

CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF THE BOARD OF DIRECTORS

2017



JOINT-STOCK COMPANY - SHARE CAPITAL EURO 62,440,555.84
MANTOVA COMPANY REGISTER AND TAX NO. 00607460201
COMPANY SUBJECT TO MANAGEMENT AND COORDINATION BY CIR S.p.A.
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BOARD OF DIRECTORS

Honorary Chairman CARLO DE BENEDETTI

Chairman MONICA MONDARDINI (1)

Managing Director and General Manager LAURENT HEBENSTREIT (1)

Directors PATRIZIA CANZIANI (3)
RODOLFO DE BENEDETTI
ROBERTA DI VIETO (3) - (4)
GIOVANNI GERMANO (2)
MAURO MELIS (2)
RAFFAELLA PALLAVICINI
PAOLO RICCARDO ROCCA (2) -
(3) - (4) - (5)

Secretary to the Board NIVES RODOLFI

BOARD OF STATUTORY AUDITORS

Chairman RICCARDO ZINGALES

Acting Auditors GIUSEPPE LEONI
CLAUDIA STEFANONI

Alternate Auditors ANNA MARIA ALLIEVI
MAURO GIRELLI
LUIGI MACCHIORLATTI VIGNAT

INDEPENDENT AUDITORS

KPMG S.p.A.

Disclosure under Consob Recommendation no. 97001574 of 20 February 1997:

- (1) Powers as per Corporate Governance.
- (2) Members of the Appointment and Remuneration Committee.
- (3) Members of the Control and Risk Committee and of the Committee for Related Party Transactions.
- (4) Members of the Supervisory Body (Italian Legislative Decree no. 231/2001).
- (5) *Lead independent director.*

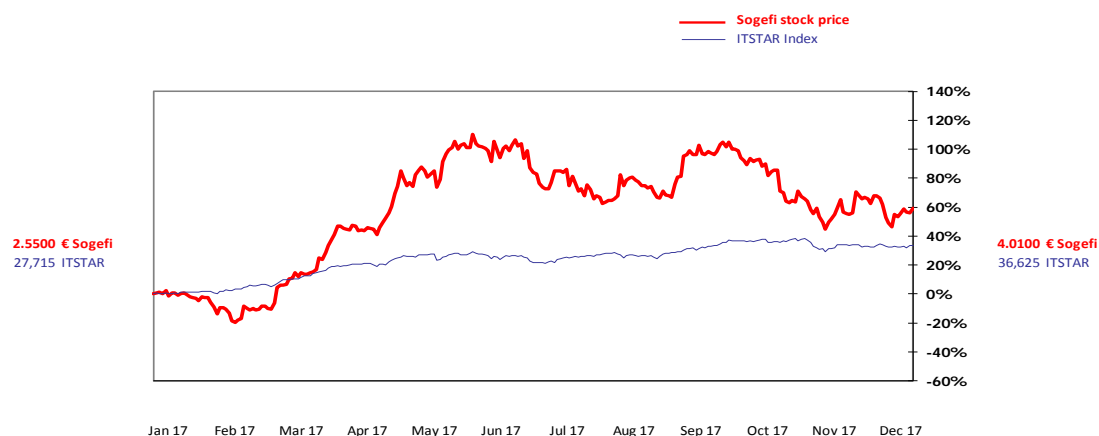
OVERVIEW OF GROUP RESULTS

(in millions of Euro)	2014		2015		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Sales revenues	1,349.4	100.0%	1,499.1	100.0%	1,574.1	100.0%	1,672.4	100.0%
EBITDA	109.5	8.1%	115.5	7.7%	152.7	9.7%	165.8	9.9%
Ebit	48.3	3.6%	50.7	3.4%	74.5	4.7%	85.4	5.1%
Result before taxes and non-controlling interests	21.5	1.6%	17.9	1.2%	46.6	3.0%	53.7	3.1%
Net result	3.6	0.3%	1.1	0.1%	9.3	0.6%	26.6	1.6%
Self-financing	67.6		53.4		109.1		124.8	
Free cash flow	3.8		(24.8)		31.2		34.4	
Net financial position	(304.3)		(322.3)		(299.0)		(264.0)	
Total shareholders' equity	180.8		190.4		189.0		206.8	
GEARING	1.68		1.69		1.58		1.28	
ROI	9.9%		10.2%		14.9%		17.8%	
ROE	2.2%		0.7%		5.4%		14.7%	
Number of employees at December 31	6,668		6,702		6,801		6,947	
Dividends per share (Euro)	-		-		-		-	(*)
EPS (Euro)	0.032		0.010		0.081		0.228	
Average annual price per share	3.5350		2.5133		1.7004		4.0293	

(*) As proposed by the Board of Directors to the Shareholders' Meeting

STOCK PERFORMANCE

The graph below shows the performance of Sogefi stock and of the ITSTAR index in 2017.



REPORT OF THE BOARD OF DIRECTORS ON PERFORMANCE IN 2017

Dear Shareholders,

during the year 2017, the sales revenues of the Sogefi Group amounted to Euro 1,672.4 million, showing a growth of 6.2% compared to Euro 1,574.1 million in 2016 (7.3% at constant exchange rates).

With regard to the overall performance of world automotive markets, in 2017 the production of cars and light commercial vehicles increased by 2.1%, with a growth of 1.1% in Europe, thanks to the good performance of the fourth quarter (+6.0%), 2.7% in Asia, despite the slowdown in China, and 20.9% in South America. In North America market dropped by 4.0%, thereby confirming the expectations.

After strong growth in the first quarter (+12.6%) and more moderate growth in the second (+4.5%) and third (+2.0%) quarters, an increase of 6% was recorded in the last quarter, in line with expectations. At constant exchange rates, the quarterly growth was equal to +11%, +4.6%, +4.2% and +9.4%.

All business units contributed to the growth of Group revenues. Suspensions recorded an increase of 7.8% (+8.9% at constant exchange rates), Filtration 5.7% (+7.1% at constant exchange rates) and Air & cooling 5.0% (+5.6% at constant exchange rates).

The table below shows the performance of the divisions:

(in millions of Euro)	2017		2016	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Suspensions	606.8	36.3	562.8	35.8
Filtration	565.7	33.8	535.1	34.0
Air&Cooling	504.0	30.1	480.2	30.5
Intercompany eliminations	(4.1)	(0.2)	(4.0)	(0.3)
TOTAL	1,672.4	100.0	1,574.1	100.0

All geographical areas contributed to the revenue increase in 2017. Revenues in Europe grew by 4.3%, with a better performance than the reference market (+1.1%). Business continued to grow in North America (+2.1%), despite the negative market trend (-4.0%). In Asia and South America, revenues increased by 20.9% and 13.2%, respectively.

The table below shows a breakdown of sales by key markets.

(in millions of Euro)	2017		2016	
	<i>Amount</i>	%	<i>Amount</i>	%
Europe	1,031.7	61.7	988.9	62.8
Sud America	195.0	11.7	172.2	10.9
Nord America	296.7	17.7	290.6	18.5
Asia	163.2	9.8	135.0	8.6
Intercompany eliminations	(14.2)	(0.9)	(12.6)	(0.8)
TOTAL	1,672.4	100.0	1,574.1	100.0

Sogefi's key customers are Ford, FCA, Renault/Nissan, PSA, GM and Daimler. Together, they account for 63.9% of the Group's sales revenues as compared to the 64.3% in 2016.

(in millions of Euro)	2017		2016	
	<i>Amount</i>	%	<i>Amount</i>	%
Group				
Ford	201.2	12.0	198.0	12.6
FCA/CNH Industrial	200.9	12.0	177.5	11.3
Renault/Nissan	192.3	11.5	181.7	11.5
PSA	185.1	11.1	175.7	11.2
GM	147.9	8.8	151.6	9.6
Daimler	142.1	8.5	127.2	8.1
Volkswagen/Audi	77.2	4.6	64.7	4.1
Toyota	52.0	3.1	43.5	2.8
BMW	44.0	2.6	45.4	2.9
Others (including the Aftermarket)	429.7	25.8	408.8	26.0
TOTAL	1,672.4	100.0	1,574.1	100.0

The following table provides comparative figures of the Income statement for 2017 and the previous year.

(in millions of Euro)	2017		2016	
	Amount	%	Amount	%
Sales revenues	1,672.4	100.0	1,574.1	100.0
Variable cost of sales	1,194.0	71.4	1,120.2	71.2
CONTRIBUTION MARGIN	478.4	28.6	453.9	28.8
Manufacturing and R&D overheads	157.4	9.4	147.5	9.3
Depreciation and amortization	69.3	4.1	68.8	4.4
Distribution and sales fixed expenses	44.3	2.7	44.9	2.9
Administrative and general expenses	88.9	5.3	86.2	5.5
Restructuring costs	11.2	0.7	5.3	0.3
Losses (gains) on disposal	-	-	(0.7)	-
Exchange (gains) losses	3.2	0.2	1.8	0.1
Other non-operating expenses (income)	18.7	1.1	25.6	1.6
EBIT	85.4	5.1	74.5	4.7
Financial expenses (income), net	31.7	1.9	31.5	2.0
Losses (gains) from equity investments	-	-	(3.6)	(0.2)
RESULT BEFORE TAXES AND NON-CONTROLLING INTERESTS	53.7	3.2	46.6	2.9
Income taxes	23.0	1.4	32.6	2.1
NET RESULT BEFORE NON-CONTROLLING INTERESTS	30.7	1.8	14.0	0.8
Loss (income) attributable to non-controlling interests	(4.1)	(0.2)	(4.7)	(0.2)
GROUP NET RESULT	26.6	1.6	9.3	0.6

EBITDA in 2017 was equal to Euro 165.8 million, representing an 8.6% increase compared to Euro 152.7 million in 2016. This increase is due to growing sales revenues and improved profitability, which rose to 9.9% from 9.7% in 2016.

The increased profitability was achieved despite the negative impact (Euro 13 million) of the increase in steel prices. The ratio of total labour costs to revenues declined from 21.4% in 2016 to 20.8% in 2017.

EBIT increased by 14.6% to Euro 85.4 million compared to Euro 74.5 million in 2016, and accounts for 5.1% of revenues. This result includes writedowns of fixed assets of the Brazilian business for Euro 6.2 million in 2017 and Euro 4.8 million in 2016.

The result before taxes and minority interests was a positive Euro 53.7 million (Euro 46.6 million in 2016), after financial expenses of Euro 31.7 million (Euro 31.5 million in 2016). In 2017, financial expenses include Euro 6.0 million which reflect the change in fair value of the liability associated with the exercise of the put option held by non-controlling shareholders of subsidiary Sogefi M.N.R. Engine Systems India Pvt Ltd on 30% of its share capital. In 2017, there was a lower cash interest expense of Euro 5.3 million.

The net result was positive for Euro 26.6 million (Euro 9.3 million in 2016), after tax expense of Euro 23 million, compared to Euro 32.6 million in 2016. Tax expense

reduction compared to 2016 accounts for Euro 6.7 million of a non-recurring tax expense recognised in the previous fiscal year (referred to the claims made against the company Sogefi Air & Cooling S.A.S.).

Regarding the risks of product warranty resulting from the claims made against the Company Sogefi Air & Cooling S.A.S. (formerly Sogefi Air & Refroidissement France S.A.S.), no significant changes occurred in 2017. For further details, please refer to the Accounting policies - Critical estimates and assumptions in note 2.3.

As at 31 December 2017, the Sogefi Group's workforce was 6,947 (6,801 as at 31 December 2016).

	12.31.2017		12.31.2016	
	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>
Suspensions	2,623	37.8	2,625	38.6
Filtration	2,831	40.8	2,735	40.2
Air&Cooling	1,431	20.6	1,381	20.3
Other	62	0.8	59	0.9
TOTAL	6,947	100.0	6,801	100.0

Breakdown by category is provided below:

	12.31.2017		12.31.2016	
	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>
Managers	115	1.6	106	1.6
Clerical staff	1,908	27.5	1,874	27.5
Blue collar workers	4,924	70.9	4,821	71.0
TOTAL	6,947	100.0	6,801	100.0

Net financial indebtedness as at 31 December 2017 was Euro 264 million, showing a year-over-year reduction of Euro 35 million compared to 31 December 2016 (Euro 299 million).

The following table provides a breakdown of indebtedness as at 31 December 2017:

(in millions of Euro)	12.31.2017	12.31.2016
Cash, banks, financial receivables and securities held for trading	105.4	99.6
Medium/long-term financial receivables	2.2	15.8
Short-term financial debts (*)	(83.4)	(148.6)
Medium/long-term financial debts	(288.2)	(265.8)
NET FINANCIAL POSITION	(264.0)	(299.0)

(*) Including current portions of medium and long-term financial debts.

Free Cash Flow in 2017 amounted to Euro 34.4 million compared to Euro 31.2 million in the previous fiscal year, which included Euro 15.3 million non-recurring inflows related to product guarantees and favourable outcome of a tax dispute. Without such items of non-ordinary nature, Free Cash Flow went from Euro 15.2 million in 2016 to

Euro 34.4 million in 2017. The improvement came with an increase in tangible asset expenditure to Euro 68.1 million (Euro 58.8 million in 2016).

The table below shows changes in cash flows during the year:

(in millions of Euro)	Note(*)	2017	2016
SELF-FINANCING	(f)	124.8	109.1
Change in net working capital		12.3	(2.1)
Other medium/long-term assets/liabilities	(g)	(4.5)	17.5
CASH FLOW GENERATED BY OPERATIONS		132.6	124.5
Sale of equity investments	(h)	-	-
Net decrease from sale of fixed assets	(i)	0.5	0.3
TOTAL SOURCES		133.1	124.8
Increase in intangible assets		31.8	30.3
Purchase of tangible assets		68.1	58.8
TOTAL APPLICATION OF FUNDS		99.9	89.1
Exchange differences on assets/liabilities and equity	(l)	1.2	(4.5)
FREE CASH FLOW		34.4	31.2
Holding Company increases in capital		1.3	0.8
Increases in share capital of consolidated subsidiaries		0.2	0.2
Dividends paid by the Holding Company to shareholders		-	-
Dividends paid by subsidiaries to non-controlling interests		(2.6)	(8.2)
Change in fair value derivative instruments		1.7	(0.7)
CHANGES IN SHAREHOLDERS' EQUITY		0.6	(7.9)
Change in net financial position	(m)	35.0	23.3
Opening net financial position	(m)	(299.0)	(322.3)
CLOSING NET FINANCIAL POSITION	(m)	(264.0)	(299.0)
(*) See the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.			

At 31 December 2017, shareholders' equity excluding minority interests amounted to Euro 189.0 million (compared to Euro 172.9 million as at 31 December 2016), as illustrated in the table below.

(in millions of Euro)	Note(*)	12.31.2017		12.31.2016	
		Amount	%	Amount	%
Short-term operating assets	(a)	364.6		358.1	
Short-term operating liabilities	(b)	(389.6)		(356.0)	
Net working capital		(25.0)	(5.3)	2.1	0.4
Equity investments	(c)	-	-	-	-
Intangible, tangible fixed assets and other medium and long-term assets	(d)	629.3	133.7	634.2	130.0
CAPITAL INVESTED		604.3	128.4	636.3	130.4
Other medium and long-term liabilities	(e)	(133.5)	(28.4)	(148.3)	(30.4)
NET CAPITAL INVESTED		470.8	100.0	488.0	100.0
Net financial indebtedness		264.0	56.1	299.0	61.3
Non-controlling interests		17.8	3.8	16.1	3.3
Consolidated equity of the Group		189.0	40.1	172.9	35.4
TOTAL		470.8	100.0	488.0	100.0

(*) See the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

Outlined below are a few indicators as at 2017 year end:

- **gearing** (net financial position/total equity ratio) amounted to 1.28 at the end of 2017 (1.58 at the end of 2016);
- **ROI** (Return on Investment, calculated as the ratio of EBIT to average net capital invested) increased from 14.9% in 2016 to 17.8% in 2017;
- **ROE** (Return on Equity) was 14.7% at the end of 2017 (5.4% in 2016).

INVESTMENTS AND RESEARCH & DEVELOPMENT ACTIVITIES

Investment in tangible fixed assets increased from Euro 58.8 million in 2016 to Euro 68.1 million in 2017 and were mainly oriented at building the new plants in Morocco and China, enhancing production capacity, engineering new products, extraordinary maintenance operations, improving industrial processes, and increasing productivity. Research and development expenses amounted to Euro 38.7 million, slightly up compared to Euro 38.1 million in 2016, and were mostly focused on product's innovation.

RECONCILIATION BETWEEN THE PARENT COMPANY'S STATUTORY FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS

The following is a reconciliation of the Group's net result and equity at the end of the year with the equivalent figures for the Parent Company:

(in millions of Euro)	2017	2016
Net result per Sogefi S.p.A. financial statements	11.5	27.7
Group share of results of subsidiary companies included in the consolidated financial statements	53.4	38.8
Writedowns/Gains of equity investments in Sogefi S.p.A.	0.8	-
Elimination of Sogefi S.p.A. dividends	(32.4)	(39.9)
Elimination of unrealized gains deriving from intercompany transactions and other consolidation adjustments, net of the related deferred taxation	(6.7)	(17.4)
NET RESULT PER CONSOLIDATED FINANCIAL STATEMENTS	26.6	9.3

(in millions of Euro)	12.31.2017	12.31.2016
Shareholders' equity per Sogefi S.p.A. financial statements	214.5	197.9
Group share of higher/lower equity value of investments in consolidated companies over carrying value in Sogefi S.p.A. financial statements	(27.2)	(29.9)
Elimination of unrealized gains deriving from intercompany transactions and other consolidation adjustments, net of the related deferred taxation	1.7	4.9
SHAREHOLDERS' EQUITY PER CONSOLIDATED FINANCIAL STATEMENTS	189.0	172.9

PERFORMANCE OF THE PARENT COMPANY SOGEFI S.p.A.

In the year 2017, the parent company Sogefi S.p.A. reported net income of Euro 11.5 million, compared to Euro 27.7 million in the previous year.

The decrease in “Financial income/expenses and dividends” is mainly due to lower dividends allocated during the fiscal year by the subsidiaries accounting for Euro 7.4 million, and to recognition to 2016 fiscal year of the financial income of non-ordinary nature received concerning the favourable outcome of a dispute with French tax authorities, accounting for Euro 6 million.

Item “Adjustments to financial assets” represents the write-down of the Chinese subsidiary Shanghai Sogefi Auto Parts Co., Ltd recognised based on the impairment test at 31 December 2017.

“Operating costs” decreased over the previous year mainly because of lower operating costs related to the Group's IT system, which resulted in lower income for services provided to subsidiaries as per item “Other operating revenues”.

The change in the item “Other non-operating income (expenses)” is mainly due, for Euro 1.8 million, to the write-off of trade receivables from a Brazilian subsidiary in May 2017 and, for Euro 2.3 million (Euro 0.2 million in 2017) to the recognition in 2016 of the non-ordinary income generated after the expenses incurred in the international arbitration proceedings versus Dayco were allocated to the French subsidiary Sogefi Air & Cooling S.A.S.

(in millions of Euro)	2017	2016
Financial income/expenses and dividends	16.8	29.9
Adjustments to financial assets	(0.8)	-
Other operating revenues	14.0	22.5
Operating costs	(17.6)	(25.7)
Other non-operating income (expenses)	(3.3)	0.3
RESULT BEFORE TAXES	9.1	27.0
Income taxes	(2.4)	(0.7)
NET RESULT	11.5	27.7

As regards the **statement of financial position**, the table below shows the main items as at 31 December 2017, compared to the figures recorded at the end of the previous year:

(in millions of Euro)	Note(*)	12.31.2017	12.31.2016
Short-term assets	(n)	14.1	13.2
Short-term liabilities	(o)	(7.0)	(8.2)
Net working capital		7.1	5.0
Equity investments	(p)	415.8	416.7
Other fixed assets	(q)	50.2	56.9
CAPITAL INVESTED		473.1	478.6
Other medium and long-term liabilities	(r)	(0.8)	(0.6)
NET CAPITAL INVESTED		472.3	478.0
Net financial indebtedness		257.8	280.1
Shareholders' equity		214.5	197.9
TOTAL		472.3	478.0

(*) See the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

Item "Short-term assets" includes receivable from the French subsidiary Sogefi Gestion S.A.S. of Euro 3.3 million relating to the sale at 31 December 2017 of IT applications developed within the Group's IT system not directly connected to the "SAP" platform, as shown in part by the decrease in the item "Intangible and tangible fixed assets, and other medium/long-term assets".

"Shareholders' equity" amounted to Euro 214.5 million as at 31 December 2017, as compared to 31 December 2016 (Euro 197.9 million). This increase reflects for the most part the result for the year 2017, share capital increase of Euro 1.3 million after employees of the Company and of the Group underwrote Stock Option Plans and an increase (Euro 4.3 million) in the specific reserve for cash flow hedging instruments (measured at *fair value*).

Net **financial indebtedness** as at 31 December 2017 was Euro 257.8 million, showing a year-over-year improvement of Euro 22.3 million compared to 31 December 2016.

(in millions of Euro)	12.31.2017	12.31.2016
Short-term cash investments	36.3	25.1
Short/medium-term financial receivables to third and subsidiaries	96.0	154.1
Short-term financial debts (*)	(120.1)	(210.0)
Medium/long-term financial debts	(270.0)	(249.3)
NET FINANCIAL POSITION	(257.8)	(280.1)

(*) Including current portions of medium and long-term financial debts.

The table below illustrates the **cash flow statement** of Sogefi S.p.A.:

(in millions of Euro)	Note(*)	2017	2016
SELF-FINANCING	(s)	18.3	34.2
Change in net working capital	(t)	(2.0)	2.4
Other medium/long term assets/liabilities	(u)	2.7	2.6
CASH FLOW GENERATED BY OPERATIONS		19.0	39.2
Sale of equity investments	(v)	0.4	7.0
Net decrease from sale of intangible assets		3.2	-
TOTAL SOURCES		22.6	46.2
Increase in intangible assets		3.1	1.1
Purchase of tangible assets		-	0.1
Purchase of equity investments		0.3	20.0
TOTAL APPLICATION OF FUNDS		3.4	21.2
FREE CASH FLOW		19.2	25.0
Holding Company increases in capital		1.3	0.8
Change in fair value derivative instruments		1.8	(0.1)
Dividends paid by the Holding Company		-	-
CHANGES IN SHAREHOLDERS' EQUITY		3.1	0.7
Change in net financial position	0	22.3	25.7
Opening net financial position	(w)	(280.1)	(305.8)
CLOSING NET FINANCIAL POSITION	(w)	(257.8)	(280.1)

(*) See the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

In 2017, the decreased Free cash flow compared to 2016 was generated by the lower profitability of the year, a decrease in working capital, lower repayments of reserves by subsidiaries, partially offset by the sale of intangible assets in 2017 and higher share capital increases paid in subsidiaries during the previous fiscal year.

PERFORMANCE BY BUSINESS DIVISION

FILTRATION BUSINESS UNIT

The following tables show the key results and economic indicators of the Filtration business unit for the year 2017 and the three previous years.

KEY ECONOMIC DATA

(in millions of Euro)	2014	2015	2016	2017	Change '17 vs '16
Sales revenues	473.7	529.7	535.1	565.7	5.7%
EBIT	28.4	30.9	25.1	24.1	-3.8%
<i>% on sales revenues</i>	6.0%	5.8%	4.7%	4.3%	

KEY FINANCIAL DATA

(in millions of Euro)	2014	2015	2016	2017	Change '17 vs '16
Net Assets	97.5	119.7	84.4	71.7	-15.0%
Net financial surplus (indebtedness)	13.5	11.1	(14.9)	(8.6)	42.2%

OTHER INDICATORS

	2014	2015	2016	2017	Change '17 vs '16
Number of employees	2,751	2,629	2,735	2,831	3.5%

In 2017, the sales revenues of the Filtration business unit amounted to Euro 565.7 million, up over 2016 (+5.7% and +7.1% at constant exchange rates). During the period under consideration, the business unit benefited from business growth in Europe and Asia, while in South America the Brazilian growth compensated for the sluggish performance of Argentinian market.

EBIT amounts to Euro 24.1 million compared to Euro 25.1 million in 2016, its ratio to sales being at 4.3%. It should be noted that EBIT in 2017 includes Euro 1.9 million higher asset writedowns (Euro 8.2 million compared to Euro 6.3 million in 2016).

Net assets as at 31 December 2017 amounted to Euro 71.7 million compared to Euro 84.4 million at the end of 2016, whereas net financial indebtedness amounted to Euro 8.6 million (Euro 14.9 million indebtedness as at 31 December 2016).

The business unit workforce at the end of 2017 increased to 2,831 units from 2,735 units at the end of 2016.

SUSPENSIONS BUSINESS UNIT

The following tables show the key results and economic indicators of the Suspensions business unit for the year 2017 and the three previous years.

KEY ECONOMIC DATA

(in millions of Euro)	2014	2015	2016	2017	Change '17 vs '16
Sales revenues	506.6	558.0	562.8	606.8	7.8%
EBIT	18.2	35.4	35.6	38.0	6.6%
<i>% on sales revenues</i>	<i>3.6%</i>	<i>6.3%</i>	<i>6.3%</i>	<i>6.3%</i>	

KEY FINANCIAL DATA

(in millions of Euro)	2014	2015	2016	2017	Change '17 vs '16
Net Assets	106.8	108.6	125.3	122.9	-1.9%
Net financial surplus (indebtedness)	(64.7)	(60.1)	(61.4)	(67.3)	-9.7%

OTHER INDICATORS

	2014	2015	2016	2017	Change '17 vs '16
Number of employees	2,582	2,663	2,625	2,623	-0.1%

In 2017, the sales revenues of the Suspensions business unit amounted to Euro 606.8 million, up over 2016 (+7.8% and +8.9% at constant exchange rates). During the period under consideration, the business unit benefited from the expansion of the business in North/South America and Europe.

EBIT amounts to Euro 38.0 million, with an increase compared to 2016 (Euro 35.6 million), its ratio to sales being basically unchanged at 6.3%. The margin increased despite the impact of Euro 13 million due to the increase in steel prices.

Net assets as at 31 December 2017 amounted to Euro 122.9 million (compared to Euro 125.3 million at the end of 2016), whereas net financial position recorded an indebtedness of Euro 67.3 million compared to 61.4 million at the end of 2016.

The business unit workforce at the end of 2017 was 2,623 units, basically in line with the 2,625 units as at 31 December 2016.

AIR&COOLING BUSINESS UNIT

The following tables show the key results and economic indicators of the Air&Cooling business unit for the year 2017 and the three previous years.

KEY ECONOMIC DATA

(in millions of Euro)	2014	2015	2016	2017	Change '17 vs '16
Sales revenues	374.3	415.3	480.2	504.0	5.0%
EBIT	14.2	(1.2)	23.3	28.3	21.5%
<i>% on sales revenues</i>	<i>3.8%</i>	<i>-0.3%</i>	<i>4.8%</i>	<i>5.6%</i>	

KEY FINANCIAL DATA

(in millions of Euro)	2014	2015	2016	2017	Change '17 vs '16
Net Assets	112.6	103.7	121.6	138.5	13.9%
Net financial surplus (indebtedness)	56.5	34.6	51.5	71.3	38.5%

OTHER INDICATORS

	2014	2015	2016	2017	Change '17 vs '16
Number of employees	1,263	1,350	1,381	1,431	3.6%

In 2017, the revenues of the Air&Cooling business unit amounted to Euro 504.0 million with an increase of 5.0% (+5.6% at constant exchange rates) compared to 2016. During the period under consideration, the business unit benefited from the positive trend in Asia and Europe, which compensated for the difficulties in North America.

EBIT amounts to Euro 28.3 million, with an increase compared to 2016 (Euro 23.3 million in 2016), its ratio to sales being at 5.6%, up compared to 4.8% in 2016.

Net assets as at 31 December 2017 amounted to Euro 138.5 million (compared to Euro 121.6 million at the end of 2016), whereas net financial position recorded a surplus of Euro 71.3 million compared to Euro 51.5 million at the end of 2016.

The business unit workforce at the end of 2017 increased to 1,431 units from 1,381 units as at 31 December 2016.

OUTLOOK FOR OPERATIONS

The global automotive market is expected to grow by around 1.5% in 2018.

In this context, the Group expects growth at constant exchange rates to be moderately higher than the market, thanks in particular to the development initiatives undertaken in Mexico and Morocco and an increasing result, despite the further increase in the steel prices.

MANAGEMENT OF THE MAIN BUSINESS RISKS

In line with international best practice, the Group has initiated a structured, formal “ERM - Enterprise Risk Management” process that involves the joint efforts of management across all operations worldwide under the coordination of the Group's Chief Risk Officer.

Managers at a Group, business unit and local level will identify and assess likeliness and impact of both potential and residual risks based on a specific risk model associated with the Group's strategic goals as well as define risk mitigation strategies.

More specifically, the Chief Risk Officer is to first prioritise risk areas within the risk model based on the Group's strategic goals and guidelines (key value drivers) (such as raw materials/commodities, economic situation, exchange rates, technology innovation, customer portfolio balancing, competitor monitoring, etc.), and define reference economic-financial parameters to measure risks and their impact (impact on EBIT) where applicable. Managers at a Group, business unit and local level are then required to validate/supplement exposure findings in the identified priority risk areas and submit risk mitigation plans to help complete the overall Sogefi Group ERM Report. This method ensures that the following elements are in place and kept constantly up to date:

- target levels of exposure to priority risks;
- risk management strategies in line with existing risk attitude (transfer, reduce, eliminate, mitigate risk);
- action plans and management approaches to keep exposure levels within target limits.

The findings of the Sogefi Group ERM Report are also used to define the Internal Audit Action Plan adopting a risk-based approach, in line with international best practice. In detail, the Internal Audit Action Plan is defined yearly based directly on the findings of the assessments made as part of the Enterprise Risk Management process, and focusing on highest-risk areas identified by the ERM assessments, beyond obviously the possibility of spot interventions based on specific needs.

For more details of the risk assessment method and the tasks and functions of the corporate Control and Risk System please read the “Code of Conduct of Sogefi S.p.A.” attached to the “Annual Report on Corporate Governance” for the year 2017 available at www.sogefigroup.com.

The following section looks at the main risks and uncertainties that the Group is potentially exposed to in the achievement of its business objectives/operations, together with a description of the ways in which said risks are managed.

To facilitate comprehension, risk factors have been grouped on the basis of their origin into homogeneous risk categories, with distinction between those that arise outside the Group (**external risks**) and those associated with the characteristics and structure of the organisation itself (**internal risks**).

In terms of **external risks**, first of all, the Group adopts a centralised management approach (at Group level or at business unit level) to **financial risk** (which includes **risks of changes in interest rates and exchange rates, risks of changes in raw materials prices, credit risk and liquidity risk**), described in further detail in the

Explanatory and Supplementary Notes to the Consolidated Financial Statements which should be referred to¹.

With regard to **risks relating to competitors**, the Group is one of the leading players in the suspension components, filtration and Air&Cooling sectors at a worldwide level, and benefits from a progressive consolidation of the market and the resulting gradual reduction in the number of competitors.

With regard to the Suspensions sector, the Group benefits from objective barriers to the entry of new competitors, as this sector is structurally capital intensive and a wide technological and qualitative gap puts manufacturers in low-cost countries at a disadvantage. Similarly, the technological and qualitative gap represents a barrier to the entry of new competitors in the original equipment air intake and cooling sectors as well, while in the spare part sector, important barriers to entry are represented by the Group's exhaustive product range and by the lack of notoriety of the brands of manufacturers in *low-cost* countries.

As regards the **risks associated with customer management**, as well as the management of **credit risk** already mentioned within **financial risk**, the Group manages the **risk of the concentration of demand** by appropriately diversifying its customer portfolio, both from a geographic perspective and in terms of distribution channel (the major world manufacturers of cars and industrial vehicles in the original equipment market and leading international customers in the spare parts market).

Over the last few years, the Group has significantly reduced **credit risk** in the independent *aftermarket* (IAM), whereas the credit risk in original equipment (OEM) and original equipment spares (OES) markets is limited because these customers are world-leading auto makers and industrial vehicle manufacturers.

As regards the **risks associated with supplier management**, increased focus on multi-sourcing, especially from non-European suppliers and the ongoing search for alternate suppliers, helps to reduce the **risk of being excessively dependent on key suppliers/single suppliers**.

It should be noted that this multi-sourcing approach, i.e. sourcing each raw material from multiple suppliers based in different world countries helps to reduce the **risk of changes in raw materials prices** mentioned earlier when discussing the management of **financial risk**.

The Group places particular attention on the management of **country risk**, given the considerable geographic diversification of its business activities at world level.

In terms of the **risks associated with technological innovation**, the Group constantly seeks to innovate products and production processes.

In particular, the Group is committed to developing new products designed to equip the new generation of "Hybrid & Electrical vehicles" in the filtration, air and cooling and suspension components sectors.

Furthermore, the Group's pipeline includes certain product/process innovations that are

¹For a detailed description of the centralised management of financial risk adopted by the Group, please see the "Explanatory and Supplementary Notes to the Consolidated Financial Statements", Chap. E, Note no. 39.

not available to key competitors, such as elastic suspension components made from composite materials, an oil cooling technologies that use aluminium foam.

With regard to the **risks related to health, safety and the environment**, each subsidiary has its own internal function that manages HSE in accordance with local laws and in accordance with Sogefi Group's guidelines. More specifically, the Parent Company Sogefi S.p.A. has approved an Environmental Policy for Health and Safety, which sets out the principles that all operations of subsidiaries should observe for the organisation of the HSE management system. Special emphasis is placed on monitoring the risk of accidents, which is a pillar of the plant operating approach "Kaizen Way" adopted at all production sites across the world and coordinated by a dedicated central management team at Group level.

In correlation with the environmental policy, 17 plants in the Suspensions business unit, 13 in the Filtration business unit and 8 in the Air&Cooling business unit are currently certified as complying with the international standard ISO 14001. With regard to OHSAS 18001, 2 plants in the Filtration business unit, 1 in the Air&Cooling business unit and 2 in the Suspensions business unit have had their health and safety systems certified to this standard.

The Company also took additional environmental mitigation measures in order to reduce energy consumption especially in production processes and at the same increase the use of renewable energy. In addition, the Company launched a programme to reduce the release of gas emissions into the environment, increase material recycling and reuse so as to dramatically reduce waste production (especially in those countries where the Group expect volumes to grow significantly) and – last but not least – to improve depuration plants so as to better treat liquid waste before releasing them into the environment and the sewage system.

Noteworthy are also the Group's measures aimed at enhancing logistics efficiency and significantly reducing environmental impact (for instance, less special transport operations, increased use of *returnable containers*, standardised pallet sizes, use of warehouses closer to production plants of customers, etc.).

The activities carried out in the plants are monitored by both experienced internal auditors and external auditors. Particular attention is paid to personnel training in order to consolidate and disseminate a safety culture.

As regards **internal risks**, namely risks mostly connected with internal activities and with the characteristics of the organisation itself, one of the major risks identified, monitored and actively managed by the Group is the **risk of product quality/complaints due to non conformity**: in this regard, it is worth drawing attention to the fact that the Sogefi Group considers ongoing quality improvement as a fundamental objective to meet customers' needs. The same focus on quality is placed on the supplier selection and approval process, as well as in the on-going quality control of supplies used in the manufacturing process (raw materials, semi-finished products, etc.), in order to prevent non-conformities in Group products partly or totally due to defective supplies. In correlation with the Group's quality policy, 19 plants in the Suspensions business unit, 10 in the Filtration business unit and 8 in the Air&Cooling business unit are currently certified as complying with the international standard ISO TS 16949. Some plants' systems are certified according to business specifications. Unforeseeable risk is adequately covered by insurance, as regards both third party product liability and the potential launch of product recall campaigns.

With regard to the **risks associated with adequacy of managerial support (e.g. the effectiveness/efficiency of Group monitoring and reporting, of internal information flows etc.)**, information can be found in the “Annual Report on Corporate Governance”.

In terms of the set of **risks associated with human resource management**, the Group acknowledges the key role played by its human resources and the importance of maintaining clear relationships based on mutual loyalty and trust, as well as on the observance of conduct dictated by its Code of Ethics.

Working relationships are managed and coordinated in full respect of workers’ right and in full acknowledgement of their contribution, with a view to encouraging development and professional growth. Established selection processes, career paths, and incentive schemes are the tools used to make the most of human resources. The Group also uses a system of annual performance appraisals based on a clear definition of shared objectives, which can be measured in numerical, economic, financial, qualitative and individual terms. A variable bonus is paid depending on the degree to which said objectives are achieved. As regards medium-long term incentive schemes, again in 2017 a stock grant plan has been allocated to top management positions.

Lastly, with regard to the risks associated to the management of Information Systems, the Group manages the risks linked to the potential incompleteness/inadequacy of IT infrastructure and the risks related to the physical and logical safety of systems in terms of the protection of confidential data and information by means of specific units at group level. However, the Group places special emphasis on cyber risks, such as online fraud attempts e theft of sensitive data and/or information protected under privacy law. In order to minimise these risks, suitable technical and operational measures are being implemented and/or upgraded to prevent unauthorised fraudulent access to the different information systems of the Group by third parties, preventing financial losses and loss of sensitive data.

OTHER INFORMATION

RELATED PARTY TRANSACTIONS

Information on the most important economic transactions and balances with related parties is provided in the explanatory and supplementary notes to the consolidated financial statements, in the section entitled “Related Party Transactions”, as well as in the explanatory and supplementary notes to the statutory financial statements.

Dealings between Group companies are conducted at arm’s length, taking into account the quality and type of services rendered.

We point out that no transactions have been carried out with related parties or with entities or individuals other than related parties that, according to the definition used by Consob, are atypical or unusual, do not relate to the normal business activity or have a significant impact on the Group's results, balance and financial position.

In 2010, in accordance with Consob Resolution no. 17221 of 12 March 2010 as subsequently amended, the Company’s Board of Directors appointed the Related Party

Transactions Committee, establishing that the members are to be the same as those of the Control and Risks Committee and approved the Procedure on related party transactions, which had previously received a favourable opinion of the Control and Risks Committee. The purpose of this Procedure is to establish the principles of conduct that the Company is bound to observe to guarantee the correct management of related-party transactions. This Procedure is available on the Company's website at www.sogefigroup.com, in the "Investor – Corporate Governance" section.

In accordance with Art. 2497-bis of Italian Civil Code, we point out that Sogefi S.p.A. is subject to management and coordination by its parent company CIR S.p.A.

CORPORATE GOVERNANCE

Note that the "Annual Report on Corporate Governance" for 2017 was approved at the meeting of the Board of Directors that was called to approve the draft financial statements for the year ended 31 December 2017 and is made available to Shareholders as provided for by the law. The Report will also be available on the Company's website (www.sogefigroup.com in the "Investor – Corporate Governance" section).

The Report also contains the information prescribed by Art. 123-bis of Italian Financial Consolidated Law, including information on ownership structures and compliance with the codes of conduct that the Company has adopted. Generally speaking, the Company's Corporate Governance is in line with the recommendations and rules contained in the Code of Conduct.

As regards Italian Legislative Decree no. 231/2001, which brings domestic regulations on administrative liability of legal entities into line with the international conventions signed by Italy, in February 2003 the Board of Directors adopted a Code of Ethics for the Sogefi Group (as subsequently amended and integrated). The Code clearly defines the values that the Group believes in as the basis on which to achieve its objectives. It lays down rules of conduct which are binding on directors, employees and others who have ongoing relations with the Group.

On 26 February 2004 the Company also adopted an "Organization, Management and Control Model as per Italian Legislative Decree no. 231 of 8 June 2001" following the guidelines of the decree, with a view to ensuring conditions of fairness and transparency in the carrying on of the company's affairs and business activities.

A Supervisory Body was also set up with the task of monitoring the functioning, effectiveness and observance of the Model, as laid down in the decree.

CONSOLIDATED STATEMENT FOR THE DISCLOSURE OF NON-FINANCIAL INFORMATION (UNDER ITALIAN LEGISLATIVE DECREE NO. 254/2016)

Italian Legislative Decree no. 254/2016 (which implemented Directive 2014/95/EU) has introduced the obligation for large listed companies to add to the annual report on operations a Non-financial Statement containing information about environmental, social, and employment matters, as well as details related to human rights, anticorruption, and bribery issues. The information must include at least a description of the company's business model, the policies pursued, the main risks incurred or created -

to the extent necessary for an understanding of the company's performance, results, situation and impact of its activities. The aforementioned decree provided that the Statement must also be presented in a separate Report from the Report on operations and must identify materiality criteria.

Despite being included in CIR's Consolidated Financial Statements, Sogefi decided not to rely on the exemption it would be entitled to under article 6, paragraph 2, letter a) of Legislative Decree no. 254/2016. This is why, in order to guarantee maximum transparency to the market and its stakeholders, it decided to prepare its own Consolidated Statement for the disclosure of non-financial information in compliance with this Decree.

Sogefi complied with its obligations by drawing up a separate document called "Consolidated statement for the disclosure of non-financial information", drafted in accordance with articles 3 and 4 of Legislative Decree no. 254/2016 and the GRI-G4 guidelines issued by the Global Reporting Initiative containing all the information at consolidated level as required by Legislative Decree no. 254/2016. Since the fiscal year 2015, the Company has been drawing up an annual Sustainability Report that highlights the Group's performance for sustainability matters and provides stakeholders with complete and transparent information on the Group's strategy and progress in integrating sustainability into corporate processes.

The "Consolidated statement for the disclosure of non-financial information" for the fiscal year 2017 was approved at the meeting of the Board of Directors that was called to approve the draft financial statements for the year ended 31 December 2017 and is made available to Shareholders as provided for by the law. The Report will also be available on the Company's website (www.sogefigroup.com in the "Group – Sustainability" section).

TREASURY SHARES

As at 31 December 2017, the Parent Company has 2,698,195 treasury shares (having a nominal value of Euro 0.52) in its portfolio, corresponding to 2.25% of share capital. In 2017, treasury shares decreased after they were assigned to beneficiaries of stock-based compensation plans.

DECLARATIONS PURSUANT TO ARTICLES 15 AND 16 OF MARKET REGULATION (ADOPTED WITH CONSOB REGULATION NO. 20249 OF 28 DECEMBER 2017)

In accordance with the obligations set forth in article 2.6.2. of the Regulations of Borsa Italiana [Italian Stock Exchange], and with reference to the requirements referred to in articles 15 and 16 of Consob Resolution no. 20249 of 28 December 2017, it is hereby stated that there are no circumstances such as to prevent the listing of Sogefi stock on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. insofar as: Sogefi S.p.A. (the "Company") has obtained the articles of association and the composition and powers of the related control bodies from foreign subsidiaries based in countries that are not part of the European Union and are of material significance to the Company; the same foreign subsidiaries provide the Company's auditor with information necessary to perform annual and interim audits of Sogefi and use an administrative/accounting system appropriate for regular reporting to the

Management and to the auditors of the Company of the income statement, balance and financial data necessary for the preparation of the consolidated financial statements.

Sogefi S.p.A. will also publish the financial statements of foreign subsidiaries (based in non-European countries and with material significance to the Company), prepared for the purpose of the consolidated financial statements as at 31 December 2017, in accordance with the procedures indicated in the Consob regulation.

In consideration of the fact that Sogefi is subject to policy guidance and coordination by its parent company CIR – Compagnie Industriali Riunite S.p.A., it is also hereby stated that there are no circumstances such as to prevent the listing of Sogefi stock on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. insofar as the Company has fulfilled its publication obligations pursuant to article 2497-*bis* of Italian Civil Code; has independent decision-making powers in relations with customers and suppliers; does not hold a cash pooling system with CIR. The Company has a cash pooling system with subsidiaries that satisfies the interest of the company. This situation enables the Group's finances to be centralised, thus reducing the need to utilise funding from banks, and therefore minimising financial expense.

On 18 April 2000, the Company set up a Control and Risks Committee and an Appointments and Remuneration Committee that at present are fully made up by independent administrators.

Lastly, it is hereby stated that as at 31 December 2017, the Company's Board of Directors comprised 9 members, 5 of which meet the independence criteria, and therefore a sufficient number to guarantee that their contribution has an adequate weight when taking board decisions.

EXEMPTION FROM THE OBLIGATION TO PUBLISH INFORMATION DOCUMENTS UNDER ARTICLE 70, PARAGRAPH 8 AND ARTICLE 71, PARAGRAPH 1-BIS OF THE RULES FOR ISSUERS

In relation to art. 70, paragraph 8 and art. 71, paragraph 1-bis of Consob Regulation no. 11971/99, the Board of Directors resolved to make use of the exemption from the obligation to publish the information documents required for significant transactions consisting in mergers, spin-offs, capital increases by means of the conferral of assets in kind, takeovers and transfers.

OTHER

SOGEFI S.p.A. has its registered office in Via Ulisse Barbieri 2, Mantova (Italy) and its operating offices at Via Ciovassino 1/A, Milan (Italy) and at Parc Ariane IV- 7, Avenue du 8 May 1945, Guyancourt (France).

The Sogefi stock has been listed on the Milan Stock Exchange since 1986 and has been traded on the STAR segment since January 2004.

This report, which relates to the period 1 January to 31 December 2017, was approved by the Board of Directors on 26 February 2018.

MAJOR EVENTS OCCURRED AFTER YEAR-END

After the financial statement closing date, no significant events occurred that could impact on the economic, equity and financial information represented.

PROPOSED ALLOCATION OF NET PROFIT FOR THE YEAR

Sogefi SpA financial statements as at 31 December 2017 that we submit for your approval show a net profit of Euro 11,535,180.96.

We propose that you resolve not to distribute any dividends for the 2017 fiscal year, and allocate the profit for the year to the retained earnings reserve, as the legal reserve already reached 20% of the share capital.

Milan, 26 February 2018

For the BOARD OF DIRECTORS
The General Manager
Laurent Hebenstreit

ANNEX: NOTES RECONCILING THE FINANCIAL STATEMENTS SHOWN IN THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS CONTAINED IN THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY'S STATUTORY FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IAS/IFRS

Notes relating to the Consolidated Financial Statements

- (a) the heading agrees with "Total working capital" in the Consolidated Statement Of Financial Position;
- (b) the heading agrees with the sum of the line items "Trade and other payables", "Tax payables" and "Other current liabilities" in the Consolidated Statement Of Financial Position;
- (c) the heading agrees with the sum of the line items "Investments in joint ventures" and "Other financial assets available for sale" in the Consolidated Statement Of Financial Position;
- (d) the heading agrees with the sum of the line items "Total fixed assets", "Other receivables", "Non-current trade receivables", "Deferred tax assets" and "Non-current assets held for sale" in the Consolidated Statement Of Financial Position;
- (e) the heading agrees with the line item "Total other long-term liabilities" in the Consolidated Statement Of Financial Position;
- (f) the heading agrees with the sum of the line items "Net result", "Non-controlling interests", "Depreciation, amortization and writedowns", "Accrued costs for stock-based incentive plans", "Provisions for risks, restructuring and deferred taxes" and "Post-retirement and other employee benefits" in the Consolidated Cash Flow Statement;
- (g) the heading agrees with the sum of the line items of the Consolidated Cash Flow Statement "Exchange differences on private placement", "Recognition in the income statement of the fair value reserve in cash flow hedge" and "Other medium/long term assets/liabilities", excluding movements in Income Statement, of the fair value reserve no longer in hedge accounting;
- (h) the heading corresponds to the line item "Sale of subsidiaries (net of cash and cash equivalents) and associates" in the Consolidated Cash Flow Statement;
- (i) the heading agrees with the sum of the line items "Losses/(gains) on disposal of fixed assets and non-current assets held for sale", "Sale of property, plant and equipment" and "Sale of intangible assets" in the Consolidated Cash Flow Statement;
- (l) the heading agrees with the line items "Exchange differences" in the Consolidated Cash Flow Statement, excluding exchange differences on medium/long-term financial receivables and payables;
- (m) these headings differ from those shown in the Consolidated Cash Flow Statement as they refer to the total net financial position and not just to cash and cash equivalents.

Notes relating to the Parent Company's Statutory Financial Statements

- (n) (the heading agrees with "Total working capital" ("Totale attivo circolante operativo") in the Parent Company's statutory Statement Of Financial Position;
- (o) the heading agrees with the sum of the line items "Trade and other payables" ("Debiti commerciali e altri debiti"), "Tax payables" ("Debiti per imposte") and "Other current liabilities" ("Altre passività correnti") in the Parent Company's statutory Statement Of Financial Position;
- (p) the heading agrees with the sum of the line items "Equity investments in subsidiaries" ("Partecipazioni in società controllate"), "Equity investments in associates" ("Partecipazioni in società collegate") and "Other financial assets available for sale" ("Altre attività finanziarie disponibili per la vendita") in the Parent Company's statutory Statement Of Financial Position;
- (q) the heading agrees with the sum of the line items "Total fixed assets" ("Totale immobilizzazioni"), "Other receivables" ("Altri crediti") and "Deferred tax assets" ("Imposte anticipate") in the Parent Company's statutory Statement Of Financial Position;
- (r) the heading agrees with the line item "Total other long-term liabilities" ("Totale altre passività a lungo termine") in the Parent Company's statutory Statement Of Financial Position;
- (s) the heading agrees with the sum of the line items "Net profit" ("Utile netto d'esercizio"), "Waiver of receivables from subsidiaries" ("Rinuncia crediti commerciali verso società controllate"), "Difference from passive investments conferred" ("Differenza passiva da conferimento partecipazioni"), "Write-down of investment in subsidiaries" ("Svalutazione partecipazioni in società controllate"), "Depreciation and amortization" ("Ammortamenti immobilizzazioni materiali e immateriali"), "Change in fair value of investment properties" ("Variazione fair value investimenti immobiliari"), "Accrual to Income Statement for fair value of cash flow hedging instruments" ("Stanziamento a conto economico fair value derivati cash flow hedge"), "Accrued costs for stock-based incentive plans" ("Accantonamenti costi per piani di incentivazione basati su azioni"), "Exchange differences on private placement" ("Differenze cambio su private placement"), "Financial expenses (unpaid) on bonds" ("Oneri finanziari (non pagati) su prestiti obbligazionari"), "Accrued costs for Phantom stock options" ("Accantonamenti costi per piani Phantom stock option") and "Net change in provision for employment termination indemnities" ("Variazione netta fondo trattamento di fine rapporto") as well as the change of deferred tax assets/liabilities included in the line "Other medium/long-term assets/liabilities" ("Altre attività/passività a medio lungo termine") of the Parent Company's statutory Cash Flow Statement;
- (t) the heading agrees with the sum of the line items "Change in net working capital" ("Variazione del capitale circolante

- netto”) and “Change in tax receivables/payables” (“Variazione dei crediti/debiti per imposte”) of the Parent Company's statutory Cash Flow Statement;
- (u) the heading is included in the line item “Other medium/long-term assets/liabilities” (“Altre attività/passività a medio lungo termine”) in the Parent Company's Statutory Cash Flow Statement, excluding movements relating to financial receivables/payables;
 - (v) the heading agrees with the line “Capital distributions from direct subsidiaries” (“Rimborsi di capitale da società controllate dirette”) of the Parent Company's statutory Cash Flow Statement;
 - (w) these headings differ from those shown in the Parent Company's statutory cash flow statement as they refer to the total net financial position and not just to cash and cash equivalents.

DEFINITION OF THE PERFORMANCE INDICATORS

In accordance with recommendation CESR/05-178b published on 3 November 2005, the criteria used for constructing the main performance indicators deemed by the management to be useful for the purpose of monitoring Group performance are provided below.

EBITDA: EBITDA is calculated as the sum of "EBIT", “Depreciation and Amortization” and the writedowns of tangible and intangible fixed assets included in the item “Other non-operating expenses (income)”.

“Other non-operating expenses (income)” include amounts that do not relate to ordinary business activities such as:

- writedowns of tangible and intangible fixed assets
- imputed cost of stock option and stock grant plans
- accruals to provisions for legal disputes with employees and third parties
- product warranty costs
- other writedowns of non-ordinary balance sheet items

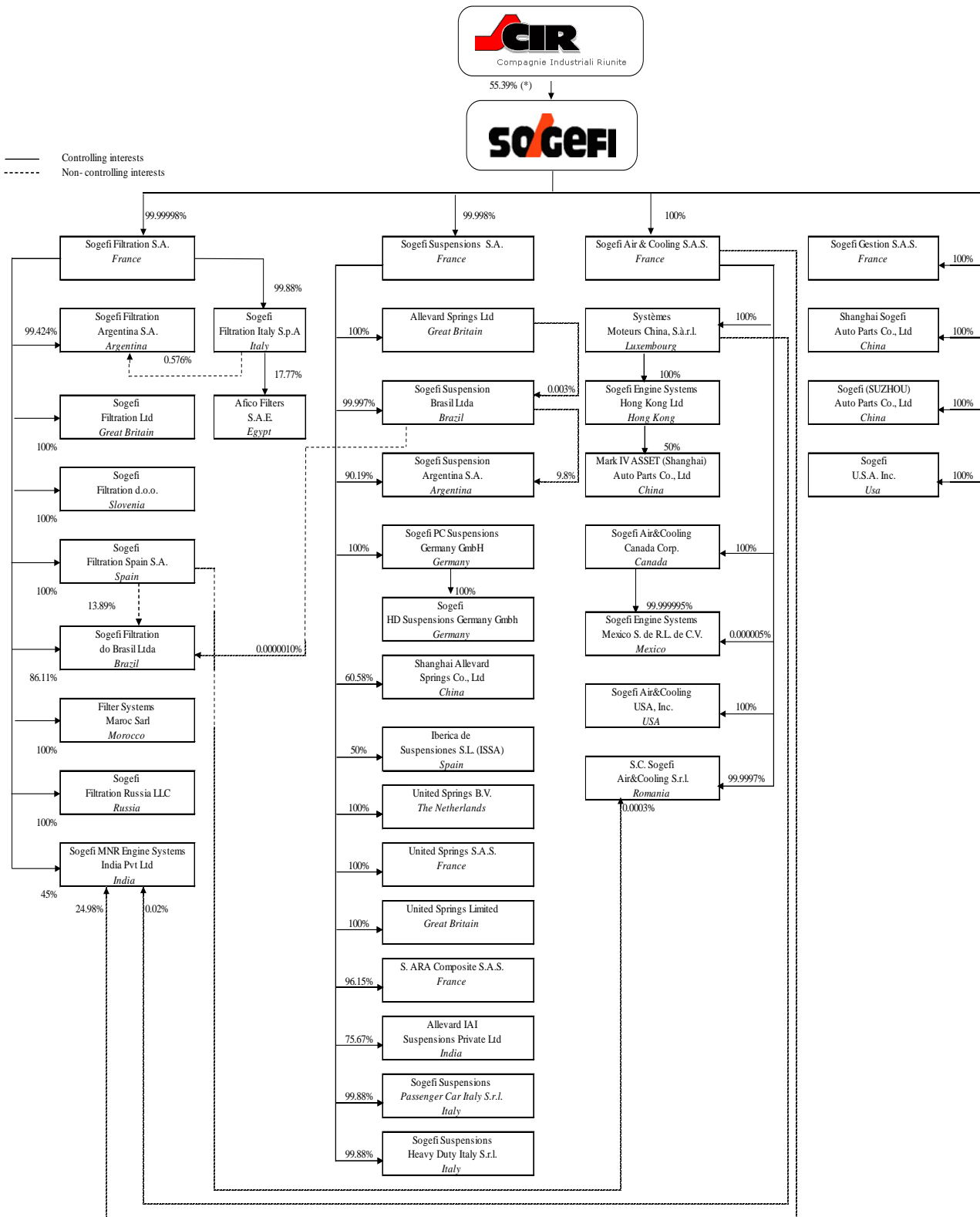
Normalised EBITDA (used to calculate covenants): it is calculated by summing “EBITDA” and the following expenses and revenues arising from non-ordinary operations: “Restructuring costs” and “Losses (gains) on disposal”.

“Restructuring costs” include voluntary redundancy incentives for all employee categories (managers, clerical staff, blue collar workers) and costs relating to the shutdown of a plant or the discontinuation of individual business lines (personnel costs and related costs associated with shutdown).

“Losses (gains) on disposal” include the difference between the net book value of sold assets and selling price.

Please note that as at 31 December 2017 there were no non-recurring expenses as defined in Consob Communication DEM/6064293 of 28 July 2006.

SOGEFI GROUP STRUCTURE: CONSOLIDATED COMPANIES



CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of Euro)

ASSETS	Note	12.31.2017	12.31.2016
CURRENT ASSETS			
Cash and cash equivalents	5	103,889	93,661
Other financial assets	6	1,510	5,881
<i>Working capital</i>			
Inventories	7	159,314	164,977
Trade receivables	8	174,384	158,466
Other receivables	8	5,508	6,820
Tax receivables	8	23,062	24,192
Other assets	8	2,304	3,689
TOTAL WORKING CAPITAL		364,572	358,144
TOTAL CURRENT ASSETS		469,971	457,686
NON-CURRENT ASSETS			
FIXED ASSETS			
Land	9	13,040	12,818
Property, plant and equipment	9	257,172	243,263
Other tangible fixed assets	9	5,583	6,401
<i>Of which: leases</i>		<i>5,772</i>	<i>8,105</i>
Intangible assets	10	272,608	281,650
TOTAL FIXED ASSETS		548,403	544,132
OTHER NON-CURRENT ASSETS			
Investments in joint ventures	11	-	-
Other financial assets available for sale	12	46	46
Non-current trade receivables	13	4	4
Financial receivables	13	2,215	15,770
Other receivables	13	37,382	29,818
Deferred tax assets	14-20	40,080	56,810
TOTAL OTHER NON-CURRENT ASSETS		79,727	102,448
TOTAL NON-CURRENT ASSETS		628,130	646,580
NON-CURRENT ASSETS HELD FOR SALE	15	3,418	3,418
TOTAL ASSETS		1,101,519	1,107,684

LIABILITIES	Note	12.31.2017	12.31.2016
CURRENT LIABILITIES			
Bank overdrafts and short-term loans	16	14,170	11,005
Current portion of medium/long-term financial debts and other loans	16	66,584	137,203
<i>Of which: leases</i>		1,679	1,721
TOTAL SHORT-TERM FINANCIAL DEBTS		80,754	148,208
Other short-term liabilities for derivative financial instruments	16	2,678	400
TOTAL SHORT-TERM FINANCIAL DEBTS AND DERIVATIVE FINANCIAL		83,432	148,608
Trade and other payables	17	373,181	339,086
Tax payables	17	7,817	8,664
Other current liabilities	18	8,626	8,197
TOTAL CURRENT LIABILITIES		473,056	504,555
NON-CURRENT LIABILITIES			
MEDIUM/LONG-TERM FINANCIAL DEBTS			
DERIVATIVE FINANCIAL INSTRUMENTS			
Financial debts to bank	16	101,993	48,291
Other medium/long-term financial debts	16	186,224	209,906
<i>Of which: leases</i>		6,408	9,039
TOTAL MEDIUM/LONG-TERM FINANCIAL		288,217	258,197
Other medium/long-term financial liabilities for derivative financial instruments	16	-	7,550
DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS		288,217	265,747
OTHER LONG-TERM LIABILITIES			
Long-term provisions	19	87,049	89,317
Other payables	19	6,696	15,046
Deferred tax liabilities	20	39,745	43,950
TOTAL OTHER LONG-TERM LIABILITIES		133,490	148,313
TOTAL NON-CURRENT LIABILITIES		421,707	414,060
SHAREHOLDERS' EQUITY			
Share capital	21	62,394	62,065
Reserves and retained earnings (accumulated losses)	21	100,030	101,537
Group net result for the year	21	26,604	9,336
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE HOLDING COMPANY		189,028	172,938
Non-controlling interests	21	17,728	16,131
TOTAL SHAREHOLDERS' EQUITY		206,756	189,069
TOTAL LIABILITIES AND EQUITY		1,101,519	1,107,684

CONSOLIDATED INCOME STATEMENT

(in thousands of Euro)

	Note	2017		2016	
		Amount	%	Amount	%
Sales revenues	23	1,672,396	100.0	1,574,091	100.0
Variable cost of sales	24	1,193,986	71.4	1,120,218	71.2
CONTRIBUTION MARGIN		478,410	28.6	453,873	28.8
Manufacturing and R&D overheads	25	157,443	9.4	147,531	9.3
Depreciation and amortization	26	69,354	4.1	68,793	4.4
Distribution and sales fixed expenses	27	44,278	2.7	44,886	2.9
Administrative and general expenses	28	88,859	5.3	86,206	5.4
Restructuring costs	30	11,175	0.7	5,258	0.3
Losses (gains) on disposal	31	-	-	(698)	-
Exchange losses (gains)	32	3,236	0.2	1,806	0.1
Other non-operating expenses (income)	33	18,702	1.1	25,584	1.7
EBIT		85,363	5.1	74,507	4.7
Financial expenses (income), net	34	31,679	1.9	31,458	2.0
Losses (gains) from equity investments	35	-	-	(3,583)	(0.2)
RESULT BEFORE TAXES AND NON-CONTROLLING INTERESTS		53,684	3.2	46,632	2.9
Income taxes	36	22,950	1.4	32,637	2.1
NET RESULT BEFORE NON-CONTROLLING INTERESTS		30,734	1.8	13,995	0.8
Loss (income) attributable to non-controlling interests	21	(4,130)	(0.2)	(4,659)	(0.2)
GROUP NET RESULT		26,604	1.6	9,336	0.6
Earnings per share (EPS) (Euro):	38				
Basic		0.228		0.081	
Diluted		0.227		0.080	

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
(in thousands of Euro)

	Note	2017	2016
Net result before non-controlling interests		30,734	13,995
<i>Other Comprehensive Income</i>			
<i>Items that will not be reclassified to profit or loss</i>			
- Actuarial gain (loss)	21	3,430	(12,916)
- Tax on items that will not be reclassified to profit or loss	21	(994)	2,059
<i>Total items that will not be reclassified to profit or loss</i>		<i>2,436</i>	<i>(10,857)</i>
<i>Items that may be reclassified to profit or loss</i>			
- Profit (loss) booked to cash flow hedging reserve	21	4,254	2,212
- Tax on items that may be reclassified to profit or loss	21	(1,021)	(533)
- Profit (loss) booked to translation reserve	21	(19,250)	899
<i>Total items that may be reclassified to profit or loss</i>		<i>(16,017)</i>	<i>2,578</i>
<i>Other Comprehensive Income</i>		<i>(13,581)</i>	<i>(8,279)</i>
Total comprehensive result for the period		17,153	5,716
Attributable to:			
- Shareholders of the Holding Company		13,227	1,151
- Non-controlling interests		3,926	4,565

CONSOLIDATED CASH FLOW STATEMENT

(in thousands of Euro)

	2017	2016
Cash flows from operating activities		
Net result	26,604	9,336
Adjustments:		
- non-controlling interests	4,130	4,659
- depreciation, amortization and writedowns	80,457	78,568
- expenses recognised for share-based incentive plans	510	248
- exchange rate differences on private placement	(14,323)	3,467
- (not paid) interest expense on bonds	3,702	3,466
- provision in income statement of fair value derivatives in cash flow hedge	12,835	(4,410)
- losses/(gains) on disposal of fixed assets and non-current assets held for sale	-	(698)
- losses/(gains) on sale of equity investments in associates and joint ventures	-	-
- provisions for risks, restructuring and deferred taxes	13,911	16,154
- post-retirement and other employee benefits	(835)	132
- change in net working capital	12,280	(2,057)
- other medium/long-term assets/liabilities	(6,992)	14,543
CASH FLOWS FROM OPERATING ACTIVITIES	132,280	123,408
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(68,092)	(58,763)
Purchase of intangible assets	(31,836)	(30,298)
Net change in other securities	3,950	17
Sale of subsidiaries (net of cash and cash equivalents) and associates	-	-
Sale of property, plant and equipment	389	970
Sale of intangible assets	112	59
NET CASH FLOWS FROM INVESTING ACTIVITIES	(95,478)	(88,015)
FINANCING ACTIVITIES		
Capital increase in subsidiaries from third parties	168	173
Net change in capital	1,301	766
Net purchase of treasury shares	-	-
Dividends paid to Holding Company shareholders and non-controlling interests	(2,606)	(8,230)
New (repayment of) bonds	(12,584)	-
New (repayment of) long-term loans	(12,723)	(46,638)
New (repayment of) finance leases	(1,608)	1,384
NET CASH FLOWS FROM FINANCING ACTIVITIES	(28,052)	(52,545)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	8,750	(17,152)
Balance at the beginning of the period	82,656	104,050
(Decrease) increase in cash and cash equivalents	8,750	(17,152)
Exchange differences	(1,687)	(4,242)
BALANCE AT THE END OF THE PERIOD	89,719	82,656
ADDITIONAL INFORMATION OF CASH FLOW STATEMENT		
Taxes paid	(13,633)	(13,523)
Financial expenses paid	(24,027)	(28,969)
Financial income collected	2,172	3,852

NB: this table shows the elements that bring about the change in cash and cash equivalents, as expressly required by IAS 7 (in particular the net balance between “Cash and cash equivalents” and “Bank overdrafts and short-term loans” included bank overdrafts repayable on demand). The cash flow statement included in the Report of the board of directors on operations shows the various operational components of cash flow, thereby explaining all of the changes in the overall net financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in thousands of Euro)

	Attributable to the shareholders of the parent company				Non-controlling interests	Total
	Share capital	Reserves and retained earnings (accumulated losses)	Net result for the period	Total		
<i>Balance at December 31, 2015</i>	61,681	108,042	1,120	170,843	19,553	190,396
Paid share capital increase	384	382	-	766	173	939
Allocation of 2014 net profit:						
Legal reserve	-	-	-	-	-	-
Dividends	-	-	-	-	(8,230)	(8,230)
Retained earnings	-	1,120	(1,120)	-	-	-
Recognition of share-based incentive plans	-	248	-	248	-	248
Other changes	-	(70)	-	(70)	70	-
<i>Comprehensive result for the period</i>						
Fair value measurement of cash flow hedging instruments	-	2,212	-	2,212	-	2,212
Actuarial gain (losses)	-	(12,916)	-	(12,916)	-	(12,916)
Tax on items booked in Other Comprehensive Income	-	1,526	-	1,526	-	1,526
Currency translation differences	-	993	-	993	(94)	899
Net result for the period	-	-	9,336	9,336	4,659	13,995
<i>Total comprehensive result for the period</i>	-	(8,185)	9,336	1,151	4,565	5,716
<i>Balance at December 31, 2016</i>	62,065	101,537	9,336	172,938	16,131	189,069
Paid share capital increase	329	972	-	1,301	168	1,469
Allocation of 2016 net profit:						
Legal reserve	-	-	-	-	-	-
Dividends	-	-	-	-	(2,606)	(2,606)
Retained earnings	-	9,336	(9,336)	-	-	-
Recognition of share-based incentive plans	-	510	-	510	-	510
Other changes	-	1,052	-	1,052	109	1,161
<i>Comprehensive result for the period</i>						
Fair value measurement of cash flow hedging instruments	-	4,254	-	4,254	-	4,254
Actuarial gain (losses)	-	3,430	-	3,430	-	3,430
Tax on items booked in Other Comprehensive Income	-	(2,015)	-	(2,015)	-	(2,015)
Currency translation differences	-	(19,046)	-	(19,046)	(204)	(19,250)
Net result for the period	-	-	26,604	26,604	4,130	30,734
<i>Total comprehensive result for the period</i>	-	(13,377)	26,604	13,227	3,926	17,153
<i>Balance at December 31, 2017</i>	62,394	100,030	26,604	189,028	17,728	206,756

Note: the detail of movements of the reserves is reported in note 21 - Share capital and reserves.

EXPLANATORY AND SUPPLEMENTARY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: CONTENTS

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A) GENERAL ASPECTS

SOGEFI is an Italian Group that is market leader in the field of components for motor vehicles, specializing in engine and cabin filtration systems, air intake and engine cooling systems, and suspension components.

SOGEFI is present in 4 continents and 20 countries, with 56 locations, of which 42 are production sites. It is a multinational group and a *partner* of the world's largest motor vehicle manufacturers.

The Parent Company Sogefi S.p.A. has its registered offices in Via Ulisse Barbieri 2, Mantova (Italy) and its operating offices in Via Ciovassino n. 1/A, Milan (Italy) and in Parc Ariane IV- 7, Avenue du 8 May 1945, Guyancourt (France).

The Sogefi stock has been listed on the Milan Stock Exchange, organised and managed by Borsa Italiana S.p.A. since 1986 and has been traded on the STAR segment since January 2004.

The Parent Company, Sogefi S.p.A., is subject to management and coordination of its parent company CIR – Compagnie Industriali Riunite S.p.A.

1. CONTENT AND FORMAT OF THE CONSOLIDATED FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with Consob resolution no. 11971/1999 as subsequently amended, in particular by resolutions no. 14990 of 14 April 2005 and no. 15519 of 27 July 2006, and include the consolidated accounting schedules and explanatory and supplementary notes of the Group, prepared according to the IFRS international accounting standards issued by the IASB (International Accounting Standards Board) and endorsed by the European Union. IFRS means all the “International Financial Reporting Standards” (IFRS), all the “International Accounting Standards” (IAS) and all the interpretations of the “International Financial Reporting Interpretations Committee” (IFRS IC, formerly IFRIC), previously named the “Standing Interpretations Committee” (SIC).

It is specifically reported that the IFRS have been applied in a consistent manner to all the periods presented in this document.

The financial statements have been prepared on the basis of the conventional historical cost principle, except for the measurement of certain financial assets and liabilities, including derivatives instruments, where the application of the *fair value* principle is mandatory.

The financial statements used for consolidation purposes are those prepared by the Boards of Directors for approval by the shareholders of the individual companies. Said financial statements have been reclassified and adjusted to comply with International Financial Reporting Standards (IAS/IFRS), and Group accounting policies.

The Consolidated Financial Statements as at 31 December 2017 were approved by the Board of Directors of the Parent Company Sogefi S.p.A. on 26 February 2018.

1.1 Format of the consolidated financial statements

As regards to the format of the consolidated financial statements, the Company has opted to present the following types of accounting statements:

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position is presented in two sections, showing assets on one side and liabilities and equity on the other.

Assets and liabilities are in turn shown in the consolidated financial statements on the basis of their classification as current or non-current.

An asset/liability is classified as current when it satisfies one of the following criteria:

- it is expected to be realised/settled or it is expected to be sold or consumed in the normal cycle of operations, or
- it is held primarily for the purpose of trading, or
- it is expected to be realised/settled within twelve months after the reporting period.

If none of the above conditions are met, the assets/liabilities are classified as non-current.

Finally, liabilities are classified as current when the entity does not have unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Consolidated Income Statement

Costs shown in the Consolidated Income Statement are aggregated by function, while also making a distinction between fixed and variable costs.

The Income Statement also provides the following intermediate aggregates in order to give a clearer understanding of the typical results of normal manufacturing activities, the financial side of the business and the impact of taxation:

- Contribution margin;
- EBIT (earnings before interest and tax);
- Result before taxes and minority interests;
- Net result before non-controlling interests;
- Group net result.

Consolidated Statement of Other Comprehensive Income

The Consolidated Statement of Other Comprehensive Income includes all the changes occurring in Other comprehensive income of the year, generated by transactions other than those conducted with shareholders and in compliance with specific IAS/IFRS accounting principles. The Group has chosen to present these changes in a separate table to the Consolidated Income Statement.

The changes in Other comprehensive income are shown before the related tax effect with the aggregate amount of the income taxes on said variations being recognised in a

single item. Those components that may or may not be reclassified to Consolidated Income Statement at a later time are listed separately in the table.

Consolidated Cash Flow Statement

A Consolidated Cash Flow Statement split by area of formation of the various types of cash flow as indicated in international accounting standards is included.

The Consolidated Cash Flow Statement has been prepared using the indirect method.

Please note that in this cash flow statement, the change in working capital may not coincide with the difference between the opening and closing statement of financial position figures because of exchange differences: in fact, cash flows generated are converted using the average exchange rate for the year, while the difference between the opening and closing consolidated statement of financial position figures in Euro may be influenced by changes in exchange rates at the beginning and end of the year, which have little to do with the generation or absorption of cash flow within working capital. The exchange differences generated by opening and closing statements of financial position are booked to “Exchange differences”.

Consolidated Statement of Changes in Equity

A Consolidated Statement of Changes in Equity is included as required by international accounting standards, showing separately the net result for the period and any change that was not charged through the Income Statement, but directly to the consolidated Other comprehensive income on the basis of specific IAS/IFRS, as well as transactions with shareholders in their role as shareholders.

1.2 Content of the consolidated financial statements

The Consolidated Financial Statements as at 31 December 2017 include the Parent Company Sogefi S.p.A. and the directly or indirectly controlled subsidiaries.

Section H of these notes gives a list of the companies included in the scope of consolidation and the percentages held.

These financial statements are presented in Euro and all figures are rounded up or down to the nearest thousand Euro, unless otherwise indicated.

The consolidated financial statements (prepared on a line-by-line basis) include the financial statements of Sogefi S.p.A., the Parent Company, and of all the Italian and foreign companies under its direct or indirect control, which is normally identified as control over the majority of the voting rights.

During the year the following changes occurred in the scope of consolidation:

- the subsidiary Sogefi Suspensions S.A. has increased its percentage of ownership in subsidiary S. ARA Composite S.A.S. from 95.65% to 95.79% through a capital increase (Euro 1,890 thousand, not declared and paid out) subscribed by non-controlling interest shareholders that led to an amount of Euro 70 thousand being reclassified between non-controlling interests and Group's shareholders' equity;
- the subsidiary Sogefi Suspensions S.A. has increased its percentage of ownership in subsidiary Allevard IAI Suspensions Pvt Ltd from 74.23% to 75.67% through a capital increase (Euro 799 thousand, not declared and paid out) non-proportionally subscribed

by non-controlling interest shareholders that led to an amount of Euro 39 thousand being reclassified between non-controlling interests and Group's shareholders' equity.

No further changes were made to the scope of consolidation during the period.

Please also note that during the year 2017:

- some subsidiaries changed their name. For further details, please refer to note 48 (List of Group companies as at 31 December 2017);
- the subsidiary Sogefi Filtration S.A. established the companies Filter Systems Maroc S.a.r.l and Sogefi Filtration Russia LLC;
- in 2017, with a view to rationalising the Group's corporate structure, the Parent Company Sogefi S.p.A. incorporated two new companies, Sogefi Suspensions Heavy Duty Italy S.r.l. and Sogefi Suspensions Passenger Car Italy S.r.l., to which Sogefi Filtration Italy S.p.A. transferred the two business units involved in the production of components for the heavy duty and automotive industries, respectively, as beneficiaries within the context of a demerger operation. The Parent Company Sogefi S.p.A. then transferred to the French subsidiaries Sogefi Filtration S.A. and Sogefi Suspensions S.A., respectively, the equity interest in Sogefi Filtration Italy S.p.A. and Sogefi Suspensions Heavy Duty Italy S.r.l. and Sogefi Suspensions Passenger Car Italy S.r.l., against subscription of the capital increase of the two French sub-holdings.

1.3 Group composition

As required by IFRS 12, Group composition as at 31 December 2017 and 31 December 2016 was as follows:

Business Unit	Region	Wholly-owned subsidiaries	
		December 31, 2017	December 31, 2016
Air& Cooling	Canada	1	1
	France	1	1
	Messico (*)	1	1
	Romania	1	1
	China (**)	2	2
	Lussemburgo	1	1
	USA	1	1
	India	-	-
	Hong Kong	1	1
	Filtration	Italy (***)	1
	France	1	1
	Great Britain	1	1
	Spain	1	1
	Slovenia	1	1
	USA (****)	1	1
	Brazil	1	1
	Argentina	1	1
	Russia	1	-
	Marocco	1	-
Suspensions	France	2	2
	Italy	2	-
	Great Britain	2	2
	Germany	2	2
	The Netherlands	1	1
	Brazil	1	1
	Argentina	1	1
Sofegi Gestion S.A.S.	France	1	1
TOTAL		31	27

(*) This subsidiary works also for Suspensions business unit.

(**) These subsidiaries work also for Filtration and Suspensions business units.

(***) This subsidiary works also for Air&Cooling business unit.

(****) This subsidiary works also for Air&Cooling business unit.

Business Unit	Region	Non-wholly-owned subsidiaries	
		December 31, 2017	December 31, 2016
Air& Cooling	China	1	1
Filtration	India (*****)	1	1
Suspensions	France	1	1
	Spain	1	1
	China	1	1
	India	1	1
	TOTAL		6

(*****) This subsidiary works also for Air&Cooling business unit.

2. CONSOLIDATION PRINCIPLES AND ACCOUNTING POLICIES

The main accounting principles and standards applied in preparation of the consolidated financial statements and of the Group aggregate financial disclosures are set forth below.

These Consolidated Financial Statements have been prepared in accordance to the going concern assumption, as the Directors have verified the non-existence of financial, performance or other indicators that could give rise to doubts as to the Group's ability to meet its obligations in the foreseeable future. The risks and uncertainties relating to the business are described in the dedicated sections in the Directors' Report. A description of how the Group manages financial risks, including liquidity and capital risk, is provided in note 39.

2.1 Consolidation principles

The financial statements as at 31 December 2017 of the companies included in the scope of consolidation, prepared in accordance with Group accounting policies with reference to IFRS, have been used for consolidation purposes.

The scope of consolidation includes subsidiaries, joint ventures and associates.

All the companies over which the Group has the direct or indirect power to determine the relevant activities (i.e., the financial and operating policies) – in other words, those companies that determine the highest exposure to variable returns – are considered subsidiaries. Specifically, 50% owned company Iberica de Suspensiones S.L. is treated as a subsidiary because the Group controls the majority of votes of the Board of Directors, which is the corporate body tasked with deciding on the entity's relevant activities.

The assets, liabilities, costs and revenues of the individual consolidated companies are fully consolidated on a line-by-line basis, regardless of the percentage owned, while the carrying value of consolidated investments held by the Parent Company and other consolidated companies is eliminated against the related share of equity.

All intercompany balances and transactions, including unrealised profits deriving from transactions between consolidated companies, are eliminated. Unrealised losses are eliminated, except when a loss represents an impairment indicator to be recognised in the Income Statement.

The financial statements of the subsidiaries are drawn up using the currency of the primary economic environment in which they operate (“functional currency”). The consolidated financial statements are presented in Euro, the functional currency of the Parent Company and hence the currency of presentation of the consolidated financial statements of the Sogefi Group.

The procedures for translation of the financial statements expressed in foreign currency other than the Euro are the following:

- the items of the Consolidated Statement of Financial Position are translated into Euro at the year-end exchange rates;

- the Income Statement items are translated into Euro using the year's average exchange rates;
- differences arising from the translation of equity's opening balance with year-end exchange rates are recorded in the translation reserve account, together with any difference between the net result of income statement and statement of financial position;
- whenever a subsidiary with a different functional currency from Euro is disposed of, any exchange difference included in Other comprehensive income is reclassified to the Income Statement;
- dividends paid by companies that use functional currencies other than the Euro are converted at the average exchange rate of the previous year for the company that pays the dividend and at the current exchange rate for the company that receives the dividend; exchange differences between the two amounts are recorded to the translation reserve account.

The following exchange rates have been used for translation purposes:

	2017		2016	
	<i>Average</i>	<i>12.31</i>	<i>Average</i>	<i>12.31</i>
US dollar	1.1293	1.1993	1.1066	1.0541
Pound sterling	0.8761	0.8872	0.8189	0.8562
Brazilian real	3.6041	3.9728	3.8616	3.4305
Argentine peso	18.7266	22.9305	16.3345	16.7476
Chinese renminbi	7.6266	7.8046	7.3497	7.3201
Indian rupee	73.4754	76.6284	74.3494	71.5820
New romanian Leu	4.5687	4.6585	4.4907	4.5391
Canadian dollar	1.4644	1.5039	1.4664	1.4188
Mexican peso	21.3265	23.6630	20.6569	21.7723
Moroccan dirham	10.9493	11.2360	-	-
Hong Kong dollar	8.8013	9.3721	8.5903	8.1753

A joint venture is an entity for which strategic financial and operating decisions concerning the relevant activities of the company are made with the unanimous approval of the controlling parties.

An associate is an entity in which the Group is able to exert a significant influence, but without being able to control its relevant activities.

Investments in joint ventures and associates are consolidated applying the equity method, which means that the results of operations of associates and any changes in Other comprehensive income of the joint ventures and associates are reflected in the consolidated Income Statement and in Consolidated Statement of Other Comprehensive Income. If the carrying value exceeds the recoverable amount, the carrying value of the investment in the joint venture or in the associate is adjusted by booking the related loss to the Income Statement.

Company AFICO FILTERS S.A.E. owned at 17.77% as at 31 December 2017 (unchanged compared to previous fiscal year) was not classified as associate due to the significant lack of Group's members in the management bodies of the company (which means the Group does not exert significant influence on the company).

2.2 Business combinations

Business combinations are recognised under the acquisition method. According to this method, the consideration transferred to a business combination is measured at fair value calculated as the aggregate of the acquisition-date fair value of the assets transferred and liabilities assumed by the Company and of the equity instruments issued in exchange for the control of the acquired entity.

On the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their acquisition-date fair value; the following items represent exception to the above and are valued according to their reference principle:

- deferred tax assets and liabilities;
- assets and liabilities relating to employee benefits;
- liabilities or equity instruments relating to share-based payments of the acquired entity or share-based payments relating to the Group, issued as a replacement of contracts of the acquired entity;
- assets held for sale and discontinued assets and liabilities.

Goodwill is measured as the surplus between the sum of the consideration transferred to the business combination, the value of non-controlling interests and the fair value of previously-held equity interest in the acquiree with respect to the fair value of the net assets transferred and liabilities assumed as at the acquisition-date. If the fair value of the net assets transferred and liabilities assumed as at the acquisition-date exceeds the sum of the consideration transferred, the value of non-controlling interests and the fair value of the previously-held equity interest in the acquiree, said surplus is immediately booked to the Income Statement as gain resulting from said transaction.

The share of non-controlling interests as at the acquisition-date may be measured at fair value or as a proportion of the fair value of net assets in the acquiree. The measurement method adopted is decided on a transaction-by-transaction basis.

2.3 Accounting policies

The following accounting policies have been applied in the consolidated financial statements as at 31 December 2017.

Cash and cash equivalents

Cash and cash equivalents are those held to meet short-term cash needs, rather than for investment or other purposes. For an investment to be considered as cash or cash equivalent, it must be able to be readily converted into a known amount of cash and must be subject to an insignificant risk of change in value.

Inventories

Inventories are stated at the lower of purchase or manufacturing cost, determined on a weighted average cost basis, and realisable value based on market trends, net of variable selling costs.

Manufacturing cost includes raw materials and all direct or indirect production-related expenses. Financial expenses are excluded. Obsolete and slow-moving inventories are written down according to their realisable value.

Receivables included in current assets

Receivables are initially recognised at fair value of the consideration to be received, which usually corresponds to the nominal value shown on the invoice, adjusted (if necessary) to their estimated realisable value by making provision for doubtful accounts. Subsequently, receivables are measured at amortised cost, which generally corresponds to their nominal value.

Receivables assigned through without-recourse *factoring* transactions after which the related risks and benefits are definitively transferred to the assignee are derecognised from the statement of financial position at the time of transfer. Receivables assigned through recourse *factoring* transactions are not derecognised.

Tangible fixed assets

Tangible fixed assets mainly relate to industrial sites. Assets are shown at historical cost, net of accumulated depreciation and accumulated impairment losses.

Cost includes related charges, together with the portion of direct and indirect expenses reasonably attributable to individual assets.

Tangible fixed assets are depreciated each month on a straight-line basis using rates that reflect the technical and economic remaining lives of the related assets.

The depreciable value is the cost of an asset less its residual value, where the residual value of an asset is the estimated value that the entity could receive currently from its disposal, if the asset was already in the condition expected at the end of its useful life net of estimated disposal costs.

Depreciation is calculated from the month that the asset becomes available for use, or when it is potentially able to provide the economic benefits expected of it.

The annual average depreciation/amortisation rates applied are as follows:

	%
Land	n.a.
Industrial buildings and light constructions	2.5-12.5
Plant and machinery	7-14
Industrial and commercial equipment	10-25
Other assets	10-33.3
Assets under construction	n.a.

Land, assets under construction and payments on account are not depreciated.

Ordinary maintenance costs are charged to the Income Statement.

Maintenance costs that increase the value, functions or useful life of fixed assets are recorded directly as the increase in the value of the assets to which they refer and depreciated over their residual useful lives.

Gains or losses on the disposal of assets are calculated as the difference between the sales proceeds and the net book value of the asset and are charged to the Income Statement for the period.

Grants are shown in the Statement of Financial Position as an adjustment of the book value of the asset concerned. Grants are then recognised as income over the useful life of the asset by effectively reducing the depreciation charge each year.

Assets under lease

There are two types of leases: finance leases and operating leases.

A lease is considered a finance lease when it transfers substantially all risks and benefits incidental to ownership of the asset to the lessee.

As envisaged in IAS 17, a lease is considered a finance lease when the following elements are present, either individually or in combination:

- the contract transfers ownership of the asset to the lessee at the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that it is reasonably certain, at the inception of the lease, that it will be exercised;
- the lease term is for the major part of the useful life of the asset, even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments is equal to at least the fair value of the asset being leased;
- the assets being leased are of such a specialised nature that only the lessee is able to use them without making major modifications.

Assets available to Group companies under contracts that fall into the category of finance leases are accounted for as tangible fixed assets at their fair value at the date of purchase or, if lower, at the present value of the minimum payments due under the lease; the corresponding liabilities to the lessor are shown in the Statement of Financial Position as financial debts. The assets are depreciated over their estimated useful lives.

Lease payments are split between the principal portion, which is booked as a reduction of financial debts, and interest. Financial expenses are charged directly to the Income Statement for the period.

Payments under operating lease contracts, on the other hand, are charged to the Income Statement on a straight-line basis over the life of the contract.

Intangible assets

An intangible asset is only recognised if it is identifiable and verifiable, it is probable that it will generate economic benefits in the future and its cost can be measured reliably.

Intangible assets with a finite life are valued at purchase or production cost, net of amortization and accumulated impairment losses.

The annual average depreciation/amortisation rates applied are as follows:

	%
Development costs	20-33.3
Industrial patents and intellectual property rights, concessions, licences, trademarks	10-33.3
Customer relation	5
Trade name	5
Software	20-50
Other	20-33.3
Goodwill	n.a.
Assets under construction	n.a.

Amortization is based on the asset's estimated useful life and begins when it is available for use.

Research and development expenses

Research expenses are charged to the income statement as incurred in accordance with IAS 38.

Development expenses relating to specific projects are capitalised when their future benefit is considered reasonably certain by virtue of a customer's commitment; they are then amortised over the entire period of future profits expected to be earned by the project in question.

Costs incurred in developing the range of after-market products are capitalised from the time a certain product is recognised to be missing from the product portfolio. Its future benefit is considered reasonably certain because the new product will be added to the product catalogue and made available to customers.

The capitalised value of the various projects is reviewed annually - or more frequently if there are particular reasons for doing so - analysing its recoverable amount to assess if there have been any impairment losses.

Trademarks and licences

Trademarks and licences are valued at cost, less amortization and accumulated impairment losses. The cost is amortised over the shorter of the contract term and the finite useful life of the asset.

Customer Relations

Customer relations represent the value of the Systèmes Moteurs Group's customer portfolio at the acquisition date as determined during the Purchase Price Allocation process.

Brand name

Brand name represents the value of the "Systèmes Moteurs" brand name at the acquisition date as determined during the Purchase Price Allocation process.

Software

The costs of software licences, including related charges, are capitalised and shown in the financial statements net of amortization and any accumulated impairment losses.

It should be pointed out that a multi-year project was launched in 2011 to implement a new integrated IT system across the Group. Relating costs are capitalised by Parent Company Sogefi S.p.A., that will licence the intellectual property rights on the IT

system for use by the subsidiaries involved in the implementation process receiving the payment of royalty fees. The useful life of the fixed asset is estimated at 10 years and amortization begins when implementation at each individual company is completed.

Goodwill

Goodwill resulting from business combinations is initially recognised at cost as at the acquisition-date, as detailed in the paragraph above entitled “Business combinations”. Goodwill is not amortised but is tested annually for impairment, or more frequently if specific events or changed circumstances indicate a potential loss in value. Unlike other intangible assets, reversal of an impairment loss is not allowed for goodwill.

For impairment test purposes, goodwill was allocated to each of the Cash Generating Units (CGU) due to benefit from the acquisition.

The Sogefi Group currently encompasses five CGUs: Filtration (previously named “Engine Systems – Fluid Filters”), Air&Cooling (previously named “Engine Systems – Air Intake and Cooling”), Car Suspension, Industrial Vehicles Suspension and Precision Springs.

The goodwill currently on the books only concerns the Filtration, Air&Cooling and the Car Suspensions CGUs.

Intangible assets with an indefinite useful life

Intangible assets with an indefinite useful life are not amortised, but are tested annually for impairment, or more frequently if there is an indication that the asset may have suffered a loss in value. As at 31 December 2017, the Group has no intangible assets with an indefinite useful life.

Impairment losses of tangible and intangible fixed assets

If there are indications of possible losses in value, tangible and intangible fixed assets are subjected to impairment test, estimating the asset's recoverable amount and comparing it with its net book value. If the recoverable amount is less than the book value, the latter is reduced accordingly. This reduction constitutes an impairment loss, which is booked to the income statement.

For goodwill and any other intangible fixed assets with indefinite useful life, an impairment test is carried out at least once a year.

With the exception of goodwill, if a previous writedown is no longer justified, a new recoverable amount is estimated, providing it is not higher than what the carrying value would have been if the writedown had never been made. This reversal is also booked to the Income Statement.

Equity investments in other companies and other securities

In accordance with IAS 39, equity investments in entities other than subsidiaries, joint ventures and associates are classified as financial assets available for sale which are measured at fair value, except in situations where the market price or fair value cannot be reliably determined. In this case the cost method is used.

Gains and losses deriving from fair value adjustments are booked to a specific item in Other comprehensive income. In the case of objective evidence that an asset suffered an

impairment loss or it is sold, the gains and losses previously recognised under Other Comprehensive Income are reclassified to the Income Statement.

For a more complete discussion of the principles regarding financial assets, reference should be made to the note specifically prepared on this matter (paragraph 3 "Financial assets").

Non-current assets held for sale

Under IFRS 5 "Non-current assets held for sale and discontinued operations", providing the relevant requirements are met, non-current assets whose book value will be recovered principally by selling them rather than by using them on a continuous basis, have to be classified as being held for sale and valued at the lower of book value or fair value net of any selling costs. From the date they are classified as non-current assets held for sale, their depreciation is suspended.

Loans

Loans are initially recognised at cost, represented by the fair value received, net of related loan origination charges.

After initial recognition, loans are measured at amortised cost by applying the effective interest rate method.

The amortised cost is calculated taking account of issuing costs and any discount or premium envisaged at the time of settlement.

Derivatives

For accounting purposes, the treatment of derivative financial instruments depends on whether a derivative is speculative in nature or whether it can be considered a hedging instrument.

All derivatives are initially recognised in the Statement of Financial Position at cost as this represents their fair value. Subsequently, all derivatives are measured at fair value.

Any changes in the fair value of derivatives that are not designated for hedge accounting are booked to the Income Statement (under "Financial expenses (income), net").

Derivatives that can be booked under the hedge accounting are classified as:

- fair value hedges if they are meant to cover the risk of changes in the market value of the underlying assets or liabilities;
- cash flow hedges if they are taken out to hedge the risk of fluctuations in the cash flows deriving from an existing asset or liability, or from a future transaction that is highly probable.

For derivatives classified as fair value hedges, the gains and losses that arise on determining their fair value and the gains and losses that derive from adjusting the underlying hedged items to their fair value are booked to the Income Statement (for the hedged risk).

For those classified as cash flow hedges, used for example, to hedge medium/long-term loans at floating rates, gains and losses that arise from their valuation at fair value are booked directly to Other comprehensive income for the part that effectively hedges the risk for which they were taken out. The portion booked to Other comprehensive income will be reclassified to the Income Statement (under the item “Financial expenses (income), net” in the period) when the hedged assets and liabilities impact the costs and revenues of the period.

When an instrument is determined to be an ineffective hedge, the hedging relationship is discontinued and the following amounts are booked to Income Statement (under the item “Financial expenses (income), net”):

- the change in fair value of the derivative since the date the hedge last proved effective is immediately recognised in the Income Statement;
- the reserve previously booked to Other Comprehensive Income is recognised in the Income Statement over the same period of time as the differentials relating to the underlying item hedged previously (if the hedged item is still booked to the Consolidated Statement of Financial Position of the Group).

Note that the Group has adopted a specific procedure for managing derivative financial instruments as part of an overall risk management policy.

Trade and other payables

Payables are initially recognised at fair value of the consideration to be paid and subsequently at amortised cost, which generally corresponds to their nominal value.

Provisions for risks and charges

Provisions for risks and charges are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

On the other hand, no provision is made in the case of risks for which there is only a possibility that a liability may arise. In this case, the risk is disclosed in the notes on commitments and risks without making any provision.

Provisions relating to corporate reorganizations are only set aside once they have been approved and raised a valid expectation to the parties involved.

Post-retirement and similar employee benefits

Group employees have defined-benefit and/or defined-contribution pension plans, depending on the conditions and local practices of the countries in which the group operates.

The Group’s responsibility is to finance the pension funds for the defined-benefit plans (including the employment termination indemnities currently applicable in Italy) and the annual cost recognised in the Income Statement are calculated on the basis of actuarial valuations that use the projected unit credit method.

The liability relating to benefits to be recognised on termination of employment recorded in the Consolidated Statement of Financial Position represents the present value of the defined-benefit obligation, less the fair value of the plan assets. Any net assets determined are recognised at the lowest of their value and the present value of available repayments and reductions of future contribution to the plan.

Pursuant to the amendment to IAS 19 “Employee Benefits” effective as from 1 January 2013, the Group recognises actuarial gains and losses and books them to “Other comprehensive income” immediately, so that the full net amount of the provisions for the defined benefits (net of plan assets) is recognised in the Consolidated Statement of Financial Position. The amendment further requires any changes in the defined benefit provision and plan assets over the previous period to be subdivided into three components: the cost components of work performed during the reporting period must be recognised in the Income Statement as service costs; net interest costs calculated by applying the appropriate discount rate to the opening balance of defined benefit provision net of assets must be booked to Income Statement as net financial expenses and the actuarial gains and losses resulting from the remeasurement of assets and liabilities must be booked to “Other comprehensive income”. In addition, the return on assets included in net financial expenses must be calculated using the discount rate applicable to liabilities and no longer the expected return on the assets. The difference between actual return on plan assets and the return calculated as described above is booked to “Other comprehensive income”.

In the event of an amendment to the plan that changes the benefits relating to past service or in the event of the application of a new plan relating to past service, the costs relating to past service are booked to the Income Statement (under service costs). In the event of an amendment to the plan that significantly reduces the number of employees involved in the plan or that changes the clauses of the plan in such a way that a significant part of future service due to employees will no longer accrue the same benefits or will accrue them but to a lesser extent, the profit or loss relating to said reduction is immediately booked to the Income Statement (under service costs).

All of the costs and income resulting from the measurement of funds for pension plans are booked to the Income Statement by functional area of destination, with the exception of the financial component relating to non-financed defined-benefit plans, which is included in Financial expenses.

The costs relating to defined-contribution plans are booked to the Income Statement when incurred.

Other long-term benefits

Other long-term employee benefits relate to the French subsidiaries and include “Jubilee or other long-service benefits” that are not expected to be paid fully within the twelve months following the end of the reporting period during which the employee has rendered service for those benefits.

The valuation of other long-term benefits usually does not present the same degree of uncertainty as post-employment benefits. This is why IAS 19 requires a simplified method of accounting for such benefits. Unlike the accounting method required for post-employment benefits, this method (which requires actuarial valuation) does not require discounting effects to be taken to Other comprehensive income.

Phantom stock options

With regard to phantom stock option plans, as envisaged by IFRS 2, in the section regarding “Cash-settled share-based payment transactions”, the fair value of the plan at the date of the financial statements is remeasured, with any changes in fair value recognised in the Income Statement with a corresponding entry to a provision.

Stock-based incentive plans

With regard to “Stock-based incentive plans“ (Stock options and Stock grants), as envisaged by IFRS 2, the Group calculates the fair value of the option at the granting date, booking it to the Income Statement as a cost over the vesting period of the benefit. The *ad hoc* equity reserve in the Consolidated Statement of Financial Position has been increased. This imputed cost is measured by specialists with the help of suitable economic and actuarial models.

Deferred taxation

Deferred taxes are calculated on the taxable/deductible temporary differences between the book value of assets and liabilities and their tax bases, and classified under non-current assets and liabilities.

Deferred tax assets are accounted for only to the extent that it is probable that sufficient taxable profits will be available in the future against which they can be utilised.

The carrying amount of the deferred tax assets shown in the financial statements is subject to an annual review.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply in the period when the differences reverse under the law of the countries in which the Group operates, considering current rates and those enacted or substantially enacted at the end of the reporting period.

Deferred tax liabilities are calculated on taxable temporary differences relating to equity investments in subsidiaries, associates and joint ventures, except where the Company can control the reversal of such temporary differences and it is probable that they will not reverse in the foreseeable future.

Current and deferred taxes are recognised in the income statement, except for those relating to items directly charged or credited to Other comprehensive income or other equity items, in which case tax effect is recognised directly under Other comprehensive income or equity.

Participation in CIR’s group tax filing system (applicable to Italian companies)

In the fiscal year 2016 the Parent Company Sogefi S.p.A. and its subsidiary Sogefi Filtration Italy S.p.A., confirmed their participation in the CIR Group tax filing system for the three-year period 2016-2018; in the fiscal year 2017 the new entities Sogefi Suspensions Heavy Duty Italy S.r.l. and Sogefi Suspensions Passenger Car Italy S.r.l. has joined to the CIR Group tax filing system for the two-year period 2017-2018.

Each company joining to the group Italian tax filing system transfers its tax profit or loss to the parent company. The parent company recognises a credit corresponding to the IRES (Italian tax on company income) that companies have to pay (debit for the transferor company). On the contrary, for companies that booked tax losses, the parent company recognises a debt corresponding to the IRES for the part of loss actually offset

at group level (credit for the transferee company). In connection with the Group tax filing system, those companies that record non-deductible net financial expenses may use the excess tax benefits available for offset of other Group companies (thus making such expenses deductible) for a consideration. Such consideration, in an amount proportionate to the resulting tax benefit and applicable to excess tax benefits arising in Italy only, has been paid to the parent company CIR and is treated as expense for those companies that obtain the excess tax benefit and as revenue for those that transfer it.

Treasury shares

Treasury shares are deducted from equity. The original cost of treasury shares and the profit/loss resulting from their subsequent sales are recognised as changes in equity.

Revenues recognition

Revenues from the sale of products are recognised at the time ownership passes (time of risks and benefits transfer), which is generally upon shipment to the customer. They are shown net of returns, discounts and allowance.

The proceeds from the sale of *tooling* to customers can be recognised as follows:

- a) the full amount is recognised at the time risks and benefits of the *tooling* are transferred (if said transfer is deferred, margin is booked to “Other current liabilities”);
- b) the amount is recognised by means of an increase of the sales price of the products manufactured using the relevant tooling, throughout a variable time frame depending on the number of products sold (in this case the unrealised sales price for the tooling is booked to “Inventory – Contract work in progress and advances”).

Revenues from services rendered are recognised at the time the services are provided.

Income Statement Overview

Variable cost of sales

This represents the cost of goods sold. It includes the cost of raw and ancillary materials and goods for resale, as well as variable manufacturing and distribution costs, including the direct labour cost of production.

Manufacturing and R&D overheads

This category includes manufacturing overheads such as indirect labour cost of production, maintenance costs, consumable materials, building rents, and industrial equipment involved in production.

Also included are all R&D overheads, net of any development costs that are capitalised because of their future benefits and excluding amortization which is booked to a separate item in the Consolidated Income Statement.

Distribution and sales fixed expenses

These are costs that are essentially insensitive to changes in sales volumes, relating to personnel, promotion and advertising, external warehousing, rentals and other sales and distribution activities. This category, therefore, includes all fixed costs identified as being incurred after finished products have been stocked in the warehouse and directly related to their sale and distribution.

Administrative and general expenses

This category includes fixed labour costs, telephone expenses, legal and tax consulting fees, rents and rentals, cleaning, security and other general expenses.

Restructuring costs and other non-operating expenses/income

These are figures that do not relate to the Group's normal business activities or refer to non-ordinary activities and are expressly disclosed in the notes if they are of a significant amount.

Operating grants

These are credited to the Consolidated Income Statement when there is a reasonable certainty that the company will meet the conditions for obtaining the grant and that the grants will therefore be received.

Dividends

Dividend income is recorded when the right to receive it arises. This is normally at the time of the shareholders' resolution that approves distribution of the dividends.

Dividends to be distributed are recognised as a payable to shareholders immediately after they have been approved.

Current taxes

Current taxes are booked on the basis of a realistic estimate of taxable income calculated according to current tax legislation in the country concerned, taking account of any exemptions and tax credits that may be due.

Earnings per share (EPS)

Basic EPS is calculated by dividing net result for the period attributable to the ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period, net of treasury shares.

Diluted EPS is obtained by adjusting the weighted average number of shares outstanding to take account of all potential ordinary shares that could have a dilutive effect.

Translation of foreign currency items

Functional currency

Group companies prepare their financial statements in the local currency of the country concerned.

The functional currency of the Parent Company is the Euro and this is the presentation currency in which the consolidated financial statements are prepared and published.

Accounting for foreign currency transactions

Foreign currency transactions are initially translated at the exchange rate ruling on the transaction date.

At the end of the reporting period, monetary assets and liabilities expressed in foreign currency are retranslated at the period-end exchange rate.

Non-monetary foreign currency items valued at historical cost are translated at the exchange rate ruling on the transaction date.

Non-monetary items carried at fair value are translated at the exchange rate ruling on the date this value was determined.

Critical estimates and assumptions

Various estimates and assumptions regarding the future have to be made when preparing financial statements. They are the best estimates possible at the end of the reporting period. Given their nature, they could lead to a material difference in statement of financial position items in future years. The main items affected by these estimates are as follows:

- goodwill (Euro 126.6 million) – impairment test: for the purpose of determining the value in use of the Cash Generating Units, the Group took into account the trends expected for 2018 as determined based on the budget and the forecasts included in the 2019-2022 multi-year plan for the following years (adjusted to eliminate any estimated benefits from future projects and reorganisations). The budget and the multi-year plan were approved by the Board of Directors on 22 January 2018. The impairment test, based on such forecasts, does not indicate a need for devaluation;
- tangible and intangible fixed assets of the subsidiary Sogefi Filtration do Brasil Ltda (Euro 5.5 million) - impairment test: at the end of the fiscal year 2017, tangible and intangible fixed assets of the subsidiary were tested for impairment due to its negative economic and financial results and the sluggish performance of the Brazilian car market. To this end, the expected cash flows for 2018 as determined based on the budget and for the following 5 years (i.e. the estimated remaining useful life of the assets) approved by the Advisory Board of the subsidiary on 20 February 2018 were taken into account. The impairment test, based on such forecasts, lead to a writedown of Euro 5.8 million;
- pension plans (Euro 48.7 million): actuaries who offer their consulting services to the Group use different statistic assumptions in order to anticipate future events for the purpose of estimating pension plan expenses, liabilities and assets. Such assumptions concern discount rate, future wage inflation rates, mortality and turnover rates;
- recoverability of deferred tax assets on tax losses (Euro 6.6 million, decreased of Euro 10.6 million in comparison with the previous fiscal year): as at 31 December 2017, deferred tax assets on tax losses incurred during the current and previous years were accounted for to the extent that it is probable that taxable income will be available in the future against which they can be utilised. Such probability is also determined based on the fact that such losses have originated mainly under extraordinary circumstances that are unlikely to occur again in the future and that the same could be recovered throughout an unlimited or long-term time frame;
- derivatives (Euro 3.1 million in assets and Euro 2,7 million in liabilities): the estimate of the fair value of derivatives (relating to interest and exchange rates) and

the effectiveness test on derivatives held for hedge accounting were performed with the aid of external consultants based on valuation models commonly used in the industry, in line with the requirements of IFRS 13 (calculation of DVA - debit valuation adjustment);

- provision for product warranties (Euro 16.3 million)/Other non-current receivables (Euro 9.7 million).

- 1) With regard to provision for product warranties, there are claims in progress by two customers relating to a defective component supplied starting from 2010 by the subsidiary Sogefi Air & Cooling S.A.S. (formerly named Systèmes Moteurs S.A.S., "SM") before and after it was purchased by Dayco Europe S.r.l. (in 2011). The Company believes that the defect was caused by a thermostat manufactured by a supplier of SM and in 2012 filed a law suit against that supplier at the French courts seeking indemnity for any damages it might have to pay to its customers.

In June 2012 the court appointed a technical expert to write an expert witness report, initially for the purpose of determining the causes of product defect. Subsequently, the sub-suppliers and the customers, and lastly Dayco took part in the investigation process.

The court's expert is tasked with determining the nature of the defect, the liability of the different parties involved and the amount of damages.

The expert established that the defect was caused by the thermostat manufactured by the supplier of SM.

With regard to the liability of the parties involved, the expert is analysing the different phases of the product approval procedure to allocate liability among the different parties involved (thermostat supplier, its sub-suppliers, SM as first-tier supplier, and the customers).

With regard to the determination of damages, the expert was asked to evaluate whether the damages claimed by the customers are appropriate for the purpose of allocating final damages among the parties involved.

- 2) Total claims currently amount to Euro 165.4 million, broken down as follows:

- Euro 112.4 million for past and future campaigns;
- Euro 31.5 million for interest and other costs;
- Euro 21.5 million for damage to reputation and loss of future income.

Based on existing proceedings, the Company and its legal counsel deem that there is only a remote possibility that a liability will arise from the latter claim in the amount of Euro 21.5 million.

Regarding the request for Euro 31.5 million for interest and other costs, the Company, supported by its legal counsel, recalculated the amounts for which details were provided by the customers and then based on the current situation fully and prudentially assessed the amounts for which details have not yet been provided.

- 3) Based on the foregoing, the claim considered by the Company today amounts to Euro 132.9 million.

The Company investigated such claim thoroughly to identify the concerned production periods and – prior to the allocation of liability, if any – according to its estimates Euro 64.1 million relate to products manufactured before the SM acquisition, and Euro 68.8 million to post-acquisition periods.

In this regard, in May 2016, the Company obtained an arbitration award in the international arbitration proceedings initiated against Dayco to recover the costs incurred by SM after the acquisition.

In short, the award confirmed that Sogefi has a general right to indemnification for the claims relating to products manufactured before Sogefi purchased SM, and ordered Dayco to pay Euro 9.4 million to Sogefi for the claims already paid (including the amounts paid in connection with the above mentioned defective component). The award amount had been paid at the end of the year 2016. In 2017, an additional amount of Euro 0.3 million was collected for further claims still pending between Sogefi and Dayco at the end of 2016.

If appropriate, the Company will claim such general right to indemnification against Dayco in connection with amounts paid to customers for production lots of the defective components before Sogefi purchased SM.

The award states that claims relating to post-closing production will have to be borne by Sogefi.

- 4) The Company estimates the claims relating to production lots manufactured after the acquisition at Euro 68.8 million in total before this liability is allocated among the different parties involved (thermostat supplier, its sub-suppliers, SM, and the customers).

The Company, supported by its legal counsel, deems possible that the expert may recognise only a portion of these sums.

- 5) SM paid Euro 21 million on a provisional basis for claims filed by customers. These amounts were paid under standstill agreements, without any admission of liability. Such amounts will be adjusted when the Court decides on the merits of the case or under subsequent settlement agreements.

End 2016, the Company's provision for product warranties – less the total amount already paid of Euro 21 million – amounted to Euro 16.3 million. This amount was re-analysed in the fiscal year 2017. The Company, supported by its legal counsel, confirmed this provision.

- 6) With regard to the indemnities owed by the seller of SM shares, it is worthwhile pointing out that the Sogefi Group entered an indemnification asset totalling Euro 23.4 million in the Consolidated Financial Statements in 2011, because the seller Dayco had provided contractual guarantees relating to defect liability claims existing at the time of the acquisition, including those noted above. Based on the outcome of the arbitration proceedings, in 2016 the Company reduced the amount expected to be recovered from Dayco by Euro 4 million and consequently wrote down the indemnification asset by the same amount. After the payments of 2016 and 2017, the residual value of the indemnification asset as at 31 December 2017 is Euro 9.7 million.

Please note that both Sogefi and Dayco appealed parts of the award before the Court of Appeals in Milan. Sogefi appealed the part of the award ordering it to pay the claims concerning the products manufactured after the acquisition; Dayco appealed the part of the award confirming the validity of the indemnities in favour of Sogefi provided for by the acquisition contract. It should be noted that the validity of such indemnities was confirmed by both the award and a preliminary ruling of the Court of Appeals in Milan, that rejected Dayco's petition to stay enforcement of the award and confirmed that the award is enforceable.

It should be noted that these are complex proceedings that involve judgements on technical, juridical and commercial matters, and present uncertainties connected with the outcome of the proceedings before the French courts and the arbitration award. Estimates concerning risks provision and the recovery of booked assets are based on the information available at the time of preparing the financial statements. The estimate is subject to change as events evolve.

2.4 Adoption of new accounting standards

IFRS accounting standards, amendments and interpretations applicable since 1 January 2017

The following IFRS accounting standards, amendments and interpretations were first adopted by the Group as from 1 January 2017:

- Amendment to IAS 12 “*Recognition of Deferred Tax Assets for Unrealised Losses*” (published on 19 January 2016). The document clarifies the recognition of deferred tax assets relating to debt instruments measured at fair value.
- Amendments to IAS 7 “*Disclosure Initiative*” issued on 29 January 2016. The document provides some clarifications to improve information on financial liabilities. Specifically, the amendments require such disclosures as to allow the recipients of the financial statements to understand changes in liabilities generated by financing operations.
- Document “*Annual Improvements to IFRS Standards 2014-2016 Cycle*” (published on 8 December 2016). Amendments made refer to IFRS 12 - Information on equity investments in other entities. In particular, it clarifies the scope of application of IFRS 12, specifying that the disclosure required by the principle also applies to investments classified as held for sale, held for distribution to members or as discontinued operations in accordance with IFRS 5. The amendment aims at standardising the information required by IFRS principles 5 and 12.

IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union but not yet mandatory applicable and not early adopted by the Group as at 31 December 2017

The Group has not adopted the following new and amended standards that have been issued but are not yet applicable:

- IFRS 15 – Revenue from Contracts with Customers (issued on 28 May 2014 and supplemented with additional clarifications on 12 April 2016) bound to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services. The standard provides for a new revenue recognition model, which will be applicable to all agreements made with customers, with the exception of those falling under the scope of application of other IFRSs, such as leases, insurance contracts and financial instruments. The main steps for revenue recognition according to the new model are:
 - identifying the agreement in place with the customer;
 - identifying the performance obligations under the agreement;
 - defining the transaction price;
 - price allocation to the performance obligations under the agreement;
 - revenue recognition criteria when the entity satisfies each performance obligation.

This standard is applicable as from 1 January 2018, though early adoption is allowed. The amendments to IFRS 15, Clarifications to IFRS 15 – *Revenue from Contracts with Customers*, published by IASB on 12 April 2016, have been endorsed by the European Union by publication on 9 November 2017.

OEM/OES contracts with car manufacturers generally include three major contractual obligations:

- supply of the goods.
- development of the production process for the manufacture of the goods, based on the specifications supplied by the customer;
- supply of tooling, like equipment and moulds used in the production of goods;

The Group concluded that the supply of goods represents a distinct performance obligation, while the development of the production process and supply of "tooling" does not meet the requirements to be identified as a separate performance obligation in the contracts with manufacturers.

Therefore, with reference to the recognition policy to be used for the revenues deriving from contracts with car manufacturers, the Group concluded that:

- when supplying goods the control is transferred to customers upon shipment/delivery of the goods, and, as a result, revenues will be recognised at that time, without generating any differences from the current revenue recognition policy for this contractual obligation;
- the development of the production process does not meet the requirements to be identified as a separate performance obligation so related revenues will be recognised on the same duration as the performance obligation identified by the supply of goods; nevertheless, this does not constitute an alteration of the manner in which revenue from these contractual obligations is recognised in relation to the current situation;
- supply of "tooling" does not meet the requirements to be identified as a separate performance obligation, so related revenues will be recognised on the same duration as the performance obligation identified by the supply of goods. This is because the "tooling" is used by the Group exclusively for the supply of the specific goods ordered by the customer and the customer does not have a substantial option to obtain the production of these specific goods from another supplier through the use of "tooling". Contracts entered into with customers feature different clauses in the different jurisdictions in which the Group operates (the legal ownership of the tooling could be transferred to the customer before the start of mass production in exchange for a fixed fee or at the end of mass production, i.e. the revenue from the sale of tooling could be included in the sale price of the individual goods). Currently, revenues from the contractual obligation to supply the tooling are recognised on the basis of the contractual provisions, with specific reference to the transfer of ownership of the tooling to the customer.

By changing the recognition policy for revenues deriving from the contractual obligation to provide the tooling, the Group will be forced to change the accounting policy relating to the costs for the production/purchase of the tooling as well. These costs will be capitalised in the item "Tangible fixed

assets" and will be depreciated over the period corresponding to the supply of the goods to the customer (these costs will therefore no longer be recorded in the item "Variable cost of sales - Materials"). Costs relating to the development of prototypes (currently recorded under the item "Variable cost of sales - Materials") will also be capitalised in the item Intangible fixed assets and amortised over the period corresponding to the supply of goods to the customer.

The average duration of supply of goods to the customer has been conventionally defined by the Group in 4 years on the basis of historical experience. During this period, revenues from contractual obligations relating to the development of the production process and the supply of tooling will be recorded, and the costs for the production/purchase of tooling will be depreciated.

The Group has analysed the contractual obligation for the warranties for the supplied components, concluding that it does not represent a distinct performance obligation because it does not provide additional services that benefit the customers. Warranty costs will continue to be recognised under IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*.

The Group has identified an impact on the presentation of revenues from aftermarket customers. This is due to the marketing contributions provided to customers who meet the definition of "consideration payable to customers" in IFRS 15 and that have to be presented net of revenues. These costs are currently presented in the item "Variable cost of sales" because they are considered marketing costs provided by customers to the Group.

The Group estimated the effects of the first-time adoption of the standard on the consolidated financial statements. The estimate of these effects on the Group's shareholders' equity at 1 January 2018 is based on the assumptions made so far. It should be noted that the actual effects of standard adoption may change because the Group has not yet completed the updating of the information systems necessary for the operational management of the new standard. The results of the analysis available to date show a reduction in shareholders' equity as at 1 January 2018 from Euro 189 million to approximately Euro 170 million (gross of the tax effect). It should also be noted that the new accounting policy relating to tooling and prototypes mentioned above will lead to a reduction in the items "Sales revenues" and "Variable cost of sales" and an increase in the item "Depreciation and amortization".

The Group intends to restate the comparative fiscal year as at the date of first adoption of IFRS 15.

Final version of IFRS 9 – *Financial instruments* (issued on 24 July 2014). The document includes the results of the classification, valuation, derecognition,

impairment and hedge accounting phases relating to the IASB project pending the replacement of IAS 39:

- it introduces new criteria to classify and measure financial assets and liabilities;
- with reference to the impairment model, the new standard requires the losses on receivables to be estimated based on the expected losses model (instead of the incurred losses model of IAS 39) using information that can be evidenced, available free of charge or without unreasonable effort and including historic, current and forecast data;
- a new hedge accounting model is introduced (additional types of transactions can be designated for hedge accounting, different accounting method for forward contracts and options when they are included in a hedge accounting transaction, changes to effectiveness test).

The new standard must be applied to reporting period beginning on 1 January 2018 and thereafter.

Based on the results of the qualitative analysis available to date, the Group expects that the potential impacts deriving from the implementation of IFRS 9 would relate to the measurement of Expected Credit Losses for trade and financial receivables: the implementation of the new impairment model is currently being finalised.

The Group is evaluating the option of continuing to use the hedge accounting rules provided for in IAS 39 for all hedges already designated as hedge accounting at 31 December 2017, applying the hedge accounting rules provided for by IFRS 9 only prospectively.

The Group does not intend to restate the first comparative year at the date of first-time adoption of IFRS 9.

- IFRS 16 – *Leases* (issued on 13 January 2016). This document replaces IAS 17 – *Leases*, as well as 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*.

The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to differentiate between lease and service agreements according to: asset identification, right to replacement of the asset, right to obtain all economic benefits arising out of use of the asset and right to control the use of the asset underlying the agreement.

The standard introduces a single lessee accounting model for recognising and measuring lease agreements, which provides for the underlying asset – including assets underlying operating leases – to be recognised in the statement of financial position as assets and lease financial liability. Lessees may elect to not recognise agreements for low-value assets or with a term of up to 12 months within the scope of this standard. No significant changes are introduced for lessor accounting.

The standard applies for reporting period beginning on or after 1 January 2019. Early application is only allowed for early adopters of IFRS 15 – *Revenue from Contracts with Customers*.

Directors expect that the adoption of IFRS 16 will have a significant impact on lease accounting and the relevant disclosures included in the Group's Consolidated Financial Statements. Still, it will be impossible to provide a reasonable estimate as to the effects until the Group completes a detailed analysis of the relevant agreements.

- Document “*Annual Improvements to IFRS Standards 2014-2016 Cycle*” (published on 8 December 2016) with major changes concerning:
 - IFRS 1 - First adoption of *International Financial Reporting Standards* - The changes eliminate some exemptions from IFRS 1 as the benefit of these exemptions is deemed to have been superseded. These amendments are to be applied for financial periods beginning on 1 January 2018.
 - IAS 28 – Equity investments in subsidiaries and joint ventures– The amendment clarifies that the option for an investment entity in risk capital or another entity qualified to measure the investments in subsidiaries and joint ventures values at fair value posted to the income statement (rather than by applying the equity method) is performed for each single investment upon initial recognition. These amendments are to be applied for financial periods beginning on 1 January 2018.

Directors do not expect any significant effect on the consolidated financial statements of the Group when these amendments are adopted.

IFRS and IFRIC accounting standards, amendments and interpretations not yet endorsed by the European Union

The European Union has not yet completed its endorsement process for the standards and amendments below reported at the date of these Consolidated Financial Statements. The Directors are evaluating the possible effects of applying these amendments to the Group's Consolidated Financial Statements.

- Amendments to IFRS 2 “*Classification and measurement of share-based payment transactions*” (issued on 20 June 2016). This document provides clarifications on how to account for the effects of vesting conditions in cash-settled share-based payments, how to classify share-based payments that include net settlement features and how to account for changes to the terms and conditions of a share-based payment that turn cash-settled share-based payment to equity-settled share-based payment. The amendments apply as from 1 January 2018, though early adoption is allowed.
- IFRIC 22 “*Foreign Currency Transactions and Advance Consideration*” (issued on 8 December 2016). This interpretation provides guidelines on foreign currency transactions when non-monetary advance consideration paid or received is recognised before recognition of the relating asset, expense or income. This document clarifies how an entity has to determine the date of the transaction and consequently the spot exchange rate to be used for foreign currency transactions whose consideration is paid or received in advance. IFRIC 22 applies as from 1 January 2018, though early adoption is allowed.
- Amendments to IAS 40 “*Transfers of Investment Property*” (issued on 8 December 2016). These amendments provide clarifications on the transfer of properties to, or from, investment properties. Specifically, an entity should only

reclassify a property asset to or from investment property when there is evidence of a change in use of that asset. Such change in use must be supported by a specific event occurred in the past. A change in intention by the entity's management alone is not sufficient. These amendments apply as from 1 January 2018, though early adoption is allowed.

- Amendments to IFRS 10 and IAS 28 “*Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*” (issued on 11 September 2014). The purpose of these amendments was to resolve the conflict between IAS 28 and IFRS 10 concerning the measurement of profit or loss arising from transfers or assignments of a non-monetary asset to a joint venture or associate in return for its shares. The IASB has suspended the application of these amendments for the time being.
- IFRIC 23 “*Uncertainty over income taxes treatment*” (issued on 7 June 2017). The interpretation clarifies the application of recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty about tax treatment. These amendments are to be applied for financial periods beginning on 1 January 2019, though early adoption is allowed.
- Amendment to IFRS 9 “*Prepayment features with Negative Compensation*” (issued on 12 October 2017). The amendment proposes that the financial assets which could result in a negative compensation would be eligible to be measured at amortised cost or *fair value through other comprehensive income* as a result of a prepayment feature (depending on a company's business model).
- Amendment to IAS 28 “*Long-term Interests in Associates and Joint Ventures*” (issued on 12 October 2017). The amendment clarifies that a company applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendment also requires IFRS 9 to be applied to these assets before the application of IAS 28, so that the entity does not take into account any adjustments to long-term interests arising from the application of this IAS. These amendments are to be applied for financial periods beginning on 1 January 2019, though early adoption is allowed.
- Document “*Annual Improvements to IFRS Standards 2015-2017 Cycle*” (published on 12 December 2017). These amendments are part of the Board's process for maintaining and clarifying IFRS Standards and affected: IAS 12 *Income Taxes*, IAS 23 *Borrowing Costs* and IFRS 3 *Business Combination*.

3. FINANCIAL ASSETS

Classification and initial recognition

In accordance with IAS 39, financial assets are to be classified in the following four categories:

1. financial assets at fair value through profit or loss;
2. held-to-maturity investments;
3. loans and receivables;
4. available-for-sale financial assets.

The classification depends on the purpose for which assets are bought and held. Management decides on their initial classification at the time of initial recognition, subsequently checking that it still applies at the end of each reporting period.

The main characteristics of the assets mentioned above are as follows:

Financial assets at fair value through profit or loss

This is made up of two sub-categories:

- financial assets held specifically for trading purposes;
 - financial assets to be measured at fair value under the fair value option designation.
- This category also includes all financial investments, other than equity instruments that do not have a price quoted on an active market, but for which the fair value can be determined.

Derivatives are included in this category, unless they are designated as hedging instruments, and their fair value is booked to the Income Statement.

At the time of initial recognition, financial assets held for trading are recognised at fair value, not including the transaction costs or income associated with the same instruments, which are recognised in the Income Statement.

All of the assets in this category are classified as current if they are held for trading purposes or if they are expected to be sold within 12 months from the end of the reporting period.

Designation of a financial instrument to this category is considered final (IAS 39 envisages some exceptional circumstances in which said financial assets may be reclassified in another category) and can only be done on initial recognition.

Held-to-maturity investments

These are non-derivative assets with fixed or determinable payments and fixed maturities which the Group intends to hold to maturity (e.g. subscribed bonds).

The intention and ability to hold the security to maturity must be evaluated on initial recognition and confirmed at the end of each reporting period.

In the case of early disposal of securities belonging to this category (for a significant amount and not motivated by particular events), the entire portfolio is reclassified to financial assets available for sale and restated at fair value.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and in which the Group does not intend to trade.

They are included in current assets except for the portion falling due beyond 12 months from the end of the reporting period, which is classified as non-current.

Available-for-sale financial assets

This is a residual category represented by non-derivative financial assets that are designated as available for sale and which have not been assigned to one of the previous categories.

“Available-for-sale financial assets” are recorded at their fair value including related purchase costs.

They are classified as non-current assets, unless management intends to dispose of them within 12 months from the end of the reporting period.

Subsequent measurement

Gains and losses on “Financial assets at fair value through profit or loss” (cat. 1) are immediately booked to the Income Statement.

“Available-for-sale financial assets” (cat. 4) are measured at fair value unless a market price or the fair value of equity instruments cannot be reliably determined. In this case the cost method is used.

Gains and losses on “Available-for-sale financial assets” (cat. 4) are booked to a separate item under Other comprehensive income until they have been sold or cease to exist, or until it has been ascertained that they have suffered an impairment loss. When such events take place, all gains or losses recognised and booked to Other comprehensive income up to that moment are recycled to the Income Statement.

Fair value is the amount for which an asset could be exchanged, or that would be paid to transfer a liability (exit price) in an arm’s length transaction between informed and independent parties. Consequently, it is assumed that the holder is a going-concern entity and that none of the parties needs to liquidate their assets in a forced sale at unfavourable conditions.

In the case of securities traded on regulated markets, fair value is determined with reference to the bid price at the close of trading at the end of the reporting period.

In cases where no market valuation is available for an investment, fair value is determined either on the basis of the current market value of another very similar financial instrument or by using appropriate financial techniques (such as discounted cash flow analysis).

Purchases or sales regulated at "market prices" are recognised on the day of trading, which is the day on which the Group takes a commitment to buy or sell the asset.

"Held-to-maturity investments" (cat. 2) and "Loans and receivables" (cat. 3) are measured at their "amortised cost" using the effective interest rate and taking account of any discounts or premiums obtained at the time of acquisition so that they can be recognised over the entire period until their maturity. Gains or losses are booked to the Income Statement either at the time that the investment reaches maturity or when an

impairment arises, in the same way that they are recognised during the normal process of amortization that is part of the amortised cost method.

Investments in financial assets can only be derecognised once the contractual rights to receive the cash flows deriving from such investments have expired (e.g. final redemption of bonds) or if the Group transfers the financial asset and all of the risks and benefits attached to it.

B) SEGMENT INFORMATION

4. OPERATING SEGMENTS

In compliance with the provisions of IFRS 8, the following information is provided by operating segments (business segments) and performance indicators that play a key role in the Group's strategic decisions.

As the analysis by business segments is given higher priority in the decision-making process, the analysis by geographic areas is not presented.

Business segments

With regard to the business segments, disclosures concerning the three business units: Air&Cooling, Suspensions and Filtration are provided below. Figures for the Parent Company Sogefi S.p.A. and the subsidiary Sogefi Gestion S.A.S. are also provided for the purpose of reconciliation with consolidated values.

The tables below provide the Group's income statement and statement of financial position figures for 2016 and 2017:

(in thousands of Euro)	2016					
	Air&Cooling	Suspensions	Filtration	Sogefi S.p.A. / Sogefi Gestion S.A.S.	Adjustments	Sogefi consolidated f/s
REVENUES						
Sales to third parties	479,294	561,435	533,362	-	-	1,574,091
Intersegment sales	942	1,371	1,699	25,986	(29,998)	-
TOTAL REVENUES	480,236	562,806	535,061	25,986	(29,998)	1,574,091
RESULTS						
EBIT	23,277	35,611	25,104	(3,861)	(5,624)	74,507
Financial expenses, net						(31,458)
Income from equity investments						3,975
Losses from equity investments						(392)
Result before taxes						46,632
Income taxes						(32,637)
Loss (profit) attributable to non-controlling interests						(4,659)
NET RESULT						9,336
STATEMENT OF FINANCIAL POSITION						
ASSETS						
Segment assets	285,077	401,200	335,370	655,127	(720,521)	956,253
Equity investments in associates	-	-	-	-	-	-
Unallocated assets	-	-	-	-	151,431	151,431
TOTAL ASSETS	285,077	401,200	335,370	655,127	(569,090)	1,107,684
LIABILITIES						
Segment liabilities	182,262	259,841	250,984	472,246	(246,718)	918,615
TOTAL LIABILITIES	182,262	259,841	250,984	472,246	(246,718)	918,615
OTHER INFORMATION						
Increase in tangible and intangible fixed assets	24,396	35,180	28,482	1,203	(200)	89,061
Depreciation, amortisation and writedowns	17,944	26,185	29,820	(12,537)	17,157	78,569

(in thousands of Euro)	2017					
	Air&Coolin g	Suspensions	Filtration	Sogefi S.p.A. / Sogefi Gestion S.A.S.	Adjustments	Sogefi consolidated f/s
REVENUES						
Sales to third parties	503,324	605,307	563,765	-	-	1,672,396
Intersegment sales	713	1,522	1,972	30,086	(34,293)	-
TOTAL REVENUES	504,037	606,829	565,737	30,086	(34,293)	1,672,396
RESULTS						
EBIT	28,282	37,964	24,149	(6,022)	990	85,363
Financial expenses, net						(31,679)
Income from equity investments						-
Losses from equity investments						-
Result before taxes						53,684
Income taxes						(22,950)
Loss (profit) attributable to non-controlling interests						(4,130)
NET RESULT						26,604
STATEMENT OF FINANCIAL POSITION						
ASSETS						
Segment assets	328,657	409,323	334,490	608,443	(727,977)	952,936
Equity investments in associates	-	-	-	-	-	-
Unallocated assets	-	-	-	-	148,583	148,583
TOTAL ASSETS	328,657	409,323	334,490	608,443	(579,394)	1,101,519
LIABILITIES						
Segment liabilities	190,641	268,777	260,226	408,126	(233,007)	894,763
TOTAL LIABILITIES	190,641	268,777	260,226	408,126	(233,007)	894,763
OTHER INFORMATION						
Increase in tangible and intangible fixed assets	25,004	36,534	35,944	6,433	(3,987)	99,928
Depreciation, amortisation and writedowns	19,785	25,546	30,435	4,292	399	80,457

Please note that the Air and Cooling Business Unit figures include the net book value of the Systèmes Moteurs Group (company name is now Sogefi Air & Cooling S.A.S.), deriving from local accounts – in other words, not including the fair value adjustment of net assets after the Purchase Price Allocation of 2011 – and only the adjustments arising from the Purchase Price Allocation and relating to the change in product warranty provisions (contingent liabilities booked upon PPA); the remaining adjustments arising from the Purchase Price Allocation are posted in column "Adjustments".

Adjustments to "Intersegment sales" mainly refer to services provided by the Parent Company Sogefi S.p.A. and by subsidiary Sogefi Gestion S.A.S. to other Group companies (see note 40 for further details on the nature of the services provided). This item also includes intersegment sales between the business units. Intersegment transactions are conducted according to the Group's transfer pricing policy.

The adjustments to "EBIT" mainly refer to depreciation and amortization linked to the revaluation of assets resulting from the acquisition of the Systemes Moteurs Group in 2011.

In the Statement of Financial Position, the adjustments to the item "Segment assets" refer to the consolidation entry of investments in subsidiaries and intercompany receivables.

Adjustments to "Unallocated assets" mainly include the goodwill and the fixed assets revaluations resulting from the acquisitions of: the Allevard Ressorts Automobile Group, Sogefi Rejna S.p.A., the Filtrauto Group, 60% of Sogefi-MNR Engine Systems India Pvt Ltd and the Systemes Moteurs Group.

Adjustments to "Unallocated assets" mainly include the goodwill and the fixed assets revaluations resulting from the acquisitions of: the Allevard Ressorts Automobile

Group, Sogefi Rejna S.p.A., the Filtrauto Group, 60% of Sogefi M.N.R. Filtration India Private Ltd (now merged into Sogefi-MNR Engine Systems India Pvt Ltd) and Systemes Moteurs Group.

“Depreciation, amortization and writedowns” include writedowns of tangible (Euro 4,240 thousand) and intangible fixed assets (Euro 6,863 thousand) for the most part relating to European subsidiaries and the subsidiary Sogefi Filtration do Brasil Ltda. These assets were written down based on the recoverable amount of assets at year-end date.

Information on the main customers

Revenues from sales to third parties as at 31 December 2017 accounting for over 10% of Group revenues are shown in the following table:

(in thousands of Euro) Group	Group		2017		
	<i>Amount</i>	%	BU Filtration	BU Air&Cool.	BU Suspensions
Ford	201,247	12.0	54,540	77,276	69,431
FCA/CNH Industrial	200,936	12.0	81,598	66,199	53,139
Renault/Nissan	192,300	11.5	58,823	43,251	90,226
PSA	185,062	11.1	53,514	64,241	67,307

Information on geographic areas

The breakdown of revenues by geographical area "of destination", in other words with regard to the nationality of the customer, is analysed in the Directors' Report and in the notes to the Income Statement.

The following table shows a breakdown of total assets by geographical area of origin:

(in thousands of Euro)	2016					
	Europe	South America	North America	Asia	Adjustments	Sogefi consolidated f/s
TOTAL ASSETS	1,470,182	102,122	130,518	142,814	(737,952)	1,107,684

(in thousands of Euro)	2017					
	Europe	South America	North America	Asia	Adjustments	Sogefi consolidated f/s
TOTAL ASSETS	1,477,869	84,706	134,900	132,727	(728,683)	1,101,519

C) NOTES ON THE MAIN INCOME STATEMENT ITEMS: STATEMENT OF FINANCIAL POSITION

C 1) ASSETS

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents amount to Euro 103,889 thousand versus Euro 93,661 thousand as at 31 December 2016 and break down as follows:

(in thousands of Euro)	12.31.2017	12.31.2016
Short-term cash investments	103,850	93,607
Cash on hand	39	54
TOTAL	103,889	93,661

“Short-term cash investments” earn interest at a floating rate.

For further details, please refer to the Analysis of the net financial position in note 22 and to the Consolidated Cash Flow Statement included in the financial statements.

As at 31 December 2017, the Group has unused lines of credit for the amount of Euro 274,342 thousand. These funds are available for use on demand, because the conditions required for their availability are met.

Please note that this item includes ARS (Argentine Peso) 54,253 thousand, i.e. the equivalent of Euro 2,366 thousand at the exchange rate in force on 31 December 2017 (ARS 18,595 thousand, the equivalent of Euro 1,110 thousand at the exchange rate in force on 31 December 2016) held by the Argentinian subsidiaries.

6. OTHER FINANCIAL ASSETS

“Other financial assets” can be broken down as follows:

(in thousands of Euro)	12.31.2017	12.31.2016
Financial receivables	653	1,676
Held-to-maturity investments	-	3,950
Assets for derivative financial instruments	857	255
TOTAL	1,510	5,881

“Held-to-maturity investments” are measured at amortised cost and include bank term deposits.

“Assets for derivative financial instruments” amount to Euro 857 thousand and refer to the fair value of forward foreign currency contracts. Further details can be found in the analysis of financial instruments contained in note 39.

7. INVENTORIES

The breakdown of inventories is as follows:

(in thousands of Euro)	12.31.2017			12.31.2016		
	Gross	Write-downs	Net	Gross	Write-downs	Net
Raw, ancillary and consumable materials	64,242	5,036	59,206	63,216	4,690	58,526
Work in progress and semi-finished products	16,117	626	15,491	16,251	384	15,867
Contract work in progress and advances	36,786	250	36,536	41,001	54	40,947
Finished goods and goods for resale	54,773	6,692	48,081	55,955	6,318	49,637
TOTAL	171,918	12,604	159,314	176,423	11,446	164,977

The gross value of inventories decreased by Euro 4,505 thousand compared to the previous fiscal year (at constant exchange rates there would be an increase of Euro 2,778 thousand).

Writedowns consist for the most part of accruals for raw materials that can no longer be used for current production and for obsolete or slow-moving finished goods, goods for resale and ancillary materials. The increase in the provisions – by Euro 1,158 thousand – reflects the allocation of an additional Euro 2,388 thousand, partly offset by products scrapped during the year (Euro 770 thousand) and a negative currency exchange effect for Euro 460 thousand.

8. TRADE AND OTHER RECEIVABLES

Current receivables break down as follows:

(in thousands of Euro)	12.31.2017	12.31.2016
Trade receivables	172,136	157,163
Less: allowance for bad debts	4,236	4,977
Trade receivables, net	167,900	152,186
Due from Parent Company	6,484	6,280
Tax receivables	23,062	24,192
Other receivables	5,508	6,820
Other assets	2,304	3,689
TOTAL	205,258	193,167

“Trade receivables, net” are non-interest bearing and have an average due date of 36 days, against 34 days recorded at the end of the previous year.

It should be noted that as at 31 December 2017, the Group factored trade receivables for Euro 94,885 thousand (Euro 98,937 thousand as at 31 December 2016), including an amount of Euro 83,582 thousand (Euro 60,804 thousand as at 31 December 2016) which was not notified and for which the Group continues to manage collection services. The risks and benefits related to these receivables have been transferred to the factor;

therefore these receivables have been derecognised in the Statement of Financial Position debiting the consideration received from the factoring company.

Excluding the factoring transactions (Euro 94,885 thousand as at 31 December 2017 and Euro 98,937 thousand as at 31 December 2016) and the effect of exchange rates (Euro 9,225 thousand), net trade receivables increased by Euro 20,887 thousand as a result of the increase in the Group's business activities in the last quarter of the year compared to the same quarter of the previous year, and a slight increase in average collection days.

Further adjustments were booked to "Allowance for bad debts" during the year for a total of Euro 871 thousand, against net utilisations of the allowance for the amount of Euro 1,462 thousand (see note 39 for further details). Writedowns, net of provisions not used during the period, were charged to Income Statement under the item "Variable cost of sales – Variable sales and distribution costs".

"Due from Parent Company" as at 31 December 2017 is the amount receivable from the Parent Company CIR S.p.A. arising from the participation in the Group tax filing system on the part of the Italian companies of the Group. Outstanding receivables as at 31 December 2016 (totalling Euro 6,280 thousand) collected in 2017 amounted to Euro 5,882 thousand.

See chapter F for the terms and conditions governing these receivables from CIR S.p.A.

"Tax receivables" as at 31 December 2017 include tax credits due to the Group companies by the tax authorities of the various countries. This item decreased by Euro 1,130 thousand mainly because of lower VAT receivables.

It does not include deferred taxes which are treated separately.

"Other receivables" are made up as follows:

(in thousands of Euro)	12.31.2017	12.31.2016
Amounts due from social security institutions	127	103
Amounts due from employees	186	202
Advances to suppliers	2,940	2,690
Due from others	2,255	3,825
TOTAL	5,508	6,820

The decrease in "Other receivables" refers for the most part to insurance indemnities, reimbursement of contributions paid to pension funds and reclassifications of trade receivables to other items.

The item "Other assets" mainly includes accrued income and prepayments on insurance premiums, rents, indirect taxes relating to buildings and on costs incurred for sales activities.

9. TANGIBLE FIXED ASSETS

The net carrying amount of tangible fixed assets as at 31 December 2017 amounted to Euro 275,795 thousand versus Euro 262,482 thousand at the end of the previous year and breaks down as follows:

(in thousands of Euro)	2017				
	Land	Buildings, plant and machinery, commercial and industrial equipment	Other assets	Assets under construction and payments on account	TOTAL
<i>Balance at January 1</i>	12,818	209,155	6,401	34,108	262,482
Additions of the period	-	25,186	1,884	41,022	68,092
Disposals during the period	-	(233)	(126)	(30)	(389)
Exchange differences	(102)	(9,760)	(678)	(1,615)	(12,155)
Depreciation for the period	-	(36,955)	(2,464)	-	(39,419)
(Write-downs)/revaluations during the period	4	(4,042)	(202)	-	(4,240)
Reclassification of non-current asset held for sale	-	-	-	-	-
Other changes	318	26,739	769	(26,401)	1,425
<i>Balance at December 31</i>	13,038	210,090	5,583	47,084	275,795
Historical cost	13,089	840,857	28,806	48,133	930,885
<i>of which: leases - gross value</i>	-	15,008	78	-	15,086
Accumulated depreciation	51	630,767	23,223	1,049	655,090
<i>of which: leases - accumulated depreciation</i>	-	9,236	78	-	9,314
Net value	13,038	210,090	5,583	47,084	275,795
<i>of which: leases - net value</i>	-	5,772	-	-	5,772

(in thousands of Euro)	2016				
	Land	Buildings, plant and machinery, commercial and industrial equipment	Other assets	Assets under construction and payments on account	TOTAL
<i>Balance at January 1</i>	14,299	201,861	5,343	30,749	252,252
Additions of the period	-	25,648	2,634	30,481	58,763
Disposals during the period	(70)	(208)	(10)	16	(272)
Exchange differences	(197)	1,702	(73)	(415)	1,017
Depreciation for the period	-	(37,073)	(2,339)	-	(39,412)
(Write-downs)/revaluations during the period	(56)	(5,609)	(464)	-	(6,129)
Reclassification of non-current asset held for sale	(1,158)	(2,260)	-	-	(3,418)
Other changes	-	25,094	1,310	(26,723)	(320)
<i>Balance at December 31</i>	12,818	209,155	6,401	34,108	262,482
Historical cost	12,881	831,790	28,639	35,157	908,467
<i>of which: leases - gross value</i>	-	16,239	89	533	16,861
Accumulated depreciation	63	622,635	22,238	1,049	645,985
<i>of which: leases - accumulated depreciation</i>	-	8,667	89	-	8,756
Net value	12,818	209,155	6,401	34,108	262,482
<i>of which: leases - net value</i>	-	7,572	-	533	8,105

Investments during the year amounted to Euro 68,092 thousand compared to Euro 58,763 thousand in the previous year.

The larger projects regarded the “Assets under construction and payments on account” and “Buildings, plant and machinery, commercial and industrial equipment” categories.

In the category "Assets under construction and payments on account", the main investments related in particular to the subsidiaries Sogefi Filtration Ltd and Sogefi HD Suspensions Germany GmbH for the development of new products and the improvement of production processes; the subsidiary Sogefi Suspensions S.A. for increased production capacity and extraordinary maintenance; subsidiaries Sogefi U.S.A. Inc. and Sogefi Filtration S.A. for the development of new products, increased production capacity; the company Sogefi (Suzhou) Auto Parts Co., Ltd for the development of new products and for the new Chinese plant for the Suspensions business unit; and, finally, the company Filter Systems Maroc S.a.r.l. for the new plant in Tangiers, Morocco, for the Filtration business unit.

Among the most significant projects in the “Buildings, plant and machinery, commercial and industrial equipment” category, noteworthy are the investments in subsidiaries Sogefi Filtration S.A. and Sogefi Air & Cooling S.A.S. to expand production capacity; Sogefi Suspensions S.A., Sogefi Air & Cooling Canada Corp. and Sogefi Engine Systems Mexico S. de R.L. de C.V. for the development of new products and the improvement of production processes; ISSA S.A. for the improvement of production processes and increased production capacity.

“Depreciation for the period” has been recorded in the appropriate item in the Income Statement.

“(Writedowns)/revaluations during the period” totals Euro 4,240 thousand, Euro 3,597 thousand of which relate to the subsidiary Sogefi Filtration do Brasil Ltda (please see paragraph Impairment test of Sogefi Filtration do Brasil Ltda below for more details), whereas the remaining part mainly relates to European companies.

Impairment losses less reversals are booked to “Other non-operating expenses (income)”.

“Other changes” refer to the completion of projects that were under way at the end of the previous year and their reclassification under the pertinent items.

The balance of “Assets under construction and payments on account” as at 31 December 2017 includes Euro 958 thousand of advances for investments.

The main inactive assets, with a total net value of Euro 4,226 thousand, included in the item “Tangible fixed assets” mostly refer to investment properties of the Parent Company Sogefi S.p.A. (located in Mantova and San Felice del Benaco, for a total amount of Euro 4,191 thousand). The fair value of these assets as measured by an independent expert report exceeds their net book value. The book value of said assets will be recovered through their sale rather than through their continuous use. As we do not expect to sell them within one year, they are not subject to the accounting treatment envisaged by IFRS 5 and depreciation is continued.

No interest costs were capitalised to “Tangible fixed assets” during the year 2017.

Guarantees

As at 31 December 2017, tangible fixed assets are encumbered by mortgages or liens totalling Euro 1,828 thousand to guarantee loans from financial institutions, compared to Euro 5,580 thousand as at 31 December 2016. Guarantees existing as at 31 December 2017 refer to subsidiary Sogefi Air & Cooling Canada Corp..

Purchase commitments

As at 31 December 2017, there are binding commitments to buy tangible fixed assets for Euro 785 thousand (Euro 2,373 thousand as at 31 December 2016) relating to the subsidiary Sogefi Suspensions S.A. Said commitments will be settled within 12 months.

Leases

The carrying value of assets under financial leases as at 31 December 2017 was Euro 15,086 thousand, and the related accumulated depreciation amounted to Euro 9,314 thousand.

The financial aspects of the lease payments and their due dates are explained in note 16.

Impairment test of Sogefi Filtration do Brasil Ltda

At the end of the fiscal year 2017, tangible and intangible fixed assets of the subsidiary Sogefi Filtration do Brasil Ltda were tested for impairment due to its negative economic and financial results and the sluggish performance of the Brazilian car market. The impairment test was carried out in accordance with the procedure laid down in IAS 36 by comparing the net book value of these assets (totalling Euro 5.5 million of tangible fixed assets) with their value in use, given by the present value of estimated future cash flows that are expected to result from the continuing use of the asset being tested for impairment.

We used the Discounted Cash Flow Unlevered model. The subsidiary took into account cash flows expected for 2018 as determined based on the budget and for the following 5 years (i.e. the estimated remaining useful life of the assets) approved by the Advisory Board of the subsidiary on 20 February 2018.

Budget and plan were prepared taking into account forecasts for the automotive industry in Brazil made by major sources in the industry, based on the expectation that the subsidiary will recover revenues and margins so as to return to pre-crisis profitability levels.

A discount rate of 17.50%, which reflects the weighted average cost of capital, was used.

As regards the average cost of capital, we calculated a weighted average of the cost of debt (taking into consideration the benchmark interest rates plus a spread) and the Company's own cost of capital, based on parameters for a group of firms operating in the European car components sector which are considered by the leading industry analysts to be Sogefi's peers. The values used to calculate the average cost of capital (extrapolated from the main financial sources) are as follows:

- financial structure of the industry: 15%
- levered beta of the industry: 1.06
- risk-free rate: 10.29% (annual average of the Brazilian sovereign debt over 10 years)
- risk premium: 8.5% (average risk premium calculated by an independent source)
- debt cost: 11%

The test based on the present value of the estimated future cash flows turns out a value in use of the assets that is lower than their carrying value; as a result, a writedown of Euro 5,751 thousand has been posted, with Euro 3,597 thousand relating to tangible fixed assets and Euro 2,154 thousand to intangible assets.

10. INTANGIBLE ASSETS

The net balance as at 31 December 2017 was Euro 272,608 thousand versus Euro 281,650 thousand at the end of the previous year, and breaks down as follows:

(in thousands of Euro)	2017						
	Develop-ment costs	Industrial patents and intellectual property rights, concessions, licences and trademarks	Other, assets under construction and payments on account	Customer Relationship	Trade name Systemes Moteurs	Goodwill	TOTAL
Balance at January 1	81,391	32,714	20,972	13,853	6,081	126,639	281,650
Additions of the period	15,215	4,415	12,206	-	-	-	31,836
Disposals during the period	(112)	-	-	-	-	-	(112)
Exchange differences	(2,953)	(71)	(944)	-	-	-	(3,968)
Amortisation for the period	(24,312)	(3,472)	(726)	(990)	(435)	-	(29,935)
Writedowns during the period	(6,544)	-	(319)	-	-	-	(6,863)
Other changes	10,532	90	(10,622)	-	-	-	-
Balance at December 31	73,217	33,676	20,567	12,863	5,646	126,639	272,608
Historical cost	214,872	68,784	26,007	19,215	8,437	149,537	486,852
Accumulated amortisation / Impairment	141,655	35,108	5,440	6,352	2,791	22,898	214,244
Net value	73,217	33,676	20,567	12,863	5,646	126,639	272,608

(in thousands of Euro)	2016						
	Development costs	Industrial patents and intellectual property rights, concessions, licences and trademarks	Other, assets under construction and payments on account	Customer Relationship	Trade name Systemes Moteurs	Goodwill	TOTAL
Balance at January 1	79,362	34,505	22,185	14,843	6,516	126,639	284,050
Additions of the period	18,653	1,485	10,159	-	-	-	30,297
Disposals during the period	(59)	-	-	-	-	-	(59)
Exchange differences	(1)	(40)	136	-	-	-	95
Amortisation for the period	(24,021)	(3,405)	(530)	(990)	(435)	-	(29,381)
Writedowns during the period	(3,257)	-	-	-	-	-	(3,257)
Other changes	10,713	169	(10,978)	-	-	-	(96)
Balance at December 31	81,391	32,714	20,972	13,853	6,081	126,639	281,650
Historical cost	211,718	65,031	25,253	19,215	8,437	149,537	479,191
Accumulated amortisation / Impairment	130,327	32,317	4,281	5,362	2,356	22,898	197,541
Net value	81,391	32,714	20,972	13,853	6,081	126,639	281,650

Investments during the year amounted to Euro 31,836 thousand.

The increases in “Development costs” for the amount of Euro 15,215 thousand refer to the capitalisation of costs incurred by Group companies to develop new products in collaboration with leading motor vehicle manufacturers (after obtaining the nomination from the customer). The most significant investments refer to the subsidiaries Sogefi Filtration S.A., Sogefi Air & Cooling Canada Corp., Sogefi Engine Systems Mexico S. de R.L. de C.V. and Sogefi Air & Cooling S.A.S..

Increases in “Industrial patents and intellectual property rights, concessions, licences and trademarks” amount to Euro 4,415 thousand and refer mainly to the development and implementation in process of the new information system across the Sogefi Group. This integrated information system is amortised on a ten-year basis, based on its estimated useful life, starting from the date of implementation in each subsidiary.

Increases in “Other, assets under construction and payments on account”, for the amount of Euro 12,206 thousand, refer mainly to a large number of investments in the development and implementation of the new products not yet flowed into production. The highest development costs were recorded at subsidiaries Sogefi Suspensions S.A., Sogefi Air & Cooling S.A.S., Sogefi Filtration Italy S.p.A., Sogefi U.S.A. Inc. and Sogefi Filtration d.o.o.

The "Customer Relationship" item, which amounts to Euro 12,863 thousand, represents the value of the Systèmes Moteurs Group's customer portfolio at the acquisition date as determined during the Purchase Price Allocation process.

The item "Trade name Systemes Moteurs" which amounts to Euro 5,646 thousand represents the value of the "Systemes Moteurs" brand name at the acquisition date as determined during the Purchase Price Allocation process.

“Writedowns”, for the amount of Euro 6,863 thousand, reflect research and development projects mainly of subsidiaries Sogefi Filtration do Brasil Ltda, Sogefi Filtration Italy S.p.A., Sogefi (Suzhou) Auto Parts Co., Ltd as well as of the French subsidiaries Sogefi Filtration S.A., Sogefi Air & Cooling S.A.S. and Sogefi Suspensions S.A. that cannot be recovered. The item does not include advances to suppliers for the purchase of fixed assets.

“Development costs” principally include costs generated internally, whereas "Industrial patents and intellectual property rights, concessions, licences and trademarks” consist of factors that are acquired externally for the most part.

“Other, assets under construction and payments on account” include around Euro 16,021 thousand of costs generated internally.

There are no intangible assets with an indefinite useful life except for goodwill.

Goodwill and impairment test

Goodwill is not amortised, but subjected each year to impairment test.

The Company identified five Cash Generating Units (CGUs):

- filtration
- air & cooling
- car suspension
- industrial vehicle suspension
- precision springs

For the moment, it is possible to identify goodwill deriving from external acquisitions in three CGUs: Filtration, Air&Cooling and Car Suspension.

The specific goodwill of the CGU “filtration” amounts to Euro 77,030 million, the goodwill of CGU “air&cooling” amounts to Euro 32,560 million, and the goodwill of CGU “Car Suspension” amounts to Euro 17,049 thousand.

Impairment tests have been carried out in accordance with the procedure laid down in IAS 36 to check whether there have been any losses in the value of this goodwill, by comparing the book value of the individual CGUs with their value in use, given by the present value of estimated future cash flows that are expected to result from the continuing use of the asset being tested for impairment.

We used the Discounted Cash Flow Unlevered model. The Group took into account the cash flows projections expected for 2018 as determined based on the budget (approved by the Board of Directors on 22 January 2018) and the forecasts included in the 2019-2022 plan (adjusted to eliminate any estimated benefits from future projects and reorganisations) approved by the Board of Directors on the same date. Budget and plan were prepared taking into account forecasts for the automotive industry made by major sources in the industry.

A discount rate of 8.89%, which reflects the weighted average cost of capital, was used. The same discount rate is used for all three CGUs. As a matter of fact, the three CGUs operate in the same sector and deal with the same kind of customers, and it is estimated that they are exposed to the same risks.

The terminal value was calculated using the “perpetual annuity” approach, assuming a growth rate (“g-rate”) of 2% (assumed to be conservative when compared to the forecasts for the automotive segment available from major sources of the industry) and considering an operating cash flow based on the last year of the projection (the year 2022), adjusted to project a stable situation “in perpetuity”, based on the following main assumptions:

- a balance between capital investment and depreciation (according to the rationale of considering the level of investment needed to "maintain" the business);
- change in working capital equal to zero.

As regards the average cost of capital, we calculated a weighted average of the cost of debt (taking into consideration the benchmark interest rates plus a spread) and the Company's own cost of capital, based on parameters for a group of firms operating in

the European car components sector which are considered by the leading industry analysts to be Sogefi's peers. The values used to calculate the average cost of capital (extrapolated from the main financial sources) are as follows:

- financial structure of the industry: 15.0%
- levered beta of the industry: 1.06
- risk-free rate: 3.2% (annual average of risk-free rates of 10 year sovereign debt of the key markets in which the Group operates, weighted by revenues)
- risk premium: 6.3% (average risk premium calculated by an independent source for the key markets in which the Group operates, weighted by revenues)
- debt cost spread: 3.3% (estimate based on the 2018 budget)

As far as the sensitivity analysis goes, it should be noted that:

- the impairment test reached the break-even point at the following discounting rates (growth rate of terminal value remaining unchanged at 2% and all other plan assumptions being equal): 20.1% for CGU Filtration; 29.0% for CGU Air&Cooling; and 13.7% for CGU Car Suspension;
- the impairment test reached break-even point with a significant reduction in EBIT during the explicit period covered by the plan that was also applied to terminal value (all other plan assumptions being equal): -62.6% in CGU Filtration; -77.4% in CGU Air&Cooling; and -42.7% in CGU Car Suspension;
- the impairment test reached break-even point at the following decreasing rates of the terminal value "g-rate" (all other plan assumptions being equal): -20.9% in CGU Filtration; -102.8% in CGU Air&Cooling; and -5.0% in CGU Car Suspension.

The test based on the present value of the estimated future cash flows turns out a value in use of the CGUs that exceeds their carrying value, so no writedown has been posted.

11. INVESTMENTS IN JOINT VENTURES

As at 31 December 2017, there were no investments in joint ventures.

12. OTHER FINANCIAL ASSETS AVAILABLE FOR SALE

As at 31 December 2017, this item amounts to Euro 46 thousand, unchanged compared to the previous fiscal year.

13. FINANCIAL RECEIVABLES AND OTHER NON-CURRENT RECEIVABLES

Non-current financial receivables total Euro 2,215 thousand (Euro 15,770 thousand as at 31 December 2016) and refer to the fair value of cross currency swap hedging contracts. For further details, please refer to note 39.

"Other receivables" break down as follows:

(in thousands of Euro)	12.31.2017	12.31.2016
Pension fund surplus	9,735	9,955
Other receivables	27,647	19,863
TOTAL	37,382	29,818

“Other receivables” include an indemnification asset of Euro 9,735 thousand (Euro 9,955 thousand as at 31 December 2016) owed by the seller of Sogefi Air & Cooling S.A.S.’s shares. – booked upon the PPA of the Systemes Moteurs Group – relating to the recovery of expenses charged by customers following claims on the quality of products sold, based on warranties given by the same seller.

For further details, please refer to note 2, paragraph “Consolidation principles and accounting policies – Critical estimates and assumptions”.

The item “Other non-current receivables” also includes tax credits relating to the research and development activities of the French subsidiaries, other tax credits and non-interest bearing guarantee deposits for leased properties.

These receivables will be collected over the coming years. They increased by Euro 7,784 thousand, of which Euro 5,100 thousand reflect tax credits originated from research and development activities of the French subsidiaries.

DEFERRED TAX ASSETS

As at 31 December 2017, this item amounts to Euro 40,080 thousand compared to Euro 56,810 thousand as at 31 December 2016.

This amount relates to the expected benefits on deductible temporary differences, booked to the extent that it is probable that it will be recovered. Reference should be made to note 20 for a further discussion of this matter.

14. NON-CURRENT ASSETS HELD FOR SALE

As at 31 December 2017, non-current assets held for sale total Euro 3,418 thousand and relate to the plot of land and building of the Lieusaint site owned by the subsidiary Sogefi Suspensions S.A., which were reclassified to “Non-current assets held for sale” as it is highly probable that they will be sold during 2018.

C 2) LIABILITIES AND EQUITY

15. FINANCIAL DEBTS TO BANKS AND OTHER FINANCING CREDITORS

These break down as follows:

Current portion

(in thousands of Euro)	12.31.2017	12.31.2016
Bank overdrafts and short-term loans	14,170	11,005
Current portion of medium/long-term financial debts <i>of which: leases</i>	66,584 1,679	137,203 1,721
Total loans maturing within one year	66,584	137,203
TOTAL SHORT-TERM FINANCIAL DEBTS	80,754	148,208
Other short-term liabilities for derivative financial instruments	2,678	400
TOTAL SHORT-TERM FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS	83,432	148,608

Non-current portion

(in thousands of Euro)	12.31.2017	12.31.2016
Financial debts to banks	101,993	48,291
Other medium/long-term financial debts <i>of which: leases</i>	186,224 6,408	209,906 9,039
TOTAL MEDIUM/LONG-TERM FINANCIAL DEBTS	288,217	258,197
Other medium/long-term liabilities for derivative financial instruments	-	7,550
TOTAL MEDIUM/LONG-TERM FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS	288,217	265,747

Bank overdrafts and short-term loans

For further details, please refer to the Analysis of the net financial position in note 22 and to the Consolidated Cash Flow Statement included in the financial statements.

Current and non-current portions of medium/long-term financial debts

Details are as follows:

Balance as at 31 December 2017 (in thousands of Euro):

Company	Bank/Credit Institute	Signing date	Due date	Original amount loan	Interest rate	Current portion	Non-current portion	Total amount	Real Guarantees
Sogefi S.p.A.	BNP Paribas S.A.	Sep - 2014	Nov - 2019	35,000	Euribor 3m. + 153 bps variable	-	34,993	34,993	N/A
Sogefi S.p.A.	ING Bank	July - 2015	Sep - 2022	55,000	Euribor 3m. + 165 bps variable	10,000	34,876	44,876	N/A
Sogefi S.p.A.	Mediobanca S.p.A.	Jun - 2017	Jun - 2020	20,000	Euribor 3m. + 110 bps variable	-	19,976	19,976	N/A
Sogefi S.p.A.	Banco do Brasil S.A.	Sep - 2015	Sep - 2018	19,000	Euribor 3m. + 130 bps variable	7,580	-	7,580	N/A
Sogefi S.p.A.	Banca Carige S.p.A.	Nov - 2015	Jun - 2019	10,000	Euribor 6m. + 130 bps variable	2,885	1,425	4,310	N/A
Sogefi Filtration S.A.	Société Générale	Apr - 2017	Oct - 2019	5,000	Euribor 3m. + 75 bps variable	2,490	2,510	5,000	N/A
Sogefi Suspensions S.A.	Société Générale	Apr - 2017	Oct - 2019	5,000	Euribor 3m. + 75 bps variable	2,491	2,509	5,000	N/A
Sogefi Air&Cooling S.A.S.	Société Générale	May - 2017	Nov - 2019	5,000	Euribor 3m. + 75 bps variable	2,491	2,509	5,000	N/A
Sogefi (Suzhou) Auto Parts Co., Ltd	Intesa SanPaolo S.p.A.	Aug - 2017	May - 2018	5,941	106.4% PBOC 6m.	5,941	-	5,941	N/A
Sogefi (Suzhou) Auto Parts Co., Ltd	Unicredit S.p.A.	Nov - 2017	Nov - 2018	6,347	107% PBOC 6m.	6,347	-	6,347	N/A
Sogefi (Suzhou) Auto Parts Co., Ltd	Commerz bank	July - 2017	Jan - 2018	705	106% PBOC 6m.	705	-	705	N/A
Sogefi Air & Cooling Canada Corp.	Ge Capital	Sep - 2015	Sep - 2019	3,990	4,207% fixed	1,028	800	1,828	YES
Sogefi Filtration do Brasil Ltda	Banco do Brasil	Aug - 2017	Aug - 2018	1,166	3.84% fixed	1,166	-	1,166	N/A
Sogefi Filtration do Brasil Ltda	Banco Itau	Nov - 2017	May - 2018	600	5% fixed	600	-	600	N/A
Sogefi Filtration do Brasil Ltda	Banco do Brasil	Apr - 2017	Apr - 2018	1,458	4,05% fixed	1,458	-	1,458	N/A
S.C. Sogefi Air & Cooling S.r.l	ING Bank	May - 2016	May - 2020	4,602	ROBOR 3m + 1,75%	1,416	2,124	3,540	N/A
Other loans						19,986	272	20,257	
TOTAL						66,584	101,993	168,577	

The current portion of line “Other medium/long-term financial debts” includes Euro 13,698 thousand relating to the bond issue of USD 115,000 thousand. This item also includes other minor loans, as well as financial lease payments in accordance with IAS 17.

Balance as at 31 December 2016 (in thousands of Euro):

Company	Bank/Credit Institute	Signing date	Due date	Original amount loan	Interest rate	Current portion	Non-current portion	Total amount	Real Guarantees
Sogefi S.p.A.	BNP Paribas S.A.	Sep - 2014	Sep - 2017	25,000	Euribor 3m. + 190 bps variable	24,939	-	24,939	N/A
Sogefi S.p.A.	ING Bank	July - 2015	Sep - 2020	30,000	Euribor 3m. + 190 bps variable	-	29,879	29,879	N/A
Sogefi S.p.A.	Banca Carige S.p.A	July - 2011	Sep - 2017	25,000	Euribor 3m. + 225 bps variable	4,026	-	4,026	N/A
Sogefi S.p.A.	Banco do Brasil S.A.	Dic - 2012	Apr - 2017	15,000	Euribor 3m. + 315 bps variable	3,742	-	3,742	N/A
Sogefi S.p.A.	Mediobanca S.p.A	July - 2015	Jan - 2017	20,000	Euribor 3m. + 130 bps variable	19,996	-	19,996	N/A
Sogefi S.p.A.	Mediobanca S.p.A	Dic - 2015	Jun - 2017	20,000	Euribor 3m. + 125 bps variable	19,983	-	19,983	N/A
Sogefi S.p.A.	Banco do Brasil S.A.	Sep - 2015	Sep - 2018	19,000	Euribor 3m. + 130 bps variable	7,600	7,552	15,152	N/A
Sogefi S.p.A.	Banca Carige S.p.A	Nov - 2015	Jun - 2019	10,000	Euribor 6m. + 130 bps variable	2,848	4,289	7,137	N/A
Sogefi (Suzhou) Auto Parts Co., Ltd	ING Bank	Mar - 2015	Jan - 2017	9,358	160% PBOC year	9,358	-	9,358	N/A
Sogefi (Suzhou) Auto Parts Co., Ltd	Intesa SanPaolo S.p.A.	Nov - 2016	May - 2017	5,350	120% PBOC 3m.	5,350	-	5,350	N/A
Sogefi (Suzhou) Auto Parts Co., Ltd	Unicredit S.p.A.	Nov - 2016	Nov - 2017	4,097	115% PBOC 3m.	4,097	-	4,097	N/A
Sogefi (Suzhou) Auto Parts Co., Ltd	Commerz bank	July- 2016	Jun - 2017	3,005	105% PBOC 6m.	3,005	-	3,005	N/A
Sogefi Air & Cooling Canada Corp.	Ge Capital	Sep - 2015	Sep - 2019	4,229	4,207% fixed	1,045	1,938	2,983	YES
Sogefi Filtration do Brasil Ltda	Banco do Brasil	July- 2014	Aug - 2017	3,322	8 % fixed	3,322	-	3,322	N/A
Sogefi Filtration do Brasil Ltda	Banco do Brasil	Sep - 2015	Aug - 2018	2,915	17,96% fixed	1,206	804	2,010	YES
Sogefi Filtration do Brasil Ltda	Banco Itau	Mar - 2016	Mar - 2017	2,591	6,2% fixed	791	-	791	N/A
S.C. Sogefi Air & Cooling S.r.l.	ING Bank	May - 2016	May - 2020	4,723	ROBOR 3m. + 2,8%	1,090	3,633	4,723	N/A
Shanghai Sogefi Auto Parts Co., Ltd	Bank of China	July - 2016	Jan - 2017	2,049	105% PBOC 6m.	2,049	-	2,049	N/A
Other loans						22,756	196	22,951	
TOTAL						137,203	48,291	185,494	

In 2017, the Parent Company Sogefi S.p.A. entirely repaid the loans outstanding at 31 December 2016 with Mediobanca S.p.A., stipulated in July 2015 and expiring in January 2017, for a total of Euro 20 million and with Banco do Brasil S.A., stipulated in December 2012 and expiring in April 2017, for the balance of Euro 3.8 million and with Banca Carige S.p.A., stipulated in July 2011 and expiring in September 2017 for the balance of Euro 4 million. The loan of Euro 20 million granted by Mediobanca S.p.A in December 2015 and expiring in the month of June 2017 was replaced by a loan of the same amount and signed with the same institution in June 2017 and expiring in the month of June 2020 at a floating rate of 3-month Euribor plus a spread of 110 basis points. With reference to the bond loan originally for USD 115 million expiring in May 2023, as per the relative contract the Parent Company Sogefi S.p.A. paid the first instalment in May, for a total sum of USD 16.4 million.

During the second half of 2017, the Parent Company Sogefi S.p.A. re-negotiated the loan agreements entered into with Bnp Paribas S.A., Unicredit S.p.A. and Ing Bank N.V..

The loan obtained from Bnp Paribas S.A. originally for Euro 55 million - of which Euro 25 million bullet and Euro 30 million revolving - was re-negotiated by extending the

available amounts, which currently amount to Euro 35 million bullet and Euro 35 million revolving, expiring in November 2019 and improving the spreads applied; as at 31 December 2017, the Parent Company Sogefi S.p.A. used the entire bullet amount of Euro 35 million at a rate linked to the 3-month Euribor plus a spread of 153 basis points. The loan obtained from Ing Bank N.V., originally for Euro 30 million revolving, was re-negotiated by extending the available amounts, which currently amount to Euro 55 million revolving, expiring in September 2022 and improving the spreads applied; as at 31 December 2017, the Parent Company Sogefi S.p.A. used the amount of Euro 45 million at a rate linked to the 3-month Euribor plus a spread of 165 basis points. The loan obtained from Unicredit S.p.A., originally for Euro 50 million revolving, was re-negotiated by maintaining the same total amount available but extending the expiration to September 2022 and reviewing the spreads applicable to the loan based on more favourable terms; as at 31 December 2017, the Parent Company Sogefi S.p.A. had not drawn on this loan.

The existing loans are not secured by the assets of Parent Company Sogefi S.p.A.. Furthermore, note that, contractually, the spreads relating to the loans of the Parent Company Sogefi S.p.A. are reviewed every six months on the basis of the computation of the consolidated NFP/normalised consolidated EBITDA ratio. For an analysis of the covenants relating to loans outstanding at the end of the period, please refer to the note 22 - entitled “Analysis of the financial position”.

Other short-term liabilities for derivative financial instruments

The item includes the short-term portion of the *fair value* of the exchange risk hedging contracts.

Reference should be made to chapter E for a further discussion of this matter.

Other medium/long-term financial debts

As at 31 December 2017, details were as follows (in thousands of Euro):

Company	Bank/Credit Institute	Signing date	Due date	Original amount loan	Interest rate	Total amount at December 31, 2017	Real guarantees
Sogefi S.p.A.	Private placement	May - 2013	May - 2023	USD 115,000	Fixed coupon 600 bps	68,253	N/A
Sogefi S.p.A.	Private placement	May - 2013	May - 2020	Euro 25,000	Fixed coupon 505 bps	24,967	N/A
Sogefi S.p.A.	Equity linked bond	May - 2014	May - 2021	Euro 100,000	Fixed coupon 2% year	85,678	N/A
	Leases					6,408	
Other financial debts						7,326	
TOTAL						186,224	

Please note that an amount of Euro 13,698 thousand relating to the bond issue of USD 115,000 thousand was classified under “Current portion of medium/long-term financial debts” because redemption will occur during the year 2018.

Line “Other medium/long-term financial debts” includes other minor loans, as well as financial lease payments in accordance with IAS 17.

As at 31 December 2016, details were as follows (in thousands of Euro):

Company	Bank/Credit Institute	Signing date	Due date	Original amount loan (in thousands)	Interest rate	Total amount at December 31, 2016 (in thousands of Euro)	Real guarantees
Sogefi S.p.A.	Private placement	May - 2013	May - 2023	USD 115,000	Fixed coupon 600 bps	93,228	N/A
Sogefi S.p.A.	Private placement	May - 2013	May - 2020	Euro 25,000	Fixed coupon 505 bps	24,953	N/A
Sogefi S.p.A.	Equity linked bond	May - 2014	May - 2021	Euro 100,000	Fixed coupon 2% year	82,035	N/A
Other financial debts						9,689	
TOTAL						209,906	

The balance in Euro of the bond of USD 115,000 thousand decreased as a result of the redemption of USD 16.4 million that was settled during 2017 and of the variation in the Euro-to-USD exchange rate (this variation being hedged as detailed in section E).

Other medium/long-term financial liabilities for derivative financial instruments

As of 31 December 2017, this item amounts to zero. Reference should be made to chapter E for a further discussion of this matter.

Finance leases

The Group has finance leases as well as rental and hire contracts for building, plant and machinery that, according to their type, cover almost the entire useful life of the asset concerned. The assets held under these leases, rental and hire contracts are booked in accordance with IAS 17 as though they were fixed assets owned by the Group, disclosing their historical cost, depreciation, the financial cost and the residual liability. Future payments deriving from these contracts can be summarised as follows:

(in thousands of Euro)	Instalments	Capital
Within 12 months	2,044	1,679
Between 1 and 5 years	6,554	5,828
Beyond 5 years	586	580
Total lease payments	9,185	8,087
Interests	(1,098)	-
TOTAL PRESENT VALUE OF LEASE PAYMENTS	8,087	8,087

The contracts included in this item refer to the following subsidiaries:

- Sogefi Filtration Ltd for a long-term rental contract for the production site in Tredegar. The contract expires in September 2022 and the original total amount of the contract was Euro 2,987 thousand; the future capital payments amount to Euro 1,511 thousand and the annual nominal rate of interest applied by the lessor is 11.59%.

The Group has given sureties for this contract.

This rental contract has been accounted for as financial leases, as required by IAS 17, where the present value of the rent payments amounted approximately with the fair value of the asset at the time the contract was signed.

- Sogefi USA Inc. has entered into the following lease contracts for the Prichard production site relating to:

a) plants, machinery and improvements to the building for an original amount of Euro 1,334 thousand. The contract expires in May 2019, the future capital payments amount to Euro 222 thousand and the annual interest rate applied by the lessor is equal to 3.92%. The Group has given sureties for this contract;

b) plants, machinery and improvements to the building for an original amount of Euro 2,399 thousand. The contract expires in July 2019, the future capital payments amount to Euro 460 thousand and the annual interest rate applied by the lessor is equal to 3%. The Group has given sureties for this contract.

c) plants, machinery and improvements to the building for an original amount of Euro 6,870 thousand. The contract expires in June 2023, the future capital payments amount to Euro 5,894 thousand and the annual interest rate applied by the lessor is equal to 3.24%. The Group has given sureties for this contract.

There are no restrictions of any nature on these leases. Upon expiry of the contracts ownership of the assets is transferred to the lessee without payment of any purchase price. These contracts are therefore accounted for as financial leases, as required by IAS 17.

16. TRADE AND OTHER CURRENT PAYABLES

The amounts shown in the financial statements can be broken down into the following categories:

(in thousands of Euro)	12.31.2017	12.31.2016
Trade and other payables	373,181	339,086
Tax payables	7,817	8,664
TOTAL	380,998	347,750

Details of trade and other payables are as follows:

(in thousands of Euro)	12.31.2017	12.31.2016
Due to suppliers	283,805	262,884
Due to the parent company	4,611	3,254
Due to tax authorities for indirect and other taxes	9,287	11,359
Due to social and security institutions	20,354	20,668
Due to employees	31,871	31,992
Fair value put option	14,977	-
Other payables	8,276	8,929
TOTAL	373,181	339,086

Amounts “Due to suppliers ” are not interest-bearing and are settled on average in 67 days (66 days as at 31 December 2016).

There is no significant concentration of payables due to any one supplier or small group of suppliers.

The amounts “Due to suppliers” increased by Euro 20,921 thousand (by Euro 29,952 thousand at constant exchange rates); this is mainly due to business growth in the last portion of 2017 compared to the same period of the previous year and to the slight increase in average payment time.

Amounts “Due to parent company” reflect the consideration of Euro 1,943 thousand due for the fiscal surplus transferred by companies that have joined the CIR Group tax filing system; Euro 2,553 thousand represent the tax liability, net of the relevant pre-payments, of the Italian subsidiaries in connection with the CIR Group tax filing system, and Euro 114 thousand reflect outstanding Directors' remuneration charged back to the parent company CIR S.p.A. For further details, please refer to note 40.

Item “Fair value put option” reflects the fair value of the liability generated when the non-controlling shareholders of subsidiary Sogefi M.N.R. exercised their put option. Engine Systems India Pvt Ltd, on 30% of its share capital. The fair value of the liability represents a reasonable estimate of the option exercise price, and was determined using the method that involves discounted cash flows method, based on the cash flows of the 2018 budget and the plan for 2019-2022 of the affected subsidiary.

At 31 December 2016, the fair value of the option, amounting to Euro 8,997 thousand, was recognised to long-term debts.

Minority shareholders exercised the option in October 2017.

“Tax payables” are taxes accrued in 2017.

17. OTHER CURRENT LIABILITIES

“Other current liabilities” for the amount of Euro 8,626 thousand (Euro 8,197 as at 31 December 2016) include adjustments to costs and revenues for the period so as to ensure compliance with the accruals based principle (accrued expenses and deferred income), deferred margin on tooling sales and advances received from customers for orders still to be delivered.

18. LONG-TERM PROVISIONS AND OTHER PAYABLES

These are made up as follows:

Details of the main items are given below.

(in thousands of Euro)	12.31.2017	12.31.2016
Pension funds	48,713	53,198
Employment termination indemnities	5,425	5,996
Provision for restructuring	2,623	2,106
Provision for product warranties	18,214	19,081
Provisions for disputes in progress and other risks	12,074	8,936
TOTAL	87,049	89,317

Pension funds

The amount of Euro 48,713 thousand represents the amount set aside at year end by the various Group foreign companies to cover the liabilities of their various pension funds. Changes in the pension funds occurred during the year are shown below:

(in thousands of Euro)	12.31.2017	12.31.2016
Opening balance	53,198	42,575
Cost of benefits charged to income statement	3,816	3,380
"Other Comprehensive Income"	(3,416)	12,929
Contributions paid	(4,091)	(2,939)
Exchange differences	(794)	(2,747)
TOTAL	48,713	53,198

The following table shows all of the obligations deriving from "Pension funds" and the present value of the plan assets for the year 2017 and the two previous years.

(in thousands of Euro)	12.31.2017	12.31.2016	12.31.2015
Present value of defined benefit obligations	213,141	221,176	221,701
Fair value of plan assets	164,428	167,978	179,126
Deficit	48,713	53,198	42,575

Changes in the "Present value of defined benefit obligations" for the year 2017 were as follows:

(in thousands of Euro)	12.31.2017	12.31.2016
Present value of defined benefit obligations at the beginning of the period	221,176	221,701
Current service cost	1,895	1,638
Financial expenses	5,586	7,353
Remeasurement (gains)/losses		
- Actuarial (gains)/losses arising from changes in demographic assumptions	586	(6,777)
- Actuarial (gains)/losses arising from changes in financial assumptions	234	39,275
- Actuarial (gains)/losses arising from experience	(632)	(5,176)
- Actuarial (gains)/losses arising from "Other long-term benefits"- Jubilee benefit	112	332
Contribution paid by plan participants	157	183
Settlements/Curtailments	195	(310)
Exchange differences	(6,708)	(28,952)
Benefits paid	(9,460)	(8,091)
Present value of defined benefit obligations at the end of the period	213,141	221,176

"Actuarial (gains)/losses arising from changes in demographic assumptions" are mainly due to revised turnover assumptions in French funds and revised assumptions concerning the application for advance retirement and lump sum for the British pension funds.

“Actuarial (gains)/losses arising from changes in financial assumptions” are mainly due to a diminished discount rate in British pension funds, partially offset by the effect of the increase in discount rate for French pension funds.

“Actuarial (gains)/losses arising from experience adjustments” reflect the difference between actuarial assumptions and what occurred in practice (for instance, in terms of employee turnover, wage inflation or inflation rate).

“Actuarial (gains)/losses relating to other long-term benefits” mainly relate to the French subsidiaries.

With regard to the balances of companies that use functional currencies other than the Euro, please note that the Income Statement items are translated into Euro using the average exchange rate of the reporting period; the present value of obligations at beginning and end of period was translated at the rate of exchange ruling at the relevant date.

Changes in the fair value of plan assets are illustrated in the table below:

(in thousands of Euro)	12.31.2017	12.31.2016
Fair value of plan assets at the beginning of the period	167,978	179,126
Interest income	4,520	6,175
Remeasurement (gains)/losses:		
Return on plan assets	3,604	14,393
Non investment expenses	(548)	(542)
Contributions paid by the company	2,405	1,737
Contributions paid by the plan participants	138	183
Settlements/Curtailments	-	-
Exchange differences	(5,896)	(26,205)
Benefits paid	(7,773)	(6,889)
Fair value of plan assets at the end of the period	164,428	167,978

With regard to the balances of companies that use functional currencies other than the Euro, please note that the Income Statement items are translated into Euro using the average exchange rate of the reporting period, whereas the fair value of assets at beginning and end of period was translated at the rate of exchange ruling at the relevant date.

Details of the amounts recognised in Other comprehensive income are given below:

(in thousands of Euro)	12.31.2017	12.31.2016
Return on plan assets (excluding amounts included in net interests expenses on net liability (assets))	(3,604)	(14,393)
Actuarial (gains)/losses arising from changes in demographic assumptions	586	(6,777)
Actuarial (gains)/losses arising from changes in financial assumptions	234	39,275
Actuarial (gains)/losses arising from experience	(632)	(5,176)
Value of the net liability (asset) to be recognised in "Other Comprehensive income"	(3,416)	12,929

The amounts charged to the Income Statement can be summarised as follows:

(in thousands of Euro)	12.31.2017	12.31.2016
Current service cost	1,895	1,638
Net interest cost	1,066	1,178
Actuarial (gains)/losses recognised during the year on "Other long-term benefits"- Jubilee benefit	112	332
Non-management costs of plan assets	548	542
Settlements/Curtailments	195	(310)
TOTAL	3,816	3,380

Items “Current service cost” and “Non-management costs of plan assets” are included in the various “Labour cost” lines of Income Statement items.

Line “Financial expenses, net” is included in “Financial expenses (income), net”.

“Actuarial (gains) losses related to jubilee benefits recognized during the year” and “Settlements/Curtailments” are included in “Other non-operating expenses (income)”.

Defined-benefit plans expose the Group to the following actuarial risks:

- Investment risk (only applies to British subsidiaries that hold plan assets): the present value of the defined-benefit obligation is calculated at a discount rate determined with reference to returns on AA-rated UK corporate bonds or Eurozone corporate bonds; if the return on plan assets is lower than this rate, the plan will be in deficit. For this reason, and considering the long-term nature of plan liabilities, the British companies' funds diversified their portfolios to include investment in properties, debt instruments and equity instruments.
- Interest risk: a decrease in the discount rate will lead to an increase in plan liability; however, if plan assets are present, such increase will be partially offset by an increase in the return on plan investments.
- Longevity risk: the value of the defined-benefit obligation is calculated taking into account the best possible estimate of the mortality rate of plan beneficiaries; an increase in life expectancy leads to an increase in the resulting obligation.
- Inflation risk/wage inflation risk: the value of the definite-benefit plan with reference to employees in service is calculated taking into account future pay rises and inflation rate: an increase in these elements causes the relevant obligation to increase.

The following table shows the breakdown of “Pension funds” by geographical area of the relevant subsidiaries:

(in thousands of Euro)	12.31.2016			
	Great Britain	France	Other	TOTAL
Present value of defined benefit obligations	190,788	26,734	3,654	221,176
Fair value of plan assets	167,781	-	197	167,978
Deficit	23,007	26,734	3,457	53,198

(in thousands of Euro)	12.31.2017			
	Great Britain	France	Other	TOTAL
Present value of defined benefit obligations	185,194	24,367	3,580	213,141
Fair value of plan assets	164,186	-	242	164,428
Deficit	21,008	24,367	3,338	48,713

Deficit reduction in France can be traced back mainly to a higher discount rate. The reduction of the Deficit in Great Britain is mainly due to the company's contributions to the fund.

Note that the actuarial valuations of the “Pension funds” are carried out in collaboration with external specialists.

The following paragraphs summarise the pension systems in the geographical areas that affect the Group the most: Great Britain and France.

Great Britain

In Great Britain, pension plans are mainly private, being made with fund management companies and administered independently from the company.

They are classified as defined-benefit plans subject to actuarial valuation that are accounted for according to the corridor approach as provided for by IAS 19.

With regard to plan governance, administrators are representatives of employees, former employees and employer; they are required by law to act in the interest of the fund and of all main stakeholders and are responsible for the investment policies adopted for plan assets.

With regard to the nature of employee benefits, employees are entitled to a post-employment annuity calculated by multiplying a portion of the wage earned at retirement age by the number of years of service until retirement age.

The main assumptions used in the actuarial valuation of these “Pension funds” were as follows:

	12.31.2017	12.31.2016
Discount rate %	2.7	2.8
Expected annual wage rise %	3.6	2.2-3.7
Annual inflation rate %	2.1-3.1	2.2-3.2
Retirement age	65	65

The diminished “Discount rate” versus the previous year reflects the downward trend in returns on AA-rated UK corporate bonds recorded in 2017. The “Discount rate” is calculated based on the returns on AA-rated UK corporate bonds (average duration of 15 years) adjusted for the longer average duration of the bond (19 years).

Changes in the present value of the UK funds obligation for 2017 and 2016 were as follows:

(in thousands of Euro)	12.31.2017	12.31.2016
Present value of defined benefit obligations at the beginning of the period	190,788	195,409
Current service cost	178	208
Financial expenses	5,118	6,704
Remeasurement (gains)/losses:		
- Actuarial (gains)/losses arising from changes in demographic assumptions	1,550	(6,845)
- Actuarial (gains)/losses arising from changes in financial assumptions	1,679	35,911
- Actuarial (gains)/losses arising from experience	-	(4,941)
Past service cost	-	-
Contribution paid by plan participants	138	183
Settlements/Curtailments	195	-
Exchange differences	(6,691)	(28,956)
Benefits paid	(7,761)	(6,885)
Present value of defined benefit obligations at the end of the period	185,194	190,788

Changes in the fair value of UK plan assets are illustrated in the table below:

(in thousands of Euro)	12.31.2017	12.31.2016
Fair value of plan assets at the beginning of the period	167,781	179,031
Interest income	4,508	6,168
Remeasurement (gains)/losses:		
Return on plan assets	3,603	14,391
Non investment expenses	(548)	(542)
Contribution paid by the company	2,365	1,645
Contribution paid by plan participants	138	183
Settlements/Curtailments	-	-
Exchange differences	(5,900)	(26,210)
Benefits paid	(7,761)	(6,885)
Fair value of plan assets at the end of the period	164,186	167,781

Allocations of the fair value of plan asset based on type of financial instrument were as follows:

	12.31.2017	12.31.2016
Debt instruments	17.3%	17.7%
Equity instruments	33.9%	29.1%
Real estate investments	0.3%	0.3%
Cash	11.2%	11.3%
Derivatives	28.3%	31.2%
Other assets	9.0%	10.4%
TOTAL	100.0%	100.0%

The fair value of these financial instruments was measured based on quoted prices available in active markets.

Debt instruments are mostly foreign corporate securities. Equity instruments are mostly foreign securities (emerging country securities constitute a minimal share).

The Trustee Board periodically reviews the plan's investment strategies and diversifies them by risk and asset profitability. These strategies take into account the nature and duration of liabilities, the fund's financing needs and the employer's ability to meet the fund's commitments. The fund of subsidiary Sogefi Filtration Ltd uses derivative financial instruments to hedge the risk of changes in liability value connected with inflation, exchange and interest rates.

With regard to the impact of the defined-benefit plan of the UK companies on the Group's future cash flows, expected contributions to the plans for the next year total Euro 2,335 thousand.

Average bond duration as at 31 December 2017 is approximately 19 years.

In compliance with the IAS 19, a sensitivity analysis was performed to determine how the present value of the bond changes as the most significant actuarial assumptions change, other actuarial assumptions being equal.

Considering the peculiar operation of UK funds, the following actuarial assumptions are considered significant:

- Discount rate
- Wage inflation rate
- Life expectancy

An overview of the changes in the present value of the obligation triggered by changes in these actuarial assumptions is provided below:

(in thousands of Euro)	12.31.2017	
	+1%	-1%
Discount rate	(30,764)	40,053
Rate of salary increase	93	(89)

(in thousands of Euro)	12.31.2017	
	+ 1 year	- 1 year
Life expectancy	5,788	(5,971)

France

Pensions in France are essentially based on state pension plans and the responsibility of the company is limited to paying the contributions established by law.

In addition to this basic assistance guaranteed by the state, retiring employees are also entitled to other additional amounts under collective labour agreements that are determined based on length of service and salary level, and are only paid if the employee reaches retirement age in the company. An employee leaving the company before retirement age will lose these additional benefits.

These additional benefits are recognised as a liability for the company and, in accordance with IAS 19, they are considered as defined-benefit plans subject to actuarial valuation.

In addition to the retirement indemnity, a collective labour agreement provides for a “*Jubilee benefit*” (which is calculated with a different method at each different French subsidiary) that vests upon reaching 20, 30, 35 and 40 years of service with the company. Under the IAS 19, this “*Jubilee benefit*” falls under the residual category of “Other long-term benefits” and is subject to actuarial valuation; actuarial gains (losses) must be recognised in the Income Statement for that year. Employees will lose the bonus falling due upon the different service jubilee bonuses if they leave the company before reaching the years of service mentioned above.

The main assumptions used in the actuarial valuation of these “Pension funds” were as follows:

	12.31.2017	12.31.2016
Discount rate %	1.6	1.5
Expected annual wage rise %	2.5	2.5
Annual inflation rate %	1.8	1.8
Retirement age	62-67	62-67

The “Discount rate” is calculated based on the returns on Eurozone AA-rated corporate bonds (average duration of 15 years).

Changes in the “Present value of defined benefit obligations” were as follows:

(in thousands of Euro)	12.31.2017	12.31.2016
Present value of defined benefit obligations at the beginning of the period	26,734	22,650
Current service cost	1,583	1,314
Financial expenses	397	568
Remeasurement (gains)/losses:		
- Actuarial (gains)/losses arising from changes in demographic assumptions	(964)	(36)
- Actuarial (gains)/losses arising from changes in financial assumptions	(1,370)	3,243
- Actuarial (gains)/losses arising from experience	(699)	(99)
- Actuarial (gains)/losses related to “Other long-term benefits” - Jubilee benefit	105	332
Settlements/Curtailments	-	(310)
Benefits paid	(1,419)	(928)
Present value of defined benefit obligations at the end of the period	24,367	26,734

“Actuarial (gains)/losses arising from experience adjustments” reflect the difference between actuarial assumptions and what occurred in practice (for instance, in terms of employee turnover, wage inflation or inflation rate).

The sensitivity analysis of the French funds was performed by varying the following actuarial assumptions:

- Discount rate
- Wage inflation rate

An overview of the changes in the present value of the obligation triggered by changes in these actuarial assumptions is provided below:

(in thousands of Euro)	12.31.2017	
	+1%	-1%
Discount rate	(2,862)	3,802
Rate of salary increase	3,451	(2,814)

Employment termination indemnities

This aspect only concerns the Group's Italian companies, where pensions are represented by state plans and the company's responsibility is limited to regular payment of social contributions each month.

In addition to state-provided pensions, employees are entitled by law to a termination indemnity that accrues in accordance with length of service and is paid when an employee leaves the company.

The termination indemnity is calculated based on the length of service and taxable remuneration of each employee.

The corresponding liability is put aside in a specific provision and the amounts accrued in previous years are subject to annual revaluation based on the official cost-of-life index and at the legal interest rates; it is not associated with any conditions or accrual periods, nor does it require any financial provision; as a result, there are no assets underlying the provision.

This termination indemnity is considered as a defined-benefit provision, but subject to actuarial valuation for the part relating to the expected future benefits in respect of past service (which is the part subject to annual revaluation).

Further to the amendments to the “Provision for employment termination indemnities” introduced by Law 296 of 27 December 2006 and subsequent decrees and regulations issued in the early part of 2007, for companies with 50 or more employees (Sogefi Filtration Italy S.p.A.), the portions of the provision accruing as from 1 January 2007 are transferred - at employee's option - to supplementary pension funds or to the treasury fund held by INPS (the Italian social security authority) or to supplementary pension schemes, and are considered as “defined-contribution plans”. These amounts therefore do not require actuarial valuation and are no longer booked to the “Provision for employment termination indemnities”. The “Provision for employment termination indemnities” accruing up to 31 December 2006 is still a “defined-benefit plan”, consequently requiring actuarial valuation, which however will no longer take account of the component relating to future wage inflation.

In accordance with the IAS 19, for companies with less than 50 employees (Parent Company Sogefi S.p.A.) the provision as at 31 December 2017 is entirely accounted for as a “Definite-benefit plan” and is subject to actuarial valuation.

The assumptions taken into consideration when carrying out the actuarial valuation of the “Employment termination indemnities” were as follows:

- Macroeconomic assumptions:

1. annual discount rate (IBoxx Eurozone Corporate AA Index): 0.88% (0.86% as at 31 December 2016);
2. annual inflation rate: 1.5% (as at 31 December 2016: 1.5%);
3. annual increase in termination indemnity: 2.625% (as at 31 December 2016: 2.625%);

- Demographic assumptions:

1. rate of voluntary resignations: 3% - 10% of the workforce (same assumptions adopted as at 31 December 2016);
2. retirement age: it was assumed that employees would reach the first of the requirements valid for mandatory general social security (same assumptions adopted as at 31 December 2016);
3. probability of death: the RG48 mortality tables produced by the General State Accounting Body were used (same assumptions adopted as at 31 December 2016);
4. probability of advanced settlement: an annual value of 2% - 3% each year was assumed (same assumptions adopted as at 31 December 2016);
5. INPS' table split by age and gender was used for the probability of disability (same assumptions adopted as at 31 December 2016).

The provision changed as follows during the period:

(in thousands of Euro)	12.31.2017	12.31.2016
Opening balance	5,996	6,316
Accruals for the period	124	147
Amounts recognised in "Other Comprehensive Income"	(14)	(13)
Contributions paid	(681)	(454)
TOTAL	5,425	5,996

The amounts charged to the Income Statement can be summarised as follows:

(in thousands of Euro)	2017	2016
Current service cost	72	62
Curtailment	-	-
Financial charges	52	85
TOTAL	124	147

Average bond duration as at 31 December 2017 is approximately 8 years.

The sensitivity analysis of the provision for employment termination indemnities is outlined below. The table below shows the changes in the provision triggered by changes in the following actuarial assumptions:

- Discount rate
- Wage inflation

(in thousands of Euro)	12.31.2017	
	+0,5%	-0,5%
Discount rate	(77)	280
Rate of salary increase	5	(2)

Provision for restructuring

These are amounts set aside for restructuring operations that have been officially announced and communicated to those concerned, as required by IAS/IFRS.

The provision changed as follows during the period:

(in thousands of Euro)	12.31.2017	12.31.2016
Opening balance	2,106	5,194
Accruals for the period	1,696	1,216
Utilisations	(890)	(3,621)
Provisions not used during the period	(278)	(758)
Other changes	-	25
Exchange differences	(11)	50
TOTAL	2,623	2,106

Changes in “Accruals for the period” net of the “Provisions not used during the period” (amounts set aside during previous years in excess of amounts actually paid), total Euro 1,418 thousand; this figure is booked to the Income Statement under “Restructuring costs”.

Provision for product warranties

The provision changed as follows during the period:

(in thousands of Euro)	12.31.2017	12.31.2016
Opening balance	19,081	19,716
Accruals for the period	1,248	2,279
Utilisations	(2,062)	(2,422)
Provisions not used during the period	(15)	(515)
Other changes	-	37
Exchange differences	(38)	(14)
TOTAL	18,214	19,081

The item reflects for the most part liabilities connected with product warranty risks of the Systèmes Moteurs Group for the amount of Euro 16,300 thousand. For further details, please refer to note 2, paragraph “Consolidation principles and accounting policies – Critical estimates and assumptions”.

The item also includes minor provisions for product warranties by Group companies.

Lawsuits and other risks

The provision changed as follows during the period:

(in thousands of Euro)	12.31.2017	12.31.2016
Opening balance	8,936	5,414
Accruals for the period	7,824	5,188
Utilisations	(2,943)	(2,364)
Provisions not used during the period	(650)	(229)
Other changes	(103)	620
Exchange differences	(990)	307
TOTAL	12,074	8,936

The provision includes liabilities toward employees and third parties. Amounts stated in the financial statements represent the best possible estimates of liabilities at year-end date.

The accrual of Euro 7,824 thousand mainly refers to risks connected with existing or possible disputes relating to the British, French and Brazilian subsidiaries.

This amount includes the settlement of the matter concerning the equalisation of some British pension funds, which was acknowledged in the previous fiscal year.

Other payables

“Other payables” amount to Euro 6,696 thousand (Euro 15,046 thousand as at 31 December 2016). The item decreased by Euro 8,350 thousand which reflect mainly the reclassification to current payables of Euro 8,997 thousand referred to the fair value, at the end of the previous fiscal year, of the liability associated with the exercise price of the put option held by minority shareholders of the subsidiary Sogefi M.N.R. Engine Systems India Pvt Ltd, as explained in note 17.

19. DEFERRED TAX ASSETS AND LIABILITIES

The following details of deferred tax assets and liabilities are provided in light of the IAS/IFRS disclosure requirements.

(in thousands of Euro)	12.31.2017		12.31.2016	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Deferred tax assets:				
Allowance for doubtful accounts	2,161	539	2,342	595
Fixed assets amortisation/writedowns	30,669	7,871	31,488	7,934
Inventory writedowns	5,400	1,656	4,828	1,540
Provisions for restructuring	1,397	367	732	236
Other provisions - Other payables	65,631	16,412	87,502	21,837
Fair value derivative financial instruments	5,013	1,203	9,267	2,224
Other	17,974	5,464	16,072	5,280
Deferred tax assets for tax losses incurred during the year	14,894	4,239	454	113
Deferred tax assets for tax losses incurred during previous years	22,198	2,329	54,031	17,051
TOTAL	165,337	40,080	206,716	56,810
Deferred tax liabilities:				
Accelerated/excess depreciation and amortisation	87,933	21,737	87,747	25,238
Difference in inventory valuation methods	652	163	557	139
Capitalisation of R&D costs	41,358	12,401	43,303	13,383
Other	24,464	5,444	42,997	5,190
TOTAL	154,407	39,745	174,604	43,950
Deferred tax assets (liabilities) net		335		12,860
Temporary differences excluded from the calculation of deferred tax assets (liabilities):				
Tax losses carried forward	77,617	24,889	89,356	28,079

The tax effect has been calculated on the basis of the rates applicable in the various countries, which are in line with those of the previous year, except for the tax rate applicable to the US subsidiary, which went from 40% to 25.63% for deferred taxes expected to be reversed starting in 2018; that applicable to Argentinian subsidiaries, which decreased from 35% to 30% for deferred taxes expected to be reversed starting in 2018; and that applicable to French subsidiaries, which will gradually decrease from 34.43% up to 25.85% for deferred taxes expected to be reversed starting in 2022.

The decrease in “Deferred tax assets (liabilities), net” compared to 31 December 2016 amounts to Euro 12,525 thousand and differs by Euro 4,389 thousand from the amount shown in the Income Statement under “Income taxes – Deferred tax liabilities (assets)” (Euro 8,136 thousand) due to:

- movements in Balance sheet items that did not have any effect on the income statement and therefore the related negative tax effect amounting to Euro 2,978 thousand has been accounted for as Other comprehensive income (expenses); negative effect of the fair value of derivatives designated as cash flow hedges was Euro 1,021 thousand; negative effect of actuarial gains/losses arising from the adoption of the IAS 19 was Euro 994 thousand; negative effect of other reclassifications mainly made by the subsidiaries Sogefi USA Inc. and Sogefi Filtration d.o.o. was Euro 963 thousand;

- negative effect on the balance of deferred tax assets of tax losses of previous years reclassified from deferred tax assets to amounts receivable from CIR for Euro 1,258 thousand (without any impact on the Consolidated Income Statement); this amount reflects the share of tax losses for the year 2014 offset by taxable income generated by the CIR Group tax filing system for the years 2016 and 2017;
- exchange differences with a negative effect of Euro 153 thousand.

The decrease in the tax effect relating to item “Other provisions - Other payables” mostly originates from the lower liabilities referred to the provisions for risks of the French subsidiary Sogefi Air & Cooling S.A.S..

The decrease in the tax effect relating to item “Fair value of derivatives” mainly relates to the Parent Company Sogefi S.p.A. and reflects the change in the fair value of CCS contracts as well as the portion of reserve previously booked to Other comprehensive income relating to IRS contracts no longer designated for hedge accounting recognised in Income Statement.

Item “Other” of deferred tax assets includes various types of items, such as for example costs for which tax deduction is deferred (for example, amounts allocated to remuneration accrued in 2017 not yet paid).

“Deferred tax assets for tax losses incurred during the year” amount to Euro 4,239 thousand and relate to subsidiary Sogefi Air & Cooling S.A.S.. These taxes were recognised because it is believed to be probable that taxable income will be available in the future against which such tax losses can be utilised.

“Deferred tax assets for tax losses incurred during previous years” relate to the subsidiaries Sogefi Filtration Italy S.p.A. (Euro 12 thousand; Euro 43 thousand as at 31 December 2016), Sogefi U.S.A. Inc. (Euro 1,145 thousand, Euro 8,221 thousand as at 31 December 2016), Sogefi Filtration Spain S.A.U. (Euro 1,021 thousand; Euro 2,197 thousand as at 31 December 2016), United Springs S.A.S. (Euro 151 thousand, Euro 493 thousand as at 31 December 2016). These taxes were recognised because it is believed to be probable that taxable income will be available in the future against which such tax losses can be utilised. Such probability is determined based on the fact that losses have originated under extraordinary circumstances that are unlikely to occur again, such as restructuring plans currently under way or occurred in the past. Please also note that the losses of the French and Spanish subsidiaries can be carried forward indefinitely but new law passed in 2012 in France and in 2016 in Spain has maintained a limit for the amount that can be utilised each year, making recovery time longer. The losses of the US subsidiary can be carried forward over a period of up to 20 years since they were incurred. It is probable that the losses of subsidiary Sogefi Filtration Italy S.p.A. will be recovered taking into account that the companies have joined the CIR Group tax filing system in the past.

Note that the deferred tax assets relating to the “Allowance for doubtful accounts” and to the “Inventory writedowns” include amounts that will mainly be reversed in the twelve months following year end.

The decrease in the tax effect relating to item “Accelerated/excess depreciation and amortization” of deferred taxation – despite the unchanged “Amount of temporary differences” – mostly originates from the lower tax rate applied by the subsidiary Sogefi U.S.A. Inc..

Column “Amount of temporary differences” of item “Other” of deferred tax liabilities includes:

- Euro 9,874 thousand relating to dividends expected to be paid out by the Brazilian, Canadian and Argentinian subsidiaries in the short term, subject to a 15%, 5% and 10% tax rate, respectively;
- Euro 3,099 thousand relating to the taxed portion of dividends expected to be paid to the French subsidiaries and the Parent Company Sogefi S.p.A. in the short term;
- Euro 9,735 thousand relating to the remaining amount due by the seller of Systemes Moteurs shares.
- other minor items for the amount of Euro 1,756 thousand.

As regards the figures shown under "Temporary differences excluded from the calculation of deferred tax assets (liabilities)", deferred tax assets were not booked as, at year end, there was not a probability that they would be recovered. “Tax losses carried forward” relate to subsidiaries Sogefi Suspensions S.A., Allevard IAI Suspensions Pvt Ltd, Sogefi Filtration do Brasil Ltda, S. ARA Composite S.A.S. and Sogefi (Suzhou) Auto Parts Co., Ltd.

20. SHARE CAPITAL AND RESERVES

Share capital

The share capital of the Parent Company Sogefi S.p.A. is fully paid in and amounts to Euro 62,394 thousand as at 31 December 2017 (Euro 62,065 thousand as at 31 December 2016), split into 119,987,992 ordinary shares with a par value of Euro 0.52 each (119,356,455 shares as at 31 December 2016).

No shares are encumbered by rights, liens or limitations relating to dividend distribution.

As at 31 December 2017, the Company has 2,698,195 treasury shares in its portfolio, corresponding to 2.25% of share capital.

Movements in the shares outstanding are as follows:

<i>(Shares outstanding)</i>	2017	2016
<i>No. shares at start of period</i>	119,356,455	118,618,055
<i>No. shares issued for subscription of stock options</i>	631,537	738,400
<i>No. of ordinary shares as of December 31</i>	119,987,992	119,356,455
<i>Treasury shares</i>	(2,698,195)	(2,878,451)
<i>No. of shares outstanding as of December 31</i>	117,289,797	116,478,004

The following table shows the changes in the Group’s equity:

(in thousands of Euro)	Share capital	Share premium reserve	Reserve for treasury shares	Treasury shares	Translation reserve	Legal reserve	Cash flow hedging reserve	Share-based incentive plans reserve	Actuarial gain/loss reserve	Tax on items booked in Other Comprehensive Income	Other reserves	Retained earnings	Net result for the period	Total
Balance at December 31, 2015	61,681	14,924	7,425	(7,425)	12,640	4,661	(31,587)	(11,767)	(29,422)	8,565	12,201	127,827	1,120	170,843
Paid share capital increase	384	382	-	-	-	-	-	-	-	-	-	-	-	766
Allocation of 2014 net profit:														
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings	-	-	-	-	-	-	-	-	-	-	-	1,120	(1,120)	-
Recognition of share-based incentive plans	-	-	-	-	-	248	-	-	-	-	-	-	-	248
Other changes	-	853	(853)	853	-	(1,917)	-	-	-	-	-	994	-	(70)
Fair value measurement of cash flow hedging instruments: share booked to OCI	-	-	-	-	-	-	-	(625)	-	-	-	-	-	(625)
Fair value measurement of cash flow hedging instruments: share booked to income statement	-	-	-	-	-	-	-	2,837	-	-	-	-	-	2,837
Actuarial gain/loss	-	-	-	-	-	-	-	-	(12,916)	-	-	-	-	(12,916)
Tax on items booked in Other Comprehensive Income	-	-	-	-	-	-	-	-	-	1,526	-	-	-	1,526
Currency translation differences	-	-	-	-	-	-	993	-	-	-	-	-	-	993
Net result for the period	-	-	-	-	-	-	-	-	-	-	-	-	9,336	9,336
Balance at December 31, 2016	62,065	16,159	6,572	(6,572)	12,640	2,992	(30,594)	(9,555)	(42,338)	10,091	12,201	129,941	9,336	172,938
Paid share capital increase	329	972	-	-	-	-	-	-	-	-	-	-	-	1,301
Allocation of 2016 net profit:														
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings	-	-	-	-	-	-	-	-	-	-	-	9,336	(9,336)	-
Recognition of share-based incentive plans	-	-	-	-	-	510	-	-	-	-	-	-	-	510
Other changes	-	411	(411)	411	-	(974)	-	-	-	-	-	1,615	-	1,052
Fair value measurement of cash flow hedging instruments: share booked to OCI	-	-	-	-	-	-	-	1,414	-	-	-	-	-	1,414
Fair value measurement of cash flow hedging instruments: share booked to income statement	-	-	-	-	-	-	-	2,840	-	-	-	-	-	2,840
Actuarial gain/loss	-	-	-	-	-	-	-	-	3,430	-	-	-	-	3,430
Tax on items booked in Other Comprehensive Income	-	-	-	-	-	-	-	-	-	(2,015)	-	-	-	(2,015)
Currency translation differences	-	-	-	-	-	-	(19,046)	-	-	-	-	-	-	(19,046)
Net result for the period	-	-	-	-	-	-	-	-	-	-	-	-	26,604	26,604
Balance at December 31, 2017	62,394	17,542	6,161	(6,161)	12,640	2,528	(49,640)	(5,301)	(38,908)	8,076	12,201	140,892	26,604	189,028

Share premium reserve

It amounts to Euro 17,542 thousand compared to Euro 16,159 thousand in the previous year.

The increase by Euro 972 thousand accounts for share subscriptions under stock option plans.

In 2017, the Parent Company Sogefi S.p.A. credited Euro 411 thousand to the Share premium reserve after the free grant of 180,256 treasury shares to 2011, 2012, 2013, 2014 and 2015 Stock Grant beneficiaries.

Treasury shares

Item “Treasury shares” reflects the purchase price of treasury shares. Movements during the year amount to Euro 411 thousand and reflect the free grant of 180,256 treasury shares as reported in the note to “Stock-based incentive plans reserve”.

Translation reserve

This reserve is used to record the exchange differences arising from the translation of foreign subsidiaries' financial statements.

Changes during the period show a decrease of Euro 19,046 thousand due to the appreciation of the Euro against all major currencies.

Reserve for actuarial gains/losses

This reserve reflects the net impact of the application of the amendment to IAS 19 “Employee Benefits” on other actuarial gains (losses) as at 1 January 2012. The item also includes actuarial gains and losses accrued after 1 January 2012 and recognised under Other Comprehensive Income.

Stock-based incentive plans reserve

The reserve refers to credit to equity for stock-based incentive plans, assigned to Directors, employees and co-workers, resolved after 7 November 2002, including the portion relating to the stock grant plan approved in 2017.

Further to 2011, 2012, 2013, 2014 and 2015 Stock Grant Plan beneficiaries exercising their rights in 2017 and due to the corresponding free grant of 180,256 treasury shares, the amount of Euro 974 thousand, corresponding to the fair value at right (Unit) allocation date, was reclassified from “Stock-based incentive plans reserve” to the “Share premium reserve” (increased for Euro 411 thousand) and “Retained earnings reserve” (increased for Euro 563 thousand).

Cash flow hedging reserve

This reserve has changed as a result of accounting for the cash flows deriving from instruments that for IAS 39 purposes are designated as “cash flow hedging instruments”. Changes during the period show an increase of Euro 4,254 thousand which breaks down as follows:

- decrease of Euro 1,771 thousand as a consequence of the change after 31 December 2016 in the fair value of the existing effective hedging contracts;
- increase of Euro 2,483 thousand reflecting the portion of reserve relating to contracts no longer in hedge accounting that will be reclassified to the Income Statement over the same period of time as the differentials relating to the underlying hedged item.

Other reserves

This item amounts to Euro 12,201 thousand (unchanged compared to 31 December 2016).

Retained earnings

These totalled Euro 140,892 thousand and include amounts of profit that have not been distributed.

The increase of Euro 1,615 thousand refers to the following events:

- the interest held by subsidiary Sogefi Suspensions S.A. in S.ARA Composite S.A.S. increased from 95.65% to 95.79% through a share capital increase not subscribed by non-controlling interests that led to a negative amount of Euro 70 thousand being reclassified between non-controlling interests and Group's shareholders' equity;
- the interest held by subsidiary Sogefi Suspensions S.A. in Allevard IAI Suspensions Pvt Ltd increased from 74.23% to 75.67% through a share capital increase not proportionally subscribed by non-controlling interests that led to a negative amount of Euro 39 thousand being reclassified between non-controlling interests and Group's shareholders' equity;
- reclassification from the above mentioned "Stock-based incentive plans reserve" as outlined above for a total of Euro 563 thousand.
- other changes for the amount of Euro 1,161 thousand.

Tax on items booked in Other Comprehensive Income

The table below shows the amount of income taxes relating to each item of Other Comprehensive Income:

(in thousands of Euro)	2017			2016		
	Gross value	Taxes	Net value	Gross value	Taxes	Net value
- Profit (loss) booked to cash flow hedging reserve	4,254	(1,021)	3,233	2,212	(533)	1,679
- Actuarial gain (loss)	3,430	(994)	2,436	(12,916)	2,059	(10,857)
- Profit (loss) booked to translation reserve	(19,250)	-	(19,250)	899	-	899
- Total Profit (loss) booked in Other Comprehensive Income	(11,566)	(2,015)	(13,581)	(9,805)	1,526	(8,279)

Tax constraints applicable to certain reserves

The equity of Parent Company Sogefi S.p.A. includes Reserves under tax suspension and its share capital is subject to constraints under tax suspension after revaluation reserves were utilised in the past, for a total amount of Euro 24,164 thousand.

The Parent Company has made no allocations for deferred tax liabilities to such reserves, that, if distributed, would count towards taxable income of the Company, because it is not deemed likely that they will be distributed.

Non-controlling interests

The balance amounts to Euro 17,728 thousand and refers to the portion of shareholders' equity attributable to non-controlling interests.

The reserve increased by Euro 109 thousand during the year (decrease is booked to “Other changes” in the “Consolidated Statement of Changes in Equity”) traced back to the above mentioned changes in the interest held in subsidiaries S.ARA Composite S.A.S. and Allevard IAI Suspensions Pvt Ltd.

Details of non-controlling interests are given below:

(in thousands of Euro)	Region	% owned by third parties		Loss (profit) attributable to non-controlling interests		Shareholders' equity attributable to non-controlling	
		12.31.2017	12.31.2016	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Subsidiary's name	Region	12.31.2017	12.31.2016	12.31.2017	12.31.2016	12.31.2017	12.31.2016
SARA Composite S.A.S.	France	4.21%	4.35%	(71)	(207)	325	326
Iberica de Suspensiones S.L.	Spain	50.00%	50.00%	4,410	4,941	14,407	12,496
Shanghai Allevard Spring Co., Ltd	China	39.42%	39.42%	(92)	17	2,335	2,695
Allevard IAI Suspensions Pvt Ltd	India	24.33%	25.77%	(126)	(96)	588	545
Sogefi M.N.R. Engine Systems India Pvt Ltd	India	30.00%	30.00%	-	-	-	-
Sogefi Filtration Italy Sp.A.	Italy	0.12%	0.12%	4	1	42	45
Sogefi Suspensions Passenger Car Italy Srl	Italy	0.12%	0.12%	2	1	19	6
Sogefi Suspensions Heavy Duty Italy Srl	Italy	0.12%	0.12%	3	2	12	18
TOTAL				4,130	4,659	17,728	16,131

As required by IFRS 12, an overview of the key financial indicators of the companies showing significant non-controlling interests:

(in thousands of Euro)

Company	Shanghai Allevard Spring Co., Ltd		Iberica de Suspensiones S.L.		Sogefi M.N.R. Engine Systems India Pvt Ltd	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Current Assets	4,031	4,982	29,814	25,982	28,224	25,342
Non-current Assets	2,785	3,247	13,940	11,097	16,718	15,829
Current Liabilities	616	1,116	14,844	11,937	18,413	17,747
Non-current Liabilities	-	-	96	148	4,826	5,833
Shareholders' equity attributable to the Holding Company	3,865	4,418	14,407	12,496	21,703	17,591
Non-controlling interests	2,335	2,695	14,407	12,496	-	-
Sales Revenue	3,016	3,956	79,103	74,159	60,771	46,015
Variable cost of sales	1,727	2,222	49,223	43,424	41,846	32,146
Other variable costs of sales	295	267	5,147	4,936	1,675	1,295
Fixed expenses	1,199	1,408	12,282	11,677	8,107	6,577
Non-operating expenses (income)	25	12	201	221	749	997
Income taxes	1	5	3,430	4,019	2,913	1,732
Income (loss) for the period	(231)	42	8,820	9,882	5,481	3,268
Income (loss) attributable to the Holding Company	(141)	25	4,410	4,941	5,481	3,268
Income (loss) attributable to non-controlling interests	(92)	17	4,410	4,941	-	-
Income (loss) for the period	(233)	42	8,820	9,882	5,481	3,268
OCI attributable to the Holding Company	(255)	(153)	-	-	(1,385)	215
OCI attributable to non-controlling interests	(166)	(99)	-	-	-	-
OCI for the period	(421)	(252)	-	-	(1,385)	215
Total income (losses) attributable to the Holding Company	(396)	(128)	4,410	4,941	4,096	3,483
Total income (losses) attributable to non-controlling interests	(258)	(82)	4,410	4,941	-	-
Total income (losses) for the period	(654)	(210)	8,820	9,882	4,096	3,483
Dividends paid to non-controlling interests	102	226	2,500	8,000	-	-
Net cash inflow (out flow) from operating activities	437	433	11,651	10,088	6,820	4,833
Net cash inflow (out flow) from investing activities	(145)	(112)	(797)	(3,715)	(4,455)	(3,242)
Net cash inflow (out flow) from financing activities	(259)	(574)	(5,000)	(16,000)	(1,175)	28
Net cash inflow (out flow)	33	(253)	5,854	(9,627)	1,190	1,619

21. ANALYSIS OF THE NET FINANCIAL POSITION

The following table provides details of the net financial position as required by Consob in its communication no. DEM/6064293 of 28 July 2006 with a reconciliation of the net financial position shown in the table included in the Report on operations:

(in thousands of Euro)	12.31.2017	12.31.2016
A. Cash	103,889	93,661
B. Other cash at bank and on hand (held to maturity investments)	-	3,950
C. Financial instruments held for trading	-	-
D. Liquid funds (A) + (B) + (C)	103,889	97,611
E. Current financial receivables	1,510	1,931
F. Current payables to banks	14,170	11,005
G. Current portion of non-current indebtedness	66,584	137,203
H. Other current financial debts	2,678	400
I. Current financial indebtedness (F) + (G) + (H)	83,432	148,608
J. Current financial indebtedness, net (I) - (E) - (D)	(21,967)	49,066
K. Non-current payables to banks	101,993	48,291
L. Bonds issued	178,898	200,216
M. Other non-current financial debts	7,326	17,240
N. Non-current financial indebtedness (K) + (L) + (M)	288,217	265,747
O. Net indebtedness (J) + (N)	266,250	314,813
Non-current financial receivables (derivates in cash flow hedge)	2,215	15,770
Financial indebtedness, net including non-current financial receivables (as per the "Net financial position" included in the Report on operations)	264,035	299,043

Details of the covenants applying to loans outstanding at year end are as follows (see note 16 for further details on loans):

- loan of Euro 20,000 thousand from Mediobanca S.p.A.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;
- loan of Euro 50,000 thousand from Unicredit S.p.A.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;
- loan of Euro 70,000 thousand from BNP Paribas S.A.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less than or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;
- loan of Euro 55,000 thousand from Ing Bank N.V.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;
- bond issue of USD 115,000 thousand: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less than or equal to 3.5; the ratio of

consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;

- bond issue of Euro 25,000 thousand: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less than or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4.

As at 31 December 2017, the Company was in compliance with these covenants.

D) NOTES ON THE MAIN INCOME STATEMENT ITEMS: INCOME STATEMENT

22. SALES REVENUES

Revenues from sales and services

During the year 2017, the sales revenues of the Sogefi Group amounted to Euro 1,672.4 million, showing a growth of 6.2% compared to Euro 1,574.1 million in 2016 (7.3% at constant exchange rates).

Revenues from the sale of goods and services are as follows:

(in thousands of Euro)	2017		2016	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Suspensions	606,829	36.3	562,806	35.8
Filtration	565,737	33.8	535,061	34.0
Air&Cooling	504,037	30.1	480,237	30.5
Intercompany eliminations	(4,207)	(0.2)	(4,013)	(0.3)
TOTAL	1,672,396	100.0	1,574,091	100.0

All business units contributed to the growth of Group revenues. Suspensions recorded an increase of 7.8% (+8.9% at constant exchange rates), Filtration 5.7% (+7.1% at constant exchange rates) and Air & cooling 5.0% (+5.6% at constant exchange rates).

By geographical area of "origin":

(in thousands of Euro)	2017		2016	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Europe	1,031,708	61.7	988,902	62.8
Sud America	195,034	11.7	172,228	10.9
Nord America	296,686	17.7	290,582	18.5
Asia	163,244	9.8	134,993	8.6
Intercompany eliminations	(14,276)	(0.9)	(12,614)	(0.8)
TOTAL	1,672,396	100.0	1,574,091	100.0

All geographical areas contributed to the revenue increase in 2017. Revenues in Europe grew by 4.3%, with a better performance than the reference market (+1.1%). Business continued to grow in North America (+2.1%), despite the negative market trend (-4.0%). In Asia and South America, revenues increased by 20.9% and 13.2%, respectively.

23. VARIABLE COST OF SALES

Details are as follows:

(in thousands of Euro)	2017	2016
Materials	908,428	846,907
Direct labour cost	125,848	123,237
Energy costs	35,780	36,185
Sub-contracted work	46,288	40,320
Ancillary materials	21,647	20,477
Variable sales and distribution costs	49,331	48,390
Royalties paid to third parties on sales	5,529	5,648
Other variable costs	1,135	(946)
TOTAL	1,193,986	1,120,218

The impact of “Variable cost of sales” on sales revenues increased from 71.2% in 2016 to 71.4% in the current year due to higher cost of Materials.

“Other variable costs” represent the effect generated by direct labour cost and fixed cost associated with the increase in the inventory of finished goods or semi-finished products.

24. MANUFACTURING AND R&D OVERHEADS

These can be broken down as follows:

(in thousands of Euro)	2017	2016
Labour cost	111,418	110,545
Materials, maintenance and repairs	33,105	31,245
Rental and hire charges	10,702	9,838
Personnel services	9,152	7,962
Technical consulting	10,286	6,988
Sub-contracted work	2,459	2,074
Insurance	2,915	2,875
Utilities	4,858	4,527
Capitalization of internal construction costs	(27,770)	(29,277)
Other	318	754
TOTAL	157,443	147,531

“Manufacturing and R&D overheads” show an increase of Euro 9,912 thousand (the increase would have been Euro 11,098 thousand, at constant exchange rates).

The increase is mainly due to items “Materials, maintenance and repairs”, “Rental and hire charges”, “Personnel services” and “Technical consulting”.

The increase of “Materials, maintenance and repairs” for Euro 1,860 thousand is mainly related to a writedown of obsolete spare materials of the Filtration business unit for Euro 600 thousand and extraordinary maintenance referred to the increased production activities in Europe, South America and Mexico for the remaining part.

The increase in “Rental and hire charges” for Euro 864 thousand mainly refers to the new production plant in Mexico, the subsidiary Sogefi Suspension Argentina S.A. (concerning rent contract re-negotiation) and the Canadian subsidiary.

The increase in item “Personnel services” for the amount of Euro 1,190 thousand mainly refers to training and travel expenses.

“Technical consulting” increased by Euro 3,298 thousand, mainly for the French subsidiaries as a consequence of increased technical consulting aimed at improving the industrial performance.

Item “Capitalization of internal construction costs” mainly reflects product development costs capitalised when their future benefit is deemed to be reasonably certain.

Total costs for Research and Development (not reported in the table) excluding capitalization amount to Euro 38,682 thousand (2.3% of sales), up compared to Euro 38,112 thousand of the previous year.

25. DEPRECIATION AND AMORTIZATION

Details are as follows:

(in thousands of Euro)	2017	2016
Depreciation of tangible fixed assets	39,419	39,414
<i>of which: assets under finance leases</i>	<i>1,508</i>	<i>1,504</i>
Amortisation of intangible assets	29,935	29,379
TOTAL	69,354	68,793

Item “Depreciation and amortization” amounts to Euro 69,354 thousand and increased by Euro 561 thousand compared to the previous year. Exchange rates being equal, the increment would have been Euro 1,061 thousand.

Depreciation of tangible assets amounts to Euro 39,419 thousand, and is stable compared to 2016.

Amortization of intangible assets increased by Euro 556 thousand, for the most part relating to European and North American subsidiaries that are the most active in research and development.

26. DISTRIBUTION AND SALES FIXED EXPENSES

This item is made up of the following main components:

(in thousands of Euro)	2017	2016
Labour cost	28,887	29,410
Sub-contracted work	5,131	5,486
Advertising, publicity and promotion	4,249	3,809
Personnel services	2,469	2,701
Rental and hire charges	1,937	1,726
Consulting	964	1,006
Other	641	748
TOTAL	44,278	44,886

“Distribution and sales fixed expenses” decreased by Euro 608 thousand compared to 2016. Exchange rates being equal, this item would have decreased by Euro 301 thousand.

The decrease is concentrated in the items "Labour cost" (reduction of Euro 523 thousand compared to the previous year, mainly in the filtering division) and "Sub-contracted work" (which shows a decrease of Euro 355 thousand, mainly due to the reduction of costs for the outsourcing of warehouses).

“Advertising, publicity and promotion” increased by Euro 440 thousand due to an increase of marketing and communication efforts in the aftermarket segment.

27. ADMINISTRATIVE AND GENERAL EXPENSES

These can be broken down as follows:

(in thousands of Euro)	2017	2016
Labour cost	39,358	37,804
Personnel services	5,278	4,563
Maintenance and repairs	1,811	2,331
Cleaning and security	2,150	1,954
Consulting (*)	11,627	7,892
Utilities	3,203	3,129
Rental and hire charges	3,788	3,765
Insurance	1,610	1,531
<i>Participation des salaires</i>	192	994
Administrative, financial and tax-related services provided by Parent Company	663	500
Audit fees and related expenses	1,652	1,599
Directors' and statutory auditors' remuneration	840	749
Sub-contracted work	1,027	1,033
Capitalization of internal construction costs	(2,625)	(1,043)
Indirect taxes	7,472	8,869
Other fiscal charges	3,616	3,728
Other	7,197	6,808
TOTAL	88,859	86,206

(*) As at 31 December 2017, some cost items have been reclassified. The corresponding values of the year 2016 were reclassified to facilitate comparison: the amount of Euro 1,140 thousand was reclassified from “Other non-operating expenses (income)” to “Administrative and general expenses”.

“Administrative and general expenses” increased by Euro 2,653 thousand compared to 2016, which would have been Euro 3,279 thousand at constant exchange rates.

“Labour cost” increased by Euro 1,554 thousand, mainly for the French subsidiaries.

The increase in item “Personnel services” for the amount of Euro 715 thousand mainly reflects higher travel expenses.

“Maintenance and repairs” decreased by Euro 520 thousand, mainly due to lower maintenance costs incurred in IT departments.

“Consulting” increased by Euro 3,735 thousand mainly because of increased IT consulting for the development of IT projects.

The reduction of item “*Participation des salaires*” is traced back to lower results in subsidiary Sogefi Filtration S.A..

As part of its activity, the Parent Company Sogefi S.p.A. makes use of services provided by CIR S.p.A., its Parent Company, in areas such as investor relation and management support, and services of an administrative, financial, fiscal and corporate nature, for an annual fee of Euro 547 thousand (Euro 500 thousand in 2016). Moreover, from January 2017, the Parent Company Sogefi S.p.A. entered into a rental contract for the offices, for Euro 116 thousand.

“Indirect taxes” include tax charges such as property tax, taxes on sales revenues (*taxe organique* of the French companies), non-deductible VAT and taxes on professional training.

“Other fiscal charges” consist of the *cotisation économique territoriale* (previously called *taxe professionnelle*) relating to the French companies, which is calculated on the value of fixed assets and on added value.

28. PERSONNEL COSTS

Personnel

Regardless of their destination, “Personnel costs” as a whole can be broken down as follows:

(in thousands of Euro)	2017	2016
Wages, salaries and contributions	300,961	296,913
Pension costs: defined benefit plans	2,515	2,242
Pension costs: defined contribution plans	2,021	1,842
<i>Participation des salaires</i>	192	994
Imputed cost of stock option and stock grant plans	510	248
Other costs	192	212
TOTAL	306,391	302,451

“Personnel costs” increased by Euro 3,940 thousand (+1.3%) compared to the previous period. Exchange rates being equal, “Personnel costs” would have increased by Euro 6,641 thousand (+2.2%).

The impact of “Personnel costs” on sales revenues falls from 19.2% in the previous year to 18.3% in the current year.

“Wages, salaries and contributions”, “Pension costs: defined benefit plans” and “Pension costs: defined contribution plans” are posted in the tables provided above at lines “Labour cost” and “Administrative and general expenses”.

“*Participation des salaires*” is included in “Administrative and general expenses”.

“Other costs” is included in “Administrative and general expenses”.

“Imputed cost of stock option and stock grant plans” is included in “Other non-operating expenses (income)”. The following paragraph “Personnel benefits” provides details of the stock option and stock grant plans.

The average number of Group employees, broken down by category, is shown in the table below:

(Number of employees)	2017	2016
Managers	111	106
Clerical staff	1,881	1,872
Blue collar workers	4,835	4,799
TOTAL	6,827	6,777

Personnel benefits

Sogefi S.p.A. implements stock-based incentive plans for the employees of the Company and of its subsidiaries that hold important positions of responsibility within the Group. The purpose is to foster greater loyalty to the Group and to provide an incentive that will raise their commitment to improving business performance and generating value in the long term.

The stock-based incentive plans of Sogefi S.p.A. are first approved by the Shareholders’ Meeting.

Except as outlined at the following paragraphs “Stock grant plans”, “Stock option plans” and “Phantom stock option plans”, the Group has not carried out any other transaction that involves the purchase of goods or services with payments based on shares or any other kind of instrument representing portions of equity. As a result, it is not necessary to disclose the fair value of such goods or services.

In addition to the plan issued in 2017, The Group has issued plans from 2008 to 2016 of which the main details are provided below.

Stock grant plans

The stock grant plans provide for the free assignment of conditional rights (called units) that cannot be transferred to third parties or other beneficiaries; each of them entitles to the free assignment of one Sogefi S.p.A. share. There are two categories of rights under these plans: Time-based Units, that vest upon the established terms and Performance Units, that vest upon the established terms provided that shares have achieved the target price value established in the regulation.

The regulation provides for a minimum holding period during which the shares held for the plan can not be disposed of.

All shares assigned under these plans will be treasury shares held by Sogefi S.p.A. According to the regulation, a pre-condition for assigning the shares is a continued employer-employee relationship or the continued appointment as a director/executive of the Company or one of its subsidiaries throughout the vesting period of the rights.

On 26 April 2017, the Board of Directors executed the 2017 stock grant plan approved by the Shareholders' Meeting on the same day to assign a maximum of 750,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 287,144 Units (117,295 of which were Time-based Units and 169,849 Performance Units).

Time-based Units will vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 26 July 2019 and ending on 26 April 2021.

Performance Units will vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as defined in the Regulation) at that date.

On 31 December 2017, n.7,009 Time-based Units and n. 10,600 Performance Units expired as per regulation.

The fair value of the rights assigned during 2017 has been determined at the time the rights were assigned using the binomial option pricing model (so-called Cox, Ross and Rubinstein model) for US options and amounts to Euro 1,106 thousand overall.

Input data used for measuring the fair value of the 2017 stock grant plan are provided below:

- curve of EUR/GBP/SEK/CHF-riskless interest rates as at 26 April 2017;
- prices of the underlying (equal to price of Sogefi S.p.A. share as at 26 April 2017, and equal to Euro 4.324) and of the securities included in the benchmark basket, again as at 26 April 2017;
- standard prices of Sogefi S.p.A. share and of the securities included in the benchmark basket during the period starting on 25 March 2017 and ending on 25 April 2017 for the determination of the stock grant Performance Units limit;
- historical volatility rate of stock and exchange rates during 260 days, as at 26 April 2017;
- null dividend yield for stock grant valuation;
- historical series of the logarithmic returns of involved securities and EUR/GBP, EUR/SEK and EUR/CHF exchange rates to calculate the correlation among securities and among the three non-EUR denominated securities and associated exchange rates (to

adjust for estimated trends), calculated for the period starting on 26 April 2016 and ending on 26 April 2017.

The main characteristics of the stock grant plans approved during previous years and still under way are outlined below:

- 2011 stock grant plan to assign a maximum of 1,250,000 conditional rights, restricted to the Director who filled the post of Managing Director of the Parent Company at the date of issue of the relevant plan and to employees of the Company and its subsidiaries, who were assigned a total of 757,500 Units (320,400 of which were Time-based Units and 437,100 Performance Units).

The Time-based Units were scheduled to vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 April 2013 and ending on 20 January 2015.

The Performance Units were scheduled to vest at the same vesting dates established for Time-based Units, provided that the price value of shares at vesting date is at least equal to the percentage of the initial value indicated in the regulation.

On 31 December 2017, n. 29,837 Time-based Units and n. 134,866 Performance Units expired as per regulation, n. 290,850 Time-based Units and n. 298,333 Performance Units have been exercised.

- 2012 stock grant plan to assign a maximum of 1,600,000 conditional rights, restricted to the Director who filled the post of Managing Director of the Parent Company at the date of issue of the relevant plan and to employees of the Company and its subsidiaries, who were assigned a total of 1,152,436 Units (480,011 of which were Time-based Units and 672,425 Performance Units).

The Time-based Units were scheduled to vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 April 2014 and ending on 31 January 2016.

The Performance Units were scheduled to vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) on that date.

On 31 December 2017, n. 82,374 Time-based Units and n. 596,630 Performance Units expired as per regulation, n. 389,559 Time-based Units and n. 74,852 Performance Units have been exercised.

- 2013 stock grant plan to assign a maximum of 1,700,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 1,041,358 Units (432,434 of which were Time-based Units and 608,924 Performance Units).

Time-based Units vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 April 2015 and ending on 31 January 2017.

Performance Units vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) at that date.

On 31 December 2017, n. 256,954 Time-based Units and n. 608,924 Performance Units expired as per regulation, n. 162,534 Time-based Units have been exercised.

- 2014 stock grant plan to assign a maximum of 750,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 378,567 Units (159,371 of which were Time-based Units and 219,196 Performance Units).

Time-based Units vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 April 2016 and ending on 20 January 2018.

Performance Units vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) at that date.

On 31 December 2017, n. 110,447 Time-based Units and n. 165,319 Performance Units expired as per regulation, n. 39,029 Time-based Units have been exercised.

- 2015 stock grant plan to assign a maximum of 1,500,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 441,004 Units (190,335 of which were Time-based Units and 250,669 Performance Units).

Time-based Units vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 October 2017 and ending on 20 July 2019.

Performance Units vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) at that date.

On 31 December 2017, n. 50,176 Time-based Units and n. 66,081 Performance Units expired as per regulation, n. 11,977 Time-based Units and n. 15,766 Performance Units have been exercised.

- 2016 stock grant plan to assign a maximum of 750,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 500,095 Units (217,036 of which were Time-based Units and 283,059 Performance Units).

Time-based Units will vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 27 July 2018 and ending on 27 July 2020.

Performance Units will vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) at that date.

On 31 December 2017, n. 53,993 Time-based Units and n. 70,421 Performance Units expired as per regulation.

The imputed cost for 2017 for existing stock grant plans is Euro 510 thousand, and is booked to the Income Statement under “Other non-operating expenses (income)”.

The following table shows the total number of existing rights with reference to the 2011-2017 plans:

	2017	2016
Not exercised/not exercisable at the start of the year	1,286,966	1,877,871
Granted during the year	287,144	500,095
Cancelled during the year	(357,662)	(717,307)
Exercised during the year	(180,256)	(373,693)
Not exercised/not exercisable at the end of the year	1,036,192	1,286,966
Exercisable at the end of the year	53,490	149,724

The line “Not exercised/not exercisable at the end of the period” refers to the total number of options, net of those exercised or cancelled during the current and previous years.

The line “Exercisable at the end of the period” refers to the total amount of options matured at the end of the period and not yet subscribed.

Stock option plans

The stock option plans provide beneficiaries with the opportunity to exercise an option to subscribe to newly-issued Sogefi shares at a set price and within a specific period of time. According to the regulation, a pre-condition for exercising the option is a continued employer-employee relationship with or the continued appointment as a director/executive of the Company or one of its subsidiaries throughout the vesting period.

The main characteristics of the *stock option* plans approved during previous years and still under way are outlined below:

- 2008 stock option plan restricted to employees of the foreign subsidiaries for a maximum of 875,000 shares (0.73% of the share capital as at 31 December 2017) with a subscription price of Euro 2.1045, to be exercised between 30 September 2008 and 30 September 2018;
- 2009 stock option plan restricted to employees of the Company and its subsidiaries for a maximum of 2,335,000 shares (1.95% of the share capital as at 31 December 2017) with a subscription price of Euro 1.0371, to be exercised between 30 September 2009 and 30 September 2019;
- second tranche of the 2009 extraordinary stock option plan restricted to beneficiaries of 2008 phantom stock option plan, still employed by the Company or by its subsidiaries, after having waived their rights under the above-mentioned phantom stock option plan, for a maximum of 540,000 shares (0.45% of share capital as at 31 December 2017) with a subscription price of Euro 2.1045, to be exercised between 30 June 2009 and 30 September 2018;
- 2010 stock option plan restricted to the Director who filled the post of Managing Director of the Parent Company at the date of issue of the relevant plan and to employees of the Company and its subsidiaries for a maximum of 2,440,000 shares (2.03% of the share capital as at 31 December 2017) with a subscription price of Euro 2.3012, to be exercised between 30 September 2010 and 30 September 2020.

Please note that the 2007 stock option plan and the first tranche of the 2009 extraordinary stock option plan restricted to employees of the Company and its subsidiaries expired on 30 September 2017 as per relevant regulation.

The following table shows the total number of existing options with reference to the 2007-2010 plans and their average exercise price:

	12.31.2017		12.31.2016	
	Number	Average price of the year	Number	Average price of the year
Not exercised/not exercisable at the start of the year	2,254,737	2.77	4,190,737	3.16
Granted during the year	-	-	-	-
Cancelled during the year	(1,338,200)	3.29	(306,800)	3.26
Exercised during the year	(631,537)	2.06	(738,400)	1.04
Expired during the year	-	-	(890,800)	5.87
Not exercised/not exercisable at the end of the year	285,000	1.91	2,254,737	2.77
Exercisable at the end of the year	285,000	1.91	2,254,737	2.77

The line “Not exercised/not exercisable at the end of the period” refers to the total number of options, net of those exercised or cancelled during the current and previous years.

The line “Exercisable at the end of the period” refers to the total amount of options matured at the end of the period and not yet subscribed.

With reference to the options exercised during 2017, the average weighted price of the Sogefi share at the exercise dates is Euro 4.7835.

Details of the number of options exercisable as at 31 December 2017 are given below:

	Total
Number of exercisable options remaining at December 31, 2016	2,254,737
Options matured during the year	-
Options cancelled during the year	(1,338,200)
Options exercised during the year	(631,537)
Options expired during the year	-
Number of exercisable options remaining at December 31, 2017	285,000

Phantom stock option plans

Unlike traditional stock option plans, phantom stock option plans do not envisage the granting of a right to subscribe or to purchase a share, but entail paying the beneficiaries an extraordinary variable cash amount corresponding to the difference between the Sogefi share price in the option exercise period and the Sogefi share price at the time the option was awarded.

In 2009, as shown in the paragraph entitled “Stock option plans”, the Parent Company gave the beneficiaries of the 2007 and 2008 phantom stock option plans the opportunity to waive the options of the above-mentioned plans and to join the 2009 extraordinary stock option plan.

It is noted that on 31 March 2017 the phantom stock option plan 2007 ceased.

Details of the number of phantom stock options as at 31 December 2017 are given below:

	12.31.2017
Not exercised/not exercisable at the start of the year	840,000
Granted during the year	-
Cancelled during the year	(840,000)
Exercised during the year	-
Not exercised/not exercisable at the end of the year	-
Exercisable at the end of the year	-

29. RESTRUCTURING COSTS

Restructuring costs amount to Euro 11,175 thousand (compared to Euro 5,258 thousand the previous year) and mainly relate to the European and South American subsidiaries for reorganising clerical employees and industrial workers.

“Restructuring costs” mainly include personnel costs and are made up of the accruals to the “Provision for restructuring” (Euro 1,418 thousand, net of provisions made during the previous years and not utilised) and for the remaining part (Euro 9,757 thousand) of costs incurred and paid during the year.

30. LOSSES (GAINS) ON DISPOSAL

The item is equal to zero at 31 December 2017 (net capital gains for Euro 698 thousand as at 31 December 2016).

32. EXCHANGE (GAINS) LOSSES

Net exchange losses as at 31 December 2017 amounted to Euro 3,236 thousand (Euro 1,806 thousand as at 31 December 2016).

33. OTHER NON-OPERATING EXPENSES (INCOME)

These amount to Euro 18,702 thousand compared to Euro 25,584 thousand the previous year. The following table shows the main elements:

(in thousands of Euro)	2017	2016
Write-downs of tangible and intangible fixed assets	11,103	9,386
Product warranty costs	1,272	6,258
Litigations	6,221	3,800
Write-downs of assets	-	3,947
Actuarial losses (gains)	112	332
Imputed cost of stock options and stock grant	510	248
Other ordinary expenses	(516)	1,613
TOTAL OTHER NON-OPERATING EXPENSES (INCOME) (*)	18,702	25,584

(*) As at 31 December 2017, some cost items have been reclassified. The corresponding values of the year 2016 were reclassified to facilitate comparison: the amount of Euro 1,140 thousand was reclassified from “Other non-operating expenses (income)” to “Administrative and general expenses”.

“Writedowns of tangible and intangible fixed assets” amount to Euro 11,103 thousand and include writedowns of tangible (Euro 4,240 thousand) and intangible fixed assets (Euro 6,863 thousand) for the most part relating to European subsidiaries and the subsidiary Sogefi Filtration do Brasil Ltda.

The item "Litigations", both ordinary and non-ordinary, mainly refers to risks connected with existing or possible disputes relating to the British, French and Brazilian subsidiaries. This amount includes the settlement of the matter concerning the equalisation of some British pension funds, which was acknowledged in the previous fiscal year.

34. FINANCIAL EXPENSES (INCOME), NET

Financial expenses are detailed as follows:

(in thousands of Euro)	2017	2016
Interests on bonds	12,524	13,076
Interest on amounts due to banks	3,894	6,352
Financial charges under lease contracts	426	585
Loss on interest-bearing hedging instruments	5,719	4,984
Other interests and commissions	5,706	7,950
FINANCIAL EXPENSES RELATED TO THE FINANCIAL DEBT	28,269	32,947
Financial component of pension funds and termination indemnities	1,069	1,195
Adjustment fair value put option	6,000	2,115
OTHER FINANCIAL EXPENSES	7,069	3,310
TOTAL FINANCIAL EXPENSES	35,338	36,257

Financial income is detailed as follows:

(in thousands of Euro)	2017	2016
Gain on Cross currency swap in cash flow hedge	848	1,200
Net gain on fair value derivatives not in cash flow hedge	2,031	947
Interest on amounts given to banks	524	494
Other interest and commissions	256	86
Moratory interests on Avoir Fiscal	-	2,072
TOTAL FINANCIAL INCOME	3,659	4,799
TOTAL FINANCIAL EXPENSES (INCOME), NET	31,679	31,458

"Financial expenses related to the financial debt" decreased by Euro 4,678 thousand, partly offset by the increase in "Other financial expenses".

It should be remembered that the previous year benefited from positive non-ordinary interest amounts equal to Euro 2,072 thousand (“Moratory interests on *Avoir Fiscal*”). Total “Financial expenses (income), net” are basically unchanged compared to the previous fiscal year.

Item “Adjustment fair value put option” reflects the change in the fair value of the liability generated when the non-controlling shareholders of subsidiary Sogefi M.N.R. Engine Systems India Pvt Ltd exercised their put option on 30% of its share capital. For further details, please refer to note 17.

Please note that item “Net gain on fair value derivatives not in cash flow hedge” is comprised of:

- a financial expense of Euro 2,483 thousand reflecting the portion of the reserve previously booked to Other Comprehensive Income that will be reclassified to Income Statement over the same period of time expected for the differentials relating to the former underlying hedged item;
- a financial income of Euro 4,514 thousand reflecting the change in the fair value of these derivatives compared to 31 December 2016.

35. LOSSES (GAINS) FROM EQUITY INVESTMENTS

The item is equal to zero at 31 December 2017 (income of Euro 3,583 thousand as at 31 December 2016).

36. INCOME TAXES

(in thousands of Euro)	2017	2016
Current taxes	13,378	17,247
Deferred tax liabilities (assets)	8,136	14,413
Gain (loss) from participation to fiscal consolidation	1,435	977
TOTAL	22,949	32,637

The year 2017 recorded a tax rate of 42.7% compared to 70.0% in the previous year.

A reconciliation between the standard tax rate (that of the Parent Company Sogefi S.p.A.) and the effective tax rate for 2017 and 2016 is shown in the table below. Taxes have been calculated at the domestic rates applicable in the various countries. The differences between the rates applied in the various countries and the standard Italian tax rate are included in the line “Other permanent differences and tax rate differentials”.

(in thousands of Euro)	2017		2016	
		Tax rate %		Tax rate %
Result before taxes	53,684	27.5%	46,632	27.5%
Theoretical income taxes	14,763		12,824	
<i>Effect of increases (decreases) with respect to the standard rate:</i>				
Statutory amortisation of goodwill	(270)	-0.5%	(166)	-0.4%
Non-deductible costs, net	(273)	-0.5%	(946)	-2.0%
Use of deferred tax assets not recognised in previous years	(2,324)	-4.3%	(2,699)	-5.8%
Deferred tax assets on losses for the year not recognised in the financial statements	5,334	9.9%	6,667	14.2%
Taxed portion of dividends	656	1.2%	2,552	5.5%
Other permanent differences and tax rate differentials	5,062	9.4%	14,405	30.9%
Income taxes in the consolidated income statement	22,949	42.7%	32,637	70.0%

Item “Use of deferred tax assets not recognised in previous years” mainly relates to subsidiary Sogefi (Suzhou) Auto Parts Co., Ltd; use of past losses for which no deferred tax assets had been recognised in previous years resulted in no taxes being posted on the positive results of this company.

“Deferred tax assets on losses for the year not recognised in the financial statements” are mainly attributable to subsidiary Sogefi Filtration do Brasil Ltda, for which there was no probability at the end of the year that such losses would be recovered.

The “Taxed portion of dividends” refers to the portion of dividends received from Group companies that is not tax-exempt.

Item “Other permanent differences and tax rate differentials” mainly includes:

- Euro 6.1 million for writedown of deferred tax assets further to the impairment test;
- Euro 1.4 million for the net liability arisen when the tax surplus was transferred to the CIR Group;
- Euro 2.5 million for the positive impact of tax rate reduction from about 40% to about 26% on deferred tax assets for the subsidiary Sogefi U.S.A. Inc.;
- Euro 2 million for the positive impact of tax rate reduction from 34.4% to about 28% on deferred tax assets for the French subsidiaries;
- Euro 2 million for the negative impact of the difference between the tax rates applied in the various countries and the standard Italian tax rate.

37. DIVIDENDS PAID

No dividends were paid to the Parent Company shareholders during the year 2017. Dividends paid to non-controlling interests amounted to Euro 2,606 thousand.

The Parent Company Sogefi S.p.A. did not issue any shares other than ordinary shares; treasury shares are always excluded from the dividend.

38. EARNINGS PER SHARE (EPS)

Basic EPS

	2017	2016
Net result attributable to the ordinary shareholders (in thousands of Euro)	26,604	9,336
Weighted average number of shares outstanding during the year (thousands)	116,899	115,877
<i>Basic EPS (Euro)</i>	<i>0.228</i>	<i>0.081</i>

Diluted EPS

The Company only has one category of potential ordinary shares, namely those deriving from the potential conversion of the *stock options* granted to Group employees.

	2017	2016
Net result attributable to the ordinary shareholders (in thousands of Euro)	26,604	9,336
Average number of shares outstanding during the year (thousands)	116,899	115,877
Weighted average number of shares potentially under option during the year (thousands)	851	684
Number of shares that could have been issued at fair value (thousands)	(448)	(417)
Adjusted weighted average number of shares outstanding during the year (thousands)	117,302	116,144
<i>Diluted EPS (Euro)</i>	<i>0.227</i>	<i>0.080</i>

The “Weighted average number of shares potentially under option during the year” represents the average number of shares that are potentially outstanding under stock option plans (only for potentially dilutive options, i.e. with an exercise price lower than the average annual *fair value* of the ordinary shares of Sogefi S.p.A.), for which the subscription right has vested but has not yet been exercised at the end of reporting period. These shares have a potentially dilutive effect on basic EPS and are therefore taken into consideration in the calculation of diluted EPS.

The “Number of shares that could have been issued at fair value” represents the normalisation factor, being the number of shares that would have been issued dividing the proceeds that would have been received from subscription of the stock options by the average annual fair value of the Sogefi S.p.A. ordinary shares, which amounted to Euro 4.0293 in 2017, compared to Euro 1.7004 in 2016.

Please note that 155,137 shares that could dilute basic EPS in the future were not included in the calculation of diluted EPS for 2017 because their exercise price is higher than the average annual *fair value* of the ordinary shares of Sogefi S.p.A. in 2017.

E) 39. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments

The following table shows a comparison between the book value of the Group's financial instruments and their fair value.

An analysis of the table shows that the fair value is different from the book value only in the case of short-term and long-term fixed-rate financial debts. This difference, corresponding to Euro 30,414 thousand, is generated by a recalculation of these loans at year-end date at current market rates.

The spreads of floating-rate loans are in line with standard market conditions.

The fair value of fixed-rate financial debts is classified as Level 2 in the fair value hierarchy (see paragraph "Categories of financial assets and liabilities stated in the financial statements and fair value hierarchy") and was measured using generally accepted discounted cash flow models and a free-risk discount rate.

The fair value of the convertible bond amounts to Euro 103,114 thousand (Euro 94,482 thousand as at 31 December 2016) and is classified as Level 1 in the fair value hierarchy, because the financial instrument is quoted on an active market.

(in thousands of Euro)	Book value		Fair value	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Financial assets				
Cash and cash equivalents	103,889	93,661	103,889	93,661
Securities held for trading	-	-	-	-
Held-to-maturity investments	-	3,950	-	3,950
Assets for derivative financial instruments	857	255	857	255
Current financial receivables	653	1,676	653	1,676
Trade receivables	174,384	158,466	174,384	158,466
Other receivables	5,508	6,820	5,508	6,820
Other assets	2,304	3,689	2,304	3,689
Other financial assets available for sale	46	46	46	46
Non-current trade receivables	4	4	4	4
Non-current financial receivables	2,215	15,770	2,215	15,770
Other non-current receivables	37,382	29,818	37,382	29,818
Financial liabilities				
Short-term fixed rate financial debts	20,792	25,313	21,487	25,871
Other floating rate short-term financial debts	59,962	122,895	59,962	122,895
Other short-term liabilities for derivative financial instruments	2,678	400	2,678	400
Trade and other payables	373,181	339,086	373,181	339,086
Other current liabilities	8,626	8,197	8,626	8,197
Other non-current liabilities	6,696	15,046	6,696	15,046
Other fixed rate medium/long-term financial debts	101,364	130,634	113,647	147,326
Equity linked bond included embedded derivative	85,678	82,035	103,114	94,482
Other floating rate medium/long-term financial debts	101,175	45,528	101,175	45,528
Other medium/long-term liabilities for derivative financial instruments	-	7,550	-	7,550

Financial risk management

Given that the Group operates on world markets, its activity is exposed to various kinds of financial risks, including fluctuations, up or down, of interest and exchange rates, and cash flow risks (for cash flows generated outside of the Eurozone). In order to minimise these risks, the Group uses derivatives as part of its risk management activities, whereas it does not use or hold derivatives or similar instruments purely for trading purposes.

The Group also has available a variety of financial instruments other than derivatives, such as bank loans, financial leases, rentals, sight deposits, payables and receivables deriving from normal operating activities.

The Group handles its main hedging operations centrally. Precise instructions have also been issued, laying down guidelines on risk management, while procedures have been introduced to control all transactions in derivatives.

Interest risk

The interest risk to which the Group is exposed mainly arises from long-term debts.

These debts may be fixed or floating rate.

Floating rate debts, which represent 42% of the net book value of Group loans, expose the Group to a risk arising from interest rate volatility (cash flow risk).

With regard to this risk, for the purposes of the related hedging, the Group may use derivative contracts which limit the impacts on the Income Statement of changes in the interest rate. At present, the net book value of the Group's floating-rate debts is entirely covered by hedging transactions made during the previous years (such hedges do not always meet the requirements of IAS 39 for treatment under hedge accounting).

The following table gives a breakdown, by maturity, of the book value of the Group's financial assets and liabilities instruments, which are exposed to interest rate risk as at 31 December 2017, split according to whether they are contractually at a fixed or floating rate (for further details see the table shown in the analysis of "Liquidity risk"):

(in thousands of Euro)	within 12 months	between 1 and 2 years	between 2 and 3 years	between 3 and 4 years	between 4 and 5 years	beyond 5 years	Total
TOTAL FIXED RATE	(20,792)	(16,267)	(40,117)	(100,848)	(15,320)	(14,490)	(207,834)
TOTAL FLOATINGRATE - ASSET	105,399	-	-	-	-	-	105,399
TOTAL FLOATINGRATE - LIABILITIES	(62,537)	(75,551)	(10,860)	(10,014)	(4,722)	(29)	(163,713)

Financial instruments booked to "Total floating rate – Asset" refer to "Cash and cash equivalents" and "Other financial assets" (Securities held for trading, Held-to-maturity investments, Assets for derivative financial instruments).

Below there is a sensitivity analysis which shows the impact on the Income Statement, net of tax, and on Equity of a change in interest rates that is considered reasonably possible.

An increase or decrease in interest rates of 100 basis points, applied to floating-rate financial assets and liabilities in existence as at 31 December 2017, including interest-rate hedges, would have the following effects:

(in thousands of Euro)	12.31.2017		12.31.2016	
	Net profit	Equity	Net profit	Equity
Sensitivity Analysis				
+ 100 basis points	1,331	1,380	2,441	2,681
- 100 basis points	(1,335)	(1,384)	(2,488)	(2,734)

The effect on Equity differs from the effect on the Income Statement by Euro 48.7 thousand (in the event of an increase in interest rates), and by Euro -49.3 thousand (in the event of a decrease in interest rates), which reflects the change in the fair value of the instruments hedging the interest rate risk.

Foreign currency risk

As it operates at an international level, the Group is exposed to the risk that changes in exchange rates could have an impact on the fair value of some of its assets or liabilities. Moreover, as can be seen from the segment information given in note 4, the Group produces and sells mainly in countries of the Eurozone, but it is potentially exposed to currency risk, above all in respect of the British Pound, Brazilian Real, US Dollar, Argentine Peso, Chinese Renminbi and Canadian Dollar.

Generally speaking, the Group is not particularly exposed to exchange risk, which is mainly related to the translation of foreign subsidiaries' financial statements, as the currencies in which the foreign operating companies bill and those in which they are invoiced tend to be much the same.

As regards borrowings, there are also policies stating that any funds raised from third parties have to be in the same currency as the functional currency of the company obtaining the loan. If any exception is made to this principle, then the risk is hedged through forward currency purchases.

More specifically, the Parent Company Sogefi S.p.A. made one private placement of bonds for the amount of USD 115 million in 2013 (USD 96.8 million as at 31 December 2017). The exchange risk on this financing was hedged through cross currency swap contracts (please see paragraph "Hedging – Exchange risk hedges" for more details).

A sensitivity analysis is provided below, which shows the impact on the Income Statement, especially on "Exchange (gains) losses", net of tax, and on Equity of a change that is considered reasonably possible in exchange rates of the main foreign currencies. Note that the exchange effect of translating the financial statements of foreign subsidiaries into Euro has not been taken into consideration here.

What has been taken into consideration are the financial assets and liabilities outstanding as at 31 December 2017 denominated in a currency other than the functional currency of the individual subsidiaries. This analysis also takes into account any changes in the fair value of the financial instruments used to hedge exchange risk.

As at 31 December 2017, exchange risk was concentrated mainly in transactions with the Euro.

A 5% appreciation or depreciation of the Euro against the other main currencies would have the following effects:

(in thousands of Euro)	12.31.2017		12.31.2016	
Sensitivity Analysis	Net profit	Equity	Net profit	Equity
+ 5%	(589)	(589)	(487)	(487)
- 5%	670	670	491	491

These effects are mainly due to the following exchange rates:

- EUR/GBP due to the net exposure for the trade payables and financial debt in Euro of UK companies and for the net financial debt in GBP of the Parent Company Sogefi S.p.A.;
- EUR/USD due to the net exposure for the trade payables and financial debt in Euro of the US subsidiaries and for the net financial debt in USD of the Parent Company Sogefi S.p.A.;
- EUR/BRL due to the net exposure for the trade payables in Euro of the Brazilian subsidiaries;
- EUR/RON due to the net exposure for the trade payables in Euro of the Romanian subsidiary S.C. Sogefi Air & Cooling S.r.l.

Please note that a sensitivity analysis of the MEX/USD exchange rate showed that a 5% appreciation/depreciation of the Mexican Peso would cause Group's net profit and equity to decrease/increase by Euro 915 thousand. This effect is due to the exposure for the trade payables and financial debt in USD of the Mexican subsidiary.

Moreover, a further sensitivity analysis of the ARS/USD exchange rate showed that a 5% appreciation/depreciation of the Argentinian Peso would cause Group's net profit and equity to decrease/increase by Euro 176 thousand. This effect is due to the exposure for the trade payables and financial debt in USD of the Argentinian subsidiaries.

Price risk

The Group is partially exposed to price risk as it makes purchases of various raw materials such as steel, plastics, aluminium, cellulose products.

The risk is handled in the best way possible thanks to centralised purchasing (or at business unit level) and a policy of having various suppliers for each kind of raw material, operating in different parts of the world.

We would also point out that price risk is generally mitigated by the Group's ability to pass on part of the variation in raw material costs to selling prices.

The price risk on Group investments classified as “Securities held for trading” and “Other financial assets available for sale” is not significant.

Credit risk

This is the risk that one of the parties signing a contract of a financial nature defaults on an obligation, thereby provoking a financial loss. This risk can derive from strictly

commercial aspects (granting and concentration of credits), as well as from purely financial aspects (choice of counterparties used in financial transactions).

From a commercial point of view, the Group does not have excessive concentrations of credit risk as it operates on distribution channels, both *Original Equipment* and the *Aftermarket*, that make it possible not to depend too much on individual customers. For example, Original Equipment sales are largely to car and industrial vehicle manufacturers.

As regards the *Aftermarket*, on the other hand, the Group's main customers are important international purchasing groups.

In order to minimise credit risk, however, procedures have in any case been implemented to limit the impact of any customer insolvencies.

As regards counterparties for the management of financial resources, the Group only has recourse to partners that have a safe profile and a high international standing.

The Group's maximum exposure to credit risk as at 31 December 2017 is represented by the book value of the financial assets shown in the financial statements (Euro 327,242 thousand), as well as by the nominal value of the guarantees given in favour of third parties, as mentioned in note 43 (Euro 9,751 thousand).

The exposure to credit risk is essentially linked to trade receivables which amounted to Euro 172,136 thousand as at 31 December 2017 (Euro 157,163 thousand as at 31 December 2016), written down by Euro 4,236 thousand (Euro 4,977 thousand as at 31 December 2016).

Receivables are backed by mainly insurance guarantees for Euro 4,415 thousand (Euro 4,345 thousand as at 31 December 2016). The Group does not have any other guarantees covering trade receivables.

The following table shows the changes in the allowance for doubtful accounts:

(in thousands of Euro)	12.31.2017	12.31.2016
Opening balance	4,977	5,367
Change to the scope of consolidation	-	-
Accruals for the period	871	1,578
Utilisations	(1,352)	(1,741)
Provisions not used during the period	(110)	(294)
Other changes	(19)	-
Exchange differences	(131)	67
TOTAL	4,236	4,977

The following is an ageing analysis of gross receivables and the related allowance for doubtful accounts to help evaluate credit risk:

(in thousands of Euro)	12.31.2016		
	Gross value	Allowance for doubtful accounts	Net value
Receivables past due:			
0-30 days	11,108	(442)	10,666
30-60 days	1,689	(82)	1,607
60-90 days	594	(26)	568
over 90 days	6,820	(4,246)	2,574
Total receivables past due	20,211	(4,796)	15,415
Total receivables still to fall due	136,952	(181)	136,771
TOTAL	157,163	(4,977)	152,186

(in thousands of Euro)	12.31.2017		
	Gross value	Allowance for doubtful accounts	Net value
Receivables past due:			
0-30 days	16,157	(535)	15,622
30-60 days	1,745	(1)	1,744
60-90 days	857	(65)	792
over 90 days	5,904	(3,489)	2,415
Total receivables past due	24,663	(4,090)	20,573
Total receivables still to fall due	147,473	(146)	147,327
TOTAL	172,136	(4,236)	167,900

As at 31 December 2017, gross receivables past due had decreased by Euro 4,452 thousand compared to the previous year. The increase affects the 0-30 days bracket and mainly relates to the European subsidiaries due to delayed collection of amounts recovered in the early days of 2018.

The item “Total receivables still to fall due” does not contain significant positions that have been renegotiated.

Considering the nature of the Sogefi Group's customers (cars and industrial vehicles manufacturers and important international purchasing groups), a Credit risk analysis by type of customer is not considered meaningful.

Liquidity risk

The Group is subject to a minimum amount of liquidity risk, namely having to handle a situation where it is not able to raise sufficient funds to meet its liabilities.

The Group has always taken an extremely prudent approach to its financial structure, using mainly medium/long-term funding, whereas forms of short-term financing are generally used only to cope with moments of peak requirement.

Its solid capital structure makes it relatively easy for the Group to find additional sources of financing.

It should also be mentioned that the Parent Company Sogefi S.p.A. has implemented a cash pooling system for all of the main European subsidiaries, which makes it possible to optimise liquidity and cash flow management at a supranational level.

The following table shows an analysis of the Group's financial assets and liabilities instruments by maturity, including the amount of future interests to be paid and trade receivables and payables:

(in thousands of Euro)	within 12 months	between 1 and 2 years	between 2 and 3 years	between 3 and 4 years	between 4 and 5 years	beyond 5 years	Total
Fixed rate							
Finance lease Sogefi Filtration Ltd	(241)	(267)	(300)	(332)	(371)	-	(1,511)
Finance lease Sogefi U.S.A. Inc.	(1,438)	(1,267)	(1,061)	(1,097)	(1,133)	(580)	(6,576)
Private Placement USD 115 million Sogefi S.p.A.	(13,698)	(13,698)	(13,698)	(13,698)	(13,698)	(13,461)	(81,951)
Private Placement EUR 25 million Sogefi S.p.A.	-	-	(24,967)	-	-	-	(24,967)
Equity linked bond EUR 100 million Sogefi S.p.A.	-	-	-	(85,678)	-	-	(85,678)
Sogefi Air & Cooling Canada Corp. loan	(1,028)	(800)	-	-	-	-	(1,828)
Sogefi Filtration do Brasil Ltda loan	(3,223)	-	-	-	-	-	(3,223)
Government financing	(239)	(229)	(85)	(37)	(118)	(449)	(1,158)
Other fixed rate loans	(924)	(5)	(6)	(6)	-	-	(942)
Future interests	(8,930)	(7,734)	(5,941)	(3,185)	(1,396)	(395)	(27,580)
Future financial income on derivative instruments - interest risk hedging *	1,168	953	936	664	306	90	4,116
TOTAL FIXED RATE	(28,553)	(23,048)	(45,122)	(103,370)	(16,410)	(14,796)	(231,298)
Floating rate							
Cash and cash equivalents	103,889	-	-	-	-	-	103,889
Financial assets	-	-	-	-	-	-	-
Assets for derivative financial instruments	857	-	-	-	-	-	857
Current financial receivables	653	-	-	-	-	-	653
Non-current financial receivables	-	-	-	-	-	-	-
Bank overdrafts and other short-term loans	(14,170)	-	-	-	-	-	(14,170)
Sogefi S.p.A. loans	(20,465)	(66,394)	(10,000)	(10,000)	(4,708)	-	(111,567)
Sogefi Suspension S.A. loan	(2,491)	(2,509)	-	-	-	-	(5,000)
Sogefi Air&Cooling S.A.S. loan	(2,491)	(2,509)	-	-	-	-	(5,000)
Sogefi Filtration S.A. loan	(2,490)	(2,510)	-	-	-	-	(5,000)
S.C. Sogefi Air & Cooling S.r.l. loan	(1,416)	(1,416)	(708)	-	-	-	(3,540)
Sogefi (Suzhou) Auto Parts Co., Ltd loans	(12,992)	-	-	-	-	-	(12,992)
Other floating rate loans	(3,447)	(212)	(152)	(14)	(14)	(29)	(3,868)
Future interests	(2,165)	(1,409)	(512)	(195)	(26)	(2)	(4,309)
Liabilities for derivative financial instruments - exchange risk hedging	(102)	-	-	-	-	-	(102)
Future financial expenses on derivative instruments - interest risk hedging *	(2,129)	-	-	-	-	-	(2,129)
TOTAL FLOATING RATE	41,041	(76,960)	(11,372)	(10,209)	(4,748)	(31)	(62,279)
Trade receivables	174,384	-	-	-	-	-	174,384
Trade and other payables	(373,181)	(6,696)	-	-	-	-	(379,877)
TOTAL FINANCIAL INSTRUMENT - ASSET	279,783	-	-	-	-	-	279,783
TOTAL FINANCIAL INSTRUMENT - LIABILITIES	(466,092)	(106,704)	(56,494)	(113,579)	(21,158)	(14,827)	(778,852)

* The amount is different from "Net financial assets for derivatives – hedging of interest rate" (equal to a total of Euro 361 thousand) because it represents the non-discounted cash flows.

Hedging

a) Exchange risk hedges – not designated in hedge accounting

The Sogefi Group has entered the following contracts to hedge the exchange risk on financial and commercial balances. Note that even though the Group considers these instruments as exchange risk hedges from a risk management point of view, it has chosen not to adopt hedge accounting, as this treatment is not considered suitable for the Group's operating requirements. It therefore measures such contracts at fair value, posting the differences to “Exchange (gains) losses” in the Income Statement (this difference is offset within Income Statement by the fair value change of the asset/liability denominated in a certain currency).

The fair value of these instruments was calculated using the forward curve of exchange rates as at 31 December 2017.

As at 31 December 2017, the following forward purchase/sale contracts were maintained to hedge the exchange risk on intercompany financial positions and on commercial positions:

Company		Forward purchase / Forward sale	Date opened	Currency exchange	Spot price	Date closed	Forward price	Fair value (*) at 12.31.2017
Sogefi S.p.A.	P	GBP 8,000,000	10/23/2017	€/currency	0.89795	01/23/2018	0.90000	122.9
Sogefi S.p.A.	S	USD 19,000,000	11/27/2017	€/currency	1.17500	01/26/2018	1.17980	290.4
Sogefi Filtration S.A.	P	USD 500,000	12/04/2017	€/currency	1.18570	01/04/2018	1.18810	(4.0)
Sogefi Filtration S.A.	P	USD 500,000	12/04/2017	€/currency	1.18570	02/05/2018	1.19045	(4.1)
Sogefi Filtration S.A.	P	USD 500,000	12/29/2017	€/currency	1.19610	03/07/2018	1.20020	(1.1)
S.C. Sogefi Air&Cooling S.r.l.	P	EUR 300,000	12/18/2017	RON/currency	4.62700	01/08/2018	4.63390	1.8
S.C. Sogefi Air&Cooling S.r.l.	P	EUR 350,000	12/18/2017	RON/currency	4.62700	02/16/2018	4.65200	2.0
Sogefi Air&Cooling Canada Corp.	P	USD 1,000,000	12/22/2017	CAD/currency	1.27890	02/07/2018	1.27790	(32.9)
Sogefi Air&Cooling Canada Corp.	P	USD 1,000,000	11/14/2017	CAD/currency	1.27580	01/16/2018	1.27510	(28.3)
Sogefi Engine Systems Mexico S. de	P	EUR 200,000	10/10/2017	MXN/currency	18.61000	01/10/2018	18.90000	86.1
Sogefi Engine Systems Mexico S. de	P	EUR 200,000	11/14/2017	MXN/currency	19.16500	02/06/2018	19.44500	291.0
Sogefi Suspension Brasil Ltda	P	EUR 150,000	12/28/2017	BRL/currency	3.95950	02/07/2018	3.98750	0.7
Sogefi Suspension Brasil Ltda	P	EUR 200,000	11/24/2017	BRL/currency	3.84650	01/18/2017	3.88570	4.3
Sogefi Suspension Brasil Ltda	S	EUR 150,000	12/28/2017	BRL/currency	3.30950	02/15/2018	3.32450	(0.3)
Sogefi Suspension Brasil Ltda	S	USD 250,000	12/28/2017	BRL/currency	3.30950	02/22/2018	3.32700	(0.3)
Sogefi Suspension Brasil Ltda	S	USD 250,000	12/11/2017	BRL/currency	3.29110	01/25/2018	3.30500	(0.4)
Sogefi Suspension Brasil Ltda	S	USD 200,000	12/11/2017	BRL/currency	3.29110	01/30/2018	3.30590	(0.5)
Sogefi Suspension Brasil Ltda	S	USD 250,000	11/24/2017	BRL/currency	3.22350	01/04/2018	3.23600	(4.5)
Sogefi Suspension Brasil Ltda	S	USD 250,000	11/24/2017	BRL/currency	3.22350	01/11/2018	3.23830	(4.4)
Sogefi Suspension Brasil Ltda	S	USD 250,000	11/30/2017	BRL/currency	3.26130	01/18/2018	3.27740	(3.6)
Sogefi Suspension Brasil Ltda	S	USD 300,000	12/15/2017	BRL/currency	3.31890	02/08/2018	3.33540	1.9
Sogefi Filtration do Brasil Ltda	P	USD 720,489	11/27/2017	BRL/currency	3.28200	05/29/2018	3.29167	4.4
Sogefi-MNR Engine Systems India Pvt Ltd	P	EUR 1,200,000	11/28/2017	INR/currency	76.62000	02/28/2018	78.10000	(8.5)
Allevard IAI Suspensions Pvt Ltd	P	EUR 350,000	08/30/2017	INR/currency	76.50000	02/01/2018	79.19000	(9.3)

* Positive fair value was recognised in "Other financial assets - Asset for derivative financial instruments", whereas negative fair value was recognised in "Other short-term liabilities for derivative financial instruments".

b) Interest risk hedges – in hedge accounting

During 2013, the Parent Company Sogefi S.p.A. entered into the following Interest Rate Swap contracts and the relating cash flows started to be exchanged in June 2016. These contracts were originally aimed at hedging for the future indebtedness of the Parent Company Sogefi S.p.A., which was deemed to be highly probable; in the year 2015 they were associated to the new loan granted by Ing Bank N.V. for a total amount that at present is Euro 55 million and passed the effectiveness test under IAS 39 carried out as at 31 December 2017:

Description of IRS	Date opened	Contract maturity	Notional (in thousands of Euro)	Fixed rate	Fair value at 12.31.2017 (in thousands of Euro)	Fair value at 12.31.2016 (in thousands of Euro)
Hedging on financial loan ING Bank N.V. Euro 55 million	02/21/2013	06/01/2018	10,000	1.660%	(100)	(293)
Hedging on financial loan ING Bank N.V. Euro 55 million	02/19/2013	06/01/2018	10,000	1.650%	(100)	(291)
Hedging on financial loan ING Bank N.V. Euro 55 million	02/21/2013	06/01/2018	5,000	1.660%	(50)	(147)
TOTAL			25,000		(250)	(731)

These financial instruments envisage payment by the Group of an agreed fixed rate and payment by the counterparty of the floating rate that is the basis of the underlying loan.

c) Interest risk hedges – no longer in hedge accounting

As at 31 December 2017, the Parent Company Sogefi S.p.A. holds the following interest rate swap contracts that, based on the effectiveness tests carried out on 30 June 2014 (for the first table reported below), and on 31 December 2014 (for the second table reported below) have become ineffective (the purpose of these derivative instruments was to hedge the risk of fluctuations in the cash flows arising from expected future indebtedness of the Company) and so that the hedging relationship was discontinued and the derivative contracts were reclassified as fair value through profit or loss instruments. The change in fair value compared to 31 December 2016 was recognised in the income statement, whereas the reserve booked to "Other Comprehensive Income" (if any) is reclassified in the income statement over the same period of time as the differentials relating to the underlying hedged item.

Details are as follows:

Description of IRS	Date opened	Contract maturity	Notional (in thousands of Euro)	Fixed rate	Fair value at 12.31.2017 (in thousands of Euro)	Fair value at 12.31.2016 (in thousands of Euro)
Hedging of Sogefi S.p.A. future financial indebtedness	02/10/2011	06/01/2018	10,000	3.679%	(201)	(575)
Hedging of Sogefi S.p.A. future financial indebtedness	02/23/2011	06/01/2018	10,000	3.500%	(193)	(570)
Hedging of Sogefi S.p.A. future financial indebtedness	03/11/2011	06/01/2018	10,000	3.545%	(195)	(577)
Hedging of Sogefi S.p.A. future financial indebtedness	03/23/2011	06/01/2018	10,000	3.560%	(196)	(578)
Hedging of Sogefi S.p.A. future financial indebtedness	03/28/2011	06/01/2018	10,000	3.670%	(202)	(596)
Hedging of Sogefi S.p.A. future financial indebtedness	05/13/2011	06/01/2018	10,000	3.460%	(191)	(564)
Hedging of Sogefi S.p.A. future financial indebtedness	06/24/2011	06/01/2018	10,000	3.250%	(180)	(533)
Hedging of Sogefi S.p.A. future financial indebtedness	06/28/2011	06/01/2018	10,000	3.250%	(180)	(533)
Hedging of Sogefi S.p.A. future financial indebtedness	11/28/2011	06/01/2018	10,000	2.578%	(149)	(431)
Hedging of Sogefi S.p.A. future financial indebtedness	02/11/2013	06/01/2018	5,000	1.225%	(39)	(114)
Hedging of Sogefi S.p.A. future financial indebtedness	02/01/2013	06/01/2018	10,000	1.310%	(83)	(240)
Hedging of Sogefi S.p.A. future financial indebtedness	02/06/2013	06/01/2018	10,000	1.281%	(81)	(236)
Hedging of Sogefi S.p.A. future financial indebtedness	02/11/2013	06/01/2018	5,000	1.220%	(39)	(129)
Hedging of Sogefi S.p.A. future financial indebtedness	02/12/2013	06/01/2018	5,000	1.240%	(40)	(115)
TOTAL			125,000		(1,969)	(5,791)

Description of IRS	Date opened	Contract maturity	Notional (in thousands of Euro)	Fixed rate	Fair value at 12.31.2017 (in thousands of Euro)	Fair value at 12.31.2016 (in thousands of Euro)
Hedging of Sogefi S.p.A. future financial indebtedness	02/07/2013	06/01/2018	15,000	1.445%	(134)	(391)
Hedging of Sogefi S.p.A. future financial indebtedness	02/11/2013	06/01/2018	5,000	1.425%	(44)	(129)
Hedging of Sogefi S.p.A. future financial indebtedness	02/19/2013	06/01/2018	10,000	1.440%	(89)	(260)
Hedging of Sogefi S.p.A. future financial indebtedness	02/11/2013	06/01/2018	5,000	1.420%	(44)	(113)
Hedging of Sogefi S.p.A. future financial indebtedness	02/13/2013	06/01/2018	5,000	1.500%	(46)	(135)
TOTAL			40,000		(357)	(1,028)

The discontinuation of hedge accounting had the following impact on the financial statements as at 31 December 2017:

- a financial income of Euro 4,514 thousand reflecting the change in fair value compared to 31 December 2016 was immediately recognised in the income statement;
- a financial expense of Euro 2,483 thousand was recognised in the income statement; this amount reflects the portion of the reserve previously booked to “Other Comprehensive Income” that is recognised in the income statement over the same period of time as the differentials relating to the former underlying hedged item. As at 31 December 2017, an amount of Euro 1,122 thousand remains to be recycled to the income statement in the fiscal year 2018.

d) Exchange risk hedges – no longer in hedge accounting

During 2013 the Parent Company Sogefi S.p.A. entered into three cross currency swap (Ccs) contracts maturing in June 2023, initially designated in hedge accounting, in order to hedge interest and exchange rate risks relating to the private placement currently of USD 98.6 million bonds. Under these contracts, a fixed interest receivable of 600 basis points on subscribed notional USD amount is collected by the Parent Company Sogefi S.p.A. on a quarterly basis against payment of a fixed interest payable on a notional amount in EUR corresponding to the USD notional amount converted at the fixed exchange rate of 1.3055 (totalling Euro 75,505 thousand).

Based on the tests carried out on 31 December 2017, they have become ineffective so that the hedging relationship was discontinued and the derivative contracts were reclassified as fair value through profit or loss instruments. The change in fair value (exclusively for the interest rate risk) compared to 30 June 2017 (i.e. the date of the latest effectiveness tests passed) was recognised in the income statement, whereas the reserve booked to "Other Comprehensive Income" (if any) is reclassified in the income statement over the same period of time as the differentials relating to the underlying hedged item.

Details of these contracts are as follows:

Description of CCSwap	Date opened	Contract maturity	Notional (in thousands of Usd)	Fixed rate	Fair value at 12.31.2017 (in thousands of Euro)	Fair value at 12.31.2016 (in thousands of Euro)
Private placement USD 98.6 million (05/03/2013 maturity 06/01/2023), coupon 600 bps	04/30/2013	06/01/2023	47,143	6.0% USD receivable 5.6775% Euro payables	1,103	7,646
Private placement USD 98.6 million (05/03/2013 maturity 06/01/2023), coupon 600 bps	04/30/2013	06/01/2023	34,285	6.0% USD receivable 5.74% Euro payables	752	5,396
Private placement USD 98.6 million (05/03/2013 maturity 06/01/2023), coupon 600 bps	04/30/2013	06/01/2023	17,143	6.0% USD receivable 5.78% Euro payables	360	2,728
TOTAL			98,571		2,215	15,770

The discontinuation of hedge accounting, for the interest rate risk, had the following impact on the financial statements as at 31 December 2017:

- a financial expense of Euro 176 thousand reflecting the change in fair value compared to 30 June 2017 was immediately recognised in the income statement;
- a financial expense of Euro 367 thousand was recognised in the income statement; this amount reflects the portion of the reserve previously booked to “Other Comprehensive Income” that is recognised in the income statement over the same period of time as the differentials relating to the former underlying hedged item. As at 31 December 2017, an amount of Euro 3,947 thousand remains to be recycled to the income statement in the future years.

e) fair value of derivatives

The fair value of all derivatives was calculated using the forward curves of exchange and interest rates as at 31 December 2017, also taking into account a credit valuation adjustment/debit valuation adjustment. The fair value amounts of derivatives are classified as Level 2 in fair value hierarchy, based on the significance of the inputs used in fair value measurements.

Equity management

The main objectives pursued by the Group through its equity risk management are the creation of value for shareholders and the safeguarding of business continuity. The Group also sets itself the objective of maintaining an optimal equity structure so as to reduce the cost of indebtedness and meet the covenants established by the loan agreements.

The Group monitors equity on the basis of the net financial position/total equity ratio (gearing ratio). For the purposes of determination of the net financial position reference is made to note 22. Total equity is analysed in note 21.

As at 31 December 2017, gearing stands at 1.28 (1.58 as at 31 December 2016).

Categories of financial assets and liabilities stated in the financial statements and fair value hierarchy

In compliance with the requirements of IFRS 7, the table below provides the information on the categories of financial assets and liabilities held by the Group as at 31 December 2017.

For the financial instruments measured at fair value in the statement of financial position the IFRS 7 requires a classification by hierarchy determined by reference to the source of inputs used to derive the fair value. This classification uses the following three levels:

- level 1: if the financial instrument is quoted in an active market;
- level 2: if the fair value is determined using valuation techniques and the inputs used for the valuation (other than quoted prices of financial instruments) are observable in the market. Specifically, fair value was calculated using the forward curves of exchange and interest rates;

- level 3: if the fair value is determined using valuation techniques and the inputs used for the valuation are non-observable in the market.

The following table therefore shows the fair value level of financial assets and liabilities measured at fair value, as at 31 December 2017:

(in thousands of Euro)	Note	Book value 2017	Receivables and financial assets	Financial assets available for sale	Held-to- maturity investments	Financial liabilities	Fair Value with changes booked in the Income	
							Amount	Fair value hierarchy
Current assets								
Cash and cash equivalents	5	103,889	103,889	-	-	-	-	-
Securities held for trading	6	-	-	-	-	-	-	-
Held-to-maturity investments	6	-	-	-	-	-	-	-
Assets for derivative financial instruments	6	857	-	-	-	-	857	2
Trade receivables	8	174,384	174,384	-	-	-	-	-
Other receivables	8	5,508	5,508	-	-	-	-	-
Other assets	8	2,304	2,304	-	-	-	-	-
Non-current assets								
Other financial assets available for sale	12	46	-	46 *	-	-	-	-
Non-current trade receivables	13	4	4	-	-	-	-	-
Non-current assets for derivative financial instruments	13	2,215	-	-	-	-	2,215	2
Other non-current receivables	13	37,382	37,382	-	-	-	-	-
Current liabilities								
Short-term fixed rate financial debts	16	20,792	-	-	-	20,792	-	-
Short-term variable rate financial debts	16	59,962	-	-	-	59,962	-	-
Other short-term liabilities for derivative financial instruments	16	2,678	-	-	-	-	2,678 **	2
Trade and other payable	17	373,181	-	-	-	373,181	-	-
Other current liabilities	18	8,626	-	-	-	8,626	-	-
Non-current liabilities								
Medium/long-term fixed rate financial debts	16	101,364	-	-	-	101,364	-	-
Equity linked bond included embedded derivative	16	85,678	-	-	-	85,678	-	-
Medium/long-term variable rate financial debts	16	101,175	-	-	-	101,175	-	-
Other medium/long-term liabilities for derivative financial instruments	16	-	-	-	-	-	-	-

* relating to financial assets valued at cost, as permitted by IAS 39, insofar as a reliable fair value is not available.

** of which Euro 250 thousand relating to hedge instruments accounted according to the cash flow hedge method.

The following table shows the fair value level of financial assets and liabilities measured at fair value, as at 31 December 2016:

(in thousands of Euro)	Note	Book value 2016	Receivables and financial assets	Financial assets available for sale	Held-to- maturity investments	Financial liabilities	Fair Value with changes booked in the income	
							Amount	Fair value hierarchy
Current assets								
Cash and cash equivalents	5	93,661	93,661	-	-	-	-	-
Securities held for trading	6	-	-	-	-	-	-	-
Held-to-maturity investments	6	3,950	-	-	3,950	-	-	-
Assets for derivative financial instruments	6	255	-	-	-	-	255	2
Current financial receivables	6	1,676	-	-	-	-	-	-
Trade receivables	8	158,466	158,466	-	-	-	-	-
Other receivables	8	6,820	6,820	-	-	-	-	-
Other assets	8	3,689	3,689	-	-	-	-	-
Non-current assets								
Other financial assets available for sale	12	46	-	46 *	-	-	-	-
Non-current trade receivables	13	4	4	-	-	-	-	-
Non-current assets for derivative financial instruments	13	15,770	-	-	-	-	15,770	2
Other non-current receivables	13	29,818	29,818	-	-	-	-	-
Current liabilities								
Short-term fixed rate financial debts	16	25,313	-	-	-	25,313	-	-
Short-term variable rate financial debts	16	122,895	-	-	-	122,895	-	-
Other short-term liabilities for derivative financial instruments	16	400	-	-	-	-	400	2
Trade and other payables	17	339,086	-	-	-	339,086	-	-
Other current liabilities	18	8,197	-	-	-	8,197	-	-
Non-current liabilities								
Medium/long-term fixed rate financial debts	16	130,634	-	-	-	130,634	-	-
Equity linked bond included embedded derivative	16	82,035	-	-	-	82,035	-	-
Medium/long-term variable rate financial debts	16	45,528	-	-	-	45,528	-	-
Other medium/long-term liabilities for derivative financial instruments	16	7,550	-	-	-	-	7,550 **	2

* relating to financial assets valued at cost, as permitted by IAS 39, insofar as a reliable fair value is not available.

** of which Euro 731 thousand relating to hedge instruments accounted according to the cash flow hedge method.

F) 40. RELATED PARTY TRANSACTIONS

See IAS 24 and the related communications from Consob for the definition of related party transactions.

The Group is controlled by the Parent Company CIR S.p.A. (which in turn is controlled by the ultimate Parent Company F.lli De Benedetti S.p.A.), which as at 31 December 2017 held 55.39% of the share capital (56.66% of outstanding shares, excluding treasury shares). Sogefi S.p.A.'s shares are listed on the STAR segment of Mercato Telematico Azionario managed by Borsa Italiana S.p.A.

The Group's consolidated financial statements include the financial statements of the consolidated companies, listed in chapter H along with the stake held in the same by the Group.

Dealings between Group companies are conducted at arm's length, taking into account the quality and type of services rendered.

The Parent Company Sogefi S.p.A., because of its role of Holding company, provides administrative, financial and management services directly to the three French sub-holding operative companies (Sogefi Filtration S.A., Sogefi Suspensions S.A. and Sogefi Air & Cooling S.A.S.) which, in turn, beside dealing with the services provided by the Parent Company to the companies operating in the relevant business units, provide directly to the latter support services as well as operating and business services. The Parent Company also debits and credits interest at a market spread to those subsidiaries that have joined the Group's cash pooling system. The Parent Company is also charging royalties fees on the Group "SAP" information system to those subsidiaries at which implementation has been completed.

The subsidiary Sogefi Gestion S.A.S. carries out centralised functions and charges Group companies for administrative, financial, legal, industrial and IT services.

As part of its activity, the Parent Company Sogefi S.p.A. makes use of the services provided by CIR S.p.A., its Parent Company, in areas such as strategic development and of an administrative, financial, fiscal, corporate and investor relator nature. This relationship is regulated by contracts at arm's-length conditions and the cost is commensurate to the effective value of such services to the Sogefi Group in terms of the resources devoted to them and the specific economic advantages obtained as a result. It should be noted that Sogefi's interest in the provision of services by the parent company is considered to be preferable to services provided by third parties because of, among other things, its extensive knowledge acquired over time in its specific business and market environment.

In 2017, the Parent Company Sogefi S.p.A. used the services of CIR S.p.A., paying Euro 547 thousand for them (Euro 500 thousand in the previous year).

The Parent Company Sogefi S.p.A. has entered into a rental contract, effective from 1 January 2017, on the offices located in Milan, via Ciovassino 1/A where Sogefi has its registered offices.

As at 31 December 2017, the Italian companies of the Sogefi Group had receivables for the amount of Euro 5,976 thousand owed by CIR S.p.A. in connection with their participation in the group tax filing system, and payables for the amount of Euro 2,553

thousand. As at 31 December 2016, receivables amounted to Euro 6,280 thousand (Euro 5,882 thousand were collected during the course of 2017) and payables amounted to Euro 1,750 thousand.

At the end of 2017, the Italian subsidiaries recorded an income of Euro 508 thousand (Euro 413 thousand in the previous year) following the transfer of fiscal surplus to companies that have joined the CIR Group tax filing system in order to have an interest deduction. The Parent Company Sogefi S.p.A. recorded an expense of Euro 1,943 thousand (Euro 1,390 thousand in the previous year) due to the payment for the fiscal surplus received from the companies that have joined the CIR Group tax filing system.

As regards economic transactions with the Board of Directors, Statutory Auditors, Chief Executive Officer and the Manager with strategic responsibility in 2017, please refer to the attached table.

Apart from those mentioned above and shown in the table below, at the date of these financial statements, we are not aware of any other related party transactions.

The following table summarises related party transactions:

(in thousands of Euro)	2017	2016
Receivables		
- for the Group tax filing from CIR S.p.A.	5,976	5,867
- for income following the transfer of fiscal surplus to the CIR	508	413
Payables		
- for expense due to fiscal surplus received from the CIR Group	1,943	1,390
- for Director's remuneration	114	114
- for the Group tax filing from CIR S.p.A.	2,553	1,750
Costs		
- for services received from CIR S.p.A.	547	500
- for rental contract from CIR S.p.A.	116	-
- for expense due to fiscal surplus received from the CIR Group	1,943	1,390
- for services from other related companies	-	33
Revenues		
- for income following the transfer of fiscal surplus to the CIR	508	413
Compensation of directors and statutory auditors		
- directors (*)	427	367
- directors charged back to the parent company	120	120
- statutory auditors	93	93
- contribution charges on compensation to directors and statutory auditors	107	20
Compensation and related contributions to the General Manager (**)	864	841
strategic responsibilities ex Consob resolution no. 17221/2010 (***)	483	453

(*) the item in 2016 included the imputed income from phantom stock option plans of Euro 8 thousand recognised in item "Administrative and general expenses", as well as the imputed cost of the stock grant plans of Euro 2 thousand recognised in item "Other non-operating expenses (income)"

(**) the item includes also the imputed cost from stock grant plans of Euro 154 thousand in 2017 (Euro 99 thousand in 2016) recognised in item "Other non-operating expenses (income)"

(***) the item includes also the net imputed cost from stock grant plans of Euro 46 thousand in 2017 (Euro 30 thousand in 2016) recognised in item "Other non-operating expenses (income)"

G) COMMITMENTS AND RISKS

41. OPERATING LEASES

For accounting purposes, *leases* and rental contracts are classified as operating when:

- a significant part of the risks and benefits associated with ownership are retained by the lessor;
- there are no purchase options at prices that do not represent the presumable market value of the asset being leased at the end of the period;
- the lease term is not for the major part of the useful life of the asset leased or rented.

Operating lease instalment payments are booked to the Income Statement in line with the underlying contracts.

The main operating leases existing as at 31 December 2017 regard the following companies:

- Sogefi Filtration do Brasil Ltda for the rental of three production plant in Jarinu, under a contract that will expire in August 2034.
As at 31 December 2017, remaining payments amount to Euro 24,928 thousand, Euro 1,558 thousand of which due by the end of the year. For this contract, the company signed a bank guarantee of Euro 1,809 thousand.
- Sogefi (Suzhou) Auto Parts Co., Ltd. for the rental of the production plant in Wujiang, under a contract that will expire in September 2033.
As at 31 December 2017, total remaining payments amount to Euro 13,789 thousand, Euro 746 thousand of which due by the end of the year. The Group has not given any guarantees whatsoever for this contract
- Sogefi Filtration S.A. for the rental of the offices in Guyancourt. The two contracts will expire in March 2020 and May 2027, respectively. As at 31 December 2017, remaining payments amount to Euro 5,192 thousand, Euro 682 thousand of which due by the end of the year.
The Group has not given any guarantees for this contract;
- Sogefi PC Suspensions Germany GmbH for the rental of the production plant in Völklingen. The contract expires in September 2020. As at 31 December 2017, remaining payments amount to Euro 916 thousand, Euro 333 thousand of which due by the end of the year.
The Group has not given any guarantees for this contract;
- Sogefi Suspension Argentina S.A. for the rental of the production plant in Cordoba. The contract expires in October 2019. As at 31 December 2017, remaining payments amount to Euro 1,074 thousand, Euro 586 thousand of which due by the end of the year. The Group has not given any guarantees for this contract;
- Sogefi Air & Cooling Canada Corp. for the rental of the production plant in Montreal. The contract expires in December 2021. As at 31 December 2017, remaining payments amount to Euro 2,817 thousand, Euro 1,069 thousand of which due by the end of the year.
For this contract Sogefi S.p.A. provided a guarantee equal to approximately 100% of the residual instalments still to fall due;
- Sogefi Engine Systems Mexico S. de R.L. de C.V. for the rental of the production plant in Monterrey. The contract expires in June 2031. As at 31 December 2017, remaining payments amount to Euro 19,800 thousand, Euro 1,385 thousand of which due by the end of the year.
For this contract Sogefi S.p.A. provided a guarantee equal to approximately 100% of the residual instalments still to fall due.
- Sogefi U.S.A. Inc. for the rental of the production plant in Prichard (West Virginia). The contract expires in May 2019, and the remaining payments as at 31 December

2017, amount to Euro 498 thousand, of which Euro 360 thousand due by the end of the year.

For this contract Sogefi S.p.A. provided a guarantee equal to 81% of the residual instalments still to fall due. The guarantee is renewed at the end of each year according to the residual amount.

There are no restrictions of any kind on this type of lease and at the end of the contract the US company will be able to purchase the building at its market value.

Future lease payments under operating leases outstanding as at 31 December 2017 are as follows:

(in thousands of Euro)	2017	2016
Within 12 months	12,302	11,513
Between 1 and 5 years	34,926	36,525
Beyond 5 years	37,954	44,165
TOTAL	85,182	92,203

42. INVESTMENT COMMITMENTS

As at 31 December 2017, Group companies have binding commitments for investments relating to the purchase of property, plant and equipment for Euro 785 thousand (Euro 2,373 thousand at the end of the previous year), as already disclosed in the explanatory notes regarding tangible fixed assets.

43. GUARANTEES GIVEN

Details of guarantees are as follows:

(in thousands of Euro)	12.31.2017	12.31.2016
PERSONAL GUARANTEES GIVEN		
a) Sureties to third parties	7,210	7,373
b) Other personal guarantees in favour of third parties	2,541	2,463
TOTAL PERSONAL GUARANTEES GIVEN	9,751	9,836
REAL GUARANTEES GIVEN		
a) Against liabilities shown in the financial statements	2,130	7,433
TOTAL REAL GUARANTEES GIVEN	2,130	7,433

The guarantees given in favour of third parties relate to guarantees given to certain customers by subsidiary Sogefi Suspensions Heavy Duty Italy S.r.l., to the provider of the lease contract by subsidiary Sogefi Filtration do Brasil Ltda, to Inland Revenue for VAT and other indirect taxes by the Parent Company Sogefi S.p.A. and subsidiary Sogefi Filtration Ltd; guarantees are shown at a value equal to the outstanding commitment at the reporting period. These accounts indicate risks, commitments and guarantees provided by Group companies to third parties.

The "Other personal guarantees in favour of third parties" relate to the commitment of the subsidiary Sogefi HD Suspensions Germany GmbH to the employee pension fund for the two business lines at the time it was acquired in 1996; this commitment is covered by the contractual obligations of the seller, who is a leading German operator.

"Real guarantees given" refer to subsidiaries Sogefi Air & Cooling Canada Corp., Allevard IAI Suspensions Pvt Ltd and Sogefi M.N.R. Engine Systems India Pvt Ltd, which pledged tangible fixed assets and trade receivables as real guarantees to secure loans obtained from financial institutions.

44. OTHER RISKS

As at 31 December 2017, the Group had third-party goods and materials held at Group companies worth Euro 14,884 thousand (Euro 12,719 thousand as at 31 December 2016).

45. POTENTIAL LIABILITIES

In January 2014, the Parent Company Sogefi S.p.A. received two notices of assessment relating to fiscal period 2009 under which tax authorities disallowed deduction of the costs for services performed by the Parent Company CIR S.p.A. during the year 2009 for a taxable amount Euro 1.8 million from IRES tax base and consequently their eligibility for VAT tax deduction.

It is noted that said assessments have already been processed by the Provincial Tax Committee and the Regional Tax Committee with a favourable outcome.

Since the Tax Revenue Office did not appeal in due time against this last judgement, it became final and resulted in the termination of the dispute.

In October 2016, the Parent Company Sogefi S.p.A. received four notices of assessment relating to fiscal periods 2011 and 2012, as a result of a tax audit carried out during the first half year 2016, with two irregularities: i) undue detraction of Euro 0.6 million of VAT paid on purchases of goods and services, ii) non-deductibility from IRES tax (and relating non-deductibility for VAT of Euro 0.2 million) of the expense for services performed by parent company CIR S.p.A. (same irregularity found in the notices relating to the year 2009) for a total taxable amount of Euro 1.3 million.

The notifications have already been appealed before the Provincial Tax Commission, which issued a ruling favourable to the Parent Company Sogefi S.p.A..

The judgement was partially appealed by the Provincial Directorate of Mantua, which requested confirmation of the notices of assessment served for VAT purposes only.

Based on the tax advisor's opinion, with regard to all notices of assessment, Directors believe said arguments to be groundless and inconsistent with the applicable tax regulation in force and, for the moment, the risk of losing to be possible but not likely.

This is why the Company did not set aside any amount for tax risks in financial statements as at 31 December 2017.

46. ATYPICAL OR UNUSUAL TRANSACTIONS

Pursuant to Consob Communication dated 28 July 2006, it is specified that the Group did not implement any atypical and/or unusual transactions during 2017.

47. SUBSEQUENT EVENTS

There are no significant events that could have an impact on the economic, equity and financial information represented, which occurred after 31 December 2017.

H) GROUP COMPANIES

48. LIST OF GROUP COMPANIES AS AT 31 DECEMBER 2017

SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Direct equity investments	Currency	Share capital	Number of shares	% held	Par value per share	Par value of the interest held
SOGEFI FILTRATION S.A.* Guyancourt (France)	Euro	120,596,780	6,029,838	99.99998	20	120,596,760
SOGEFI SUSPENSIONS S.A.** Guyancourt (France)	Euro	73,868,383	4,345,198	99.999	17	73,868,366
SOGEFI U.S.A., Inc.*** Prichard (U.S.A.)	USD	20,055,000	191	100		20,055,000
SOGEFI GESTION S.A.S. Guyancourt (France)	Euro	100,000	10,000	100	10	100,000
SHANGHAI SOGEFI AUTO PARTS Co., Ltd Shanghai (China)	USD	13,000,000	(1)	100	(2)	13,000,000
Sogefi Air & Cooling S.A.S.**** Guyancourt (France)	Euro	54,938,125	36,025	100	1,525	54,938,125
SOGEFI (SUZHOU) AUTO PARTS CO., Ltd Wujiang (China)	USD	37,400,000	(1)	100	(2)	37,400,000

* The company changed name from Sogefi Filtration France S.A. to Sogefi Filtration S.A. on 1 January 2017.

** The company changed name from Sogefi Suspensions France S.A. to Sogefi Suspensions S.A. on 1 January 2017.

*** The company changed name from Allevard Sogefi USA Inc. to Sogefi USA Inc. on 1 July 2017.

**** The company changed name from Sogefi Air & Refroidissement France S.A.S. to Sogefi Air & Cooling S.A.S. on 1 January 2017.

(1) The share capital is not divided in shares or quotas.

(2) There is no unit nominal value.

Indirect equity investments	Currency	Share capital	Number of shares	% held	Par value per share	Par value of the interest held
FILTRATION BUSINESS UNIT						
SOGEFI FILTRATION Ltd Tredgar (Great Britain) Held by Sogefi Filtration S.A.	GBP	5,126,737	5,126,737	100	1	5,126,737
SOGEFI FILTRATION SPAIN S.A.U. * Cerdanyola (Spain) Held by Sogefi Filtration S.A.	Euro	14,249,084.96	2,370,896	100	6.01	14,249,084.96
SOGEFI FILTRATION d.o.o. Medvode (Slovenia) Held by Sogefi Filtration S.A.	Euro	10,291,798	1	100	10,291,798	10,291,798
FILTER SYSTEMS MAROC S.a.r.l. ** Tanger (Morocco) Held by Sogefi Filtration S.A.	MAD	1,000,000	1,000	100	1,000	1,000,000.00
SOGEFI FILTRATION RUSSIA LLC*** Russia Held by Sogefi Filtration S.A.	RUB	6,800,000	1	100	6,800,000	6,800,000
SOGEFI-MNR ENGINE SYSTEMS INDIA Pvt Ltd Bangalore (India) 45% held by Sogefi Filtration S.A. 24,98% held by Sogefi Air & Cooling S.A.S 0,02% held by Systemes Moteurs China, Sà.r.l.	INR	21,254,640	1,487,825	70	10	14,878,250
SOGEFI FILTRATION DO BRASIL Ltda São Bernardo do Campo (Brazil) 86,1084% held by Sogefi Filtration S.A. 13,8915% held by Sogefi Filtration Spain S.A. 0,000001% held by Sogefi Suspension Brasil Ltda	BRL	103,713,074	103,713,074	100	1	103,713,074
SOGEFI FILTRATION ARGENTINA S.A. Buenos Aires (Argentina) 99,424% held by Sogefi Filtration S.A. 0,575% held by Sogefi Italy Sp.A.	AR P	57,235,407	57,235,405	99.999	1	57,235,405
SOGEFI FILTRATION ITALY Sp.A. **** Sant'Antonino di Susa (Italy) Held by Sogefi Filtration S.A.	Euro	8,000,000	7,990,043	99.88	1	7,990,043

* The company changed name from Sogefi Filtration Spain S.A. to Sogefi Filtration Spain S.A.U. on 24 March 2017.

** Company founded on 27 April 2017

** Company founded on 22 December 2017

**** The company changed name from Sogefi Italy S.p.A. to Sogefi Filtration Italy S.p.A. as from 1 July 2017.

Indirect equity investments	Currency	Share capital	Number of shares	% held	Par value per share	Par value of the interest held
AIR & COOLING BUSINESS UNIT						
SOGEFI AIR & COOLING CANADA CORP. Nova Scotia (Canada) Held by Sogefi Air & Cooling S.A.S.	CAD	9,393,000	2,283	100	(2)	9,393,000
SOGEFI AIR & COOLING USA, Inc. Wilmington (U.S.A.) Held by Sogefi Air & Cooling S.A.S.	USD	100	1,000	100	0.10	100
SYSTEMES MOTEURS CHINA, S.à.r.l. Luxembourg (Luxembourg) Held by Sogefi Air & Cooling S.A.S.	Euro	12,500	125	100	100	12,500
S.C. SOGEFI AIR & COOLING S.r.l. Titești (Romania) 99,9997% held by Sogefi Air & Cooling S.A.S. 0,0003% held by Sogefi Filtration Spain S.A.	RON	7,087,610	708,761	100	10	7,087,610
SOGEFI ENGINE SYSTEMS MEXICO S. de R.L. de C.V. Apodaca (Mexico) 0,000005% held by Sogefi Air & Cooling S.A.S. 99,999995% held by Sogefi Air & Cooling Canada Corp.	MXN	20,003,000	1 1 1	100	1 2,999 20,000,000	20,003,000
SOGEFI ENGINE SYSTEMS HONGKONG Ltd Hong Kong (Hong Kong) Held by Systemes Moteurs China, S.à.r.l.	HKD	1,000	1,000	100	1	1,000

(2) There is no unit nominal value.

Indirect equity investments	Currency	Share capital	Number of shares	% held	Par value per share	Par value of the interest held
SUSPENSIONS BUSINESS UNIT						
ALLEVARD SPRINGS Ltd Clydach (Great Britain) Held by Sogefi Suspensions S.A.	GBP	4,000,002	4,000,002	100	1	4,000,002
SOGEFI PC SUSPENSIONS GERMANY GmbH Volklingen (Germany) Held by Sogefi Suspensions S.A.	Euro	50,000	1	100	50,000	50,000
SOGEFI SUSPENSION ARGENTINA S.A. Buenos Aires (Argentina) 90,19% held by Sogefi Suspensions S.A. 9,80% held by Sogefi Suspension Brasil Ltda	AR P	48,858,410	48,853,430	99.99	1	48,853,430
IBERICA DE SUSPENSIONES S.L. (ISSA) Alsasua (Spain) Held by Sogefi Suspensions S.A.	Euro	10,529,668	5,264,834	50	1	5,264,834
SOGEFI SUSPENSION BRASIL Ltda * São Paulo (Brazil) 99,997% held by Sogefi Suspensions S.A. 0,003% held by Allevard Springs Ltd	BRL	37,161,683	37,161,683	100	1	37,161,683
UNITED SPRINGS Limited Rochdale (Great Britain) Held by Sogefi Suspensions S.A.	GBP	4,500,000	4,500,000	100	1	4,500,000
UNITED SPRINGS B.V. Hengelo (Netherlands) Held by Sogefi Suspensions S.A.	Euro	254,979	254,979	100	1	254,979
SHANGHAI ALLEVARD SPRINGS Co., Ltd Shanghai (China) Held by Sogefi Suspensions S.A.	Euro	5,335,308	1	60.58		3,231,919
UNITED SPRINGS S.A.S. Guyancourt (France) Held by Sogefi Suspensions S.A.	Euro	5,109,000	2,043,600	100	2.5	5,109,000
SARA COMPOSITE S.A.S. Guyancourt (France) Held by Sogefi Suspensions S.A.	Euro	13,000,000	25,000,000	96.15	0.5	12,500,000
ALLEVARD IAI SUSPENSIONS Pvt Ltd Pune (India) Held by Sogefi Suspensions S.A.	INR	423,753,280	32,066,926	75.67	10	320,669,260
LUHN & PULVERMACHER - DITTMANN & NEUHAUS GmbH** Hagen (Germany) Held by Sogefi PC Suspensions Germany GmbH	Euro	50,000		100	50,000	50,000
SOGEFI SUSPENSIONS HEAVY DUTY ITALY S.r.l.*** Puegnago sul Garda (Italy) Held by Sogefi Suspensions S.A.	Euro	6,000,000	1	99.88	5,992,531	5,992,531
SOGEFI SUSPENSIONS PASSENGER CAR ITALY S.r.l.*** Settimo Torinese (Italy) Held by Sogefi Suspensions S.A.	Euro	8,000,000	1	99.88	7,990,043	7,990,043

* The company changed name from Allevard Molas do Brasil Ltda to Sogefi Suspension Brasil Ltda on 15 January 2017.

** The company changed name from Luhn & Pulvermacher-Dittmann & Neuhaus GmbH to Sogefi HD Suspensions Germany GmbH on 22 May 2017.

*** Companies founded on 23 January 2017

(1) The share capital is not divided in shares or quotas.

(2) There is no unit nominal value.

EQUITY INVESTMENTS IN SUBSIDIARIES CONSOLIDATED USING THE EQUITY METHOD

Indirect equity investments	Currency	Share capital	Number of shares	% held	Par value per share	Par value of the interest held
MARK IV ASSET (Shanghai) AUTO PARTS Co., Ltd Shanghai (China) Held by Sogefi Engine Systems Hong Kong Limited	CNY	5,000,000	(1)	50	(2)	2,500,000

EQUITY INVESTMENTS IN OTHER COMPANIES CARRIED AT COST

Indirect equity investments	Currency	Share capital	Number of shares	% held	Par value per share	Par value of the interest held
A FICO FILTERS S.A.E. Il Cairo (Egypt) Held by Sogefi Italy S.p.A.	EGP	14,000,000	24,880	17.77	100	2,488,000

(1) The share capital is not divided in shares or quotas.

(2) There is no unit nominal value.



***CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT
ART. 81-TER OF CONSOB RESOLUTION No. 11971 OF MAY 14, 1999
AND SUBSEQUENT MODIFICATIONS AND INTEGRATIONS***

1. The undersigned:

Laurent Hebenstreit – Chief Executive Officer of Sogefi S.p.A.

Yann Albrand – Manager responsible for preparing Sogefi S.p.A.’s financial reports hereby certify having also taken into consideration the provisions of Article 154-bis, paragraph 3 and 4, of Italian Legislative Decree n. 58 of February 24, 1998, that:

- are adequate with respect to the company structure and
- have been effectively applied the administrative and accounting procedures for the preparation of the consolidated financial statements for the 2017 fiscal year.

2. No relevant aspects are to be reported on this subject.

3. It is also certified that:

3.1 the consolidated financial statements at December 31, 2017:

- have been prepared in accordance with international accounting standards as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and of the Council of July 19, 2002;
- correspond to the books and accounting records;
- provide a true and fair representation of the financial position, result of operations and cash flow of the issuer and the companies included in the scope of consolidation.

3.2 The report on operations includes a reliable analysis of the performance and result of operations and also the position of the issuer and the companies included in the scope of consolidation together with all principle risks and uncertainties that the Group is exposed.

Milan, February 26, 2018

Signed by
Chief Executive Officer

Laurent Hebenstreit

Signed by
Manager responsible for preparing
financial report
Yann Albrand

SOGEFI S.p.A.

Company subject to management and coordination of Cir S.p.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS PURSUANT TO ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE NO. 58/1998 AND TO ARTICLE 2429 OF ITALIAN CIVIL CODE

To the Shareholders' Meeting of SOGEFI S.p.A.

During the financial year closed at 31 December 2017, we carried out our supervisory activity as required by law and the Articles of Association, in accordance with the Rules of Conduct for the Board of Statutory Auditors recommended by the Italian Council of Accountants and the Corporate Governance Code issued by the Corporate Governance Committee of Borsa Italiana S.p.A., and hereby report on such activity. This report was drawn up following the recommendations set out in Consob Communication no. 1025564 of 6 April 2001 as amended.

As regards the methods employed to perform our duties during the period under consideration, we report as follows:

- we attended the Shareholders' Meetings and Board of Directors meetings held during the period under consideration and obtained timely and adequate information on operations and their outlook, as well as on significant operational, financial and equity-related operations conducted by the Company and subsidiaries within the Group, as required by Italian law and the Articles of Association; all meetings of the Control and Risk Committee and of the Appointment and Remuneration Committee were attended by one or more members of the Board of Statutory Auditors;
- we obtained the necessary information to perform our tasks and determine compliance with Italian law and the Articles of Association, proper governance principles, adequacy of the Company's organisational structure, internal control system and of the administration-accounting system, by direct investigation, collection of information from the heads of the involved departments and sharing of data and significant information with the appointed Independent Auditors;
- we incorporated the results of the quarterly checks on the correct keeping of accounts carried out by the company appointed for the statutory audit of the accounts;
- we received from the independent auditors the Report required by article 14 of the Italian Legislative Decree No. 39/2010 concerning the consolidated and statutory financial statements as at 31 December 2017; namely we noticed that the said Report satisfies the new provisions introduced by the Italian Legislative Decree no. 135/2016 on the obligation to provide a set of additional information;
- we received from the independent auditors the Report referred to in Article 11 of European Regulation 537/2014, which does not reveal significant aspects to be reported;
- we fulfilled the tasks provided for in article 19 of the Italian Legislative Decree No. 39/2010, as the Internal Control and Auditing Committee;
- we monitored the performance of the system used to control subsidiaries and the adequacy of the directions given to them, also under art. 114, sub-paragraph 2 of Italian Legislative Decree no. 58/1998;

- we monitored the actual methods used to implement the corporate governance rules set out in the Corporate Governance Code issued by Borsa Italiana S.p.A., as adopted by the Company;
- we determined whether the Organization, Management and Control Model as per Italian Legislative Decree no. 231/2001 as amended had been updated to comply with the expanded scope of the aforementioned Decree;
- pursuant to art. 4, sub-par. 6 of the Regulation approved by Consob Resolution no. 17221 of 12 March 2010, we monitored compliance with the Discipline for related-party transactions approved by the Board of Directors;
- we ensured that no significant issues existed that the controlling bodies of SOGEFI S.p.A.'s subsidiaries should have disclosed;
- we ascertained the adequacy, in terms of method, of the impairment test process implemented to identify the presence of any impairment loss on assets entered to the financial statements subject to impairment test;
- we verified the compliance with the provisions of law and regulations concerning the preparation, layout and presentation of the statutory and consolidated financial statements and the related supporting documents. We also verified that the Report on Operations complies with the laws and regulations in force and is consistent with the resolutions of the Board of Directors;
- we positively assessed the adequacy of all the procedures, processes and facilities that have produced, reported and represented the results and consolidated non-financial information pursuant to the Italian Legislative Decree no. 254 of 30 December 2016;
- we verified that, with regard to the Consolidated non-financial statement prepared for the purposes of the aforementioned Italian Legislative Decree no. 254/2016 the independent auditors, as Designated Auditors, have issued the certification referred to in paragraph 10 of article 3 of the Italian Legislative Decree no. 254/2016 on the compliance of consolidated non-financial information with the law and the reporting principles used.
- we determined that the Board of Directors had properly implemented the verification criteria and procedures to assess the independence of its members, based on the statements made by the Directors and the opinions issued by the Board of Directors.

After completing our audit and monitoring activities as outlined above, we did not identify any significant events which should have been reported to the Supervisory Authorities, nor any proposals concerning the financial statements, their approval or any other issue within our area of responsibility.

* * *

Outlined below is the information specifically required by the aforementioned Consob Communication of 6 April 2001 as amended.

- We collected adequate information on significant operational, financial and equity-related operations conducted by SOGEFI S.p.A. and its subsidiaries and established their compliance with Italian law and the Articles of Association; the Directors provided adequate disclosure on such transactions in the Report on Operations; we also obtained information on and assurance that the transactions resolved and carried out were not manifestly imprudent, risky, in conflict with Shareholders' Meeting resolutions or in potential conflict of interest with them or, in any case, of such a nature as to jeopardize integrity of corporate assets.

- We obtained adequate information on intercompany and related party transactions. Based on obtained information, we determined that such transactions complied with Italian law and the Articles of Association, satisfied the interest of the company and raised no doubts as to their accurate, exhaustive disclosure in the financial statements, the existence of any conflict-of-interest situations, the protection of corporate assets and of non-controlling shareholders; periodic audits and inspections carried out at the Company's premises did not identify any atypical and/or unusual transactions.
- The Directors provided adequate disclosures on key transactions, as well as on the dealings between SOGEFI S.p.A., Group companies and/or related parties in the Report on Operations and in the Notes, and stated that such dealings had been conducted at arm's length, taking into account the quality and type of services rendered; such dealings mainly consisted in the provision of administrative and financial services, including the management of the Group's centralised treasury and interest debiting and crediting, as well as management support and communication services and use of the Group's information system SAP; in addition, SOGEFI S.P.A. made use of administrative, financial, fiscal and corporate services provided by the Parent Company CIR S.p.A. and joined the Group tax filing system; appropriate financial details were provided and the impact on the statement of financial position was adequately described in the documents accompanying the 2017 statutory financial statements.
- The Independent Auditors KPMG S.p.A. issued their Audit Reports under art. 14 of Italian Legislative Decree no. 39/2010 on the statutory and consolidated financial statements as at 31 December 2017 without any disclosure observations or statements.
- During the year no complaints was lodged with the Board of Statutory Auditors pursuant art. 2408 of Italian Civil Code.
- In relation to the provisions introduced by the Italian Legislative Decree no. 135/2016 in compliance with EU Regulation 537/2014 on this subject, during the year the Board of Auditors carried out a prior analysis of and authorized, when necessary, any assignment conferred by the Company and its subsidiaries to KPMG or any companies in its network
- During the year 2017, the subsidiaries of SOGEFI S.p.A. engaged the independent auditors to perform other services for a consideration of Euro 31,000. The amounts paid were found to be adequate consideration for the scope and complexity of the services rendered and were not deemed liable to affect the independence and discretion of the auditors in performing their auditing tasks.
- During the year under consideration, we gave advice pursuant to article 2389 of Italian Civil Code.
- The following meetings were held during the year 2017: 7 Board of Directors meetings, 5 Control and Risk Committee meetings, 2 Appointment and Remuneration Committee meetings; and 11 Statutory Board of Directors meetings.
- Proper governance principles seemed to have been implemented consistently, and the organizational structure was found to be adequate to meet the requirements for operations management and control.

- The internal control system seemed to be adequate to the size and management style of the Company, as was confirmed during the meetings of the Control and Risk Committee, which were attended by the Chairman of the Statutory Board of Auditors (or by a Statutory Auditor appointed by the Chairman) as provided for by corporate governance rules. In addition, the Group's Chief Internal Auditing Officer and Internal Control Officer under the Corporate Governance Code issued by the Corporate Governance Committee for listed companies acted as a liaison and provided the necessary information on the methods adopted to perform his duties and the results of his audits, among other things by attending some meetings of the Statutory Board of Auditors.
- There are no observations to be made as to the adequacy of the administrative/accounting system and its ability to provide a reliable view of operations; with regard to the disclosures in the statutory and consolidated financial statements as at 31 December 2016, the Managing Director and the Manager responsible for preparing the Company's financial reports under art. 154-*bis*, subparagraph 5 of Italian Legislative Decree 58/1998 and art. 81-*ter* of Consob Regulation no. 11971 of 14 May 1999, as subsequently amended, issued their relevant statements.
- There are no observations to be made on the adequacy of information flows from subsidiaries to the Holding Company aimed at ensuring timely compliance with disclosure obligations under Italian law.
- During the periodic exchange of data and information between the Board of Statutory Auditors and the Auditors, among other things under art. 150, subparagraph 3 of Italian Legislative Decree no. 58/1998, no issues were found that would need to be disclosed in this report.
- The Company substantially followed the recommendations contained in the Corporate Governance Code drafted by the Corporate Governance Committee for listed companies and described its corporate governance model in the relevant Report, which was prepared among other things under art. 123-*bis* of Italian Legislative Decree no. 58/1998. Within the limits of our responsibility, we monitored the actual methods used to implement the corporate governance rules set out in the above mentioned Corporate Governance Code, as adopted by the Company, and ensured that the findings of the Board's periodic assessment of Statutory Auditors' compliance with the independence requirements according to the same criteria applicable to Independent Directors under the aforementioned Corporate Governance Code had been included in the Corporate Governance Report of SOGEFI S.p.A.. In compliance with Italian Legislative Decree no. 231/2001, the Company adopted, implemented and maintained up-to-date an "Organizational Model" that governs its behavior and business conduct and set up a Supervisory Body as provided for by the Decree. The Company also adopted a Code of Ethics.
- Our auditing and monitoring activities took place during the year 2017 in the normal course of business and identified no material omissions, reprehensible facts and/or anomalies to be reported.

After completing our audit and monitoring activities, we have no proposals concerning the statutory financial statements as at 31 December 2017, their approval or any other issue within our area of responsibility pursuant to article 153, paragraph 2 of Italian Legislative Decree 58/1998, nor any remarks on the proposed allocation of the profit for the year submitted by the Board of Directors for approval.

Finally, we remind you that with the approval of the statutory financial statements for the year ended on December 31, 2017 our mandate expires and, in thanking you for the trust you have placed in us, we invite you to provide about.

Milan, 27 March 2018

The Board of Statutory Auditors

Riccardo Zingales (Chairman of the Board of Statutory Auditors)

Giuseppe Leoni (Acting Auditor)

Claudia Stefanoni (Acting Auditor)

(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 and article 10 of Regulation (EU) no. 537 of 16 April 2014

*To the shareholders of
Sogefi S.p.A.*

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Sogefi Group (the "group"), which comprise the statement of financial position as at 31 December 2017, the income statement and the statements of other comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Sogefi 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 and the Italian regulations implementing article 31 of Legislative decree no. 2017/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Sogefi 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial

statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of goodwill

Notes to the consolidated financial statements: Note 2.3 "Accounting policies", sections "Intangible assets - Goodwill" and "Critical estimates and assumptions" and Note 10 "Intangible assets", section "Goodwill and Impairment test"

Key audit matter	Audit procedures addressing the key audit matter
<p>The consolidated financial statements at 31 December 2017 include goodwill of €126.6 million, allocated to the following cash-generating units ("CGU"): Filtering, Air & Cooling and Car suspension.</p> <p>In accordance with the criteria approved by the board of directors on 22 January 2018, the directors carried out impairment tests in order to identify any impairment losses that would arise should the CGU's carrying amount exceed their recoverable amount. The directors estimated the recoverable amount based on their value in use, calculated using the unlevered discounted cash flow model by discounting the expected cash flows.</p> <p>For impairment testing purposes, the directors used the expected operating cash flows estimated on the basis of the 2018 budgeted and the 2019-2022 plan figures (approved by the board of directors on 22 January 2018).</p> <p>The model is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about:</p> <ul style="list-style-type: none"> — the expected operating cash flows, calculated by taking into account the general economic performance and that of the Group's sector, the actual operating cash flows for recent years and the projected growth rates; — the parameters used to calculate the discount rate. <p>For the above reasons, we believe that the recoverability of goodwill is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — understanding the process adopted for impairment testing approved by the board of directors; — understanding the process adopted to prepare the 2018 budget and the 2019-2022 business plan approved by the board of directors, from which the operating expected cash flows used for impairment testing have been derived; — analysing the reasonableness of the assumptions used by the directors to prepare the 2018 budget and the 2019-2022 plan; — checking any discrepancies between the previous year business plans' figures and actual figures, in order to check the accuracy of the estimation process; — comparing the expected operating cash flows used for impairment testing to the cash flows forecast in the 2018 budget and 2019-2022 plan and analysing any discrepancies; — involving experts of the KPMG network in the assessment of the reasonableness of the impairment testing model and related assumptions, including by means of comparison with external data and information; — checking the sensitivity analysis made by the directors in relation to the key assumptions used to test goodwill for impairment; — assessing the appropriateness of the disclosures provided in the notes about goodwill and the related impairment test.

Measurement of the provision for product warranties

Notes to the consolidated financial statements: Note 2.3 "Accounting policies", sections "Provisions for risks and charges" and "Critical estimates and assumptions", Note 19 "Long-term provisions and other payables", section "Provision for product warranties"

Key audit matter	Audit procedures addressing the key audit matter
<p>The consolidated financial statements at 31 December 2017 include a provision for product warranties (classified as non-current) of €18.2 million.</p> <p>Specifically, a French subsidiary has pending disputes with two customers for a defective component it supplied them, with respect to which it accrued €16.3 million to the provisions for product warranties.</p> <p>The group companies are exposed to the risk of non-conformance claims made by its customers. Measuring the provision for product warranties require estimates about non-conforming products and the outcome of claims, with a high degree of uncertainty since it entails an assessment of technical, legal and market issues.</p> <p>For the above reasons, we believe that the measurement of the provision for product warranties is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — understanding the process for the measurement of the provision for product warranties and assessing the design and implementation of controls and procedures to assess the operating effectiveness of material controls; — sending written requests for information to the legal advisors assisting the Group's directors about the assessment of the risk of losing pending claims for non-conforming products and the quantification of the related liability; — analysing the assumptions used to calculate the provision for product warranties through discussions with the relevant internal departments and analysis of the supporting documentation; — analysing the events after the reporting date to gather useful information for the measurement of the provision for product warranties; — assessing the appropriateness of the disclosures provided in the notes about the provision for product warranties.

Other matters - Comparative figures

The Company's 2016 consolidated financial statements were audited by other auditors, who expressed their unqualified opinion thereon on 29 March 2017.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Sogefi 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 the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation

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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;

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- 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.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 26 April 2017, the shareholders of Sogefi S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2017 to 31 December 2025.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Collegio Sindacale, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of Sogefi S.p.A. are responsible for the preparation of the Group's directors' report and report on corporate governance and ownership structure at 31 December 2017 and for the consistency of such reports with the related consolidated Sogefi statements and their 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 Sogefi' report and the specific information presented in the report on corporate governance and ownership structure

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indicated by article 123-bis.4 of Legislative decree no. 58/98 with the Group's consolidated financial statements at 31 December 2017 and their compliance with the applicable law and to express a statement on any material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the consolidated financial statements of the Sogefi Group at 31 December 2017 and have 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.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of Sogefi S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Milan, 27 March 2018

KPMG S.p.A.

(signed on the original)

Elisabetta C. Forni
Director of Audit