Annual Report 2016

Coesia Group

coesia

COESIA S.P.A. - with registered office in Bologna - Via Battindarno 91
Tax code 02221441203 - Bologna Company Register
Fully paid-up share capital € 125,000,000

Annual Report 2016

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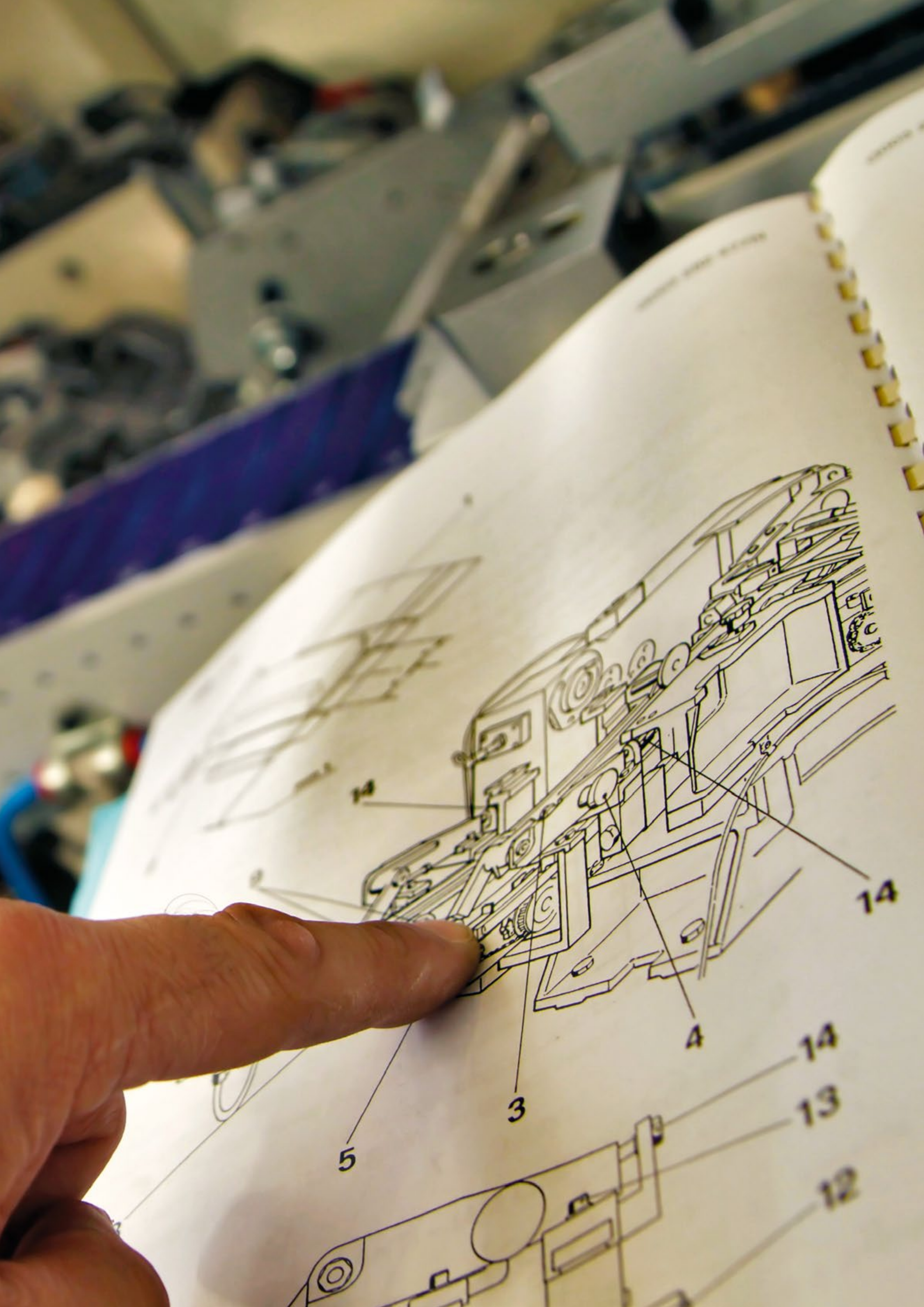
(Translation from the Italian original which remains the definitive version)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1. 2016 DIRECTORS' REPORT

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ACTIVITIES OF THE GROUP COMPANIES

COESIA S.p.A. is the holding company of an industrial group. Its subsidiaries' core business relates to the design, construction and sale of (i) automated packing and packaging machinery for the tobacco, food, cosmetics, pharmaceutical, nappy, consumer goods segments, aseptic filler machines, package opening and closing systems and multi-layer packaging material using a combination of polyethylene, paper and aluminium sheets (Advanced Automated Machinery and Materials), (ii) manufacturing logistics solutions and production control, in-line printing and premium and luxury goods packaging equipment (Industrial Process Solutions) and (iii) gears on behalf of third parties (Precision Gears).

In June 2016, Coesia S.p.A. acquired 100% of Emmeci S.p.A., a world-leader in the design, production and promotion of automated machinery for the production of premium and luxury goods packaging. In 2016, the Emmeci Group, with about 90 employees, recorded total sales of approximately €28 million. This transaction is another step towards the presence of the Coesia Group in the most attractive segments of the packaging industry as it enabled it to enter the premium and luxury goods packing segment.

In July 2016, the Coesia Group acquired 100% of CR Holding S.p.A., which, in turn, wholly owns GF S.p.A., a company based in Solignano (Parma) which provides quality control systems and automated machinery for liquid filling. The aim of the transaction is to apply these innovative technologies to the automated machinery for the packing of tobacco products, specifically the production of electronic cigarettes with liquid cartridges.

COESIA S.p.A. is the direct parent of the following companies operating in the various group businesses and belonging to the following operating segments, i.e.:

<u>ADVANCED AUTOMATED MACHINERY & MATERIALS (AAM&M)</u>

- G.D S.p.A., with registered office in Bologna, is mainly active in the field of automated packing and packaging machinery for cigarettes and the tobacco industry in general. G.D S.p.A. controls a network of companies (in the USA, Brazil, Germany, United Kingdom, China, Japan, Singapore, Hong Kong, Indonesia, Russia, South Africa, South Korea, Turkey and the United Arab Emirates) that serve as its distribution and after-sales centres, as well as genuine production centres (in the USA, Brazil, Germany, Japan, Turkey and Indonesia); moreover, G.D S.p.A. wholly owns: (i) Sasib S.p.A., with registered office in Castel Maggiore (Bologna), a company that produces automated machinery for the tobacco industry with a large range of maker and packer lines installed in several markets throughout the world and which completes and integrates, also in the low speed segment, the lines of products that G.D S.p.A. offers to its customers and (ii) GF S.p.A., with registered office in Solignano (Parma), a company that provides quality control systems and automated machinery for liquid filling, mainly for the pharmaceutical industry.

- ACMA S.p.A., with registered office in Bologna, produces automated machinery for the food segment and consumer goods manufacturing in general;
- GDM S.p.A., with registered office in Offanengo (CR), is active in the field of automated nappy and sanitary napkin production and packaging machinery;
- VOLPAK S.A., with registered office in Barcelona (Spain), is active in the automated packaging machinery segment;
- NORDEN AB, with registered office in Kalmar (Sweden), manufactures packaging and tube filling machines for the cosmetics and pharmaceutical industry, in addition to packing lines. It directly controls SACMO SA and ADMV SAS which are consolidated within the Industrial Process Solutions (IPS) operating segment.
- CITUS KALIX SAS, with registered office in Evry (France), is part of Norden group and operates in the tube and lipstick packaging and filling machines for the cosmetics industry, in addition to packing lines;
- R.A. JONES & CO. INC., based in Covington (Kentucky) in the United States, produces automated machinery for the food segment and for consumer goods manufacturing in general;
- IPI S.r.l., with registered office in Perugia, produces aseptic filler machines, package opening and closing systems and multi-layer packaging material using a combination of polyethylene, paper and aluminium sheets. IPI has two production sites in the Perugia area.

INDUSTRIAL PROCESS SOLUTIONS (IPS)

- FLEXLINK AB, a Swedish group with registered office in Gothenburg (Sweden), operates in the design, construction and sale of manufacturing logistics solutions;
- HAPA AG, with registered office in Zurich (Switzerland), is active in the in-line printing solutions for the pharmaceutical industry;
- ADMV SAS, with registered office in Bourgoin Jailieu (France), manufactures robotic systems, bowl feeders and disk feeders, blade elevators, depalletizers, palletizers and vision systems;
- SACMO SA, with registered office in Saint-Quentin (France), designs full packaging machinery production lines and rebuilds and retrofits machinery already being used in production.
- EMMECI S.p.A., with registered office in Cerreto Guidi (Florence), designs, produces and promotes automated machinery for the production of premium and luxury goods packaging.

OTHERS

- CIMA S.p.A., with registered office in Bologna, designs and manufactures high performance precision gears, gearboxes and suppressors for the racing, aerospace, automotive and automated machinery segments.

THE MACROECONOMIC SITUATION

The macroeconomic situation was still uncertain at the end of 2016, with global economic activities again held back by smaller growth in emerging countries, while the slight revival of advanced economies continued, but at a slower pace than in 2015 in the main economic regions.

In 2016, US GDP rose 1.6% (+2.6% on 2015), Eurozone GDP rose 1.7% (+2.0% on 2015). In Germany, it grew only 1.7% (slightly up on 2015), whereas in Japan, it increased 0.9% (+1.2% on 2015). In the emerging countries, economic activity slowed, although it remained at positive levels in China and India. Chinese GDP grew 6.7%, compared to growth of 6.9% in 2015, while India's GDP climbed 6.6%, compared to approximately 7.6% in 2015.

According to the International Monetary Fund's most recent estimates, at a global level, the expected growth for 2017 and 2018 should be around 3.4% and 3.6%, respectively, in line with the estimates made during the year.

However, this forecast is affected by the significant uncertainties surrounding the global geopolitical situation, especially the development of the political situation in the US (and its impacts) following the recent presidential elections.

The growth of the Euro area in 2017 should be 1.6%, slightly down on 2016 as a result of the expected decline in the growth of most of the main advanced economies of the area (Germany, Italy and Spain). Japan continues to struggle, with a 0.8% growth predicted in 2017.

In the emerging and developing countries, the growth in the coming two years is expected to remain steady at over 4% per year, from 4.5 % in 2017 and 4.8% in 2018 compared to 4.1% in 2016.

GROUP PERFORMANCE

Markets

With regard to the operating segments of the group companies, the results achieved in 2016 were in line with forecasts, slightly down on 2015. They were particularly good for the Group, despite the still uncertain macroeconomic situation.

Coesia Group's operating segments are analysed as follows.

Advanced Automated Machinery and Materials (AAM&M)

2016 decreased slightly on the previous year in a tough market situation. With regard to the tobacco market, global cigarette consumption remained substantially steady thanks to positive market trends in South East Asia, the Middle East and Africa, offsetting the slowdown in consumption in western markets and China. Thanks to the focus on innovative products and improving after-sales services to customers, the fall in demand for standard machinery was cushioned. This is an opportunity for growth in order to provide increasingly efficient solutions to cut production costs for the Group's customers. The new EU Tobacco Products Directive ("TPD"), currently being transposed by national governments, places significant restrictions on tobacco products. However, there are still many possibilities of interpretation, creating uncertainties that are reflected in the stalling tactics currently seen in market investments. These new regulations also create an opportunity for supplying kits and transformation groups for existing machinery in order to adapt them to the new legislation and supply innovative products.

In this tough market situation, the start-of-the-year expected sales results for the tobacco business were met by increasing territorial coverage, customer portfolio and expanding services, while profitability remained in line with the previous year thanks to the continued project efficiency and the favourable product mix. Despite the decrease on the previous year already envisaged in the budget, the successful results achieved by the tobacco business offset the reduction in the consumer goods and aseptic filling machinery and materials business, which were unable to match the excellent results of the prior year as a consequence of greater investments and the focus on new platforms in prototype stage. The growth trend for these sectors is confirmed in Western markets and in the most industrialised countries, where investments are tied to the need to diversify and innovate products and the demand for greater efficiency in production processes which are met by the product portfolio and quality of after-sales services in the consumer goods machinery business. In emerging and developing countries, growth trends are supported by the increase in the demand for consumer goods and the growing need for automated production processes.

In 2016, the focus remained the ability to provide high-tech and strongly innovative products, improving project execution, adopting actions specifically aimed at innovating after-sales services and ongoing monitoring of cost evolution.

The Group's significant investments in R&D and its global presence mean the Group foresees a positive outlook in sales and profitability for the future. Investments underway are aimed at improving both the technical characteristics of group products and broadening the service portfolio, thus guaranteeing the performance of investments for customers over their useful life.

Industrial Process Solutions (IPS)

2016 also saw significant improvements in results for the IPS segment compared to the previous year with regard to the main financial indicators. The reference markets recorded trends in line with the global macroeconomic situation, increasing Europe and North America and in the main business segments (Automotive, Pharmaceuticals and Food and Consumer Goods) and showing positive trends in emerging and developing countries. The main companies of the segment also achieved significant improvements in project execution and testing processes and important efficiencies in the cost base.

Forecasts for 2017 show further systematic organic growth with strategies continuing from previous years and the full integration of the Emmeci Group in the business segment.

Income statement

The following main captions of the reclassified income statement are equivalent to the corresponding captions of the income statement shown in the 2016 Consolidated financial statements, except for the EBITDA caption which is EBIT plus amortisation and depreciation for the year and EBIT BEFORE NON-RECURRING INCOME / EXPENSE and EBITDA BEFORE NON-RECURREINC INCOME / EXPENSE which are EBIT and EBITDA gross of non-recurring income/expense.

€/000	2016	2015
REVENUE	1,457,027	1,533,633
GROSS OPERATING PROFIT	511,252	536,755
EBIT (OPERATING PROFIT) BEFORE NON-RECURRING INCOME / EXPENSE	237,436	264,755
NON-RECURRING INCOME / (EXPENSE)	(30,854)	12,416
EBIT (OPERATING PROFIT)	206,582	277,171
EBITDA BEFORE NON-RECURRING INCOME / EXPENSE	285,131	311,092
NON-RECURRING INCOME / (EXPENSE)	(30,085)	12,416
EBITDA	255,046	323,508
PROFIT FOR THE YEAR	128,681	170,715

Non-recurring income/expense may be analysed as follows:

€/000	2016	2015
INCOME AND (EXPENSE) FROM M&A TRANSACTIONS*	(2,122)	12,416
NON-RECURRING TOP MANAGEMENT REMUNERATION	(27,371)	-
CHARGES FOR THE RELOCATION TO THE NEW PLANT IN CHINA	(1,361)	-
TOTAL NON-RECURRING INCOME / (EXPENSE)	**(30,854)**	**12,416**

* the 2015 balance includes M&A charges of €1,684 thousand and the gain on the sale of the Laetus business of €14,100 thousand.

Revenue by segment

€/000	2016	%	2015	%
ADVANCED AUTOMATED MACHINERY AND MATERIAL	1,143,687	78%	1,219,447	80%
INDUSTRIAL PROCESS SOLUTION	291,035	20%	294,059	19%
OTHERS	22,305	2%	20,127	1%
Total	**1,457,027**	**100%**	**1,533,633**	**100%**

Consolidated revenue was €1,457 million for 2016, down by 5% on the previous year.

With regard to revenue trends by segment, see the comments thereon in the "Operating segment analysis" section.

Revenue by geographical segment

€/000	2016	%	2015	%	Variation %
EUROPEAN UNION	434,647	30%	438,073	29%	(1%)
NORTH AMERICA	243,084	17%	257,902	17%	(6%)
ASIA	342,124	23%	417,499	27%	(18%)
OTHER	378,817	26%	366,501	24%	3%
Total revenue outside Italy	**1,398,672**	**96%**	**1,479,975**	**97%**	**(6%)**
ITALY	58,355	4%	53,658	3%	8%
Total revenue	**1,457,027**	**100%**	**1,533,633**	**100%**	**(5%)**

96% of 2016 revenue was earned outside Italy (97% in 2015); specifically, mostly from Asia and the rest of the European Union. Sales in the EU are substantially in line with the previous year, while North America recorded a drop in sales. In Asia, sales continued to drop following large investments made by customers in previous years.

Sales for the IPS sector grew in North America and dropped slightly in Europe, while the overall reduction in revenue from other geographical segments is mainly due to the AAM&M sector, which has increased its revenues in the "Other" geographical segment.

Gross operating profit

Gross operating profit was 35% as a percentage of revenue, basically in line with the previous years.

Research and development expenditure

The Group views research and development activities as a driver of differentiation and long-term sustainable performance. The research and development expenditure incurred during the year amounts to €64.4 million, up on the previous year (€53.7 million incurred in 2015). It accounts for approximately 4.5% of 2016 revenue (3.5% in 2015).

Development expenditure which met capitalisation requirements under IAS 38 amount to €38.4 million in 2016 (€24.3 million in 2015). The amortisation of expenditure capitalised during 2016 and previous years amount to €20.5 million (€17.7 million in 2015). Capitalised expenditure is amortised over five years starting from when the products are available for sale.

Therefore, research and development expenditure recognised in the 2016 consolidated income statement amounts to €46.5 million (€47,2 million in 2015).

In 2016, many investments in the tobacco sector were focused on developing new solutions for manufacturing special cigarette packets and, particularly, building innovative platforms for producing multi-segment electronic cigarettes and with liquid refills.

In the consumer goods machinery and aseptic filling machinery and materials businesses, R&D activities centred on projects deemed strategic in relation to the prospects of developing, diversifying and innovating the end products of group customers.

Research and development investments in the Industrial Process Solution business were also significant and mainly aimed at effectively meeting the demands of key customers for optimal management of production and logistics processes and expanding expertise in new digital technologies.

Operating profit (EBIT)

Operating profit of €206.6 million included non-recurring income of €30.9 million as described earlier.

Operating profit gross of non-recurring income/expense was €237.4 million (16.3% as a percentage of revenue), slightly down on last year (2015: operating profit €264.8 million and 17.3% of revenue). The decrease was mainly due to the reduction in volumes and the resulting smaller absorption of small costs.

Profitability indicators

The main profitability indicators for 2016 and 2015 were as follows:

Indicators		2016	2015
Return on sales (R.O.S.)	EBIT (OPERATING PROFIT) BEFORE NON-RECURRING INCOME / EXPENSE / Revenue	16.30%	17.26%
Return on investment (R.O.I.)	EBIT (OPERATING PROFIT) BEFORE NON-RECURRING INCOME / EXPENSE / Average net invested capital	26.59%	31.99%
Return on equity (R.O.E.)	Profit for the year / Average equity	16.90%	26.05%

The drop in R.O.S. was described earlier. The reduction in R.O.E was mainly due to the decrease in operating profit and the increase in equity, while the lower R.O.I., in addition to that mentioned above, is mainly attributable to the increase in net invested capital due to the acquisitions of the year.

Statement of financial position

The following main captions of the statement of financial position are equivalent to the corresponding captions of the statement of financial position shown in the 2016 Consolidated financial statements. The Group's invested capital is presented in the following table. Furthermore, "Other, net" includes non-current financial assets, current tax assets, other current assets, provisions for risks and charges, current tax liabilities and other current liabilities. "Pensions, post-employment benefits and other" includes the liability for employee benefits and deferred tax assets and liabilities - line with the previous year - as well as the escrow account related to the Laetus business of €3,750 thousand, classified under "Other current financial assets".

€/000	2016	2015
Trade receivables	378,571	343,464
Inventories	446,078	399,613
Trade payables	(236,609)	(226,843)
Other, net	(383,038)	(320,945)
Net working capital	**205,002**	**195,289**
Property, plant and equipment and investment property	211,738	196,957
Intangible assets	590,128	479,393
Non-current assets	**801,866**	**676,350**
Pensions, post-employment benefits and other	(55,036)	(38,377)
Net invested capital	**951,832**	**833,262**
Non-current assets and liabilities held for sale	26	811
Total net invested capital	**951,858**	**834,073**
Financed by:		
Net financial debt	**151,252**	**110,825**
Equity attributable to non-controlling interests	494	571
Equity attributable to the owners of the parent	**800,112**	**722,677**
Total sources of financing	**951,858**	**834,073**

The increase in net working capital at 31 December 2016 compared to the previous year is due to the acquisitions of the year.

€/000	2016	2015
Cash and liquid funds	(289,575)	(267,647)
Investments in securities	(33,135)	(26,607)
Liquidity	**(322,710)**	**(294,254)**
Current loan assets	(2,822)	(3,110)
Current bank loans and borrowings	55,399	22,142
Other current loans and borrowings	12,802	7,789
Current financial debt	**65,379**	**26,821**
Current net financial debt	**(257,331)**	**(267,433)**
Non-current bank loans and borrowings	184,125	163,920
Bonds	199,282	199,137
Other non-current loans and borrowings	15,176	15,201
Non-current financial debt	**398,583**	**378,258**
Dividends	**10,000**	**0**
Total net financial debt	**151,252**	**110,825**

The net financial debt at 31 December 2016 includes the negative fair value of currency and interest rate hedges (€3,011 thousand) and other transactions (€3,043 thousand). Total cash flows from operating activities, gross of non-recurring transactions, amount to approximately €121.4 million, as shown in the table below.

€/000	2016	2015
Changes in total net financial debt	(40,427)	121,847
Non-recurring transactions:		
Financial effect of non-recurring income/expense and acquisition/sale of businesses/companies*	111,779	(32,066)
Dividends distribution	50,000	0
Change in net financial debt, net of non-recurring transactions	**121,352**	**89,781**

*Includes the consideration paid for the acquisition and net financial debt acquired

Human resources

The workforce at 31 December 2016 numbered to 6,170 (5,925 at 31 December 2015). The main increase on the previous year is linked to the above-mentioned acquisitions of the GF and Emmeci Groups, up by roughly 160 employees. Italian group personnel at 31 December 2016 came to 2,924.

Operating segment analysis

Reference should be made to the notes to the consolidated financial statements.

1.1 OTHER INFORMATION

Main risks and uncertainties

In relation to the requirements of article 2428 of the Italian Civil Code for disclosures about the main “risks and uncertainties” and the “environment and personnel”, no significant events took place.

The group companies are exposed to the normal risks and uncertainties of industrial businesses engaged in designing, producing and selling consumer goods with a high technological content on international markets.

Furthermore, in relation to market risks for the subsidiary G.D., there are new stricter laws being introduced in the European Union, as well as in non-EU countries, that may have additional influence on cigarette consumption and the demand for new machinery. The new laws may have an impact on the demand for machinery and a possible pressure on prices with an effect on the company’s profitability. This risk is mitigated by the opportunities to transform existing machinery in order to adapt them to the new legislation and the supply of innovative products.

Though present, the related credit, liquidity, currency and interest rate risks do not have significant potential impacts on the current consolidated financial position and that of individual group companies. In any case, they are suitably monitored and managed, as commented on in the notes to the consolidated financial statements. Specifically, the policy of COESIA and its subsidiaries is to mitigate currency and interest rate risks via specific hedges.

Investments in foreign operations are not hedged, except for the programmed distribution of dividends, as foreign currency positions are considered to be of a long-term nature.

As noted, COESIA's and its subsidiaries' market is characterised by demand for highly technological and innovative solutions and, accordingly, the Group invests around 4.5% of its revenue in R&D. In this context, employees' expertise is of strategic importance, especially in technical areas. The Group invests heavily and constantly in training and retaining its employees and in the work place. It carefully monitors and applies the relevant labour legislation, especially that covering occupational health and safety. The parent and main Italian group companies adopted the management model provided for by Legislative decree no. 231/2001 covering safety in the workplace and they updated it to include bribery in the private sector and undue inducement to give or promise benefits.

Number and nominal value of own shares

The Group does not hold any own shares.

Significant events

There are no additional significant events to be reported herein, in addition to those described earlier in relation to the acquisitions of Emmeci S.p.A. and CR Holding S.p.A..

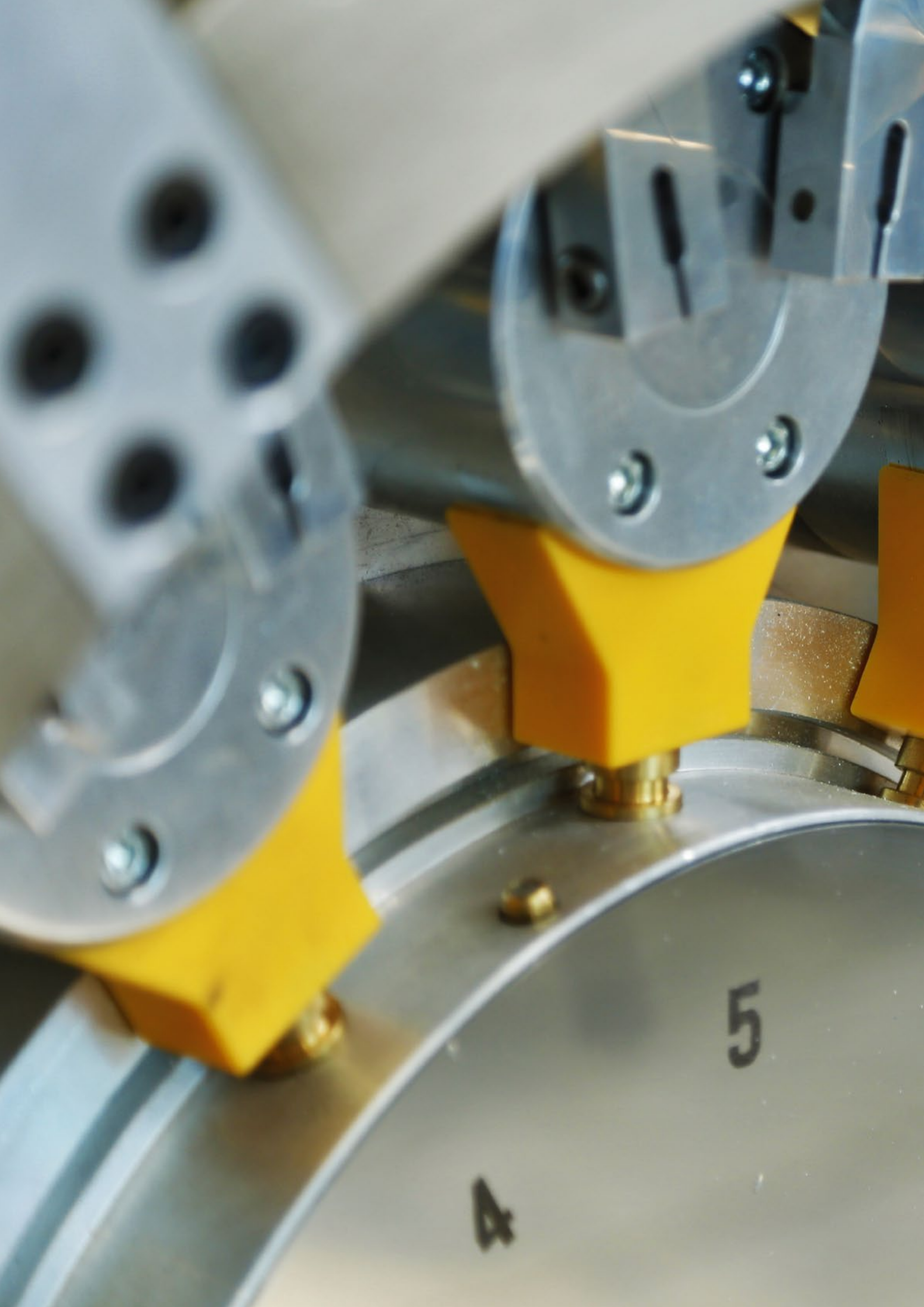
Events after the reporting date

None.

Outlook

Positive forecasts can be confirmed for the Coesia Group in 2017 considering the trends in negotiations underway with customers, incoming orders expected during the year and the current backlog. Expectations for the Advanced Automated Machinery & Materials operating segment entail an increase in the main financial results, maintaining profitability thanks to the product mix, the expansion of the sales coverage and efficiency programmes for processes with risks deriving from the normal volatile nature of the business against an uncertain macroeconomic backdrop.

The Industrial Process Solutions segment is expected to improve its financial results in 2017, in terms of both sales and profitability. In line with previous years, the strategy focuses on segments and products with strong innovation and differentiation characteristics, specifically those related to industry 4.0, in order to boost penetration into more profitable sectors. It will particularly target strengthening and further developing relations with leading global players, expanding the sales territory and implementing actions to boost the efficiency of industrial and operating processes.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2. 2016 CONSOLIDATED FINANCIAL STATEMENTS

2. 2016 CONSOLIDATED FINANCIAL STATEMENTS

Statement of financial position

€/000	Note	31 December 2016	31 December 2015
Property, plant and equipment	3.3.1	211,180	196,457
Investment property	3.3.1	558	500
Goodwill and other intangible assets with an indefinite life	3.3.2	492,995	402,816
Intangible assets with a finite life	3.3.3	97,133	76,577
Equity-accounted investees	3.3.4	-	-
Non-current financial assets	3.3.5	1,365	11,234
Deferred tax assets	3.3.6	92,046	85,551
Total non-current assets		**895,277**	**773,135**
Inventories	3.3.7	413,983	372,560
Contract work in progress	3.3.8	32,095	27,053
Trade receivables	3.3.9	378,571	343,464
Current financial assets	3.3.10	39,705	29,717
Current tax assets	3.3.11	13,127	9,237
Other current assets	3.3.12	49,580	45,071
Cash and cash equivalents	3.3.13	289,575	267,647
Non-current assets held for sale		26	811
Total current assets		**1,216,662**	**1,095,560**
Total assets		**2,111,939**	**1,868,695**
Share capital	3.3.14	125,000	125,000
Reserves	3.3.14	130,310	130,408
Retained earnings	3.3.14	416,121	296,554
Profit attributable to the owners of the parent	3.3.14	128,681	170,715
Equity attributable to the owners of the parent	**3.3.14**	**800,112**	**722,677**
Equity attributable to non-controlling interests	**3.3.14**	**494**	**571**
Total equity	**3.3.14**	**800,606**	**723,248**
Non-current financial liabilities	3.3.15	398,583	378,258
Employee benefits	3.3.16	82,088	69,637
Non-current provisions for risks and charges	3.3.17	4,350	13,769
Deferred tax liabilities	3.3.6	68,744	58,041
Other non-current liabilities		1,155	136
Total non-current liabilities		**554,920**	**519,841**
Current financial liabilities	3.3.15	68,201	29,931
Current provisions for risks and charges	3.3.17	81,538	85,380
Trade payables	3.3.18	236,609	226,843
Current tax liabilities	3.3.11	20,002	20,566
Other current liabilities	3.3.19	350,063	262,886
Total current liabilities		**756,413**	**625,606**
Total liabilities		**1,311,333**	**1,145,447**
Total equity and liabilities		**2,111,939**	**1,868,695**

Income statement

€/000	Note	2016	2015
Revenue	3.4.1	1,457,027	1,533,633
Cost of sales	3.4.2	(945,775)	(996,878)
Gross operating profit		**511,252**	**536,755**
Commercial and distribution costs	3.4.3	(117,498)	(117,754)
General and administrative expenses	3.4.4	(133,539)	(99,852)
Research and development expenditure	3.4.5	(46,469)	(47,182)
Other income	3.4.6	2,563	17,350
Other costs	3.4.6	(9,727)	(12,145)
Operating profit		**206,582**	**277,171**
Financial income	3.4.7	16,092	24,512
Financial expense	3.4.8	(31,999)	(56,567)
Gains (losses) on equity-accounted investees		0	(110)
Pre-tax profit		**190,675**	**245,006**
Income tax expense	3.4.9	(62,179)	(74,254)
Profit for the year		**128,496**	**170,752**
Profit (loss) for the year attributable to non-controlling interests		**(185)**	**37**
Profit for the year attributable to the owners of the parent		**128,681**	**170,715**

Statement of comprehensive income

€/000	2016	2015
Profit for the year	**128,496**	**170,752**
Net actuarial losses on defined benefit plans	(4,492)	(139)
Total items that will not be reclassified to profit or loss	**(4,492)**	**(139)**
Net exchange rate gains on translating foreign operations	4,307	29,845
Gains (losses) on cash flow hedges	(1,059)	3,687
Total items that may be reclassified subsequently to profit or loss	**3,248**	**33,532**
Other comprehensive income (expense) attributable to the owners of the parent	**(1,244)**	**33,393**
Other comprehensive income (expense) attributable to non-controlling interests	**0**	**2**
Other comprehensive income (expense)	**(1,244)**	**33,395**
Comprehensive income	**127,252**	**204,147**
Comprehensive income (expense) attributable to non-controlling interests	**(185)**	**39**
Comprehensive income attributable to non-controlling interests	**127,437**	**204,108**

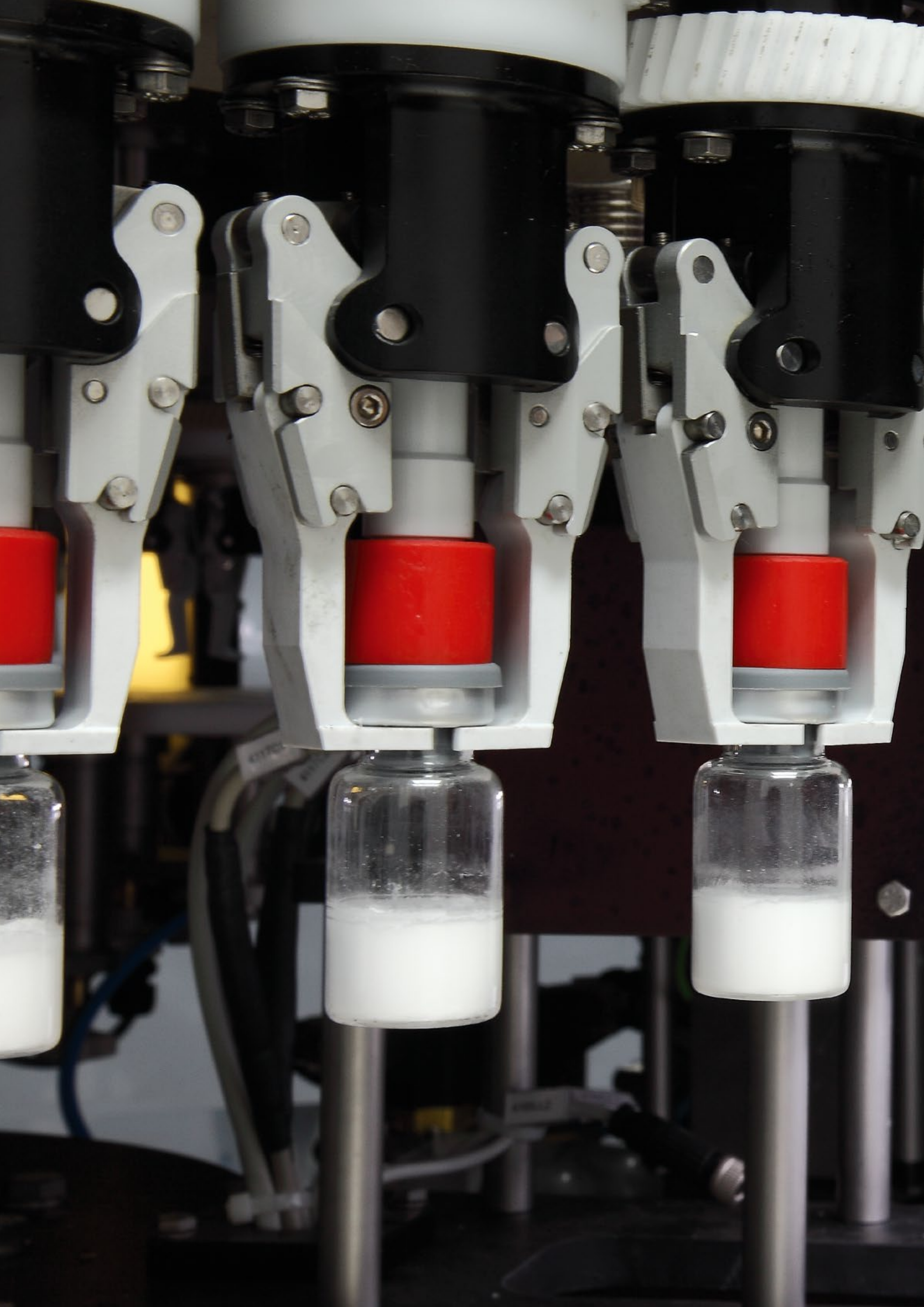
Statement of changes in equity

Note 3.3.14

€/000	Share capital	Revaluation reserves	Legal reserve	Hedging reserve	Reserve for actuarial gains (losses) on employee benefits	Translation reserve	Total reserves	Retained earnings	Profit attributable to the owners of the parent	Equity attributable to the owners of the parent	Equity attributable to non-controlling interests	Total equity
Opening balance at 1 January 2014	125,000	86,135	12,272	(1,239)	(1,535)	-	95,633	237,849		458,482	514	458,996
Other comprehensive income				(3,854)	(10,635)	18,842	4,353			4,353		4,353
Profit for the year									125,245	125,245	(25)	125,220
Comprehensive income	-	-	-	(3,854)	(10,635)	18,842	4,353	-	125,245	129,598	(25)	129,573
Other								45		45	43	88
Total effects deriving from owner transactions	-	-	-	-	-	-	-	45	-	45	43	88
Total variations in investments	-	-	-	-	-	-	-	-	-	-		-
Closing balance at 31 December 2014	125,000	86,135	12,272	(5,093)	(12,170)	18,842	99,986	237,894	125,245	588,125	532	588,657
Other comprehensive income				3,687	(139)	29,845				33,393	2	33,395
Profit for the year									170,715	170,715	37	170,752
Comprehensive income	-	-	-	3,687	(139)	29,845	-	-	170,715	204,108	39	204,147
Dividends										-		-
Allocation of profit for the prior year			779					124,466	(125,245)	-		-
Other								8		8		8
Total effects deriving from owner transactions	-	-	779	-	-	-	-	124,474	(125,245)	8	-	8
Mast S.r.l. demerger			(3,750)					(65,814)		(69,564)		(69,564)
Total variations in investments	-	-	(3,750)	-	-	-	-	(65,814)	-	(69,564)	-	(69,564)
Closing balance at 31 December 2015	125,000	86,135	9,301	(1,406)	(12,309)	48,687	130,408	296,554	170,715	722,677	571	723,248
Other comprehensive income				(1,059)	(4,492)	4,307				(1,244)		(1,244)
Profit for the year									128,681	128,681	(185)	128,496
Comprehensive income	-	-	-	(1,059)	(4,492)	4,307	-	-	128,681	127,437	(185)	127,252
Dividends								(50,000)		(50,000)		(50,000)
Allocation of profit for the prior year			1,146					169,569	(170,715)	-		-
Other								(2)		(2)	108	106
Total effects deriving from owner transactions	-	-	1,146	-	-	-	-	119,567	(170,715)	(50,002)	108	(49,894)
Total variations in investments	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2016	125,000	86,135	10,447	(2,465)	(16,801)	52,994	130,310	416,121	128,681	800,112	494	800,606

Statement of cash flows

Statement of cash flows (indirect method)		
€/000	**2016**	**2015**
Cash flows from operating activities		
Profit for the year	128,681	170,715
Adjustments for:		
Depreciation	22,915	23,815
Amortisation	25,548	22,522
Net change in allowance for impairment	(1,504)	136
Net financial expense	15,907	32,055
Share of profit (loss) of equity-accounted investees	(15)	189
Gains on sale of property, plant and equipment	841	(108)
Change in deferred taxes, provisions and employee benefits	(8,621)	5,599
Taxes	57,459	75,563
Profit (loss) attributable to non-controlling interests	(77)	39
Exchange rate gains (losses)	(2,813)	3,805
Cash flows from operating activities gross of working capital	238,321	334,330
Variations in:		
– inventories and contract work in progress	(36,942)	39,741
– trade receivables and other assets	(25,128)	(39,015)
– trade payables and other liabilities	60,705	(58,527)
Net interest paid	(18,552)	(24,894)
Income taxes paid	(53,735)	(75,943)
A) Net cash flows from operating activities	**164,669**	**175,692**
Cash flows from investing activities		
Sales of property, plant and equipment	3,560	4,293
Investments in property, plant and equipment	(34,015)	(32,747)
Disbursements for investment property	(94)	0
Sales of intangible assets	0	15,358
Net investments intangible assets	(43,831)	(29,490)
Sales of equity investments	800	0
Investments in equity investments, including the net financial position of the companies acquired	(82,185)	(5,677)
Investments in financial assets	(6,646)	(6,484)
B) Net cash flows used in investing activities	**(162,411)**	**(54,747)**
Cash flows from financing activities		
Dividend distribution	(40,000)	0
New loans	77,955	115,000
Loans repaid	(18,285)	(257,100)
C) Cash flows from (used in) financing activities	**19,670**	**(142,100)**
Net increase/(decrease) in cash and cash equivalents (A+B+C))	**21,928**	**(21,155)**
Opening cash and cash equivalents	**267,647**	**288,802**
Closing cash and cash equivalents	**289,575**	**267,647**



3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016

3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016

3.1 General information and basis of preparation

COESIA Group operates in the design, construction and sale of (i) automated packing and packaging machinery for the tobacco, food, cosmetics, pharmaceutical, nappy, consumer goods segments, aseptic filler machines, package opening and closing systems and multi-layer packaging material using a combination of polyethylene, paper and aluminium sheets (Advanced Automated Machinery and Materials), (ii) manufacturing logistics solutions and production control, in-line printing and premium and luxury goods packaging equipment (Industrial Process Solutions) and (iii) gears on behalf of third parties (Precision Gears).

The main Coesia Group companies and their activities are discussed in the directors' report.

Statement of compliance with IFRS

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission using the procedure provided for by article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002 and pursuant to article 9 of Legislative decree no. 38/05.

"IFRS" specifically refers to all the International Financial Reporting Standards and the International Accounting Standards (IAS), integrated by the interpretations of the International Reporting Interpretations Committee (IFRIC).

Basis of presentation

The consolidated financial statements as at and for the year ended 31 December 2016 are comprised of a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity and a statement of cash flows, as well as these notes.

The financial statements structure chosen by the group is as follows:

- the statement of financial position prepared presenting assets and liabilities as current or non-current based on the group's ordinary operating cycle;
- the income statement classified by function, as this is deemed to correctly present the group's

business;

- the statement of comprehensive income with captions comprising the profit for the year and gains and losses recognised directly in equity for non-owner transactions. The captions are presented net of tax effects;
- the statement of changes in equity showing the comprehensive income, presenting separately total amounts pertaining to the owners of the parent and those pertaining to non-controlling interests;
- the statement of cash flows showing cash flows using the "indirect method", as provided for by IAS 7.

Reference should be made to the directors' report for information on the group's performance for the year.

The consolidated financial statements as at and for the year ended 31 December 2016 were approved by the board of directors on 3 May 2017 for presentation to the shareholders.

Basis of consolidation

The consolidation policies adopted are as follows.

Subsidiaries are companies controlled by COESIA S.p.A., as it has the power to directly or indirectly govern their financial and operating policies and obtain benefits from their operations. In general, subsidiaries are companies in which COESIA S.p.A. holds over 50% of the voting rights, also considering potential voting rights that are currently exercisable.

Business combinations are recognised using the acquisition method. The consideration transferred in a business combination is determined when control is taken and is equal to the fair value of the assets transferred and liabilities incurred or assumed, in addition to any equity instruments issued by the acquirer. Costs directly related to the transaction are taken to profit or loss when incurred.

At the date control is acquired, the equity of the investees is calculated by measuring the individual assets and liabilities at the acquisition-date fair value. Any residual positive difference compared to the acquisition cost is recognised under the asset caption "Goodwill", while any negative difference is taken to profit or loss.

Receivables, payables, costs and revenue items between group companies are eliminated, along with intragroup profit and losses related to amounts included under assets.

The presence of captions related to assets, liabilities and interest income and expense with subsidiaries and the parent in the statement of financial position and income statement related to transactions with companies not included in the consolidation scope.

Investments in associates are measured using the equity method. Generally, a portion of the share capital or voting rights equal to or higher than 20% but lower than 50% is held in these investees.

Investments in other companies are initially recognised at cost and adjusted to fair value with the difference taken to profit or loss. Generally, a portion of the share capital or voting rights lower than 20% is held in these investees. Should it not be possible to reliably determine the fair value, such investments are measured at cost, adjusted for any impairment losses. The related dividends are recognised under financial income when the right thereto is determined, which generally coincides with the shareholders' resolution.

With the exception of Coesia India Pvt, Ltd and Flexlink System Pty, Ltd which close their financial years at 31 March as required by local regulations, all other group companies close the year at 31 December.

Such companies prepare a reporting package for consolidation purposes at 31 December.

Translating foreign current financial statements

Under IAS 21, the financial statements of companies operating in non-Eurozone areas are translated into Euro - the group's functional currency - by applying the closing spot exchange rates to asset and liability captions, historical exchange rates to equity captions and average rates for the year to income statement captions.

The translation differences arising on financial statements of companies operating in non-Eurozone areas deriving from the application of different exchange rates for assets and liabilities, equity and income statement captions are recognised under the equity caption "Exchange differences on translating foreign currency financial statements". The translation reserve is taken to profit or loss when the entire investment is sold, i.e., when the investee no longer qualifies as a subsidiary. If the group only sells part of its investment, without losing control, the portion of the exchange rate gain or loss related to the portion of the investment sold is allocated to equity pertaining to non-controlling interests.

The exchange rates applied are as follows:

Currency	Closing rate at 31/12/2016	Closing rate at 31/12/2015
Brazilian real	3.4305	4.3117
Argentinian peso	16.7488	N/A
Swiss franc	1.0739	1.0835
Renminbi (Chinese yuan)	7.3202	7.0608
Pound sterling	0.85618	0.73395
Hong Kong dollar	8.1751	8.4376
Indian rupee	71.5935	72.0215
Japanese yen	123.4	131.07
Mexican peso	21.7719	18.9145
Russian ruble	64.3	80.6736
Swedish krona	9.5525	9.1895
Thai baht	37.726	39.248
Turkish lira	3.7072	3.1765
Ukrainian hryvnia	28.7386	26.1587
US dollar	1.0541	1.0887
South Korean won	1269.36	1280.78
South African rand	14.457	16.953
Malaysian ringgit	4.73	N/A
Indonesian rupiah	14,173.4	15,040
United Arab Emirates dirham	3.87	N/A

Currency	2016 average rate	2015 average rate
Brazilian real	3.857599	3.699359
Argentinian peso	16.342	N/A
Swiss franc	1.090187	1.067823
Renminbi (Chinese yuan)	7.351974	6.97237
Pound sterling	0.819166	0.725819
Hong Kong dollar	8.592595	8.600872
Indian rupee	74.3717	71.182609
Japanese yen	120.2171	134.3089
Mexican peso	20.66712	17.609567
Russian ruble	74.16369	68.040828
Swedish krona	9.467354	9.352375
Thai baht	39.04564	38.019213
Turkish lira	3.343046	3.024403
Ukrainian hryvnia	28.27549	24.281567
US dollar	1.106951	1.109439
South Korean won	1284.296	1256.30918
South African rand	16.27002	14.169651
Malaysian ringgit	4.58	N/A
Indonesian rupiah	14,720.8	14,870.4
United Arab Emirates dirham	4.06	N/A

Consolidation scope

The consolidated financial statements at 31 December 2016 are made up of the consolidation at such date of the financial statements of all companies directly and indirectly controlled by COESIA S.p.A. (the parent), except for the subsidiary Lesina Autonoleggio S.r.l.. The following companies were included in the consolidation scope for the first time this year:

- Emmeci S.p.A., Emmeci Europe Sarl, Emmeci USA LLC, PCU S.p.A., CR Holding S.p.A. and GF S.p.A, all purchased or set up during the year, as described in the directors' report;
- the subsidiaries ADEC S.A., IPI Asia Aseptic Packaging Systems SDN and G.D Technical Center Middle East, measured at cost in 2015.

The historical cost of the investment in Lesina Autonoleggio S.r.l. in the consolidated financial statements is not significantly different to the amount of the investment calculated using the equity method at 31 December 2016. Control is defined as per IFRS 10, i.e., the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, as specified in greater detail above.

Almost the entire share capital of Tsubaki Flexlink Co., 49% owned in 2015, was acquired during

2016 and the company was merged into GD Jidokikai K.K..

A list of investees included in the consolidation scope is annexed to these notes.

No companies left the consolidation scope in 2016.

Accounting policies

The consolidated financial statements are prepared on the basis of historical cost, with the exception of derivative instruments which are measured at fair value.

The consolidated financial statements are prepared on a going concern basis and the same accounting policies are applied at all group companies and consistently in both years.

The comments present the amounts at 31 December 2016 and restated figures where different.

There are no held-to-maturity investments. Financial transactions are recognised at the trading date.

The consolidated financial statements are audited by KPMG S.p.A..

The carrying amounts of financial statements captions and relevant notes, given their size, are expressed in thousands of Euros.

Estimates

Drafting the consolidated financial statements, prepared on a going concern basis, required the formulation of assumptions and estimates which impact the carrying amounts of revenues, costs, assets and liabilities and the related disclosure, in addition to contingent assets and liabilities at the reporting date.

All estimates and related assumptions are based on past experience and assumptions deemed reasonable and realistic when the financial statements were being prepared. The closing balances of captions may differ from such estimates following possible changes in factors considered at the basis of their determination. The estimates and assumptions are regularly revised and, should the actual amounts differ from the initial estimates, the effects that cannot currently be estimated or foreseen are taken to profit or loss when such estimate is modified. If the modification of the estimate relates to both current and future periods, the effects of the estimation variation are taken to profit or loss in the relevant periods.

The main captions for which estimates are used as the following:

Allowance for impairment

The allowance for impairment reflects management estimates of expected losses from the portfolio of receivables with end customers, determined on the basis of past experience with similar types of receivables, current and past overdue amounts, losses and collections, careful monitoring of credit quality and forecasts of economic and market conditions.

Allowance for inventory write-down

The allowance for inventory write-down reflects management estimates on expected losses on the group's inventories, determined on the basis of past experience and the past and expected performance of the market.

Recoverable amount of non-current assets

Non-current assets include net property, plant and equipment and investment property, intangible assets (including goodwill and trademarks) and other financial assets. Management reviews the carrying amounts of non-current assets held and utilised and assets held for sale when required by events and circumstances and at least annually for intangible assets with an indefinite life. The test is performed by using estimates of cash flows expected from the use or sale of the asset, adjusted by suitable discount rates. When a non-current asset is impaired, the group writes it down by the difference between its carrying amount and its recoverable amount through the utilisation or sale of the asset, determined on the basis of the most recent group plans.

Provisions for risks and charges

Provisions for risks and charges are accrued to cover present, legal or constructive obligation as a result of a past event and a reliable estimate can be made of the amount of the obligation at the reporting date. The accruals reflect the best possible estimate on the basis of available elements.

Provisions for product warranties and installations

The provisions for product warranties and installations mainly reflect charges for work carried out under warranty and installation to be incurred after the reporting date but relating to machinery sold before that date.

Contingent liabilities

The group is subject to the risk of having to fulfil obligations deriving from litigation or disputes for which it is not possible to predict the relevant cost with certainty. This is mainly due to the multiple, complex and uncertain nature of interpretations and the variety of jurisdictions and applicable laws, in addition to the different degree of unpredictability that characterises the events and circumstances inherent to all disputes. Management consults its legal and tax experts to suitably deal with and assess such liabilities. Should such assessments reveal the probability of an outflow of resources embodying economic benefits and the amount can be reasonably estimated, the group makes an accrual to the provisions for risks and charges. If the outflow is deemed possible or, in extremely rare cases, probable, but the amount cannot be determined, disclosure is provided in the notes to the financial statements.

Realisation of deferred tax assets

The group recognises deferred tax assets to the extent that their recovery is probable. In determining the captions, the budget results and forecasts for subsequent years were used in line with those applied in the impairment test related to the recoverable amount of non-current assets.

Defined benefit plans

The group has defined benefit plans in place for employees. Through experts and actuaries, the group uses different statistical assumptions and assessment factors to calculate the costs, liabilities and assets related to such plans. The demographic and economic assumptions relate to discount rates, the expected return on the assets underlying the individual plans, if any, the rates of salary increase, the demographic trend, the inflation rate, any advances requested and mortality and resignation rates.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency of each group company at the exchange rate ruling at the transaction date. Monetary items in foreign currency at the reporting date are retranslated into Euro - the group's functional currency - using the closing exchange rate.

Fair value measurement

Several IFRS and disclosure requirements require the group to measure the fair value of financial and non-financial assets and liabilities.

In relation to the fair value measurement of the various asset or liability categories included in Level 3 (described below), the group has a control structure in place which avails of a team of appraisers who report to the group CFO.

The team of appraisers periodically re-examines the unobservable inputs and valuations. When third-party information, such as broker quotations or pricing services, is used in determining the fair value, the team of appraisers assesses and documents the evidence obtained from the third parties to support the fact that such valuations meet the requirements of IFRS, including the fair value hierarchy level applicable to the related measurement.

In measuring the fair value of an asset or a liability, the group uses observable market data where possible. The fair values are divided up into various hierarchy levels on the basis of inputs used in the valuation techniques, as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than the quoted prices referred to in level 1 that may be observed for the asset or liability either directly (prices) or indirectly (price derivatives).
- Level 3: inputs related to the asset or liability that are not based on observable market data.

If the inputs used to measure the fair value of an asset or a liability are categorised within different levels, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The group recognises transfers between the various fair value hierarchy levels at the end of the reporting period in which the transfer occurred.

Accounting policies

Property, plant and equipment

Property, plant and equipment are measured at purchase or production cost, net of accumulated depreciation and any impairment losses. Cost includes accessory costs and direct and indirect charges at the amount reasonably attributable to the asset.

If a property, plant and equipment item is comprised of various components with different useful lives, they are recognised separately if material.

Property, plant and equipment are depreciated on a straight-line basis using the following rates, which have been calculated based on the assets' residual useful lives:

- Civil property and buildings 3%
- Plant and machinery 10%-15.5%
- Furniture 12%
- Electronic accounting machines 18%-20%

- Equipment and models 25%
- Vehicles 20%-25%
- leasehold improvements future income-generating potential

Land is not depreciated.

Property, plant and equipment purchased during the year are depreciated at half the above rates, since on average they are only used in production for half the year and this approach allows an approximation of their shorter period of use.

The depreciation methods, useful lives and residual amounts are checked at the reporting date and adjusted, if necessary.

Assets are written down to reflect impairment, regardless of the depreciation already charged. If the reason for the write-down no longer exists in subsequent years, the asset is reinstated to its original value.

Subsequent costs (improvement and maintenance expenses) are only capitalised when it is probable that the related future economic benefits will flow to the group.

Assets under finance and operating lease

Assets held under finance leases, which substantially transfer all the risks and rewards of title to the group, are recognised as assets at their present value at the inception of the lease, less related costs and any costs to take over the lease or, if lower, the present value of the minimum lease payments.

The related liability to the lessor is recognised under financial liabilities.

Lease payments are broken down into principal and interest in order to reach a constant interest rate on the residual liability. The assets are depreciated using the same rates previously indicated for property, plant and equipment.

Leases where the lessor substantially maintains all the risks and rewards of title are classified as operating leases and the related costs are taken to profit or loss over the term of the lease.

Investment property

This caption contains property held for rentals or for capital appreciation or both.

Investment property is recognised using the cost model, as allowed by IAS 40 (an alternative to the fair value method).

Property for which a terminal recoverable amount lower than the carrying amount (or with a nil balance) are depreciated each year on a straight-line basis in relation to the recoverable amount and the assumed useful life estimated at 30 years. If the property's recoverable amount is estimated to be higher than the carrying amount, it is not depreciated.

Subsequent expenditure (improvement and maintenance expenses) are only capitalised when it is probable that the related future economic benefits will flow to the group.

Property showing impairment losses are written down as necessary. The fair value is determined, at least once a year, via specific appraisals.

Intangible assets

Intangible assets acquired or developed internally are recognised under assets, in accordance with IAS 38 Intangible assets, if they are identifiable, when it is probable that their use will generate future economic benefits and when the cost of the asset can be reliably determined. Such assets are initially recognised at acquisition or internal production cost, including all directly related charges.

Goodwill and other intangible assets with an indefinite life

Goodwill

Goodwill is an intangible asset with an indefinite life that arises from business combinations measured with the acquisition method and is recognised as the positive difference between the acquisition cost and the group's interest after recognising all the other identifiable assets, liabilities and contingent liabilities at their fair value, both pertaining to the owners of the parent and non-controlling interests (full fair value method) at the acquisition date.

As per IAS 36, goodwill is not amortised, instead it is tested for impairment annually or every time specific events or certain circumstances that reveal possible impairment loss arise.

Impairment losses are immediately taken to profit or loss and cannot be reversed.

For goodwill impairment testing purposes, the group identifies cash-generating units (CGUs) that benefit from the synergies of the acquisition. The cash flows are discounted at cost of capital in relation to the specific risks of the unit. An impairment loss is recognised if it arises from checking the discounted cash flows that the recoverable amount of the CGU is lower than the carrying amount. The impairment loss is firstly used to reduce the carrying amount of goodwill.

If a subsidiary or joint venture is sold, the related residual goodwill is included in calculating the gain or loss on sale.

At its first-time adoption of IFRS, the group chose not to apply IFRS 3 Business combinations retrospectively. Accordingly, goodwill arising on acquisitions carried out prior to transition to IFRS are maintained at the amounts resulting from the application of Italian GAAP at such date and allocated to cash-generating units in order to test them for impairment.

Trademarks with an indefinite life

Trademarks deriving from acquisitions, which qualify as intangible assets with an indefinite life, are not amortised. The recoverability of their carrying amount is checked on a yearly basis and, in any case, any time events occur that reveal possible impairment losses.

Intangible assets with a finite life

These are stated at purchase cost, including related charges, and are amortised on a straight-line basis in line with their future income-generating potential, as follows:

• patents and intellectual property rights	3-5 years
• software licences	3-5 years
• trademarks	10 years
• participation in the creation of moulds	3 years
• application software	3 years
• development expenditure	5 years

These costs are amortised over their future income-generating potential.

Research and development expenditure

Research expenditure incurred for the purposes of achieving new knowledge and discoveries, either scientific or technical, is recognised as an expense when incurred.

Development expenditure related to specific projects for developing new products or improving existing products or developing or improving production processes is capitalised if the innovations introduced lead to processes that are technically feasible and/or products that can be sold commercially, if the company can demonstrate its intention to complete the development project, the availability of the resources to complete the development and that the future economic costs and benefits can be measured reliably.

Capitalised expenditure includes costs for materials used and direct labour. Such expenditure is amortised over the duration of the related economic benefits, generally set at five years and adjusted for any impairment losses that arise subsequent to initial recognition.

<u>Impairment losses on property, plant and equipment, investment property and intangible assets</u>

The group performs impairment tests on the carrying amounts of intangible assets with an indefinite life and goodwill, in addition to assets under development using the methods described in the relevant paragraphs. On the other hand, other assets, with the exception of inventories and deferred tax assets and in addition to that already set out in the paragraph on property, plant and equipment, are tested for impairment when events arise that indicate a possible impairment loss.

If the test detects that the assets, or a cash-generating unit, have undergone impairment, the recoverable amount is estimated and any difference between it and the carrying amount is recognised in profit or loss.

The recoverable amount of the cash generating units (CGU), to which goodwill and intangible assets with an indefinite life are attributed, is checked by calculating their value in use, i.e., the present value of forecast cash flows, using a rate that reflects the specific risks of individual cash-generating units at the measurement date. In applying such method, management uses many assumptions, including the estimate of future increases in sales, gross profit, operating costs, the growth rate of terminal values, investments, changes in working capital and the weighted average cost of capital (discount rate), considering the risks specific to the asset or CGU. Future cash flows arise on the basis of a group medium-term plan that is updated annually and approved by the parent's board of directors.

The recoverable amount of receivables recognised at amortised cost is the present value of future cash flows, discounted at the effective interest rate calculated at initial recognition.

The recoverable amount of other assets is the higher of the sale price and the value in use determined by discounting forecast future cash flows on the basis of a rate that reflects market valuations.

If there is no binding sale agreement, the fair value is estimated by reference to the quoted prices of an active market, recent transactions or best available information that reflects the amount that can be obtained from the sale of the asset.

Any impairment losses of held-to-maturity investments and receivables measured at amortised cost are reinstated if the subsequent increase in the recoverable amount can be determined objectively.

When it is not possible to determine the impairment loss on an individual asset, the group calculates the impairment loss on the CGU it belongs to.

The impairment loss on a CGU is initially recognised under goodwill, if present, and subsequently proportionately allocated to the other assets comprising the CGU.

An impairment loss is recognised if an asset's recoverable amount is lower than the carrying amount.

Equity-accounted investees

Investments in non-consolidated subsidiaries and associates are accounted for using the equity method, as indicated in the related notes, or at cost when equity accounting is not necessary to give a true and fair view in the consolidated financial statements.

Investments in other companies are stated at acquisition or subscription cost. They are decreased for impairment if the investees have incurred losses and profits large enough to absorb those losses are not forecast in the immediate future. If the reasons for the write-down no longer exist, the original value is reinstated in subsequent years.

The equity method entails the recognition of an amount equal to the corresponding portion of equity as per the most recent approved financial statements, less dividends and after adjustments required by the generally-accepted accounting policies adopted for the consolidated financial statements.

Employee benefits

Pension funds

Group companies have both defined contribution plans and defined benefit plans in place.

A defined contribution plan is a plan under which the group pays fixed contributions to a third party fund and has no legal or other obligation to pay future contributions if the fund does not hold sufficient assets to fulfil the obligations to the beneficiaries of the plan. With defined benefit plans, the group pays voluntary or contractually-set contributions to public and private pension funds. The contributions are recognised as personnel expense on an accruals basis.

The liability recognised for defined benefit plans corresponds to the present value of the obligation at the reporting date, net of the fair value of the plan assets, where applicable. The obligations for defined benefit plans are determined annually by an independent actuary using the projected unit credit method to determine the present value of the relevant obligations. The present value of the defined benefit plan is determined by discounting future cash flows at an interest rate equal to the rate on high-quality corporate bonds issued in the currency in which the liability will be settled and that takes into consideration the term of the related pension plan. The changes in actuarial gains/losses ("revaluations") are recognised under other comprehensive income/expense.

Service costs, in addition to interest expense related to the time value component in actuarial calculations (the latter being classified among financial expense), are taken to profit or loss.

Termination benefits

Termination benefits are paid when employees terminates their employment before the normal retirement date or when they accept to dissolve the contract. The group recognises termination benefits when it is proven that the termination of the employment is in line with a formal plan that defines the termination of the employment or when the payment of the benefits is the result of a redundancy incentive process.

Pursuant to IAS 19, the post-employment benefits (TFR) of Italian companies vested up to 31 December 2006 are considered a defined benefit plan. Post-employment benefits as from 1 January 2007 are considered a defined contribution plan.

Financial assets and liabilities

Financial assets and liabilities are recognised in accordance with IAS 39 Financial instruments: recognition and measurement.

Financial instruments include: investments in subsidiaries and other companies, other non-current financial assets (securities classified in compliance with IAS 39, in the held for sale category and other non-current loans and receivables).

The current financial assets category includes trade receivables, loan assets and cash and cash equivalents as per IAS 39.

Financial liabilities include loans and borrowings, trade payables, other payables and other financial liabilities (which include the fair value loss on derivative instruments).

The group determines the classification of its financial assets and liabilities at initial recognition and reviews such classification at each reporting date, where suitable and permitted.

Loans and receivables are recognised when they arise. All other financial assets and liabilities are recognised when the contractual rights and obligations of the financial instrument arise. Their initial recognition takes into consideration directly-related transaction costs and issuing costs.

Subsequent measurement depends on the type of financial instrument and, in any case, is attributable to the financial asset and liability category listed below.

Financial assets measured at fair value through profit or loss

This category includes:

- financial assets/liabilities which the group designates at fair value through profit or loss upon initial recognition;
- financial assets/liabilities held for trading, as they are:
    - classified as held for trading, i.e. acquired or contracted to gain benefits from price fluctuations in the short term;
    - part of a portfolio of identified financial instruments which are managed together and for which there is evidence of a recent actual pattern of short-term profit-making.

In the presence of an active market, the fair value of such instruments is determined using the market value at the relevant reporting date. If there is no active market, it is determined via financial valuation techniques. Fair value gains and losses related to assets held for trading are taken to profit or loss.

Financial instruments are classified as instruments held for trading unless they are designated as effective hedging instruments.

Held-to-maturity investments

Financial assets that are not derivative instruments and are characterised by fixed or determinable payments are classified as held-to-maturity investments when the group intends, and has the positive intention and ability to hold them to maturity.

At initial recognition, such assets are recognised at fair value plus transaction costs incurred to acquire the financial assets. They are subsequently measured at amortised cost using the effective interest method, which represents the rate that discounts forecast future payments or collections over the expected useful life of the financial instrument. Any discounts or premiums are considered in calculating the amortised cost, dividing them up along the entire period until maturity.

The financial assets that the group decides to maintain in portfolio for an indefinite period are not included in this category.

Loans and receivables

Under IAS 39, this category comprises financial instruments, chiefly represented by non-derivative instruments that are not quoted in an active market with fixed or determinable payments, with the exception of those held for trading or available for sale. They are included in the current assets, except for those which are due after more than twelve months after the reporting date which are therefore included under the non-current assets.

They are initially recognised at fair value, adjusted to reflect any transaction costs, and subsequently measured at amortised cost.

In the event of impairment, the carrying amount of loans and receivables is decreased by the appropriate impairment loss in profit or loss. The impairment losses are determined as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows. Impairment losses on trade receivables are generally recognised through the set-up of a specific allowance for impairment, also considering general economic, sector, country or concentration conditions where material.

Available-for-sale financial assets

Available-for-sale financial assets include all those assets that are not classified under any of the above categories.

After initial recognition at cost, they are measured at fair value. Fair value gains or losses are recognised under other comprehensive income or expense and presented in a separate equity caption for as long as the assets are held in portfolio and there are no impairment losses.

Cash and cash equivalents

This caption includes cash on hand, bank deposits, deposits repayable on demand and other highly-liquid short-term financial investments which can be promptly converted into cash recognised at their nominal amount and they are subject to an immaterial risk of changes in value.

Financial liabilities

Financial liabilities are recognised when the group becomes party to the contractual terms of the instrument.

Such liabilities are initially recognised at fair value net of accessory charges and subsequently measured at amortised cost using the effective interest method.

The difference between the amortised cost and the repayment amount is taken to profit or loss over the duration of the liabilities on the basis of accrued interest.

Payables with due dates that fall within normal trading terms are not discounted and are recognised at their nominal amount.

Financial liabilities comprise loan agreements, bank overdrafts, trade payables and other payables.

Derecognition of financial assets and liabilities

A financial asset or, where applicable, part of a financial asset or parts of a group of similar financial assets are derecognised when:

- the rights to the related cash flows are extinguished;
- the group maintains the right to receive cash flows from the asset, but has taken on the contractual obligation to fully and immediately transfer them to a third party;
- the group has transferred the right to the cash flows from the asset and has substantially transferred all the risks and rewards deriving from title to the financial asset or has transferred control thereof.

A financial liability is derecognised when the obligation underlying the liability is extinguished, cancelled or fulfilled.

Hedge accounting

The group applies hedge accounting rules to transactions that are principally aimed at hedging currency or interest rate risk. In order to apply hedge accounting rules, at the inception of the hedge the group determines the formal designation and documentation of the hedging relationship, the assumption of the effectiveness of the hedge ex-ante in the assigned periods and the check ex-post.

The hedges are measured at fair value and recognised under current financial assets or liabilities. A balancing entry is made in the hedging reserve under other comprehensive income for the effective part and in profit or loss for the ineffective part.

Inventories

Inventories are measured at the lower of cost, calculated using the weighted average cost method, and related market value.

Obsolete and slow-moving items are written down based on forecast use or sale, through accruals to the allowance for inventory write-downs. Work in progress and semi-finished products are stated based on the completed contract method, under which contract revenue and outcome are only recognised when the contract is completed, thus when the work is finalised and delivered.

Contract work in progress

Under IAS 11, a construction contract is defined a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contract costs are expensed when incurred.

Contract revenue is recognised in relation to the stage of contract completion at the reporting date when the outcome of the contract can be measured reliably. When the outcome cannot be estimated reliably, the revenue is only recognised to the extent of the contract costs incurred that can probably be recovered. Any expected excess of total contract costs over total contract revenue for the contract is recognised as an expense immediately.

Contract revenue is recognised in relation to the stage of contract completion in accordance with the percentage of completion method, applying the cost-to-cost method which divides contract costs incurred for work performed to date from total estimated contract costs.

Provisions for risks and charges

Provisions for risks and charges are accrued to cover present, legal or constructive obligation as a result of a past event and a reliable estimate can be made of the amount of the obligation at the reporting date. The accruals reflect the best possible estimate on the basis of available elements.

If a liability is considered contingent, no accrual is made to the provision for risks and adequate disclosure is provided in the notes to the financial statements.

When the effect of the time value of money is material and the obligation settlement dates can be reliably estimated, the provision is discounted. The increase in the provision due to the passage of time is taken to profit or loss under net financial income (expense).

Provisions are periodically updated to reflect variations in estimates of costs, completion times and the discount rate. Revised estimates of provisions are recognised in the same profit or loss caption as the previous accrual or, where the liability refers to property, plant and equipment (e.g., decommissioning and restoration), as a balancing entry to the related asset.

Fair value

Under IFRS 13, there are three fair value hierarchy levels used to measure financial instruments recognised in the statement of financial position:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities which the company can access at the measurement date;
- Level 2: inputs other than the quoted prices referred to in level 1 that may be observed for the asset or liability either directly or indirectly;
- Level 3: unobservable inputs for the asset or liability.

Revenue recognition

Revenue is recognised to the extent it is probable that economic benefits are achieved and the related amount can be calculated reliably. Revenue from the sale of products is recognised when title is transferred, which generally coincides with delivery, with the exception of contract revenue which is recognised at the percentage of completion, as mentioned earlier. Revenue from installation and assistance work that is inseparable from the sale of products is recognised when title to the products is transferred and, simultaneously, the estimated costs for such work are accrued in specific provisions under liabilities.

Revenue from the rendering of services is recognised when the services are provided. Revenue accruals related to services partially provided are recognised under the stage of completion of the transaction at the reporting date, when the amount of revenue can be reliably estimated.

Dividends

Dividends are recognised when the legal right to receive payment is established which occurs following the shareholders' resolution approving the financial statements.

Purchase and service costs

Purchase and service costs are measured at the fair value of the fee paid or agreed. Generally, purchase and service costs comprise cash and cash equivalents paid or to be paid in the future within the normal payment terms. Accordingly, purchase and service costs are recognised on the basis of the purchase cost of the goods and services as per the invoice, net of premiums, discounts and allowances.

Purchase and service costs are adjusted to account for any decisions to applying additional discounts further to those contractually agreed and any delays in payment exceeding twelve months such to be considered a loan from the group's supplier. In the latter case, the present value of purchase and service costs is represented by the future cash flows capitalised at a market interest rate.

Financial income and expense

Financial income and expense are recognised on an accruals basis.

These include interest expense accrued on every loan, discounts for early collection with respect to sales term agreed with customers, financial income on cash and cash equivalents and similar securities, in addition to the economic effects deriving from the fair value measurement of derivative instruments (for any non-effective part of the hedge).

Income taxes

Current taxes are recognised on the basis of taxable profit, in accordance with current regulations, considering any exemptions and the related applicable tax rates.

Furthermore, deferred tax assets and liabilities are recognised on the temporary differences between the carrying amounts of assets and liabilities and their tax bases of each company. Similarly, deferred taxes are considered on the consolidation adjustments. In particular, deferred tax assets are recognised when it is reasonably certain that there will be future taxable profits against which the deferred tax assets may be used. Deferred tax assets and liabilities are calculated on the basis of the expected rates applicable in the period when the related temporary differences reverse. Deferred tax liabilities are not accrued to reflect the tax charge, where applicable, on available reserves and profits of foreign subsidiaries that do not plan to make any distribution.

Current and deferred tax assets and liabilities are offset where due to/from the same tax authority, if the reversal period is the same and if there is a legal right to offset.

Grants related to income

Public grants related to assets are recognised in the statement of financial position, recognising the grant as an adjustment entry of the asset's carrying amount.

The grant is taken to profit or loss over the useful life of the depreciable asset as a reduction of amortised cost.

Grants related to income are taken to profit or loss as an income item when the recognition conditions are met, i.e., where their recognition is certain against costs for which the grants are granted.

Foreign currency transactions

All transactions are accounted for in Euros. Foreign currency transactions are translated into the functional currency of each group company at the exchange rate ruling at the transaction date.

Receivables and payables arising on transactions in foreign currency are translated at the exchange rates ruling on the date when those transactions were performed. Exchange rate differences are taken to profit or loss when realised.

At year end, receivables and payables in foreign currency are retranslated at the exchange rates ruling at the reporting date. Any resulting exchange rate gains and losses are taken to profit or loss.

Standards, amendments and interpretations endorsed by the EU and applicable as of 1 January 2016

The standards, amendments and interpretations applicable as of 1 January 2016 and endorsed by the European Commission are as follows:

- Amendments to IAS 1 – Disclosure initiative (applicable for annual periods beginning on or after 1 January 2016).

  The amendments provide clarification on disclosure elements that can be perceived as impediments to preparers exercising their judgement in presenting their financial reports.

- Amendments to IFRS 11 – Accounting for interests in joint operations (applicable for annual periods beginning on or after 1 January 2016).

The amendments provide clarification on how to account for the acquisition of an interest in a joint operation that is a business in the meaning provided for by IFRS 3. Under the amendments, the principles of IFRS 3 shall be applied in this case.

- Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortisation (applicable for annual periods beginning on or after 1 January 2016).

  The amendments to IAS 16 establish that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments to IAS 38 clarify that revenue-based methods are generally presumed to be an inappropriate basis for the same reasons set out in the amendments to IAS 16. In the case of intangible assets, however, this presumption can be rebutted in certain limited circumstances.

- Amendments to IAS 27 – Equity method in separate financial statements (applicable for annual periods beginning on or after 1 January 2016).

  The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. Accordingly, following the introduction of the amendment, an entity can recognise such investments in its separate financial statements either at cost, in accordance with IFRS 9 or using the equity method.

- Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment entities: applying the consolidation exception.

  The amendments to IFRS 10 clarify that the exemption provided for in paragraph 4 of IFRS 10 from preparing consolidated financial statements applies to a parent which is in turn controlled by an investment entity which measures its subsidiaries at fair value. The aim of the amendments is to enable companies to apply the equity method, described in IAS 28 - Investments in associates and joint ventures, to recognise their investments in subsidiaries, joint ventures and associates.

New standards and amendments not yet applicable and not adopted early by the group

The new standards or amendments thereto applicable for annual periods beginning on or after 1 January 2016 available for early adoption are set out below. The group has opted not to adopt them early in preparing these consolidated financial statements.

- IFRS 15 Revenue from contracts with customers - IFRS 15 introduces a single general model to establish whether, when and to what extent to recognise revenue. It replaces the revenue recognition criteria of IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer loyalty programmes.

  IFRS 15 is applicable for annual periods beginning on or after 1 January 2018 and early adoption is permitted.
- IFRS 9 Financial instruments, issued in July 2014, replaces IAS 39 Financial instruments: recognition and measurement. It introduces new provisions for financial instrument classification and measurement, a new expected loss impairment model for financial assets and a reformed approach to hedge accounting. It also includes provisions for the recognition and derecognition of financial instruments pursuant to the current IAS 39. IFRS 9 is applicable for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

Documents not yet endorsed by the European Union at 31 December 2016

- IFRS 16 Leases - Issued in January 2016, IFRS 16 introduces new principles for the recognition, presentation and disclosure of leases for both parties to a contract. IFRS 16 is applicable for annual periods beginning on or after 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from contracts with customers. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.
- Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12) - The amendments clarify how to account for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are applicable for annual periods beginning on or after 1 January 2017.

- Disclosure Initiative (Amendments to IAS 7) - The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising both from cash and non-cash changes. The amendments are applicable for annual periods beginning on or after 1 January 2017.
- IFRIC Interpretation 22: Foreign currency transactions and advance consideration - Issued in December 2016, IFRIC 22 provides clarification in relation to accounting for foreign currency transactions.
- IFRS 2: Classification and measurement of share-based payment transactions – In June 2016, the IASB issued amendments to IFRS 2, clarifying how to account for share-based payment transactions. The amendments are applicable for annual periods beginning on or after 1 January 2018 and early adoption is permitted.
- Transfers of Investment Property (Amendments to IAS 40) – In December the IASB published amendments to paragraph 57 of IAS 40. The amendments are applicable for annual periods beginning on or after 1 January 2018 but early adoption is permitted.
- Annual Improvements to IFRS Standards (2014-2016 Cycle) – The improvements to the IFRS issued by the IASB in December 2016 related to the following standards: IFRS 1, IFRS 12 and IAS 28.
- Clarifications to IFRS 15 Revenue from contracts with customers - Document issued by the IASB in April 2016 and applicable to annual periods beginning on or after 1 January 2018.
- Amendments to IFRS 4: Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts - Issued by the IASB in September 2016 and applicable to annual periods beginning on or after 1 January 2018.

Financial risk management

COESIA group's operations expose it to the following financial risks:

- liquidity risk;
- market risk;
- credit risk.

The main risks are reported and discussed at group management level in order to provide for their hedging, insurance and assessment of residual risk. In accordance with IFRS 7, qualitative and quantitative disclosure on the impact of such risks on the group is provided below.

Liquidity risk

Liquidity risk can arise from the inability to find the cash flows necessary for the group's operations at economic terms.

The two main factors that determine the group's liquidity situation are the cash flows generated or absorbed by operating and investing activities and the due dates and renewal terms of debt or degree of liquidity of financial assets and market conditions.

The group has adopted a series of policies and processes aimed at optimising cash flow management, reducing liquidity risk:

- maintaining a prudent level of available funds;
- varying tools uses for sourcing cash flows and presence on the capital market;
- obtaining suitable committed credit facilities;
- monitoring forecast liquidity conditions in relation to the group planning process.

From an operating point of view, the group manages liquidity risk by monitoring cash flows and maintaining a suitable level of available funds.

The composition of financial liabilities is detailed in the note to current and non-current financial liabilities.

The following table shows the carrying amount and type of hedging transactions reflected in the current and non-current financial asset and liability captions at 31 December 2016.

€/000	FAIR VALUE GAIN		FAIR VALUE LOSS	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
INTEREST RATE HEDGE	-	-	-	(2,149)
CURRENCY HEDGE	863	-	(1,725)	-
Total	**863**	**-**	**(1,725)**	**(2,149)**

Credit risk

Credit risk is the group's exposure to potential losses deriving from non-fulfilment of obligations taken on by counterparties.

The group is equipped with commercial credit control processes which include analyses of customer reliability and checking exposure via ageing reporting and the average collection times through the DSO (days sales outstanding) by customer.

This process involves ongoing controls and monthly checks between the administration and sales departments.

In addition, in order to further reduce credit risk, the group agrees factoring and securitisation contracts without recourse, which transfer the credit risk to the factors.

Investments of liquidity and hedging transactions via derivative instruments are carried out with leading national and international banks.

The carrying amount of financial assets is the group's maximum exposure to credit risk, in addition to the nominal amount of guarantees granted on third-party debts or commitments.

<u>Market risk</u>

Based on the definition provided by IFRS 7, market risk is the probability that the fair value or cash flows of a financial asset or liability will fluctuate due to changes in elements such as:

- exchange rates (currency risk);
- interest rates (interest rate risk);
- commodity prices (price risk).

The objectives of market risk management are to monitor, manage and control the group's exposure to such risks within acceptable levels, along with the resulting impacts on the financial position, financial performance and cash flows.

<u>Currency risk</u>

The group's exposure to currency risk derives from the geographical distribution of its various industrial activities compared to the geographical distribution of the markets where it sells its products. Its exposure to currency risk on sales transactions is hedged via currency swaps, forward contracts and currency options.

The group's investments in foreign subsidiaries are not hedged as they are considered long term.

<u>Interest rate risk</u>

The group's exposure to interest rate risk mainly derives from the need to fund the group's nonorganic growth. Fluctuations in market interest rates can have a negative or a positive impact on the group's financial performance, indirectly impacting the borrowing costs.

In order to mitigate its exposure to interest rate risk, the group agreed some interest rate swaps which hedge a portion of the group's debt and exchange a differential between a floating and one or more fixed rates applied to a specific notional amount.

The group believes the risk of higher interest rates on the portion of debt not hedged by financial derivatives is not significant.

The group's financial debt at a floating rate amounted to approximately €96 million at the reporting date. The impacts of a hypothetical increase or decrease in 2016 interest rates by 30 basis points, gross of tax effects, would be roughly €0.3 million.

The impact of the same hypothetical fluctuation in interest rates on derivative instruments measured at fair value in place at the reporting date, gross of tax effects, would amount to a gain of €394 thousand should the interest rate increase or a loss of €424 thousand should it decrease.

Price risk

The group is not exposed to price risk on commodities, except at an immaterial level, and did not recognise any assets available for sale measured at fair value in the 31.12.2016 consolidated financial statements, with the exception of the investment in the associate S.C. Dico Romania S.r.l. which was sold in March 2016, as mentioned in the directors' report.

3.2 Segment reporting

The group's operating segments pursuant to IFRS 8 are the business activities that generate revenue and costs, whose results are periodically revised by the chief operating decision-maker in order to assess performances and decisions about allocating resources, and for which separate financial information is available, including for internal use. The group's significant operating segments are as follows:

Advanced Automated Machinery and Materials

The object of this segment is production of automated packing and packaging machinery for the tobacco, food, cosmetics, pharmaceutical, nappy, fast moving consumer goods segments, aseptic filler machines, package opening and closing systems and multi-layer packaging material using a combination of polyethylene, paper and aluminium sheets, along with services related to the sale and distribution of such products.

The main companies operating in this segment are as follows:

- G.D S.p.A.;
- Sasib S.p.A.;
- ACMA S.p.A.;
- Volpak SA;
- R.A Jones & co;
- GDM S.p.A.;
- Norden Machinery AB;
- Citus Calix SAS;
- IPI S.r.l.;
- GF S.p.A..

Industrial Process Solutions

The activities of this segment focus on design, construction, sale and assistance for manufacturing logistics solutions, production control, in-line printing equipment and premium and luxury goods packaging equipment. The main companies operating in this segment are as follows:

- Flexlink Group;
- Hapa AG;
- Sacmo SAS;
- ADMV SA;
- Emmeci S.p.A.

Operating segment analysis

The following tables, prepared on a consolidated basis, present information on operating segments for 2016 and 2015.

€/000	2016 ADVANCED AUTOMATED MACHINERY AND MATERIALS	INDUSTRIAL PROCESS SOLUTION	OTHERS	TOTAL
Revenue	1,143,687	291,035	22,305	1,457,027
Operating profit (EBIT) before non-recurring income/expense	198,336	36,717	2,383	237,436
Non-recurring income / (expense)	(25,412)	(5,202)	(240)	(30,854)
Operating profit	172,924	31,515	2,143	206,582
Net financial expense				(15,907)
Gains (losses) on equity-accounted investees				0
Pre-tax profit				190,675
Income tax expense				(62,179)
Profit for the year				128,496
Profit for the year attributable to non-controlling interests				(185)
Profit for the year attributable to the owners of the parent				128,681
Amortisation, depreciation and impairment losses	(40,824)	(6,304)	(1,336)	(48,464)

€/000	2015 ADVANCED AUTOMATED MACHINERY AND MATERIALS	INDUSTRIAL PROCESS SOLUTION	OTHERS	TOTAL
Revenue	1,219,447	294,059	20,127	1,533,633
Operating profit (EBIT) before non-recurring income / (expense)	238,628	24,478	1,649	264,755
Non-recurring income / (expense)	(1,684)	14,100		12,416
Operating profit	236,944	38,578	1,649	277,171
Net financial expense				(32,055)
Losses on equity-accounted investees		(110)		(110)
Pre-tax profit				245,006
Income tax expense				(74,254)
Profit for the year				170,752
Profit for the year attributable to non-controlling interests				37
Profit for the year attributable to the owners of the parent				170,715
Amortisation, depreciation and impairment losses	(39,141)	(6,046)	(1,150)	(46,337)

Statement of financial position figures at 31 December 2016 are as follows:

€/000	ADVANCED AUTOMATED MACHINERY AND MATERIAL	INDUSTRIAL PROCESS SOLUTION	OTHERS	UNALLOCATED (*)	TOTAL (**)
Property, plant and equipment, investment property and intangible assets	586,387	206,595	8,575	309	801,866
Other assets	943,786	177,551	17,983	170,727	1,310,047
Non-current assets held for sale	26				26
Total assets at 31/12/2016	1,530,199	384,146	26,558	171,036	2,111,939
Total liabilities at 31/12/2016	722,415	176,402	9,744	402,772	1,311,333

(*) Unallocated amounts refer to the assets and liabilities of the parent and Coesia Finance S.p.A. and respectively include cash and cash equivalents of €159,939 thousand and loans and borrowings of €394,132 thousand that cannot be directly allocated to the other operating segments

(**) The difference between total assets and total liabilities, of €800,606 thousand, represents the consolidated equity at 31 December 2016.

Statement of financial position figures at 31 December 2015 are as follows:

€/000	ADVANCED AUTOMATED MACHINERY AND MATERIAL	INDUSTRIAL PROCESS SOLUTION	OTHERS	UNALLOCATED (*)	TOTAL (**)
Property, plant and equipment, investment property and intangible assets	514,602	152,969	8,438	343	676,352
Other assets	993,798	138,124	16,268	43,342	1,191,532
Non-current assets held for sale	811				811
Total assets at 31/12/2015	1,509,211	291,093	24,706	43,685	1,868,695
Total liabilities at 31/12/2015	645,712	137,766	8,120	353,849	1,145,447

(*) Unallocated amounts refer to the assets and liabilities of the parent and respectively include cash and cash equivalents of €33,964 thousand and loans and borrowings of €348,270 thousand that cannot be directly allocated to the other operating segments.
(**)The difference between total assets and total liabilities, of €723,248 thousand, represents the consolidated equity at 31 December 2015 at 31 December 2015.

The main results were in line with forecasts, slightly down on 2015. The sales volumes of the Advanced Automated Machinery & Materials segment decreased on the previous year in a tough market situation. The reduction in sales was contained by consolidating territorial coverage and the customer portfolio and expanding services. Operating profit gross of non-recurring income/expense remained substantially in line with the previous year thanks to the continued project efficiency and the favourable product mix. Positive forecasts can be confirmed for the Coesia Group in 2017 considering the trends in negotiations underway with customers, incoming orders expected during the year and the current backlog, with the main financial results expected to improve.

The operating profit gross of non-recurring income/expense for the Industrial Process Solutions segment improved significantly on the previous year. The main companies of the segment achieved significant improvements in project execution and testing processes, positively impacting their profitability. Moreover, actions underway to achieve efficiencies in the cost base also had a positive impact on profitability. Organic growth is predicted to grow further in 2017, continuing the trend of previous years, also as a result of the synergies expected following the acquisition of Emmeci.

3.3 Notes to the statement of financial position

3.3.1 Property, plant and equipment and investment property

This caption is comprised as follows:

€/000	31/12/2016	31/12/2015
Land	24,656	24,235
Buildings	105,223	103,379
Leasehold improvements	1,455	1,936
Plant and machinery	35,168	27,671
Industrial and commercial equipment	7,044	8,499
Other assets	8,804	8,600
Advances paid for the purchase of property, plant and equipment	7,616	4,722
Assets under construction	21,214	17,415
Total property, plant and equipment	**211,180**	**196,457**
Investment property	558	500
Total investment property	**558**	**500**

Details and analyses of changes in property, plant and equipment in 2016 are provided in Annex II.

Property, plant and equipment and investment property increased by a total of €6,755 thousand over the previous year end due to the change to the consolidation scope, €5,362 thousand of which related to the building owned by IPI Asia Aseptic Packaging Systems SDN.

Plant and machinery totalling €14,707 thousand were also purchased during the year.

Assets under construction mainly comprise work in progress on buildings owned by G.D S.p.A. (€17,008 thousand, 31 December 2015: €14,332 thousand).

3.3.2 Goodwill and other intangible assets with an indefinite life

€/000	31/12/2016	31/12/2015
Goodwill (arising on consolidation)	469,493	392,139
Trademarks with an indefinite life	23,502	10,677
Total	**492,995**	**402,816**

Details and analyses of changes in this caption during the year are provided in Annex I.

Goodwill, totalling €469.5 million (31 December 2015: €392.1 million), is allocated to the Advanced

Automated Machinery & Materials and Industrial Process Solution CGUs for €309.7 million (31 December 2015: €268.6 million and €159.8 million (31 December 2015: €123.5 million), respectively.

Trademarks with an indefinite life amount to €23.5 million (31 December 2015: €10.7 million) and are fully allocated to the Industrial Process Solutions CGU.

The change in the caption "Trademarks" is due to the acquisition of Emmeci group and the decrease in translation difference (€0.4 million).

The change in the caption "Goodwill" is due to:

- €34.1 million to the acquisition of the CR Holding Group (which controls GF S.p.A.) and reflects the allocation of the excess acquisition cost for the GF Group compared to the group's share of the acquiree's equity, calculated by measuring the individual assets and liabilities at the acquisition-date fair value (28 July 2016). The consideration includes a variable component linked to certain financial parameters of GF S.p.A. at 31 December 2018 (the "earn out"). The Group estimated the earn out at the reporting date based on the latest business plan available. This amount was offset against Other non-current financial liabilities;
- the acquisition of the Emmeci group for €37.9 million and reflects the allocation of the excess acquisition cost for the Emmeci Group compared to the group's share of the acquiree's equity, calculated by measuring the individual assets and liabilities at the acquisition-date fair value (30 June 2016);
- the increase in translation differences for €5.3 million.

As indicated in the "Accounting policies" paragraph, goodwill is tested annually for impairment. The main assumptions, methods and parameters used for the purposes of the impairment test are as follows.

The recoverable amount of the CGUs was defined on the basis of the calculation of the value in use meant as the present value of future operating cash flows, using the discounted cash flow method.

The future cash flows of the CGUs were estimated on the basis of a three-year plan approved by the board of directors of Coesia S.p.A. projected over a five-year horizon and also considering a terminal value suitably adjusted to take into consideration conditions of normal group operations on the basis of forecasts developed by management.

Cash flows are discounted using discount rates that reflect current market valuations of the cost of money and consider risks specific to operating segments.

Details on growth assumptions under the forecast plans and discount rates used in impairment procedures are as follows:

- growth rate “g” was assumed at 2%;
- the 2017-2021 CAGR (compound average growth rate) was assumed at 7.42% for the Industrial Process Solution segment and 6.63% for the Advanced Automated Machinery and Materials segment;
- the WACC (weighted average cost of capital) was assumed at 5.9 %.

A sensitivity analysis was performed to simulate the value of CGUs following the change of certain basic parameters of the valuation model: WACC, long-term nominal growth rate (g) and profitability of the CGUs.

The results of the impairment test on goodwill and the relevant sensitivity analysis did not show any risks of impairment.

In the same manner, trademarks with an indefinite life are tested annually for impairment and a sensitivity analysis is performed. The results of such impairment test on trademarks with an indefinite life and the relevant sensitivity analysis did not show any risks of impairment.

3.3.3 Other intangible assets with a finite life

This caption is comprised as follows:

€/000	31/12/2016	31/12/2015
Trademarks with a finite life	48	42
Industrial patents and intellectual property rights	3,604	3,629
Software licences	8,751	10,294
Development expenditure	76,822	56,447
Other intangible assets with a finite life	258	225
Assets under development and payments on account	7,650	5,940
Total intangible fixed assets	**97,133**	**76,577**

Details and analyses of changes in this caption during the year are provided in Annex I.

Software licences mainly include costs incurred to implement the new ERP system, as detailed later on.

Capitalised development expenditure for the year amounts to €38,985 thousand (€600 thousand of which was capitalised in 2015), while amortisation for the year amounts to €20,541 thousand.

As per IAS 38, such development projects are tested for impairment to examine their ability to generate probable future economic benefits. The development expenditure incurred by the group that does not meet such requirements is taken directly to profit or loss.

Assets under development and payments on account show a net increase of €1,710 thousand, mainly related to the capitalisation of cost for the implementation and development of the new ERP system for the Group's American companies which is slated to go live in early 2017. The project for the new ERP system involves the main group companies and its implementation plan will be completed in 2019. Specifically, RA Jones Inc., GD USA Inc., IPI S.r.l. and certain Flexlink Group companies will begin using the new ERP system in 2017, while ACMA S.p.A., Tecnomeccanica S.p.A., Volpak S.A., G.D S.p.A., Sasib S.p.A., Comesca S.r.l., G.D Automatische Verpackungsmachinen GmbH and the parent Coesia S.p.A. began using it in 2014 and 2015.

3.3.4 Equity-accounted investees

There are no equity-accounted investees at 31 December 2016. As mentioned earlier, Tsubaki Flexlink Co was merged into G.D Jidokikai K.K. after 100% control of the former was acquired during the year. This company carried out commercial and after-sales assistance activities, with its registered office in Tokyo, and was previously 49% held via Flexlink AB.

3.3.5 Non-current financial assets

This caption is comprised as follows:

Investments in subsidiaries and associates measured at cost:

€/000	Investor	31/12/2016	31/12/2015
ADEC S.A. (Argentina)	G.D DO BRASIL MAQUINAS DE EMBALAR LTDA (Brazil)	-	271
IPI ASIA ASEPTIC PACKAGING SYSTEMS SDN. BHD (Malaysia)	IPI S.r.l. (Italy)	-	5,220
G.D TECHNICAL CENTER MIDDLE EAST (UAE)	G.D S.p.A. (Italy)	-	481
LESINA AUTONOLEGGIO S.r.l. (Italy)	G.D S.p.A. (Italy)	30	30
FARE IMPRESA IN DOZZA	G.D S.p.A. (Italy)	-	-
Total investments in subsidiaries and associates measured at cost		**30**	**6,002**

As mentioned, with effect from the year ended 31 December 2016, IPI Asia Aseptic Packaging Systems SDN BHD, G.D Technical Center Middle East and Adec S.A. were consolidated on a line-by-line basis.

Investments in other companies

This caption is comprised as follows:

€/000	Investor	31/12/2016	31/12/2015
Gudang Garam	G.D S.p.A. (Italy)	111	111
Crit S.r.l.	G.D S.p.A. (Italy)	52	52
Other sundry	Various	220	202
Total investments in other companies measured at cost		**383**	**365**

Other non-current financial assets:

Such caption, totalling €952 thousand (31 December 2015: €4,867 thousand), mainly includes guarantee deposits.

The decrease over the previous year is mainly due to the reclassification of the escrow account related to the sale of the Lateus business of €3,750 thousand to “Current financial assets”, as this amount will be due by 1 December 2017.

3.3.6 Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities reflect taxes on temporary differences between the carrying amounts of assets and liabilities and their tax bases and on consolidation adjustments. The deferred tax assets, mainly related to recognised taxed provisions and unrealised intragroup gains, were recognised as they are reasonably realisable. The deferred tax liabilities are mostly related to development expenditure and the tax effect on the recognition of leases using the financial method. In calculating deferred taxes, the group used the rate that substantially reflects the forecast tax burden for future years on the basis of ruling legislation (for Italian companies: IRES at 24% and IRAP at 3.9%).

3.3.7 Inventories

This caption is comprised as follows:

€/000	31/12/2016	31/12/2015
Raw materials, consumables and supplies	127,713	110,759
(LESS) Allowance for inventory write-down - raw materials, consumables and supplies	(31,492)	(30,127)
Total raw materials, consumables and supplies	**96,221**	**80,632**
Work in progress and semi-finished products	352,865	309,570
(LESS) Allowance for inventory write-down - work in progress and semi-finished products	(75,840)	(56,184)
Total work in progress and semi-finished products	**277,025**	**253,386**
Finished goods	57,955	59,227
(LESS) Allowance for inventory write-down - finished goods	(17,218)	(20,685)
Total finished goods	**40,737**	**38,542**
Total inventories	**538,533**	**479,556**
Total allowance for inventory write-down	**(124,550)**	**(106,996)**
Total inventory	**413,983**	**372,560**

The increase in inventories on the previous year end, including translation differences, amounts to €41,423 thousand, net of the €17,554 thousand increase in the allowance for inventory write-down. The increase in inventories on the previous year, net of the change in consolidation scope, is mainly due to the different timing of deliveries and orders and the greater difference recorded by the group in managing production volumes. Accruals are made to the allowance for inventory write-down for obsolete, slow-moving and excess materials.

3.3.8 Contract work in progress

€/000	31/12/2016	31/12/2015
Contract work in progress	32,935	27,814
(LESS) Allowance for inventory write-down - contract work in progress	(840)	(761)
Total contract work in progress	**32,095**	**27,053**

The change in contract work in progress on the previous year end, including translation differences, amounts to €5,042 thousand, net of the €79 thousand increase in the allowance for inventory write-down.

3.3.9 Trade receivables

The caption is broken down as follows:

€/000	31/12/2016	31/12/2015
Trade receivables	401,890	368,287
(LESS) Allowance for impairment - trade receivables	(23,319)	(24,823)
Total trade receivables	**378,571**	**343,464**

Such receivables derive exclusively from the group's industrial activities and are shown net of the allowance for impairment of €23,319 thousand (31 December 2015: €24,823 thousand). The caption includes receivables due after one year of €10,635 thousand (31 December 2015: €14,090 thousand).

Furthermore, such caption includes the following receivables from subsidiaries, non-consolidated associates and related companies:

Receivables from non-consolidated subsidiaries

€/000	31/12/2016	31/12/2015
Lesina Autonoleggio S.r.l.	7	6
Total	**7**	**6**

Receivables from associates

€/000	31/12/2016	31/12/2015
S.C Dico Romania S.r.l.	-	673
Total	**-**	**673**

Receivables from related companies

€/000	31/12/2016	31/12/2015
MAST S.r.l.	3,949	2,597
Total	**3,949**	**2,597**

3.3.10 Current financial assets

The caption is broken down as follows.

€/000	31/12/2016	31/12/2015
Securities	33,134	26,607
Short-term loan assets from non-consolidated group companies	85	298
Short-term loan assets from associates	90	70
Short-term loan assets from third parties	11	-
Cash flow hedges	237	211
Fair value hedges	625	266
Derivatives - other	-	7
Loan prepayments	1,773	2,210
Other current financial assets	3,750	48
Total current financial assets	**39,705**	**29,717**

Securities include the carrying amount of the units of the whole-life insurance policy signed by Coesia S.p.A. with Credit Agricole during 2014. The original amount of €20,000 thousand increased during the year as a result of the subscription of additional units for €2,000, as well as the accrued return of €899 thousand (of which €519 thousand accrued in previous years). Interest accrues on a quarterly basis and is paid only when the units are sold.

Furthermore, Coesia S.p.A. signed additional insurance policies for €10,000 thousand in 2015 and 2016 (of which €6,000 thousand in 2015), with accrued interest of €213 thousand (€125 thousand in 2016) at the reporting date.

"Other current financial assets" includes €3,750 thousand for the portion of the consideration collected for the sale of the Laetus business (€3,750 thousand) in 2015, lodged in a bank account managed by the notary that concluded the business sale as a guarantee against any damages provided for by contract. Such amount will be collected on 1 December 2017 net of any damages requested by, and granted to, the acquirer within the set deadline. This amount was included under "Non-current financial assets" at 31 December 2015.

Short-term loan assets from non-consolidated group companies are broken down as follows:

€/000	31/12/2016	31/12/2015
LESINA AUTONOLEGGIO S.r.l. (Italy)	85	85
IPI ASIA ASEPTIC PACKAGING SYSTEMS SDN. BHD (Malaysia)	-	213
Total short-term loan assets from non-consolidated group companies	**85**	**298**

Short-term loan assets from associates are broken down as follows:

€/000	31/12/2016	31/12/2015
FARE IMPRESA IN DOZZA S.r.l. (Italy)	90	70
Total short-term loan assets from associates	**90**	**70**

Interest accrues at market rates on loans granted to non-consolidated subsidiaries and associates.

3.3.11 Current tax assets and liabilities

Current tax assets are broken down as follows:

€/000	31/12/2016	31/12/2015
Tax assets	2,667	5,243
Tax consolidation scheme assets	5,493	-
Other	4,967	3,994
Total current tax assets	**13,127**	**9,237**

Current tax liabilities are broken down as follows:

€/000	31/12/2016	31/12/2015
Tax liabilities	7,770	6,622
IRPEF liability for employees and self-employed workers and other withholdings	10,768	9,682
Tax consolidation scheme liabilities	-	3,326
Other tax liabilities	1,464	936
Total current tax liabilities	**20,002**	**20,566**

Tax liabilities are shown net of withholdings, tax exemption on dividends and advances.

Group management does not believe that the years open to inspection for the parent and its main subsidiaries at the reporting date (2012 and subsequent years for Italian companies with regard to both direct and indirect taxes) will lead to any significant liabilities not shown in the consolidated financial statements.

3.3.12 Other current assets

This caption is comprised as follows:

€/000	31/12/2016	31/12/2015
Social security institutions	359	146
Employees	1,045	1,281
Advances to suppliers	8,483	5,186
Non-financial accrued income	3,993	3,586
Property operating lease prepayments	245	165
Other operating lease prepayments	103	14
Insurance prepayments	1,764	2,937
Maintenance prepayments	507	488
Other prepayments	7,850	5,139
VAT assets	14,420	13,083
Other receivables	10,811	13,046
Total other assets	**49,580**	**45,071**

3.3.13 Cash and cash equivalents

This caption is comprised as follows:

€/000	31/12/2016	31/12/2015
Bank and post office accounts	288,985	267,323
Cash and cash equivalents	590	324
Total cash and cash equivalents	**289,575**	**267,647**

The change in liquidity is detailed in the annexed statement of cash flows.

3.3.14 Equity

Equity captions are broken down as follows:

€/000	31/12/2016	31/12/2015
Share capital	**125,000**	**125,000**
Revaluation reserves	86,135	86,135
Legal reserve	10,447	9,301
Hedging reserve	(2,465)	(1,406)
Actuarial reserve	(16,801)	(12,309)
Translation reserve	52,994	48,687
Total reserves	**130,310**	**130,408**
Retained earnings	**416,121**	**296,554**
Profit for the year attributable to the owners of the parent	**128,681**	**170,715**
Equity attributable to the owners of the parent	**800,112**	**722,677**
Equity attributable to non-controlling interests	494	571
Total equity	**800,606**	**723,248**

An analysis of changes in equity is provided in the relevant financial statements schedule.

Equity attributable to the owners of the parent

The *share capital* amounts to €125,000 thousand, unchanged from the previous year end.

Details on changes in reserves are provided here below.

The *legal reserve*, amounting to €10,447 thousand, increased by €1,146 thousand following the allocation of 2016 profit.

The actuarial reserve decreased by €4,492 thousand following the actuarial losses of the year.

The hedging reserve was a negative €2,465 thousand and comprises changes in the fair value of derivatives on currency and interest rates signed to hedge foreign currency transactions and loans taken out by the group.

Retained earnings rose on the previous year end by €119,568 thousand, mainly due to the combined effect of the allocation of consolidated profit for the previous year (€169,569 thousand) and the resolution to distribute dividends of €50,000 thousand to the ultimate parent.

Furthermore, retained earnings include €39,358 thousand related to the first-time adoption reserve accrued for the adoption of IFRS starting from 1 January 2015.

Equity attributable to non-controlling interests

This caption refers to equity attributable to non-controlling interests amounting to €494 thousand, including the comprehensive loss attributable to non-controlling interests for 2016 of €185 thousand.

Reconciliation between equity of the parent and consolidated equity

The reconciliation of the equity and profit for the year resulting from the parent's separate financial statements and the corresponding consolidated amounts as at and for the years ended 31 December 2016 and 2015 is as follows:

€/000	2016 Equity	2016 Profit for the year	2015 Equity	2015 Profit for the year
Separate financial statements of the parent - IV Directive	**227,720**	**51,728**	**226,432**	**22,925**
Adjustment of the parent's separate financial statements to IFRS	(988)	(1,283)	277	27
IFRS compliant separate financial statements	**226,732**	**50,445**	**226,709**	**22,952**
Difference between the equity of consolidated investees and the equivalent carrying amounts in the parent's separate financial statements	594,383	147,994	516,702	170,265
Dividends		(69,236)		(16,000)
Impairment losses	-	-	-	-
Other consolidation entries	(21,003)	(523)	(20,734)	(6,502)
Total attributable to owners of the parent	**800,112**	**128,681**	**722,677**	**170,715**
Equity and profit attributable to non-controlling interests	**494**	**(185)**	**571**	**37**
Total consolidated	**800,606**	**128,496**	**723,248**	**170,752**

3.3.15 Current and non-current financial liabilities

This caption is comprised as follows at 31 December 2016 and 31 December 2015:

31 December 2016, €/000	CURRENT PORTION	NON-CURRENT PORTION	TOTAL	OF WHICH DUE AFTER FIVE YEARS
CURRENT ACCOUNT OVERDRAFTS	**639**	**-**	**639**	**-**
BANK LOANS	**54,760**	**184,125**	**238,885**	**-**
Advances on invoices	-	-	-	-
Loans	54,760	184,125	238,885	-
FINANCE LEASES	**1,453**	**8,144**	**9,597**	**3,351**
OTHER FINANCIAL BACKERS	**6,632**	**1,841**	**8,473**	**508**
Public funding	2,366	1,841	4,207	508
Factoring	4,177	-	4,177	-
Other	89	-	89	-
BONDS	**2,992**	**199,282**	**202,274**	**-**
OTHER FINANCIAL LIABILITIES	**1,725**	**5,191**	**6,916**	**-**
TOTAL FINANCIAL LIABILITIES	**68,201**	**398,583**	**466,784**	**3,859**

31 December 2015, €/000	CURRENT PORTION	NON-CURRENT PORTION	TOTAL	OF WHICH DUE AFTER FIVE YEARS
CURRENT ACCOUNT OVERDRAFTS	**1,480**	**-**	**1,480**	**-**
BANK LOANS	**20,662**	**163,920**	**184,582**	**-**
Advances on invoices	6,755	-	6,755	-
Loans	13,907	163,920	177,827	-
FINANCE LEASES	**908**	**6,717**	**7,625**	**3,818**
OTHER FINANCIAL BACKERS	**1,833**	**4,018**	**5,851**	**-**
Public funding	557	2,366	2,923	-
Factoring	721	1,652	2,373	-
Other	555	-	555	-
BONDS	**-**	**199,137**	**199,137**	**-**
OTHER FINANCIAL LIABILITIES	**5,048**	**4,466**	**9,514**	**-**
TOTAL FINANCIAL LIABILITIES	**29,931**	**378,258**	**408,189**	**3,818**

The caption includes the €100,000 thousand bond issue subscribed on 1 July 2006 by the ultimate parent's sole shareholder with bullet repayment at par on 30 June 2018. Bonds worth €70,000 thousand were transferred to the ultimate parent, IS.Co S.r.l. in 2015 and 2016. The parent, Coesia S.p.A., has the right to redeem a portion or all of the outstanding bonds in advance once the eighteenth month and one day from issue have elapsed, following the resolution of the shareholders during an ordinary meeting. Coesia S.p.A. may not exercise this option until the bank loans totalling €180 million, commented on later on, have been repaid in full pursuant to contractual undertakings. These bonds accrue interest at an annual rate of 4.5%, which is payable on 30 June of each year of the bond term, beginning in 2007.

On 1 October 2014, Coesia S.p.A. issued and placed on the ExtraMOT PRO bond market, which is reserved for professional investors, bonds for €100,000 thousand with a bullet repayment on 1 October 2021. The liability recognised in the 2016 consolidated financial statements at amortised cost amounts to €99,282 thousand. These bonds accrue interest at an annual rate of 3%, which is payable on 1 October of each year of the bond term, beginning in 2014.

Bank loans mainly include Coesia S.p.A.'s loans, totalling €179.9 million, of which: €30 million due in 2018 obtained for the acquisition of IPI group completed in October 2013; €100 million related to a bullet loan taken out in 2015 due in 2019; and €49.9 million deriving from a loan subscribed during the year and due in 2020.

During the year, G.D S.p.A. also subscribed two foreign-currency loans totalling €30,000 thousand due in 2017.

The above-mentioned bank loan agreements require compliance with economic and financial covenants calculated on Coesia group's consolidated financial statements. Such covenants are checked by banks every six months. They were complied with at 31 December 2016. Interest accrues at market rates on all loans.

The main derivative contracts in place at 31 December 2016 are as follows:

- a derivative to hedge interest rate risk related to the bullet loan of €100 million mentioned above. With a notional value of €100,000 thousand at 31 December 2016, the derivative was signed on 4 September 2015, took effect on 30 January 2016 and expires on 1 August 2019. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the five-year fixed rate of 0.42% on a quarterly basis. The market valuation of such transaction at 31 December 2016 showed a loss of approximately €1,863 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";

- a derivative to hedge interest rate risk related to the loan agreed in 2016 and due in 2020. The contract took effect on 27 October 2016 and expires on 27 October 2020. It has a notional amount of €50,000 thousand and the group undertakes to pay/collect the differential between 3-month Euribor and the four-year fixed rate of 0.02% on a quarterly basis.

The market valuation of such transaction at 31 December 2016 showed a loss of approximately €286 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";

- a derivative measured at fair value and originally signed in 2010 to hedge interest rate risk linked to the multifunctional MAST building demerged during 2015. With decreasing notional amounts, the derivative expires in 2029. It amounts to €19,456 thousand at 31 December 2015 and provides for a floor of 2.48% and a cap of 4.5%. The derivative does not generate effects if the 3-month Euribor is between 2.48% and 4.5%. The market valuation of such transaction at 31 December 2015 showed a loss of approximately €3,043 thousand, which was recognised under "non-current financial liabilities".

3.3.16 Employee benefits

Defined benefit plans

At 31 December 2016, the caption mainly includes €71,617 thousand (31 December 2015: €68,171 thousand) for post-employment benefits for companies resident in Italy and liabilities for defined benefits pension funds pursuant to IAS 19 for foreign companies, determined on an actuarial basis, as mentioned in the section on accounting policies. The changes in defined benefit plans during the year were as follows:

€/000	2016	2015
Present value of defined benefit plans - opening balance	**68,171**	**67,445**
Interest cost	1,178	1,257
Current service cost	2,710	2,231
Past service cost	(734)	0
Benefits paid by the group and employees	(5,039)	(4,763)
Net actuarial gains (losses) for the year	5,206	(1,003)
Net transfers	309	12
Exchange rate gains (losses)	(184)	2,992
Present value of defined benefit plans - closing balance	**71,617**	**68,171**

The main demographic assumptions adopted in assessing the actuarial loss are as follows:

- the annual probability of elimination of the liability due to the death of employees in service, for which local statistical mortality tables were used;
- the annual probability of elimination of the liability for reasons other than the death of employees, which was calculated on the basis of the group's historical data;
- the pensionable age on the basis of ruling legislation.

The discount rates used as reference are as follows:

2016	Europe	America	Asia Pacific
Discount rate	1.3% - 2.7%	3.8% - 4.0%	8.4%
Annual salary increase rate	1.0% - 3.0%	0.0% - 3.7%	8.0%
Annual inflation rate	0.0% - 3.1%	0.0%	0.0%

2015	Europe	America	Asia Pacific
Discount rate	2.37% -3%	3.8% - 4.2%	9.1%
Annual salary increase rate	1.17% - 2.6%	0.0% - 3.4%	8.0%
Annual inflation rate	1.4%	0.0%	0.0%

The effects of a hypothetical increase or decrease of 50 basis points in the 2016 discount rate, net of the tax effects, are as follows:

Sensitivity analysis (€/000)	Increase + 50 bp	Decrease - 50 bp
Net actuarial gains (losses) for the year	(13,855)	16,829

Long-term incentives

Employee benefits include the portion for the year of the cost of future long-term incentives granted to the group's top management starting from this year, for €7,089 thousand.

3.3.17 Current and non-current portion of the provisions for risks and charges

These provisions are composed as follows:

€/000	31 December 2016	31 December 2015
Provisions for product warranties and installations	70,635	83,943
Other provisions for risks and charges	15,253	15,206
Total provisions for risks and charges	**85,888**	**99,149**

€/000	Non-current portion	Current portion	Total 2016
Provisions for product warranties and installations	2,316	68,319	70,635
Other provisions for risks and charges	2,034	13,219	15,253
Total provisions for risks and charges	**4,350**	**81,538**	**85,888**

The provisions for product warranties and installations and other provisions for risks and charges mainly reflect charges for work carried out under warranty and installation to be incurred after the reporting date but relating to machinery sold before that date, as well as prudently estimated charges for contract risks and any loss-making orders related to group production activities.

3.3.18 Trade payables

€/000	31 December 2016	31 December 2015
Trade payables and invoices to be received	228,351	216,688
Payables to sales agents	8,202	9,822
Trade payables to non-consolidated group companies	53	72
Trade payables to associates	3	261
Total trade payables	**236,609**	**226,843**

The €9,766 thousand increase on the previous year end is chiefly attributable to the different timing of supplies and deliveries.

3.3.19 Other current liabilities

€/000	31 December 2016	31 December 2015
Advances from customers	261,061	189,822
Social security institutions	14,459	13,720
Due to employees - wages and salaries	23,091	25,057
Due to employees - holidays accrued but not taken	12,317	10,890
Due to employees - other	2,164	1,359
Accrued non-financial expenses	458	2,703
Deferred non-financial income	2,952	470
VAT liability	2,932	3,626
Dividends	10,000	-
Other	20,629	15,239
Total other current liabilities	**350,063**	**262,886**

The €71,239 thousand increase in advances from customers is mainly due to the larger order backlog and to the different timing of orders and deliveries compared to the previous year.

Dividends relate to the amount yet to be paid to the shareholder Is.Co S.r.l. at 31 December 2016 following the resolution taken by the shareholders of the parent Coesia S.p.A. in their ordinary meeting of 13 December 2016, which approved the distribution of dividends totalling €20,000 thousand, of which €10,000 thousand was paid on 13 December 2016 and €10,000 thousand in January 2017.

3.4 Notes to the income statement

In accordance with IAS 1, the following table shows an analysis of the main operating costs.

€/000	2016	2015
Sales revenue, net	1,457,027	1,533,633
Purchase of goods and change in inventories	(442,591)	(489,885)
Services	(310,725)	(293,413)
Personnel expense	(439,356)	(419,132)
Amortisation, depreciation and impairment losses	(48,464)	(46,337)
Other costs, net	(9,309)	(7,695)
Operating profit	**206,582**	**277,171**

3.4.1 Revenue

Revenue is broken down below by geographical segment in the following table:

€/000	2016	%	2015	%	Variation %
EUROPEAN UNION	434,647	30%	438,073	29%	(1%)
NORTH AMERICA	243,084	17%	257,902	17%	(6%)
ASIA	342,124	23%	417,499	27%	(18%)
OTHER	378,817	26%	366,501	24%	3%
Total revenue - non-Italy	**1,398,672**	**96%**	**1,479,975**	**97%**	**(6%)**
ITALY	58,355	4%	53,658	3%	8%
Total revenue	**1,457,027**	**100%**	**1,533,633**	**100%**	**(5%)**

96% of 2016 revenue was earned outside Italy (97% in 2015); specifically, mostly from Asia and the rest of the European Union. Sales in the EU are substantially in line with the previous year, while North America recorded a drop in sales. In Asia, sales continued to drop following large investments made by customers in previous years.

Sales for the IPS sector grew in North America and dropped slightly in Italy and Europe, while the overall reduction in revenue from other geographical segments is mainly due to the AAM&M sector, where revenue rose in the “Other” geographical segment.

3.4.2 Cost of sales

The cost of sales amounts to €945,775 thousand (65% as a percentage of revenue) for the year ended 31 December 2016, in line with the 2015 balance of €996,878 thousand (65% as a percentage of revenue). The €51,103 thousand decrease in the carrying amount is mainly due to the lower sales volumes.

3.4.3 Commercial and distribution costs

Commercial and distribution costs amount to €117,498 thousand (8.1% as a percentage of revenue) for the year ended 31 December 2016, compared with €117,754 thousand (7.7% as a percentage of revenue) for 2015, down €256 thousand.

3.4.4 General and administrative expenses

General and administrative expenses amount to €133,539 thousand (9.2% as a percentage of revenue) for the year ended 31 December 2016, compared with €99,852 thousand (6.5% as a percentage of revenue) for 2015, up €33,687 thousand. Such increase is mainly due to the disbursement of non-recurring remuneration to top management during the year.

3.4.5 Research and development expenditure

Reference should be made to note 3.2.3 and the directors' report for details on such caption.

3.4.6 Other income and other costs

In 2015, other income mainly included gains on the sale of the Laetus business (€14.1 million).

3.4.7 Financial income

This caption is comprised as follows:

€/000	2016	2015
Exchange rate gains	13,234	21,213
Interest income	2,107	3,096
Other financial income	751	203
Total	**16,092**	**24,512**

3.4.8 Financial expense

This caption is comprised as follows:

€/000	2016	2015
Exchange rate losses	(11,267)	(28,868)
Interest expense on loans and leases	(5,647)	(13,265)
Interest expense on bonds	(7,647)	(7,639)
Other financial expense	(7,438)	(6,795)
Total	**(31,999)**	**(56,567)**

3.4.9 Income tax expense

This caption is comprised of current taxes amounting to €57,459 thousand and net deferred tax expense of €4,720 thousand. With respect to Italian companies, deferred taxes were calculated based on the enacted IRES and IRAP rates of 24% and 3.9%, respectively.

The main differences between the theoretical taxes calculable with the reference tax rate in Italy and the taxes recognised in the financial statements are mainly due to changes in taxed provisions in addition to the different tax rates and regulations applied in the various countries.

3.5 Other information

Related party disclosure

COESIA group's relationships with related parties are neither atypical or unusual; they are part of the group's ordinary business operations.

Sales and financial transactions with such parties were carried out on an arm's length basis and were all concluded in the parent's interest.

The following tables show the statement of financial position and income statement captions related to COESIA group's transactions with related parties, as per IAS 24.

As at and for the year ended 31 December 2016

€/000

Parents, subsidiaries and associates	Receivables	Payables	Costs	Revenue
Ultimate parent				
IS.Co. S.r.l.	5,493	81,575(1)	3,150	-
Subsidiaries:				
Lesina Autonoleggi S.r.l.	92	50	212	7
Associates				
Fare Impresa in Dozza S.r.l.	93	-	83	-
Related companies	**Receivables**	**Payables**	**Costs**	**Revenue**
Mast S.r.l.	3,949(2)	973	3,459	1,094(3)
Other related parties	**Receivables**	**Payables**	**Costs**	**Revenue**
Sole shareholder of the ultimate parent	-	30,675(1)	1,350	-
TOTAL	**9,627**	**113,273**	**8,254**	**1,101**

Note (1): includes i) bonds redeemable on 30 June 2018, held by the ultimate parent's sole shareholder for €30 million and the ultimate parent IS.Co. S.r.l. for €70 million and accrued interest ii) dividend distribution approved but not yet paid at 31 December 2016 for €10 million.

(2): includes services provided (€941 thousand, including VAT) and receivables for Mast S.r.l. expenses recharged by the subsidiary G.D S.p.A. (€3,008 thousand).

(3): includes revenue from services rendered (€495 thousand) and Mast S.r.l. expenses recharged by the subsidiary G.D S.p.A. (€599 thousand).

At 31 December 2015

€/000

Parents, subsidiaries and associates	Receivables	Payables	Costs	Revenue
Ultimate parent				
IS.Co. S.r.l.	0	23,776(1)	450	-
Subsidiaries:				
Lesina Autonoleggi S.r.l.	91	72	232	8
Ipi Asia Aseptic Packaging Systems Sdn. Bhd	213	-	-	-
G.D Tech. Middle East UAE	347	-	-	287
Associates				
S.C Dico Romania S.r.l.	673	247	1,162	-
Fare Impresa in Dozza S.r.l.	70	14	58	-
Related companies	**Receivables**	**Payables**	**Costs**	**Revenue**
Mast S.r.l.	2,597(2)	858	1,309	1,516(3)
Other related parties	**Receivables**	**Payables**	**Costs**	**Revenue**
Sole shareholder of the ultimate parent	-	81,800(1)	4,050	-
TOTAL	3,991	106,767	7,261	1,811

Note (1): includes bonds redeemable on 30 June 2018, held by the ultimate parent's sole shareholder (€80 million) and the ultimate parent, IS.Co. S.r.l. (€20 million, including accrued interest of €0.45 million).

(2): includes services provided (€337 thousand, including VAT) and receivables for Mast S.r.l. expenses recharged by the subsidiary G.D S.p.A. (€2,260 thousand).

(3): includes revenue from services rendered (€276 thousand) and Mast S.r.l. expenses recharged by the subsidiary G.D S.p.A. (€1,240).

Fees to directors, statutory auditors and key management personnel

Fees to the board of directors for the year ended 31 December 2016, excluding the parent's CEO, amount to €660 thousand, whereas fees to the board of statutory auditors total €401 thousand, both short term.

In addition to the parent's CEO, key management personnel include members of the Coesia Operating Committee comprised of the CEOs/Managing Directors/General Managers of the main group companies, the group CFO, the Human Resources Executive Vice President, the Director of Global Key Account Management and the Managing Directors of the operating segments and regions.

Gross remuneration to key management personnel for 2016 amount to €41,117 thousand (€5,829 thousand long term).

Independent auditors' fees

Pursuant to article 2427 of the Italian Civil Code, the table below shows the fees paid by Coesia S.p.A. and group companies to the independent auditors and their network, for audit engagements and other services, set out by type or category (in thousands of Euros).

Service type	Service Provider	Beneficiary	Fees
Audit	KPMG S.p.A.	Coesia S.p.A.	47
Other attestation services	KPMG S.p.A.	Coesia S.p.A.	11
Total Coesia S.p.A.			**58**
Audit	KPMG S.p.A.	Subsidiaries	285
Audit	KPMG network	Subsidiaries	748
Other attestation services	KPMG S.p.A.	Subsidiaries	17
Other attestation services	KPMG network	Subsidiaries	4
Tax services	KPMG network	Subsidiaries	46
Other services	KPMG network	Subsidiaries	85
Total subsidiaries			**1,185**
Total			**1,243**

Guarantees issued and third-party goods held at group companies

The following table shows the guarantees issued mainly by banks in favour of customers to guarantee the current functioning of machinery or to guarantee supplies.

Furthermore, the table presents third-party goods held at group companies.

€/000	31 December 2016	31 December 2015
Securities	110,826	86,815
Third-party goods held at group companies	4,658	3,536
TOTAL	**115,484**	**90,351**

Commitments

The following tables summaries group commitments related to payments for commitments assumed under operating leases (mainly for buildings and vehicles).

31 December 2016 (€/000)	DUE WITHIN ONE YEAR	DUE AFTER ONE YEAR - WITHIN FIVE YEARS	DUE AFTER FIVE YEARS	TOTAL
COMMITMENTS FOR OPERATING LEASES	9,361	20,248	2,676	32,285
TOTAL	**9,361**	**20,248**	**2,676**	**32,285**

31 December 2015 (€/000)	DUE WITHIN ONE YEAR	DUE AFTER ONE YEAR - WITHIN FIVE YEARS	DUE AFTER FIVE YEARS	TOTAL
COMMITMENTS FOR OPERATING LEASES	8,077	20,536	2,850	31,463
TOTAL	**8,077**	**20,536**	**2,850**	**31,463**

3.6 Annexes

The annexes are an integral part of these notes. Their purpose is to provide additional information.

The following information is included in these annexes:

- Schedule of intangible assets at 31 December 2016 (Annex I);
- Schedule of property, plant and equipment at 31 December 2016 (Annex II);
- List of consolidated investments (Annex III).

ANNEX I - SCHEDULE OF INTANGIBLE ASSETS AT 31 DECEMBER 2016

Intangible assets with a finite life - €/000

	31/12/2015			Changes						31/12/2016		
	Historical cost	Accumulated amortisation	Carrying amount at 31/12/2015	Changes in consolidation scope	Exchange rate difference	Increase	Amortisation and impairment losses for the year	Historical cost	Accumulated amortisation	Historical cost	Accumulated amortisation	Carrying amount at 31/12/2016
Trademarks with a finite life	108	(66)	42	0	0	14	(8)	0	0	122	(74)	48
Industrial patents and intellectual property rights	11,604	(7,974)	3,629	123	(95)	1,076	(1,120)	(9)	0	12,511	(8,907)	3,604
Software licences	39,380	(29,086)	10,294	47	21	2,938	(3,775)	(773)	0	42,004	(33,253)	8,751
Development expenditure	196,436	(139,989)	56,447	1,963	(32)	38,985	(20,541)	0	0	238,080	(161,258)	76,822
Other intangible assets with a finite life	4,781	(4,556)	225	104	(2)	37	(105)	0	0	5,078	(4,820)	258
Assets under development and payments on account	5,939	0	5,939	144	0	2,650	0	(1,083)	0	7,650	0	7,650
Total	258,247	(181,670)	76,577	2,381	(108)	45,700	(25,548)	(1,865)	0	305,445	(208,312)	97,133

Intangible assets with an indefinite life - €/000

	31/12/2015	Changes					31/12/2016
		Changes in consolidation scope	Exchange rate difference	Increase	Decrease	Impairment losses for the year	
Goodwill	392,139	0	5,341	72,013	0	0	469,493
Trademarks with an indefinite life	10,677	0	(406)	13,231	0	0	23,502
Total	402,816	0	4,935	85,244	0	0	492,995

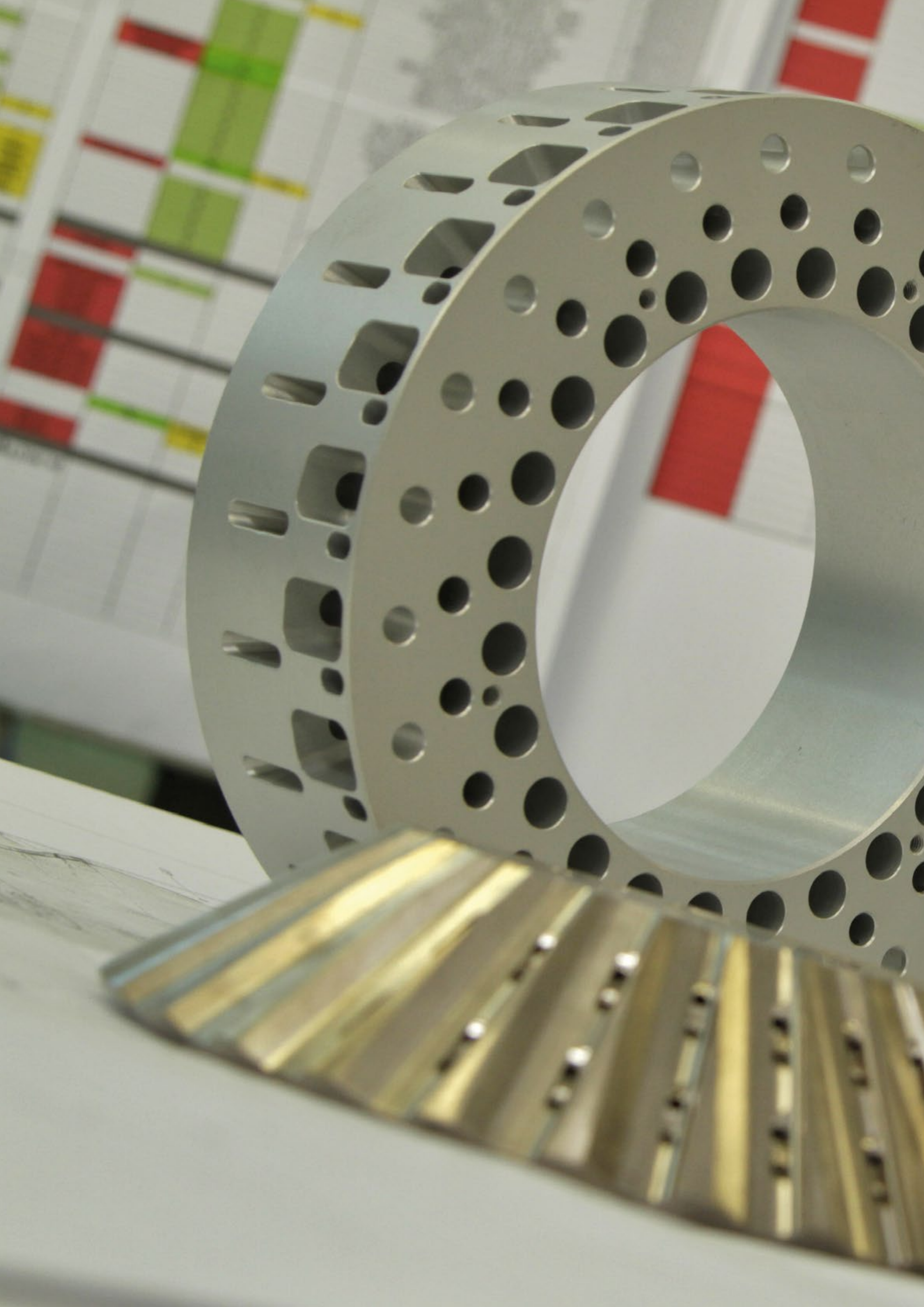
ANNEX II – SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT AT 31 DECEMBER 2016

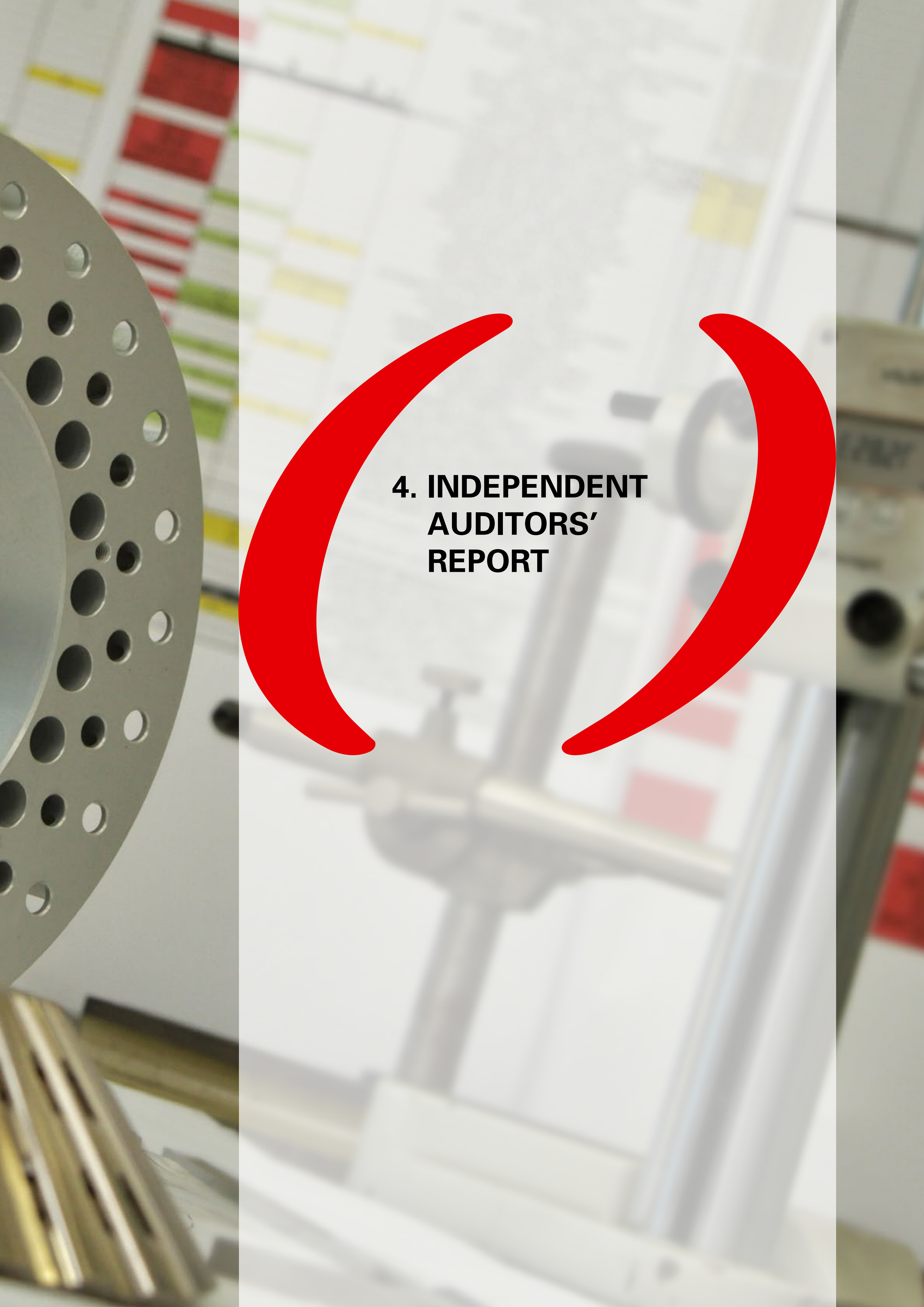
€/000

	31/12/2015			Changes							31/12/2016		
	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2015	Changes in consolidation scope	Reclassifications	Exchange rate difference	Increase	Depreciation and impairment losses for the year	Historical cost	Accumulated depreciation	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2016
Land	24,235	0	24,235	0		425	0	0	(5)	0	24,656	0	24,656
Buildings	205,228	(101,849)	103,379	5,362	(90)	470	3,439	(6,067)	(2,301)	1,032	212,657	(107,434)	105,223
Leasehold improvements	6,392	(4,456)	1,936	296	33	(50)	661	(1,417)	(848)	843	6,744	(5,290)	1,455
Plant and machinery	245,816	(218,145)	27,671	358	330	232	14,707	(8,216)	(4,737)	4,823	262,912	(227,744)	35,168
Industrial and commercial equipment	65,171	(56,671)	8,499	337	(169)	(86)	2,610	(3,492)	(2,300)	1,645	63,163	(56,118)	7,044
Other assets	58,880	(50,281)	8,600	402	(104)	154	3,678	(3,668)	(1,894)	1,635	61,779	(52,975)	8,804
Advances paid for the purchase of property, plant and equipment	4,722	0	4,722			6	3,348	0	(460)	0	7,616	0	7,616
Assets under construction	17,415	0	17,415			64	5,571	0	(1,836)	0	21,215	0	21,215
Total	627,860	(431,403)	196,457	6,755	0	1,215	34,015	(22,860)	(14,381)	9,979	660,742	(449,562)	211,180

ANNEX III - LIST OF CONSOLIDATED INVESTMENTS

COMPANY	REGISTERED OFFICE	SHARE/QUOTA CAPITAL	% OF OWNERSHIP	
			DIRECT	INDIRECT
Consolidated companies:				
ACMA S.p.A.	Bologna	€9,300,000	100.00%	
C.I.M.A. S.p.A.	Villanova (Bologna)	€4,810,000	100.00%	
Comesca S.r.l.	Scarperia (Florence)	€41,600		100.00%
G.D Automatic Machinery Ltd	Berkshire (UK)	GBP10,000		100.00%
G.D Automatic Packaging Equipment CJSC	Moscow (Russia)	RUB2,500,000		100.00%
G.D Automatische Verpackungsmachinen GmbH	Langenfeld (Germany)	€511,292		100.00%
G.D China Automatic Machinery Ltd	Hong Kong (China)	HKD10,000		100.00%
G.D Do Brasil Maquinas de Embalar Ltda	Sao Paulo (Brazil)	USD12,490,926		100.00%
G.D Industrie S.r.l.	Bologna	€2,600,000		100.00%
Sasib S.p.A.	Castel Maggiore (Bologna)	€1746870		100.00%
G.D Jidokikai K.K.	Tokyo (Japan)	JPY98,000,000		100.00%
G.D Machinery South East Asia Pte Ltd.	Singapore	SGD200,000		100.00%
G.D USA Inc.	Richmond (USA)	USD500,000		100.00%
G.D S.p.A.	Bologna	€4,000,000	100.00%	
G.D.M. S.p.A.	Bologna	€1,500,000	100.00%	
Nova Prefabbricati S.r.l.	Bologna	€15,000		100.00%
TOCECO Ltd	Hong Kong (China)	HKD10,000		100.00%
TOCECO International Trading Ltd	Shanghai (China)	HKD1,569,026		100.00%
Volpak SA	Barcelona (Spain)	€9,900,000	100.00%	
PT G.D Indonesia	Indonesia	USD290,000		100.00%
Hapa AG	Volketswill (Switzerland)	CHF1,000,000	100.00%	
COESIA IPS CGM S de RL de CV	Mexico City (Mexico)	MXN322,500	100.00%	
Group Service S.r.l.	Bologna	€50,000	100.00%	
Volpak Techgen Packaging Machineries Company Ltd	Shijiazhuang Hebei Province (China)	€650,000		51.00%
GD Teknik Hizmetler ve Ticaret Ltd Sirketi	Izmir (Turkey)	TRY500,000		100.00%
G.D TECH.CENTER MIDDLEEAST FZE FZE	Sarjah (UAE)	AED2,000,000		100.00%
Norden Machinery AB	Kalmar (Sweden)	SEK17,336,575	100.00%	
Norden UK Ltd	Milton Keynes (UK)	GBP15,000		100.00%
Franssons Maskinbearbetning I Kalmar AB	Kalmar (Sweden)	SEK200,000		100.00%
Citus Kalix Sas	Courcouronnes (France)	€7,193,040		100.00%
ADMV Sas	Cremieu (France)	€64,000		100.00%
Sacmo Sa	Holnon (France)	€1,028,170		100.00%
Norden GmbH	Ostfildern (Germany)	€25,565		100.00%
Sirius Machinery Co Ltd	Suzhou (China)	CNY15,782,000		100.00%
Tecnomeccanica S.r.l.	Castenaso (Bologna)	€92,444		100.00%
Coesia Finance S.p.A.	Bologna	€120,000	100.00%	
Coesia India Pvt. Ltd	Maharashtra (India)	INR5,414,850		100.00%
4S Engineering S.r.l.	Bologna	€20,000	80.00%	
FLEXLINK HOLDING AB	Gothenburg (Sweden)	SEK3,285,000	100.00%	
R.A JONES & CO.	Davenport / Covington (USA)	USD10	100.00%	
Flexlink AB	Gothenburg (Sweden)	SEK1,000,000		100.00%
PT Flexlink Systems	Jakarta (Indonesia)	IDR928,000		100.00%
Flexlink Systems India Pvt Ltd.	New Delhi (India)	INR100,000		100.00%
Flexlink Automation (Shanghai) Co. Ltd.	Shanghai (China)	CNY1,655.000		100.00%
Flexlink Systems Polska Sp Zoo	Poznan (Poland)	PLN480,000		100.00%
Flexlink Systems Russia Llc	St. Petersburg (Russia)	RUB1,000,000		100.00%
Flexlink Systems Sro	Prague (Czech Republic)	CZK1,500,000		100.00%
Flexlink Systems Espana Sl	Barcelona (Spain)	€123,000		100.00%
Flexlink Systems Pte Ltd.	Singapore	SGD1		100.00%
Flexlink Systems Ltda	Sao Paulo (Brazil)	BRL666,000		100.00%
Flexlink Systems Pty Ltd.	Mount Waverley (Australia)	AUD1		100.00%
Flexlink Engineering Sdn Bhd	Kuala Lumpur (Malaysia)	MYR500,000		100.00%
Flexlink Automation Sdn Bhd	Kuala Lumpur (Malaysia)	MYR300,000		100.00%
Flexlink Systems Inc.	Allentown (USA)	USD1,000		100.00%
Flexlink Systems Sas	Elancourt (France)	€80,000		100.00%
Flexlink Systems Canada Inc.	Burlington (Canada)	CAD1,200,000		100.00%
Flexlink Systems GmbH	Offenbach an Main (Germany)	€102,000		100.00%
Flexlink Systems Ltd.	Milton Keynes (UK)	GBP1,599,000		100.00%
Flexlink Systems Kft	Budapest (Hungary)	HUF10,000,000		100.00%
Flexlink Systems S.p.A.	Rivoli (Turin)	€306,000		100.00%
Flexlink Systems Bv.	Amsterdam (the Netherlands)	€23,000		100.00%
Flexlink Systems Nv.	Heverlee (Belgium)	€62,000		100.00%
Intramotion LLC	Lviv (Ukraine)	UAH471,000		100.00%
Oberger Daten- und Systemtechnik GMBH (Obsys)	Offenbach (Germany)	€25,000		100.00%
G.D South Africa Technical Centre (PTY) Ltd	Johannesburg (South Africa)	ZAR100		100.00%
Coesia Korea Co. Ltd	South Korea	WON50,000		100.00%
IPI S.r.l.	Perugia	€13,000,000	100.00%	
IPI Asia Pacific	Bangkok (Thailand)	THB 4,000,000		49.00%
IPI Ucraine LTD	Kiev (Ukraine)	UAH100,017		100.00%
IPI ASIA Asep.PacK.Sys.Sdn.Bhd	Malaysia	MYR23,000,000		100.00%
IPI Paketleme San. Ve. Tic. LTD	Istanbul (Turkey)	TRY679,600		100.00%
CSCJ Acma Rus	Moscow (Russia)	RUB10,000		100.00%
ADEC S.A.	Argentina	Ars 12,000		100.00%
Emmeci S.p.A.	Cerreto Guidi (Florence)	€4,000,000	100.00%	
Emmeci Europe Sarl	France	€630,000		100.00%
Emmeci USA LLC	USA	USD9,000		100.00%
PCU S.p.A.	Bologna	€895,000	100.00%	
CR Holding S.p.A.	Bologna	€7,100,000		100.00%
GF S.p.A..	Rubbiamo (Parma)	€3,000,000		100.00%
Companies measured at cost				
Lesina Autonoleggi S.r.l.	Bologna	€15,000		99.00%
Fare Impresa in Dozza S.r.l. - Impresa sociale	Bologna	€20,000		30.00%





4. INDEPENDENT AUDITORS' REPORT

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(Translation from the Italian Original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
COESIA S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the COESIA Group, which comprise the statement of financial position as at 31 December 2016, the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto.

Directors' responsibility for the consolidated financial statements

The directors of COESIA S.p.A. are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union.

Independent auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of COESIA Group as at 31 December 2016 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report with the consolidated financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report, which is the responsibility of the directors of COESIA S.p.A., with the consolidated financial statements. In our opinion, the directors' report is consistent with the consolidated financial statements of the COESIA Group as at and for the year ended 31 December 2016.

Bologna, 3 May 2017

KPMG S.p.A.

(signed on the original)

Rodolfo Curti
Director of Audit

coesia

www.coesia.com