved.

C6	Deferred tax assets	0

The Company recorded assets for gross advance taxes of 235 thousand euros, exclusively relating to temporary differences for costs deductible in future periods. The Company did not prudently record advance taxation against tax losses given the uncertainty of its recovery in coming years under the national consolidated tax convention.
Deferred tax assets were entirely offset by deferred tax liabilities as they refer to the same income tax owing to the tax authorities and may be recovered in similar times.

C7	Trade receivables and other receivables	26,776

Trade and other receivables are almost exclusively shown in terms of the current portion and include trade receivables from third parties and Group companies for the rent of properties, fees for jobs carried out by employees of the Parent Company, interest, commission for guarantees and redebited expenses for activities carried out by Immsi S.p.A. on behalf of subsidiaries. This item includes receivables due from companies belonging to the Immsi Group for 26,350 thousand euros, and namely Is Molas for 6,184 thousand euros, RCN Finanziaria for 7,437 thousand euros, Piaggio for 486 thousand euros, ISM Investimenti for 820 thousand euros, 17 thousand euros for Pietra S.r.l. and the remainder from other group companies. Other current receivables of Immsi S.p.A., as the consolidating company, defined in the national consolidated tax convention, include the net receivable from companies party to the convention, for a total amount of 11,057 thousand euros.

Trade receivables are recorded net of a bad debt reserve prudently allocated for 784 thousand euros against the uncertain recoverability of approximately 690 thousand euros receivables due from Volare Group relative to the rental of a portion of the property of Via Pirelli – Milan sold by Immsi during 2005. In this respect, the Volare Group has been in receivership since the end of 2004 and Immsi, proving its debts, has been admitted to the benefit. The filing of the plan to distribute assets relative to privileged creditors pursuant to article 2764 of the Italian Civil Code (receivables of lessors of property) is pending.

Immsi S.p.A. received guarantees and guarantee deposits for a total of 521 thousand euros for lease agreements stipulated for the property in Rome.

The Company has not recorded any receivables from foreign companies due after 5 years.

C8	Cash and cash equivalents	5,281

This item covers cash and current bank accounts. The amount is influenced by the issue to the Company at the end of December 2017 of a loan of 5 million euros from BNL following renegotiation of the ongoing loan, details of which are set out under the item Financial liabilities.
Against the original loan of 46 million euros from a pool of banks now merged into Banco BPM, Immsi S.p.A. is committed for the duration of the loan to channel revenues from rent into an escrow account and to maintain a minimum deposit equivalent to the next interest payment due. This sum, equal to 127 thousand euros at 31 December 2017 is, to all effects, unavailable up to the minimum amount for payment of the interest instalment due in June 2018.

D - Information on main liabilities

D1	Shareholders’ equity	355,989

Share capital

At 31 December 2017, the share capital of Immsi S.p.A. totalled 178,464,000.00 euros, fully subscribed and paid up, and represented by 340,530,000 ordinary shares with no indication of nominal value.

Each ordinary share entitles the holder to a proportionate part of distributable profits and of the shareholders’ equity resulting from any liquidation, as well as unlimited voting rights.

As regards proxies to increase share capital and authorisations to purchase treasury shares, see the 2017 Report on Corporate Governance and Ownership.

Other reserves and retained earnings

The item Other reserves at 31 December 2017 is broken down as follows:

- legal reserve comprising provisions approved following the distribution of the profit for the year for 8,039 thousand euros;
- legal reserves for a total of 1,153 thousand euros;
- revaluation reserve for plant, property and equipment, established in accordance with Law no. 413/91 by Sirti and transferred to Immsi following the demerger for 4,602 thousand euros;
- fair value valuation reserve of the property investments for 42,838 thousand euros. For details of this operation generating this reserve, see the item Investment Property;
- share premium reserve that includes the increases in share capital of 44,880 thousand euros in early 2005, as well as 50,336 thousand euros in 2006, net of uses of 342 thousand euros to cover losses in 2014;
- evaluation reserve under common control equal to 65,087 thousand euros, in compliance with guidelines as of OPI (Assirevi preliminary guidelines on IFRS) no. 1, whose underlying operation, concerning the subsidiaries Is Molas S.p.A. and ISM Investimenti S.p.A., is commented on in the Investments item.

Other reserves include, on the negative side, the component arising from the retrospective valuation of actuarial profit/loss regarding bonds with defined benefits of 31 thousand euros, revision according to fair value of financial assets of 25,284 thousand euros, the reserve for the transition to international accounting standards of 1,614 thousand euros and the reserve relating to fair value of the Interest Rate Swap hedging instrument of 153 thousand euros.

With regard to the use in the 3 previous years of reserves to cover losses, capital increases or distributions to shareholders, the only thing to be noted is the replenishment of the loss for 2014, equal to 65,628 thousand euros, through the full use of the retained earnings and the extraordinary reserve, and the partial use of the share premium reserve referred to above.

As a result, the Shareholders' Equity of the Company includes earnings carried forward for 15,030 thousand euros, representing the part of the loss accrued in 2012 not yet covered.

Statement of Comprehensive Income

During 2017, the Statement of comprehensive income shows a loss for the period of 14,782 thousand euros, against a positive variation of the fair value of the Interest Swap hedging instrument of 221 thousand euros, an adjustment of 9 thousand euros to the valuation of defined benefit plans relating to the actuarial loss generated in 2017 and the lower value of the investment in UniCredit and Alitalia – CAI against the value at the end of 2016 of 18,057 thousand euros.

D2	Financial liabilities	277,118

Non-current financial liabilities, amounting to 102,017 euros, include the mortgage loan underwritten in June 2010 by the Company and renegotiated in December 2015 with Banco BPM totalling 45 million euros, expiring at the end of 2025, reimbursed in constant six-monthly instalments at the Euribor rate increased by a spread. The loan is shown in the financial statements on an amortised cost basis at 35,487 thousand euros, including 4,500 thousand euros relating to instalments that may be repaid within 12 months. The loan is guaranteed by mortgages on property located in Rome – via Abruzzi for a total of 90 million euro, in addition to the payment of income from lease contracts on the same property being paid into an account subject to special conditions, up to the amount of the interest instalment closest to maturity.
The loan agreement includes two covenants, to be verified on 31 December of each year. To cover the risk of interest rate fluctuation for cash flows, Immsi S.p.A. maintained the existing interest rate swap hedging contract, which changes the variable rate into a fixed rate for the entire duration of the contract for 75% of the nominal value of the loan taken out in 2010.

The non-current component also includes:

- a loan from Banca Popolare dell'Emilia Romagna for a nominal amount of 15 million euros, expiring on 31 December 2021 and a benchmark rate of Euribor increased by a *spread*. The agreement specifies repayment in constant quarterly instalments entered into the accounts according to the amortised cost method, totalling 14,868 thousand euros, including 1.75 million euros for instalments that may be repaid within 12 months. This loan involves two covenants to be verified on 31 December each year;
- a revolving credit line granted until June 2019 by Banca Nazionale del Lavoro of 25 million euros, shown at the amortised cost of 24,756 thousand euros. This loan has a benchmark rate equal to the variable Euribor increased by a spread. In addition to the minimum threshold of the Piaggio share price, the line requires compliance with two covenants, to be verified each 31 December;
- a credit line with Istituto Monte dei Paschi di Siena for a total of 30 million euros expiring in April 2022. The agreements include the Euribor rate increased by a spread and two covenants to be verified each 31 December. The loan is shown according to the amortised cost method at 29,475 thousand euros, including 5.5 million euros for instalments that may be paid within 12 months;
- a loan received from Banca Ifis for a nominal amount of 10 million euros, expiring on 31 December 2021 and a benchmark rate of Euribor increased by a spread. The agreement includes reimbursement by constant quarterly instalments shown according to the amortised cost method, totalling 9,952 thousand euros, including 770 thousand euros for instalments payable within 12 months. The loan agreement includes two covenants, to be verified on 31 December of each year.

All covenants for the above medium/long-term loan agreements were met at the end of 2017, and the Company deposited a total of 3.5 million Piaggio shares as collateral and 42.6 million Piaggio shares as a lien to guarantee the loans.

Current financial liabilities at the end of 2017 amounted to 175,101 thousand euros and include, in addition to the current portion of medium/long-tern loans amounting to 12.5 million euros, the following:

- a Bullet – Multi Borrower loan from Intesa Sanpaolo for a total of 130 million euros, expiring in June 2018, including 77.7 million euros granted to Immsi S.p.A., 30 million euros to ISM Investimenti S.p.A. and 22.3 million euros to Intermarine S.p.A.. This loan has a benchmark rate equal to variable Euribor increased by a spread;

- a credit line granted by Intesa Sanpaolo for a total of 15 million euros. The line expires at the end of December 2018 and has a benchmark rate of Euribor increased by a spread;
- a revolving credit line granted by Intesa Sanpaolo for a total of 25 million euros. The line expires at the end of December 2018 and has a benchmark rate of Euribor increased by a spread;
- a revolving credit line granted by UniCredit for a total of 20 million euros expiring in November 2018, with a benchmark rate equal to variable Euribor increased by a spread. The agreements include a covenant to be verified quarterly;
- an amortised credit line granted by BPM for a total of 20 million euros expiring at the end of December 2018, with a benchmark rate equal to Euribor increased by a spread. the line is shown at the end of 2017 at 9,961 thousand euros;
- a securities loan agreement between Immsi S.p.A. and Banca Akros, which - against a loan of 578,847 UniCredit shares and 2,850,000 Piaggio shares, envisages a cash collateral of approximately 7,328 thousand euros and 4,070 thousand euros respectively, represented by the market value of the shares at the date of subscription net of a spread, which takes into account any downward fluctuations in the share. The contract, which expires on withdrawal, envisages a fee equal to 0.05% and interest payable equal to the EONIA increased by a spread, calculated on the cash collateral disbursed by Banca Akros. Immsi received a cash loan without collateral from Omniaholding S.p.A. of 300,000 and 2,850,000 UniCredit and Piaggio shares respectively. These shares were used in loan operations with cash collateral undertaken with Banca Akros.

Further 4.6 million euros relating to a revolving credit line granted by Intesa Sanpaolo and used in the amount of 3.5 million euros at the end of the period.

The covenants of loan agreements expiring in 2018 were met as at 31 December 2017 and the Company deposited 9.8 million Piaggio shares as a guarantee and approximately 72.1 million Piaggio shares as a lien.

Nominal financial payables, by contractual due date, are shown below:

In thousands of euros	In 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	After 5 years	Total
Payables to banks	**175,136**	**43,080**	**19,330**	**19,570**	**8,000**	**13,500**	**278,616**

D3	Reserves for severance indemnity and similar obligations	318

Liabilities only include the reserve for termination benefits totalling 318 thousand euros at the end of 2017. As provided for by Italian Legislative Decree no. 252/2005 and by Italian Law no. 296 of 27 December 2006, since Immsi has fewer than 50 employees, the termination benefit of employees that did not opt to assign the benefit to other types of supplementary welfare schemes, continued to be managed by the company, unless otherwise indicated by personnel.

New IFRS identify the liability relating to termination benefits using the actuarial measurement method. An estimate is made of the probable employment period in the company for each employee. For this period, annual salaries were revalued based on an inflation rate of 1.50% and a quota (at the legal rate) was set aside for TFR.
The portion of TFR accrued, and which will accrue at the foreseeable date of termination of employment, is revised as required by law and discounted by a rate equal to 1.61%. As regards the discount rate, the iBoxx Corporates A rating with a 10+ duration at 31 December 2017 was used as the valuation reference.

The annual rate used for the increase in TFR was 2.625%, and the rate for the increase in salaries was 1.50%.

The table below shows the effects, as at 31 December 2017, which would have occurred following reasonable changes in actuarial assumptions:

In thousands of euro	**Provision for termination benefits**
Turnover rate +2%	313
Turnover rate -2%	324
Inflation rate + 0.25%	323
Inflation rate - 0.25%	312
Discount rate + 0.50%	303
Discount rate - 0.50%	334

Estimated future payments are shown below:

In thousands of euros	**Future amounts**
1	55
2	17
3	17
4	18
5	18

The average duration of the bond is 13 years.

Being an actuarial valuation, the results depend on the technical bases adopted such as, among others, the interest rate, the inflation rate and the expected turnover. A variation of these parameters could lead to a significant change in the liability estimated to date; similar impacts may be caused by unexpected changes in other technical bases.

Movements in the fund during the year are shown below:

In thousands of euros	
Balance at 31.12.2016	**302**
Service cost	20
Interest cost	5
Actuarial (gain)/loss	-9
Balance at 31.12.2017	**318**

According to the amendment to IAS 19, the cost components relating to the provision of work and net financial borrowing costs, equal to 25 thousand euros, were shown directly in the Income Statement, whereas actuarial gains arising from the re-estimation of liabilities each year, equal to 9 thousand euros, are shown in the statement of comprehensive income.

D4	Deferred taxation liabilities	19,375

The item Deferred taxes as at 31 December 2017 amounted to 19,375 thousand euros net of advance taxation allocated against temporary differences, offset in the amount of 235 thousand euros since they are homogeneous and from the same Tax Authority.
Gross deferred tax liabilities are recognised above all for the fair value measurement of the investment property in Rome, for 17,986 thousand euros against lower depreciation recognised during the transition to accounting standards, relative to buildings and plant depreciated net of the value of land and the recoverable value at the end of their useful life, amounting to 1,087 thousand euros.

D5	Trade payables and other payables	2,700

Other non-current payables, equal to 208 thousand euros, include almost exclusively the mark to market value at the end of 2017 of 153 thousand euros for the instrument hedging the risk of interest rate variation (IRS) with reference to 75% of the 2010-2019 mortgage loan contract of the original 46 million euros, renegotiated at the end of 2015 with Banco BPM (formerly Banco Popolare). The change compared to 2016, amounts to 221 thousand euros and is shown in the statement of comprehensive income. The additional 54 thousand euros recognised under other non-current debts are attributable to the guarantee deposits paid by the tenants of the Rome property as a guarantee for the leases.

Current trade payables refer to invoices received and not yet paid and to invoices to be received shown on an accrual basis and totalling 1,450 thousand euros, including 442 thousand euros to Related Parties and other Group companies.

Other current payables mainly include payables to social security institutes of 120 thousand euros, payables to employees and company boards of 294 thousand euros, accrued liabilities and deferred income of 626 thousand euros.

At the end of 2017, there were no trade payables or other payables due to foreign companies or payables due after 5 years.

D6	Current taxes	522

Current taxes at 31 December 2017 refer to taxes withheld on the income of employees and freelance workers amounting to 425 thousand euros, tax payables for VAT amounting to 83 thousand euros and payables for Regional Tax on Productive Activities to 14 thousand euros.
Group taxation calculated for 2017 recorded a tax loss, therefore no advance payments on Italian Tax on Corporate Income will be made in 2018.

E - Information on the main Income Statement items

E1	Financial income	29,939

Details of financial income for 2017 and a relative comparison with the previous year are given below:

In thousands of euros	2017	2016
Dividends from subsidiaries	9,946	9,041
Gains from the sale of subsidiaries’ shares	1,565	-
Interests and commission from subsidiaries	10,071	9,306
Reinstatement of the value of subsidiaries	5,000	-
Other financial income	3,357	341
Total	**29,939**	**18,688**

The increase on 2016 is due mainly to increased collections of 905 thousand euros for dividends from Piaggio & C. S.p.A., capital gains in 2017 of 1,565 thousand euros from the sale of 1.5 million Piaggio shares, earnings in February 2017 of 3.35 million euros from the sale of an option held by Immsi to take part in the increase in the share capital of UniCredit which the Company did not take up, and reinstatement of the value of the investment in RCN Finanziaria S.p.A. at 5 million euros.

E2	Borrowing costs	25,685

Financial charges amount to 25,685 thousand euros and include mainly interest and commission on bank loans, including 419 thousand euros relating to the amortised cost of medium/long-term loans, and the write-down of 15 million euros for the investment in ISM Investimenti S.p.A.. The item is considerably up on the previous year, at 10,478 thousand euros.

E3	Operating income	4,452

Operating income, equal to 4,452 thousand euros, includes 2,015 thousand euros referred to service contracts with Group companies and revenues for approximately 2,437 thousand euros from the lease on the property situated in Rome, of which 341 thousand euros to Group companies.

Revenues from recharging costs for materials and services sustained by Immsi S.p.A. on behalf of Group companies and tenants are not recognised in profit or loss as they are offset by relative costs generating them, as provided for by IAS 18, according to which the commercial result of operations that in their entirety are strictly related, may not be measured without referring to such operations as a whole.

E4	Costs for services, leases and rentals	3,615

Costs for services, leases and rentals, net of costs recharged in accordance with IAS 18 as described above, totalled 3,615 thousand euros, including approximately 428 thousand euros from intergroup transactions and transactions with related parties, the details of which are provided at the end of these Notes.

Costs for services, leases and rentals are broken down as follows:

In thousands of euros	**2017**	**2016**
External maintenance and cleaning expenses	123	198
Employee costs	97	24
Technical, legal, tax, administrative consultancy, etc.	848	601
Energy, telephone, postal costs, etc.	113	71
Insurance	38	41
Board of Directors operating costs	1,516	1,652
Board of Statutory Auditors operating costs	144	141
Communication and publication costs	9	9
Certification fees	84	59
Listing rights and Securities Centralised Administration	82	100
Condominium, security and porter costs	58	44
Bank charges	10	7
Expenses for website handling and maintenance	10	10
Charges for property rentals	410	393
Charges for rents and other rentals	63	64
Miscellaneous expenses	10	12
Total	**3,615**	**3,426**

E5	Employee costs	1,104

Employee costs in 2017 refer to salaries in the amount of approximately 824 thousand euros, social security contributions of 216 thousand euros and TFR provisions of 64 thousand euros. For more details on the latter item, see the item Reserves for severance indemnity and similar obligations.

Immsi S.p.A. currently has no employee stock option plan.
As required by paragraph 1-bis of article 78 of the Consob Regulation on Issuers, the Company did not carry out operations for the purchase or subscription of shares by employees pursuant to article 2358 of the Italian Civil Code.

The average salaried workforce during the year was 11 employees, including 2 senior managers.

E6	Depreciation of plant, property and equipment	67

Depreciation of plant, property and equipment in 2017 amounted to 67 thousand euros and refers to electronic machines, hardware, vehicles, furniture and fittings and miscellaneous equipment. Since 2009, buildings and plants relating to the property owned in Via Abruzzi 25 – Rome have not been depreciated. For further details, reference is made to the comment in the item Investment Property.

As regards investments during the year, it was deemed appropriate to apply the depreciation rates reduced by 50% due to their limited use. The Company also fully depreciated those assets of minor value whose use had essentially ended during the year.

E7	Other operating income	114

This item amounted to 114 thousand euros, net of income generated from recharged costs according to IAS 18, and essentially refers to income for fees repaid by Company employees for corporate offices held within the Group, contingent items and the recovery of insurance costs and damages.

E8	Other operating costs	778

Details of other operating costs are indicated below:

In thousands of euros	**2017**	**2016**
Municipal property tax	572	501
other taxes and duties	171	175
other operating charges	35	21
Total	**778**	**697**

E9	Taxes	175

Income tax for year 2017 amounted to 175 thousand euros.
The item profit before tax accounted for a minimum part of taxable income as regards income tax, because most components comprise financial items, which are tax-neutral; these are commented on under the item Financial Income.

The item Taxation includes mainly the cost estimated for IRAP, and a receivable for IRAP arising from the tax return and deferred taxes generated by temporary differences. It should be remembered that the Company did not prudently show advance taxes calculated against estimated tax losses for 2017 because of the uncertainty of recovery within the framework of the national consolidated tax convention which Immsi adhered to in 2007.

The reconciliation between the theoretical tax burden and actual tax burden is shown below:

ITALIAN TAX ON CORPORATE INCOME	**Income**		**Taxes**	
	Earnings	**Temporary components**	**Current**	**Deferred**
Profit before tax	3,219			
Theoretical tax charge (benefit)			773	
Temporary differences taxable in subsequent years	-682	-682	-164	164
Temporary differences deductible in subsequent years	254	-254	61	-61
Reversal of temporary differences arising in previous years	-600	600	-144	144
Permanent differences that will not be annulled in subsequent years	-2,953	0	-709	0
Total differences	-3,981	-336	-955	247
Taxable income	-762			
Total tax expense (benefit) on income for the period			-183	247
Other amendments			171	
Total tax expense (benefit) on income recognised in the financial statements			**-12**	**247**

Regional production tax (IRAP)	Income		Taxes	
	Earnings	Temporary components	Current	Deferred
Value of gross production	-1,034			
Theoretical tax charge (benefit)			-58	
Borrowing costs/income	-581	0	-32	0
Timing differences taxable / deductible in later years	0	0	0	0
Reversal of temporary differences arising in previous years	-5	5	0	0
Permanent differences that will not be annulled in subsequent years	2,848	0	159	0
Total differences	2,262	5	126	0
Taxable income/Value of net production	1,228	2,496		
Total tax expense (benefit) on income for the period			**68**	**0**
Other amendments			-128	0
Total tax expense (benefit) on income recognised in the financial statements			**-60**	**0**

E10	Net profit for the period	3,044

Immsi S.p.A. realised a net profit of 3,044 thousand euros in particular due to the positive financial components in 2017.

F – Commitments, risks and guarantees

The Company has a first mortgage and a second mortgage on property in Rome with a total of 90 million euros, guaranteeing the long-term loan obtained from BPM in June 2010 and renegotiated at the end of 2015 in the amount of 45 million euros.
With this financing, Immsi must for the entire duration of the contract channel the revenues from leasing into a deposit account and keep a minimum amount there equal to the interest instalment nearest maturity.

Intesa Sanpaolo has issued a revocable signed credit line equal to 400 thousand euros, of which Immsi used 350 thousand euros for the Cassa di Previdenza Integrativa (supplementary social security fund) of personnel of Istituto San Paolo di Torino, with which Immsi stipulated a lease contract in December 2008 for the property located in Milan – via Broletto 13.

To guarantee the lease contracts of the property in Rome as at 31 December 2017 Immsi S.p.A. received guarantees for a total of 466 thousand euros and guarantee deposits of 55 thousand euros.

Against credit lines and bank loans, the Company deposited 13.4 million Piaggio shares as collateral and about 114.7 million Piaggio shares were pledged (for details see the item Financial liabilities), as well as 37.3 million Piaggio shares used to guarantee loans granted to Group companies.

As part of the supply contract for five catamarans to the Sultanate of Oman, for which Intermarine stipulated a signature line of agreement with a pool of banks for an amount of 84.5 million US dollars to guarantee payment of the consideration envisaged in the contract signed with the Sultanate of Oman for 90 million US dollars, Immsi counter-guaranteed the "pre-delivery performance bond", "advanced payment bond" and "post-delivery bond" issued by the above banks for a maximum amount of 60 million US dollars by issuing a bank guarantee, and a letter of patronage for any part exceeding such amount in relation to Intermarine S.p.A.'s obligations to channel payments.
At the end of 2017, with all vessels completed, the actual exposure of Intermarine S.p.A. to banks for the post-delivery bond was USD 3.8 million. The guarantor banks granted an extension of the relative guarantees up to September 2020.

Immsi issued bank guarantees to Banco BPM for advances on agreements and as a counter-guarantee for the bank guarantees the bank issued to the Italian Navy for advances paid to Intermarine. The sum guaranteed at the end of 2017 was 3.4 million euros.

The subsidiary pays remuneration to Immsi for the issue of these guarantees, in proportion to the amounts disbursed by the bank.

Immsi S.p.A. issued a letter of patronage relating to the bank guarantee issued by Banco BPM (formerly Efibanca) in favour of Como for an advance of 2.7 million euros paid by the company to Intermarine S.p.A..
Another letter of patronage was issued by Immsi in favour of Banca Carige in relation to credit facilities and to guarantee a loan granted to Intermarine S.p.A., used at the end of 2017 in the amount of 2.5 million euros.

In the month of September 2017, Immsi S.p.A. issued a letter of patronage to guarantee the loan granted by BNL to Intermarine of 5 million euros.

Immsi has a joint commitment to repay the loan issued by Intesa Sanpaolo to the subsidiary Intermarine, rescheduled at the end of 2018 and amounting at the end of 2017 to 5 million euros.

In relation to the line of credit in place between Intermarine S.p.A. and Banca IFIS S.p.A., in the form of an advance on contract and factoring for the sale of receivables from the Italian Navy arising from the refitting contract of the Gaeta Minesweeper, and in regard to the advance on the contract for the sale of receivables due from an Italian group operating in the sector for the construction of integrated platforms, Banca IFIS was issued letter of patronages by the direct parent company RCN Finanziaria S.p.A. confirmed by Immsi S.p.A.. The value of the guarantees at the end of 2017 was 7 million euros.

The guarantee payable against first request underwritten by Immsi for a maximum sum of 33.8 million euros, together with a letter of commitment in favour of Intesa Sanpaolo as collateral for the revolving credit line granted to Intermarine S.p.A. by Intesa, related to future collections from the order with the Finnish Navy, was extinguished during 2017.
In the month of September 2017, the guarantee issued by Immsi against the agreement between the Finnish Navy and Intermarine S.p.A., in which Immsi holds a stake, for the construction of three minesweepers, was returned. The guarantee covered 115% of the advances paid by the Finnish Navy via insurance guarantees issued by SACE and granted against the joint commitment of Immsi S.p.A.

In the month of December 2017, Immsi issued a bank guarantee in favour of MPS guaranteeing the loan issued by the bank to Is Molas of 10 million euros.

Immsi, in relation to the 30 million euros loan granted to ISM Investimenti S.p.A. by Intesa Sanpaolo, undertook, in the interests of IMI Investimenti S.p.A., to grant a shareholder loan for the amount necessary to enable ISM to repay its debt in full, if it fails to refinance this amount due to Intesa Sanpaolo on the market.

G – Net debt

Net financial debt at 31 December 2017 of Immsi S.p.A. is shown below. For further details on main components, reference is made to the Notes to these financial statements.

In thousands of euros	31/12/2017	31/12/2016
Cash and cash equivalents	(5,281)	(792)
Other short-term financial assets	(198,353)	(177,054)
Medium/long-term financial assets	0	0
Short-term financial payables	175,101	257,453
Medium/long-term financial payables	102,017	0
Net financial debt	**73,484**	**79,607**

Net financial debt as at 31 December 2017 stood at 73,484 thousand euros, down on 31 December 2016 by 6,123 thousand euros.

In thousands of euros	31/12/2017	31/12/2016
Cash generated internally	(378)	(160)
Change in net working capital	460	5,769
Net cash flow generated from operations	**62**	**5,609**
Payment of dividends by the Parent Company	0	(5,107)
Acquisition of intangible assets	0	0
Acquisition of plant, property and equipment and investment property	(75)	(73)
Net decrease from property disposals	0	0
Acquisition of non-controlling investments, net of disposal	2,569	(1,881)
Acquisition of controlling investments, net of disposal	3,567	0
Other net movements	0	0
Change in net debt	**6,123**	**(1,452)**
Initial net debt	**(79,607)**	**(78,155)**
Closing net debt	**(73,484)**	**(79,607)**

Pursuant to the recommendation of the CESR on 10 February 2005 “Recommendations for the uniform implementation of the European Commission Regulation on Prospectuses”, the figure calculated reflects accordingly the monitoring of Company management.

H - Dividends paid

Immsi S.p.A. did not distribute dividends in 2017. In 2016, the Company issued dividends (relating to profits in 2015) totalling 5,107 thousand euros equal to 0.015 euros for 340,530,000 shares.

I – Recommended use of profits (losses) for the period

The Financial Statements as at 31 December 2017 show a profit for the period of 3,044,256 euros. The Company Board of Directors recommends allocating the profits, after deduction of 5% equal to 152,212.80 euros, to the Legal Reserve, partially covering prior losses.

L - Transactions with Group Companies and Related Parties

As regards disclosure on related-party transactions as of IAS 24 undertaken by Immsi S.p.A., the transactions undertaken with these entities were carried out in normal market conditions or according to specific regulatory provisions.
Pursuant to Regulation no. 17221 regarding transactions with Related Parties issued by Consob on 12 March 2010 and subsequently integrated and amended, the Company adopted a procedure

aimed at governing the approval process for transactions with Related Parties, as set out in greater detail on the website www.immsi.it under Governance.

In detail, it specifies the main economic effects (excluding revenues from redebiting subsidiaries and the Parent Company pursuant to the provisions of IAS 18) and equity effects of transactions with Related Parties and their impact on each item in the Financial Statements of Immsi S.p.A. as at 31 December 2017, compared to the equivalent impacts in the restated Financial Statements for 2016:

Main economic and financial items	2017 amounts in thousands of euro	% accounting for financial statement items	Description of the nature of transactions	2016 amounts in thousands of euro
Transactions with Related Parties:				
Current trade payables	*32*	*2.2%*	*Tax advisory services provided by Studio Girelli e Associati*	*51*
Costs for services, leases and rentals	*53*	*1.5%*	*Tax advisory services provided by Studio Girelli e Associati*	*51*
Transactions with Parent companies:				
Current trade payables	*135*	*9.3%*	*Rental of offices in Mantova provided by Omniaholding S.p.A.*	*124*
Costs for services, leases and rentals	*235*	*6.5%*	*Rental of offices in Mantova provided by Omniaholding S.p.A. and commission on the Loan of Securities*	*227*
Borrowing costs	*18*	*0.2%*	*Commission on the Loan of Securities, Omniaholding*	*0*
Transactions with Subsidiaries:				
Current trade receivables and other receivables	*332*	*1.2%*	*Receivables due from Intermarine S.p.A. for redebited expenses, the rental of offices in Rome, commission and a consulting agreement*	*65*
	7,437	*27.8%*	*Receivables due from RCN Finanziaria S.p.A. for recharged costs and interest*	*6,749*
	6,184	*23.1%*	*Receivables due from Is Molas S.p.A. for recharged costs and a consulting agreement*	*6,172*
	820	*3.1%*	*Amounts due from ISM Investimenti S.p.A. for recharged costs and interest*	*795*
	486	*1.8%*	*Receivables due from Piaggio & C. S.p.A. for recharged expenses, advisory services and the repayment of fees*	*121*
	30	*0.1%*	*Receivables due from Pietra S.r.l. and Pietra Liaure S.r.l. for*	*12*
	11,057	*41.3%*	*Amounts due from the national consolidated tax convention*	*11,095*
Other current financial assets	*132,209*	*55.3%*	*Loans granted to RCN Finanziaria S.p.A.and interest*	*128,084*
	45,484	*19.0%*	*Loans granted to Is Molas S.p.A.and interest*	*27,580*
	52,067	*21.8%*	*Loans granted to ISM Investimenti S.p.A.and interest*	*47,500*
	4,461	*1.9%*	*Loans granted to Pietra S.r.l. and Pietra Ligure S.r.l. and interest*	*3,797*
	696	*0.3%*	*Loans granted to Apuliae S.r.l.and interest*	*450*
Current trade payables	*274*	*18.9%*	*Payables due to Piaggio & C. S.p.A. for expenses charged*	*153*
Financial income	*9,946*	*39.9%*	*Dividends from Piaggio & C. S.p.A.*	*9,041*
	4,707	*18.9%*	*Interest income from RCN Finanziaria S.p.A.*	*4,680*
	246	*1.0%*	*Commission from guarantees for Intermarine S.p.A.*	*474*
	1,442	*5.8%*	*Interest income and guarantee fees from Intermarine S.p.A.*	*1,011*
	3,489	*14.0%*	*Interest income from ISM Investimenti S.p.A.*	*2,980*
	162	*0.6%*	*Interest income from Pietra S.r.l.*	*141*
	25	*0.1%*	*Interest income from Pietra S.r.l.*	*19*
Operating income	*1,326*	*29.8%*	*Consultancy and assistance contract and rental of offices in Rome rented to Piaggio & C. S.p.A.*	*1,326*
	1,015	*22.8%*	*Consultancy & assistance contract and rental of offices in Rome rented to Intermarine S.p.A.*	*15*
	15	*0.3%*	*Service agreement with Immsi Audit S.c.a.r l.*	*7*
Costs for services, leases and rentals	*47*	*1.3%*	*Internal auditing services by Immsi Audit S.c.a.r.l.*	*65*
	94	*2.6%*	*Amounts recharged to receive from Piaggio & C. S.p.A.*	*91*
Borrowing costs	*21*	*0.2%*	*Interest paid to Piaggio & C. S.p.A.*	*0*
Other operating income	*80*	*70.2%*	*Repayment of fees by Piaggio & C. S.p.A.*	*80*

Figures including non-deductible VAT.

As regards relations, guarantees and commitments ongoing with Group companies, see item F - Commitments, Risks and Guarantees.

M - Risks and uncertainties

Financial instruments

With reference to financial instruments, already commented on in the Notes, the Parent Company did not show any differences between the fair value and the carrying amount for all items in question, excluding investments in UniCredit, the details of which are set out in the section on financial assets. As at 31 December 2017, the Company had no long-term fixed rate assets and/or liabilities for which it is necessary to recalculate the related value based on current market rates.

In thousands of euros	31.12.2017	31.12.2016 *restated*
ASSETS		
NON-CURRENT ASSETS		
Other financial assets	**0**	**13,996**
Financial receivables	0	0
Financial assets	0	13,996
CURRENT ASSETS		
Other financial assets	**239,261**	**215,040**
Financial receivables	234,916	207,416
Financial assets	4,344	7,624
LIABILITIES		
NON-CURRENT LIABILITIES		
Financial liabilities	**102,017**	**0**
Payables due to banks	102,017	0
CURRENT LIABILITIES		
Financial liabilities	**175,101**	**257,453**
Payables due to banks	175,101	257,453

Interest Rate Risk

Variations in interest rates on the market can impact the fair value of a financial asset or liability.
Exposure to market risk arising from the variation in interest rates is mainly connected to medium and long-term loans.
The following table illustrates the nominal value of the financial instrument assets and liabilities of the Company exposed to interest rate risk, broken down into variable and fixed rate agreements (net of any hedging instruments specifying the variation in the interest rate).

In thousands of euros	Total
Total fixed rate	**-7,666**
Total variable rate	**-72,597**

An increase or decrease of 1% of the Euribor rate with reference to the net specific exposure of Immsi S.p.A. would have produced greater or lesser interest of 726 thousand euros per year.

Price Risk

Concerning the price risk on investments held by the Company and classified as other financial assets available for sale, see the comments in this Note.

Credit risk

The following table analyse by maturity the item of Trade receivables, including written-down or guaranteed payables, with comments in the Notes to the financial statements.

In thousands of euros	31.12.2017	31.12.2016 *restated*
Receivables past due:		
0-30 days	699	221
30-60 days	59	63
60-90 days	78	14
> 90 days	13,468	13,099
Total receivables past due	**14,304**	**13,397**
Total receivables maturing	4	124
Total	14,308	13,521

Tax receivables were used in the first few months of 2018 in the amount of 60 thousand euros whilst other receivables essentially represent accruals and deferrals..

Liquidity Risk

The Company could suffer from possibly critical situations concerning the subsidiaries, especially those for which it granted short-term financings. Immsi S.p.A. in fact provides loans and issues guarantees in favour the Group's to facilitate their funding; these operations are regulated under normal market conditions.

As regards debt, the Company basically renewed expired credit lines in 2017 with new loans.

Liquidity risk arises from the possibility of the available financial resources being insufficient to meet future payments under financial obligations at the scheduled time and in the specified manner.

At the end of 2017, the Company had unused credit lines amounting to 1.1 million euros in the form of a revolving credit line granted by Intesa Sanpaolo.

The Directors believe that the currently available funds, in addition to those that will be generated from operating and financing activities, will enable Immsi to meet its own needs arising from investments, management of working capital and repayment of debts and will ensure an adequate level of operational and strategic flexibility, on the assumption that the various lines that will expire during the next 12 months will be fully renewed by the banks. The above also means that the guarantees are available that these contracts required to be able to activate them and also that there are no breaches of the Guarantee Values and financial covenants or if they have been breached the banks are willing to grant an exemption from compliance with them. The lines used totalling 175.1 million euros expire in 2018.

Hierarchical fair value valuation levels

As regards financial instruments recognised at fair value in the Statement of Financial Position, IFRS 7 requires these values to be classified on the basis of hierarchical levels which reflect the significance of the inputs used in determining fair value. These levels are as follows:

- level 1 – quoted prices in active markets for assets or liabilities measured;
- level 2 – inputs other than quoted prices included within Level 1 that are observable directly (prices) or indirectly (derived from prices) on the market;
- level 3 – inputs not based on observable market data.

Assets estimated at fair value listed on an active market and held by Immsi S.p.A. (level 1) include UniCredit shares in the portfolio as at 31 December 2017 totalling 278,847 shares with a total value at that date of 4,344 thousand euros. The fair value of the investment, represented by the share price at the end of 2017 is down on the end of 2016 by approximately 3,280 thousand euros.

As at 31 December 2017, non-current liabilities included the hedging instrument (IRS) underwritten to hedge 75% of the loan from 2010 to 2019 renegotiated at the end of 2015 in the amount of 45 million euros with Banco BPM (formerly Banco Popolare), the fair value of which at the end of the period was a negative figure of 153 thousand euros (level 2 financial instruments).

Financial assets estimated at fair value for which no market data are available (level 3) amounted to 74,114 thousand euros and are represented by the investment property in Via Abruzzi, Rome.
This category also includes the investment in Alitalia – Compagnia Aerea Italiana S.p.A., written-off as described above.

In addition, IFRS 7 requires the fair value of payables recognised on an amortised cost basis, to be determined, only for disclosure purposes, as indicated below.

In thousands of euros	Nominal value	Carrying amount	Fair Value Estimate
Immsi S.p.A. – Banco BPM (formerly Banco Popolare) mortgage	36,000	35,487	34,819
Immsi S.p.A. – Credit line maturing in December 2018	10,000	9,961	10,084
Immsi S.p.A. – Credit line maturing in December 2021	15,000	14,868	14,470
Immsi S.p.A. – Credit line maturing in December 2021	10,000	9,952	9,857
Immsi S.p.A. – Credit line expiring in June 2022	30,000	29,475	28,850

The difference between the fair value and nominal liabilities is justified by use of the rates curve for unsecured payables in the fair value measurement procedure, while typically financial liabilities of the Parent Company are mainly secured.

For other financial liabilities not expressly included in the table provided, the carrying amount is considered to be basically aligned with the fair value.

N - Auditing costs

In relation to the reporting obligations pursuant to section 149-*duodecies* of the Consob Regulation on Issuers, regarding fees for the period for the appointment by Immsi S.p.A. of an independent auditor, in 2017 fees to PricewaterhouseCoopers S.p.A. amounted to 69,139 euros for the auditing of the accounts and the "*limited assurance engagement*" for the Consolidated Non-financial Statement, and 170 thousand euros for other services rendered by the PricewaterhouseCoopers network (in addition to charges, expenses and supervisory contribution).
The Shareholders Meeting of 11 May 2012 appointed PricewaterhouseCoopers S.p.A. to carry out the statutory auditing of the accounts over the period 2012-2020.

* * *

This document was published on 9 April 2018 by authorisation of the Chairman of the Company, Roberto Colaninno.

Certification of the financial statements pursuant to article 154-bis of the Legislative Decree no. 58/98

The undersigned Roberto Colaninno, as Chairman of the Board of Directors, Michele Colaninno, as Chief Executive Officer and Andrea Paroli, Financial reporting manager of Immsi S.p.A., certify, also taking account provisions of article 154-bis, paragraphs 3 and 4 of the Italian Legislative Decree no. 58 of 24 February 1998:

- the appropriateness with regard to the company's characteristics and
- effective application

of the administrative and accounting procedures for preparing the financial statements during 2017.

With regard to the above, no relevant aspects are to be reported.

In addition, it is certified that the Financial Statements as at 31 December 2017:

- were drawn up in compliance with applicable international accounting standards recognised by the European Union in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to accounting records;
- are adequate for giving a true and fair view of the financial position, performance and cash flows of the Issuer.

The Report on Operations includes reliable analysis of operations, as well as the situation of the Issuer, along with a description of the main risks and uncertainties to which they are exposed.

21 March 2018

The Chairman
Roberto Colaninno

The Manager in charge of preparing
the company accounts and documents
Andrea Paroli

Chief Executive Officer
Michele Colaninno

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 IMMSI SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of IMMSI SpA (the Company), which comprise the statement of financial position as of 31 December 2017, income statement for the year, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flow for the year then ended, and specific 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 Investments in subsidiaries	
Note C3 to the notes to the financial statements "Investment in subsidiaries and associates" The carrying amount of Investments in subsidiaries and associates as at 31 December 2017 is Euro 310,331 thousand (47,3% of total assets). The amount is composed mainly of: a) Investment in Piaggio & C. SpA for Euro 243.255 thousand (50,07% of the share capital); b) Investment in ISM Investimenti SpA (the Company which controls IS Molas SpA) for Euro 21.460 thousand (72,64% of the share capital); c) Investment in RCN Finanziaria SpA (the Company which controls Intermarine SpA) for Euro 25.506 thousand (72,51% of the share capital). Investments in subsidiaries and associates are accounted for using the cost method adjusted for any impairment. Impairment testing of investments is required if there are indicators suggesting that such a problem might exist. As at 31 December 2017, the Company prepared specific impairment test reports in order to summarize and document the assumptions and the results of the impairment test carried out on Investments in Piaggio & C. SpA, ISM Investimenti SpA and RCN Finanziaria SpA, according to the "IAS 36" adopted by the European Union. The valuation of the recoverable amount of Investments in subsidiaries and associates is a key audit matter considering that it depends on inputs not based on observable market data.	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 associates and we examined the impairment tests prepared by the Management. We also obtained an understanding of and evaluated the estimates made by management with regard to the expected cash flows inferred from budget data for 2018 and supplemented by forecast data for 2019-2021 as regards Investment in Piaggio & C. SpA; forecast data for 2019-2024 as regards Investment in ISM Investimenti SpA and forecast data for 2019-2020 as regards Investment in RCN Finanziaria SpA. Furthermore, with the support of PwC network experts, we retraced the methods used to calculate the discount rate and of the steady growth rate of financial cash flows beyond the time period of the plan approved by management. With the support of PwC network experts we also conducted sensitivity analyses in relation to the significant assumptions adopted by management in order to determine whether there was any impairment of Investment in subsidiaries and associates. 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. With reference to the impairment test carried out on the Investment in ISM Investimenti SpA, we involved independent experts in order to assist the audit team in assessing the reasonableness of the main assumptions adopted by the management in the estimation of cash flow forecasts associated with the real estate project.

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 11 May 2012, the shareholders of IMMSI 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 2012 to 31 December 2020.

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 IMMSI SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of IMMSI 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 IMMSI 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 IMMSI 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, 6 April 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

Report of the Board of Statutory Auditors to the General Meeting of IMMSI S.p.A. pursuant to Art. 153 of Legislative Decree 58/98 and Art. 2429 of the Italian Civil Code.

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Dear Shareholders

Submitted for your approval are the financial statements of IMMSI S.p.A., for the year ended 31 December 2017, prepared in accordance with IAS/IFRS international accounting standards, which present a net profit of 3,044,256 euros, compared to 5,491,508 euros in the previous year.

Also submitted are the consolidated financial statements for year 2017, showing a profit of 14,884,000 euros (compared to a loss of 8,345,000 euros in the previous year), divided into profit attributable to non-controlling interests of 6,695,000 euros and profit attributable to the Group of 8,189,000. The Company has also prepared the “Non-Financial Report” pursuant to Legislative Decree 254/2016 to present the Group’s activities, performance, results and impact with reference to environmental, social and personnel matters, respect for human rights and the fight against corruption. Though this is new for IMMSI S.p.A., within the IMMSI Group, the subsidiary Piaggio & C. S.p.A. has extensive experience with non-financial reporting, as it has been publishing a Corporate Social Responsibility report since 2009.

The financial statements of the Company and consolidated financial statements of the Group, prepared by the Directors pursuant to legislation, were duly notified to the Board of Statutory Auditors together with the Directors' Report on Operations and the Corporate Governance and Share Ownership Report, as well as the Remuneration Report. The Board has also acquired the Independent Auditors' reports.

To the best of our knowledge, the Directors did not depart from legislation relating to the formation of the financial statements and took into account, in preparing the financial reports, the measures issued implementing Art. 9 of Italian Legislative Decree 38/2005, the IFRIC (formerly "SIC") interpretations, as well as the Bank of Italy/Consob/ISVAP Documents No. 2 of 6 February 2009 and No. 4 of 3 March 2010. The Directors acknowledge that – during the year – they ordered early application of IFRS 9 “Financial Instruments” in force from the 1st quarter 2017. With reference to the consolidated non-financial report as a section of the Report on Operations, this Board of Statutory Auditors, based on provisions of art. 3, paragraph 4, of Legislative Decree 254/2016, verified – consistent with what the independent auditors said in their report pursuant to Art. 3, paragraph 10, of Legislative Decree 254/2016 issued on 6 April 2018 – its completeness and compliance with what is set forth in laws and drafting criteria, including with reference to the methodological note to the aforesaid non-financial report, without finding anything that needs to be mentioned in our report.

The Board of Statutory Auditors, during 2017, carried out the supervisory activities required by law, also taking into account the Consob communications on corporate controls and related to Board of Statutory Auditors' activities. It therefore monitored: (i) compliance with the law and the memorandum of association, (ii) compliance with the principles of proper management, (iii) adequacy of the organisational structure of the company for the aspects under its responsibility, the internal control system and the administrative accounting system, as well as the reliability of the latter in correctly representing operations, (iv) procedures for effective implementation of the corporate governance rules provided for by the Corporate Governance Code of the Corporate Governance Committee of listed companies, which the company has adhered to, and (v) adequacy of the instructions given to the subsidiaries pursuant to Art. 114, paragraph 2 of the Consolidated Finance Act. In addition, the Board of Statutory Auditors, as the "Internal Control Committee" pursuant to Art. 19 of Legislative Decree 39 of 27 January 2010, carried out supervision as required in the updated first paragraph of that article – under letters a), b), c), d), e), f) – introduced by Legislative Decree 135/2016.

The Board, in accordance with Art. 2429 of the Italian Civil Code and Art. 153 of Italian Legislative Decree 58/98 and having regard to the information provided in Consob communication no. DEM/1025564 of 06/04/2001, as amended by communication no. 6031329 of 07.04.2006, therefore reports as follows.

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1. The most significant economic, financial and equity transactions put in place by the Company in 2017 have been comprehensively described by the Directors in the Report on Operations. The Board of Statutory Auditors became aware of the same by attending Board of Directors' meetings, as well as by meetings with the Company's management. The Board was able to ascertain that the transactions put in place were not imprudent, risky, in conflict of interest, contrary to shareholders' resolutions and the Articles of Association or otherwise prejudicial to the integrity of corporate assets.

2. In 2017 there were no atypical and/or unusual transactions, neither with third parties nor with Group companies or with related parties, as also attested by the Directors in the section "Form and content of the consolidated financial statements" of the Notes to the consolidated financial statements; for the list of ordinary transactions between the Group or the Parent Company IMMSI and related parties or other Group companies, please refer to the Directors' Report under "Group and Related Party Transactions", with regard to the Group, and in the Notes in the section "I – Transactions with Group Companies and Related Parties", as regards IMMSI alone. These transactions mainly concern trade and financial receivables/payables, the supply of materials and financial, tax, contractual and leasing advisory services. For the Parent Company alone, income from subsidiaries is also significant, both in the form of dividends and interest income. The same documents also illustrate in detail the related economic effects, with the clarification that the transactions are governed by normal market conditions or specific regulatory provisions. The Board of Statutory Auditors believes that such transactions are appropriate and that they are in the corporate interest. The report also illustrates that, in accordance with Regulation No. 17221 on related party transactions issued by Consob on 12 March 2010, as amended, the Company has adopted the procedure aimed at regulating the procedures for approval of related party transactions.

3. The Board deems the disclosure provided by the Directors in the Report on Operations and in the explanatory notes to the separate financial statements, concerning intercompany and related party transactions, to be adequate.

4. The independent auditors, PricewaterhouseCoopers S.p.A., have audited the financial statements and issued - on 6 April 2018 - the related reports that have no findings or requests for disclosures. They declare that the separate financial statements and the consolidated financial statements provide a truthful, correct presentation of the financial position of the Company and the Group as at 31 December 2017, of the earnings and cash flows for the year closed at that date in compliance with the International Financial Reporting Standards adopted by the European Union and provisions issued in implementation of Article 9 of Legislative Decree 38/05. Lastly, the Board of Statutory Auditors examined the report by PricewaterhouseCoopers S.p.A. on the non-financial report issued pursuant to Art. 3, paragraph 10, of Legislative Decree 254/2016 on 6 April 2018, that does not contain any findings or requests for information.

5. During 2017, no complaints pursuant to Art. 2408 of the Italian Civil Code were received by the Board of Statutory Auditors.

6. During 2017, no petitions were received by the Board of Statutory Auditors.

7. The independent auditors PricewaterhouseCoopers S.p.A. issued a report pursuant to Art. 6 paragraph 2) letter a) of European Regulation 537/2014 in compliance with paragraph 17 of ISA Italia 260. The Board of Statutory Auditors carried out checks - also at a group level - which showed that PricewaterhouseCoopers was paid 54,139 euros for “statutory auditing services" only for IMMSI and 568,613 euros for the rest of the Group (of which 363,870 euros referred to the subsidiary Piaggio & C. S.p.A. and 111,934 euros referred to Piaggio subsidiaries). Analysis shows that the Independent auditors performed – for the Group’s subsidiaries – “certification services” for 10,000 euros (wholly attributable to the subsidiary Piaggio & C. S.p.A.) and “other services” for 261,000 euros (of which 69,000 related to the “limited assurance engagement” of the consolidated Non-Financial Report of Immsi S.p.A. and of Piaggio & C. S.p.A. and the Corporate Social Responsibility Report of Piaggio & C. S.p.A.). In this statement, the Independent Auditors certified that from 1 January 2017 to the date of the report the ethical principles set forth in Art. 9 and 9 bis of Legislative Decree 39/2010 were respected and there were no situations compromising independence pursuant to Arts 10 and 17 of Legislative Decree 39/2010 and Arts. 4 and 5 of European Regulation 537/2014.

Moreover the Board of Statutory Auditors acknowledged the Transparency Report prepared by the Independent Auditors published on their website pursuant to Art. 18 of Legislative Decree 39/2010.

8. Investigations also showed that the PricewaterhouseCoopers Network received payments related to "auditing services" entirely from Piaggio & C. S.p.A. subsidiaries for the amount of 369,874 euros. Moreover, the Network received fees of 45,520 euros from

Piaggio & C. S.p.A. subsidiaries for "certification services", as well as 184,000 euros for "other services".

Also in the light of the above comments and those contained in point 7 above, and given the international dimension of the Group, the Board deems that no critical aspects emerged concerning the independence of the Independent Auditors.

9. During 2017, the Board of Statutory Auditors provided, when necessary, opinions and comments provided for by law. The content of these opinions did not conflict with the subsequent resolutions adopted by the Board of Directors.

10. The Board of Directors met 8 times in 2017, meetings which the Board of Statutory Auditors always attended; the Control and Risks Committee met 8 times; the Remuneration Committee met once, while the Board held 13 meetings and also held collegiate meetings and/or of its individual members with the independent auditors PricewaterhouseCoopers S.p.A.. Control and Risks Committee meetings are normally extended to the entire Board of Statutory Auditors, in order to ensure the sharing of information flows within the company.

11. It is deemed that the Company complied with the principles of proper administration and that the decisions of the Board of Directors were taken in the corporate interest.

12. The Board of Statutory Auditors, for matters under its responsibility, believes that the company's organisational structure can be considered adequate, also with regard to actual business operations, primarily as a holding company of a group which includes approx. 42 companies in diversified sectors, (including 34 consolidated in the group financial statements) in particular industrial (especially in the "two-wheeler" and "commercial vehicles" businesses), marine and real estate/holding companies. Operations are mainly directed to financing subsidiaries, as well as managing and developing these investments. With regard to this activity, the direct presence of the Company's directors on the boards of Group companies strengthens the control of the subsidiaries. The Board of Statutory Auditors monitored the organisational structure of the Company as part of its periodic verifications, and also monitored the organisational chart of the Group, with particular regard to the administrative area. The Board of Statutory Auditors– together with the Control and Risks Committee – receives periodic, systematic information from the Group Internal Audit in relation to subsidiaries. Moreover, the fact that members of the Board of Statutory Auditors are also Statutory Auditors of the subsidiary Piaggio & C. S.p.A. and of other subsidiaries facilitated the exchange of information with regard to the listed subsidiary and main Group companies. Through these members, the Chairman of the Board of Statutory Auditors, during the year, liaised with the Boards of Statutory Auditors of the most important Group companies, in particular of sub-parent companies, in order to verify the existence of issues of common interest. The Board received information on the financial position and performance of sub-groups, some of which (marine and property sub-groups) received financial support from IMMSI and necessary guarantees to carry out their business activities, as explained in the section "The marine sector: Intermarine", and in the section "The property and holding sector" of the Directors' Report on Operations. The net debt trend and the financial situation as a whole – summed up in the paragraph "Financial performance of the Group" (in the Directors' Report) – were systematically overseen by the Board of Statutory Auditors in its meetings, also in relation to coverage guaranteed to financial institutions with securities owned by IMMSI. The Board was regularly updated during the year on the evolution of this situation and had specific meetings to that effect with the CFO of IMMSI, in order to ascertain the Group's financial strategy, as well as the outcome of net debt monitoring and the liquidity situation, also by business segment The Chairman of the Control and Risks Committee, and Deputy Chairman of the Company and/or entire Control and Risks Committee, generally attended these meetings. For these issues, the Board of Statutory Auditors also met the Chairman and the CEO for information on the continual dialogues between them and Banks and to recommend that they continue systematically. The Board confirms the attention of the Directors on this matter and the adequacy of the organisational and administrative structure with regard to the monitoring process. The notes in section G2 Financial Liabilities and notes to the Separate Financial Statements, in section D2 Financial Liabilities, indicate the composition of bank debt, by bank and credit line, and relative maturities. Those paragraphs analyse the situation, conditions of compliance with covenants applicable and – for the Parent Company – the amount of debts payable to banks separated by contractual due date (within 1 year, 1-2 years, 2-3 years, 3-4 years, 4-5 years, over 5 years), highlighting the composition of Parent Company bank payables as at 31 December 2017.

13. The Board of Statutory Auditors supervised the adequacy of the internal control system, gathering information, inter alia, from the Directors, the independent auditors and the Internal Control Officer, who is also responsible for the internal audit function and Chief Executive Officer of IMMSI Audit S.C. a r.l.

IMMSI likewise made recourse to IMMSI Audit S.C. a r.l. for the outsourcing of internal auditing services, as did the other Group companies and, in particular, also the main subsidiary Piaggio & C. S.p.A.. IMMSI Audit S.C. a r.l. also monitored the organisational and management model in support of the Supervisory Board pursuant to Legislative Decree 231/01 and the controls in outsourcing instrumental to the verifications required by Law 262/05 and to the activity of the Manager in charge of preparing the company accounts and documents. The Board of Statutory Auditors systematically interacted with the internal audit officer, in charge of the audit function, with regard to which it obtained very positive feedback (as already emerging in previous years) on the activities carried out and the effectiveness of the same, from which - with regard to the corporate cycles and functions controlled during 2017 - no shortcomings of the Company emerged worthy of mention here. The Board of Statutory Auditors continually monitored the risks control system, which the head of Internal Audit reports on in its report for 2017.

The Board also points out that IMMSI Audit S.C. a r.l., for the period 2015-2017, submitted an audit plan for IMMSI S.p.A. with a view to verifying, over such three-year period, all significant corporate activities and processes at least once. This plan was approved by the IMMSI Board of Directors in March 2015. The activities actually performed in 2017 - the subject of a detailed report examined by the Control and Risks Committee and the Board of Statutory Auditors - were positively evaluated by the Board, which had summary feedback on the audit work carried out for both the parent company and subsidiaries, also with the expression of an opinion on the issues highlighted and on their removal or mitigation. The Company also approved the new 2018-2020 audit plan, also in the light of activities effectively performed in the previous three-year period and adoption of indications received from the Manager in charge of internal control and risk management, in the person of the Chief Executive Officer, or from the corporate governance Bodies, for the in-depth investigation of subjects to be analysed; or for a different assignment of priorities when conducting audits, even in the light of indications shared with management. Please note that at Group level, for the listed subsidiary Piaggio & C. Spa, the audit plan has been prepared for 2018 as the Enterprise Risk Management model of Piaggio is being updated by the Risk Manager; that plan will then be developed into a three-year plan based on priorities emerging following that project being finalised, with integration of action areas based on the above criteria. The Board reached an opinion of adequacy with regard to the control system. The Board of Statutory Auditors, in its capacity as "Internal Control Committee", liaised with a continuous flow of information with the Control and Risks Committee, constituted by Directors, also extending the meetings to all members of the Board of

Statutory Auditors.

Finally, the Board of Statutory Auditors interfaced with the Supervisory Board - again through its Chairman (who is also an acting member of the same), - also interacting with regard to updating of the Organisational, Management and Control Model pursuant to Legislative Decree 231/2001.

During Control and Risks Committee meetings no aspects emerged worthy of further mention here.

In view of the above, the Board of Statutory Auditors deems that the internal control system is, at present, on the whole adequate.

14. The Board of Statutory Auditors, for the aspects under its responsibility, deems the administrative/accounting system to be adequate and deems it appropriate to correctly represent operations. On this point, the Board of Statutory Auditors was informed periodically of activities supporting the Manager in charge of preparing company accounts (for which the Company also availed itself - as was said above – of IMMSI Audit S.c. a r.l. related to assessments to be performed in compliance with Law 262/2005), which implied analysing company areas considered important and assessing related risks, also considering the process to mitigate those risks. From the exchange of information with the CFO and from meetings with the Independent Auditors, the Board ascertained the validity of the functioning of such system. The Chairman of the Company, the CEO and the Manager in charge of preparing the company accounts and documents issued the certifications provided for by Art. 154-*bis*, paragraph 5, of Legislative Decree 58/1998. The Control and Risks Committee, in advance with respect to the Board of Directors which approved the financial statements, examined the results of the impairment procedures and discussed them with the Independent Auditors, in the presence of the Board of Statutory Auditors.

15. Pursuant to Art. 114 of Legislative Decree 58/98, the Company issues adequate instruction to its subsidiaries in order to obtain the information necessary to fulfil the disclosure requirements provided for by law. The aforementioned presence of Directors of the Company on the Boards of the main subsidiaries is also recalled here.

16. The Board of Statutory Auditors, during 2017 and beyond up to the date of this report, regularly held meetings with the Independent Auditors, PricewaterhouseCoopers, to exchange data and information of significance for the performance of their duties, as required by point 3 of Art. 150 of Italian Legislative Decree 58/98; no findings emerged from these meetings. The Board of Statutory Auditors acknowledges that it analysed issues with the Independent Auditors concerning, amongst other things: i) the recoverability of the carrying amount of the investments in subsidiaries and of goodwill, ii) the recoverability of deferred tax assets, iii) investments in development costs, industrial patent rights and the rights to use original works, iv) net debt, v) early adoption of IFRS 9 – separate financial statements Immsi S.p.A. and consolidated Immsi Group financial statements and vi) in the shipbuilding sector – the Finland Order – assessment of recoverability of the residual receivable from the Finnish Navy (final approval). Moreover, also to further analyse issues pursuant to Art. 19, paragraph 1, point *c)* of Legislative Decree 39/2010 (as renewed by Legislative Decree 135/2016), the Board of Statutory Auditors examined the important aspects of the audit plan, including an examination of significant risks and related audit responses. This examination also included a discussion – with the Independent Auditors – of the main types of risk. The Board of Statutory Auditors also examined the report pursuant to Art. 19, paragraph 1 letter a) of Legislative Decree 39/2010 produced by the Independent Auditors related to Art.11 of European Regulation 537/204 - also discussing it with the Independent Auditors themselves – in which PricewaterhouseCoopers declares that: a) no material deficiencies had been identified in the internal control system in relation to the financial disclosure process which, according to the professional opinion of this Company - are sufficiently important to be brought to the attention of the Internal Control and Audit Committee. b) no matters deemed significant were identified related to non conformities, effective or presumed, with laws and regulations or statutory provisions, to be submitted to the body's attention. The Board of Statutory Auditors carefully examined the report related to: 1) the contents of the audit report, 2) the auditor's approach, 3) the results of auditing activities and 4) the auditing team and independence. That report is transmitted to Directors by the Board of Statutory Auditors with its comments.

17. The Directors, in the "Report on Corporate Governance and Ownership" pursuant to Art. 123-*bis* Consolidated Law on Finance, in support of the financial statement dossier, provide detailed information regarding the corporate governance system, highlighting the degree of alignment with the indications provided by the Corporate Governance Code. In particular, the Company established the Directors' Remuneration Committee, the Control and Risks Committee, the Appointments Committee, the Lead independent director, the Manager appointed to the internal control and risk management system. The Company has a "procedure for communicating price-sensitive information to the general public", a "procedure for the management of the register of persons with access to price-sensitive information" and a "procedure to comply with *internal dealing* obligations" (adapted in 2016 related to the need to make them compliant with legislation resulting from Community regulations), which were updated as of 1 January 2018 for their application in compliance with the most recent orientations issued by ESMA, recommendations contained in Guidelines 1/2017 adopted by Consob on 13 October 2017 and amendments made by Consob to the Regulation on Issuers with resolution 19925 of 22 March 2017. Also these aspects are discussed in the annual corporate governance report. The Company has adopted the procedure - in force from 1 January 2011 and updated in December 2017 - to regulate the approval and management of transactions with Related Parties, pursuant to Art. 4 of Consob Regulation no. 17221 of 12 March 2010, put in place by IMMSI also by means of its subsidiaries. The permanence of the related parties committee is linked to the existence of three independent directors: this circumstance occurred on a continual basis during 2017. The independence requirements as of article 3 of the Corporate Governance Code and article 148, paragraph 3, letters b) and c) of Italian Legislative Decree 58/98 for independent directors were reviewed by the Board of Directors on 23 March 2017 and subsequently revised on 21 March 2018. The Board of Statutory Auditors certifies that the criteria and review procedures used by the Board of Directors to evaluate independence requirements had been correctly adopted. The Board of Statutory Auditors also verified the independence requirements of its members based on the same criteria and communicated such verification to the Board of Directors. On this point, it is acknowledged that the Board of Directors' meetings of 16 March 2015, 13 May 2015, 23 March 2016, 23 March 2017 and 21 March 2018, referred to members of control bodies, resolved, with no prejudice to assessment of Board of Statutory Auditors competence related to its own composition: (i) to consider it appropriate, in the interest of the Company, not to apply criterion 3.C.1 point e) of the Corporate Governance Code with regard to the Statutory Auditor Alessandro Lai; (ii) to recognise the fulfilment of the requirements of independence pursuant to Article 148, paragraph 3, of the Consolidated Law on Finance and Article 3 of the Corporate Governance Code by all the members of the Board of Statutory Auditors. The individual members of the Board also certify compliance with the limits on the number of offices pursuant to Art. 148-*bis*, paragraph 1 of Italian Legislative Decree 58/98. The members of the Board of Statutory Auditors shared the need, in the case of transactions for which they have an interest on their own behalf or on that of others, to report this situation to the Board of Directors and the other members of the Board itself.

The Company has for some time now adopted a Code of Ethics, an Organisation, Management and Control Model pursuant to Legislative Decree 231/2001 and a Supervisory Board, which also includes the Chairman of the Board of Statutory Auditors. The Company updates those documents, especially adapting those related to Legislative Decree 231/2001 with regard new offences added to the law.

The Company submits to the General Meeting a Remuneration Report pursuant to Art. 123-*ter* of Italian Legislative Decree 58/1998 and Art. 84-*quater* of Consob Regulation 11971/1999 and in accordance with Annex 3, schemes 7-*bis* and 7-*ter* of said Regulation.

18. The Board of Statutory Auditors, in the course of the verification carried out during the year, did not find omissions, misconduct or serious irregularities and, therefore, does not deem it necessary to make any report to the Controlling Bodies or to the General Meeting as provided for by paragraph 1 of Art. 153 of Legislative Decree 58/98.

19. The Board of Statutory Auditors has no proposal to submit to the General Meeting, pursuant to Art. 153 par. 2 of Legislative Decree 58/98, except as indicated below concerning approval of the financial statements.

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The Board of Statutory Auditors, in light of the considerations made and the aspects under its responsibility, has no reason to object to the approval of the financial statements at 31 December 2017 and adheres to the proposal of the Board of Directors regarding allocation of the operating profit.

Having reached the end of its three-year term of office, the Board of Statutory Auditors would like to thank Shareholders for the trust placed in it, and the Directors, senior management and Company personnel for their prompt collaboration as it performed its duties.

Mantova, 7 April 2018.

For the Board of Statutory Auditors– The Chairman

(prof. Alessandro Lai)