Annual Report 2015

Coesia Group

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

Annual Report
2015
Coesia Group

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

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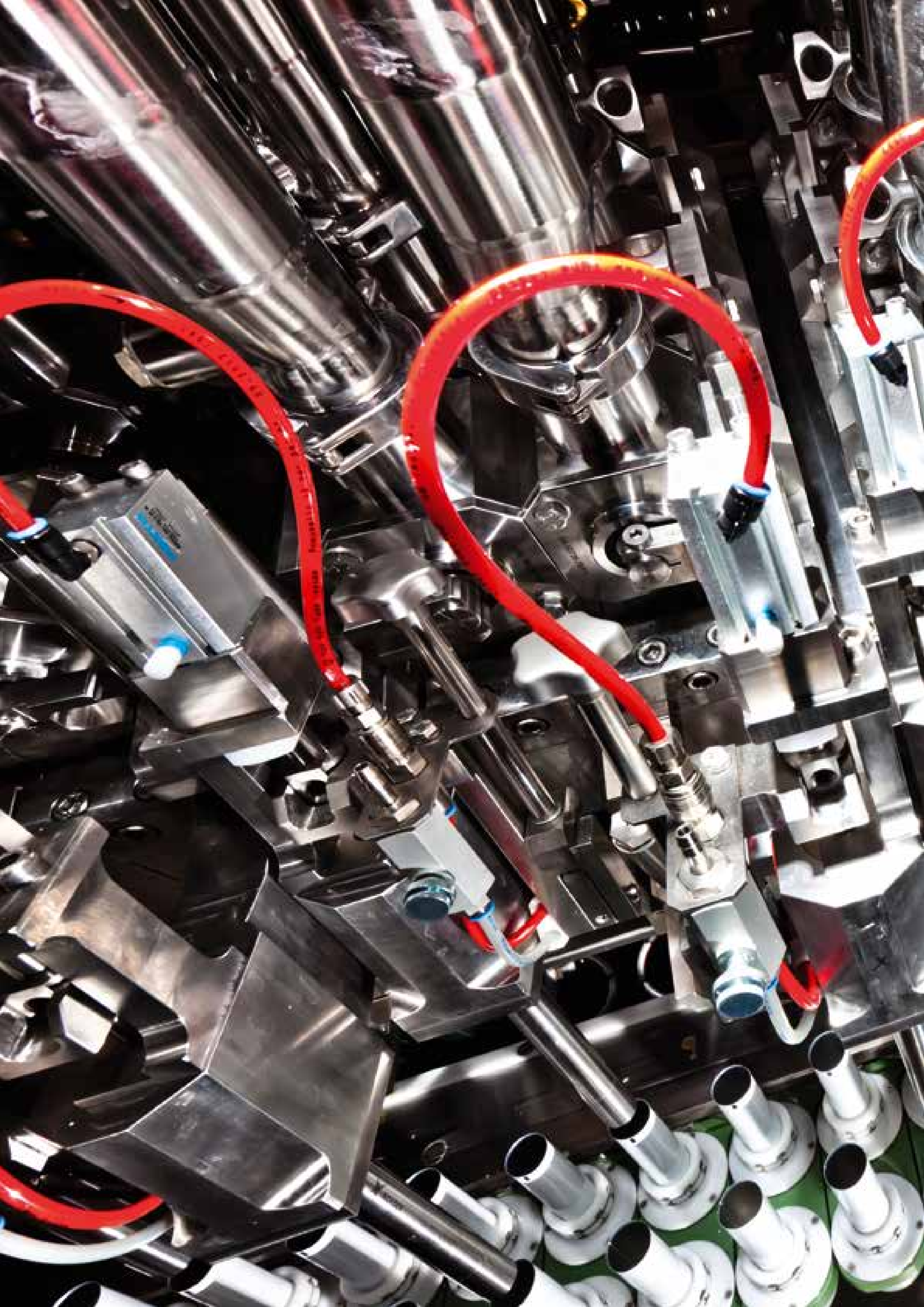

1. 2015 DIRECTORS' REPORT

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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 and in-line printing equipment (Industrial Process Solutions) and (iii) gears on behalf of third parties (Precision Gears).

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.:

ADVANCED AUTOMATED MACHINERY & MATERIALS (AAM&M)

- G.D S.p.A., with registered office in Bologna, is 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 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;
- 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 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 Solution (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 segment;
- 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.

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 2015, with global economic activities held back by smaller growth in emerging countries, while the slight revival of advanced economies continued.

In the year, US GDP rose 2.5% (+2.4% in 2014), Eurozone GDP rose 1.5% (+0.8% in 2014). In Germany, it grew only 1.5% (in line with 2014), whereas in Japan, it increased 0.6% (+0.1% in 2014). In the emerging countries, economic activity slowed, although it remained at positive levels in China and India. Chinese GDP grew 6.9%, compared to growth of 7.4% in 2014, while India's GDP climbed 7.3%, compared to approximately 5.8% in 2014.

According to the International Monetary Fund's most recent estimates, at a global level, the expected growth for 2016 and 2017 should be around 3.4% and 3.6%, respectively, although estimates have been reduced by roughly 0.2% compared to those made during the year.

This forecast basically mirrors the slight drop in the expected revival of emerging countries, especially for Brazil and Middle Eastern countries due to the political uncertainty and fall in oil prices. However, it also reflects a forecast growth for the United States in line with previous years rather than recording a further increase (2.6% growth in 2016 and 2017).

The growth of the Euro area in 2016 should be 1.7%, in line with that of Germany. In the Eurozone, as well as the forecast growth in Germany, estimates are confirmed for Spain and Italy, which are expected to grow by 1.3% and 2.7%, respectively, in 2016; Japan continues to struggle, with a 1.0% growth predicted in 2016.

In the emerging and developing countries, the growth in the coming two years is expected to remain steady at over 4% per year, although estimates have been revised downwards compared to those made during 2015.

GROUP PERFORMANCE

<u>Markets</u>

With regard to the operating segments of the group companies, the results achieved in 2015 were in line with forecasts, increasing on 2014 despite the uncertain macroeconomic situation.

Coesia group's operating segments are analysed as follows:

Advanced Automated Machinery and Materials (AAM&M)

2015 showed significantly improved results on the previous year in a tough market situation. The better financial results in terms of sales and profitability were achieved thanks to territorial expansion, a broader customer portfolio, greater efficiency in executing projects and services and the implementation of effective cost control actions.

The consumer goods machinery and aseptic filling machinery and materials businesses confirm strongly improving results driven by demand with a solid growth trend in western markets and more industrialised countries where the investments of the main customers 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. Wider territorial range and increasing industrial and operating synergies also meant the customer portfolio in emerging countries could be expanded. This trend was seen in both the consumer goods machinery and aseptic filling machinery and materials businesses. The focus on improving project execution processes, the implementation of specific actions aimed at innovating after-sales services and attention paid to cost control and reaching high standards of production efficiency, all enabled the consumer goods machinery and aseptic filling businesses to significantly boost profitability. The latter was also sustained by the ability to provide products with a high technological content and strongly innovative features.

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.

The group's significant investments in R&D and its global presence mean it 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)

2015 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, remaining stable in western economies in the main industrial sectors (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 2016 show further systematic growth with strategies continuing from previous years.

Income statement

The following main captions of the reclassified income statement are equivalent to the corresponding captions of the income statement shown in the 2015 Consolidated financial statements - financial schedules section, except for the EBITDA caption which is EBIT less amortisation and depreciation for the year.

€/000	2015	2014
REVENUE	1,533,633	1,429,310
GROSS OPERATING PROFIT	536,755	487,865
EBIT (OPERATING PROFIT)	277,171	207,371
EBITDA	323,508	252,583
PROFIT FOR THE YEAR	170,715	125,245

The group ended 2015 with a profit of €170.7 million, significantly higher than the €125.2 million recorded in 2014.

Revenue by segment

€/000	2015	%	2014	%
ADVANCED AUTOMATED MACHINERY AND MATERIAL	1,219,447	80%	1,139,904	80%
INDUSTRIAL PROCESS SOLUTION	294,059	19%	268,476	19%
OTHERS	20,127	1%	20,930	1%
Total	**1,533,633**	**100%**	**1,429,310**	**100%**

Consolidated revenue was €1,533.6 million for 2015, up 7.3% on the previous year.

With regard to revenue trends by segment (comments thereon found in the "Operating segment analysis" section), the AAM&M and IPS segments increased their revenue on 2014 by 7.0% and 9.5%, respectively.

Revenue by geographical segment

€/000	2015	%	2014	%	Variation %
EUROPEAN UNION	438,073	29%	338,595	24%	29%
NORTH AMERICA	257,902	17%	205,697	14%	25%
ASIA	417,499	27%	573,532	40%	(27%)
OTHER	366,501	24%	256,136	18%	43%
Total revenue out of Italy	**1,479,975**	**97%**	**1,373,960**	**96%**	**8%**
ITALY	53,658	3%	55,350	4%	(3%)
Total revenue	**1,533,633**	**100%**	**1,429,310**	**100%**	**7%**

97% of 2015 revenue was earned outside Italy (96% in 2014); specifically, mostly from Asia and the rest of the European Union. Sales in the EU and North America rose significantly on the previous year (by 29% and 25%, respectively), while Asia recorded a drop in sales following large investments made by customers in previous years.

Both of the group's operating segments significantly contributed to the rise in revenue in North America, while the growth in the European Union was mainly due to the AAM&M segment. The slight drop in revenue in Asia was also due to the latter segment.

Gross operating profit

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

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 €53.7 million, more or less in line with the €54.3 million incurred in 2014. It accounts for 3.5% of 2015 revenue.

Development expenditure which met capitalisation requirements under IAS 38 amounted to €24.3 million in 2015 (€18.7 million in 2014). The amortisation of expenditure capitalised during 2015 and previous years amounted to €17.7 million (€19.3 million in 2014). Capitalised expenditure is amortised

over five years starting from when the products are available for sale.

Therefore, research and development expenditure recognised in the 2015 consolidated income statement amounted to €47.2 million (€53.9 million in 2014).

In 2015, many investments were focused on developing new solutions for manufacturing special cigarette packets and, particularly, building innovative platforms for producing electronic cigarettes with liquid refills and multi-segment smoking products.

In the consumer goods machinery and aseptic filling machinery and material 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 €277.2 million included non-recurring income of €14.1 million deriving from the December 2015 sale of the Laetus business of Laetus GmbH and Laetus France Sarl and the related business units of certain group companies, as commented on later on.

Operating profit net of non-recurring income was €263.1 million (17.2% as a percentage of revenue), higher than last year (14.5% of revenue). The rise was mainly due to actions undertaken to optimise indirect costs.

Profitability indicators

The main profitability indicators for 2015 and 2014 were as follows:

Indicators		2015	2014
Return on sales (R.O.S.)	Operating profit (EBIT) / Revenue	18.1%	14.5%
Return on investment (R.O.I.)	Operating profit (EBIT) / Net invested capital	33.2%	25.2%
Return on equity (R.O.E.)	Profit for the year / Equity	23.6%	21.3%

The improvement in profitability indicators from 2014 to 2015 is principally due to that mentioned

above in relation to the rise in sales volumes, operating profit and profit for 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 2015 Consolidated financial statements - financial schedules section. The group's invested capital is presented in the following table. Furthermore, "Other, net" includes non-current financial assets (excluding the escrow related to the Laetus business of €3,750 thousand, reclassified under "Pensions, post-employment benefits and other"), 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 payable for employee benefits and deferred tax assets and liabilities.

€/000	2015	2014
Trade receivables	343,464	307,427
Inventories	399,613	439,354
Trade payables	(226,843)	(204,081)
Other, net	(320,945)	(399,908)
Net working capital	**195,289**	**142,792**
Property, plant and equipment and investment property	196,957	259,938
Intangible assets	479,393	460,787
Non-current assets	**676,350**	**720,725**
Post-employment benefits and other	(38,377)	(42,188)
Net invested capital	**833,262**	**821,329**
Non-current assets and liabilities held for sale	811	-
Total net invested capital	**834,073**	**821,329**
Financed by:		
Net financial debt	**110,825**	**232,672**
Equity attributable to non-controlling interests	571	532
Equity attributable to the owners of the parent	**722,677**	**588,125**
Total sources of financing	**834,073**	**821,329**

The increase in net working capital at 31 December 2015 compared to the previous year is due to the rise in business volumes.

€/000	2015	2014
Cash and liquid funds	(267,647)	(288,802)
Investments in securities	(26,607)	(20,064)
Liquidity	(294,254)	(308,866)
Current loan assets	(3,110)	(2,229)
Current bank loans and borrowings	22,142	220,324
Other current loans and borrowings	7,789	10,988
Current financial debt	26,821	229,083
Current net financial debt	**(267,433)**	**(79,783)**
Non-current bank loans and borrowings	163,920	67,217
Bonds	199,137	199,006
Other non-current loans and borrowings	15,201	46,232
Non-current financial debt	**378,258**	**312,455**
Total net financial debt	**110,825**	**232,672**

The net financial debt at 31 December 2015 includes the negative fair value of currency and interest rate hedges (€1,608 thousand) and other transactions (€2,887 thousand). The ample cash flows from operating activities enabled the group to reduce its net financial debt by approximately €122 million. Cash flows used in financing activities in 2015 mainly comprised (i) the repayment of current bank loans and borrowings (€205 million), (ii) the settlement of lease payables (€33.1 million) and (iii) the increase in non-current loans and borrowings (€100 million).

Human resources

The workforce at 31 December 2015 numbered to 5,925 (6,130 at 31 December 2014). The main decrease on the previous year is linked to the above-mentioned sale of the Laetus business (roughly 190 employees). Italian group personnel at 31 December 2015 came to 2,677.

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 EU Tobacco Products Directive, currently being transposed by national governments, places significant restrictions on tobacco products. Specifically, starting from May 2016, certain EU member states will enforce so-called plain packaging, i.e., a packet of standard colour and size where the brand has limited relevance. 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 could also create an opportunity for supplying kits and transformation groups for existing machinery in order to adapt them to the new legislation.

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 S.p.A. and its subsidiaries is to reduce 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.p.A.’s and its subsidiaries’ market is characterised by demand for highly technological and innovative solutions and, accordingly, the group invests around 3.5% 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

At their meeting held on 24 March 2015, the parent's shareholders approved the partial proportional demerger of the entire investment in Mast S.r.l. to Is.Co S.r.l.. This transaction is part of a broader corporate transaction involving different legal entities included in Coesia group, comprising: i) on 10 February 2015 the acquisition of the entire investment in Mast S.r.l. (formerly Ctai Kids S.r.l.) by COESIA S.p.A. from G.D S.p.A. and ii) on 12 March 2015, the early redemption of the purchase option by GD S.p.A. of the property financial lease concerning the multipurpose building called "MAST" (Factory of Art Experimentation and Technology). The effectiveness of the aforementioned demerger of Mast S.r.l. to Is.Co S.r.l. was conditional on the demerger of the MAST building, the related appurtenance areas and their chattels, by the subsidiary GD S.p.A. to Mast S.r.l. for a total of €69.5 million. Both demerger transactions will have legal, tax and accounting effect starting from 1 July 2015.

As of the completion of the above-mentioned transactions, the multipurpose "MAST" building is owned by Mast S.r.l., a subsidiary of Is.Co S.r.l..

On 1 December 2015, the business related to the design, manufacturing and sale of equipment for controlling product manufacturing and traceability (Track and Trace) used in the sector of machinery for the pharmaceutical industry was sold. The sale of such business by Laetus GmbH and Laetus France Sarl and the business units of certain group companies generated a gain of €14.1 million.

IPI Asia Aseptic Packaging Systems SDN BHD was set up on 25 May 2015 with registered office in Negeri Sembilan (Malaysia) in order to create a new facility for the production of multi-layer packaging material obtained by extruding polyethylene, paper and aluminium in order to bolster IPI's presence in South East Asian markets. Works will be carried out in 2016 to adapt the acquired facility to host extrusion, cutting and printing machinery and to store raw materials.

Events after the reporting date

The 40% investment in the associate S.C. Dico Romania S.r.l. was sold on 29 February 2016 at a price basically in line with its carrying amount.

A further 51% investment in Tsubaki Flexlink Co., with registered office in Tokyo, was acquired on 1 April 2016, giving the group full control of the company in order to more effectively grasp opportunities on the Japanese market.

Outlook

Positive forecasts can be confirmed for the group in 2016 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 a basic confirmation of 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, including specific risks linked to tobacco sector legislation.

The Industrial Process Solutions segment is expected to improve its financial results in 2016 compared to the previous year, 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 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.

2. CONSOLIDATED FINANCIAL STATEMENTS – FINANCIAL SCHEDULES

2. CONSOLIDATED FINANCIAL STATEMENTS – FINANCIAL SCHEDULES

Statement of financial position

€/000	Note	31 December 2015	31 December 2014	1 January 2014
Property, plant and equipment	3.3.1	196,457	259,250	254,512
Investment property	3.3.1	500	688	662
Goodwill and other intangible assets with an indefinite life	3.3.2	402,816	388,861	367,185
Intangible assets with a finite life	3.3.3	76,577	71,926	61,831
Equity-accounted investees	3.3.4	-	862	837
Non-current financial assets	3.3.5	11,234	2,715	2,000
Deferred tax assets	3.3.6	85,551	73,100	59,697
Total non-current assets		**773,135**	**797,402**	**746,724**
Inventories	3.3.7	372,560	427,666	483,608
Contract work in progress	3.3.8	27,053	11,688	27,722
Trade receivables	3.3.9	343,464	307,427	271,372
Current financial assets	3.3.10	29,717	22,293	2,293
Current tax assets	3.3.11	9,237	7,434	7,665
Other current assets	3.3.12	45,071	45,721	54,354
Cash and cash equivalents	3.3.13	267,647	288,802	223,710
Non-current assets held for sale	3.3.14	811	138	-
Total current assets		**1,095,560**	**1,111,169**	**1,070,724**
Total assets		**1,868,695**	**1,908,571**	**1,817,448**
Share capital	3.3.15	125,000	125,000	125,000
Reserves	3.3.15	130,408	99,986	95,633
Retained earnings	3.3.15	296,554	237,894	237,849
Profit attributable to the owners of the parent	3.3.15	170,715	125,245	-
Equity attributable to the owners of the parent	**3.3.15**	**722,677**	**588,125**	**458,482**
Equity attributable to non-controlling interests	**3.3.15**	**571**	**532**	**514**
Total equity	**3.3.15**	**723,248**	**588,657**	**458,996**
Non-current financial liabilities	3.3.16	378,258	312,455	462,780
Employee benefits	3.3.17	69,637	68,864	52,543
Non-current provisions for risks and charges	3.3.18	13,769	78,305	15,253
Deferred tax liabilities	3.3.6	58,041	46,424	42,571
Other non-current liabilities		136	130	694
Total non-current liabilities		**519,841**	**506,178**	**573,841**
Current financial liabilities	3.3.16	29,931	231,312	82,290
Current provisions for risks and charges	3.3.18	85,380	15,948	72,605
Trade payables	3.3.19	226,843	204,081	250,652
Current tax liabilities	3.3.11	20,566	20,680	15,531
Other current liabilities	3.3.20	262,886	341,715	363,533
Total current liabilities		**625,606**	**813,736**	**784,611**
Total liabilities		**1,145,447**	**1,319,914**	**1,358,452**
Total equity and liabilities		**1,868,695**	**1,908,571**	**1,817,448**

Income statement

€/000	Note	2015	2014
Revenue	3.4.1	1,533,633	1,429,310
Cost of sales	3.4.2	(996,878)	(941,445)
Gross operating profit		**536,755**	**487,865**
Commercial and distribution costs	3.4.3	(117,754)	(112,978)
General and administrative expenses	3.4.4	(99,852)	(105,749)
Research and development expenditure	3.4.5	(47,182)	(53,891)
Other income	3.4.6	17,350	1,358
Other costs	3.4.6	(12,145)	(9,234)
Operating profit		**277,171**	**207,371**
Financial income	3.4.7	24,512	27,069
Financial expense	3.4.8	(56,567)	(44,767)
Gains (losses) on equity-accounted investees	3.4.9	(110)	86
Pre-tax profit		**245,006**	**189,759**
Income tax expense	3.4.10	(74,254)	(64,539)
Profit for the year		**170,752**	**125,220**
Profit (loss) for the year attributable to non-controlling interests		**37**	**(25)**
Profit for the year attributable to the owners of the parent		**170,715**	**125,245**

Statement of comprehensive income

€/000	2015	2014
Profit for the year	**170,752**	**125,220**
Net actuarial losses on defined benefit plans	(139)	(10,635)
Total items that will not be reclassified to profit or loss	**(139)**	**(10,635)**
Exchange differences on translating foreign operations	29,845	18,842
Gains (losses) on cash flow hedges	3,687	(3,854)
Total items that may be reclassified subsequently to profit or loss	**33,532**	**14,988**
Other comprehensive income attributable to the owners of the parent	**33,393**	**4,353**
Other comprehensive income (expense) attributable to non-controlling interests	**2**	-
Other comprehensive income	**33,395**	**4,353**
Comprehensive income	**204,147**	**129,573**
Comprehensive income (expense) attributable to non-controlling interests	39	**(25)**
Comprehensive income attributable to non-controlling interests	**204,108**	**129,598**

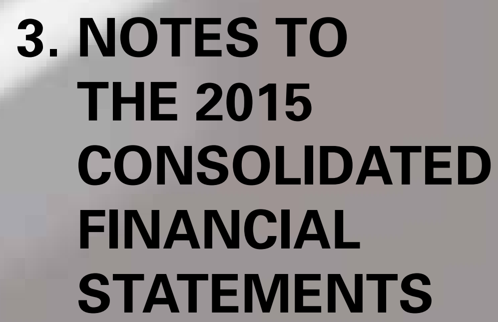
Statement of changes in equity

Note 3.3.15

€/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**

Statement of cash flows

Statement of cash flows (indirect method)		
€/000	**2015**	**2014**
Cash flows from operating activities		
Profit for the year	170,715	125,245
Adjustments for:		
Depreciation	23,815	21,821
Amortisation	22,522	24,914
Net variation in allowance for impairment	136	(1,843)
Net financial expense	32,055	17,698
Share of profit (loss) of equity-accounted investees	189	(163)
Gains on sale of property, plant and equipment	(108)	(90)
Change in deferred taxes, provisions and employee benefits	5,599	2,532
Taxes	75,563	64,869
Profit attributable to non-controlling interests	39	18
Exchange rate gains (losses)	3,805	(7,536)
Cash flows from operating activities gross of working capital	334,330	247,465
Variations in:		
– inventories and contract work in progress	39,741	71,976
– trade receivables and other assets	(39,015)	(34,212)
– trade payables and other liabilities	(58,527)	(39,527)
Net interest paid	(24,894)	(20,448)
Income taxes paid	(75,943)	(71,661)
A) Net cash flows from operating activities	**175,692**	**153,593**
Cash flows used in investing activities		
Sales of property, plant and equipment	4,293	1,670
Investments in property, plant and equipment	(32,747)	(26,349)
Sales of intangible assets	15,358	-
Investments in intangible assets	(29,490)	(35,933)
Investments in equity investments measured at cost or equity	(5,625)	-
Investments in other equity investments	(52)	-
Investments in financial assets	(6,484)	(20,064)
B) Net cash flows used in investing activities	**(54,747)**	**(80,676)**
Cash flows used in financing activities		
Loans granted	115,000	100,000
Loan repayments	(257,100)	(107,825)
C) Net cash flows used in financing activities	**(142,100)**	**(7,825)**
Net increase/(decrease) in cash and cash equivalents (A+B+C))	**(21,155)**	**65,092**
Opening cash and cash equivalents	**288,802**	**223,710**
Closing cash and cash equivalents	**267,647**	**288,802**



3. NOTES TO THE 2015 CONSOLIDATED FINANCIAL STATEMENTS

3. NOTES TO THE 2015 CONSOLIDATED FINANCIAL STATEMENTS

3.1 General information and basis of preparation

The COESIA Group operates in the design, construction and sale of (i) 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 (Advanced Automated Machinery and Materials), (ii) manufacturing logistics solutions and production control and in-line printing 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 for the first time this year 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).

Reference should be made to the appendix "First time adoption of IFRS" for information on the effects of the conversion to IFRS of consolidated financial statements captions from the accounting standards promulgated by the Italian Accounting Standard Setter (the "OIC").

Basis of presentation

The consolidated financial statements as at and for the year ended 31 December 2015 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 2015 were prepared by the board of directors on 21 April 2016 for the approval of 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. 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 determined by attributing the fair value to the individual asset and liability items. 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.

The group does not hold interests in joint ventures.

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 31/12/2015	Closing rate at 31/12/2014
Brazilian real	4.3117	3.2207
Swiss franc	1.0835	1.2024
Renminbi (Chinese yuan)	7.0608	7.5358
Pound sterling	0.73395	0.7798
Hong Kong dollar	8.4376	9.417
Indian rupee	72.0215	76.719
Japanese yen	131.07	145.23
Mexican peso	18.9145	17.8679
Russian ruble	80.6736	72.337
Swedish krona	9.1895	9.393
Thai baht	39.248	39.91
Turkish lira	3.1765	2.832
Ukrainian hryvnia	26.1587	19.206
US dollar	1.0887	1.2141
South Korean won	1280.78	1324.8
South African rand	16.953	14.0353

Currency	2015 average rate	2014 average rate
Brazilian real	3.699359	3.120661
Swiss franc	1.067823	1.214554
Renminbi (Chinese yuan)	6.97237	8.185562
Pound sterling	0.725819	0.806025
Hong Kong dollar	8.600872	10.301495
Indian rupee	71.182609	81.026344
Japanese yen	134.3089	140.29835
Mexican peso	17.609567	17.654264
Russian ruble	68.040828	50.974167
Swedish krona	9.352375	9.099429
Thai baht	38.019213	43.13963
Turkish lira	3.024403	2.906192
Ukrainian hryvnia	24.281567	15.88269
US dollar	1.109439	1.328376
South Korean won	1256.30918	1397.94217
South African rand	14.169651	14.403062

Consolidation scope

The consolidated financial statements at 31 December 2015 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 subsidiaries Lesina Autonoleggio S.r.l., Adec S.A. and G.D Technical Center Middle East as they are of little relevance. The historical cost of the investments in Lesina Autonoleggio S.r.l., G.D Technical Center Middle East and Adec S.A. in the consolidated financial statements is not significantly different to the amount of the investments calculated using the equity method at 31 December 2015. 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.

The investment in the associate Tsubaki Flexlink Co. is measured using the equity method.

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

As discussed more thoroughly in the directors' report the consolidation scope changed in 2015 as follows:

- on 1 December 2015, the group sold the Laetus business of Laetus GmbH and Laetus France Sarl and the related business units of certain group companies;
- Montale 164 S.r.l. and ATS Engineering S.r.l. were liquidated during 2015.

The following non-recurring transactions were carried out in 2015:

  - IPI Beverage Pack Syst. IBE S.L. was merged into Volpak SA without generating any impact on the consolidated financial statements;
  - G.D Technical Center Middle East was set up to perform commercial activities and provide after-sales assistance. The related investment was recognised at cost in the consolidated financial statements as it was not material.

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 2015 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 to acquisitions occurred prior to 1 January 2010. 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.

<u>Intangible assets with a finite life</u>

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.

Impairment losses on property, plant and equipment, investment property and intangible assets

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 terminate 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.

<u>Financial assets measured at fair value through profit or loss</u>

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 FIFO 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 2015

The standards, amendments and interpretations applicable as of 1 January 2015 and endorsed by the European Commission are as follows:

- IFRIC 21 – Levies (applicable for annual periods beginning on or after 17 June 2014). The interpretation provides guidance on when to recognise a liability for a levy other than income taxes imposed by a government body. The interpretation is applicable retrospectively for annual periods beginning on or after 17 June 2014. At the current reporting date, the adoption of such interpretation did not have any impact within the group.
- Annual improvements to IFRSs 2011-2013 cycle (applicable for annual periods beginning on or after 1 July 2014). The most significant issues covered in such amendments are, *inter alia*: the exclusion of all types of joint arrangements from the scope of application of IFRS 3 Business combinations, and certain clarifications on the exceptions to the application of IFRS 13 Fair value measurement. At the current reporting date, the adoption of such amendments did not have any impact within the group.

New standards and interpretations endorsed by the EU but not yet applicable

In 2015, the European Commission endorsed and published the following new standards, amendments and interpretations to integrate those already approved and published by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC"):

- Amendments to IAS 19 – Defined benefit plans: employee contributions (applicable for annual periods beginning on or after 1 February 2015). Such amendments simplify the accounting treatment of contributions to defined benefit plans by employees or third parties in specific cases. The amendments are applicable retrospectively for annual periods beginning on or after 1 February 2015. At the current reporting date, the group is assessing the impacts deriving from the adoption of the amendments.
- Annual improvements to IFRSs 2010-2012 cycle (applicable for annual periods beginning on or after 1 February 2015). The most significant issues covered in such amendments are, *inter alia*: the definition of vesting conditions in IFRS 2 Share-based payment, disclosure on estimates

and judgements using in applying the aggregation criteria to operating segments in IFRS 8 Business combinations, the identification and disclosure of a related party transaction that arises when a service company provides key management personnel services to the reporting entity in IAS 24 – Related party disclosures. At the current reporting date, the group is assessing the impacts deriving from the adoption of the amendments.

- Amendments to IAS 16 and IAS 41 – Agriculture: bearer plants (applicable for annual periods beginning on or after 1 January 2016).

  The amendment provides that plants that are used solely to grow produce over several periods, known as bearer plants, shall be accounted for in the same way as property, plant and equipment under IAS 16, because their operation is similar to that of manufacturing. Therefore, in accordance with IAS 16, such biological assets can be measured at cost and no longer at fair value less costs to sell in compliance with IAS 41.

  The group does not expect any impacts to derive from adopting the amendments.

- 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.

  At the current reporting date, the group is assessing the impacts deriving from the adoption of the amendments.

- 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.

At the current reporting date, the group is assessing the impacts deriving from the adoption of the amendments.

- Annual improvements to IFRSs 2012-2014 cycle (applicable for annual periods beginning on or after 1 January 2016).

  The most significant issues covered in such amendments are, *inter alia*:

  - in IAS 19 it is clarified that the discount rate for defined benefit plans shall be determined on the basis of high-quality corporate bonds or government bonds denominated in the same currency used to pay the benefits;

  - in IFRS 7 it is clarified that disclosures on offsetting financial assets and liabilities are only mandatory in the annual financial statements.

    It is also clarified that an entity that has transferred financial assets and fully derecognised them from its statement of financial position is obliged to provide disclosure with reference to its continuing involvement, if it has underwritten servicing contracts that highlight the interest of the entity in the future performance of the transferred financial assets;

  - in IFRS 5 it is clarified that there are no accounting impacts if an entity, changing its disposal plan, reclassified an asset or a disposal group held for sale to held for distribution or vice versa. Such change to the disposal plan is considered a continuation of the original plan.

  At the current reporting date, the group is assessing the impacts deriving from the adoption of the amendments.

- 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.

  At the current reporting date, the group is assessing the impacts deriving from the adoption of the amendments.

- 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.

The adoption of such amendments will not have any effect with regard to the measurement of the consolidated financial statements captions as it is only applicable to separate financial statements.

New standards, amendments and interpretations issued by the IASB and not yet endorsed by the EU

At the date of preparation of these consolidated financial statements, the following new standards, amendments and interpretations have been issued by the IASB but not yet endorsed by the EU.

- IFRS 9 (Financial instruments): mandatory application starting from 1 January 2018;
- IFRS 14 (Regulatory deferral accounts): mandatory application starting from 1 January 2016;
- IFRS 15 (Revenue from contracts with customers): mandatory application starting from 1 January 2018;
- IFRS 16 (Financial instruments): mandatory application starting from 1 January 2019;
- Amendments to IFRS 10 and IAS 28: Sales or contributions of assets between an investor and its associate/joint venture: mandatory application not yet defined;
- Amendments to IFRS 10, IFRS 12 and IAS 28: mandatory application starting from 1 January 2016.

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 2015.

€/000	FAIR VALUE GAIN		FAIR VALUE LOSS	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
INTEREST RATE HEDGE			(341)	(1,582)
CURRENCY HEDGE	484		(169)	
Total	484	-	(510)	(1,582)

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.

Market risk

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.

Currency risk

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.

Interest rate risk

The group's exposure to interest rate risk mainly derives from the need to fund the group's non-organic 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 2015 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 2015 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..

Industrial Process Solutions

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

- Flexlink Group;
- Hapa AG
- Sacmo SAS
- ADMV SA

Operating segment analysis

The following tables, prepared on a consolidated basis, present information on operating segments for 2015 and 2014.

€/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	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)**

€/000	2014			
	ADVANCED AUTOMATED MACHINERY AND MATERIALS	INDUSTRIAL PROCESS SOLUTION	OTHERS	TOTAL
Revenue	1,139,904	268,476	20,930	**1,429,310**
Operating profit	194,003	12,475	893	**207,371**
Net financial expense				**(17,698)**
Gains on equity-accounted investees		86		**86**
Pre-tax profit				**189,759**
Income tax expense				**(64,539)**
Profit for the year				**125,220**
Loss for the year attributable to the owners of the parent				**(25)**
Amortisation, depreciation and impairment losses				**125,245**
Revenue	(37,409)	(6,628)	(1,175)	**(45,211)**

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

€/000	ADVANCED AUTOMATED MACHINERY AND MATERIAL	INDUSTRIAL PROCESS SOLUTION	OTHERS	UNALLOCATED (*)	NET FINANCIAL DEBT OF THE GROUP (**)	TOTAL
Property, plant and equipment, investment property and intangible assets	517,387	152,969	5,994			676,350
Other assets	898,586	125,351	14,763	42,009	110,825	1,191,534
Non-current assets held for sale	811					811
Total assets at 31/12/2015	1,416,784	278,320	20,757	42,009	110,825	1,868,695
Liabilities at 31/12/2015	1,416,784	278,320	20,757	42,009	110,825	1,868,695

(*) Unallocated assets refer to the parent's activities.

(**) The group's net financial debt is not directly attributable to the operating segments.

Statement of financial position figures at 31 December 2014 are as follows:

€/000	ADVANCED AUTOMATED MACHINERY AND MATERIAL	INDUSTRIAL PROCESS SOLUTION	OTHERS	UNALLOCATED (*)	NET FINANCIAL DEBT OF THE GROUP (**)	TOTAL
Property, plant and equipment, investment property and intangible assets	548,943	165,803	5,979			720,725
Other assets	770,684	108,706	12,343	63,303	232,672	1,187,709
Non-current assets held for sale	138					138
Total assets at 31/12/2015	1,319,765	274,509	18,322	63,303	232,672	1,908,571
Liabilities at 31/12/2015	1,319,765	274,509	18,322	63,303	232,672	1,908,571

(*) Unallocated assets refer to activities of the parent.

(**) The group's net financial debt is not directly attributable to the operating segments.

The main financial indicators of the Advanced Automated Machinery and Materials segment show 2015 results greatly improved on 2014, with the rise in revenue mainly driven by acquisitions made in previous years and by tobacco machinery. The boost in profitability is due to the rise in volumes which enabled the segment to achieve greater efficiency and to the actions put in place to improve processes which had a positive impact on industrial variances and cost dynamics.

The Industrial Process Solution segment also shows a significant improvement in the main financial indicators compared to the previous year and, specifically, greater profitability was achieved thanks to a favourable project mix, with an additional growth of service revenue and effective control on

the cost structure.

The 2016 order backlog in the first few months of the year is more or less in line with the same period of the previous year and the budget. In the early months of 2016, there was good level of negotiations with customers and new orders acquired, especially in the Industrial Process Solution segment.

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	31/12/2015	31/12/2014
Land	24,235	23,915
Buildings	103,379	161,985
Leasehold improvements	1,936	5,094
Plant and machinery	27,671	35,295
Industrial and commercial equipment	8,499	11,029
Other assets	8,600	11,941
Advances paid for the purchase of property, plant and equipment	4,722	1,340
Assets under construction	17,415	8,651
Total property, plant and equipment	**196,457**	**259,250**
Investment property	500	688
Total investment property	**500**	**688**

Details and analyses of changes in property, plant and equipment in 2015 are provided in Annex II. The main changes during the year refer to: (i) the demerger of the multipurpose "MAST" building in Bologna (€67,159 thousand), reflected in land, buildings and leasehold improvements (€57,958 thousand), plant and machinery (€7,154 thousand) and other assets (€2,047 thousand) and (ii) the sale of the Laetus business for a total of €1,211 thousand, detailed in the change in consolidation scope column in the table provided in Annex II. Both transactions are commented on in detail in the directors' report. Furthermore, plant and machinery of €10,383 thousand was purchased during the year.

Assets under construction mainly comprise work in progress on buildings owned by G.D S.p.A. (€14,332 thousand, 31 December 2014: €7,320 thousand).

3.3.2 Goodwill and other intangible assets with an indefinite life

€/000	31/12/2015	31/12/2014
Goodwill (arising on consolidation)	315,992	302,351
Goodwill (other)	76,147	76,064
Trademarks with an indefinite life	10,677	10,446
Total	**402,816**	**388,861**

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

Goodwill, totalling €392.1 million (31 December 2014: €378.4 million), is allocated to the Advanced Automated Machinery and Materials and Industrial Process Solution CGUs for €268.6 million (31 December 2014: €246.2 million) and €123.5 million (31 December 2014: €132.2 million), respectively.

Trademarks with an indefinite life amount to €10.7 million (31 December 2014: €10.5 million) and are fully allocated to the Industrial Process Solution CGU.

The change in the caption is due to the increase in translation difference (€26.5 million) and the decrease in goodwill related to the Industrial Process Solution operating segment (€12.5 million) following the sale of the Laetus business mentioned earlier.

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 2016-2020 CAGR (compound average growth rate) was assumed at 5.1% for the Industrial Process Solution segment and 4.0% for the Advanced Automated Machinery and Materials segment;
- the WACC (weighted average cost of capital) was assumed at 7.2 %.

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	31/12/2015	31/12/2014
Trademarks with a finite life	42	42
Industrial patents and intellectual property rights	3,629	3,998
Software licences	10,294	4,449
Development expenditure	56,447	51,470
Other intangible assets with a finite life	225	942
Assets under development and payments on account	5,940	11,025
Total intangible fixed assets	**76,577**	**71,926**

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 €24,388 thousand, while amortisation for the year amounts to €17,426 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 do not meet such requirements are taken directly to profit or loss.

Assets under development and payments on account show a net decrease of €5,085 thousand, mainly related to the transfer of expenses related to licences and the implementation and development of the new ERP system to software licences (€7,191 thousand) for group companies that started to use the system during the year. Moreover, the increases for the year in software licences and assets under development and payments on account for such project amount to €1,968 thousand and €1,631 thousand, respectively. The project for the new ERP system involves the main group companies and its implementation plan will be completed in 2018. Specifically, 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 the system in 2015, while ACMA S.p.A., Tecnomeccanica S.p.A. and VOLPAK S.A. had already launched it in 2014.

3.3.4 Equity-accounted investees

Coesia group's equity-accounted investees were as follows at 31 December 2015:

€/000	Investor	31/12/2015	31/12/2014
S.C. Dico Romania S.r.l. (Romania)	G.D S.p.A. (Italy)	-	786
Tsubaki Flexlink Co. (Japan)	Flexlink Holding AB (Sweden)	-	76
Total equity-accounted investees		**-**	**862**

The figures shown in the above table reflect the measurement using the equity method of:

- S.C Dico Romania S.r.l., 40% investment held by the subsidiary G.D S.p.A., which was sold on 29 February 2016 following an option exercised in 2015, as detailed in the directors' report. Therefore, the carrying amount of the investment at 31 December 2015 (€786 thousand) was reclassified to "Non-current assets held for sale";
- Tsubaki Flexlink Co, which carries out commercial and after-sales assistance activities and has its registered office in Tokyo, 49% investment held via Flexlink AB. The equity accounting of the investee at 31 December 2015 led to a negative amount of €34 thousand; therefore, a specific provision was accrued under liabilities.

3.3.5 Non-current financial assets

This caption is comprised as follows:

Investments in subsidiaries measured at cost:

€/000	Investor	31/12/2015	31/12/2014
MAST S.r.l (Italy)	G.D S.p.A. (Italy)	-	180
ADEC S.A. (Argentina)	G.D DO BRASIL MAQUINAS DE EMBALAR LTDA (Brazil)	271	197
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	-
Total investments in subsidiaries measured at cost		**6,002**	**377**

As discussed in greater detail in the directors' report, in 2015, IPI Asia Aseptic Packaging Systems SDN BHD was set up with registered office in Malaysia and fully held by IPI S.r.l. and the investment in MAST S.r.l. was demerged to the ultimate parent, Is.Co. S.r.l..

Furthermore, G.D Technical Center Middle East was set up in 2015 with registered office in the United Arab Emirates to perform commercial activities and provide after-sales assistance.

Investments in other companies

This caption is comprised as follows:

€/000	Investor	31/12/2015	31/12/2014
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	202	150
Total investments in other companies measured at cost		**365**	**313**

Other non-current financial assets:

Such caption, totalling €4,867 thousand, mainly includes guarantee deposits, in addition to the portion of the consideration collected for the sale of the Laetus business (€3,750 thousand) 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.

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. 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 27.5% and IRAP at 3.9%).

3.3.7 Inventories

This caption is comprised as follows:

€/000	31/12/2015	31/12/2014
Raw materials, consumables and supplies	110,759	89,805
(LESS) Allowance for inventory write-down - raw materials, consumables and supplies	(30,127)	(15,825)
Total raw materials, consumables and supplies	**80,632**	**73,980**
Work in progress and semi-finished products	309,570	375,775
(LESS) Allowance for inventory write-down - work in progress and semi-finished products	(56,184)	(65,113)
Total work in progress and semi-finished products	**253,386**	**310,662**
Finished goods	59,227	64,870
(LESS) Allowance for inventory write-down - finished goods	(20,685)	(21,845)
Total finished goods	**38,542**	**43,025**
Total inventories, gross	**479,556**	**530,450**
Total allowance for inventory write-down	**(106,996)**	**(102,784)**
Total inventories	**372,560**	**427,666**

The change in inventories on the previous year end, including translation differences, amounts to €54,635 thousand, net of the €4,213 thousand increase in the allowance for inventory write-down.

The decrease 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	31/12/2015	31/12/2014
Contract work in progress	27,814	12,174
(LESS) Allowance for inventory write-down - contract work in progress	(761)	(486)
Total contract work in progress	**27,053**	**11,688**

The change in contract work in progress on the previous year end, including translation differences, amounts to €15,365 thousand, net of the €275 thousand increase in the allowance for inventory write-down.

3.3.9 Trade receivables

The caption is broken down as follows:

€/000	31/12/2015	31/12/2014
Trade receivables	368,287	332,382
(Less) Allowance for impairment - trade receivables	(24,823)	(24,955)
Trade receivables	343,464	307,427

Such receivables derive exclusively from the group's industrial activities and are shown net of the allowance for impairment of €24,823 thousand (31 December 2014: €24,955 thousand). The caption includes receivables due after one year of €14,090 thousand (31 December 2014: €7,273 thousand).

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

Receivables from non-consolidated subsidiaries

€/000	31/12/2015	31/12/2014
Lesina Autonoleggio S.r.l.	6	8
GD Technical Center Middle East	347	60
Total	**353**	**68**

Receivables from associates

€/000	31/12/2015	31/12/2014
MAST S.r.l.	-	522
S.C Dico Romania S.r.l.	673	455
Total	**673**	**977**

Receivables from related companies

€/000	31/12/2015	31/12/2014
MAST S.r.l.	2,597	-
Total	**2,597**	**-**

3.3.10 Current financial assets

The caption is broken down as follows.

€/000	31/12/2015	31/12/2014
Securities	26,607	20,064
Short-term loan assets from non-consolidated group companies	298	85
Short-term loan assets from associates	70	50
Short-term loan assets from third parties	0	4
Cash flow hedges	211	31
Fair value hedges	266	169
Derivatives - other	7	33
Loan prepayments	2,210	1,810
Other current financial assets	48	47
Total current financial assets	**29,717**	**22,293**

Securities include the carrying amount of the units of the whole-life insurance policy signed by Coesia S.p.A. with Credit Agricole during the year. The original amount of €20,000 thousand is increased by accrued return of €519 thousand (of which €455 thousand accrued in 2015). 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 €6,000 thousand in 2015, with accrued interest of €88 thousand at the reporting date.

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

€/000	31/12/2015	31/12/2014
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	**298**	**85**

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

€/000	31/12/2015	31/12/2014
FARE IMPRESA IN DOZZA S.r.l. (Italy)	70	50
Total short-term loan assets from associates	**70**	**50**

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	31/12/2015	31/12/2014
Tax assets	5,243	4,071
Other	3,994	3,363
Total current tax assets	**9,237**	**7,434**

Current tax liabilities are broken down as follows:

€/000	31/12/2015	31/12/2014
Tax liabilities	6,622	5,830
IRPEF liability for employees and self-employed workers and other withholdings	9,682	8,687
Tax consolidation scheme liabilities	3,326	5,385
Other tax liabilities	936	778
Total current tax liabilities	**20,566**	**20,680**

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 (2011 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	31/12/2015	31/12/2014
Social security institutions	146	155
Employees	1,281	910
Advances to suppliers	5,186	6,300
Non-financial accrued income	3,586	3,234
Property operating lease prepayments	165	-
Other operating lease prepayments	14	296
Insurance prepayments	2,937	2,956
Maintenance prepayments	488	621
Other prepayments	5,139	5,690
VAT assets	13,083	12,450
Other receivables	13,046	13,109
Total other assets	**45,071**	**45,721**

3.3.13 Cash and cash equivalents

This caption is comprised as follows:

€/000	31/12/2015	31/12/2014
Bank and post office accounts	267,323	288,479
Cash and cash equivalents	324	323
Total cash and cash equivalents	**267,647**	**288,802**

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

3.3.14 Non-current assets held for sale

At 31 December 2015, this caption refers to the investment in S.C. DICO ROMANIA S.r.l., sold by G.D S.p.A. on 29 February 2016, following the option exercised in 2015.

3.3.15 Equity

Equity captions are broken down as follows:

€/000	31/12/2015	31/12/2014
Share capital	**125,000**	**125,000**
Revaluation reserves	86,135	86,135
Legal reserve	9,301	12,272
Hedging reserve	(1,406)	(5,093)
Actuarial reserve	(12,309)	(12,170)
Translation reserve	48,687	18,842
Total reserves	**130,408**	**99,986**
Retained earnings	**296,554**	**237,894**
Profit for the year attributable to the owners of the parent	**170,715**	**125,245**
Equity attributable to the owners of the parent	**722,677**	**588,125**
Equity attributable to non-controlling interests	571	532
Total equity	**723,248**	**588,657**

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 herebelow.

The *legal reserve,* amounting to €9,301 thousand, increased by €779 thousand following the allocation of 2015 profit and decreased by €3,750 thousand due to the demerger of MAST S.r.l. to the ultimate parent, IS.Co S.r.l..

The actuarial reserve decreased by €139 thousand following the discounting of the year.

The hedging reserve was a negative €1,406 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 €58,660 thousand, mainly due to the combined effect of the allocation of consolidated profit for the previous year (€124,466 thousand) and the cancellation of the value of the multifunctional MAST building (€65,814 thousand) from the group's equity following the demerger mentioned earlier.

Furthermore, retained earnings include €39,358 thousand related to the first-time adoption reserve accrued for the adoption of IFRS starting from 1 January 2014.

Equity attributable to non-controlling interests

This caption refers to equity attributable to non-controlling interests amounting to €571 thousand, including comprehensive income attributable to non-controlling interests for 2015 of €39 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 2015 and 2014 is as follows:

	2015		2014	
€/000	Equity	Profit for the year	Equity	Profit for the year
Separate financial statements of the parent - IV Directive	**227,617**	**22,925**	**235,493**	**15,571**
Adjustment of the parent's separate financial statements to IFRS	(908)	27	(874)	117
IFRS compliant separate financial statements	**226,709**	**22,952**	**234,619**	**15,688**
Difference between the equity of consolidated investees and the equivalent carrying amounts in the parent's separate financial statements	516,702	170,265	360,690	135,016
Dividends		(16,000)		(33,544)
Impairment losses	-	-	-	7,407
Other consolidation entries	(20,734)	(6,502)	(7,184)	678
Total attributable to owners of the parent	**722,677**	**170,715**	**588,125**	**125,245**
Equity and profit attributable to non-controlling interests	**571**	**37**	**532**	**(25)**
Total consolidated	**723,248**	**170,752**	**588,657**	**125,220**

3.3.16 Current and non-current financial liabilities

This caption is comprised as follows:

€/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 €20,000 thousand were transferred to the ultimate parent, IS.Co S.r.l. in 2015. 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 €145 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 2015 consolidated financial statements at amortised cost amounts to €99,137 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 €145 million, of which: €30 million due in 2018 obtain 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 €15 million deriving from the utilisation of the committed revolving lines due in 2020. Such bank loans, together with cash flows generated by the group, enabled the parent to repay the loan of €205 million received in previous years to finance the acquisition of R.A Jones & Co. completed in 2012.

The above-mentioned bank loan agreements require the 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 2015. Interest accrues at market rates on all loans.

The main derivative contracts in place at 31 December 2015 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 2015, the derivative was signed on 4 September 2014, took effect on 30 January 2015 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 2015 showed a loss of approximately €1,582 thousand, which was recognised under "Non-current financial liabilities";

- a derivative measured at fair value and originally signed in 2010 to hedge interest rate risk linked to the multifunctional MAST building demerged during the year, as commented on in the directors' report. With decreasing notional amounts, the derivative was signed in 2010, amounts to €20,362 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 €2,887 thousand, which was recognised under "non-current financial liabilities";

3.3.17 Employee benefits

Defined benefit plans

At 31 December 2015, the caption mainly includes €68,171 thousand (31 December 2014: €67,445 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	2015	2014
Present value of defined benefit plans - opening balance	**67,445**	**51,375**
Interest cost	1,257	1,539
Current service cost	2,231	2,062
Benefits paid by the group and employees	(4,763)	(3,957)
Net actuarial gains (losses) for the year	(1,003)	14,809
Net transfers	12	19
Exchange rate gains	2,992	1,598
Present value of defined benefit plans - closing balance	**68,171**	**67,445**

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:

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%	6.38%

2014	Europe	America	Asia Pacific
Discount rate	2.23% - 2.7%	3.5% - 3.7%	7.8%
Annual salary increase rate	1.51% - 2.2%	0.0% - 3%	10.0%
Annual inflation rate	1.2%	0.0%	6.42%

The effects of a hypothetical increase or decrease of 50 basis points in the 2015 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	(9,378)	10,369

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

These provisions are composed as follows:

€/000	31 December 2015	31 December 2014
Provisions for product warranties and installations	83,943	86,638
Other provisions for risks and charges	15,206	7,615
Total provisions for risks and charges	**99,149**	**94,253**

€/000	Non-current portion	Current portion	Total 2015
Provisions for product warranties and installations	4,850	79,093	83,493
Other provisions for risks and charges	8,920	6,287	15,207
Total provisions for risks and charges	**13,769**	**85,380**	**99,149**

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 losses on group production activities.

3.3.19 Trade payables

€/000	31 December 2015	31 December 2014
Trade payables and invoices to be received	216,688	194,259
Payables to sales agents	9,822	9,503
Trade payables to non-consolidated group companies	72	162
Trade payables to associates	261	157
Total trade payables	**226,843**	**204,081**

The €22,762 thousand increase on the previous year end is chiefly attributable to the increase in business volumes and the different timing of orders and deliveries.

3.3.20 Other current liabilities

€/000	31 December 2015	31 December 2014
Advances from customers	189,822	272,248
Social security institutions	13,720	13,209
Due to employees - wages and salaries	25,057	22,562
Due to employees - holidays accrued but not taken	10,890	11,204
Due to employees - other	1,359	2,444
Accrued non-financial expenses	2,703	2,640
Deferred non-financial income	470	1,135
VAT liability	3,626	2,208
Other	15,239	14,065
Total other current liabilities	**262,886**	**341,715**

The €82,426 thousand drop in advances from customers is mainly due to the different timing of orders and deliveries.

3.4 Notes to the income statement

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

€/000	2015	2014
Sales revenue, net	1,533,633	1,429,310
Purchase of goods and change in inventories	(489,885)	(427,732)
Services	(293,413)	(327,288)
Personnel expense	(419,132)	(406,658)
Amortisation, depreciation and impairment losses	(46,337)	(45,211)
Other costs, net	(7,695)	(15,050)
Operating profit	**277,171**	**207,371**

3.4.1 Revenue

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

€/000	2015	%	2014	%	Variation %
EUROPEAN UNION	438,073	29%	338,595	24%	29%
NORTH AMERICA	257,902	17%	205,697	14%	25%
ASIA	417,499	27%	573,532	40%	(27%)
OTHER	366,501	24%	256,136	18%	43%
Total revenue from exports	**1,479,975**	**97%**	**1,373,960**	**96%**	**8%**
ITALY	53,658	3%	55,350	4%	(3%)
Total revenue	**1,533,633**	**100%**	**1,429,310**	**100%**	**7%**

97% of 2015 revenue was earned outside Italy (96% in 2014); specifically, mostly from Asia and the rest of the European Union. Sales in the EU and North America rose significantly on the previous year (by 29% and 25%, respectively), while Asia recorded a drop in sales following large investments made by customers in previous years.

Both of the group's operating segments significantly contributed to the rise in revenue in North America, while the growth in the European Union was mainly due to the AAM&M segment. The slight drop in revenue in Asia was also due to the latter segment.

3.4.2 Cost of sales

The cost of sales amounts to €996,878 thousand (65% as a percentage of revenue) for the year ended 31 December 2015, in line with the 2014 balance of €931,113 thousand (65% as a percentage of revenue). The €65,765 thousand increase in the carrying amount is mainly due to the rise in sales volumes.

3.4.3 Commercial and distribution costs

Commercial and distribution costs amount to €117,754 thousand (7.7% as a percentage of revenue) for the year ended 31 December 2015, compared with €112,978 thousand (7.9% as a

percentage of revenue) for 2014, up €4,778 thousand. Such increase is mainly due to the rise in sales volumes.

3.4.4 General and administrative expenses

General and administrative expenses amount to €99,852 thousand (6.5% as a percentage of revenue) for the year ended 31 December 2015, compared with €105,749 thousand (7.4% as a percentage of revenue) for 2014, down €5,897 thousand. Such decrease is mainly due to actions implemented to contain indirect costs.

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

Other income mainly includes gains on the sale of the Laetus business mentioned earlier (€14.1 million).

3.4.7 Financial income

This caption is comprised as follows:

€/000	2015	2014
Exchange rate gains	21,213	24,106
Interest income	3,096	2,666
Other financial income	203	297
Total	**24,512**	**27,069**

3.4.8 Financial expense

This caption is comprised as follows:

€/000	2015	2014
Exchange rate losses	(28,868)	(19,937)
Interest expense on loans and leases	(13,265)	(17,756)
Interest expense on bonds	(7,639)	(5,284)
Other financial expense	(6,795)	(1,790)
Total	**(56,567)**	**(44,767)**

3.4.9 Gains (losses) on equity-accounted investees

This caption mainly includes the impairment loss deriving from the equity accounting of the investment in the associate Tsubaki Flexlink Co..

3.4.10 Income tax expense

This caption is comprised of current taxes amounting to €75,563 thousand and net deferred tax income of €1,309 thousand. With respect to Italian companies, deferred taxes were calculated based on the enacted IRES and IRAP rates of 27.5% (24.0% starting from 2017) 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 S.p.A.'s relationships with related parties are neither atypical or unusual; they are part of the parent'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 S.p.A.'s transactions with related parties, as per IAS 24.

As at and for the year ended 31 December 2015

€/000

Parents, subsidiaries and associates	Receivables	Payables	Costs	Revenue
Ultimate parent				
IS.Co. S.r.l.	TBD	20,450(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	103,441	7,261	1,811

Note (1): 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)

(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 thousand).

As at and for the year ended 31 December 2014

€/000

Parents, subsidiaries and associates	Receivables	Payables	Costs	Revenue
Ultimate parent				
IS.CO S.r.l.	-	5,385	162	-
Subsidiaries				
Lesina Autonoleggi S.r.l.	93	50	198	9
G.D Technical Center Middle East	60			
Mast S.r.l.	522	112	549	51
Associates				
S.C. Dico Romania S.r.l.	455	153	580	-
Fare Impresa in Dozza S.r.l.	50	4	48	-
Related companies	Receivables	Payables	Costs	Revenue
Other related parties	Receivables	Payables	Costs	Revenue
Sole shareholder of the ultimate parent	-	102,250(1)	4,500	-
TOTAL	1,180	107,954	6,037	60

Note (1): Bonds redeemable on 30 June 2018, held by the ultimate parent's sole shareholder, including accrued interest.

Fees to directors, statutory auditors and key management personnel

Fees to the board of directors for the year ended 31 December 2015, excluding the parent's CEO, amount to €660 thousand, whereas fees to the board of statutory auditors total €385 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 Vice President of Global Key Account Management and the Managing Directors of the operating segments and regions.

Gross remuneration to key management personnel for 2015 amount to €8,880 thousand (all short 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.	94
Other attestation services	KPMG S.p.A.	Coesia S.p.A.	17
Total Coesia S.p.A.			**111**
Audit	KPMG S.p.A.	Subsidiaries	229
Audit	KPMG network	Subsidiaries	793
Other attestation services	KPMG S.p.A.	Subsidiaries	25
Tax services	KPMG network	Subsidiaries	21
Other services	KPMG network	Subsidiaries	5
Total subsidiaries			**1,073**
Total			**1,184**

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 2015	31 December 2014
Securities	86,815	106,500
Third-party goods held at group companies	3,536	4,803
TOTAL	**90,351**	**111,303**

Commitments

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

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**

31 December 2014 (€/000)	DUE WITHIN ONE YEAR	DUE AFTER ONE YEAR - WITHIN FIVE YEARS	DUE AFTER FIVE YEARS	TOTAL
COMMITMENTS FOR OPERATING LEASES	8,607	23,290	4,919	36,816
TOTAL	**8,607**	**23,290**	**4,919**	**36,816**

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 2015 (Annex I);
- Schedule of property, plant and equipment at 31 December 2015 (Annex II);
- List of consolidated investments (Annex III);

ANNEX I - SCHEDULE OF INTANGIBLE ASSETS AT 31 DECEMBER 2015

€/000

	31/12/2014			Changes						31/12/2015		
								Decrease				
	Historical cost	Accumulated amortisation	Carrying amount at 31/12/2014	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 31/12/2015
Trademarks with a finite life	102	(60)	42	-	-	6	(6)	-	-	108	(66)	42
Industrial patents and intellectual property rights	10,892	(6,894)	3,998	-	54	668	(1,091)	-	-	11,604	(7,974)	3,629
Software licences	28,413	(23,963)	4,449	47	(15)	9,538	(3,725)	-	-	39,380	(29,086)	10,294
Development expenditure	174,509	(123,039)	51,470	(2,442)	458	24,388	(17,426)	-	-	196,436	(139,989)	56,447
Other intangible assets with a finite life	8,088	(7,146)	942	(405)	12	-	(274)	(50)	-	4,781	(4,556)	225
Assets under development and payments on account	11,024	-	11,024	(25)	-	1,730		(6,790)	-	5,939	-	5,939
Total	**233,028**	**(161,102)**	**71,926**	**(2,826)**	**509**	**36,330**	**(22,522)**	**(6,840)**	**0**	**258,247**	**(181,671)**	**76,577**

ANNEX II – SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT AT 31 DECEMBER 2015

€/000

	31/12/2014			Changes						31/12/2015		
								Decrease				
	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2014	Change in consolidation scope	Exchange rate difference	Increase	Depreciation and impairment losses for the year	Historical cost	Accumulated depreciation	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2015
Land	23,915		23,915	-	1,307	-	-	(987)	-	24,235	-	24,235
Buildings	256,188	(94,203)	161,985	-	337	2,515	(7,011)	(56,011)	1,563	205,228	(101,849)	103,379
Leasehold improvements	12,904	(7,810)	5,094	-	152	310	(826)	(7,168)	4,374	6,392	(4,456)	1,936
Plant and machinery	249,629	(214,334)	35,295	(39)	(219)	10,383	(7,675)	(14,538)	4,464	245,816	(218,145)	27,671
Industrial and commercial equipment	63,838	(52,809)	11,029	(1)	3	1,672	(4,201)	(203)	200	65,171	(56,671)	8,499
Other assets	58,850	(46,909)	11,941	(1,171)	457	3,522	(4,102)	(2,692)	645	58,880	(50,281)	8,600
Advances paid for the purchase of property, plant and equipment	1,340	-	1,340	-	32	4,671	-	(1,321)	-	4,722	-	4,722
Assets under construction	8,651	-	8,651	-	(46)	9,674	-	(863)	-	17,415	-	17,415
Total	675,314	(416,064)	259,250	(1,211)	2,023	32,747	(23,815)	(83,783)	11,245	627,860	(431,403)	196,457

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%	
Laetus Mexico 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%
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. (formerly A&C 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 Beverage Pack Syst. IBE S.L.	Barcelona (Spain)	€3,010		100.00%
IPI Paketleme San. Ve. Tic. LTD	Istanbul (Turkey)	TRY679,600		100.00%
CSCJ Acma Rus	Moscow (Russia)	RUB10,000		100.00%
Companies measured using the equity method				
Tsubaki Flexlink Co.	Tokyo (Japan)	JPY50,000		49.00%
Companies measured at cost				
ADEC S.A.	Argentina	Ars 12,000		100.00%
Lesina Autonoleggi S.r.l.	Bologna	€15,000		99.00%
Fare Impresa in Dozza S.r.l. - Impresa sociale	Bologna	€20,000		30.00%
Company recognised under non-current assets held for sale				
S.C. Dico Romania S.r.l.	Comuna Pielesti (Romania)	RON6,190,870		40.00%

4. APPENDIX – FIRST TIME ADOPTION OF IFRS

4. APPENDIX – FIRST TIME ADOPTION OF IFRS

Regulation (EC) no. 1606 of 19 July 2002, issued by the European Parliament and Council (the "EU Regulation"), introduced the obligation for companies listed on regulated markets to prepare consolidated financial statements, starting from 2005, in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Commission, while granting each member state the option to also apply the IFRS to the preparation of separate financial statements of listed companies, in addition to the consolidated and separate financial statements of non-listed companies.

Such option was made applicable by Legislative decree no. 38 of 28 February 2005, which provides for the possibility for companies not subject to the EU Regulation to prepare their consolidated financial statements in compliance with IFRS starting from 2005.

The consolidated financial statements as at and for the year ended 31 December 2015, with IFRS transition date of 1 January 2014, are the first to be prepared by COESIA group in compliance with the IFRS.

The adoption of IFRS leads to changes in accounting policies which were reflected on opening equity at 1 January 2014. As required by IFRS 1 First-time adoption of International Financial Reporting Standards, this appendix contains the reconciliation schedule of the amounts deriving from adoption of Italian GAAP and those restated in accordance with IFRS, including the related notes thereto, thus presenting:

- reconciliation of equity between the IFRS transition date (1 January 2014) and the year end of the last financial statements prepared under Italian GAAP (31 December 2014), highlighting effects on statement of financial position captions;
- reconciliation of 2014 profit for the year between the IFRS transition date (1 January 2014) and the year end of the last financial statements prepared under Italian GAAP (31 December 2014), highlighting effects on income statement captions.

The above-mentioned IFRS reconciliation schedules were prepared for the sole purposes of providing the disclosure required for transition to IFRS and for the preparation of the first consolidated financial statements in accordance with IFRS endorsed by the European Commission. Therefore, they do not contain comparative data and the necessary notes that would

be required to present a true and fair view of the financial position, financial performance and cash flows of COESIA group in compliance with IFRS.

In this regard, such schedules were prepared in compliance with IFRS effective at the date of first time adoption, also considering the standards recently adopted by the IASB and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and the Standing Interpretations Committee ("SIC").

As an integration to the attached schedules, herebelow are paragraphs describing the decisions taken in relation to the main optional exemptions permitted by IFRS and the classification methods applied for captions as per the schedules adopted in compliance with IAS 1.

Accounting policies

Reference should be made to the "Statement of compliance with IFRS" and "Accounting policies" sections of the notes to the consolidated financial statements.

With regard to the process of first time adoption of IFRS, the following section sets out the decisions taken in relation to optional exemptions as per IFRS 1.

Decisions taken on the main optional exemptions as per IFRS 1

As required by IFRS 1, the parent opted for the retrospective application in preparing its first IFRS financial statements. With regard to the preparation of the opening IFRS statement of financial position of the date of transition to IFRS (1 January 2014), with the exception of the exemptions detailed below, the parent:

- recognised all the assets and liabilities whose recognition is specifically required by IFRS, including those not provided for under Italian GAAP;
- did not recognise assets and liabilities if IFRS do not permit such recognition;
- reclassified certain financial statements captions previously accounted for with methods not compliant with IFRS;
- applied IFRS in measuring all recognised assets and liabilities, with the exception of optional exemptions provided for by IFRS 1 and set out below.

The effect of the adjustments resulting from first time adoption of IFRS was accounted for under a specific equity reserve. During first time adoption, management made certain decisions related to

optional exemptions in preparing the first IFRS financial statements provided for by IFRS 1 and described below.

Recognition of property, plant and equipment, investment property and intangible assets

During transition to IFRS, as per IFRS 1, the cost of property, plant and equipment, investment property and intangible assets can be determined, at 1 January 2014, by replacing the original cost with fair value as deemed cost or the remeasured amount if it was representative of the fair value or amortised cost at the revaluation date.

The parent opted for the possibility to recognise the remeasured amount as determined at the transition date.

Business combinations

The parent elected not to apply IFRS 3 retrospectively. During first time adoption of IFRS, there is a possibility to apply the provisions of IFRS 3 Business combinations starting from the transition date only (1 January 2014). The decision not to retrospectively apply IFRS 3 to the individual business combinations means that:

- the same classification used in financial statements prepared in accordance with Italian GAAP is maintained;
- the carrying amount determined in compliance with Italian GAAP shall be their deemed cost in accordance with IFRS;
- the carrying amount of goodwill in the opening IFRS statement of financial position shall be its carrying amount in accordance with previous GAAP and specifically as provided for in IAS 36 Impairment of assets.

Present value of employee benefits

The IFRS provide for the possibility to recognise the carrying amount of plan liabilities (assets) at the transition date, calculating the actuarial gains and losses from such transition date rather than retrospectively. The parent chose such option.

Reconciliations as per IFRS 1

The following notes provide a description of the significant effects on the reconciliation of equity and profit or loss for the year caused by the transition from Italian GAAP to IFRS with respect to the first time adoption date (1 January 2014) and the year end of the last financial statements prepared under Italian GAAP (31 December 2014).

Main IFRS adjustments to the statement of financial position at 1 January 2014 and 31 December 2014

Statement of financial position €/000	Italian GAAP consolidated financial statements at 01/01/2014	IFRS adjustments at 01/01/2014	IFRS consolidated financial statements at 01/01/2014	Italian GAAP consolidated financial statements at 31/12/2014	IFRS adjustments at 31/12/2014	IFRS consolidated financial statements at 31/12/2014
Property, plant and equipment	254,512		254,512	259,250		259,250
Investment property	662		662	688		688
Goodwill and other intangible assets with an indefinite life	370,685	(3,500)	367,185	344,339	44,522	388,861
Intangible assets with a finite life	7,531	54,300	61,831	18,494	53,432	71,926
Equity-accounted investees	837		837	862		862
Non-current financial assets	2,000		2,000	2,715		2,715
Deferred tax assets	59,697		59,697	73,100		73,100
Total non-current assets	**695,924**	**50,800**	**746,724**	**699,448**	**97,954**	**797,402**
Inventories	483,608		483,608	427,666		427,666
Contract work in progress	17,922	9,800	27,722	5,625	6,063	11,688
Trade receivables	271,372		271,372	307,427		307,427
Current financial assets	2,293		2,293	22,293		22,293
Current tax assets	7,665		7,665	7,434		7,434
Other current assets	50,550	3,804	54,354	53,296	(7,575)	45,721
Cash and cash equivalents	223,710		223,710	288,802		288,802
Non-current assets held for sale	-		-	-		138
Total current assets	**1,057,120**	**13,604**	**1,070,724**	**1,112,681**	**(1,512)**	**1,111,169**
Total assets	**1,753,044**	**64,404**	**1,817,448**	**1,812,129**	**96,442**	**1,908,571**
Share capital	125,000		125,000	125,000		125,000
Reserves	93,706		93,706	99,986		99,986
Retained earnings	78,775	39,358	118,133	162,415	75,479	237,894
Profit attributable to the owners of the parent	121,643		121,643	125,245		125,245
Equity attributable to the owners of the parent	**419,124**	**39,358**	**458,482**	**512,646**	**75,479**	**588,125**
Equity attributable to non-controlling interests	**514**		**514**	**531**	**1**	**532**
Total equity	**419,638**	**39,358**	**458,996**	**513,177**	**75,480**	**588,657**
Non-current financial liabilities	461,480	1,300	462,780	306,804	5,651	312,455
Employee benefits	49,343	3,200	52,543	58,764	10,100	68,864
Non-current provisions for risks and charges	15,253		15,253	78,305		78,305
Deferred tax liabilities	25,944	16,627	42,571	34,017	12,407	46,424
Other non-current liabilities	694		694	130		130
Total non-current liabilities	**552,714**	**21,127**	**573,841**	**478,020**	**28,158**	**506,178**
Current financial liabilities	82,175	115	82,290	230,933	379	231,312
Current portion of provisions for risks and charges	72,605		72,605	15,948		15,948
Trade payables	250,652		250,652	204,081		204,081
Current tax liabilities	15,531		15,531	20,680		20,680
Other current liabilities	359,729	3,804	363,533	349,290	(7,575)	341,715
Total current liabilities	**780,692**	**3,919**	**784,611**	**820,932**	**(7,196)**	**813,736**
Total liabilities	**1,333,406**	**25,046**	**1,358,452**	**1,298,952**	**20,962**	**1,319,914**
Total equity and liabilities	**1,753,044**	**64,404**	**1,817,448**	**1,812,129**	**96,442**	**1,908,571**

Notes to the IFRS adjustments to the statement of financial position at 1 January 2014 and 31 December 2014.

The effects of the transition to IFRS are as follows:

- an increase in equity at the transition date, mainly deriving from the capitalisation of development expenditure and measurement of eligible contracts using the percentage of completion method, net of the actuarial valuation of pension funds;
- an increase in equity at 31 December 2014, deriving from the same adjustments made at the transition date, in addition to the positive effect due to the derecognition of amortisation of goodwill.

Some notes on IFRS adjustments follow.

Goodwill and other assets with an indefinite life

The €44,522 thousand adjustment in 2014 refers to the derecognition of amortisation of goodwill to comply with the provisions of IAS 36, which does not provide for the amortisation of goodwill, but rather its recognition as an asset with an indefinite life, as well as providing for it to be tested for impairment at least annually to check its recoverability.

Intangible assets with a finite life

Under IAS 38, intangible assets have the following essential characteristics:

- Identifiability, summarised in (i) separability, i.e., the capacity to sell the assets separately, and (ii) arising on contractual rights (in such case separability is presumed);
- Control of the resource in question;
- Existence of future economic benefits.

In the absence of one of such characteristics, the expense to acquire or generate the asset shall be recognised as cost under profit or loss.

An intangible asset can be recognised if:

- future economic benefits attributable to the asset are expected to flow to the entity;
- the cost of the asset can be measured reliably.

The positive adjustment amounting to €54,300 thousand at 1 January 2014 and €53,432 thousand at 31 December 2014 refers to development expenditure for projects that present such characteristics allowing their capitalisation. These projects mainly derive from the financial

statements of G.D S.p.A., Flexlink group, Tecnomeccanica S.r.l., ACMA S.p.A., Hapa AG and Norden group.

Contract work in progress

The adjustment amounting to €9,800 thousand at 1 January 2014 and €6,063 thousand at 31 December 2014 refers to the recognition of contract revenue and costs using the percentage of completion method. Under such method, contract revenue is associated with the contract costs incurred to reach the stage of contract completion, taking to profit or loss the revenue, cost and profits attributable to the completed portion of work.

Retained earnings

The adjustment to retained earnings at 1 January 2014 derives from the overall effect of the IFRS first time adoption accounting entries which, as per IFRS 1, are recognised net of the related tax effect, with a balancing entry made under equity reserves (the first time adoption (FTA) reserve). The adjustments are summarised in the following table:

€/000	Balance at 01/01/2014 Positive/(negative) effect
Goodwill and amortised cost	(3,300)
Development expenditure	54,279
Work in progress	9,764
Derivatives	(1,700)
Employee benefits	(3,170)
Other	85
Total adjustments gross of the tax effect	**55,958**
Tax effect	**(16,600)**
Total adjustments net of the tax effect	**39,358**

Employee benefits

The adjustment relates to the recognition of certain items connected to employee benefits, i.e., post-employment benefits for Italian companies, and the effects deriving from the recognition of the pension funds of certain foreign group companies.

Under Italian GAAP, post-employment benefits are a form of deferred remuneration to employees the payment of which is deferred to the termination of employment. The accrued amounts of the

benefits that companies shall pay to employees upon termination of employment shall be recognised on an accruals basis and based on the amount accrued at each reporting date.

Under IAS 19, on the other hand, companies shall quantify the total benefits that will be accrued to employees at the date they will presumably leave the company on the basis of assumptions, forecasts and statistical and demographical data through the use of actuarial techniques and by applying the projected unit credit method.

The negative adjustment, gross of the tax effects, amounting to approximately €3,200 thousand at 1 January 2014 and roughly €10,100 thousand at 31 December 2014 derives from the combined effects of the discounting of post-employment benefits in application of IAS 19 and the recognition of liabilities for pension funds related to foreign group companies.

Deferred tax liabilities

The adjustment amounting to €16,627 thousand at 1 January 2014 and €12,407 thousand at 31 December 2014 refers to the deferred tax effect of IFRS adjustments.

Financial liabilities

The adjustments to non-current and current financial liabilities at 31 December 2014, amounting to €5,651 thousand and €379 thousand, respectively, refer to the fair value recognition of derivative instruments agreed by the group to manage interest rate and currency risk. These are cash flow hedges and, accordingly, the balancing entry of the fair value gains or losses is made in the statement of comprehensive income.

Description of the main IFRS adjustments made to the income statement for the year ended 31 December 2014

Income statement (€/000)	Italian GAAP consolidated financial statements at 31/12/2014	IFRS adjustments for 2014	IFRS reclassifications for 2014	IFRS consolidated financial statements at 31/12/2014
Revenue	1,453,050	(3,335)	(20,405)	1,429,310
Cost of sales	(961,060)	750	18,865	(941,445)
Gross operating profit	**491,990**	**(2,585)**	**(1,540)**	**487,865**
Commercial and distribution costs	(112,978)			(112,978)
General and administrative expenses	(105,749)			(105,749)
Research and development expenditure	(53,458)	(433)		(53,891)
Other income	1,358			1,358
Other costs	(59,303)	44,605	5,464	(9,234)
Operating profit	**161,860**	**41,587**	**3,924**	**207,371**
Financial income	10,594		16,475	27,069
Financial expense	(32,553)	7,480	(19,694)	(44,767)
Gains on equity-accounted investees	86			86
Pre-tax profit	**139,987**	**49,067**	**705**	**189,759**
Income tax expense	**(62,392)**	**(1,442)**	**(705)**	**(64,539)**
Profit for the year	77,595	47,625	0	125,220

Notes to the IFRS adjustments to the income statement for the year ended 31 December 2014

The adjustments made to the income statement for the purposes of recognising financial statements captions in accordance with IFRS led to an improvement of €47,625 thousand. The individual adjustments are detailed as follows.

Revenue

The adjustment amounting to €3,335 thousand relates to the income statement effects of the recognition of contracts under the percentage of completion method.

Cost of sales

The adjustment amounting to €750 thousand refers to the measurement of pension funds and post-employment benefits in accordance with IAS 19.

Research and development expenditure

The adjustment amounting to €433 thousand relates to the income statement effects of the capitalisation of development expenditure as per IFRS (€18,832 thousand), net of the amortisation for the year (€19,265 thousand).

Other costs

The adjustment refers to the derecognition of the amortisation of goodwill (€44,605 thousand).

Financial expense

The adjustment amounting to €7,326 thousand refers to the valuation of pension funds and post-employment benefits in accordance with IAS 19 and the application of amortised cost.

Income tax expense

The adjustment amounting to €1,442 thousand refers to the tax effects of the above adjustments.

Reconciliation of equity

The following table summarises the IFRS effects on equity at 1 January 2014 and 31 December 2014 and on the consolidated profit for 2014 (in thousands of Euros):

Reconciliation of equity attributable to owners of the parent (€/000)	Equity at 01/01/2014	Profit for 2014	Equity reserves (actuarial, hedging and translation reserves)	Allocation of translation reserve	Other changes in equity	Equity at 31/12/2014
ITALIAN GAAP	**419,124**	**77,620**	-		**15,902**	**512,646**
Amortisation of goodwill	(3,300)	46,959		1,242		44,901
Development expenditure	54,279	(433)		(414)		53,432
Work in progress	9,764	(3,335)		(366)		6,063
Derivatives	(1,700)	0	(4,900)	169		(6,431)
Employee benefits	(3,170)	8,076	(13,800)	(1,206)		(10,100)
Other	85	(2,200)	3,100	(860)	(104)	21
Total adjustments to financial assets gross of the tax effect	**55,958**	**49,067**	**(15,600)**	**(1,435)**	**(104)**	**87,886**
Tax effect	**(16,600)**	**(1,442)**	**4,200**	**1,435**		**(12,407)**
Total adjustments to financial assets net of the tax effect	**39,358**	**47,625**	**(11,400)**	-	**(104)**	**75,479**
IFRS	**458,482**	**125,245**	**(11,400)**	-	**15,798**	**588,125**

Reconciliation of the statement of cash flows

The following table summarises the IFRS effects on the statement of cash flows for the year ended 31 December 2014 (in thousands of Euros):

€/(000)	Statement of cash flows as per Italian GAAP	IFRS adjustments	Statement of cash flows as per IFRS
Cash flows from operating activities	120,146	33,447	153,593
Cash flows used in investing activities	(56,335)	(24,341)	(80,676)
Cash flows from (used in) financing activities	1,277	(9,102)	(7,825)
Net increase in cash and cash equivalents	65,088	4	65,092

These consolidated financial statements, consisting of the mandatory documents required by IFRS and the Italian Civil Code, give a true and fair view of the group's financial position, financial performance and cash flows and are consistent with the accounting records.

5. INDEPENDENT AUDITORS' REPORT

KPMG S.p.A.
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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 2015, 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 11.3 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.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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Bologna Bolzano Brescia
Catania Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
Trieste Varese Verona

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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 2015 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 2015.

Bologna, 21 April 2016

KPMG S.p.A.

(signed on the original)

Rodolfo Curti
Director of Audit

coesia

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