2017
Annual Report
Coesia Group

coesia

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

2017
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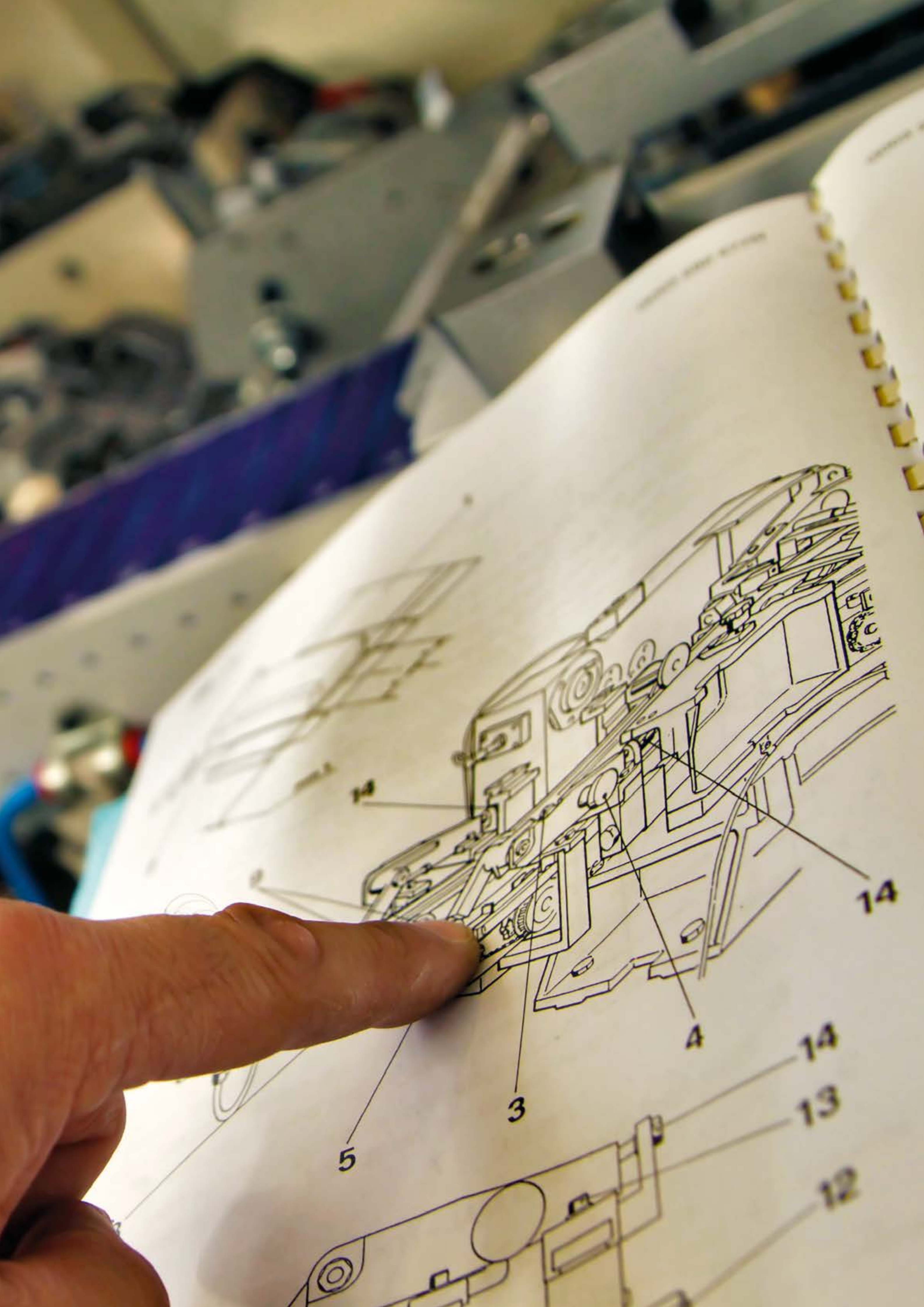
(Translation from the Italian original which remains the definitive version)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1. 2017 DIRECTORS' REPORT

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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 production, packing and packaging machinery for the tobacco, food, cosmetics, pharmaceutical, nappy and consumer goods segments, fume quality control and chemical test instruments and machinery, 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 & Materials), (ii) manufacturing logistics solutions and production automation, in-line printing and premium and luxury goods packaging equipment (Industrial Process Solutions) and (iii) gears on behalf of third parties (Precision Gears, "Other").

On 1 August 2017, the Coesia Group acquired, from the UK company Molins PLC, the companies MPRD Ltd and its subsidiaries, operating in the Instrumentation & Tobacco Machinery segment with the Molins brand, for the design, development and production of automated machinery for the tobacco industry, and the Cerulean brand, for the supply of fume quality control and chemical test instruments and machinery.

Thanks to the acquisition of Molins and Cerulean, the Group was able to further consolidate its leadership in the tobacco industry, expanding its product portfolio in the automated machinery sector and extending its offer in the instrumentation segment.

On 22 September 2017, the Coesia Group acquired 100% of MGS Machine Corporation, a US company operating in the supply of automated packaging machinery and equipment for the pharmaceutical and life science, food, personal care and cosmetics sectors, thereby additionally strengthening its leadership in the North American automated machinery market.

In 2017, the parent company acquired the 49% of the shares of XPack S.r.l., with registered office in Granarolo Emilia (BO). This company is active in the design and production of innovative packaging machinery. Its acquisition is part of the development strategy for the Advanced Automated Machinery & Materials segment.

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:

ADVANCED AUTOMATED MACHINERY & MATERIALS (AAM&M)

- G.D S.p.A., with registered office in Bologna, is mainly active in the field of automated production, 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, Poland and the United Arab Emirates) that serve as its distribution and after-sales centres, as well as, in some cases, genuine production centres (in the USA, Brazil, Germany, Japan, Turkey and Indonesia); moreover, G.D S.p.A. wholly owns: (i) Sasib S.p.A., with registered office in Castel Maggiore (Bologna), a company that produces automated machinery for the tobacco industry with a large range of maker and packer lines installed in several markets throughout the world and which completes and integrates, also in the low speed segment, the line of products that G.D S.p.A. offers to its customers; (ii) GF S.p.A., with registered office in Solignano (Parma), a company that provides quality control systems and automated machinery for liquid filling, mainly for the pharmaceutical industry and (iii) MPRD Ltd, with registered office in Milton Keynes (UK), active worldwide in the instrumentation and tobacco machinery segments, respectively under the Cerulean (supply of fume quality control and chemical test instruments and machinery) and Molins (design, development and production of automated machinery for the tobacco industry) brands. MPRD Ltd's wholly-owned subsidiaries in China, Brazil, Germany and Singapore carry out distribution and after-sales activities, while its Czech subsidiary carries out production activities.
- ACMA S.p.A., with registered office in Bologna, produces automated machinery for the food segment and consumer goods manufacturing in general.
- GDM S.p.A., with registered office in Offanengo (CR), is active in the field of automated nappy and sanitary napkin production and packing 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 and related packing lines for the cosmetics and pharmaceutical industry. It directly controls SACMO SA and ADMV SAS which are consolidated within the Industrial

Process Solutions (IPS) operating segment.

- CITUS KALIX SAS, with registered office in Evry (France), is part of the 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; it directly controls MGS Machine Corporation, based in Minneapolis (Minnesota) and active in the supply of automated packaging machinery and equipment of the pharmaceutical and life science, food, personal care and cosmetics segments.
- 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 logistics and high-end production automation solutions.
- HAPA AG, with registered office in Zurich (Switzerland), is active in the in-line printing solutions for the pharmaceutical industry.
- ADMV SAS, with registered office in Bourgoin Jailieu (France), manufactures robotic systems, bowl feeders and disk feeders, blade elevators, depalletizers, palletizers and vision systems.
- SACMO SA, with registered office in Saint-Quentin (France), designs full packaging machinery production lines and rebuilds and retrofits machinery already being used in production in the cosmetics segment.
- EMMECI S.p.A., with registered office in Cerreto Guidi (Florence), designs, produces and distributes automated machinery for the production of premium and luxury goods packaging.

OTHER

- 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

2017 saw faster global growth in the emerging, developing and advanced economies.

In 2017, US GDP rose 2.3% (+1.6% in 2016), Eurozone GDP rose 2.4% (+1.7% in 2016). In Germany, it grew 2.5% (+1.7% in 2016), whereas in Japan, it increased 1.8% (+0.9% in 2016). In the main emerging and developing economies, economic growth rates remained positive in China and India. Chinese GDP grew 6.8%, compared to 6.7% in 2016, while India's GDP increased 6.7%, compared to 6.6% in 2016.

According to the International Monetary Fund's most recent estimates, the expected growth of the global economy for 2018 and 2019 should be around 3.9% pa, which is better than previous forecasts. The revised estimates reflect the global economy's faster growth and the expected effect of the recently approved changes in the US tax policy.

The main risks that may affect these forecasts are the possible financial market correction, geopolitical tensions, protectionist policies and the uncertain political climate of certain countries.

The growth of the Eurozone in 2018 should be 2.2%, slightly down on 2017 as a result of the expected decline in the growth of most of the main advanced economies of this area (Germany, Italy and Spain). Japan continues to struggle, with a 1.2% growth rate predicted for 2018.

In the emerging and developing economies, growth in the next two years is expected to increase to 4.9% in 2018 and 5.0% in 2019 compared to 4.7% in 2017.

GROUP PERFORMANCE

Markets

The results achieved by the group companies in their respective markets in 2017 were better than in 2016 and in line with forecasts, despite the growing but still uncertain macroeconomic situation.

Advanced Automated Machinery & Materials (AAM&M)

Volumes increased in 2017, while this segment's performance was substantially in line with the previous year, despite the complex market conditions. With respect to the tobacco industry, cigarette consumption increased slightly at a global level, mainly thanks to the increase in the new generation products (electronic cigarettes), whose volumes are rocketing especially in Japan and South Korea, with positive results in Europe and the USA. The growing popularity of the new generation products in these countries more than offset the decrease in consumption of conventional products, which is however stable in South East Asia and China. Generally speaking, the market is undergoing radical change triggered by these new products, whose production technology is more similar to that of the pharmaceutical sector. In addition to the multinationals (first of all, Philip Morris International) that have heavily promoted these innovative no-combustion products, the rest of the market, including China, will soon follow suit and new important opportunities for the supply of new machinery platforms will emerge.

Turning to the conventional product machinery, the focus is especially on cost cutting policies. Opportunities for the supply of improvements to the current machinery may arise, as well as for the transformation of existing machinery to make it compliant with the increasingly stringent anti-smoking regulations.

The consumer goods machinery business performed well, thus offsetting the slow down in the aseptic filling machinery and materials business. The consumer goods machinery business confirmed growth trends in the European and North American markets, where investments are tied to the need for product diversification and innovation and the requirement for more efficient production processes which can be satisfied thanks to the product portfolio and the high quality after-sale services of the business consumer goods machinery. On the other hand, growth in the emerging and developing economies is sustained by the greater demand for consumer goods generated by the increase in their populations and purchasing power.

Once again, important investments were made in R&D in 2017 which enabled the Group to expand its product portfolio in order to meet its customers' requirements. The Group prioritised its ability to provide high-tech and strongly innovative products, improving project execution, adopting actions specifically aimed at innovating after-sales services and ongoing monitoring of cost containment. Thanks to technological innovation and its widespread international presence, the Group expects to improve its future sales and profitability.

Industrial Process Solutions (IPS)

The IPS segment grew significantly in 2017, with a marked improvement in its financial performance and profitability compared to the previous year, confirming the trend already seen in 2016. The segment even outperformed the budget.

In Europe and North America, the IPS segment's main markets, very satisfactory growth was seen in its principal industrial sectors: automotive, pharma, food and consumer goods. The market share in emerging and developing economies is in line with the previous year. The traditional markets gave the largest contribution in terms of an increase in sales and brilliant results in terms of percentage increases were seen in South East Asia, Japan and Mexico.

Forecasts for 2018 confirm the achieved results and further systematic organic growth in traditional markets, in addition to a special focus on China and South East Asia.

Income statement

The following main captions of the reclassified income statement are equivalent to the corresponding captions of the income statement shown in the 2017 consolidated financial statements, except for the EBITDA caption which is EBIT plus amortisation and depreciation for the year and EBIT BEFORE NON-RECURRING INCOME / EXPENSE and EBITDA BEFORE NON-RECURRING INCOME / EXPENSE which are EBIT and EBITDA gross of non-recurring income/expense.

€/000	2017	2016
REVENUE	1,585,654	1,457,027
GROSS OPERATING PROFIT	543,539	511,252
EBIT (OPERATING PROFIT) BEFORE NON-RECURRING EXPENSE	242,105	238,708
NON-RECURRING EXPENSE	(6,331)	(32,126)
EBIT (OPERATING PROFIT)	235,774	206,582
EBITDA BEFORE NON-RECURRING EXPENSE	293,746	286,403
NON-RECURRING EXPENSE	(6,331)	(31,357)
EBITDA	287,415	255,046
PROFIT FOR THE YEAR	140,183	128,681

Non-recurring expense may be analysed as follows:

€/000	2017	2016
M&A TRANSACTIONS*	(3,068)	(2,122)
NON-RECURRING SENIOR MANAGEMENT REMUNERATION	-	(27,371)
DONATIONS	(2,286)	(1,272)
RESTRUCTURING COSTS	(977)	(1,361)
TOTAL NON-RECURRING EXPENSE	**(6,331)**	**(32,126)**

* In 2017, it includes M&A costs of €4,463 thousand and the income of €1,395 thousand relating to the adjustment to the consideration paid for the acquisition of G.F. S.p.A.

Revenue by business segment

€/000	2017	%	2016	%
ADVANCED AUTOMATED MACHINERY & MATERIALS	1,223,919	77%	1,143,687	78%
INDUSTRIAL PROCESS SOLUTIONS	335,071	21%	291,035	20%
OTHER	26,664	2%	22,305	2%
Total	**1,585,654**	**100%**	**1,457,027**	**100%**

Consolidated revenue was €1,586 million for 2017, up 9% on the previous year.

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

Revenue by geographical segment

€/000	2017	%	2016	%	Variation %
EUROPEAN UNION	472,843	30%	434,647	30%	9%
NORTH AMERICA	289,499	18%	243,084	17%	19%
ASIA	420,087	26%	342,124	23%	23%
OTHER	296,434	19%	378,817	26%	(22%)
Total revenue outside Italy	**1,478,863**	**93%**	**1,398,672**	**96%**	**6%**
ITALY	106,791	7%	58,355	4%	83%
Total revenue	**1,585,654**	**100%**	**1,457,027**	**100%**	**9%**

93% of 2017 revenue was earned outside Italy (96% in 2016); specifically, mostly from the rest of the European Union and Asia. Sales in the EU and North America rose again, continuing the trend already recorded in 2016, while they jumped in Asia, after having decreased in recent years, attesting to the recovery in investments in that area after the slowdown seen in the past few years. Sales in Italy jumped too, partly thanks to the "Industria 4.0" incentives that encouraged investments by the Italian companies, after they had cut back on spending in recent years. The decrease in "Other" is mainly due to the drop in sales in Africa and Turkey.

Sales of both the IPS and AAM&M segments rose in Europe, North America and Asia, while the overall reduction in revenue in the other geographical segments is mainly attributable to the AAM&M segment.

Gross operating profit

Gross operating profit was equal to 34.3% of revenue, basically in line with the previous years.

Research and development expenditure

The Group views research and development activities as a driver of differentiation and long-term sustainable performance. The research and development expenditure incurred during the year amounts to €73.9 million, up on the previous year (€64.4 million incurred in 2016). It accounts for approximately 4.7% of 2017 revenue (4.5% in 2016).

Adding the engineering costs incurred for the various projects to this expenditure, the Group's total research, development and engineering costs came to 7.4% of revenue in 2017 (compared to 7.1% in 2016).

Development expenditure which met capitalisation requirements under IAS 38 amount to €48.1 million in 2017 (€38.4 million in 2016). The amortisation of expenditure capitalised during 2017 and previous years amounts to €22.1 million (€20.5 million in 2016). Capitalised expenditure is amortised over five years starting from when the products are available for sale.

Therefore, research and development expenditure recognised in profit or loss in 2017 amounts to €47.9 million (€46,5 million in 2016).

In 2017, many investments in the tobacco sector were focused on developing new solutions to manufacture new generation products (electronic cigarettes) with liquid and powder refills and multi-segment, in addition to the study and development of new flexible packaging lines.

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

R&D investments in the industrial process solution business segment were also significant and mainly aimed at efficiently meeting the demands of key customers for optimal management of production and logistics processes and developing expertise in new digital technologies.

The Group also invests in the development of digital technologies (Industria 4.0), which are an increasingly significant portion of the solutions it offers.

Operating profit (EBIT)

Operating profit of €235.8 million included non-recurring expense of €6.3 million as described earlier.

Operating profit gross of non-recurring expense was €242.1 million (15.3% as a percentage of revenue), slightly down on last year (2016: €238.7 million and 16.4%, respectively) in terms of percentage on sales. The decrease was mainly due to the different mix of products sold.

Profitability indicators

The main profitability indicators for 2017 and 2016 were as follows:

Indicators	Formulation	2017	2016
Return on sales (R.O.S.)	EBIT (OPERATING PROFIT) BEFORE NON-RECURRING INCOME / EXPENSE / Revenue	15.27%	16.38%
Return on investment (R.O.I.)	EBIT (OPERATING PROFIT) BEFORE NON-RECURRING EXPENSE / Average net invested capital	24.32%	26.73%
Return on equity (R.O.E.)	Profit for the year / Average equity	16.96%	16.90%

The slight drop in R.O.S. was described earlier. The reduction in R.O.I., in addition to that mentioned above, is mainly attributable to the increase in net invested capital due to the acquisitions of the year. R.O.E. remained unchanged.

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 2017 consolidated financial statements. The Group's invested capital is presented in the following table. Furthermore, in that table, "Other, net" comprises non-current financial assets not included in the Group's net financial debt (mainly guarantee deposits on leases and equity-accounted investments), current tax assets, other current assets, provisions for risks and charges, current tax liabilities and other current liabilities. "Pensions, post-employment benefits and other" includes the liability for employee benefits and deferred tax assets and liabilities - in line with the previous year - as well as the escrow account related to the Laetus business sale of €2,707 thousand, classified under "Other current financial assets".

€/000	31 December 2017	31 December 2016
Trade receivables	382,229	378,571
Inventories	583,649	446,078
Trade payables	(313,162)	(236,609)
Other, net	(429,839)	(383,038)
Net working capital	**222,877**	**205,002**
Property, plant and equipment and investment property	255,840	211,738
Intangible assets	616,135	590,128
Non-current assets	**871,975**	**801,866**
Pensions, post-employment benefits and other	(55,504)	(55,036)
Net invested capital	**1,039,348**	**951,832**
Non-current assets and liabilities held for sale	-	26
Total net invested capital	**1,039,348**	**951,858**
Financed by:		
Net financial debt	**187,070**	**151,252**
Equity attributable to non-controlling interests	297	494
Equity attributable to the owners of the parent	**851,981**	**800,112**
Total sources of financing	**1,039,348**	**951,858**

The increase in net working capital at 31 December 2017 compared to the previous year end is mainly due to the rise in inventories to be used in production for the 2018 order backlog, which is larger than the previous year end, partially offset by the increase in trade payables and advances from customers, as well as the acquisitions of the year.

€/000	31 December 2017	31 December 2016
Cash and liquid funds	(336,497)	(289,575)
Investments in securities	(38,582)	(33,135)
Liquidity	**(375,079)**	**(322,710)**
Current loan assets	(2,760)	(2,822)
Bonds	103,000	0
Current bank loans and borrowings	6,658	55,399
Other current loans and borrowings	10,084	12,802
Current financial debt	**116,982**	**65,379**
Current net financial debt	**(258,097)**	**(257,331)**
Non-current bank loans and borrowings	334,381	184,125
Bonds	99,422	199,282
Financial investments	(1,687)	0
Other non-current loan assets	(463)	0
Other non-current loans and borrowings	13,514	15,176
Non-current financial debt	**445,167**	**398,583**
Dividends	**0**	**10,000**
Total net financial debt	**187,070**	**151,252**

The net financial debt at 31 December 2017 includes the negative fair value of currency and interest rate hedges (€2,337thousand) and other transactions (€2,473 thousand). Total cash flows from operating activities, gross of non-recurring transactions and dividends distributed, amount to approximately €65.3 million, as shown in the table below.

€/000	2017	2016
Changes in total net financial debt	(35,818)	(40,427)
Non-recurring transactions:		
Financial effect of non-recurring income/expense and acquisition/sale of businesses/companies*	51,157	113,051
Dividends distribution	50,000	50,000
Change in net financial debt, net of non-recurring transactions and dividends distributed	**65,339**	**122,624**

*Includes the consideration paid for acquisitions, net of financial debt assumed

The decrease over the previous year end is mainly due to investments in property, plant and equipment, investment property and intangible assets (net of the change in the consolidation scope) of €125,884 thousand (compared to €79,715 thousand at the end of the previous year) principally due to larger investments in R&D, the acquisition of new production sites and property and the replacement of production plant and machinery, as commented in paragraphs 3.3.1 and 3.3.3.

Human resources

The workforce at 31 December 2017 numbered 7,002 (6,170 at 31 December 2016). The main reason for this increase (450 employees) on the previous year is the acquisition of the MPRD Group and MGS Machine Corporation, mentioned earlier. Italian group personnel at 31 December 2017 came to 3,064.

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 an additional impact on cigarette consumption and the demand for new machinery. The new laws may affect the demand for machinery and prices with an effect on the company’s profitability. This risk is mitigated by the opportunities to transform existing machinery in order to make it compliant with the new legislation and the supply of innovative products.

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

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

As noted, COESIA’s and its subsidiaries’ market is characterised by demand for highly technological and innovative solutions and, accordingly, the Group invests around 7.4% of its revenue in research, development and engineering. 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. In 2010, the parent and main Italian group companies adopted the management model provided for by Legislative decree no. 231/2001 covering occupational safety, which, from 2014, also covers the crimes of bribery in the private sector and undue inducement to give or promise benefits.

Number and nominal value of own shares

The Group does not hold any own shares.

Significant events

There are no additional significant events to be reported herein, further to those described earlier in relation to the acquisitions of MPRD Ltd and its subsidiaries, MGS Machine Corporation and 49% of the shares of Xpack S.r.l..

Events after the reporting date

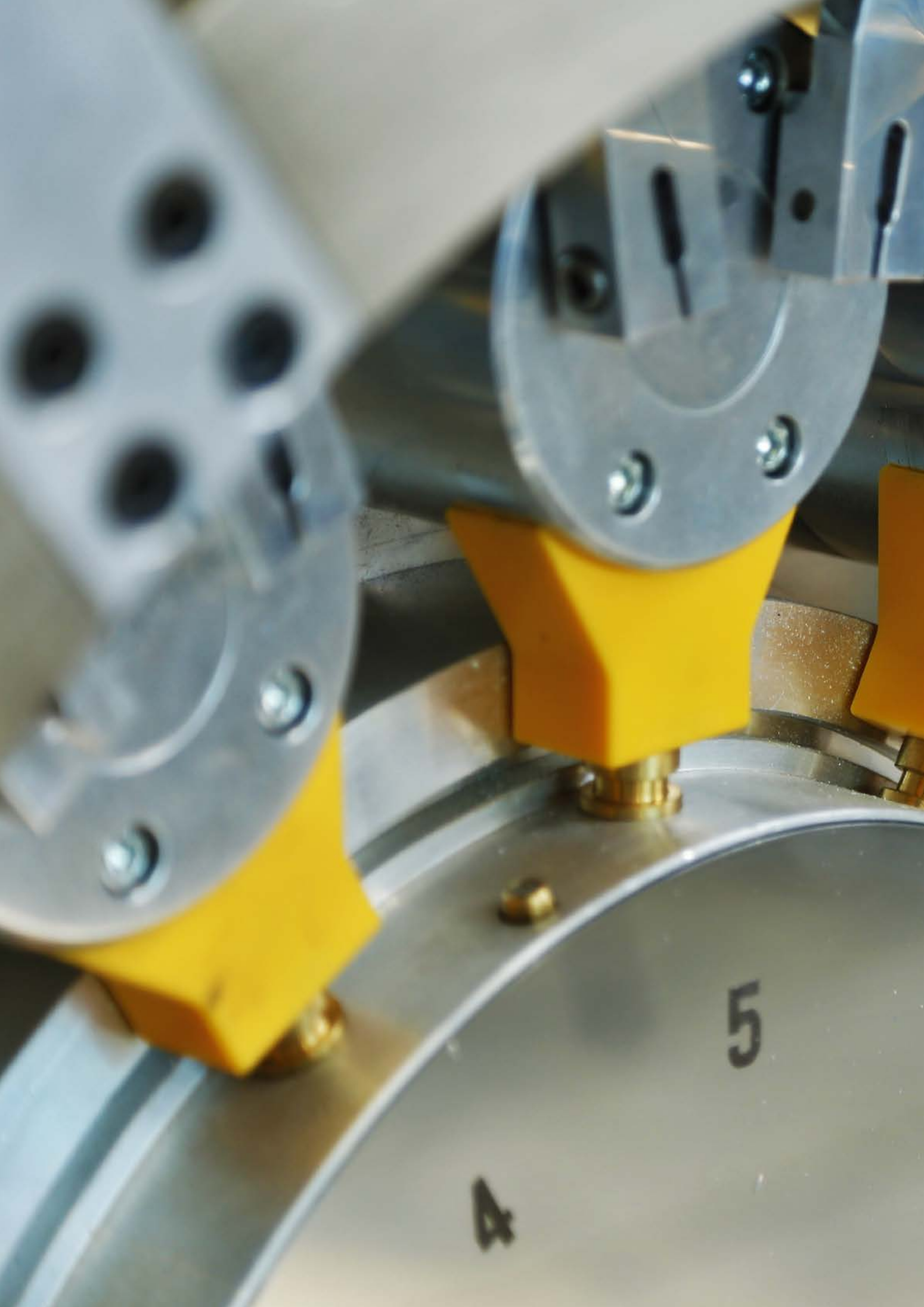
On 1 January 2018, through its susbdiary Flexlink AB, the Group acquired the entire share capital of SSS-Fördertechnik AG, a Swiss company active in the development, production, distribution and installation of transport and automation components and systems.

On 16 January 2018, through its subsidiary G.D. S.p.A., the Group acquired 30% of Errelle S.r.l., a company active in the automation and industrial assembly sector.

Outlook

Positive forecasts can be confirmed for the Coesia Group in 2018 considering the trends in negotiations underway with customers, incoming orders expected during the year and the order backlog at the reporting date, which is 16.1% higher than the previous year end. Expectations for the Advanced Automated Machinery & Materials operating segment include an improvement in the main financial results, maintaining profitability thanks to the product mix, greater sales coverage and efficiency programmes for processes with risks deriving from the normal volatile nature of the business against an uncertain macroeconomic backdrop.

The Industrial Process Solutions segment is expected to improve its results in 2018, especially those of a financial nature. In line with previous years, the Group is making investments in digital products with high technological and innovative content. The Group's involvement in the Industria 4.0 project will, hence, allow it to penetrate more profitable market segments.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2. 2017 CONSOLIDATED FINANCIAL STATEMENTS

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Statement of financial position

€/000	Note	31 December 2017	31 December 2016
Property, plant and equipment	3.3.1	255,350	211,180
Investment property	3.3.1	490	558
Goodwill and other intangible assets with an indefinite life	3.3.2	488,503	492,995
Intangible assets with a finite life	3.3.3	127,632	97,133
Equity-accounted investments	3.3.4	2,176	-
Non-current financial assets	3.3.5	3,626	1,365
Deferred tax assets	3.3.6	91,699	92,046
Total non-current assets		**969,476**	**895,277**
Inventories	3.3.7	543,972	413,983
Contract work in progress	3.3.8	39,677	32,095
Trade receivables	3.3.9	382,229	378,571
Current financial assets	3.3.10	44,049	39,705
Current tax assets	3.3.11	14,788	13,127
Other current assets	3.3.12	65,876	49,580
Cash and cash equivalents	3.3.13	336,497	289,575
Non-current assets held for sale		-	26
Total current assets		**1,427,088**	**1,216,662**
Total assets		**2,396,564**	**2,111,939**
Share capital	3.3.14	125,000	125,000
Reserves	3.3.14	94,571	130,310
Retained earnings	3.3.14	492,227	416,121
Profit attributable to the owners of the parent	3.3.14	140,183	128,681
Equity attributable to the owners of the parent		**851,981**	**800,112**
Equity attributable to non-controlling interests	3.3.14	**297**	**494**
Total equity		**852,278**	**800,606**
Non-current financial liabilities	3.3.15	447,317	398,583
Employee benefits	3.3.16	84,676	82,088
Provisions for risks and charges	3.3.17	12,646	4,350
Deferred tax liabilities	3.3.6	65,234	68,744
Other non-current liabilities		4	1,155
Total non-current liabilities		**609,887**	**554,920**
Current financial liabilities	3.3.15	119,742	68,201
Current portion of provisions for risks and charges	3.3.17	72,667	81,538
Trade payables	3.3.18	313,162	236,609
Current tax liabilities	3.3.11	22,264	20,002
Other current liabilities	3.3.19	406,574	350,063
Total current liabilities		**934,409**	**756,413**
Total liabilities		**1,544,286**	**1,311,333**
Total equity and liabilities		**2,396,564**	**2,111,939**

Income statement

€/000	Note	2017	2016
Revenue	3.4.1	1,585,654	1,457,027
Cost of sales	3.4.2	(1,042,115)	(945,775)
Gross operating profit		**543,539**	**511,252**
Commercial and distribution costs	3.4.3	(127,518)	(117,498)
General and administrative expenses	3.4.4	(125,169)	(133,539)
Research and development expenditure	3.4.5	(47,929)	(46,469)
Other income	3.4.6	1,688	2,563
Other costs	3.4.6	(8,837)	(9,727)
Operating profit		**235,774**	**206,582**
Financial income	3.4.7	22,627	16,092
Financial expense	3.4.8	(57,019)	(31,999)
Gains (losses) on equity-accounted investees	3.4.9	(398)	0
Pre-tax profit		**200,984**	**190,675**
Income tax expense	3.4.10	(60,731)	(62,179)
Profit for the year		**140,253**	**128,496**
Profit (loss) for the year attributable to non-controlling interests		**70**	**(185)**
Profit for the year attributable to the owners of the parent		**140,183**	**128,681**

Statement of comprehensive income

€/000	2017	2016
Profit for the year	**140,253**	**128,496**
Net actuarial gains (losses) on defined benefit plans	3,412	(4,492)
Total items that will not be reclassified to profit or loss	**3,412**	**(4,492)**
Exchange differences on translating financial statements of foreign operations	(42,240)	4,307
Gains (losses) on cash flow hedges	503	(1,059)
Total items that may be reclassified subsequently to profit or loss	**(41,737)**	**3,248**
Other comprehensive expense attributable to the owners of the parent	**(38,325)**	**(1,244)**
Other comprehensive expense attributable to non-controlling interests	**(10)**	**0**
Other comprehensive expense	**(38,335)**	**(1,244)**
Comprehensive income	**101,918**	**127,252**
Comprehensive income (expense) attributable to non-controlling interests	**60**	**(185)**
Comprehensive income attributable to non-controlling interests	**101,858**	**127,437**

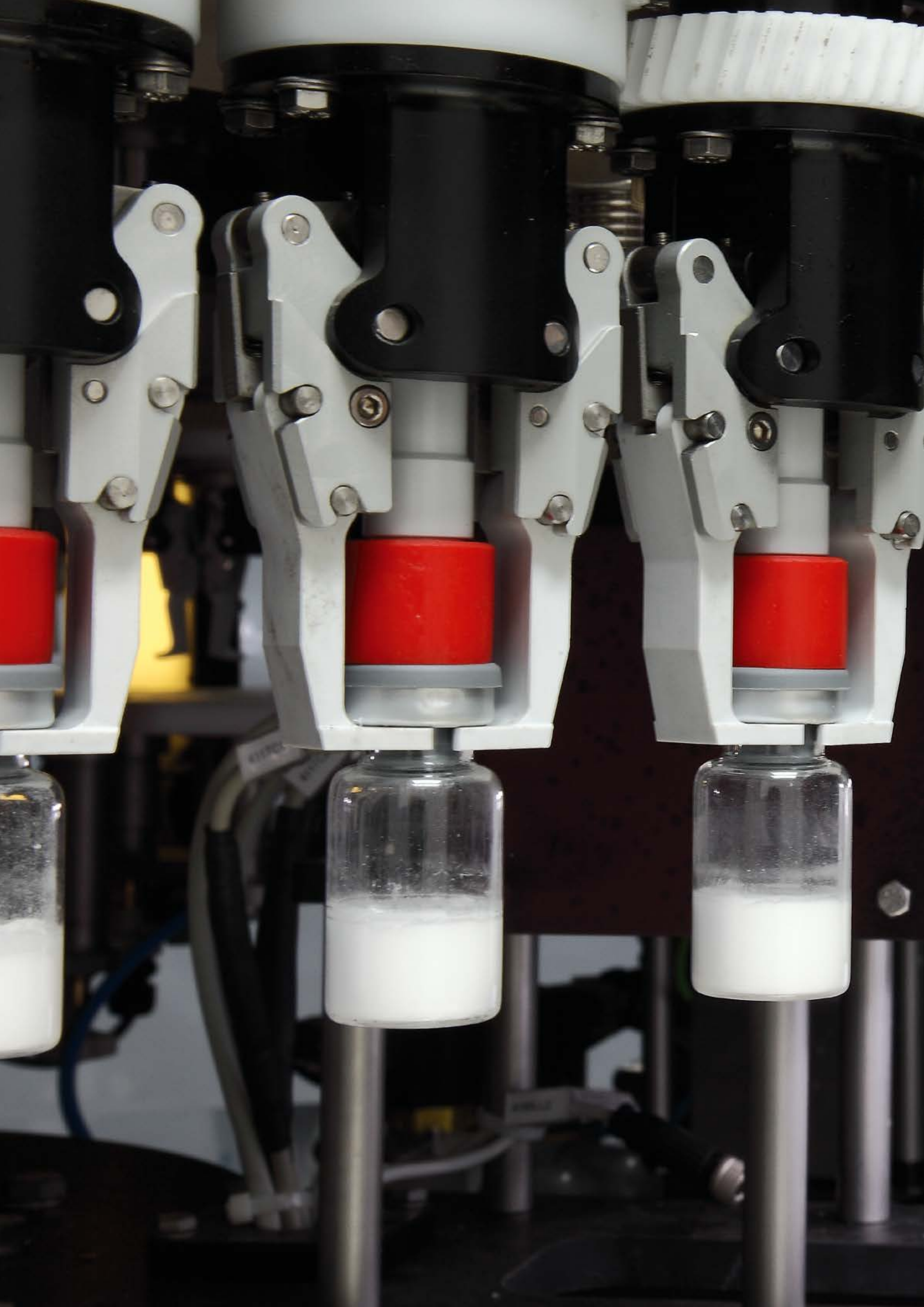
Statement of changes in equity

Note 3,3,14

€/000	Share capital	Revaluation reserves	Legal reserve	Hedging reserve	Actuarial reserve	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 2015	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 equity investments	-	-	(3,750)	-	-	-	-	(65,814)	-	(69,564)	-	(69,564)
Closing balance at 31 December 2015	125,000	86,135	9,301	(1,406)	(12,309)	48,687	130,408	296,554	170,715	722,677	571	723,248
Other comprehensive expense				(1,059)	(4,492)	4,307				(1,244)		(1,244)
Profit for the year									128,681	128,681	(185)	128,496
Comprehensive income	-	-	-	(1,059)	(4,492)	4,307	-	-	128,681	127,437	(185)	127,252
Dividends								(50,000)		(50,000)		(50,000)
Allocation of profit for the prior year			1,146					169,569	(170,715)	-		-
Other								(2)		(2)	108	106
Total effects deriving from owner transactions	-	-	1,146	-	-	-	-	119,567	(170,715)	(50,002)	108	(49,894)
Total variations in equity investments	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2016	125,000	86,135	10,447	(2,465)	(16,801)	52,994	130,310	416,121	128,681	800,112	494	800,606
Other comprehensive expense				503	3,412	(42,240)				(38,325)	(10)	(38,335)
Profit for the year									140,183	140,183	70	140,253
Comprehensive income	-	-	-	503	3,412	(42,240)	-	-	140,183	101,858	60	101,918
Dividends								(50,000)		(50,000)		(50,000)
Allocation of profit for the prior year			2,586					126,095	(128,681)	-		
Other				(12)	681	(669)					-	-
Total effects deriving from owner transactions	-	-	2,586	(12)	681	(669)	-	76,095	(128,681)	(50,000)	-	(50,000)
Total variations in equity investments								11		11	(257)	(246)
Closing balance at 31 December 2017	125,000	86,135	13,033	(1,974)	(12,708)	10,085	94,571	492,227	140,183	851,981	297	852,278

Statement of cash flows

Statement of cash flows (indirect method)		
€/000	**2017**	**2016**
Cash flows from operating activities		
Profit for the year	140,183	128,681
Adjustments for:		
Depreciation	22,318	22,915
Amortisation	29,324	25,548
Net variation in allowance for impairment	(304)	(1,504)
Net financial expense	17,404	15,907
Share of profit (loss) of equity-accounted investees	398	(15)
Gains on sale of property, plant and equipment	60	841
Change in deferred taxes, provisions and employee benefits	1,810	(8,621)
Taxes	62,939	57,459
Non-controlling interests	(186)	(77)
Exchange differences	96	(2,813)
Cash flows from operating activities gross of working capital	274,042	238,321
Variations in:		
– inventories and contract work in progress	(121,174)	(36,942)
– trade receivables and other assets	(6,866)	(25,128)
– trade payables and other liabilities	121,813	60,705
Net interest paid	(17,821)	(18,552)
Income taxes paid	(63,599)	(53,735)
A) Net cash flows from operating activities	**186,395**	**164,669**
Cash flows from investing activities		
Sales of property, plant and equipment	1,557	3,560
Investments in property, plant and equipment	(69,868)	(34,015)
Investments in investment property	0	(94)
Sales of intangible assets	1,775	0
Net investments in intangible assets	(56,016)	(43,831)
Acquisition of proportionately consolidated equity investments	(2,574)	0
Sales of non-controlling equity investments	0	800
Acquisition of equity investments, including net cash acquired	(47,064)	(82,185)
Investments in financial assets	(7,876)	(6,646)
Sales of financial assets	1,069	0
B) Net cash flows used in investing activities	**(178,997)**	**(162,411)**
Cash flows from financing activities		
Dividends distributed	(60,000)	(40,000)
Loans taken out	149,794	77,955
Loans repaid	(50,270)	(18,285)
C) Net cash flows from financing activities	**39,524**	**19,670**
Net increase in cash and cash equivalents (A+B+C)	**46,922**	**21,928**
Opening cash and cash equivalents	**289,575**	**267,647**
Closing cash and cash equivalents	**336,497**	**289,575**



3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

3.1 General information and basis of preparation

COESIA group operates in the design, construction and sale of (i) automated production, packing and packaging machinery for the tobacco, food, cosmetics, pharmaceutical, nappy and consumer goods segments, fume quality control and chemical test instruments and machinery, 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 & Materials), (ii) manufacturing logistics solutions and production automation, in-line printing and premium and luxury goods packaging equipment (Industrial Process Solutions) and (iii) gears on behalf of third parties (Precision Gears, "Other").

The main COESIA group companies and their activities are discussed in the directors' report.

Statement of compliance with IFRS

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

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

Basis of presentation

The consolidated financial statements as at and for the year ended 31 December 2017 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 2017 were approved by the board of directors on 24 April 2018 for presentation to the shareholders.

Basis of consolidation

The consolidation policies adopted are as follows.

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

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

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

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

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

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

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

With the exception of Coesia India Pvt, Ltd and Flexlink Systems 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 currency 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 financial statements of foreign operations". 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 31/12/2017	Closing rate at 31/12/2016
Brazilian real	3.97	3.43
Argentinian peso	22.93	16.75
Swiss franc	1.17	1.07
Renminbi (Chinese yuan)	7.80	7.32
Pound sterling	0.89	0.86
Hong Kong dollar	9.37	8.18
Indian rupee	76.61	71.59
Japanese yen	135.01	123.40
Mexican peso	23.66	21.77
Russian ruble	69.39	64.30
Swedish krona	9.84	9.55
Thai baht	39.12	37.73
Turkish lira	4.55	3.71
Ukrainian hryvnia	33.73	28.74
US dollar	1.20	1.05
South Korean won	1,279.61	1,269.36
South African rand	14.81	14.46
Malaysian ringgit	4.85	4.73
Indonesian rupiah	16,239.12	14,173.40
United Arab Emirates dirham	4.40	3.87
Czech koruna	25.54	N/A
Polish zloty	4.18	N/A

Currency	2017 average rate	2016 average rate
Brazilian real	3.61	3.86
Argentinian peso	18.73	16.34
Swiss franc	1.11	1.09
Renminbi (Chinese yuan)	7.63	7.35
Pound sterling	0.88	0.82
Hong Kong dollar	8.80	8.59
Indian rupee	73.52	74.37
Japanese yen	126.69	120.22
Mexican peso	21.33	20.67
Russian ruble	65.93	74.16
Swedish krona	9.64	9.47
Thai baht	38.29	39.05
Turkish lira	4.12	3.34
Ukrainian hryvnia	30.01	28.28
US dollar	1.13	1.11
South Korean won	1,276.47	1,284.30
South African rand	15.05	16.27
Malaysian ringgit	4.85	4.58
Indonesian rupiah	15,115.52	14,720.80
United Arab Emirates dirham	4.15	4.06
Czech koruna	26.33	N/A
Polish zloty	4.26	N/A

Consolidation scope

The consolidated financial statements at 31 December 2017 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. and Coesia Middle East, established in October 2017. The historical cost of equity investments measured at cost in the consolidated financial statements is not significantly different to the amount of such investments calculated using the equity method at 31 December 2017.

The following companies were included in the consolidation scope for the first time this year:

- MPRD Ltd, Cerulean Shanghai Company Ltd, Cerulean GmbH, Molins Do Brasil Máq. Aut.Ltda, Molins Far East Pte Ltd, Molins s.r.o. and MGS Machine Corporation, all acquired during the year, as described in the directors' report;
- G.D Poland Sp. z.o.o., Toceco China (Kunming) Trading Company Limited and G.D Pars

LLC, established during the year.

The group also acquired the entire quota capital of 4S Engineering S.r.l., previously held at 80%.

The associate XPack S.r.l. was consolidated using the equity method, as the group acquired a non-controlling interest therein (49%) during 2017, as described in the directors' report.

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.

Companies left the consolidation scope in 2017 under the transactions listed below, all as part of the operating streamlining of the group's structure:

- the liquidation of ADEC S.A., G.D Industrie S.r.l., Group Service S.r.l. and Volpak Techgen Packaging Machineries Company Ltd;
- the merger of Tecnomeccanica S.r.l. into Acma S.p.A.;
- the reverse merger of PCU S.p.A. and CR Holding S.p.A. into GF S.p.A.;
- the merger of Flexlink Systems India Pvt Ltd into Coesia India Pvt. Ltd.

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

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 corresponding amounts at 31 December 2016 and restated figures where different.

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

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

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

Estimates

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

All estimates and related assumptions are based on past experience and assumptions deemed reasonable and realistic when the financial statements were being prepared. The closing balances of captions may differ from such estimates following possible changes in factors considered at the basis of their determination. The estimates and assumptions are regularly revised and, should the actual amounts differ from the initial estimates, the effects that can not 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 if 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 consolidated 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 leases

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 33 years. If the property's recoverable amount is estimated to be higher than the carrying amount, it is not depreciated.

Subsequent costs (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, pertaining to both 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 a 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 the cost of capital in relation to the specific risks of the unit. An impairment loss is recognised if it arises from checking the discounted cash flows that the recoverable amount of the CGU is lower than the carrying amount. The impairment loss is firstly used to reduce the carrying amount of goodwill.

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

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

Trademarks with an indefinite life

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

<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 investments

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 reporting standards adopted for the consolidated financial statements.

Employee benefits

Pension funds

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

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

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

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

Termination benefits

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

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

Financial assets and liabilities

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

recognition and measurement.

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

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

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

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

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

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

Financial assets measured at fair value through profit or loss

This category includes:

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

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

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

Held-to-maturity investments

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

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

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

Loans and receivables

Under IAS 39, this category comprises financial instruments, chiefly represented by non-derivative instruments that are not quoted on 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 and sector conditions and the country or concentration risks, 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/expense for the effective part and in profit or loss for the ineffective part.

Inventories

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

Obsolete and slow-moving items are written down based on forecast use or sale, through accruals to the allowance for inventory write-down. 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 consolidated 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 financial income and 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 tax expense

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 distributable 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 2017

The endorsed EU Regulations applicable as of 1 January 2017 are summarised as follows.

- Regulation (EU) 2017/1989 of 6 November 2017, published in the Official journal no. 291 of 9 November 2017: Amendments to IAS 12 Income taxes (Recognition of deferred tax assets for unrealised losses). The amendments, which clarify how to account for deferred tax assets, had no effect on the measurement of financial statements items or disclosure.
- Regulation (EU) 2017/1990 of 6 November 2017, published in the Official journal no. 291 of 9 November 2017: Amendments to IAS 7 Statement of cash flows. The scope of the amendments is to improve disclosure on financing activities provided by the reporting entity to users of financial statements.

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

The new standards or amendments thereto applicable for annual periods beginning on or after 1 January 2018 available for early adoption are set out below. The group has opted not to adopt them early in preparing these consolidated financial statements.

- IFRS 15 Revenue from contracts with customers – As of the effective date of the standard, IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction contracts, in addition to the relevant interpretations. The changes compared to the previous standards are summarised as follows:
  - the introduction, in one standard, of a common framework for recognising revenue from both goods and services;
  - the adoption of a step-based model for recognising revenue;
  - a device, that can be defined as "unbundling", in allocating the overall transaction price to each obligation (sale of goods and/or supply of services) in the contract.

  As a rule, under IFRS 15 an entity shall adopt a five-step approach in recognising revenue, as follows:

  1. identify the contract with the customer: a contract will be within the scope of IFRS 15 if it is with a customer and certain conditions are met.

2. In some specific cases, IFRS 15 requires that an entity combine/aggregate multiple contracts and recognise them as one;
3. identify the performance obligations in the contract: a contract is the commitment to transfer goods or services to a customer. If these goods or services are "distinct", such promises qualify as "performance obligations" and are recognised separately;
4. determine the transaction price;
5. allocate the transaction price to the performance obligations in the contracts;
6. recognise revenue when the entity satisfies a performance obligation.

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

Based on assessments currently underway, no significant impacts on the consolidated financial statements are expected from the application of IFRS 15 and IFRS 9, which will be applied as of the start of 2018.

- IFRS 16 Leases – IFRS 16 replaces current standards on leases, including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases - Incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease.

  IFRS 16 is applicable to annual periods beginning on or after 1 January 2019. Earlier application is permitted to entities that also adopt IFRS 15 upon first-time adoption of IFRS 16 or that had already applied it. IFRS 16 introduces a single accounting model in the financial statements of lessees, requiring lessees to recognise a right-of-use asset and a lease liability that reflects the obligation to make lease payments. Lessees are exempt from applying IFRS 16 for short-term leases and those of a low value.

The group is currently carrying out a preliminary assessment of the potential effects on the consolidated financial statements, but has not yet completed a detailed analysis. The actual impacts of IFRS 16 application on the financial statements in the year of first-time adoption will depend on future economic conditions and operating and accounting choices.

Documents not yet endorsed by the European Union at 31 December 2017

The following standards and interpretations are not expected to have significant effects on the group's consolidated financial statements:

- Annual improvements to IFRS (2014-2016 cycle) – amendments to IFRS 1 and to IAS 28.
- Classification and measurement of share-based payment transactions (amendments to IFRS 2).
- Transfers of investment property (amendments to IAS 40).
- Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28).
- IFRIC 22 Foreign currency transactions and advance consideration.
- IFRIC 23 Uncertainty over income tax treatments.

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 2017.

€/000	FAIR VALUE GAIN		FAIR VALUE LOSS	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
INTEREST RATE HEDGE	-	-	-	(2,520)
CURRENCY HEDGE	860	-	(677)	-
Total	**860**	**0**	**(677)**	**(2,520)**

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 €49 million at the reporting date. The impacts of a hypothetical increase or decrease in 2017 interest rates by 30 basis points, gross of tax effects, would be roughly €0.1 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 €990 thousand should the interest rate increase or a loss of €1,000 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 2017 consolidated financial statements.

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 & Materials

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

The main companies operating in this segment are as follows:

- G.D S.p.A.;
- Sasib S.p.A.;
- Acma S.p.A.;
- Volpak SA;
- R.A Jones & co;
- GDM S.p.A.;
- Norden Machinery AB;
- Citus Calix SAS;
- IPI S.r.l.;
- GF S.p.A.;
- MPRD Ltd;
- MGS Machine Corporation.

Industrial Process Solutions

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

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

Operating segment analysis

The following tables, prepared on a consolidated basis, present information on operating segments for 2017 and 2016.

€/000	2017			
	ADVANCED AUTOMATED MACHINERY AND MATERIALS	INDUSTRIAL PROCESS SOLUTIONS	OTHER	TOTAL
Revenue	1,223,919	335,071	26,664	1,585,654
Operating profit before non-recurring income/expense	197,813	42,003	2,289	242,105
Non-recurring income / (expense)	(6,508)	180	(3)	(6,331)
Operating profit	191,305	42,183	2,286	235,774
Net financial expense and exchange rate differences (*)				(34,392)
Losses on equity-accounted investees				(398)
Pre-tax profit				200,984
Income tax expense				(60,731)
Profit for the year				140,253
Profit for the year attributable to non-controlling interests				70
Profit for the year attributable to the owners of the parent				140,183
Amortisation, depreciation and impairment losses	(43,565)	(6,518)	(1,558)	(51,641)

(*) including net exchange rate losses of €18.5 million

€/000	2016			
	ADVANCED AUTOMATED MACHINERY AND MATERIALS	INDUSTRIAL PROCESS SOLUTIONS	OTHER	TOTAL
Revenue	1,143,687	291,035	22,305	1,457,027
Operating profit before non-recurring income/expense	199,608	36,717	2,383	238,708
Non-recurring expense	(26,684)	(5,202)	(240)	(32,126)
Operating profit	172,924	31,515	2,143	206,582
Net financial expense and exchange rate differences (*)				(15,907)
Gains (losses) on equity-accounted investees				0
Pre-tax profit				190,675
Income tax expense				(62,179)
Profit for the year				128,496
Loss for the year attributable to non-controlling interests				(185)
Profit for the year attributable to the owners of the parent				128,681
Amortisation, depreciation and impairment losses	(40,824)	(6,304)	(1,336)	(48,464)

(*) including net exchange rate gains of €2.0 million

Statement of financial position figures at 31 December 2017 are as follows:

€/000	ADVANCED AUTOMATED MACHINERY & MATERIALS	INDUSTRIAL PROCESS SOLUTIONS	OTHER	UNALLOCATED (*)	TOTAL (**)
Property, plant and equipment, investment property and intangible assets	655,452	207,562	8,716	245	871,975
Other assets	1,055,755	190,259	14,863	263,712	1,524,589
Non-current assets held for sale					
Total assets at 31/12/2017	1,711,207	397,821	23,579	263,957	2,396,564
Total liabilities at 31/12/2017	817,780	169,206	9,530	547,770	1,544,286

(*) Unallocated amounts refer to the assets and liabilities of the parent and Coesia Finance S.p.A. and respectively include cash and cash equivalents of €247,184 thousand and loans and borrowings of €531,447 thousand that cannot be directly allocated to the other operating segments.

(**) The difference between total assets and total liabilities (€852,278 thousand) represents the consolidated equity at 31 December 2017.

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

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

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

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

Overall, 2017 results were in line with forecasts, up on 2016. The sales volumes of the Advanced Automated Machinery & Materials segment increased on the previous year in a persisting tough market situation. The growth in sales was obtained by consolidating territorial coverage, extending the customer portfolio and expanding services. Operating profit remained substantially in line with the previous year. Positive forecasts can be confirmed for the sector in 2018 considering the trends in negotiations underway with customers, incoming orders expected during the year and the current backlog, with the main financial results expected to improve.

The operating profit for the Industrial Process Solutions segment improved significantly on the previous year, particularly thanks to the excellent results achieved by the Flexlink group and EMMECI S.p.A.. Actions underway to contain and achieve efficiencies in operating costs and to improve working capital reaped benefits in 2017, also considering the rise in volumes and the significant order backlog at year end, and lead to forecasts of similarly significant results in 2018.

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	31/12/2017	31/12/2016
Land	25,917	24,656
Buildings	112,366	105,223
Leasehold improvements	2,113	1,455
Plant and machinery	43,510	35,168
Industrial and commercial equipment	12,054	7,044
Other assets	14,536	8,804
Advances paid for the purchase of property, plant and equipment	10,153	7,616
Assets under construction	34,701	21,214
Total property, plant and equipment	**255,350**	**211,180**
Investment property	490	558
Total investment property	**490**	**558**

Details and analyses of changes in property, plant and equipment in 2017 are provided in Annex II.

Property, plant and equipment and investment property increased by a total of €4,510 thousand over the previous year end due to the change to the consolidation scope.

Moreover, in 2017:

- land and buildings increased by €14,710 thousand, mainly related to the expansion of the production site of the subsidiary G.D S.p.A. and the completion of the production facility owned by IPI Asia Aseptic Packaging Systems SDN;
- plant and machinery totalling €15,834 thousand were purchased during the year, with significant investments in state-of-the-art plant and machinery.

Assets under construction mainly comprise work in progress on buildings owned by G.D S.p.A. which will be ready to use in 2018 (€29,927 thousand, 31 December 2016: €17,008 thousand).

3.3.2 Goodwill and other intangible assets with an indefinite life

€/000	31/12/2017	31/12/2016
Goodwill (arising on consolidation)	465,305	469,493
Trademarks with an indefinite life	23,198	23,502
Total	**488,503**	**492,995**

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

Goodwill, totalling €465.3 million (31 December 2016: €469.5 million), is allocated to the Advanced Automated Machinery & Materials and Industrial Process Solution CGUs for €311.3 million (31 December 2016: €309.7 million) and €154 million (31 December 2016: €159.8 million), respectively.

Trademarks with an indefinite life amount to €23.2 million (31 December 2016: €23.5 million) and are fully allocated to the Industrial Process Solutions CGU.

The change in the caption "Trademarks" is due to the decrease in translation difference (€0.3 million).

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

- the acquisition of the MPRD group for €13.9 million and reflects the allocation of the excess acquisition cost for the MPRD group compared to the group's share of the acquiree's equity, calculated by measuring the individual assets and liabilities at the fair value at the date control is acquired (1 August 2017);
- the acquisition of MGS Corporation for €16 million and reflects the allocation of the excess acquisition cost for company compared to the group's share of the acquiree's equity, calculated by measuring the individual assets and liabilities at the fair value at the date control is acquired (22 September 2017);
- the decrease in translation differences of €32.9 million, mainly related to trends in the dollar exchange rate;
- the repayment of €1.2 million collected by the group to settle a pending amount related to an acquisition made before 31 December 2014.

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:

- the growth rate “g” was assumed at 2%;
- the 2018-2022 CAGR (compound average growth rate) was assumed at 7.63% for the Industrial Process Solution segment and 8.67% for the Advanced Automated Machinery and Materials segment;
- the WACC (weighted average cost of capital) was assumed at 5.6 %.

A sensitivity analysis was performed to simulate the value of the 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	31/12/2017	31/12/2016
Trademarks with a finite life	45	48
Industrial patents and intellectual property rights	8,638	3,604
Software licences	14,168	8,751
Development expenditure	102,005	76,822
Other intangible assets with a finite life	272	258
Assets under development and payments on account	2,504	7,650
Total intangible fixed assets	**127,632**	**97,133**

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

Intangible assets increased by a total of €6,305 thousand over the previous year end due to the change to the consolidation scope. Specifically, €6,199 thousand refers to patents and intellectual property rights related to Cerulean brand products, acquired as part of the acquisition of the MPRD group, and amortised over five years.

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

Capitalised development expenditure for the year amounts to €48,778 thousand (€727 thousand of which was capitalised in 2016), while amortisation for the year amounts to €22,080 thousand.

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

Assets under development and payments on account show a net decrease of €5,146 thousand, mainly due to the reclassification to "Software" following the go-live of the new ERP system in 2017 for RA Jones Inc., GD USA Inc., IPI S.r.l. and some Flexlink group companies. In 2018, the new ERP system is expected to go live for all the remaining Flexlink group companies that did not migrate in 2017.

3.3.4 Equity-accounted investments

This caption fully refers to XPack S.r.l., with registered office in Granarolo Emilia (BO), held at 49%. Acquired during the year as detailed in the directors' report, this company is active in the design and production of innovative packaging machinery.

At 31 December 2017, the equity accounting of the investment led to a loss of €398 thousand reflected in the income statement caption "Gains (losses) on equity-accounted investees".

3.3.5 Non-current financial assets

This caption is comprised as follows:

Investments in subsidiaries and associates measured at cost:

€/000	Investor	31/12/2017	31/12/2016
LESINA AUTONOLEGGIO S.r.l. (Italy)	G.D S.p.A. (Italy)	30	30
FARE IMPRESA IN DOZZA	G.D S.p.A. (Italy)	3	-
COESIA MIDDLE EAST (Dubai)	G.D Teknik Hizmetler ve Ticaret Ltd Sirketi (Turkey)	11	-
Total investments in subsidiaries and associates measured at cost		**44**	**30**

Investments in other companies

This caption is comprised as follows:

€/000	Investor	31/12/2017	31/12/2016
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	198	220
Total investments in other companies measured at cost		**361**	**383**

Other non-current financial assets:

Such caption, totalling €2,150 thousand (31 December 2016: €952 thousand), mainly includes:

- €463 thousand related to a loan to the associate XPACK S.r.l.. This non-interest bearing five-year loan was measured at amortised cost to reflect the related implicit interest;
- €1,687 thousand related to the parent's units in two closed-end funds investing in

companies developing innovative technologies (venture capital companies). Such investments were classified as financial assets measured at fair value through profit or loss in accordance with the provisions of IAS 39 for measuring assets and liabilities. The parent undertook to subscribe units for total amounts of €5,000 thousand and USD5,000 thousand, respectively;

The remaining amount of €1,071 thousand chiefly refers to guarantee deposits.

3.3.6 Deferred tax assets and liabilities

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

3.3.7 Inventories

This caption is comprised as follows:

€/000	31/12/2017	31/12/2016
Raw materials, consumables and supplies	120,423	127,713
(LESS) Allowance for inventory write-down - raw materials, consumables and supplies	(24,852)	(31,492)
Total raw materials, consumables and supplies	**95,571**	**96,221**
Work in progress and semi-finished products	452,900	352,865
(LESS) Allowance for inventory write-down - work in progress and semi-finished products	(84,631)	(75,840)
Total work in progress and semi-finished products	**368,269**	**277,025**
Finished goods	106,890	57,955
(LESS) Allowance for inventory write-down - finished goods	(26,758)	(17,218)
Total finished goods	**80,132**	**40,737**
Total closing inventories	**680,213**	**538,533**
Total allowance for inventory write-down	**(136,241)**	**(124,550)**
Total inventories	**543,972**	**413,983**

The increase in inventories on the previous year end, including translation differences, amounts to €129,989 thousand, net of the €11,691 thousand increase in the allowance for inventory write-down.

The increase in inventories on the previous year end, net of the change in consolidation scope, is mainly due to the different timing of deliveries and orders in 2018, up on 2017 and characterised by a more complex product mix with respect to the past, especially with regard to the tobacco business. Accruals to the allowance for inventory write-down are made for obsolete, slow-moving and/or excess materials.

3.3.8 Contract work in progress

€/000	31/12/2017	31/12/2016
Contract work in progress	40,834	32,935
(LESS) Allowance for inventory write-down - contract work in progress	(1,157)	(840)
Total contract work in progress	**39,677**	**32,095**

The increase in contract work in progress on the previous year end, including translation differences, amounts to €7,582 thousand, net of the €317 thousand increase in the allowance for inventory write-down.

3.3.9 Trade receivables

The caption is broken down as follows:

€/000	31/12/2017	31/12/2016
Trade receivables	405,244	401,890
(LESS) Allowance for impairment - trade receivables	(23,015)	(23,319)
Total trade receivables	**382,229**	**378,571**

Such receivables derive exclusively from the group's industrial activities and are shown net of the allowance for impairment of €23,015 thousand (31 December 2016: €23,319 thousand). The caption includes receivables due after one year of €5,437 thousand (31 December 2016: €10,635 thousand).

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

Receivables from non-consolidated subsidiaries

€/000	31/12/2017	31/12/2016
Lesina Autonoleggio S.r.l.	16	7
Total	**16**	**7**

Receivables from associates

€/000	31/12/2017	31/12/2016
XPack S.r.l.	7	-
Total	**7**	

Receivables from related companies

€/000	31/12/2017	31/12/2016
MAST S.r.l.	4,213	3,949
Total	**4,213**	**3,949**

3.3.10 Current financial assets

The caption is broken down as follows.

€/000	31/12/2017	31/12/2016
Securities	38,582	33,134
Short-term loan assets from non-consolidated group companies	85	85
Short-term loan assets from associates	20	90
Short-term loan assets from third parties	-	11
Cash flow hedges	545	237
Fair value hedges	315	625
Derivatives - other	133	-
Loan prepayments	1,660	1,773
Other current financial assets	2,709	3,750
Total current financial assets	**44,049**	**39,705**

Securities include the carrying amount of the units of the whole-life insurance policy signed by Coesia S.p.A. with Credit Agricole during 2014. The original amount of €20,000 thousand increased during 2016 as a result of the subscription of additional units for €2,000 thousand. The accrued return amounts to €1,256 thousand at 31 December 2017, of which €899 thousand accrued in previous years. Interest accrues on a quarterly basis and is paid only when the units are sold.

Furthermore, Coesia S.p.A. signed additional insurance policies for €15,000 thousand in 2015, 2016 and 2017 (of which €5,000 thousand in 2017), with accrued interest of €326 thousand at the reporting date (of which €213 thousand at 31 December 2016).

Furthermore, "Other current financial assets" include €2,707 thousand as the residual portion of the proceeds for the 2015 sale of the Laetus business. This amount, lodged in a bank account managed by the notary that concluded the business sale, was originally equal to €3,750 thousand and was supposed to be collected on 1 December 2017.

The only partial collection of the amount was due to the claim for damages from the buyer just before the due date, which prevented the total amount of the escrow account in favour of Coesia S.p.A. to be unblocked.

Following an analysis of the reasons underlying the claim for damages, they were deemed not to be founded on objective grounds and, therefore, no impairment loss was recognised in the consolidated financial statements.

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

€/000	31/12/2017	31/12/2016
LESINA AUTONOLEGGIO S.r.l. (Italy)	85	85
Total short-term loan assets from non-consolidated group companies	**85**	**85**

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

€/000	31/12/2017	31/12/2016
FARE IMPRESA IN DOZZA S.r.l. (Italy)	20	90
Total short-term loan assets from associates	**20**	**90**

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	31/12/2017	31/12/2016
Tax assets	3,948	2,667
Tax consolidation scheme assets	7,217	5,493
Other	3,623	4,967
Total current tax assets	**14,788**	**13,127**

Current tax liabilities are broken down as follows:

€/000	31/12/2017	31/12/2016
Tax liabilities	10,115	7,770
IRPEF liability for employees and self-employed workers and other withholdings	11,277	10,768
Other tax liabilities	872	1,464
Total current tax liabilities	**22,264**	**20,002**

Tax liabilities are shown net of withholdings, tax assets 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 (2013 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	31/12/2017	31/12/2016
Social security institutions	56	359
Employees	975	1,045
Advances to suppliers	13,943	8,483
Non-financial accrued income	3,786	3,993
Property operating lease prepayments	724	245
Other operating lease prepayments	209	103
Insurance prepayments	1,058	1,764
Maintenance prepayments	605	507
Other prepayments	9,049	7,850
VAT assets	23,517	14,420
Other receivables	11,954	10,811
Total other assets	**65,876**	**49,580**

VAT assets include €3,424 thousand which is expected to be collected beyond 2018.

3.3.13 Cash and cash equivalents

This caption is comprised as follows:

€/000	31/12/2017	31/12/2016
Bank and post office accounts	335,471	288,985
Cash and cash equivalents	1,026	590
Total cash and cash equivalents	**336,497**	**289,575**

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

3.3.14 Equity

Equity captions are broken down as follows:

€/000	31/12/2017	31/12/2016
Share capital	**125,000**	**125,000**
Revaluation reserves	86,135	86,135
Legal reserve	13,033	10,447
Hedging reserve	(1,974)	(2,465)
Actuarial reserve	(12,708)	(16,801)
Translation reserve	10,085	52,994
Total reserves	**94,571**	**130,310**
Retained earnings	**492,227**	**416,121**
Profit for the year attributable to the owners of the parent	**140,183**	**128,681**
Equity attributable to the owners of the parent	**851,981**	**800,112**
Equity attributable to non-controlling interests	297	494
Total equity	**852,278**	**800,606**

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 €13,033 thousand, increased by €2,586 thousand following the allocation of 2016 profit.

The actuarial reserve increased by €4,093 thousand mainly following the actuarial gains of the year.

The hedging reserve was a negative €1,974 thousand and comprises changes in the fair value of derivatives on exchange 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 €76,106 thousand, mainly due to the combined effect of the allocation of consolidated profit for the previous year (€126,095 thousand) and the resolution to distribute dividends of €50,000 thousand to the ultimate parent.

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

Equity attributable to non-controlling interests

This caption refers to equity attributable to non-controlling interests amounting to €297 thousand, including the profit attributable to non-controlling interests for 2017 of €70 thousand. The decrease is linked to the liquidation of Volpak Techgen Packaging Machineries Company Ltd, held at 51%, and the acquisition of 20% of the quotas of 4S Engeeniring S.r.l., previously held by third parties.

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 2017 and 2016 is as follows:

	2017		2016	
€/000	Equity	Equity	Equity	Profit for the year
Separate financial statements of the parent - IV Directive	**230,472**	**53,042**	**227,720**	**22,925**
Adjustment of the parent's separate financial statements to IFRS	(1,079)	(96)	(988)	27
IFRS compliant separate financial statements	**229,393**	**52,946**	**226,732**	**22,952**
Difference between the equity of consolidated investees and the equivalent carrying amounts in the parent's separate financial statements	640,300	162,480	594,383	170,265
Dividends	-	(74,116)		(16,000)
Equity-accounted investees	(398)	(398)	-	-
Other consolidation entries	(17,314)	(729)	(21,003)	(6,502)
Total attributable to the owners of the parent	**851,981**	**140,183**	**800,112**	**170,715**
Equity and profit attributable to non-controlling interests	297	70	**494**	**37**
Total consolidated	**852,278**	**140,253**	**800,606**	**170,752**

3.3.15 Current and non-current financial liabilities

This caption is comprised as follows at 31 December 2017 and 31 December 2016:

31/12/2017, €/000	CURRENT PORTION	NON-CURRENT PORTION	TOTAL	OF WHICH DUE AFTER FIVE YEARS
CURRENT ACCOUNT OVERDRAFTS	**5,698**	**-**	**5,698**	**-**
BANK LOANS	**960**	**334,381**	**335,341**	**-**
Advances on invoices	-	-	-	-
Loans	**960**	**334,381**	**335,341**	**-**
FINANCE LEASES	**1,588**	**6,431**	**8,019**	**1,958**
OTHER FINANCIAL BACKERS	**7,691**	**2,084**	**9,775**	**-**
Public funding	333	2,084	2,417	-
Factoring	7,358	-	7,358	-
Other	-	-	-	-
BONDS	**103,000**	**99,422**	**202,422**	**-**
OTHER FINANCIAL LIABILITIES	**805**	**4,999**	**5,804**	**-**
TOTAL FINANCIAL LIABILITIES	**119,742**	**447,317**	**567,059**	**1,958**

31/12/2016, €/000	CURRENT PORTION	NON-CURRENT PORTION	TOTAL	OF WHICH DUE AFTER FIVE YEARS
CURRENT ACCOUNT OVERDRAFTS	**639**	**-**	**639**	**-**
BANK LOANS	**54,760**	**184,125**	**238,885**	**-**
Advances on invoices	-	-	-	-
Loans	54,760	184,125	238,885	-
FINANCE LEASES	**1,453**	**8,144**	**9,597**	**3,351**
OTHER FINANCIAL BACKERS	**6,632**	**1,841**	**8,473**	**508**
Public funding	2,366	1,841	4,207	508
Factoring	4,177	-	4,177	-
Other	89	-	89	-
Bonds	**2,992**	**199,282**	**202,274**	-
OTHER FINANCIAL LIABILITIES	**1,725**	**5,191**	**6,916**	-
TOTAL FINANCIAL LIABILITIES	**68,201**	**398,583**	**466,784**	**3,859**

The caption includes the nominal €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. Between 2015 and 2017 the entire amount was transferred to the ultimate parent, IS.Co S.r.l., which was, therefore, the sole subscriber to the bond at 31 December 2017. The parent, Coesia S.p.A., has the right to redeem a portion or all of the relevant 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 €330 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 2017 consolidated financial statements at amortised cost amounts to €99,422 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 includes Coesia S.p.A.'s loans totalling €330 million, of which €50 million due in 2020, €180 million in 2021 and the remaining €100 million in 2022. The increase on the previous year end is due to two new loans being taken out for a nominal amount of €75 million each.

Furthermore, two loans of €30 million and €100 million, respectively, were renegotiated in 2017. The interest rates paid to the respective banks and the repayment dates were changed (postponed to 2021 and 2022, respectively) in both cases. Both changes, falling under the quantitative parameters required by the IFRS, were recognised using modification accounting.

The above-mentioned bank loan agreements require compliance with economic and financial covenants calculated on Coesia group's consolidated financial statements. Such covenants are checked by banks every year. They were complied with at 31 December 2017. Interest accrues at market rates on all loans.

The main derivative contracts in place at 31 December 2017 are as follows:

- a derivative to hedge interest rate risk related to a bullet loan of €100 million. With a notional amount of €100,000 thousand, the derivative was signed on 4 September 2014, renegotiated on 12 July 2017 and expires on 31 July 2022. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.557% on a quarterly basis. The market valuation of such transaction at 31 December 2017 showed a loss of approximately €1,913 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";

- a derivative to hedge interest rate risk related to a loan agreed in 2016 and expiring in 2020. With a notional amount of €50,000 thousand, the derivative was signed on 27 October 2016 and expires on 27 October 2020. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the four-year fixed rate of -0.02% on a quarterly basis. The market valuation of such transaction at 31 December 2017 showed a loss of approximately €106 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";
- a derivative to hedge interest rate risk related to a loan agreed in 2017 and expiring in 2021. With a notional amount of €75,000 thousand, the derivative was signed on 12 May 2017 and expires on 12 October 2021. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.145% on a quarterly basis. The market valuation of such transaction at 31 December 2017 showed a loss of approximately €362 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";
- a derivative to hedge interest rate risk related to a loan agreed in 2017 and expiring in 2021. With a notional amount of €75,000 thousand, the derivative was signed on 11 April 2017 and expires on 11 April 2021. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.035% on a quarterly basis. The market valuation of such transaction at 31 December 2017 showed a loss of approximately €139 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";
- a derivative to hedge interest rate risk agreed on 22 December 2017. With a notional amount of €40,000 thousand, the derivative starts from 22 January 2018 and expires on 22 January 2025. Under such derivative, the group undertakes to pay/collect the differential between 6-month Euribor and the fixed rate of 0.448% on a quarterly basis. It was agreed to hedge the loan of the same amount signed on 22 December 2017 but paid out on 22 January 2018. The market valuation of such transaction at 31 December 2017 showed a loss of approximately €91 thousand, which was recognised under "Non-current financial liabilities";

- a derivative measured at fair value and originally signed in 2010 to hedge the interest rate risk linked to the finance lease for the multifunctional MAST building demerged during 2015. With decreasing notional amounts, the derivative expires in 2029. It amounts to €17,917 thousand at 31 December 2017 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 2017 showed a loss of approximately €2,387 thousand, which was recognised under "Non-current financial liabilities".

3.3.16 Employee benefits

Defined benefit plans

At 31 December 2017, the caption mainly includes €63,540 thousand (31 December 2016: €71,617 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	2017	2016
Present value of defined benefit plans - opening balance	**71,617**	**68,171**
Interest cost	945	1,178
Current service cost	2,607	2,710
Past service cost	571	(734)
Benefits paid by the group and employees	(5,719)	(5,039)
Net actuarial gains (losses) for the year	(3,318)	5,206
Net transfers	(4)	309
Net exchange rate losses	(3,159)	(184)
Present value of defined benefit plans - closing balance	**63,540**	**71,617**

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:

2017	Europe	America	Asia Pacific
Discount rate	0.7%-3.3%	3.3%-4.0%	7.2%
Annual salary increase rate	1.0%-3.0%	0.0%-3.5%	8.0%
Annual inflation rate	1.0%-3.4%	0.0%	0.0%

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

The effects of a hypothetical increase or decrease of 50 basis points in the 2017 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	(10,375)	11,232

Long-term incentives

Employee benefits include the portion for the year of the cost of future long-term incentives granted to the group's top management starting from 2016, for €17,790 thousand.

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

These provisions are composed as follows:

€/000	31 December 2017	31 December 2016
Provisions for product warranties and installations	69,612	70,635
Other provisions for risks and charges	15,701	15,253
Total provisions for risks and charges	**85,313**	**85,888**

€/000	Non-current portion	Current portion	Total 2017
Provisions for product warranties and installations	6,800	62,812	69,612
Other provisions for risks and charges	5,846	9,855	15,701
Total provisions for risks and charges	**12,646**	**72,667**	**85,313**

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

3.3.18 Trade payables

€/000	31 December 2017	31 December 2016
Trade payables and invoices to be received	303,193	228,351
Payables to sales agents	9,920	8,202
Trade payables to non-consolidated group companies	37	53
Trade payables to associates	12	3
Total trade payables	**313,162**	**236,609**

The €76,553 thousand increase on the previous year end is mainly due to the increase in inventories mentioned earlier.

3.3.19 Other current liabilities

€/000	31 December 2017	31 December 2016
Advances from customers	327,337	261,061
Social security institutions	15,349	14,459
Due to employees - wages and salaries	26,512	23,091
Due to employees - holidays accrued but not taken	13,689	12,317
Due to employees - other	2,140	2,164
Accrued non-financial expenses	661	458
Deferred non-financial income	1,455	2,952
VAT liability	1,197	2,932
Dividends	-	10,000
Other	18,234	20,629
Total other current liabilities	**406,574**	**350,063**

The €66,276 thousand increase in advances from customers is mainly due to the larger order backlog compared to the previous year.

3.4 Notes to the income statement

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

€/000	2017	2016
Sales revenue, net	1,585,654	1,457,027
Purchase of goods and change in inventories	(486,392)	(442,591)
Services	(335,497)	(310,725)
Personnel expense	(459,577)	(439,356)
Amortisation, depreciation and impairment losses	(51,641)	(48,464)
Other costs, net	(16,772)	(9,309)
Operating profit	**235,774**	**206,582**

3.4.1 Revenue

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

€/000	2017	%	2016	%	Variation %
EUROPEAN UNION	472,843	30%	434,647	30%	9%
NORTH AMERICA	289,499	18%	243,084	17%	19%
ASIA	420,087	26%	342,124	23%	23%
OTHER	296,434	19%	378,817	26%	(22%)
Total revenue outside Italy	**1,478,863**	**93%**	**1,398,672**	**96%**	**6%**
ITALY	106,791	7%	58,355	4%	83%
Total revenue	**1,585,654**	**100%**	**1,457,027**	**100%**	**9%**

93% of 2017 revenue was earned outside Italy (96% in 2016); specifically, mostly from the rest of the European Union and Asia. Sales in the EU and North America rose again, continuing the trend already recorded in 2016, while they jumped in Asia, after having decreased in recent years, attesting to the recovery in investments in that area after the slowdown seen in the past few years. Sales in Italy jumped too, partly thanks to the "Industria 4.0" incentives that encouraged investments by Italian companies, after they had cut back on spending in recent years. The decrease in "Other" is mainly due to the drop in sales in Africa and Turkey.

Sales of both the IPS and AAM&M segments rose in Europe, North America and Asia, while the overall reduction in revenue in the other geographical segments is mainly attributable to the AAM&M segment.

3.4.2 Cost of sales

The cost of sales amounts to €1,042,115 thousand (65.7% as a percentage of revenue) for the year ended 31 December 2017, in line with the 2016 balance of €945,775 thousand (65.0% as a percentage of revenue). The €96,340 thousand increase in the carrying amount is mainly due to the greater sales volumes.

3.4.3 Commercial and distribution costs

Commercial and distribution costs amount to €127,518 thousand (8.0% as a percentage of revenue) for the year ended 31 December 2017, compared with €117,498 thousand (8.1% as a percentage of revenue) for 2016, up €10,020 thousand mainly due to greater sales volumes.

3.4.4 General and administrative expenses

General and administrative expenses amount to €125,169 thousand (7.9% as a percentage of revenue) for the year ended 31 December 2017, compared with €133,539 thousand (9.2% as a percentage of revenue) for 2016, down €8,370 thousand. Such decrease is mainly due to the non-recurring remuneration to top management that had been disbursed 2016 but not in 2017, partially offset by the increase due to greater sales volumes.

3.4.5 Research and development expenditure

Reference should be made to note 3.3.3 and the directors' report for details on such caption.

3.4.6 Other income and other costs

This caption chiefly refers to income and costs related to M&A activities and donations made during the year.

3.4.7 Financial income

This caption is comprised as follows:

€/000	2017	2016
Exchange rate gains	15,504	13,234
Interest income	4,263	2,107
Other financial income	2,860	751
Total	**22,627**	**16,092**

3.4.8 Financial expense

This caption is comprised as follows:

€/000	2017	2016
Exchange rate losses	(33,959)	(11,267)
Interest expense on loans and leases	(4,869)	(5,647)
Interest expense on bonds	(7,641)	(7,647)
Other financial expense	(10,550)	(7,438)
Total	**(57,019)**	**(31,999)**

3.4.9 Equity-accounted investees

This caption includes charges related the measurement of the investment in the associate XPack S.r.l. at equity (€398 thousand).

3.4.10 Income tax expense

This caption is comprised of current taxes amounting to €62,939 thousand and net deferred tax income of €2,208 thousand. With respect to Italian companies, deferred taxes were calculated based on the enacted IRES and IRAP rates of 24% and 3.9%, respectively.

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

3.5 Other information

Related party disclosure

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

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

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

As at and for the year ended 31 December 2017

€/000

Parents, subsidiaries and associates	Receivables	Payables	Costs	Revenue
Ultimate parent				
IS.Co. S.r.l.	7,217	102,250(1)	4,050	-
Subsidiaries:				
Lesina Autonoleggi S.r.l.	101	37	193	7
Associates				
XPack S.r.l.	7	4	4	6
Fare Impresa in Dozza S.r.l.	20	8	105	-
Related companies	**Receivables**	**Payables**	**Costs**	**Revenue**
Mast S.r.l.	4,213(2)	1,519	4,189	229(3)
Other related parties	**Receivables**	**Payables**	**Costs**	**Revenue**
Sole shareholder of the ultimate parent	-	-	450	-
TOTAL	11,534	103,818	8,991	242

Note (1): includes bonds redeemable on 30 June 2018, held by the ultimate parent, IS.Co. S.r.l. (€100 million, including accrued interest of €2.25 million).

(2): includes services provided (€1,073 thousand, including VAT) and receivables for Mast S.r.l. expenses recharged by the subsidiary G.D S.p.A. (€3,140 thousand).

(3): includes revenue from services rendered (€108 thousand) and Mast S.r.l. expenses recharged by the subsidiary G.D S.p.A. (€111 thousand).

As at and for the year ended 31 December 2016

€/000

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

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

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

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

Fees to directors, statutory auditors and key management personnel

Fees to the board of directors for the year ended 31 December 2017, excluding the parent's CEO, amount to €660 thousand, whereas fees to the board of statutory auditors total €412 thousand, both short term.

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

Gross remuneration to key management personnel for 2017 amounts to €20,629 thousand (of which €9,326 thousand long term).

Independent auditors' fees

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

Service type	Service provider	Beneficiary	Fees
Audit	KPMG S.p.A.	Coesia S.p.A.	47
Other services	KPMG S.p.A.	Coesia S.p.A.	85
Other attestation services	KPMG S.p.A.	Coesia S.p.A.	11
Total Coesia S.p.A.			**143**
Audit	KPMG S.p.A.	Subsidiaries	286
Audit	KPMG network	Subsidiaries	882
Other attestation services	KPMG S.p.A.	Subsidiaries	28
Other attestation services	KPMG network	Subsidiaries	2
Tax services	KPMG network	Subsidiaries	38
Other services	KPMG network	Subsidiaries	2
Other services	KPMG network	Subsidiaries	4
Total subsidiaries			**1,242**
TOTAL			**1,395**

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 2017	31 December 2016
Sureties	102,369	110,826
Third-party goods held at group companies	6,506	4,658
TOTAL	**108,875**	**115,484**

Commitments

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

31 December 2017 (€/000)	DUE WITHIN ONE YEAR	DUE AFTER ONE YEAR - WITHIN FIVE YEARS	DUE AFTER FIVE YEARS	TOTAL
COMMITMENTS FOR OPERATING LEASES	11,377	20,699	5,321	37,397
TOTAL	**11,377**	**20,699**	**5,321**	**37,397**

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

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 2017 (Annex I);
- Schedule of property, plant and equipment at 31 December 2017 (Annex II);
- List of consolidated investments (Annex III);

ANNEX I - SCHEDULE OF INTANGIBLE ASSETS AT 31 DECEMBER 2017

Intangible assets with a finite life - €/000

	31/12/2016			Changes							31/12/2017		
	Historical cost	Accumulated amortisation	Carrying amount at 31/12/2016	Changes in consolidation scope	Exchange rate difference	Reclassifications	Increase	Amortisation and impairment losses for the year	Historical cost	Accumulated amortisation	Historical cost	Accumulated amortisation	Carrying amount at 31/12/2017
Trademarks with a finite life	122	(74)	48	0	0	0	4	(7)	0	0	126	(81)	45
Industrial patents and intellectual property rights	12,511	(8,907)	3,604	6,199	(55)	(12)	864	(1,749)	(244)	31	19,062	(10,424)	8,638
Software licences	42,004	(33,253)	8,751	46	(307)	4,582	6,801	(5,340)	(381)	16	53,001	(38,833)	14,168
Development expenditure	238,080	(161,258)	76,822	34	(1,549)	727	48,051	(22,080)	(14)	14	284,334	(182,329)	102,005
Other intangible assets with a finite life	5,078	(4,820)	258	26	1	(11)	152	(148)	(44)	38	5,084	(4,812)	272
Assets under development and payments on account	7,650	0	7,650	0	0	(5,286)	144	0	(2)	(2)	2,504	0	2,504
Total	305,445	(208,312)	97,133	6,305	(1,910)	0	56,016	(29,324)	(685)	97	364,111	(236,479)	127,632

Intangible assets with an indefinite life - €/000

	31/12/2016	Changes					31/12/2017
		Changes in consolidation scope	Exchange rate difference	Increase	Decrease	Impairment losses for the year	
Goodwill	469,493	29,888	(32,889)	-	(1,187)	-	465,305
Trademarks with an indefinite life	23,502	-	(304)	-	-	-	23,198
Total	492,995	29,888	(33,193)	-	(1,187)	-	488,503

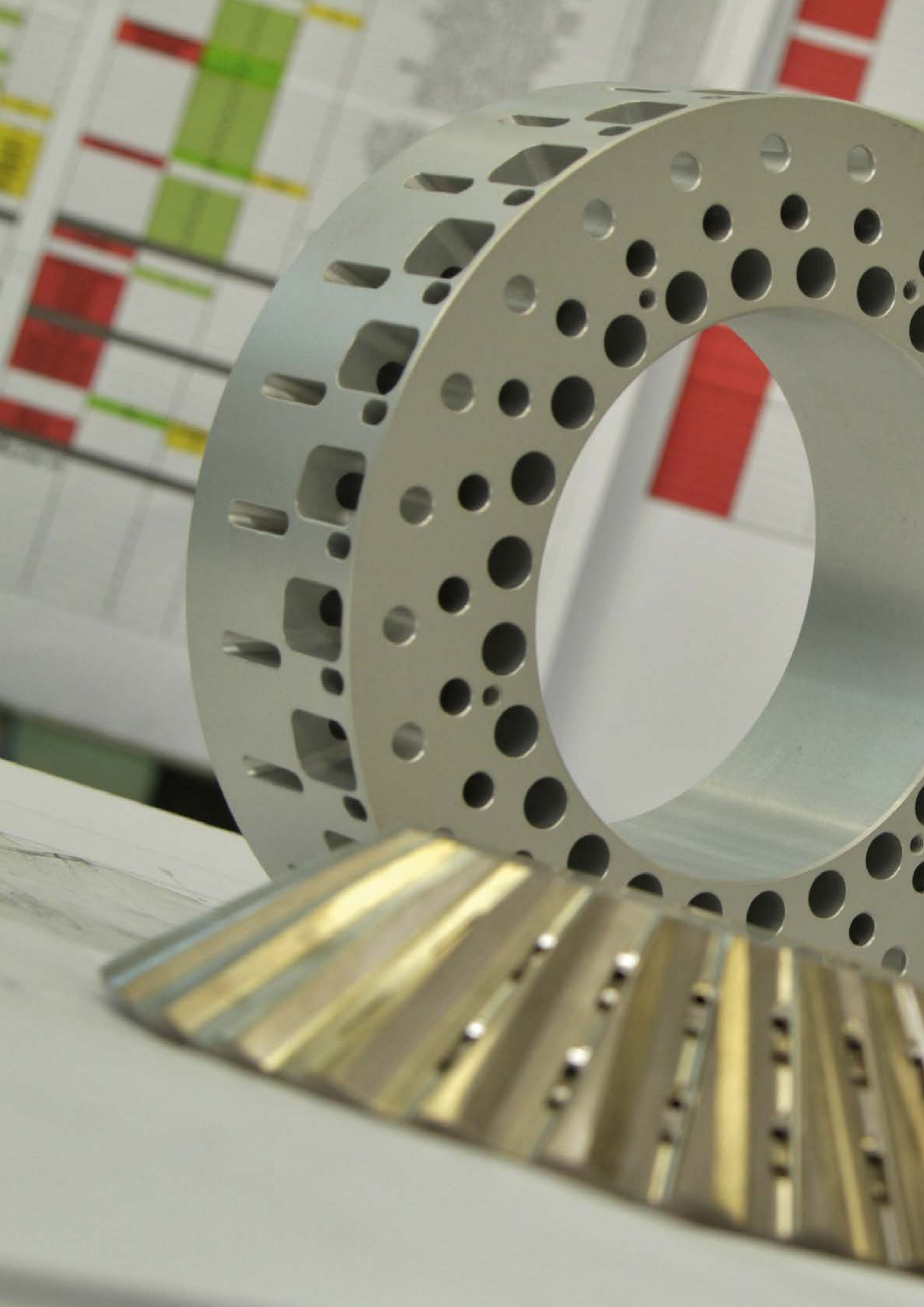
ANNEX II – SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT AT 31 DECEMBER 2017

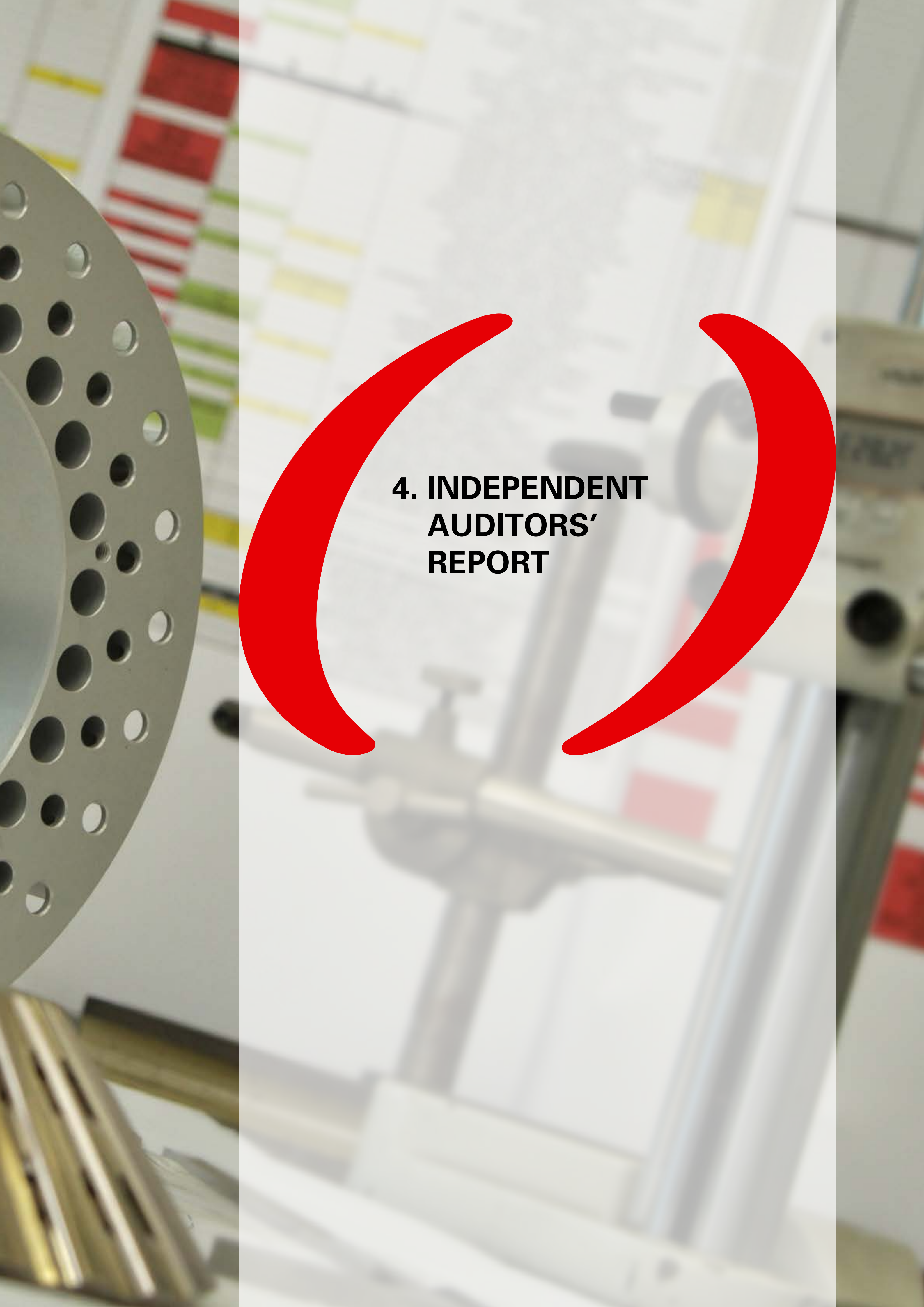
€/000

	31/12/2016			Changes							31/12/2017		
	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2016	Changes in consolidation scope	Reclassifications	Exchange rate difference	Increase	Depreciation and impairment losses for the year	Historical cost	Accumulated depreciation	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2017
Land	24,656	0	24,656	276	(9)	(1,482)	2,476	0	0	0	25,917	0	25,917
Buildings	212,657	(107,434)	105,223	1,593	400	(1,037)	12,234	(6,127)	56	24	225,315	(112,949)	112,366
Leasehold improvements	6,744	(5,290)	1,454	321	(2)	(95)	1,240	(1,006)	(26)	227	8,046	(5,933)	2,113
Plant and machinery	262,912	(227,744)	35,168	1,592	63	(859)	15,834	(7,772)	(6,662)	6,146	274,237	(230,727)	43,510
Industrial and commercial equipment	63,163	(56,118)	7,045	487	45	(295)	8,602	(3,692)	(462)	324	73,426	(61,372)	12,054
Other assets	61,779	(52,975)	8,804	235	(199)	(628)	10,261	(3,721)	(2,759)	2,543	66,849	(52,313)	14,536
Advances paid for the purchase of property, plant and equipment	7,616	0	7,616	0	(34)	(11)	2,582	0	0	0	10,153	0	10,153
Assets under construction	21,214	0	21,214	6	(264)	(1,866)	16,639	0	(1,028)	0	34,701	0	34,701
TOTAL	660,741	(449,561)	211,180	4,510	-	(6,273)	69,868	(22,318)	(10,881)	9,264	718,644	(463,294)	255,350

ANNEX III - LIST OF CONSOLIDATED INVESTMENTS

COMPANY	REGISTERED OFFICE	SHARE/QUOTA CAPITAL	% OF OWNERSHIP	
			DIRECT	INDIRECT
Fully 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%
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%
Toceco China (Kunming) Trading Company Limited	Kunming (China)	USD400,000		100.00%
G.D Pars Limited Liability Company	Tehran (Iran)			100.00%
Volpak SA	Barcelona (Spain)	€9,900,000	100.00%	
PT G.D Indonesia	Indonesia	USD290,000		100.00%
Hapa AG	Volketswill (Switzerland)	CHF1,000,000	100.00%	
COESIA IPS CGM S de RL de CV	Mexico City (Mexico)	MXN322,500	100.00%	
GD Teknik Hizmetler ve Ticaret Ltd Sirketi	Izmir (Turkey)	TRY500,000		100.00%
G.D TECH.CENTER MIDDLEEAST FZE FZE	Sarjah (UAE)	AED2,000,000		100.00%
Norden Machinery AB	Kalmar (Sweden)	SEK17,336,575	100.00%	
Norden UK Ltd	Milton Keynes (UK)	GBP15,000		100.00%
Franssons Maskinbearbetning I Kalmar AB	Kalmar (Sweden)	SEK200,000		100.00%
Citus Kalix Sas	Courcouronnes (France)	€7,193,040		100.00%
ADMV Sas	Cremieu (France)	€64,000		100.00%
Sacmo Sa	Holnon (France)	€1,028,170		100.00%
Norden GmbH	Ostfildern (Germany)	€25,565		100.00%
Sirius Machinery Co Ltd	Suzhou (China)	CNY15,782,000		100.00%
Coesia Finance S.p.A.	Bologna	€120,000	100.00%	
Coesia India Pvt. Ltd	Maharashtra (India)	INR5,414,850		100.00%
4S Engineering S.r.l.	Bologna	€20,000	100.00%	
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 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%
Flexlink Software Engineering GmbH	Offenbach (Germany)	€25,000		100.00%
G.D South Africa Technical Centre (PTY) Ltd	Johannesburg (South Africa)	ZAR100		100.00%
Coesia Korea Co. Ltd	South Korea	WON50,000		100.00%
IPI S.r.l.	Perugia	€13,000,000	100.00%	
IPI Asia Pacific	Bangkok (Thailand)	THB 4,000,000		49.00%
IPI Ucraine LTD	Kiev (Ukraine)	UAH100,017		100.00%
IPI ASIA Asep.PacK.Sys.Sdn.Bhd	Malaysia	MYR23,000,000		100.00%
IPI Paketleme San. Ve. Tic. LTD	Istanbul (Turkey)	TRY679,600		100.00%
CSCJ Acma Russia	Moscow (Russia)	RUB10,000		100.00%
Emmeci S.p.A.	Cerreto Guidi (Florence)	€4,000,000	100.00%	
Emmeci Europe Sarl	France	€630,000		100.00%
Emmeci USA LLC	USA	USD9,000		100.00%
GF S.p.A..	Rubbiamo (Parma)	€3,000,000		100.00%
Mprd Ltd UK	Milton Keynes (UK)	GBP5,000,000		100.00%
Molins Do Brasil Maquinas Automaticas Ltda	Curitiba (Brazil)	BRL26,000,000		100.00%
Molins Far East Pte Ltd	Singapore	GBP91,000		100.00%
Molins S.R.O.	Plzen (Czech Republic)	CZK20,000		100.00%
Cerulean GmbH	Hamburg (Germany)	€26,000		100.00%
Cerulean Shangai Company Ltd	Shanghai (China)	CNY2,307,000		100.00%
MGS Machine Corporation	Minneapolis (Minnesota)	USD334		100.00%
Companies measured using the equity method:				
Xpack S.r.l.	Castel Maggiore (Bologna)	€100,000	49.00%	
Companies measured at cost				
Lesina Autonoleggi S.r.l.	Bologna	€15,000		99.00%
Fare Impresa in Dozza S.r.l. - Impresa sociale	Bologna	€20,000		30.00%
Coesia Middle East Dmcc	Dubai (UAE)	AED50,000		100.00%





4. INDEPENDENT AUDITORS' REPORT

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

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

To the shareholders of
Coesia S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Coesia Group (the "Group"), which comprise the statement of financial position as at 31 December 2017, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Coesia Group as at 31 December 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Coesia S.p.A. (the "Company") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Coesia S.p.A. for the consolidated financial statements

The directors 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 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

— obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The directors of Coesia S.p.A. are responsible for the preparation of the Group's directors' report at 31 December 2017 and for the consistency of such report with the related consolidated financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the Group's consolidated financial statements at 31 December 2017 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the consolidated financial statements of the Coesia Group at 31 December 2017 and has been prepared in compliance with the applicable law.

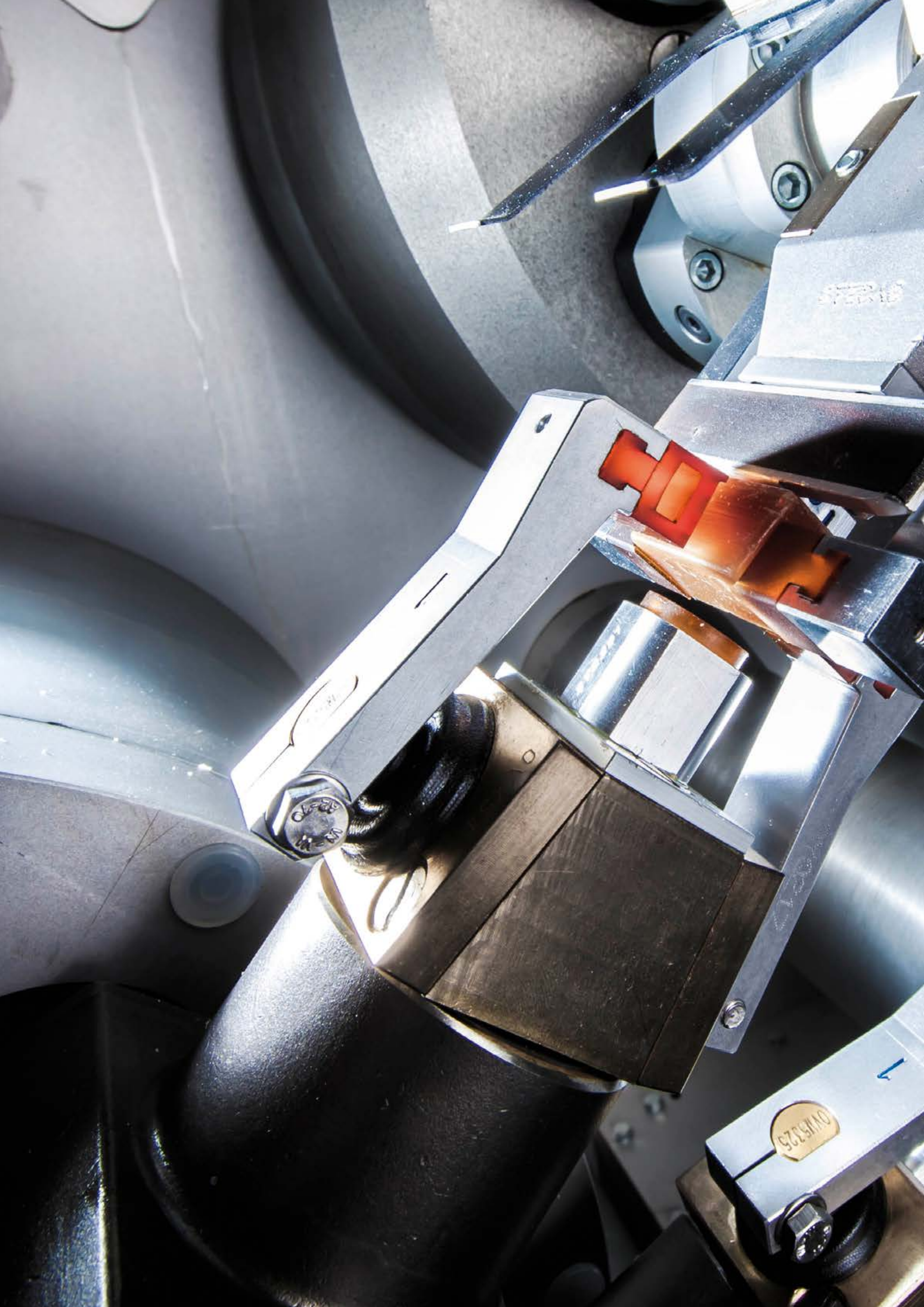
With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

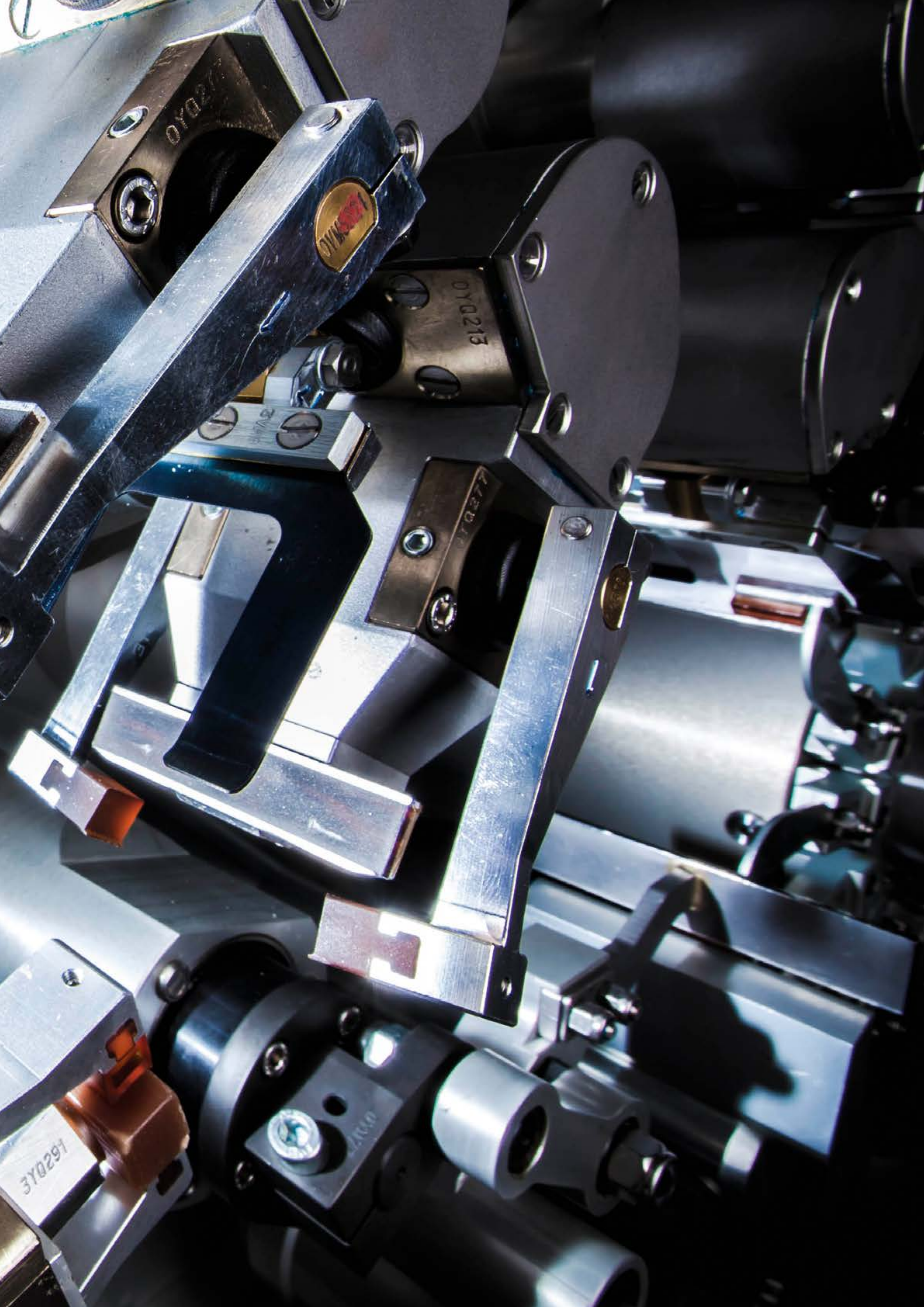
Bologna, 24 April 2018

KPMG S.p.A.

(signed on the original)

Rodolfo Curti
Director of Audit





coesia

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