





ANNUAL
REPORT **2016**

CONTENTS

MESSAGE FROM OUR CHAIRMAN	5
THE BONFIGLIOLI WORLD FROM YESTERDAY TO TOMORROW	
60 YEARS OF FAMILY HISTORY	6
ABOUT US TODAY	8
BONFIGLIOLI MISSION AND VALUES	10
WORLDWIDE	12
GLOBAL PRESENCE AND WORLDWIDE OFFICES	14
FOCUS	16
EVO: LET'S BUILD THE NEXT 60 YEARS WITH INDUSTRY 4.0	18
INVESTMENTS IN FACTORIES	19
BONFIGLIOLI MECHATRONIC	20
MALPIGHI LA.B	22
THE CLEMENTINO BONFIGLIOLI PRIZE	23
GLOBAL SOCIAL RESPONSIBILITY	24
OUR SOLUTIONS	30
POWER TRANSMISSION SOLUTIONS	32
MECHATRONIC DRIVES & SOLUTIONS	33
MOBILE SOLUTIONS	34
ELECTROMOBILITY SOLUTIONS	35
WIND SOLUTIONS	36
FINANCIAL DATA	38
THE GROUP AS OF DECEMBER 31, 2016	40
ORGANIZATION CHART	42
FINANCIAL HIGHLIGHTS	44
MANAGEMENT REPORT	48
CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016	68
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	78
INDEPENDENT AUDITOR'S REPORT	118

Forever Forward

MESSAGE FROM OUR CHAIRMAN

Sonia Bonfiglioli



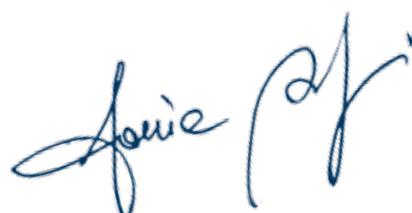
The Bonfiglioli Group achieved major goals in 2016 and in the meantime it also undertook a path towards significant change.

*We work in a highly competitive market, the driving force of which is technology teamed with innovation. **Digital transformation embodies our very own journey into the future**, consisting of the Internet of things and the many opportunities it offers to create a new generation of solutions for our customers. That's not all; our journey also involves the optimisation of processes, valuing resources and social responsibility, with the end goal of **creating more value for the company and for our customers.***

*In addition to having laid the foundations for digital transformation, over the course of the year **we reinforced our global presence** through*

*long-term investment in factories, another key to our success. This is based on the conviction that being close to our customers means manning and understanding, in-depth, the market they operate in, anticipating its trends and guaranteeing **products and solutions of the highest quality standards, whenever and wherever.***

*The esteem and loyalty of our customers make us proud to be their partner and confirm that the path we have undertaken is the right one to face the challenges and continue to grow. Thanks to our ability to adapt, and our unconditional commitment to improvement and innovation, **we can look to the future with faith.***



60 YEARS OF FAMILY HISTORY

Bonfiglioli was established in 1956 by Clementino Bonfiglioli, a man with a great vision, who was at the helm of the company for 55 years. It all started with the creation of the first worm gears, followed by a patent on the two-stage planetary gearbox. Since then, Clementino never stopped thinking about how to come up with ever-new products, solutions and services better to serve the market.

He has passed the torch on to his daughter Sonia, who leads this growing business wisely and with a forward-thinking passion, promoting innovation and encouraging employees and partners to think outside the box and tackle the challenges to contribute towards a corporate culture focusing on excellence at all times.

2016 was a significant year for Bonfiglioli, the crossroads of history, experience, innovation and future.

The great goal of **sixty years of business** was achieved the very same year as Bonfiglioli's historic peak turnover, confirming that the direction in which the company has been heading with decades of hard work is the right one. At this crucial moment in the history of the company, it was practically a given that we should resume the famous motto of our founder **Clementino Bonfiglioli** "Avanti, avanti a tutta forza!" (Forward, full steam ahead) and use it in our new payoff: **Forever Forward**.

Introduced by Clementino, this approach has evolved and is now strongly sustained by Sonia Bonfiglioli. It represents an open window into the future with the support of a strong, closely-knit team, focused on a common goal on a worldwide scale, which was naturally transformed into the new company mission.

Commitment, Excellence, Innovation, Sustainability: these are the key words that make us a successful team, and a successful business.



ABOUT US TODAY



Today, we are an Italian company with a global presence, with a top management which has prevalently grown in-house, and a strong contribution by young talents.

Thanks to our world-wide network, we work side-by-side with our customers, always and everywhere. Our three Business Units, **Power Transmission Solutions**, **Mechatronic Drives & Solutions** and **Mobile & Wind Solutions**, incorporate all the know-how and experience we have accrued over the years in specific market sectors to support our customers.

Our every effort focuses on developing increasingly innovative products and solutions to accommodate the needs of various markets, and to anticipate trends with the support of our centres of excellence.

TOP QUALITY PRODUCTION

We tackle every challenge the market throws our

way, best managing our daily production, thanks to the use of cutting-edge technology to offer superior quality and top performing solutions.

Our team is constantly dedicated to improvement in quality, safety and the environment across the entire chain of value, from our smallest supplier to the end customer.

Bonfiglioli management systems are ISO 9001:2008, ISO 14001 and OHSAS 18001 certified, and our products are covered by 7 international certifications. Responsibility, excellence and continuous improvement are the core values that make us a top partner for both our customers and our suppliers.

A RESPONSIBLE BUSINESS

Bonfiglioli has always directed its business model towards a sustainable future for the company itself as well as for the surrounding region, promoting a healthy and safe workplace.



22 BRANCHES &
14 PRODUCTION
PLANTS



250
DISTRIBUTION
PARTNERS



OVER 3,600
EMPLOYEES AROUND
THE WORLD

BONFIGLIOLI MISSION AND VALUES

We design, manufacture and distribute effective and tailor-made solutions for all kinds of applications in industrial automation, mobile machinery and wind energy.

Our solutions are based on a wide range of products including gearmotors, drive systems, planetary gearboxes and inverters.

Bonfiglioli solutions are implemented in many aspects of our daily life, from the food we eat, to the roads we travel on, the clothes we wear and the light that keeps our homes bright. With our products, we keep the world in motion.

*We have a relentless **commitment to excellence, innovation and sustainability.***

*Our team develops, distributes and services the world-class power transmission and drive solutions that **keep the world in motion.***



CHALLENGE

We search for limits, then overcome them through innovative ideas, cutting-edge products, and unrivaled performance.



RESPECT

We explore different cultures, religions, and experiences to turn diversity into a resource and pursue sustainable economic growth in harmony with the environment.



ACCOUNTABILITY

We put our heart into everything we do, to improve ourselves and set an example for others, because the efficiency of a team begins with that of the individuals in it.



WINNING TOGETHER

We foster talent to generate and share the knowledge that leads to success.

WORLDWIDE

Our 22 sales branches and 14 production plants are distributed strategically all over the globe. Over time, we have extended our presence to offer local markets a better service. Our plants in Italy, Germany, the United States of America, Brazil, India, China, Vietnam, and Slovakia allow us to guarantee superior quality standards anywhere.

GLOBAL PRESENCE AND WORLDWIDE OFFICES

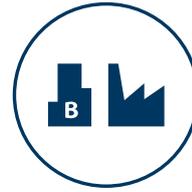




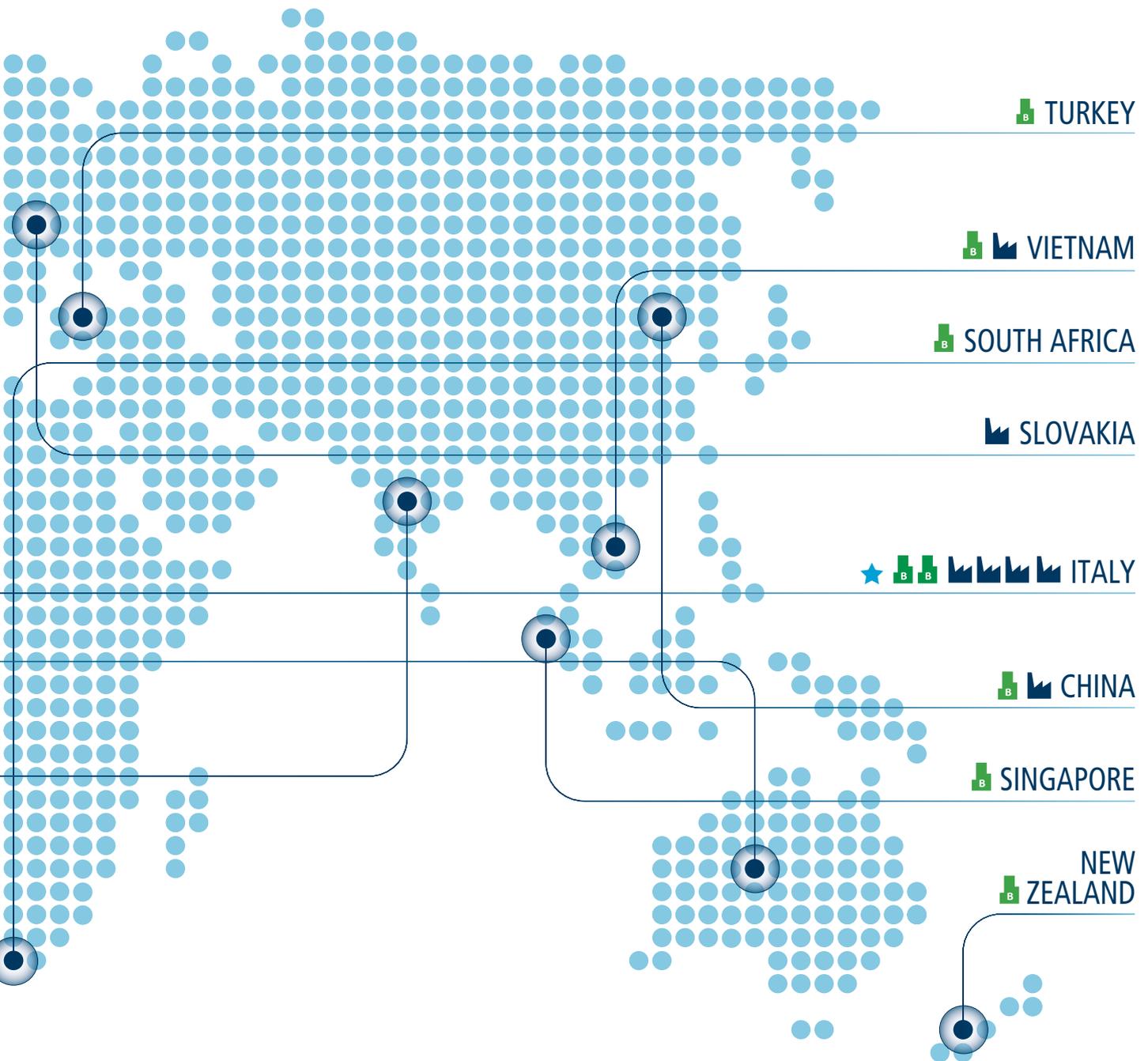
OVER 3,600
EMPLOYEES AROUND
THE WORLD



250
DISTRIBUTION
PARTNERS



**22 BRANCHES &
14 PRODUCTION
PLANTS**



FOCUS

Excellent manufacturing is our top priority, a condition that can today be achieved thanks to an approach that always focuses on innovation and the future. Over 150 mechanical and electrical engineers work together with customers to design cutting-edge products. In addition, our partnership with universities and research centres across Italy gives us the opportunity to work with young, able and brilliant minds on new product development and on ways to improve manufacturing processes.



LET'S BUILD THE NEXT 60 YEARS WITH INDUSTRY 4.0

One of the Group's main strategic projects is EVO, **the Group's largest industrial settlement in Italy**, which will be built in Calderara di Reno (Bologna).

EVO is not just a project, it is a clear declaration of intent that begins in the very city that saw the birth of the company, and where its Headquarters remains to this day. The main objective is to **drive the Group increasingly towards a business model of Industry 4.0**.

The 148,700 sq.m. "Clementino Bonfiglioli" premises will see the construction of an ultra-modern plant which, when up and running, will occupy a total floor space of 58,500 sq.m. in a complex with an additional 56,000 sq.m. of greenery. Once completed, EVO will have absorbed **investments for approximately 60 million Euro** overall, divided into the following areas: **30 million in new production technologies** in line with Industry 4.0 best practices, and **30 million in infrastructure**. This will make EVO the long-term point of focus for Bonfiglioli's competitive growth strategy in the field of industrial processing and handling products.

When the new facility is up and running, the production line output will be **800,000 units per year**, as a result of the consolidation of the Calderara di Reno, Sala Bolognese and Vignola plants involved in the Power Transmission Solutions Business Unit. There will be **600 workers** employed in a **Barrierless Factory**, conceived to achieve a careful and functional integration between the areas of the production unit and the surrounding social situation.

The design of the building will contribute to improving the environment in which the employees work. The project abides by the highest standards in terms of operating processes and energy efficiency, guaranteeing excellent performance levels and a reduced environmental impact. The entire facility will be zero impact, meaning that it will generate more energy than it consumes, thanks to energy produced from a **significantly-sized photovoltaic system** covering the roofs.



ABOUT 60 MILLION € OF INVESTMENT



INDUSTRY 4.0



ZERO ENERGY IMPACT



800,000 UNITS A YEAR



58,500 SQ.M. OF MODERN FACTORY

INVESTMENTS IN FACTORIES



ADDITIONAL
8,000 SQ.M.



INSOURCING



LOGISTICS SYSTEM
ACCORDING TO CUSTOMER
SPECIFICATIONS

SLOVAKIA

Our plant in Slovakia employs 250 workers over more than 11,000 sq.m. of production area, and 60,000 sq.m. of land, with 4 product assembly lines (S300, VF, ACFS, HD) dedicated to the heavy duty market.

The plant has been extended by a further 8,000 sq.m. of production facilities dedicated to the manufacturing of solid and keyed shafts, helical gears and HD pinion shafts, with the aim of enhancing the added value, the quality and the flexibility of Bonfiglioli production in this country.

INDIA

In 2016, Bonfiglioli undertook an expansion plan in India, which included improvements to the existing facility in Chennai and the construction of a new plant in Pune.

The current production plant in Chennai covers a surface area of 18,000 sq.m., while the one in Mannur stretches across 10,000 sq.m. These plants produce gearboxes and gearmotors for mobile machines, wind turbines and various industrial processes. The facilities also house an R&D Centre that develops tailor-made products for the Indian market.

The plan will be completed in 2017 with the construction of a 12,500 sq.m. extension at the Chennai plant.



ADDITIONAL
12,500 SQ.M.



EXPANSION OF
R&D CENTER



MORE THAN 15
SECTORS SERVED

BONFIGLIOLI MECHATRONIC

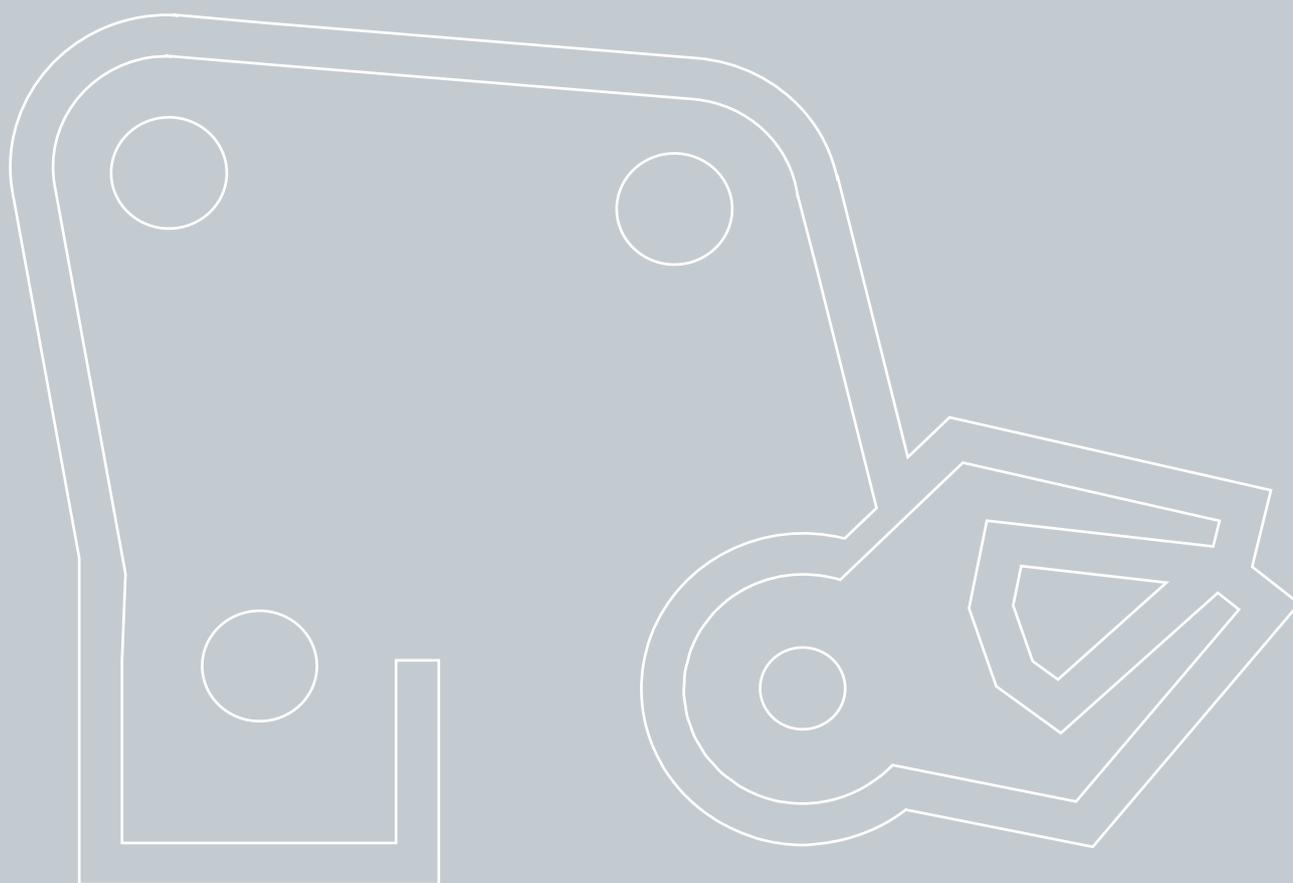
A TECHNOLOGICAL HUB IN ROVERETO, UNDER THE BONFIGLIOLI NAME

It is with a keen eye on the future, on innovation and on new technologies that Bonfiglioli continues to expand in new, increasingly innovative sectors such as mechatronics. This is the reason behind the birth of **Bonfiglioli Mechatronic Research**, a hub specialising in mechatronic research located in Rovereto. In fact, with the collaboration of Trentino Sviluppo, among others, the region has invested here by supporting innovation, the growth of entrepreneurship and collaboration

between companies, identifying, with extreme far-sightedness, in mechatronics and in digitalisation the very foundation stones of the future of technological products.

Set up in 2010 as a space intended for experimentation and research into cutting-edge solutions, the result of interaction between IT, electronics, electrotechnics and mechanics, **Bonfiglioli Mechatronic is today a production plant by all intents and purposes.**





MALPIGHI } LA.B

Malpighi La.B is a laboratory of robotics, computer science, design, and 3D design for the future talents of the industrial sector set up in Bologna.

The project was started in 2016 with **Liceo Malpighi secondary school in Bologna**, and it is an outstanding example of Bonfiglioli's approach to continuous research aimed at youths, at innovation and at the future.

Bonfiglioli decided to invest in this project that will bring secondary-school pupils closer to the digital world, to robotics, to automation, to design and to 3D design, providing them with all the brand's extensive experience as an industrial group. The logo of Malpighi La.B replicates the profile of Clementino Bonfiglioli, as well as his view of technological evolution in the industrial system which focuses on training the young people who will tomorrow carry on the work of today.

Malpighi La.B is a window into the future, an opportunity to see one's creativity transformed into a prototype or simply to learn about software and work methods with a pragmatic approach and realistically related to what their profession will be.

"For me, this laboratory fulfils a dream that my father always had," states Sonia Bonfiglioli, **"of passing on the love of technology and active working to young people, irrespective of the training that they start with."**

There will be targeted apprenticeships in companies and external laboratories, where projects that have been initiated in the Malpighi La.B will be explored in greater detail, creating a genuine collaborative network with the world of work and research.

Alongside Bonfiglioli in this undertaking are many major brands such as Ducati, Castelli, Loccioni, Dallara and H-Farm.



THE CLEMENTINO BONFIGLIOLI PRIZE



Bonfiglioli supports excellence through education and research, certain that it is only through these values that Italian industry can guarantee a prosperous future.

This is a commitment that the Group is keeping to by contributing to education and training programs, providing scholarships and graduation prizes, supporting technical and professional schools and promoting training.



The **Clementino Bonfiglioli Prize** is awarded in collaboration with the **Leonardo Committee**. Since 2011, Bonfiglioli has been organising and financing this prize for young people who

demonstrate excellence in their studies and who complete a degree thesis on a theme relevant to industrial automation, power transmission and control or advanced mechatronics.

Rewarding merit, offering scholarship and financing opportunities are practical solutions to help capable young people and they are also excellent ways to contribute to global and company prosperity.



Innovation, technology and the future, once again are the key assets in the business motivations at the heart of the Group's decisions. This trend is also testified by the fact that **in 2016 Sonia Bonfiglioli was awarded the Marisa Bellisario Award**, an acknowledgement that every year rewards women who have stood out in their profession, in management, in science, in economics and in society on a national and an international scale.

GLOBAL SOCIAL RESPONSIBILITY

Since we do business on a world-wide scale, we have a big responsibility not only towards our business but also towards our surrounding area. We are firmly convinced that a better future is only possible by fostering education for all youths, as they are the main players of tomorrow.



CheerFutureRoseLand Girls Home

Govindhavadi Village, Kancheepuram



INDIA

In 2016 Bonfiglioli laid the foundation stone for a home for young girls in India in a village close to its factory in Chennai, India. The new home, in the village of Govindavadi (in the district of Kancheepuram) will accommodate 40-50 girls who have either been orphaned or are from disadvantaged families, offering them a brighter future.

The home will include accommodation, dining facilities, gardens, a playground, and recreational areas for sport and activities such as drawing, dancing, music, gardening and much more. In addition to teaching basic subjects such as math, science and English, vocational courses in IT and dressmaking will also be part of the everyday routine. The installation of CCTV cameras, along with female wardens and staff trained in security, ensures the safety of the girls.

CheerFutureRoseLand is the second initiative to be set up by Bonfiglioli to help disadvantaged children living in the vicinity of Chennai. The first one, a home for boys called CheerFutureLand, was constructed in 2009, and since then has hosted almost 60 boys, who have received an education and vocational training in a safe and loving environment. One young man who grew up in the home now works as a technician in the Chennai factory.

“Helping children was one of my father’s passions. Above all he wanted to ensure they got an education, giving them the prospect of a brighter future,” said Sonia Bonfiglioli. “We built this home for boys in Chennai because, while the Bonfiglioli factory has been a great success, we were unable to ignore the children in that area who were in need of help. Now we want to give the same opportunity to young girls.”



VIETNAM

In 2001, three Vietnamese teachers opened a school in Ho Chi Minh City to provide free education for the children of poor and underprivileged families. Bonfiglioli, which has operated in this country for many years, decided to enthusiastically get behind the project, promoting training programmes for teachers, as well as other construction work to improve the school.

Presently the school is attended by 130 children, 92 of whom have lunch on site. This is an important aspect for their growth and to guarantee a healthy diet. The kitchen has been completely rebuilt and, apart from the five full-time teachers who have been taken on, there is also a cook who looks after all the kitchen duties, from buying of food, to its storage and, of course, the preparation of meals.

The students are divided into five classes, and in addition to following the Vietnamese school

curriculum, they study both English and plastic arts, activities which will help them to develop healthy creativity and, at the same time, have a therapeutic effect to help these children manage their difficult living conditions and challenging family dynamics.

On different occasions throughout the year, extra-curricular activities and trips are organised for the children to visit the KizCiti amusement park, where they learn new skills, and the water park, where they learn about marine biodiversity.

In recent years, the school has developed a collaboration programme with universities, whereby volunteer students help in teaching activities.

Other interesting initiatives are periodic visits by a psychologist in order to help the children find greater serenity and develop communication capabilities, and the collaboration of a veterinarian who teaches them how to treat animals correctly.

*Children are a direct path to the future.
Helping them is the best possible way of building for tomorrow.*



SLOVAKIA

We help the association Cooltajner through donations to organise concerts, workshops, theatre and other social, sport and cultural activities.

For some time, we have collaborated with the **professional secondary school in Považská Bystrica** through a sponsorship programme that has made traineeships possible.

Run of Hope

A sports project for children and youngsters (basic and secondary schools in Považská Bystrica) is organised in collaboration with foundations and public administration representatives.

The Run of Hope is a charity race of 1-5km for children, students, teachers, parents and other participants. Bonfiglioli donated the event by financial sponsorship which have been added to all the runners voluntary starting fees. The 3 winners from basic or secondary schools, got financial grants from sponsors.

Young talent in Považská Bystrica

This is a project organised by a private foundation and by the city and is aimed at secondary school students.

Talented youngsters compete in various designated categories: the best young scientist, technician, sportsman / woman, artist, the best business plan / project, and the best invention or innovative product. The winners receive a monetary prize donated by

Bonfiglioli Slovakia, which makes up part of the jury and participates in the official ceremony.

Bonfiglioli's sponsorship also included some computers and technical equipment for the classrooms.

UK

In 2016 Bonfiglioli continued to contribute as a sponsor to the Circus Starr association, which supports disadvantaged and disabled children throughout the UK.

Circus Starr is a travelling circus which boasts world-class artists from all over the world. It was founded in 1987 and donates seats to thousands of disabled or vulnerable children, in addition to contributing to the collection of funds for local charity events. Through its unique charity network of charities and local businesses, Circus Starr provides over £1.3 million worth of free tickets every year.





USA

Since 2013, Bonfiglioli USA has sponsored and participated in the annual **HealthPoint Hopebox Derby**. This unique event features soapbox derby races and raises awareness to help the **HealthPoint Pike Street Clinic** assist the homeless population of Northern Kentucky by providing free medical care on a walk-in basis.

Additionally, in honor of the company's 60th anniversary, Bonfiglioli USA promoted the **60th Anniversary Team-Challenge**, an internal team-building activity which raised funds through a variety of fun, on-site activities. A total of \$16,800 was raised to support Bonfiglioli's CheerFutureRoseLand Girl's Home in Chennai, India.



SPAIN

Tecnotrans Bonfiglioli, a subsidiary branch of the Group, delivered the prize for the best **Master's end project 2015-16 from the Universitat Politècnica de Catalunya (UPC)**. The event took place during the start of the new academic year in the auditorium at the **Escola Tècnica Superior d'Enginyeria Industrial de Barcelona (ETSEIB)**. In the field of mechatronics, the winner was Victor Sans i López with a project entitled "Predictive hierarchical and cooperative model for the control of electrical networks using overlapping information". The prize for the best mechatronics final project is assigned every year by Bonfiglioli and aims to promote talent and encourage research in this field. This prize is part of collaborative agreements between Bonfiglioli and ETSEIB including a special scholarship, collaboration in training courses, and the donation of materials.

OUR SOLUTIONS

Professionalism, innovation and excellence mean guaranteed Bonfiglioli quality, from production to handling negotiations with customers. A sense of belonging and strong shared goals are at the heart of the attitude that has driven Bonfiglioli for 60 years.
Here are the solutions with which we keep the world in motion.



POWER
TRANSMISSION
SOLUTIONS



MECHATRONIC
DRIVES &
SOLUTIONS



MOBILE
SOLUTIONS



ELECTROMOBILITY
SOLUTIONS



WIND
SOLUTIONS

POWER TRANSMISSION SOLUTIONS



Thanks to over 60 years of experience by our customers' sides, today we are able to anticipate their needs and adapt perfectly to their requirements. Offering a complete solution to allow customers to increase the efficiency of their applications is our number one goal.

We make over 1 million products a year for more than twenty different areas of industry, focusing on industrial processes and automation. Our extensive range of gearboxes, gearmotors, electric motors and inverters offers customers the opportunity to benefit from exceptional technical characteristics and superb performance in all industrial applications.



SECTORS

Material handling, waste water treatment, biogas, packaging, recycling, food, beverage, tobacco, rubber and plastics, mining, metal processing, access control, asphalt and other aggregates, commercial hvac and refrigeration, logistics and stocking systems, metal processing and machine tools, oil and gas, power generation, stone, clay, and glass.



MECHATRONIC DRIVES & SOLUTIONS



Our mechatronic solutions for industrial automation deliver the highest possible level of precision, efficiency and energy optimization.

These solutions include precision planetary gearboxes, servomotors, open and closed loop inverters, servo inverters and regenerative inverters. Our mission is to guarantee improved profitability to our customers by acting as a riskless partner and a provider of energy-efficient solutions in the field of industrial automation.

SECTORS

Material handling, food, beverage, tobacco, packaging, rubber, plastics, mining, textile, wood processing.



MOBILE SOLUTIONS



Bonfiglioli supplies final drives with the widest torque range on the market, from 1,000 to over 3 million Nm.

By co-engineering wheel, track, slew, winch, concrete mixer and other drives with our customers, we can meet all the market's needs for mobile machinery applications.

SECTORS

Construction, mining, earth moving, agriculture, forestry, drilling, material handling, marine and off-shore, road construction.



ELECTROMOBILITY SOLUTIONS



Bonfiglioli is leading the trend toward hybrid and electric technologies in order to provide more energy-efficient solutions, reducing noise and harmful emissions.

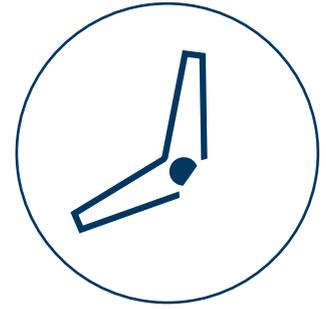
Our ground-breaking developments have established us as a true leader in sustainable technology and projected us towards new, high-tech business horizons.

SECTORS

Concrete mixers, forklifts, material handling equipment, lightweight vehicles, agricultural and forestry equipment, airport ground equipment.



WIND SOLUTIONS



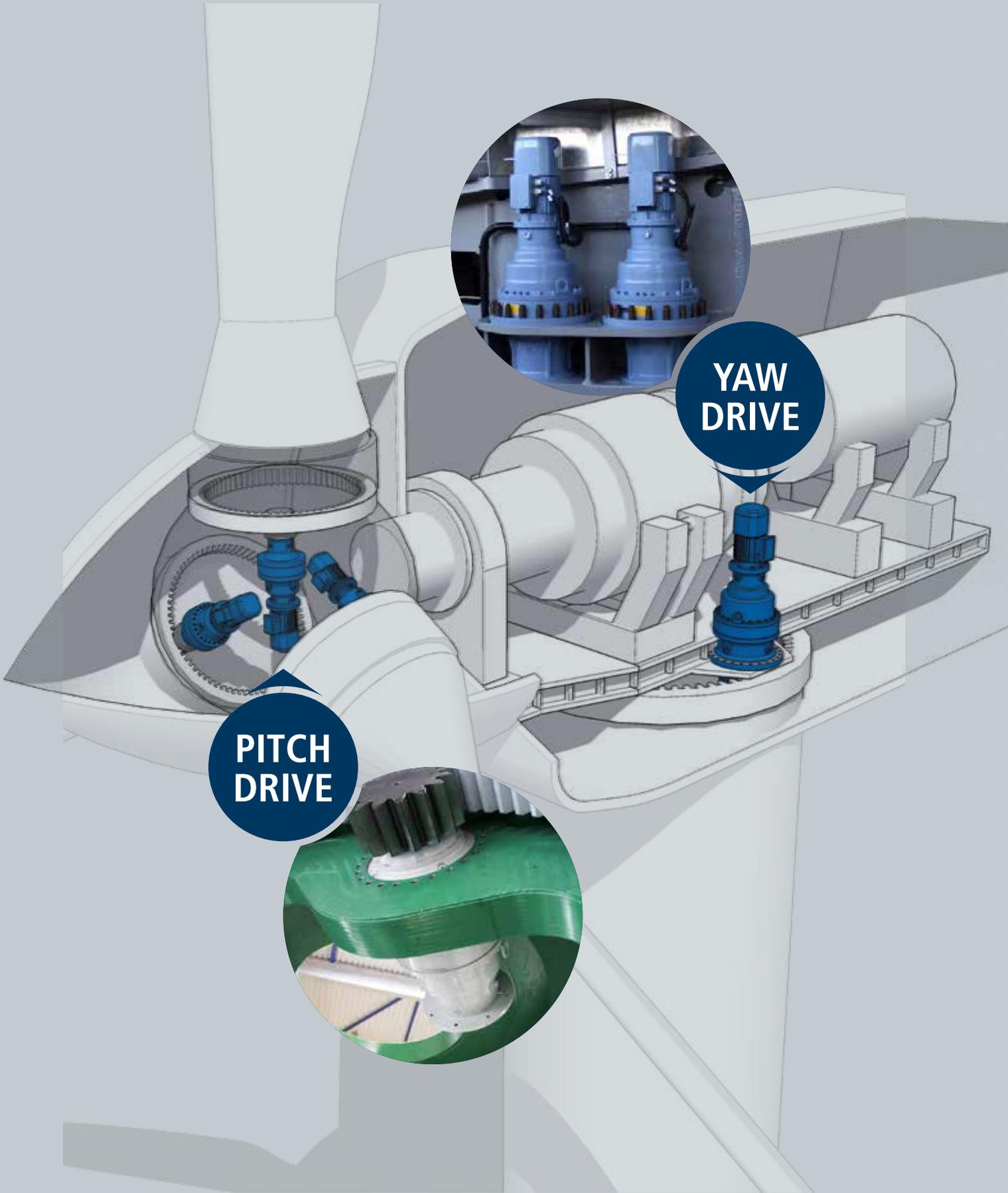
A market share of over 30% in wind turbine drives and supplies to leading global players makes Bonfiglioli the undisputed leader in the wind industry. Four of our fourteen production plants, based in Italy, India, China, and Brazil, have a focus on wind industry. Bonfiglioli products are continuously being optimized to improve wind turbine performance for off-shore and in-land applications, without increasing size and weight. Our team also strives to improve end-user experience by minimizing maintenance costs through the development of innovative solutions like double (mechanical and electrical) control solutions for more precise monitoring of the turbine system.



APPLICATIONS

Small wind turbine, in-land and off-shore.





**PITCH
DRIVE**

**YAW
DRIVE**

FINANCIAL DATA

In 2016, Bonfiglioli reached 788.9M€ of sales, confirming its position as world leader in power transmission and control for a wide range of applications.

Our financial strength is linked to the variety of the products offered and wide range of markets served.

THE GROUP AS OF DECEMBER 31, 2016



BONFIGLIOLI RIDUTTORI S.p.A.

**BONFIGLIOLI
ITALIA S.P.A.**

100%

ITALY

**BONFIGLIOLI MECHATRONIC
RESEARCH S.P.A.**

100%

ITALY

**BONFIGLIOLI
SLOVAKIA s.r.o.**

100%

SLOVAKIA

**BONFIGLIOLI
TRANSMISSION S.A.**

100%

FRANCE

**BONFIGLIOLI
UK LTD.**

100%

UNITED KINGDOM

**TECNOTRANS
BONFIGLIOLI SA**

95%

SPAIN

**BONFIGLIOLI
DEUTSCHLAND GMBH**

100%

GERMANY

**BONFIGLIOLI
VECTRON MDS GMBH**

100%

GERMANY

**BONFIGLIOLI
VECTRON GMBH**

100%

GERMANY

**BONFIGLIOLI POWER TRANSMISSIONS
& AUTOMATION TECHNOLOGIES JSC**

100%

TURKEY

**BONFIGLIOLI POWER
TRANSMISSION PTY LTD.**

83,75%

SOUTH AFRICA

**BONFIGLIOLI SOUTH AFRICA
PTY LTD**

75%

SOUTH AFRICA

**O&K
ANTRIEBSTECHNIK GMBH**

55%

GERMANY

EMEA

APAC

AME

OTHER COMPANIES

BONFIGLIOLI DRIVES
(SHANGHAI) CO. LTD.

83,33%

CHINA

BONFIGLIOLI TRADING
(SHANGHAI) CO. LTD.

100%

CHINA

BONFIGLIOLI TRANSMISSION
(AUST.) PTY LTD.

100%

AUSTRALIA

BONFIGLIOLI
SOUTH EAST ASIA PTE LTD

100%

SINGAPORE

BONFIGLIOLI
TRANSMISSION PVT LTD.

100%

INDIA

BONFIGLIOLI
VIETNAM LTD.

100%

VIETNAM

BONFIGLIOLI
CANADA INC.

100%

CANADA

BONFIGLIOLI
USA INC.

100%

USA

BONFIGLIOLI REDUTORES DO BRASIL
INDUSTRIA E COMERCIO LTDA

100%

BRAZIL

B.E.S.T.
HELLAS SA

10%

GREECE

SKS
SWEDEN AB

10,05%

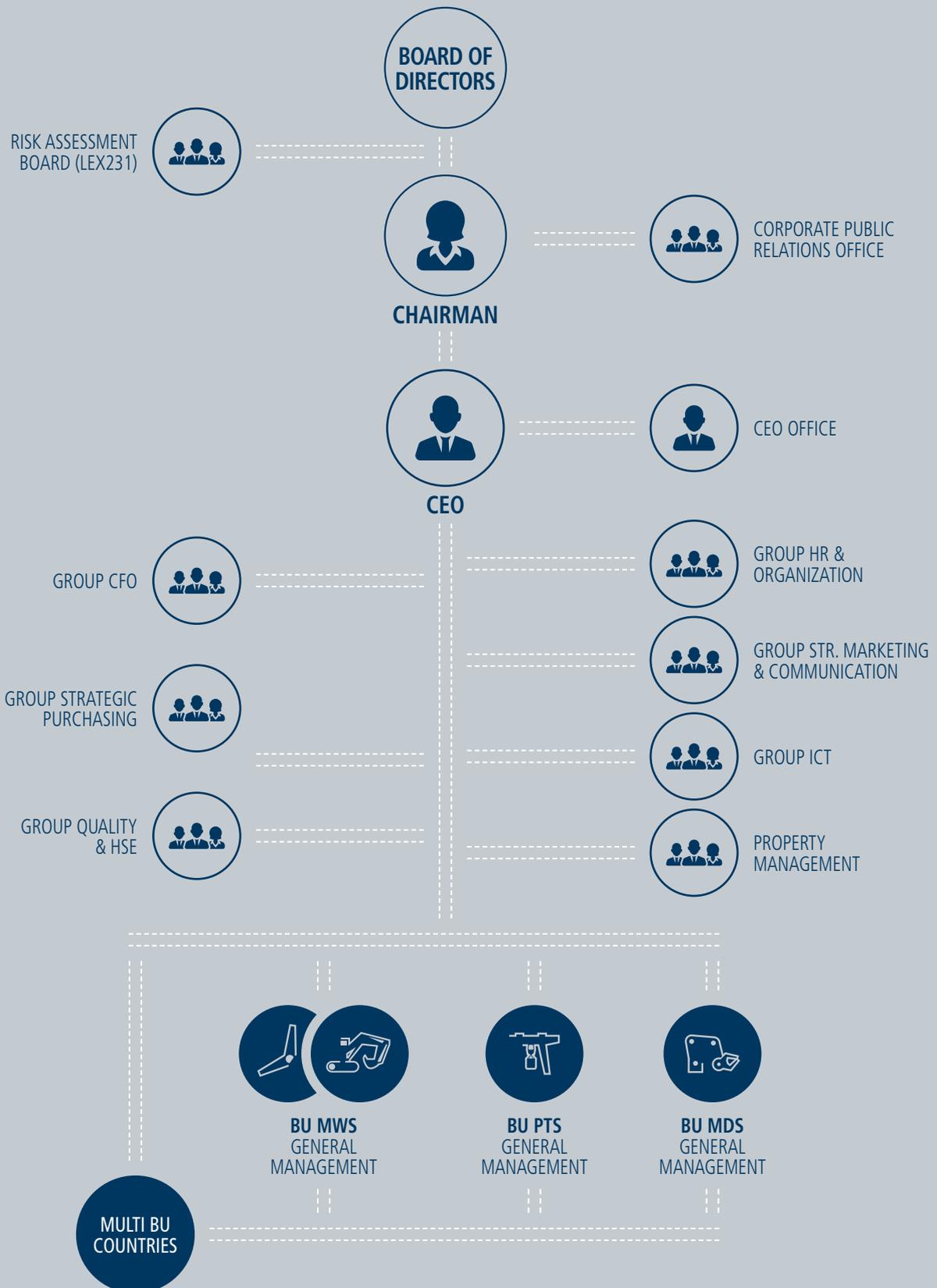
SWEDEN

BONFIGLIOLI RENEWABLE POWER
CONVERSION INDIA PVT. LTD.

100%

INDIA

ORGANIZATION CHART





BOARD OF DIRECTORS

Chairman • **Sonia Bonfiglioli**
 Vice Chairman • **Luisa Lusardi**
 CEO • **Fausto Carboni**
 Director • **Luciano Bonfiglioli**
 Director • **Roberto Megna**
 Director • **Tommaso Tomba**
 Director • **Roberto Carlo Testore**



STATUTORY AUDITORS

Chairman • **Alessandro Gualtieri**
 Member • **Monica Marisaldi**
 Member • **Ruggero Mazza**



INDEPENDENT AUDITORS

PriceWaterhouseCoopers S.p.A.



CEO REPORTING LINE

CEO • **Fausto Carboni**
 Business Unit PTS General Management • **Manfredi Ucelli Di Nemi**
 Business Unit MDS General Management • **Gilbert Khawam**
 Business Unit MWS General Management • **Marco Cesari**
 Group AFC • **Stefano Lambertini**
 Group HR & Organization • **Santino Carlino**
 Group ICT • **Enrico Andrini**
 Group Strategic Marketing & Communication • **Massimo Sarti**
 Group Strategic Purchasing • **Fabrizio Paterlini**
 Group Quality & HSE • **Paolo Molinari**
 CEO Office • **Francesco Millo**
 Property Management • **Federico Mazzanti**



LOCAL MANAGEMENT

Bonfiglioli Canada Inc. (Canada)
 Greg Schulte

Bonfiglioli Deutschland GmbH (Germany)
 Jürgen Weber

Bonfiglioli Drives (Shanghai) Co. Ltd. (China)
 Alex Deng

Bonfiglioli Italia S.p.A (Italy)
 Alberto Barbieri

Bonfiglioli Mechatronic Research S.p.A (Italy)
 Gilbert Khawam

O&K Antriebstechnik GmbH (Germany)
 Giorgio Cucchi

Bonfiglioli Redutores do Brasil Ltda (Brazil)
 Nei Teodoro

Bonfiglioli Renewable Power Conversion India Pvt Ltd (India)
 GA Balaji

Bonfiglioli Slovakia s.r.o. (Slovak Rep.)
 Dusan Randa

Bonfiglioli South Africa Pty Ltd (South Africa)
 Robert Rohman

Bonfiglioli South East Asia Pte Ltd (Singapore)
 Manfredi Ucelli Di Nemi

Tecnotrans Bonfiglioli s.a (Spain)
 David Bassas

Bonfiglioli Trading (Shanghai) Co. Ltd. (China)
 Alex Deng

Bonfiglioli Transmission (Aust.) Pty Ltd (Australia/New Zealand)
 Malcom Lewis

Bonfiglioli Transmission Pvt Ltd (India)
 Andrea Genuini • Kaipally Kennedy • GA Balaji

Bonfiglioli Transmission s.a. (France)
 Pascal Froment

Bonfiglioli Turkey Jsc (Turkey)
 Maurizio Pennetti

Bonfiglioli UK Ltd. (United Kingdom)
 Mike McCann • John Adair

Bonfiglioli USA Inc. (United States)
 Greg Schulte

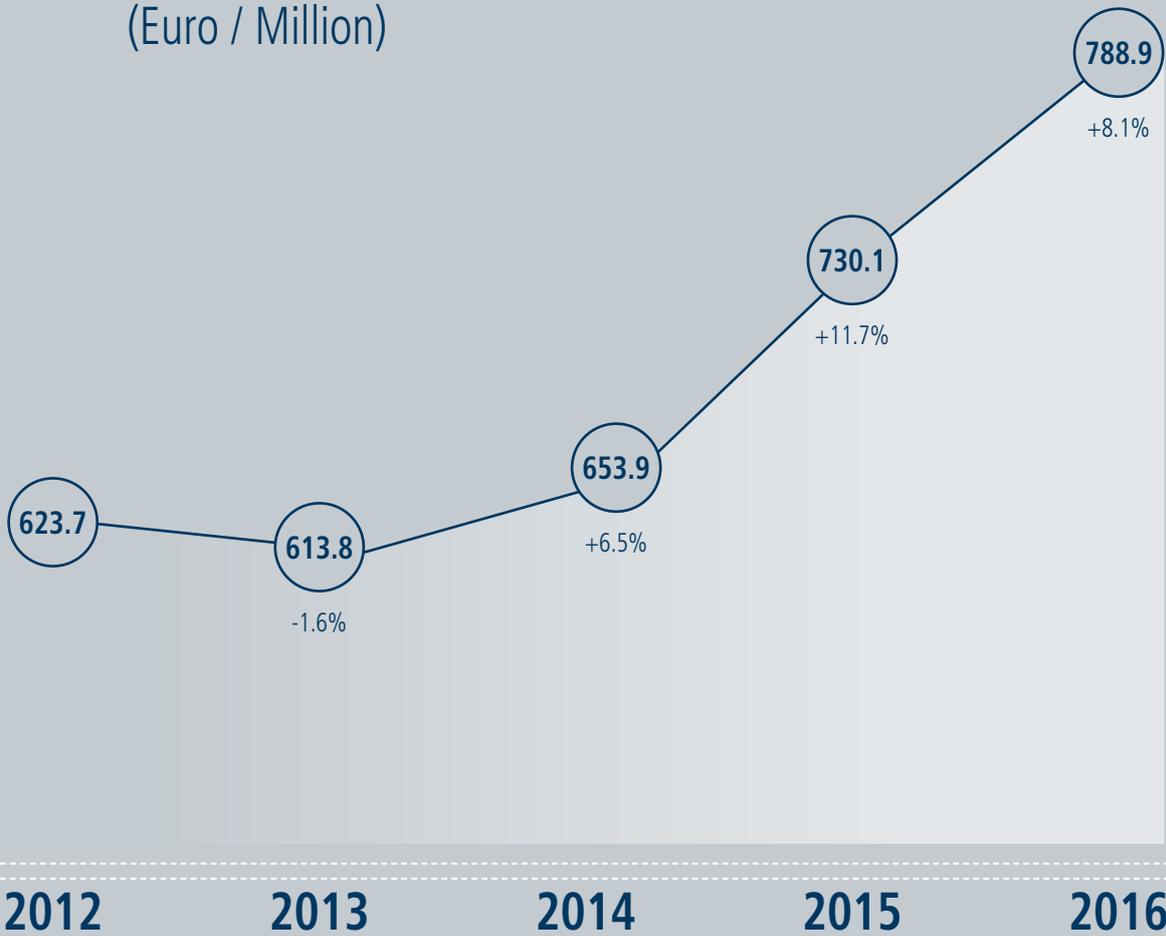
Bonfiglioli Vectron GmbH (Germany)
 Gilbert Khawam

Bonfiglioli Vectron MDS GmbH (Germany)
 Gilbert Khawam

Bonfiglioli Vietnam Ltd (Vietnam)
 Stefano Callegati

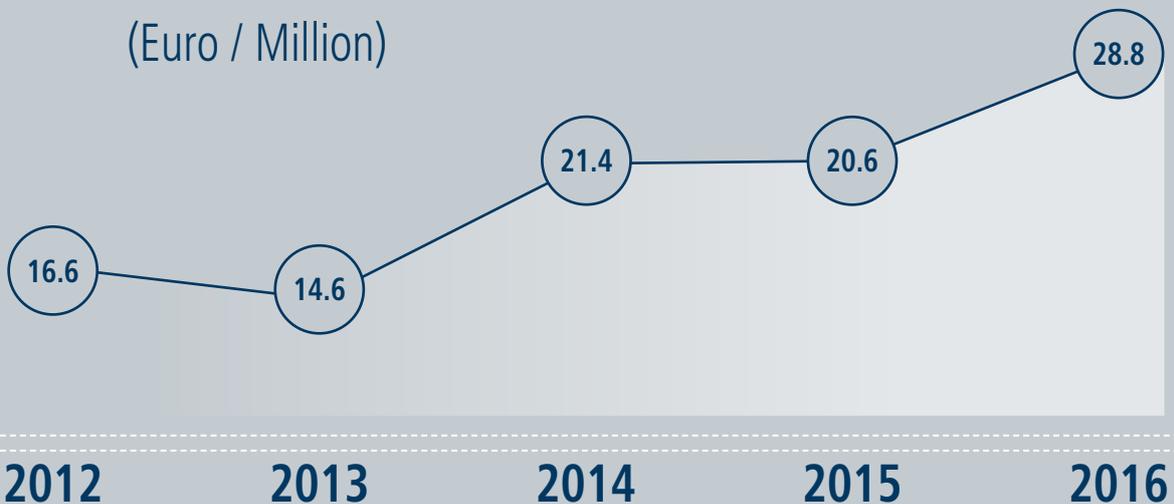
GROUP SALES

(Euro / Million)



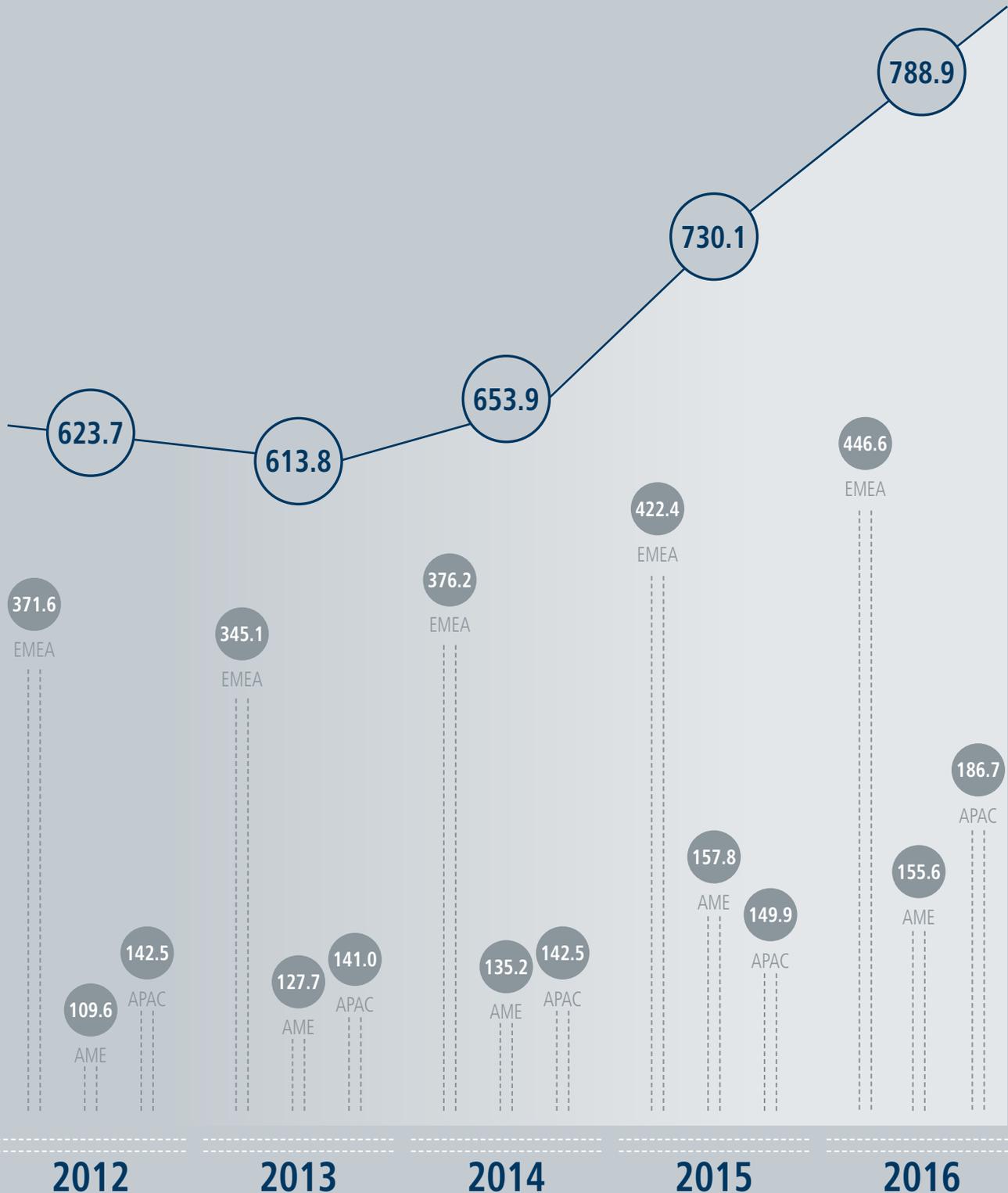
NET CAPITAL EXPENDITURE

(Euro / Million)



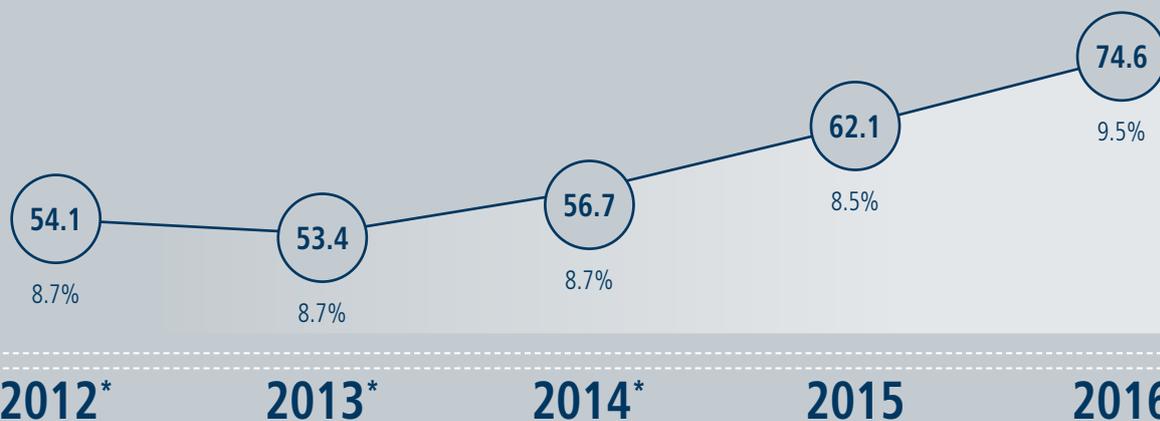
SALES BY GEOGRAPHICAL AREA

(Euro / Million)



EBITDA

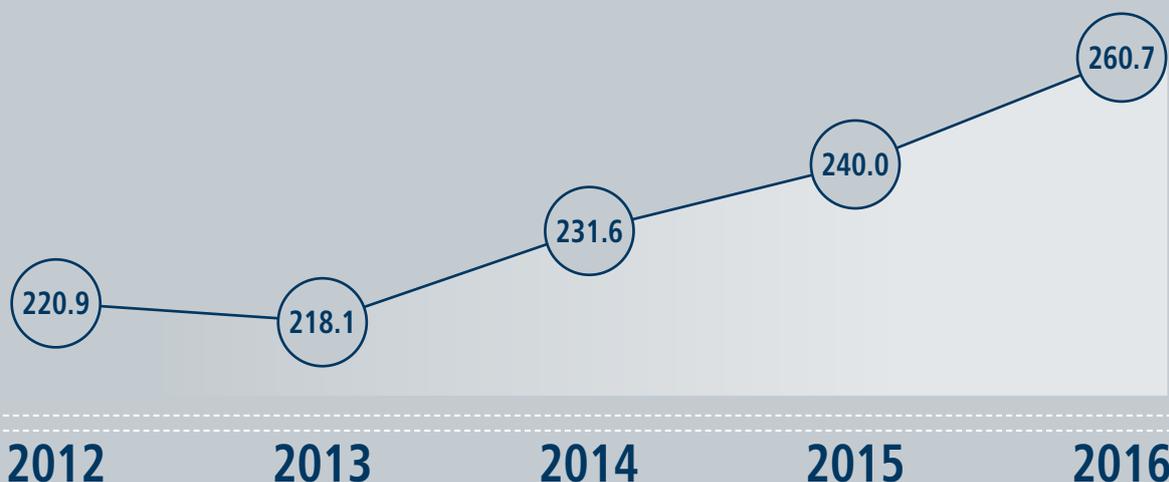
(Euro / Million - % on turnover)



(*) EBITDA values recalculated coherently with new OIC principles.

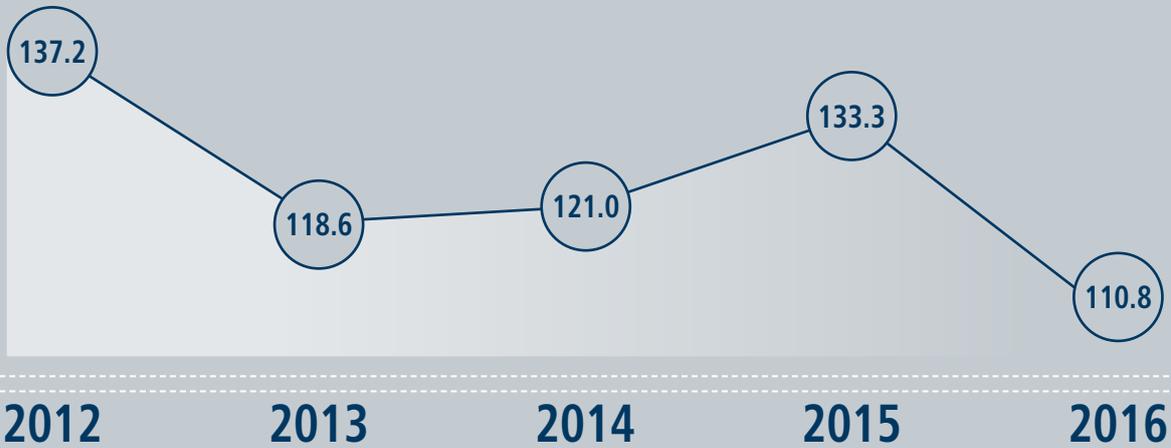
GROUP SHAREHOLDERS' EQUITY

(Euro / Million)

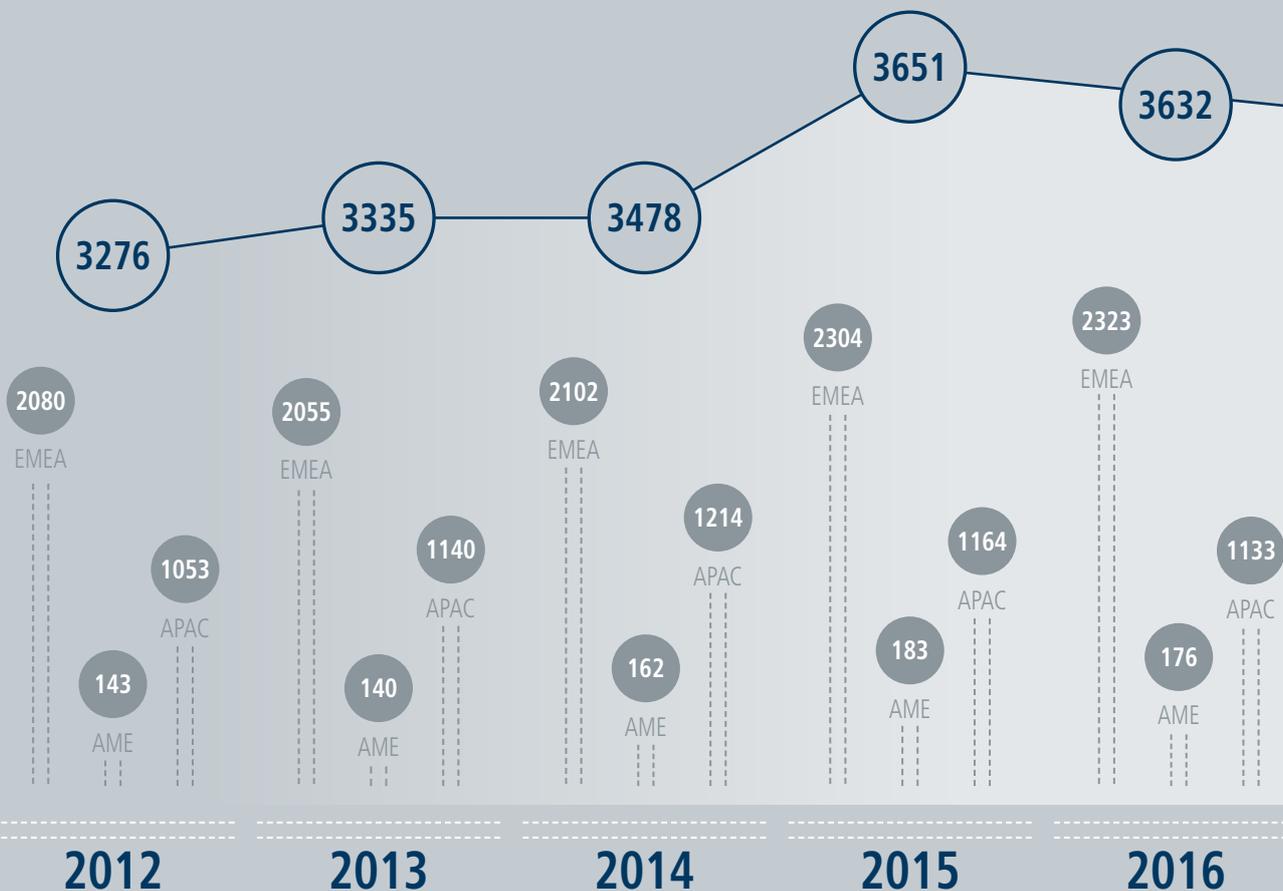


NET DEBT

(NCP - Euro / Million)



NUMBER OF EMPLOYEES



MANAGEMENT REPORT

During the course of 2016, the global economy saw a modest improvement in GDP (+3.2%) despite uncertainty at the start of the year caused by fears that the recovery would not be consolidated on a global level, and the poor performance of major European economies, especially that of Italy.

As of 31st December 2016, the consolidation area includes, along with the parent company, twenty-three controlled companies.

FOREWORD

This management report, drawn up in compliance with the provisions of Legislative Decree 139 of 18 August 2015 implementing Directive 2013/34/EU, integrated and interpreted on the basis of the Italian National Council of Chartered Accountants' accounting principles as updated by the OIC (Italian Accounting Organisation), is submitted as a comment on the results recorded in the consolidated financial statement of the Bonfiglioli Group.

With the publication of Legislative Decree 139/15 in the Official Gazette, accounting reforms were introduced into Italian law to implement European Directive 2013/34 during the 2015 business year. This decree integrates and modifies the civil code that establishes the general rules for drafting

financial statements, with particular reference to the presentation, evaluation criteria, and content of the notes and management report.

Law variations become effective on 1st January 2016. In accordance with OIC 29, the Company effected the necessary changes in the opening statement of shareholders' equity on 1 January 2015. The Company has therefore calculated the effects that the changes would have made to the financial statement to 31 December 2015 as if the accounting reforms had already been applied during the 2015 business year.

Unless otherwise indicated, data are shown in Euro/millions.

REFERENCE ECONOMIC SITUATION

During the course of 2016, the global economy saw a modest improvement in GDP (+3.2%) despite uncertainty at the start of the year caused by fears that the recovery would not be consolidated on a global level, and the poor performance of major European economies, especially that of Italy. This economic growth is even more positive given the occurrence of destabilising geopolitical events like the elections in the United States, the referenda in the United Kingdom and Italy, continuing conflict in the Middle East and various terrorist attacks in Europe.

Global manufacturing and international trade returned positive results in 2016. The greater vitality shown by the world's largest economies in the second half of the year signalled an encouraging upturn and a likely improvement in trade, though this has been limited so far.

Growth in the United States (+1.6%) was slower than in the previous year despite improvements in the labour market and the facilitations maintained by the Federal Reserve. Uncertainty on the US

domestic market increased after the American presidential elections especially over fiscal expansion and protectionist policies likely to restrict both trade and immigration.

The Chinese economy (+6.6%) continues to show a slowdown trend in GDP. A net drop in exports (down 10% in September on yearly basis) was contrasted by a growth stimulus directly linked to public expenditure, which rose by 12.5% in the first three quarters of 2016 on yearly basis. The country saw a significantly increased deficit in later months.

Growth remains weak in Japan (+0.5%) and emerging economies are likewise under-performing (+4.2%) and though the downward trend seems to have stopped, it is still influenced by the gradual slowdown in the Chinese economy.

In Europe (+1.5%), economic growth has remained low though confirming a more positive trend than in recent years. Extremely favourable finance conditions and improved profitability are combining to encourage a recovery in business investments. On top of this, an upturn in employment, stimulated

in part by recent structural reforms, has supported consumer spending by increasing available income. Improvements in public finance, the labour market and consumer spending are counterbalanced by the political uncertainty that pervades the European Union as a whole and as well as member countries individually. Slow growth and the limited recovery in global markets have failed to boost exports.

There are still heterogeneous situations within the European Union: while Germany (+1.7%) has recorded above average growth for the Eurozone, France has seen only below-average growth (+1.3%). Spain has enjoyed a significantly higher growth rate (+3.1%), but only by leveraging sovereign debt, and it seems unlikely the country will be able to sustain this trend over the long term.

The Euro/Dollar exchange rate remained substantially stable in 2016 compared to 2015, at an average of 1.11 USD for one Euro. On a monthly basis, the Euro appreciated gradually between January and May (when it reached its highest value of 1.16) but declined significantly in value over the last quarter: the currency touched its lowest level since 2003 on 20 December, at 1.04. This trend was exacerbated by the Brexit vote which, along with the higher interest rates introduced by the FED in the last quarter of the year, encouraged investors to make massive purchases of American dollars.

On average, mechanical engineering output for Eurozone countries saw a small improvement with Germany recording growth in production but France, Spain and even more so the United Kingdom recording downturns.

Despite Brexit and the many uncertainties linked with the UK's withdrawal from the European Union, the country saw robust economic growth (+1.8%), refuting the forecasts made immediately after the referendum, which predicted a rapid collapse of the British economy. Longer term effects cannot be excluded, however, and a slowdown in investment and growth may well be seen in coming months.

Growth in Italy (+0.8%) remained well below the European average at a level still insufficient to stabilise debt, which rose to a new record of 132.6% of GDP despite a 2.4% drop in deficit.

There were encouraging signals, including a small improvement in employment and higher investment in capital goods, which touched 4% (that represents increased activity in various sectors after the crisis). Industrial output rose too. On the other hand, reduced spending by Italian families, lower export figures and continuing low inflation further impacted the already weak growth rate.

This scenario is destined to change in 2017: while families are likely to remain prudent in their purchases, exports could provide a major boost, driven in part by a weak Euro.

Up to date figures for the third quarter of 2016 show that the Italian mechanical engineering sector is currently outperforming that of other European countries, with growth +1.6% up over the same period of 2015.

Exports from the Eurozone are likely to pick up gradually in coming months, in line with the dynamics of world trade. Improvements in demand and new export orders can be expected. The fall in the effective exchange rate of the Euro should also generate competitive advantages for the area's exporters. Nevertheless, the appearance of protectionist trends on the macro-economic scene could risk a fall-off in demand for exports over the long term.

In coming years, we are also likely to see an end to the extraordinary benefits that Europe has recently enjoyed, such as the collapse in oil prices and low Euro exchange rates.

AREA OF CONSOLIDATION

As of 31st December 2016, the consolidation area includes, along with the parent company, twenty-three controlled companies representing the following manufacturing and industrial organisation:

- 14 production plants (4 in Italy, 3 in India, 2 in Germany and 1 each in China, the United States, Brazil, Slovakia and Vietnam) covering various areas of the extensive Bonfiglioli product range;
- directly controlled commercial companies in 16 countries, covering development, marketing and sales, logistics, customisation and final assembly of the Group's products, pre-sales and after-sales assistance and customer support.

With reference to the consolidation area, the following change took place during the year 2016 (see the Notes for further details):

- an increase in the parent company's shareholding in the controlled company Bonfiglioli Drives Shanghai Co. Ltd., from 66.67% to 83.3%, achieved through an increase in company capital of 15 MUSD which was not subscribed by the minority shareholder SIMEST that therefore reduced its holding.

ANALYSIS OF 2016 RESULTS

In keeping with Art. 2428 of the Italian Civil Code, the layouts for the Balance Sheet and Income Statement are set out below, reclassified with regard to the last two years' operations by the Group.

It must be pointed that the reforms mentioned above, and in particular the elimination of the extraordinary area, led to a reclassification of values in structural and operating expenses, with a negative impact on EBIT for 2015 of 6.3 million Euros (see the Notes for further details).

The layouts presented hereunder show figures in millions of Euros and in percentage, as well as main economic-financial indicators.



	VALUES		% OF TURNOVER	
	2016	2015	2016	2015
RECLASSIFIED INCOME STATEMENT				
TURNOVER	788.9	730.1	100.0%	100.0%
Cost of sales	(605.3)	(567.0)	(76.7)%	(77.7)%
GROSS MARGIN	183.6	163.1	23.3%	22.3%
Structural and operating expenses	(145.9)	(135.5)	(18.5)%	(18.6)%
EBIT	37.7	27.7	4.8%	3.8%
Financial income and (expenses)	(7.6)	(9.2)	(1.0)%	(1.3)%
Exchange rate differences	3.3	(3.9)	0.4%	(0.5)%
PRE-TAX INCOME	33.3	14.5	4.2%	2.0%
Taxes	(19.3)	(9.5)	(2.4)%	(1.3)%
CONSOLIDATED INCOME AFTER TAX	14.0	5.0	1.8%	0.7%
Minority	4.5	(0.6)	0.5%	(0.1)%
NET GROUP PROFIT	18.5	4.3	2.3%	0.6%
INCOME STATEMENT - DETAILS				
PERSONNEL COSTS	(157.8)	(140.1)	(20.0)%	(19.2)%
AMORTIS.,DEPR., WRITE-DOWNS AND PROVISIONS	(36.9)	(34.5)	(4.7)%	(4.7)%
EBITDA	74.6	62.1	9.5%	8.5%
TURNOVER BY GEOGRAPHIC AREA				
EMEA	446.6	422.4	56.6%	57.9%
AME	155.6	157.8	19.7%	21.6%
APAC	186.7	149.9	23.7%	20.5%
TOTAL TURNOVER	788.9	730.1	100.0%	100.0%

	VALUES		ROTATION (*)	
	2016	2015	2016	2015
RECLASSIFIED BALANCE SHEET				
Net working capital	212.8	209.1	97	103
Fixed assets	217.0	214.4	99	106
Other invested capital	(51.5)	(39.1)	(23)	(19)
Minority	(6.9)	(11.2)	(3)	(6)
CAPITAL EMPLOYED	371.4	373.2	170	184
Group shareholders' equity	260.7	240.0	119	118
Net Financial Position (NFP)	110.8	133.3	51	66
FUNDS	371.4	373.2	170	184

(*) average turnover rotation days (base 360)

INDICATORS	VALUES		DESCRIPTION
	2016	2015	
ECONOMIC			
Net ROE	7.1%	1.8%	(Net profit/Shareholders' equity)
ROI	10.1%	7.4%	(EBIT/Lending)
ROS	4.8%	3.8%	(EBIT/Turnover)
EBITDA/Net Financial Income and Expenses	9.8	6.8	
EQUITY AND STRUCTURAL			
Primary structural balance ratio	1.2	1.1	(Shareholders' equity/Fixed assets)
Financial indebtedness ratio	0.4	0.6	(NFP/Shareholders' equity)
NFP/EBITDA ratio	1.5	2.1	(NFP/EBITDA)
Shareholders' equity tangibility ratio	0.9	0.8	(Equity-Intangible assets/Equity)
OTHER			
Average number of employees	3,710	3,655	Annual mean
Turnover per employee	213	200	Data expressed in thousands of Euro

The Bonfiglioli Group celebrated its 60th anniversary in 2016, and pursued activities aimed at expansion and a greater focus on core business. As part of this strategic rationalisation plan, in June 2016 the Group signed an agreement with the Spanish company Ingeteam Power Technology S.A. to phase out its photovoltaic business.

In October 2016, again in the context of a series of strategic initiatives aimed at consolidating and improving the group's market position, the EVO Project was presented at the Calderara di Reno factory, which is destined to become the Group's largest industrial plant in Italy.

The new plant will be developed on the "Clementino Bonfiglioli" area of 148,700 square metres. Here, by the end of 2018, the foundations of a new, modern production centre will be laid. The new plant will incorporate the existing Calderara factory and occupy an area of 58,500 sq.m. plus around 56,000 sq.m. of green spaces and parking.

Once fully operational, the new production lines will have a capacity of 800,000 units a year and will employ a workforce of 600 as a result of integrating all the industrial activities currently distributed

among the Calderara di Reno, Sala Bolognese and Vignola plants.

Again in October 2016, Bonfiglioli announced an expansion plan for its Indian controlled company Bonfiglioli Transmissions Pvt Ltd. This plan involves the construction of a new plant for BU PTS in the town of Pune in the federal state of Maharashtra, with the aim of boosting production capacity in India and reducing delivery times to customers in the north of the country. Also with the objective of increasing the production capacity of the Group's Indian controlled company, an expansion plan was presented for BU MWS involving the construction of a new plant of around 10,000 square metres next to that occupied by the existing factory in Thirumudivakkam (Chennai).

Additional production capacity expansion projects were also launched for the Group's Slovakian factory (around 8,000 square metres currently being completed) and for the historical Forli plant (around 5,500 sq.m.).

The process of focusing and consolidating BU MDS and the associated mechatronic research centre in Rovereto also continued in 2016, with the aim of

exploiting the many opportunities offered by this market.

The expansion activities begun after the acquisitions of O&K and the Comer wheel drive range also continued in order to strengthen Bonfiglioli's standing as a leading global player in power transmission technology.

In terms of organisation, the group continued to consolidate its new governance model, revolving around the figures of Sonia Bonfiglioli as Chairman and Fausto Carboni as Chief Executive Officer. The purpose of the new model is to promote simplification and encourage better coordination between activities. Under it, the Business Unit top managements, cross-business functions (HR, AFC, ICT, Group Quality & HSE, Group Strategic Purchasing,

Group Strategic Marketing and the CEO's Office) as well as multi-BU countries all report directly to the CEO. Countries with a single Business Unit continue to report to the relevant General Manager.

Group turnover in 2016 increased with respect to previous year by 8.1% in percentage terms (788.9M€ compared to 730.1M€ in 2015). This figure takes into consideration a turnover of 44.8M€ deriving from the acquisition of O&K. Net of this figure, growth would have been 1.9% as a result of the loss of turnover from the photovoltaic business which, as has been stated, was phased out starting in the second quarter. For a better understanding of turnover dynamics at Business Unit level, figures for the year are compared with those of 2015 in the following table.

TURNOVER BY BUSINESS UNIT	VALUES		% OF TURNOVER		CHANGE	
	2016	2015	2016	2015	VA	%
PTS	262.5	252.4	33.3%	34.6%	10.1	4.0%
MDS	35.6	34.5	4.5%	4.7%	1.1	3.2%
MWS	471.2	417.6	59.7%	57.2%	53.6	12.8%
PV	19.6	25.6	2.5%	3.5%	(6.0)	(23.4)%
TOTAL TURNOVER	788.9	730.1	100.0%	100.0%	58.8	8.1%

The Consolidated Income Statement records Group earnings before interest, taxes, depreciation and amortisation (EBITDA) as 74.6M€, equivalent to 9.5% of turnover, an improvement over the previous year of +12.5M€ in absolute value and of +1.1% in percentage terms.

It should also be noted that:

- Cost of sales for 2016 came to 76.6% of turnover. The improvement in profitability over 2015 (+1.0%) should be ascribed primarily to higher efficiency in the Group's purchasing policies and to a decrease in raw material costs during the business year.
- Structural and operating expenses rose by an absolute figure of 10.4M€, but remain substantially unchanged in terms of percentage of

turnover (18.5% compared to 18.6% last year).

- Total cost of labour rose from 140.1 to 157.8M€, equivalent to an increase from 19.2%, to 20.0% of turnover. The increase in absolute value is mainly due to the acquisition of O&K Antriebstechnik GmbH in December 2015, and partly due to increases in workforce required by rising volumes of business.
- Amortisation, depreciation and other provisions increased by around 2.4M€ in absolute value while remaining unchanged in terms of percentage of turnover (4.7%). This variation in absolute value can be ascribed mainly to write-downs of receivables during the course of the year.
- Net financial income and expenses fell slightly, from 1.3% of turnover in 2015 to 1.0% of

turnover in 2016. In absolute value, net financial expenses fell by 1.6M€ thanks to the Group's lower indebtedness and to lower interest rates, which fell particularly in the Eurozone.

- Variations in exchange rates, especially the positive variation in the Brazilian Real, generated exchange rate earnings of 3.3M€, equivalent to 0.4% of consolidated turnover (-0.4% down from 2015). Compared to the exchange rate losses of 3.9M€ recorded in 2015, this led to a considerable rise in pre-tax income.

With regard to the Group's assets and liabilities, Net Working Capital rose in absolute value from

209.1M€ to 212.8M€ and saw an improvement in rotation on sales (from 103 to 97 average rotation days) as a result of stock rationalisation in the face of increased sales.

Net Financial Position (NFP) saw a major improvement of 22.5M€, permitting a reduction in overall indebtedness from 133.3M€ at the end of 2015 to 110.8M€ in December 2016. This generated a significant improvement in leverage and an index of 1.5 at the end of 2016 (2.1 at the end of 2015).

Net investments amount to 28.8M€. Details are given below:

VALUES IN MILLIONS OF EURO

	2016	2015	2014	2013	2012
Land and buildings	1.9	9.8	(0.5)	1.5	1.1
Plant and machinery	12.0	8.4	4.1	5.2	4.5
Equipment	7.6	3.8	8.7	4.7	4.8
Other assets	2.6	1.6	1.3	1.6	1.3
Assets in progress	1.2	(5.3)	6.0	0.1	0.9
TANGIBLE FIXED ASSETS	25.3	18.3	19.6	13.1	12.6
Software, trademarks, patents	1.5	0.8	0.7	0.6	1.1
Goodwill	-	-	-	-	0.2
Other	2.0	1.5	1.1	0.9	2.7
INTANGIBLE FIXED ASSETS	3.5	2.3	1.8	1.5	4.0
TOTAL INVESTMENTS	28.8	20.6	21.4	14.6	16.6

The Group's main investments in 2016 are described below.

- Investments in land and buildings were made primarily by Bonfiglioli Drives Shanghai to complete the new Qingpu plant (0.3M€, net of an additional 1.1M€ made in late 2015) and by the parent company and O&K (0.2 and 0.3M€ respectively).

- Investments in plants, machinery and equipment were made mainly by the parent company, which spent 5.3M€ on machinery purchases and extraordinary maintenance for the Forlì and Calderara di Reno plants. The parent company also invested in industrial equipment (3.4M€), mainly for the Forlì site.

Additional investments were made to boost

capacity in the plants in Slovakia (2.2M€), Rovereto (1.5M€), Brazil (1.1M€, net of a further 0.7M€ spent at the end of 2015) and in the newly acquired O&K (0.8M€, net of a further 3.1M€ spent at the end of 2015).

- Ongoing investments in tangible fixed assets, including the completion of investments in tangible fixed assets begun in 2015, mainly concern expansion work on the Slovakian plant (4.6M€).
- Investments in software, trademarks and patents

mainly cover the purchase of enterprise software and CAD licences by the parent company (1.0M€).

- Investments in intangible fixed assets were made mainly by the parent company (0.9M€) and mostly concern the ongoing purchase and development of software licences. O&K also made investments of this kind (0.6M€ for improvements to third party assets).

RISK MANAGEMENT

An analysis is set out below of the main risks to which the Group is exposed, these risks being represented by events capable of producing negative effects on the pursuit of the company's objectives and which could therefore restrict the creation of value.

RISKS CONNECTED WITH GENERAL ECONOMIC CONDITIONS

The economic and financial standing of the Group, as well as its assets and liabilities, are influenced by a number of factors that make up the macro-economic picture in the various countries in which the Group operates: increase or decrease in GDP, consumer and business confidence, currency and interest rate fluctuations, cost of raw materials, etc.

RISKS CONNECTED WITH THE MARKET SECTORS SERVED

The Group operates in many markets divided between two main Businesses: Industrial (which in turn has two product divisions, PTS and MDS) and Mobile & Wind. Each business is followed by dedicated organisations, i.e. Business Units, which are responsible for developing products and customers of own specific sectors.

The wide range of markets served and applications supplied has always provided refuge from economic slumps by allowing the Group to balance the product

offering of sectors in decline with those in growth and the other way round. The Group is still exposed to financial and systemic crises, such as the world economic crisis of 2008-2009.

RISKS CONNECTED WITH FINANCIAL RESOURCE REQUIREMENTS

Group performance depends, among other things, on its ability to meet the needs arising from maturing debts and scheduled investments through cash flows coming from operations, available liquidity, the renewal or refinancing of bank loans and, if necessary, recourse to other sources of funds. In order to keep the Net Financial Position under constant check and to monitor the business' short-term capacity to meet its commitments, short-term and mid-term cash flow estimates were drawn up in order to make the most appropriate decisions.

CREDIT RISK

Credit risk is represented by the Group's exposure to potential losses that may stem from the failure by customers to meet their obligations.

Customer credit risk is constantly monitored with the use of information and customer assessment procedures and this type of risk has historically had very little physiological scope.

RISKS CONNECTED WITH EXCHANGE AND INTEREST RATE FLUCTUATIONS

As it operates in many markets around the world, the Group is naturally exposed to exchange rate fluctuations, linked mainly to the geographical distribution of production and sales activities that generate import/export flows in currencies different from those of the production countries. In particular, the Group is exposed through its exports from the Eurozone to the areas of the US Dollar, GB Pound, Australian Dollar and other minor currencies. On the level of incoming flows, risks concern imports from Japan in Yen and, for those companies based in India, Vietnam, China, Singapore, Turkey, Brazil and South Africa, by imports of goods from countries having strong currencies (Euro and USD).

The risk of interest rate fluctuations derives from medium/long term debts at variable interest rates.

In keeping with its risk management policies, the Group tries to minimise risks deriving from exchange and interest rate fluctuations through the purchase of derivative financial instruments similar in duration to the risk to be covered.

RISKS CONNECTED WITH THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses financial instruments covering the interest rate and exchange rate risks stated above to minimise operational import-export risks and to stabilise expected financial flows for interest on medium/long terms debt. The companies in the Group do not use speculative-type derivative financial instruments.

RISKS CONNECTED WITH EMPLOYMENT RELATIONS

In the various countries in which the Group operates, employees are protected by laws and by collective labour contracts which provide them with guarantees through local and national representatives. Employees are entitled to be consulted on specific matters, including the reduction in size or closure of departments or reductions in work force. These laws and collective labour contracts applicable to the Group could affect the flexibility with which it redefines or strategically repositions its activities.

RISKS CONNECTED WITH COMPETITION

The macroeconomic crisis of recent years has had the effect of reducing consumption in almost all sectors in which Group products are used (manufacturing and building in particular) thereby changing the overall value of the available market and increasing competition. The success of the Group is therefore also dependent on its ability to maintain and increase its market share, perhaps expanding into new sectors and emerging countries.



RESEARCH AND DEVELOPMENT

Expenditure in 2016 in the field of Research and Development totalled around 13.0M€ at Group level.

A summary of the major product development projects funded by the various Business Units is provided below.



PTS POWER TRANSMISSION SOLUTIONS

PRODUCT PROJECTS

2,754 special projects of various levels of complexity were run in 2016 in response to specific customer needs.

It is worth noting that the number of projects handled directly by branches rose by 87% compared to 2015, indicating that this method of development is rapidly gaining ground in the Bonfiglioli organisation. The main projects involving standard range developments are listed below.

New DC brake and electronic control (rectifier) project

This project established the performance levels and specifications needed to become “best in class” in industrial brake applications. 2016 also saw the continuation of co-design activities with brake and rectifier suppliers to develop the first samples needed for product validation.

Self-braking motors for the EU and North American markets (AP)

This project developed a new range of high efficiency, self-braking motors for the EU and North American markets, in standard and compact versions. It developed and validated new sizes of standard and compact self-braking asynchronous motors. Self-braking versions were developed to complement the new range of high efficiency motors.

Feasibility study for self-starting reluctance motors

This project examined the possibility of using reluctance motor technology to develop a self-

starting motor (connected directly to the power supply without an inverter) offering the same costs and performance as an asynchronous motor but with a higher level of efficiency.

HDX ATEX product update (AP)

Atex certification was updated, along with the relevant technical folders and supporting documentation. The latest Atex standard introduces important changes to the risk assessment of all products certified under the previous version of the standard.

300 Series improvement

The design, thermal performance and lifetime of the 300 Series were improved on the basis of feasibility studies undertaken in 2015.

New HDO sizes

New product sizes and configurations were developed to provide 4 new bevel-helical gearboxes in the 7-22 kW performance range. 4 new heavy-duty bevel-helical gearboxes were developed along with the relevant product configurations and options. Finally, possible synergies with the equivalent sizes in the HDP range were identified. Product configuration matrices and databases were developed along with the technical documentation needed for production.

Motor with integrated inverter project

Development of an integrated inverter was completed as an option for the asynchronous motor range. The “integrated inverter” option was added to the configuration and mechanical and electrical

interfaces developed to permit the supplier's inverter series to be incorporated in electric motors.

New series of helical in-line gearmotors

A new range of helical in-line gearmotors was developed to respond more closely to the needs of the market. This led to a significant improvement in the market penetration of this kind of product and also optimised motor integration, especially in compact configurations.

Condition monitoring system for predictive diagnostics on planetary and parallel shaft gearboxes

Application-specific solutions and software algorithms were developed for the predictive evaluation of problems that could lead to gearbox failure and down-time. A low cost system for assessing gearbox load was also developed.

Support for the development of Mosaico 2.0

Mosaico was updated to version 2.0, which is based on the standard SAP configurator and on a new graphic support method for determining product

configurations. The option to produce updated technical documentation and data in line with the latest product catalogue and corporate PLM was also introduced.

Component classifier project

A system was developed to classify components by attributes accessible from the corporate PLM and ERP, useful as a resource for R&D, production, logistics and provisioning. The one classifier will serve all Bonfiglioli BUs.

Research projects with the support of universities and research laboratories

In 2016 the Bonfiglioli Group continued to work with Ferrara University (UniFe) on vibration analysis projects designed to detect, diagnose and prevent failures and damage to gearbox components, and succeeded in optimising a number of algorithms for the preventive fault analysis of planetary gear trains.



MDS **MECHATRONIC DRIVES & SOLUTIONS**

Research and development activities for BU MDS are carried out in the two mechatronic research centres of Rovereto and Krefeld (Germany). The main activities undertaken in 2016 are summarised below.

ROVERETO

Research projects

Research conducted in collaboration with universities and research centres to develop new technology for electric motors, precision gearboxes, materials and surface treatments was concluded during the course

of 2016. These projects led to the development of innovative industrial solutions that provide an integrated approach to mechatronic system design. Tests were carried out to demonstrate the possibility of identifying the mechanical position of electric motor rotors with wound tooth stators using construction techniques that also allow the development of control systems for fractional slot winding brushless servomotors.

On the mechanical front, various prototype solutions with new gears and improved gear train layouts

were developed to reduce power loss.

Research also led to the development of advanced numeric simulation tools using code developed in-house to analyse vibration and noise and to perform structural and CFD fluid dynamic calculations.

Servomotors

Intense design activity over the year led to the development of a new range of synchronous reluctance motors for medium dynamic applications, offering improved efficiency and optimised energy consumption. Work focused on the development of solutions for delivering high efficiency at all points in a system, in line with the latest power drive eco-design requirements. Following the prototyping phase, activities were carried out to validate all the sizes planned for the new series. Product consolidation, field testing in working installations and commercial release are planned for 2017.

High precision planetary gearboxes

2016 saw the completion of a project to design a new series of compact gearmotors featuring BMD servomotors integrated in TQF Series drive flange gearboxes.

This required the introduction of new motor sizes as well as the design of dedicated mechanical interfaces. All configurations underwent bench testing and were rated accordingly. Testing was also carried out in order to establish a method for product selection and verification on the basis of application requirements. The resulting method will be implemented in selection software during the course of 2017.

Testing was also completed and a preseries of crown wheels produced for TQ 90, 130 and 160 gearboxes using alternative materials and treatments.

KREFELD

Research projects

In 2016, the R&D department of Bonfiglioli Vectron MDS focused its activities on research into new electric motor control methods. Special attention was paid to control performance at low speeds, at which conventional control systems are typically ineffective. Control algorithms were tested on various types of motor and in various positions. The resulting control algorithms will be incorporated in drive control software starting with the Active Cube Series.

Products

A new cabinet solution was developed for size 8 inverters. The main objective was to achieve a high level of modularity in order to facilitate the implementation of applications in the range from 200 kW to 1.2 MW, with only a limited commitment on the part of the customer.

Typical applications with parallel drive connections, feedback, filters, fuses and power switching were all taken into consideration. Variants with liquid cooling were also developed.

To satisfy the requirements of special machines in various industrial applications and extend connectivity towards "Industry 4.0" levels, Bonfiglioli also introduced VARAN industrial Ethernet communication technology in ANG Series drives.

2016 also saw the launch of an important project to develop three new series of electric drives. The main purpose of this project is to consolidate and grow existing business by improving and updating technical solutions, simplifying and facilitating the development of custom solutions and introducing high level safety functions.



MWS

MOBILE & WIND SOLUTIONS

PRODUCTS FOR MOBILE MACHINES

Projects were launched to develop new wheel drives for the agricultural sector, with the aim of creating solutions more compact than standard products and satisfying the ever more stringent limits imposed by some constructors on the maximum size of travel drives.

The review of our range of cement mixer drum drive gearboxes for the construction sector continued, again with the objective of improving efficiency and reliability and including versions developed especially for hybrid/electric solutions. Various projects are also still ongoing, aimed at developing special gearbox versions for mobile and tower crane winches.

A dedicated product for high power asphalt milling machine drives is being developed for the road resurfacing sector.

Gearboxes for movement of tracked vehicles

Following the acquisition of O&K Antriebstechnik, an in-depth product analysis was initiated for the company's range of track drive gearboxes, with particular reference to the larger sizes that extend the Business Unit's product portfolio up to 3,000,000 Nm, and are suitable for use in mining machinery up to 1,200 tons in weight. A number of re-design initiatives were also put in place, targeting smaller gearbox sizes, with the aim of exploiting synergies with equivalent products in the Bonfiglioli range.

Development work is continuing on the medium size gearboxes typically used in 20 to 26 ton excavators, focusing on improving product competitiveness especially for applications in emerging markets.

The project to integrate track drive gearboxes from the product line acquired from Comer in 2014 for the mini-excavator sector was also completed.

Wind turbine products

As in previous years, activities aimed at optimising and rationalising the range of products for yaw and pitch control continued in order to maintain market

leadership. Solutions were developed to improve reliability and performance and studies were carried out to reduce size and weight without degrading performance, and to improve maintenance and handling.

Electromobility products

A new travel drive complete with electric motor was developed for the material handling sector, for use in fork lifts of up to 10 tons lifting capacity.

Various application projects were also started to develop vertical wheel drives for key account customers in the fields of warehousing and skylifts. These projects use small size 600 Series wheel drives coupled with BT Series low voltage electric motors to guarantee high performance from compact units. We are also continuing the development of new ultra-high power density electric motor technology for the agricultural market and certain niche automotive applications, including some for the construction equipment sector.

MARINE & OFFSHORE

Development of special product versions for marine and offshore applications was completed. Activities designed to obtain the certification necessary to compete effectively in this area are still ongoing.

New gearbox versions for port crane slewing drives and offshore winch drives were developed with special emphasis on reducing dimensions and integrating new brake units.

Activities indirectly affecting products and testing

Research is continuing in projects financed by the European Union under the Horizon 2020 program, which see Bonfiglioli collaborating in the development of innovative materials and processes such as nano-reinforced surface coatings for metallic materials, destined to reduce friction and improve wear resistance.

The development of innovative electromobility solutions required the construction of special test benches and equipment for measuring power loss and researching thermal efficiency.

In the field of calculation and simulation tools, a web platform is currently being developed to verify the

performance and lifetime of planetary gearboxes.

Finally, work is ongoing to implement in-house processes capable of permitting the automation, monitoring and measurement of various design phases, including validation testing, in the PLM environment.

QUALITY, SAFETY, HEALTH AND ENVIRONMENT

2016 saw the launch of Group level activities designed to update the Quality System along “One Company” principles, along with work needed to satisfy the requirements of the new ISO 9001:2015. All these activities will be completed in 2017, leading to the updating of the current ISO 9001 Certification. In particular a “Risk and Opportunity Management” method has been defined, based on input from all corporate functions. This method starts with an analysis of context and stakeholders, maps affected processes and ends with an analysis of risks and opportunities. Its aim is to ensure greater awareness and efficiency in risk and opportunity management. 2016 also saw the start of the project to create a Group scorecard. This has been developed using a new software application that makes data available and navigable even on mobile devices to optimise the monitoring of company processes.

A Group “Supplier Quality” function was created in 2016, to improve and boost the efficiency of supplier base management and development at Group level. Manufacturing continued the work of auditing the production process and defining standards valid for the entire Group. The project to implement Quality Circles in the BTPL plant in Chennai as a model for managing the continuous improvement process was also completed.

The Group Product Quality function continued to support local Quality functions in the management of customer claims and the development of new products.

HUMAN RESOURCES

Total Group workforce fell from 3,372 at the end of 2015 to 3,529 by the end of 2016. This figure does not include personnel engaged under other forms of contract, such as temporary, agency and other such workers (103 persons at the end of 2016).

The parent company employs 1,291 persons, while 1,409 are employed by other production companies, 367 by commercial branches in Europe and 462 by commercial branches overseas. This increase in the workforce was the result of intense search and selection activities which led to 66 new people being employed in 2016 in Italy alone. In particular, 24 new employees are under 33 years of age, demonstrating the Group's commitment to the employment and professional development of young people. With a similar focus on young people, 2016 saw the launch of the "Graduate Program", a path to employment aimed at attracting the best young talents available. Seven assessment processes were set up to evaluate a total of 67 candidates. Selection led to the employment of 14 persons in different areas of the company. These individuals are following a dedicated training plan that gives them the chance to come into contact with some of the Group's most strategic projects.



As a sign of the social commitment that characterises the Group, Bonfiglioli expanded its "School-Work Alternation" project in 2016. Under this project, two visits to the B3 plant in Calderara were organised and 90 students from the Aldini Valeriani school were given the chance to see the world of work for themselves. For some of the students involved, this was an introduction to a 4-week work placement at the parent company in 2017.

2016 was a year of great expansion for the "Overall Performance" management system. The number of people involved doubled with respect to 2015, bringing in middle managers to top managers on a global scale. Overall Performance has proven to be of key importance and has led to the startup of a process for assessing talent and planning resource development actions based on the real needs of the individuals involved as well as those of the business. Based on corporate needs, during the course of 2016, training on various management issues was delivered to a total of 163 persons within the perimeter of Bonfiglioli Riduttori and Bonfiglioli Mechatronic Research. Training activities also covered language learning and 1132 hours of teaching (individual and group) were delivered to 120 participants. The Company also fulfilled its obligations in terms of mandatory training in occupational health and safety and the environment, in compliance with applicable legislation. Given the broad scope of the projects carried out, economic investments increased with respect to the previous year, but professional funds covered 70 % of the expenses sustained.

The HR team submitted guidelines to the Group's foreign companies in order to build a common approach to training matters. The new guidelines nevertheless still allow specific training courses to be implemented for local resources. For the first time ever, an international training project was run dedicated to the Core Behaviours Model: "Be/Live It - Core Behaviours into Practice". This project is based on the Group's behavioural model and is aimed at Group Management. 21 days of training

were organised. Of these, 40% took place outside Italy (USA, China, India, Germany) and involved 170 managers: 95% of Italian management and over 70% of Group management as a whole. The project involved the introduction of Ambassadors: a team of in-house managers who make themselves available to carry the messages the company wants to communicate to their own people. Finally, a WOB (Welcome On Board) event was

organised for the third year running. The aim of these events is to bring together all the new employees taken on by the parent company and by Bonfiglioli Mechatronic Research over the last 12 months. The 2016 WOB took place on 16 December in Forlì and provided an opportunity to present the Group's new organisation and the strategic projects the Company will be running in coming years.

INFORMATION TECHNOLOGY

2016 saw the completion of the initiatives listed in the strategic IT plan drawn up at the start of 2014. One of the projects with the greatest impact was the activation of the new CRM (Customer Relationship Management) platform based on Salesforce technology, implemented in Italy, France, Germany, Spain and the United Kingdom. This project will continue into 2017 with the aim of completing roll-out to all other main foreign branches. The project will be completed in 2018. Thanks to this new platform, it is now possible to have far better visibility over the sales pipeline, and to keep an accurate track of

sales force activities for assigned customers and for potential customers.

The new Manufacturing Execution System (MES) was also implemented in 2016 in the machining departments of the two main Italian plants of business units MWS and PTS. This initiative is the first practical building block in an effective strategy of progress towards Industry 4.0. It will allow the MES to collect from the field (automatic machines, PLCs, robots) information on equipment operating efficiency (OEE Overall Equipment Efficiency). It will be extended to assembly departments in 2017 (OLE Overall Labour Efficiency).

2016 also saw the completion of two of the Group's major infrastructure and application standardisation projects:

- the standardisation of all Microsoft authentication domains and the activation of cloud-based mail for the Group's foreign companies. Over 2,500 Bonfiglioli IT accounts have now been fully centralised and monitored.
- The adoption of SAP as Group ERP has also been completed, with the going live of the last two companies still operating other systems, Bonfiglioli Vectron GmbH and O&K Antriebstechnik GmbH.



Global use of the one ERP solution guarantees the Group greater uniformity in process management, and improves traceability and standardisation in transactions and management reporting.

In terms of infrastructure, new scenarios were designed and tested to improve efficiency in the management of local server architecture. Hybrid cloud configurations were also tested for ERP management. Both these projects are scheduled for implementation during the course of 2017 but research and fine-tuning are still ongoing.

Various projects were launched and completed in the field of cyber-security to improve the Group's capacity to combat and prevent digital threats. A new

web filtering system, ForcePoint, was implemented world wide. This system is permanently active on all Bonfiglioli clients connected directly or remotely to the company network. Preventive alarms have been installed on all critical file servers to detect abnormal behaviour rapidly and the possibility was introduced to limit and control access to personal productivity documents based on Microsoft RMS (Right Management System) technology.

Finally, extensive activities have been launched, for now only in the Group's Italian companies, to raise users' awareness of the dangers of phishing and other similar cyber-threats.

BUSINESS OUTLOOK

Orders received in the first two months of 2017 are up over the same period of the previous year (+13%), with a positive effect on all areas of business: PTS (+13%), MWS (+13%) and MDS (+44%). Order bookings for the United States, Brazil, Germany, the UK and Italy are particularly encouraging, while the situation in France and South East Asia is more uncertain.

In terms of consolidated turnover for the first months of 2017, growth of over 4% has been recorded compared to the same period of the previous year. All BUs are performing well, with BU MWS recording +6.7%, BU PTS +6.2% and BU MDS +27.3%.

While it is difficult and premature to draw conclusions as to performance in the 2017 business year, especially in the light of persistent uncertainty regarding the global economy and geopolitical events around the world, and considering the rise in raw material prices (e.g. copper) already seen in the first few months of the year, we believe that, net of our transferred photovoltaic business, the Group is likely to enjoy increased sales especially in BU PTS and BU MDS, along with the consolidation of sales in BU MWS.

FURTHER INFORMATION

TREASURY SHARES

The parent company does not hold and has never held treasury shares, nor does it hold stakes or shares in controlling companies inasmuch as no

legal entity holds a controlling stake in Bonfiglioli Riduttori S.p.A. stock.

Calderara di Reno (Bo), 31 March 2017

for The Board of Directors

The Chairman

Sonia Bonfiglioli



CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

The consolidated financial statements include the financial statements of Bonfiglioli Group's companies, namely the Parent Company Bonfiglioli Riduttori S.p.A and the Italian and foreign subsidiaries in which the company holds more than 50% of the capital, either directly or indirectly, or exercises management and control in relation to specific agreements to this effect.

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016

CONSOLIDATED BALANCE SHEET

(Euro Thousand)

ASSETS	2016	2015
B) Fixed assets (net of cumulated depreciation)		
I. Intangible fixed assets		
1) Start up costs	35	44
3) Patents and rights to use intellectual properties	2,865	2,635
4) Concessions, licenses, trademarks and similar rights	7,363	7,951
5) Goodwill and consolidation differences	16,280	18,831
6) Assets in progress and advances	4,036	2,854
7) Other intangible fixed assets	5,676	5,657
Total Intangible fixed assets	36,255	37,972
II. Tangible fixed assets		
1) Land and buildings	108,127	109,602
2) Plant and machinery	42,350	40,153
3) Industrial and commercial equipments	16,829	15,498
4) Other tangible fixed assets	5,432	4,438
5) Assets in progress and advances	7,968	6,717
Total Tangible fixed assets	180,706	176,408
III. Financial fixed assets		
1) Investments		
dbis) other companies	76	67
Total Financial fixed assets	76	67
B) TOTAL FIXED ASSETS (NET OF CUMULATED DEPRECIATION)	217,037	214,447
C) Current assets		
I. Inventory		
1) Raw materials, supplies and consumables	25,929	22,329
2) Work in progress and semifinished goods	71,594	72,390
4) Finished goods and goods for resale	92,970	99,849
5) Advances	158	369
Total Inventory	190,651	194,937

CONSOLIDATED BALANCE SHEET
(Euro Thousand)

ASSETS	2016	2015
II. Receivables		
1) Trade receivables		
- due within 12 months	187,583	191,583
5-bis) Tax receivables		
- due within 12 months	9,284	12,905
- due after 12 months	1,344	1,330
Subtotal	10,628	14,235
5-ter) Deferred tax assets		
- due within 12 months	9,224	10,963
- due after 12 months	28,988	27,432
Subtotal	38,212	38,395
5-quater) Other receivables		
- due within 12 months	3,627	2,457
- due after 12 months	3,866	3,835
Subtotal	7,493	6,292
Total Receivables	243,916	250,505
III. Current financial assets		
5) Positive financial derivatives	55	346
6) Other securities	205	-
Total Current financial assets	260	346
IV. Cash at bank and on hand		
1) Banks	25,047	21,792
2) Cheques	1	-
3) Cash on hand	45	48
Total Cash at bank and on hand	25,093	21,840
C) TOTAL CURRENT ASSETS	459,920	467,628
D) Prepaid expenses and accrued income		
- Other prepaid expenses and accrued income	1,787	2,194
D) TOTAL PREPAID EXPENSES AND ACCRUED INCOME	1,787	2,194
TOTAL ASSETS	678,744	684,269

CONSOLIDATED BALANCE SHEET

(Euro Thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	2016	2015
A) Shareholders' equity		
I. Share capital	30,000	30,000
III. Revaluation reserves	60,550	60,550
IV. Legal reserve	6,000	4,240
VI. Other reserves		
-) Extraordinary reserve	43,831	40,713
-) Consolidation reserve	16,965	16,965
-) Foreign exchange currency conversion reserve	5,877	3,613
-) Other reserves	5,474	5,451
Subtotal	72,147	66,742
VII. Hedging reserve	(116)	(24)
VIII. Retained earnings (losses) carried forward	73,572	74,167
IX. Net income (loss) of the Group	18,522	4,313
GROUP SHAREHOLDERS' EQUITY	260,675	239,988
Minority interests share capital and reserves	11,393	10,552
Minority interests net income (loss)	(4,487)	644
Minority Interests	6,906	11,196
A) CONSOLIDATED SHAREHOLDERS' EQUITY	267,581	251,184
B) Reserves for risks and charges		
1) Termination indemnity and similar liabilities	11,394	10,942
2) Tax Reserve	790	150
2bs) Deferred taxes liabilities	8,328	8,465
3) Negative financial derivatives	460	271
3bis) Consolidated reserve for future losses	269	298
4) Other reserves	31,992	25,600
B) TOTAL RESERVES FOR RISKS AND CHARGES	53,233	45,726
C) EMPLOYEE SEVERANCE INDEMNITY RESERVE	10,796	11,515

CONSOLIDATED BALANCE SHEET
(Euro Thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	2016	2015
D) Payables		
1) Bonds		
- due within 12 months	-	125
- due after 12 months	2,625	2,625
Subtotal	2,625	2,750
4) Banks		
- due within 12 months	57,732	74,607
- due after 12 months	67,635	68,835
Subtotal	125,367	143,442
5) Other financial institutions		
- due within 12 months	2,289	2,391
- due after 12 months	5,785	6,510
Subtotal	8,074	8,901
6) Advances		
- due within 12 months	3,201	3,865
7) Trade payables		
- due within 12 months	162,257	173,556
12) Tax payables		
- due within 12 months	10,450	4,891
- due after 12 months	92	343
Subtotal	10,542	5,234
13) Social security		
- due within 12 months	8,353	7,701
14) Other payables		
- due within 12 months	23,530	25,036
- due after 12 months	2,615	4,917
Subtotal	26,145	29,953
D) TOTAL PAYABLES	346,564	375,402
E) Accrued expenses and deferred income		
- Other accrued expenses and deferred income	570	442
E) TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	570	442
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	678,744	684,269

CONSOLIDATED INCOME STATEMENT

(Euro Thousand)

	2016	2015
A) Production value		
1) Net revenue from sales and services	788,913	730,121
2) Change in work in progress, semi-finished and finished goods	(6,485)	(3,878)
4) Assets increase for internal works	357	1,004
5) Other revenues and incomes		
- operating grants	1,063	1,146
- others	14,246	12,638
Subtotal	15,309	13,784
A) TOTAL PRODUCTION VALUE	798,094	741,031
B) Production costs		
6) Raw materials, supplies, consumables & goods for resale	432,390	410,394
7) Services	117,609	112,040
8) Use of third party assets	9,779	7,525
9) Personnel		
a) Wages and salaries	120,013	107,036
b) Social contributions	31,619	28,683
c) Severance indemnity	4,347	3,952
d) Pension fund	531	345
e) Other costs	1,321	65
Subtotal	157,831	140,081
10) Depreciation, amortization and write-downs		
a) Amortization of intangible fixed assets	4,976	2,975
b) Depreciation of tangible fixed assets	20,886	19,644
c1) Intangible fixed assets write off	189	69
c2) Tangible fixed assets write off	400	3,615
d) Bad debts provision	3,231	1,619
Subtotal	29,682	27,922
11) Change in raw materials, supplies, consumables & goods for resale	897	4,299
13) Other provisions	7,244	6,553
14) Other operating expenses	4,977	4,550
B) TOTAL PRODUCTION COSTS	760,409	713,364
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS (A-B)	37,685	27,667

CONSOLIDATED INCOME STATEMENT
(Euro Thousand)

	2016	2015
C) Financial income and expenses		
16) Other financial income		
d) other income:		
- other	1,057	862
17) Interest expenses and other financial charges		
- other	(8,703)	(10,050)
17bis) Exchange rate gains and losses, net	3,304	(3,918)
C) TOTAL FINANCIAL INCOME AND EXPENSES	(4,342)	(13,106)
D) Adjustments to financial assets and liabilities		
18) Revaluations		
c) other financial assets	2	
19) Write off		
a) investments	-	(48)
D) TOTAL ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES	2	(48)
INCOME BEFORE TAXES (A-B±C±D)	33,345	14,513
20) Income taxes		
- current	(18,119)	(11,370)
- deferred	(47)	1,862
- other components of direct taxes	(227)	-
- direct taxes related previous years	(917)	(48)
TOTAL INCOME TAXES	(19,310)	(9,556)
21) NET INCOME (LOSS) INCLUDING MINORITY INTEREST	14,035	4,957
Minority interest (income)/loss	4,487	(644)
NET INCOME (LOSS) OF THE GROUP	18,522	4,313

CASH FLOW STATEMENT DEFINED WITH INDIRECT METHOD

(Euro Thousand)

	2016	2015
A. Cash flows from operating activities (indirect method)		
Income (Loss) for the year - Group	18,522	4,313
Income (Loss) for the year - Thirds	(4,487)	644
Income taxes	19,310	9,556
Negative Interests/(Positive interests)	7,646	9,188
(Dividends)	(8)	-
(Gain)/losses from tangible assets	89	118
(Gain)/losses from intangible assets	4	13
1. Income (Loss) for the year before income taxes, interests, dividends and gain/losses from dismissal	41,076	23,832
Adjustments for non-cash items that had no counterpart in net working capital		
Provisions:		
- Bad Debt Reserve	3,231	1,619
- Warranty	6,200	3,686
- Restructuring	1,044	2,500
- Legal Risks	-	367
- Pension fund	531	385
Depreciation	20,886	19,644
Amortization	4,976	2,975
Write-downs for impairment losses tangible	400	3,615
Write-downs for impairment losses intangible	189	69
Value adjustments of financial derivatives	480	(281)
2. Cash Flow before net working capital variations	79,013	58,411
Net Working Capital variations		
Decrease/(increase) of inventory	4,286	6,981
Decrease/(increase) of trade receivables	769	(17,641)
Increase/(decrease) of trade payables	(11,299)	12,543
Increase/(decrease) of advances from customers	(664)	811
Decrease/(increase) positive accruals and deferrals	259	243
Increase/(decrease) negative accruals and deferrals	(40)	(207)
Minority variation	197	(3,018)
Other variation of working capital	(1,522)	11,347
3. Cash Flow after net working capital variations	70,999	69,470
Other adjustments		
Interest cashed/(paid)	(7,330)	(8,506)
(Income taxes paid)	(12,544)	(10,992)
Provisions utilization	(1,679)	(2,819)
Cash flows from operating activities (A)	49,446	47,153

CASH FLOW STATEMENT DEFINED WITH INDIRECT METHOD
(Euro Thousand)

	2016	2015
B. Cash flows from Investment activity		
Tangible assets		
(Investments)	(27,507)	(12,746)
Dismissal	2,237	2,687
+/- FX effect	(314)	(2,329)
Capital Gains/(Losses)	(89)	(118)
Intangible assets		
(Investments)	(3,503)	(10,715)
Dismissal	21	57
+/- FX effect	34	(210)
Capital Gains/(Losses)	(4)	(13)
Financial assets		
(Investments)	(9)	-
Financial assets that are not fixed		
(Investments)	(205)	-
(Acquisition of business units, net of cash)		
Acquisition O&K Antriebstechnik GmbH		(32,283)
Acquisition CO.BO.Wheels		(7,767)
Cash flows from Investment activity (B)	(29,339)	(63,437)
C. Cash flows from financial activity		
Third-party funding		
Increase (decrease) payables to banks and other financial inst.	(25,816)	5,917
New loans	23,801	22,105
(loans reimbursement)	(16,887)	(20,429)
Own funds		
Bonds variation	(125)	-
FEX variation on Equity	2,264	3,695
Derivatives reserves variation	(92)	12
Other variation on Group Equity	1	355
Cash flows from financial activity (C)	(16,854)	11,655
Increase (decrease) in cash and equivalents (A ± B ± C)	3,253	(4,629)
Cash and cash equivalents at January 1st	21,840	26,469
of which:		
bank and postal deposits	21,792	26,417
cash	48	52
Cash and cash equivalents at December 31st	25,093	21,840
of which:		
bank and postal deposits	25,047	21,792
cheques	1	-
cash	45	48
Cash flow	3,253	(4,629)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in compliance with Italian Legislative Decree no. 139 dated 18th August 2015, in execution of directive 2013/34/EU.

FOREWORD

The consolidated financial statements have been prepared in compliance with Italian Legislative Decree no. 139 dated August 18th 2015, in execution of Directive 2013/34/EU.

During 2015, the "Accounting Reform" implementing European Directive 2013/34 has been transposed into Italian Law by Official Gazette's publication of Legislative Decree 139/15. Said Decree completes and amends the Italian Civil Code that contains general laws for the preparation of Financial Statements with regards to schemes, evaluation criteria, contents of the Notes to the Financial Statements and Management Report.

Legislative amendments entered into force as of January 1st, 2016. The effects of the variations have been detected by the Company, according to OIC 29, on Equity open balance as of January 1st, 2015. The Company, for this reason has redetermined the results of the changes that would have been in Financial Statements as of December 31st, 2015 as whether the "Accounting Reform" would apply in 2015. For this reason 2015' Balance Sheet and Income Statement, presented into the Financial Statement's scheme for comparison purposes, diverge from Financial Statements approved by Shareholders' Meeting on April 29th, 2016

to consider the "Accounting Reform"'s effect.

The following note "Accounting effects of the Accounting Reform" shows related impact for each line of Profit & Losses and Balance Sheet.

This consolidated financial statement is formed by the following documents:

- Balance Sheet;
- Income Statement;
- Cash flow statement;
- Notes to consolidated Financial Statements.

The Notes include the reconciliation statement between shareholders' equity and the net income of the Parent Company and the same items in the consolidated financial statements. In order to disclose further information regarding the variation of the Net Cash Position of the Group, the consolidated cash-flow statement has been annexed to the Notes, additionally (Annexed A).

As regards the nature of the activities conducted by the Group and developments occurring reference is made to the contents of the Management Report.

All figures in the Financial Statements and the relative Notes are expressed in thousands of Euros (K€), unless otherwise indicated.

FORM AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the financial statements of Bonfiglioli Group's companies, namely the Parent Company Bonfiglioli Riduttori S.p.A and the Italian and foreign subsidiaries in which the company holds more than 50% of the capital, either directly or indirectly, or exercises management and control in relation to specific agreements to this effect. The financial statements of the Group Companies utilised for the integral consolidation were approved by the shareholders' meetings of the individual companies concerned, suitably modified wherever necessary to unify them with the accounting principles adopted by the Group, which comply with

the financial principles imposed by law. If the relative financial statements had not yet been approved by the respective general meetings when the consolidated financial statement was drawn up, the draft financial statements prepared for approval by the respective Boards of Directors were utilised.

If the financial year of companies closes on a date other than 31st December, interim financial statements were drawn up at 31st December utilising the Group accounting principles.

The subsidiary companies included in the consolidation area at 31 December 2016 are as follows:

DENOMINATION	COUNTRY	CURRENCY	SHARE CAPITAL	SHAREHOLDING	
				31/12/16	31/12/15
Bonfiglioli Riduttori S.p.A.	Italy	€	30,000,000	Parent Company	
Bonfiglioli Italia S.p.A. Unipersonale	Italy	€	16,000,000	100%	100%
Bonfiglioli Canada Inc.	Canada	CAD	4,000,000	100%	100%
Bonfiglioli U.S.A. Inc.	U.S.A.	USD	4,000,000	100%	100%
Bonfiglioli Deutschland GmbH	Germany	€	3,000,000	100%	100%
Bonfiglioli Transmissions Sa	France	€	1,900,000	100%	100%
Bonfiglioli Transmission (Aust) Pty Ltd	Australia	AUD	11,000,000	100%	100%
Bonfiglioli U.K. Ltd	Great Britain	GBP	200,000	100%	100%
Bonfiglioli Power Transmission Pty Ltd	South Africa	ZAR	64,001	83.75%	83.75%
Bonfiglioli South Africa Pty Ltd (*)	South Africa	ZAR	8,000,000	62.81%	62.81%
Bonfiglioli Transmission Pvt Ltd	India	INR	1,250,000,000	100%	100%
Bonfiglioli Drives (Shanghai) Co. Ltd	China	USD	30,000,000	83.33%	66.67%
Bonfiglioli Vectron GmbH (**)	Germany	€	500,000	100%	100%
Bonfiglioli Slovakia Sro	Slovakia	€	14,937,263	100%	100%
Bonfiglioli Power Transmission Jsc	Turkey	TRY	10,000,000	100%	100%
Bonfiglioli Vietnam Ltd	Vietnam	USD	17,000,000	100%	100%
Bonfiglioli Redutores do Brasil Ltda	Brazil	BRL	38,500,000	100%	100%
Bonfiglioli South East Asia Pte Ltd	Singapore	SGD	4,150,000	100%	100%
Bonfiglioli Mechatronic Research SpA	Italy	€	3,500,000	100%	100%
Bonfiglioli Renewable Power Conversion India Pvt Ltd. (***)	India	INR	350,000,000	100%	100%
Bonfiglioli Trading (Shanghai) Co. Ltd (****)	China	CNY	1,500,000	83.33%	66.67%
Bonfiglioli Vectron MDS GmbH (**)	Germany	€	25,000	100%	100%
Tecnotrans Bonfiglioli Sa	Spain	€	2,175,000	95%	95%
O&K Antriebstechnik GmbH	Germany	€	4,000,000	55%	55%

(*) Subsidiary indirectly controlled through Bonfiglioli Power Transmission Pty Ltd

(**) Subsidiary indirectly controlled through Bonfiglioli Deutschland GmbH

(***) Subsidiary indirectly controlled through Bonfiglioli Vectron GmbH

(****) Subsidiary indirectly controlled through Bonfiglioli Drives (Shanghai) Co. Ltd

With reference to the changes made during the year, we draw your attention to the following events:

- share capital increase in subsidiary company "Bonfiglioli Mechatronic Research S.p.A." performed by the parent company through transfer of business unit "MDS" (Mechatronic Drives & Solutions) with effect as of June 1st 2016 equal to 2M€, notary deed of May 23rd, 2016;
- share capital increase in subsidiary company

"Bonfiglioli Drives (Shanghai) Co. Ltd" by the parent company of 15MUSD (around 13.9M€). Said transaction increased the Group's stake from 66.67% to 83.33% due to dilution of the minority shareholders that did not participate to share capital increase.

CONSOLIDATION AREA CHANGES

With respect to the Consolidated Financial Statement

of 31.12.2015, no consolidation area changes occurred.

DRAFTING PRINCIPLES

The structure of the balance sheet, the income statement and cash flow statement are as required by Italian Legislative Decree 139/2015.

Items preceded by Arabic numerals having zero contents have been omitted. The balance sheet provides separate indication of shareholders' equity and the minority interests share of profits. No items of assets and liabilities are recorded under more than one caption of the tables.

CONSOLIDATION PRINCIPLES

- A. In preparing the financial statements for the consolidated companies, the net assets method is used (line-by-line), consisting in recording all the captions under assets and liabilities and in the income statement in their entirety.
 - B. The book value of consolidated equity investments is written off against the related equity at the time of first consolidation and the resulting differences, if negative, were recognised under a specific item of consolidated equity denominated "Consolidation Reserve" or "Consolidated Reserve for future losses" where representing estimated losses for future years, entered under caption Reserve for risks and charges. Any positive differences existing at the time of first consolidation were recorded in the consolidated financial statements, where possible, under the items of assets of the companies included in the consolidation area, or under the assets caption "Goodwill" for differences that, despite their characteristics of deferment affecting more than one year, could not be allocated to specific items under assets. In contrast, if these items were not considered to be deferred to more than one year, they were deducted from the consolidation reserve.
 - C. The positive differences recorded were amortised in accordance with the rates utilised for the assets to which they refer; the goodwill is amortised throughout the estimated future useful life.
 - D. The results achieved, following initial consolidation, were entered under a specific caption of consolidated equity denominated "Retained earnings and losses carried forward".
 - E. Any profits and losses that have yet to be realised in relation to third parties deriving from transactions between Group companies were eliminated, as well as the items that give rise to payables, receivables, costs and revenues.
 - F. The dividends distributed by the Companies within the Group were cancelled.
 - G. The portions of shareholders' equity and profit due to minority shareholders of the consolidated subsidiaries were deducted from the Group portions and recorded separately under specific captions of consolidated equity and in the income statement.
 - H. The financial statements of foreign companies were converted to Euro, applying the year-end exchange rate for all assets and liabilities and the average exchange rate calculated over the full twelve months for captions in the income statement. The items of equity, existing at the date of initial consolidation, are converted at the exchange rates effective at that date, while subsequent changes are converted at the historic exchange rates effective at the date of the relative transactions. Conversion differences arising both from the conversion of equity captions to the year-end rates with respect to the historic rates, and existing between the average exchange rates and year-end exchange rates for the income statement, are recorded under a specific caption of consolidated equity denominated "Currency conversion reserve".
- The exchange rates utilised for companies operating outside the Euro area are as follows:

COMPANY	CURRENCY	B.S. EXCHANGE RATE 2016	P.L. EXCHANGE RATE 2016	B.S. EXCHANGE RATE 2015	P.L. EXCHANGE RATE 2015
Bonfiglioli U.K. Ltd	GBP	0.856	0.819	0.734	0.726
Bonfiglioli Canada Inc.	CAD	1.419	1.466	1.512	1.419
Bonfiglioli USA Inc.	USD	1.054	1.107	1.089	1.110
Bonfiglioli Transmission (Aust) Pty Ltd	AUD	1.460	1.488	1.490	1.478
Bonfiglioli Power Transmission Pty Ltd	ZAR	14.457	16.268	16.953	14.172
Bonfiglioli Transmission Pvt Ltd	INR	71.593	74.372	72.022	71.196
Bonfiglioli Renewable Power Conversion India Pvt Ltd	INR	71.593	74.372	72.022	71.196
Bonfiglioli Drives Shanghai Co. Ltd.	CNY	7.320	7.352	7.061	6.973
Bonfiglioli Trading Shanghai Co. Ltd	CNY	7.320	7.352	7.061	6.973
Bonfiglioli Power Trasmission JSC	TRY	3.707	3.343	3.177	3.025
Bonfiglioli Redutores Do Brasil Ltda	BRL	3.430	3.856	4.312	3.700
Bonfiglioli South East Asia Pte Ltd	SGD	1.523	1.528	1.542	1.525
Bonfiglioli Vietnam Ltd	VND	23,991.80	24,753.84	24,475.10	24,320.31

I. There are no companies consolidated through Net Equity Method.

VALUATION CRITERIA

The accounting principles and valuation criteria adopted in drafting the financial statements are in compliance with the principles of the Italian Civil Code and the accounting standards prescribed by the Italian Accounting Authority (O.I.C.). Where such principles are lacking or insufficient, the point of reference is provided by international accounting standards (IAS/IFRS) where these latter are in compliance with Italian legal requirements.

The consolidated cash-flow statement has been restated considering the required information provided by the "OIC 10 - Cash flow statement" principle.

The consolidated financial statements were prepared in accordance with the general principles of clarity, truthfulness and fairness; specifically:

- valuation of the items of the financial statements was carried out in accordance with the general principles of prudence and economic competence in a prospective of on-going business;

- account was taken of the risks and losses relating to the year, even when such risks and losses became known after the end of the year;
- the statements refer exclusively to profits realised at the closing date of the financial year;
- income and expenses are considered to be relative to the year irrespective of the effective collection or payment dates;
- dissimilar components covered by single captions have been valued separately;
- some valuation principles are changed, further to "Accounting Reform", with respect to those utilised in the previous year;
- no exceptional cases occurred that justified a departure from the provisions of legislative enactments.

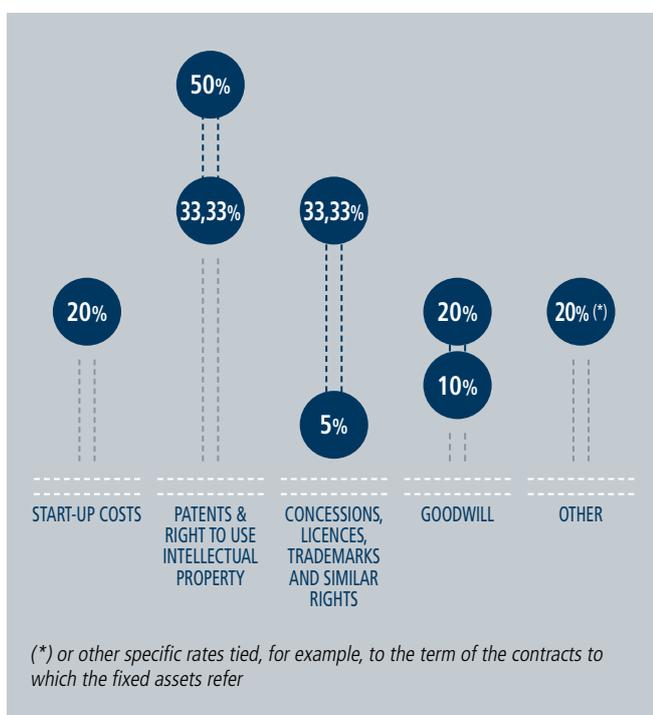
Specifically, the valuation criteria adopted in the preparation of the financial statements are as specified below.

INTANGIBLE FIXED ASSETS

Intangible fixed assets are recorded at purchasing cost increased by ancillary expenses or, if the assets were internally constructed, on the basis of the costs sustained directly or indirectly, entered in respect of the attributable portion.

The cost, calculated as illustrated above, may be revalued in certain cases if this action is permitted by the relative laws.

Goodwill amortization has been performed based on its useful life. In exceptional cases where it was not possible to determine a reliable useful life, goodwill was amortized in a period not exceeding ten years. Intangible fixed assets were systematically amortised on the basis of the following rates:



TANGIBLE FIXED ASSETS

Plant and equipment are recorded in the financial statement at purchasing cost or construction cost, inclusive of all directly connected ancillary expenses and adjusted in the event that specific laws allow assets value to be adapted to the changes occurred in the buying power of the currency.

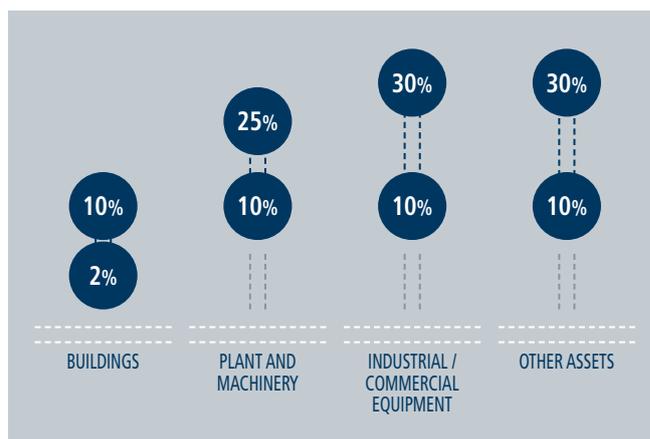
The revaluation figure for an asset does not exceed the value actually attributable to it with reference to its likely economic use by the company or, if it does exceed this level, with reference to its sale value.

Assets acquired by means of leasing contracts are recorded in accordance with financial method as recommended by OIC 17 that foresee the attribution of historic cost of the relative goods under assets, recording of the debt under liabilities, and entry of the relative financial expenses and depreciation amounts in the income statement.

Provisions made in lieu of depreciation are systematically allocated by the application of rates that are considered to accurately reflect the residual useful life of the assets to which they refer.

Ordinary costs for maintenance and repair are treated as operating costs; while extraordinary costs that extend the useful life are added to the value of the asset.

The ordinary annual rates utilised for the depreciation of tangible assets are as follows:



INVESTMENTS HELD AS FIXED ASSETS

The other investments are recorded at their purchase cost adjusted, when necessary, for lasting loss in value. In case the loss value is considered as no more lasting following positive trend of the company, the investment is revalued till purchase cost.

INVENTORIES

Inventories are valued in accordance with the general principle of the lower between purchasing cost and market value:

- raw materials are valued adopting the FIFO method;
- work in progress is valued according to the stage of completion reached on the basis of the cost

of materials, labour, industrial depreciation and indirect production costs;

- semi-finished and finished products are valued adopting the FIFO method, on the basis of the cost of materials, labour, industrial depreciation and other production costs;
- obsolete or slow-moving materials and products are valued according to their estimated useful life or future market value, by means of an entry under write-down provisions.

Infra-group profits present within the inventories of the consolidated companies are eliminated.

RECEIVABLES (including the ones in current financial assets)

Receivables are entered at amortized cost, considering the time factor and their presumed realisation value. In detail, the first value entered is represented by the nominal value of the receivable net of bonuses, discounts and inclusive of costs eventually directly allocated to the transaction that originated the receivable. Transaction cost, eventual commissions positive or negative and every difference between the original value and nominal value at due date are included in amortized cost calculation using the effective interest rate criteria.

The Company has assumed no significant effects arising from the application of amortized cost and discounting when due date of receivables is within twelve months, considering, besides, every contractual and factual considerations when the receivables have been recorded and transaction costs and difference between original value and nominal value at due date are not material.

A specific provision for doubtful has been built up to face possible insolvency risk, the consistency thereof respect the doubtful items is periodically and – in any case – each yearend verified, taking into account either the insolvencies already occurred or considered probable either general economic conditions, industry and country risk.

CASH AT BANKS AND ON HAND

Cash at banks and on hand is entered at nominal value, considered to represent the presumed realisation value.

ACCRUALS AND DEFERMENTS

For multi-year transactions, accruals and deferments are calculated on a “pro tempore” basis, so as to enter the relevant cost and revenue portion shared by two or more years.

Specifically, accrued income and deferred charges refer to revenues and costs of the year, although formally recorded in the following year; prepaid expenses and deferred income refer to expenses and income materially occurred during the current year, but that relate to future years.

RESERVES FOR RISKS AND CHARGES

Reserves for risks and charges consider the provisions allocated to cover losses, or debts of a given nature and certain or probable existence, for which however the exact amount or contingency date was not known at year-end. The allocations reflect the best possible estimation of the relative amounts based on available information. Risks for which a liability is only possible and not certain are illustrated in the Notes to the financial statements, without allocating a specific risks and charges provision.

EMPLOYEES' SEVERANCE INDEMNITY RESERVE

The severance indemnity reserve is commensurate with the amounts payable to the employees on the workforce at the closing date of the year, in compliance with statutory legislation and the applicable collective employment contracts.

PAYABLES

Payables are entered at amortized cost, considering the time factor and their presumed realisation value. In detail, the first value entered is represented by the nominal value of the payables net of bonuses, discounts and inclusive of costs eventually directly allocated to the transaction that originated the payables. Transaction cost, eventual commissions positive or negative and every difference between the original value and nominal value at due date are included in amortized cost calculation using the effective interest rate criteria.

The Company has assumed no significant effects arising from the application of amortized cost

and discounting when due date of payables is within twelve months, considering, besides, every contractual and factual considerations when payables have been recorded and transaction costs and difference between original value and nominal value at due date are not material.

It is to be noted that, as admitted by the Legislative Decree 139/15, as of December 31st, 2016 payables already posted at December 31st, 2015 are entered at their nominal value being representative of debt redemption value. For further details, it is made reference to paragraph "Accounting Reform Effects".

COST AND REVENUE RECOGNITION

Sales revenues and purchasing costs are recognised at the time of transfer of ownership, which generally occurs at the time of shipment or at the time of receiving respectively, net of returns, discounts, allowances and premiums; the other revenues and costs (supplies of services, financial, etc.) are recorded in accordance with the accrual principle.

Costs and revenues arising between Group companies and infra-group dividends are eliminated.

TAXES

Income taxes are recorded based on the estimated tax burden for the year with reference to statutory tax regulations and taking account of exemptions and concessions applicable.

Deferred and pre-paid taxes are recorded to take account of the fiscal effects both in relation to items of income or costs that concur in forming the profit for the year other than the year in which they contribute to form the taxable income and in order to reflect the deferred fiscal effects relative to the consolidation adjustments.

Where necessary, deferred and pre-paid taxes have been updated to reflect the IRES rate change (from 27.5% to 24%) that will come into force in Italy with effect from 1st January 2017.

CAPTIONS STATED IN FOREIGN CURRENCY

Transactions in foreign currency are converted into Euro at the historic exchange rates on the transaction dates. Exchange rate gains and losses incurred at the time of collection of receivables and settlement of payables in foreign currency are recorded in the income statement under financial income and expenses.

Receivables and payables existing at year-end expressed in currencies other than Euro were converted at the exchange rates effective at year-end.

DERIVATIVES

Contracts taken out to cover exchange risks are valued consistent with the underlying financial transactions to which they refer. Exchange rate or interest rate swap contracts that are not correlated to the receivables and/or payables entered at the reference date of the financial statements are valued separately. Financial derivative instruments are entered at fair value. Variations of fair value are entered in income statement, or, if the instrument cover the risk of fluctuation of expected financial flows of another financial instrument or of a forecasted transaction, directly entered in a net equity positive or negative reserve; said reserve is entered in income statement in the value and at the time corresponding to the occurrence or variation of the cash flows of the covered instrument or on the occurrence of the underlying transaction to which they refer. In case fair value at reference date is positive it is entered at caption "positive financial derivatives" under financial fixed assets or current financial assets. When the value is negative it is entered in caption "negative financial derivatives" under risks and charges reserve.

COMMENTS ON THE SINGLE CAPTIONS OF THE FINANCIAL STATEMENTS

BALANCE SHEET

FIXED ASSETS

INTANGIBLE FIXED ASSETS

DESCRIPTION	OPENING BALANCE	INCREASES	DECREASES	OTHER CHANGES	CLOSING BALANCE
HISTORIC COST					
- Start-up costs	78	5	(14)	-	69
- Patents & rights to use intellectual property	22,636	1,112	(13)	1,678	25,413
- Concessions, licences & trademarks	10,041	106	(226)	(958)	8,963
- Goodwill	21,189	-	(3,206)	-	17,983
- Assets in progress and advances	2,854	1,428	-	(246)	4,036
- Other	8,585	777	(763)	684	9,283
Total (A)	65,383	3,428	(4,222)	1,158	65,747
ACCUMULATED AMORTISATION					
- Start-up costs	34	14	(14)	-	34
- Patent & rights to use intellectual property	20,001	1,275	(9)	1,281	22,548
- Concessions, licences & trademarks	2,090	517	(225)	(782)	1,600
- Goodwill	2,358	2,551	(3,206)	-	1,703
- Other	2,928	808	(747)	618	3,607
Total (B)	27,411	5,165	(4,201)	1,117	24,492
NET VALUES					
- Start-up costs	44	(9)	-	-	35
- Patents & rights to use intellectual property	2,635	(163)	(4)	397	2,865
- Concessions, licences & trademarks	7,951	(411)	(1)	(176)	7,363
- Goodwill	18,831	(2,551)	-	-	16,280
- Assets in progress and advances	2,854	1,428	-	(246)	4,036
- Other	5,657	(31)	(16)	66	5,676
Total (A-B)	37,972	(1,737)	(21)	41	36,255

The "other changes" column includes eliminations of the fully amortised items and the effect of the exchange rates fluctuation, as well as reclassifications made for a more homogeneous presentation of various items.

START-UP COSTS

These cover start-up costs and expenses incurred when amending the articles of association, were recorded in the financial statements with the consent of the Statutory Auditors. The increase in the year is entirely due to Notary expenses sustained by the subsidiary "Bonfiglioli Mechatronic Research S.p.A" for the transaction of the transfer of business unit "MDS" from parent company.

PATENTS AND RIGHT TO USE INTELLECTUAL PROPERTIES

This caption includes deferred expenses sustained for the registration of industrial patents and the costs sustained for application software purchased outright and/or under open term license.

The increase in the year is mainly due to purchase and software implementation for information technology management by parent company.

In keeping with art.10 of Italian Law 72/83 the values resulting from monetary revaluation are indicated below:

Description:	Rev. L. 342/2000
Patents and rights to use intellectual property	5,547
Total	5,547

This revaluation had no effect on the income statement for the year since it had already been fully amortised.

CONCESSIONS, LICENCES AND TRADEMARKS

These costs are constituted mainly by trademark registration charges.

GOODWILL

The value recorded stems to goodwill paid to thirds, recorded in the financial statement with the consent of the Statutory Auditors, namely:

Company	Goodwill	Amortisation
Bonfiglioli Riduttori SpA	3,339	20%
O&K Antriebstechnik GmbH	12,941	10%
Total	16,280	

The changes during the year pertain to amortization.

ASSETS IN PROGRESS AND ADVANCES

The increase in the year is tied, for 0.4M€, to the Development project "SMART GEARBOX" – co-financed by Trentino (Italian region) that "Bonfiglioli Mechatronic Research SpA" continue for the realization of high efficiency mechatronic systems and for 0.7M€ to not completed assets acquisition by the Parent company.

OTHER

In the most part these costs are composed of maintenance increases in the value of third parties assets.



TANGIBLE FIXED ASSETS

DESCRIPTION	OPENING BALANCE	INCREASES	DECREASES	OTHER CHANGES	CLOSING BALANCE
HISTORIC COST					
- Land and buildings	143,339	856	(60)	1,343	145,478
- Plant and machinery	218,227	8,496	(8,546)	6,897	225,074
- Industrial and commercial equipment	94,842	7,478	(4,203)	1,194	99,311
- Other assets	23,938	2,308	(1,436)	950	25,760
- Assets in progress and advances	6,717	8,281	(1,179)	(5,851)	7,968
Total (A)	487,063	27,419	(15,424)	4,533	503,591
ACCUMULATED DEPRECIATION					
- Land and buildings	33,737	3,418	(25)	221	37,351
- Plant and machinery	178,074	10,002	(7,850)	2,498	182,724
- Industrial and commercial equipment	79,344	6,282	(3,975)	831	82,482
- Other assets	19,500	1,584	(1,337)	581	20,328
Total (B)	310,655	21,286	(13,187)	4,131	322,885
NET VALUE					
- Land and buildings	109,602	(2,562)	(35)	1,122	108,127
- Plant and machinery	40,153	(1,506)	(696)	4,399	42,350
- Industrial and commercial equipment	15,498	1,196	(228)	363	16,829
- Other assets	4,438	724	(99)	369	5,432
- Assets in progress and advances	6,717	8,281	(1,179)	(5,851)	7,968
Total (A-B)	176,408	6,133	(2,237)	402	180,706

The column "other changes" includes exchange rate differences and reclassification of individual captions made for a more homogeneous presentation of various items. In particular, with reference to the item "Land and Buildings" the column "other changes" includes the reclassification from tangible asset in progress for completion of the building of Chinese subsidiary (1M€).

With reference to the item "Plant and machinery" the column "other changes" includes:

- the reclassification from industrial and commercial equipment (2M€) of the United States subsidiary;
- the reclassification from tangible assets in progress

for the completion of plant and machinery of the subsidiary "O&K" (2M€);

- the reclassification from tangible assets in progress for the completion of plant and machinery of the Chinese subsidiary (0.4M€);

For an analysis of the investments made during the year we refer you to the Management report.

Within the meaning and for the purposes envisaged in article 10 of Italian Law no. 72/83 and subsequent amendments and additions thereto, an indication is provided of assets still recognised in equity for which monetary revaluation has been carried out, specifying the relative net amounts:

DESCRIPTION:	REV. L. 72/83	REV. L. 413/91	REV. L. 342/2000	REV. L. 2/2009	OTHER	TOTAL
Land and buildings	406	2,264	-	35,319	225	38,214
Plant and machinery	224	-	13,145	-	155	13,524
Industrial / commercial equipment	153	-	-	-	-	153
Other assets	19	-	-	-	-	19
Total	802	2,264	13,145	35,319	380	51,910

It is clarified that the revaluation pursuant to Italian Law 2/2009 has led to a 206.1K€ increase in depreciation on the 2016 income statement.

FINANCIAL FIXED ASSETS

INVESTMENTS

The following table provides a breakdown of the "Investments" item and the changes that occurred during the year:

DESCRIPTION:	OPENING BALANCE	INCREASES	DECREASES	OTHER CHANGES	CLOSING BALANCE
Investments in other companies	67	9	-	-	76
Total	67	9	-	-	76

The variation of the year refers to a consortium investment of the Indian subsidiary.

WORKING CAPITAL

INVENTORY

A breakdown is given below:

	31/12/2016	31/12/2015	CHANGES
Raw materials, supplies and consumables	25,929	22,329	3,600
Work in progress and semi-finished goods	71,594	72,390	(796)
Finished goods and goods for resale	92,970	99,849	(6,879)
Advances	158	369	(211)
Total	190,651	194,937	(4,286)

The foregoing amounts are net of obsolescence reserve, made up as follows:

	31/12/2016	31/12/2015	CHANGES
Raw and consumable materials	7,620	7,630	(10)
Semi-finished products	16,797	14,523	2,274
Finished goods and goods for resale	11,955	13,307	(1,352)
Total	36,372	35,460	912

Changes in the obsolescence reserve are shown below:

	2016	2015
Opening value	35,460	32,433
Increases	4,733	7,116
Decreases	(3,958)	(4,222)
Consolidation area changes	-	1,478
Other changes	137	(1,345)
Closing value	36,372	35,460

The decrease in inventories (4.3M€) has been obtained by the Group's continuing actions for the rationalisation of the inventories in all the companies. Rotation index shows an improvement from 91 at 2015 yearend to 88 average days at the end of 2016.

RECEIVABLES

TRADE RECEIVABLES

A breakdown is given below:

	31/12/2016	31/12/2015	CHANGES
Trade receivables from customers	210,326	212,650	(2,324)
(minus) Bad debt reserve	(22,743)	(21,067)	(1,676)
Total	187,583	191,583	(4,000)

Also the trend of trade receivables and related average rotation on sales improves from 92 days at 2015 yearend to 86 days at 2016 yearend.

Receivables from customers are recorded net of provision for bad debts, a breakdown of movements occurred during the year is given below:

	2016	2015
Opening value	21,067	19,952
Provisions	3,231	1,619
Applications	(1,087)	(701)
Consolidation area changes	-	67
Other changes	(468)	130
Closing value	22,743	21,067

Breakdown of trade receivables by geographical area:

	2016	2015
Italy	47,110	40,688
Europe	58,986	65,902
Overseas	81,487	84,993
Total	187,583	191,583

OTHER RECEIVABLES

A breakdown is given below:

	31/12/2016	31/12/2015	CHANGES
Tax receivables	10,628	14,235	(3,607)
Deferred Tax assets	38,212	38,395	(183)
Receivables from others	7,493	6,292	1,201
Total	56,333	58,922	(2,589)

Tax receivables can be broken down as follows:

	2016	2015
SHORT-TERM RECEIVABLES		
VAT credits	8,047	10,782
Direct Tax Receivables	-	1,511
Other	1,237	612
Total short-term tax credits	9,284	12,905
MID-LONG-TERM RECEIVABLES		
Direct tax refunds	1,324	1,330
Other	20	-
Total mid-long-term tax credits	1,344	1,330
TOTAL	10,628	14,235

The decrease in short-term VAT receivables is given by amounts reimbursed to the Indian companies (CENVAT).

Other tax receivables mainly refers to receivables booked by the Vietnamese and Indian subsidiaries for customs that will be set off during the following year.

Direct Tax refunds shows the receivable booked by the Parent Company and "Bonfiglioli Italia S.p.A." for income tax reimbursement due to higher IRAP deductions recognized for 2007-2011 fiscal years as per Italian Law Decree no. 201/2011 and that should be refunded within next five years.

Changes in Deferred tax assets are as follows:

	2016	2015
Opening balance	38,395	32,110
Consolidation area changes	-	5,719
Provisions	4,270	7,950
Applications	(4,443)	(7,558)
Changes in rate	(55)	(192)
Other changes	45	366
Closing Balance	38,212	38,395

Other receivables can be broken down as follows:

	2016	2015
SHORT-TERM RECEIVABLES		
Receivables from employees	699	983
Advances to suppliers for services	1,157	816
Receivables from social security institutions	451	431
Insurance refunds	1,060	6
Other	260	221
Total other short-term receivables	3,627	2,457
MID-LONG-TERM RECEIVABLES		
Receivables for pensions fund insurance	2,869	3,051
Guarantee deposits	488	486
Other	509	298
Total other mid-long-term receivables	3,866	3,835
TOTAL	7,493	6,292

The decrease in receivables from employees is mainly connected with the management of the Credit Cards given to employees by the Parent Company and by the two Italian subsidiaries that led to a substantial settlement during the year to cover the nominative "prepaid" cards that are used during the year.

The increase in receivables for advance to suppliers is mainly connected to the dynamics of payment of the Parent Company.

The increase of insurance refunds is connected

with a reimbursement to be received by the Parent Company for the definition of a claim.

The decrease of receivables for insurance of pension fund is to be reconnected to the trend of the pension funds to which they pertain.

Increase of other mid-long term receivables is mainly connected with rent advanced paid by the Indian subsidiary for new warehouse in Pune.

There are no receivables due in a period beyond five years.

CURRENT FINANCIAL ASSETS

A breakdown is given below:

	31/12/2016	31/12/2015	CHANGES
Positive financial derivatives	55	346	(291)
Other securities	205	-	205
Total	260	346	(86)

POSITIVE FINANCIAL DERIVATIVES

The caption, 55K€, refers to the total balance of positive fair value of derivatives connected with purchase/sell of forward currency in place at

December 31st, 2016. The caption can be broken down as follows:

	2016	2015
USD sales	-	25
GBP sales	22	33
AUD sales	25	2
JPY purchase	-	277
EUR purchase	8	-
USD purchase	-	9
Total	55	346

OTHER SECURITIES

The caption other securities refers to the fair value of "Deka investments" fund quotas purchased by the subsidiary "Bonfiglioli Deutschland GmbH" related

with pension fund to which they are connected, being the insurance posted at December 31st, 2015 ceased.

CASH AT BANKS AND ON HAND

	31/12/2016	31/12/2015	CHANGES
Bank and post office deposits	25,047	21,792	3,255
Cheques	1	-	1
Cash and cash equivalents	45	48	(3)
Total	25,093	21,840	3,253

For a comprehensive evaluation of the change in the Group net cash position we invite you to refer to the section in which the company's debts are analysed and to the cash-flow statement.

PREPAID EXPENSES AND ACCRUED INCOME

Breakdown:

	2016	2015
Advertising	160	147
Insurance policies	152	189
Bank commissions	915	1,032
Hire charges and rentals	70	66
Other	490	760
Total	1,787	2,194



SHAREHOLDERS' EQUITY

At 31/12/2016 the overall share capital of € 30,000,000 was represented by 30,000,000 ordinary shares with par value of € 1 each.

RECONCILIATION STATEMENT BETWEEN NET EQUITY AND INCOME FOR THE YEAR AT 31 DECEMBER 2016 OF PARENT COMPANY BONFIGLIOLI RIDUTTORI S.p.A.

	RESULT FOR THE YEAR	SHAREHOLDERS' EQUITY
Bonfiglioli Riduttori S.p.A. statutory financial statement	20,210	183,882
Accounting of the shareholders' equity and results of consolidated and associated equity investments to replace book value in the financial statement of the Parent Company, net of infra-group dividends	(6,402)	102,995
Shareholders' equity and profit attributable to minority interests	4,487	(6,906)
Elimination of infragroup profits on stock	1,228	(22,793)
Reversal of extraordinary infragroup transactions (injections/sales of branches)	(948)	(1,777)
Leasing agreements recorded using financial method	(215)	5,354
BRI Derivatives fair value variation reserve	-	(103)
Other	162	23
Consolidated Group financial statement	18,522	260,675

STATEMENT OF CHANGES IN
CONSOLIDATED SHAREHOLDERS' EQUITY
AS AT 31ST DECEMBER 2016

	SHARE CAPITAL	LEGAL RESERVE	REVALUATION RESERVE	
Balance as at 31/12/2014	30,000	4,240	60,195	
Accounting reform' opening balance effects				
Balance at 01/01/2015	30,000	4,240	60,195	
Allocation of 2014 profit	-	-	-	
Currency conversion differences	-	-	-	
Derivatives fair values changes	-	-	-	
Other changes	-	-	355	
Net income (Loss) of the Group for 2015	-	-	-	
Balance as at 31/12/2015	30,000	4,240	60,550	
Allocation of 2015 profit	-	1,760	-	
Currency conversion differences	-	-	-	
Derivatives fair values changes	-	-	-	
Other changes	-	-	-	
Net income (Loss) of the Group for 2016	-	-	-	
Balance as at 31/12/2016	30,000	6,000	60,550	

The change in the currency conversion provision is mainly due to the strengthening of Euro against all the major currencies.

The change in retained earnings carried forward arises from the utilization of a Slovak subsidiary's reserve as a liberal provision to the benefit of employees (8K€).

	OTHER RESERVES			HEDGING RESERVE	RETAINED EARNINGS CARRIED FORWARD	NET INCOME (NET LOSS)	TOTAL
	CONSOLIDATION RESERVE	CURRENCY CONVERSION RESERVE	OTHER				
	16,965	(82)	50,412		64,208	5,675	231,613
				(186)	36		(150)
	16,965	(82)	50,412	(186)	64,244	5,675	231,463
	-	-	(4,248)	-	9,923	(5,675)	-
	-	3,695	-	-	-	-	3,695
	-	-	-	162	-	-	162
	-	-	-	-	-	-	355
	-	-	-	-	-	4,313	4,313
	16,965	3,613	46,164	(24)	74,167	4,313	239,988
	-	-	3,141	-	(588)	(4,313)	-
	-	2,264	-	-	-	-	2,264
	-	-	-	(92)	-	-	(92)
	-	-	-	-	(7)	-	(7)
	-	-	-	-	-	18,522	18,522
	16,965	5,877	49,305	(116)	73,572	18,522	260,675

MINORITY INTERESTS

	MINORITY PROFIT/ LOSS	MINORITY CAPITAL AND RESERVES	MINORITY INTERESTS
Balance as at 31/12/2014	573	7,849	8,422
Allocation of net income for 2014	(573)	573	-
Distribution of dividends	-	(673)	(673)
Currency conversion differences	-	(351)	(351)
Consolidation area changes (O&K)	-	5,148	5,148
Acquisitions by the Group	-	(1,994)	(1,994)
Net income for 2015 attributable to minority interests	644	-	644
Balance as at 31/12/2015	644	10,552	11,196
Allocation of net income for 2015	(644)	644	-
Distribution of dividends	-	(193)	(193)
Currency conversion differences	-	390	390
Net income for 2016 attributable to minority interests	(4,487)	-	(4,487)
Balance as at 31/12/2016	(4,487)	11,393	6,906

The caption originates from the attribution to minority shareholders of the portion of shareholders' equity

and net income deriving from the full consolidation of the following companies:

Company	2016			2015		
	Profit	Capital and reserves	Total	Profit	Capital and reserves	Total
Bonfiglioli Power Transmission Pty Ltd (*)	663	2,170	2,833	636	1,337	1,973
Bonfiglioli Drives Shanghai Co. Ltd.(**)	-	3,759	3,759	-	3,759	3,759
Tecnotrans Bonfiglioli S.a.	(2)	316	314	8	308	316
O&K Antriebstechnik GmbH	(5,148)	5,148	-	-	5,148	5,148
Total	(4,487)	11,393	6,906	644	10,552	11,196

(*) also includes the results recorded by Bonfiglioli South Africa Pty Ltd.

(**) also includes the results recorded by Bonfiglioli Trading Shanghai Co. Ltd.

RESERVES FOR RISKS AND CHARGES

	31/12/2016	31/12/2015	CHANGES
Termination indemnity and similar liabilities	11,394	10,942	452
Tax liabilities	790	150	640
Deferred Tax Liabilities	8,328	8,465	(137)
Negative Financial derivatives	460	271	189
Consolidated reserve for future losses	269	298	(29)
Other reserves	31,992	25,600	6,392
Total	53,233	45,726	7,507

TERMINATION INDEMNITY AND SIMILAR LIABILITIES

These are the sales agents' indemnity reserve, pension fund recorded by German, French and Spanish subsidiaries and "ATZ" prepension fund of German

"O&K" subsidiary. The mentioned funds saw the following changes during the year:

	2016	2015
Opening value	10,942	1,353
Provisions	549	40
Actuarial value (including related interest)	98	(90)
Other movements	402	9,639
Utilization	(597)	-
Closing value	11,394	10,942

TAX RESERVE AND DEFERRED TAX LIABILITIES

With reference to the tax liabilities, changes in the year are broken down as follows:

DEFERRED TAX LIABILITIES	2016	2015
Opening value	8,465	7,581
Consolidation area changes	-	2,526
Provision for deferred taxation	352	523
Applications/releases	(533)	(1,910)
Change in rates	-	(6)
Other changes	44	(249)
Closing value	8,328	8,465

TAX RESERVE	2016	2015
Opening value	150	-
Consolidation area changes	-	150
Provision for taxation	762	-
Applications	(138)	-
Releases	(12)	-
Other changes	28	-
Closing value	790	150

NEGATIVE FINANCIAL DERIVATIVES

The caption, 460K€, refers to the total balance of negative fair value of derivatives connected with purchase/sell of forward currency and Interests Rate

Swap in place at December 31st, 2016. The caption can be broken down as follows:

	2016	2015
USD sales	-	131
GBP sales	18	-
AUD sales	16	81
JPY purchase	284	33
USD purchase	-	2
EUR purchase	14	-
IRS Bonfiglioli Riduttori	115	-
IRS Tecnotrans	13	24
Total	460	271

CONSOLIDATED RESERVE FOR FUTURE LOSSES

This caption can be broken down as follows:

DESCRIPTION:	OPENING BALANCE	PROVISIONS	APPLICATIONS	OTHER CHANGES	CLOSING BALANCE
Consolidated Reserve for future losses	298	-	(29)	-	269
Total	298	-	(29)	-	269

The variation of Consolidated Reserve for future losses is connected with the utilization of the same

to recover losses of the year, pertaining to Group, of the subsidiary "Tecnotrans Bonfiglioli s.a.".

OTHER RESERVES FOR RISKS AND CHARGES

This caption can be broken down as follows:

DESCRIPTION:	OPENING BALANCE	PROVISIONS	APPLICATIONS	OTHER CHANGES	CLOSING BALANCE
Product warranties	16,833	6,200	(5)	(710)	22,318
Legal risks	1,021	-	(371)	(203)	447
Other	7,746	1,767	-	(286)	9,227
Total	25,600	7,967	(376)	(1,199)	31,992

Warranty reserve increase is consequent to the adjustment of the value to the actual warranty exposure level.

The Legal risks fund variation is due to the regularization of the matters for which the funds were set up in the Unites States, Chinese and French subsidiary.

The item "Other" mainly includes:

- "Restructuring fund" set up to cover restructuring expenses in some subsidiaries for total approx 7.9M€;
- "Losses on returned goods fund" of the Parent Company of 0.5M€
- "Retirement incentive fund" pertaining to subsidiary "O&K Antriebstechnik GmbH" of total 0.7M€.

EMPLOYEES' SEVERANCE INDEMNITY RESERVE

Changes in the severance indemnity fund in 2016 were as follows:

	2016	2015
Opening balance	11,515	11,361
Provisions	4,347	4,386
Applications	(4,718)	(4,388)
Other changes	(348)	156
Closing balance	10,796	11,515

The number of employees in the workforce during the year was as follows (spot and average data):

	31/12/2016	31/12/2015	2016 AVERAGE	2015 AVERAGE
Executives and managers	182	188	185	190
White collar and middle management	1,623	1,642	1,631	1,636
Direct and indirect blue collar	1,726	1,685	1,726	1,673
Temporary staff	101	136	168	156
Total	3,632	3,651	3,710	3,655

PAYABLES

BONDS

	31/12/2016	31/12/2015	CHANGES
Bonds	2,625	2,750	(125)

This item shows the debenture loan issued by the Parent Company on 8 September 2005 renewed at maturing date on 30 June 2027, which is liable to interest at an annual rate of 1.63%. The foregoing

loan, issued for a total of 3,750K€, is recorded in the financial statements as at the end of 2016 for 2,625K€. The remaining debt recorded is completely due after five years.

FINANCIAL BORROWINGS

	31/12/2016	31/12/2015	CHANGES
Overdraft and self-liquidating advances	33,971	58,336	(24,365)
Financing m/l term (within and over 12 months)	91,396	85,106	6,290
Total due to banks	125,367	143,442	(18,075)
Amounts due to other financial institutions	8,074	8,901	(827)
Bonds	2,625	2,750	(125)
(minus) Cash at banks and on hand	(25,093)	(21,840)	(3,253)
(minus) Other securities	(205)	-	(205)
Net Cash Position	110,768	133,253	(22,485)

The caption "Due to other financial institutions" includes both the medium/long-term loans received from institutions other than banks (Ministry of Industry pursuant to Law 46 – SIMEST Law 394) and also the residual portions of capital of leasing contracts recorded in accordance with financial method. The figure is recorded at face value with regard to the principal, whilst the interests due at the end of the year are recorded on an accrual basis.

Medium/long-term lines of credit (loans) recorded by Parent Company provide standard covenants connected to the trend of Group EBITDA, that as of 31.12.2016 are fully compliant.

Changes occurring during the year with reference to bank loans with a term of over 12 months and amounts due to other financial institutions are detailed in the following table:

COMPANY	BALANCE AS AT 31/12/2015	AMOUNTS LOANED	AMOUNTS REPAID	RECLASS	EXCHANGE RATE DELTA	
Financing with term > 12 months						
Bonfiglioli Riduttori SpA	73,000	20,000	(12,000)	-	-	
Bonfiglioli Deutschland GmbH	3,227	-	(401)	-	-	
Bonfiglioli Transmission PVT LTD	1,949	-	(1,938)	-	1	
Bonfiglioli Drives (Shanghai) Co. Ltd	5,091	591	(1,196)	-	(138)	
Bonfiglioli Slovakia Sro	896	3,210	(896)	-	-	
Bonfiglioli Vietnam Ltd	456	-	(456)	-	-	
Tecnotrans Bonfiglioli SA	487	-	-	(487)	-	
Total Financing with term > 12 months	85,106	23,801	(16,887)	(487)	(137)	

AMOUNTS DUE TO OTHER FINANCIAL INSTITUTIONS

Bonfiglioli Riduttori SpA	6,027	1,403	(330)	-	-	
Bonfiglioli Transmission PVT Ltd	550	-	(531)	-	-	
Bonfiglioli Italia SpA	-	106	-	-	-	
Bonfiglioli USA Inc.	2,324	708	(2,736)	-	(13)	
O&K Antriebstechnik GmbH	-	217	-	-	-	
Tecnotrans Bonfiglioli SA	-	-	(138)	487	-	
Total due to other financial institutions	8,901	2,434	(3,735)	487	(13)	

(*) Parent Company Sureties

(**) Loan secured by pledge on owned factory premises

BALANCE AS AT 31/12/2016	WITHIN 12 MONTHS	BEYOND 12 MONTHS	BEYOND 5 YEARS	GUARANTEES
81,000	21,444	59,556	-	
2,826	423	1,943	460	(*)(**)
12	12	-	-	
4,348	851	3,497	-	(*)(**)
3,210	1,030	2,180	-	(*)(**)
-	-	-	-	(*)
-	-	-	-	
91,396	23,760	67,176	460	
7,100	1,898	4,004	1,198	
19	19	-	-	
106	106	-	-	
283	98	185	-	
217	28	132	57	
349	140	209	-	
8,074	2,289	4,530	1,255	

TRADE PAYABLES

	31/12/2016	31/12/2015	CHANGES
Advances	3,201	3,865	(664)
Trade payables due to suppliers	162,257	173,556	(11,299)
Total	165,458	177,421	(11,963)

Breakdown of trade payables by geographical area:

	2016	2015
Italy	116,340	123,442
Europe	13,422	16,252
Overseas	35,696	37,727
Total	165,458	177,421

OTHER PAYABLES

	31/12/2016	31/12/2015	CHANGES
Tax payables	10,542	5,234	5,308
Amounts due to social security	8,353	7,701	652
Other payables	26,145	29,953	(3,808)
Total	45,040	42,888	2,152

The following table provides a breakdown of the "Tax payables":

	2016	2015
Short-term tax payables		
Direct Tax Payables	5,602	-
Employees' taxes	3,316	3,128
Withholding tax	337	588
Substitute tax	479	457
Other	716	718
Total short-term tax payables	10,450	4,891
Mid-long-term tax payables		
Substitute tax	92	343
Total mid-long-term tax payables	92	343
Total	10,542	5,234

The following table provides a breakdown of the "Other payables":

	2016	2015
Other short-term payables		
Amounts due to employees	20,224	17,228
Right to use land - Vietnam	-	206
Payables for purchasing investments	2,200	5,916
Other	1,106	1,686
Total other short-term payables	23,530	25,036
Other mid/long-term payables		
Amounts due to employees	309	515
Payables for purchasing investments	2,200	4,400
Other	105	2
Total other mid-long-term payables	2,614	4,917
Total	26,144	29,953

"Payables for investments purchase" caption is the balance figure recorded in Parent Company for the purchase of Co.Bo.Wheels srl.

It is noted that amongst the short term caption "Other" it is booked an advance disbursed by APIAE (a Trentino Regional authority) in 2012, following

the approval of the Development Project of the subsidiary "Bonfiglioli Mechatronic Research SpA" and related with the achieved pre-requirements, whose destination will be defined within next year.

ACCRUED EXPENSES AND DEFERRED INCOME

Breakdown:

	2016	2015
Interest payable on loans	489	321
Insurance policies	25	25
Contribution of capital	-	23
Other	42	73
TOTAL	556	442

The increase in the year is mostly attributable to the interests on loans booked by the Parent Company.

INCOME STATEMENT

NET REVENUES FROM SALES AND SERVICES

	31/12/2016	31/12/2015	CHANGES
Total	788,913	730,121	58,792

Sales were made in the following geographic areas:

VALUES IN M€	2016	%	2015	%
Italy	132.6	16.8	126.4	17.3
Europe	292.8	37.1	276.6	37.9
Overseas	363.5	46.1	327.1	44.8
Total	788.9	100.0	730.1	100.0

For more details on Group trend, we refer you to the Management report.

ASSETS INCREASE FOR INTERNAL WORKS

	31/12/2016	31/12/2015	CHANGES
Total	357	1,004	(647)

This caption reflects the increase for intangible assets concerning specifically Research & Development project started in June 2012 in the Company

“Bonfiglioli Mechatronic Research S.p.A.” dedicated to new generation mechatronic products.

OTHER REVENUES AND INCOME

	31/12/2016	31/12/2015	CHANGES
Total	15,309	13,784	1,525

This item can be broken down as follows:

	2016	2015
Refund for packaging and transport costs	3,929	2,759
Refunds for defective processing/material	1,300	750
Sales and minor services	3,385	5,608
Capital gains and contingent assets	2,919	2,834
Capital contribution	1,063	1,146
Funds releases	-	61
Insurance refunds	2,249	-
Other	464	626
Total	15,309	13,784

The caption Insurance refunds is connected with refunds received from Parent Company (1.7M€), United States subsidiary (0.3M€) and German subsidiary "Bonfiglioli Deutschland GmbH" (0.1M€). The variation occurred in capital contribution is wholly connected to lower R&S contribution

received by the Parent Company (-16K€), French subsidiary (-164K€), Chinese subsidiary (-61K€), Slovak subsidiary (-73K€) partially balanced from the contribution received by Italian subsidiary "Bonfiglioli Mechatronic Research S.p.A" (233K€).

COSTS FOR RAW MATERIALS, SUPPLIES, CONSUMABLES AND GOODS FOR RESALE

	31/12/2016	31/12/2015	CHANGES
Total	432,390	410,394	21,996

COSTS FOR SERVICES

	31/12/2016	31/12/2015	CHANGES
Total	117,609	112,040	5,569

This caption includes outsourced processes in the amount of 30,297K€ (29,784K€ in 2015), costs for commission, transport, advertising and other commercial services, remuneration of the Board of

Directors and auditing bodies, insurance policies, consultancy, bank charges, electrical power, external labour, logistics and security services, travel expenses and other minor items.

COSTS FOR USE OF THIRD PARTY ASSETS

	31/12/2016	31/12/2015	CHANGES
Total	9,779	7,525	2,254

This item mainly concerns the lease of IT systems, motor vehicles, rentals for the lease of plants and external depots and royalties paid to third parties. The variation of the year includes approx. 1M€ to costs

sustained by the subsidiary "O&K Antriebstechnik GmbH" whose income statement do not participate to consolidation income statement in 2015 due to its purchase on 30.12.2015.

PERSONNEL COSTS

	31/12/2016	31/12/2015	CHANGES
Salaries and wages	120,013	107,036	12,977
Social security contributions	31,619	28,683	2,936
Employees severance indemnity	4,347	3,952	395
Employee termination indemnity and similar liabilities	531	345	186
Other costs	1,321	65	1,256
Total	157,831	140,081	17,750

DEPRECIATION, AMORTISATION AND WRITE-DOWNS

	31/12/2016	31/12/2015	CHANGES
Amortisation of intangible fixed assets	4,976	2,975	2,001
Depreciation of tangible fixed assets	20,886	19,644	1,242
Intangible Fixed Assets write-downs	189	69	120
Tangible Fixed Assets write-downs	400	3,615	(3,215)
Bad debts provision	3,231	1,619	1,612
Total	29,682	27,922	1,760

OTHER PROVISIONS

	31/12/2016	31/12/2015	CHANGES
Restructuring fund	1,044	2,500	(1,456)
Warranty reserve	6,200	3,686	2,514
Legal risk fund	-	367	(367)
Total	7,244	6,553	691

OTHER OPERATING EXPENSES

	31/12/2016	31/12/2015	CHANGES
Total	4,977	4,550	427

This caption is a residual item and it includes expenses and charges that cannot be classified under the previous headings. It relates to local duties, general

production, commercial, and minor administrative expenses, capital losses of an ordinary nature, and other minor items.

INTEREST RECEIVABLE AND FINANCIAL INCOME

	31/12/2016	31/12/2015	CHANGES
Total	1,057	862	195

This caption can be broken down as follows:

	2016	2015
Bank interest receivable	573	344
Leasing rentals indexation	82	91
Cash discounts received	135	157
Commercial and other interest receivable	267	270
Total	1,057	862

INTEREST PAYABLE AND FINANCIAL EXPENSES

	31/12/2016	31/12/2015	CHANGES
Total	8,703	10,050	(1,347)

This caption can be broken down as follows:

	2016	2015
Interest on amounts due to banks	3,540	2,519
Interest payable on loans	2,178	4,354
Interest payable on leasing/business contracts	582	754
Interest payable on bonds	45	45
Premiums and expenses on derivatives (IRS and forward contracts)	551	1,256
Cash discounts distributed	1,503	707
Other	304	415
Total	8,703	10,050

EXCHANGE RATE GAINS (LOSSES)

	31/12/2016	31/12/2015	CHANGES
Total	3,304	(3,918)	7,222

This amount can be broken down as follows:

	2016	2015
Currency exchange gains	15,332	18,295
Currency exchange losses	(12,028)	(22,213)
Total	3,304	(3,918)

ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES

	31/12/2016	31/12/2015	CHANGES
Other financial assets revaluation	2	-	2
Investments write-off	-	(48)	48
Total	2	(48)	50

INCOME TAXES

	31/12/2016	31/12/2015	CHANGES
Current taxes	(18,119)	(11,370)	(6,749)
Deferred taxes	181	1,455	(1,274)
Prepaid taxes	(228)	407	(635)
Other components of direct taxes	(227)	-	(227)
Direct taxes related with previous years	(917)	(48)	(869)
Total	(19,310)	(9,556)	(9,754)

FURTHER INFORMATION

In order to complete the information required by article 38 of Italian Legislative Decree 127/1991

and other provisions of the Italian Civil Code, the following further information is set out below:

COMMITMENTS, GUARANTEES AND POTENTIAL LIABILITIES NOT RECORDED IN BALANCE SHEET

	31/12/2016	31/12/2015	CHANGES
Performance Guarantee	7,686	6,283	1,403
Collaterals	13,424	19,901	(6,477)
Commitments for acquisition of shares	3,759	3,759	-
Total	24,869	29,943	(5,074)

The amount details are as follows:

- guarantees granted by third parties refer to sureties or primary request guarantees issued from Credit institution on contractual undertakings or debts beared by Bonfiglioli of 7.7M€;
- commitments for the acquisition of shares (Bonfiglioli Drives (Shanghai) China) of 3.8M€ taken up by the Parent Company;

- mortgages on buildings of German subsidiary for 5.8M€ and of Slovak subsidiary for 7.6M€.
- With reference to the purchase of O&K, the transaction involves a put&call system for the benefit of the seller and of the buyer, connected with the remaining 45% of Share Capital, to be exercised within 2020.

REMUNERATION PAID TO DIRECTORS AND STATUTORY AUDITORS

During the year the following amounts were paid out as remuneration to Group Directors and auditing bodies:

	2016	2015
Directors	1,047	1,009
Auditors	820	813
Total	1,867	1,822

TRANSACTIONS WITH RELATED PARTIES

The Group has business relations with B.R.T. S.p.A., owned by shareholders and Directors of Bonfiglioli Riduttori S.p.A..

The company B.R.T. S.p.A. supplies spare parts in Italy on behalf of Bonfiglioli Riduttori S.p.A, and, partly, abroad. The business relations relate to the sale of Bonfiglioli components and products under normal market conditions.

SIGNIFICANT EVENTS AFTER YEAR END

With reference to significant events after year end, it is to be noted that on March 17th, 2017 majority shareholders of parent company executed – through transfer of their own shares – the incorporation of BON-FI S.r.l. having holding activity as object. As consequence, at the date of the preparation of this consolidated financial statements BON-FI S.r.l. controls Bonfiglioli Riduttori S.p.A.

ACCOUNTING REFORM EFFECTS ON FINANCIAL STATEMENTS

This section has not been translated as considered not useful to international readers. For complete documentation, we address the reader to the financial statements duly published at Italian Chamber of Commerce.

Calderara di Reno (Bo), 31 March 2017

for The Board of Directors

The Chairman

Sonia Bonfiglioli



CONSOLIDATED CASH-FLOW STATEMENT (ANNEX A)

<i>(in K€)</i>	2016	2015 (*)
A. OPENING NET CASH POSITION	(133,253)	(121,031)
B. OPERATING ACTIVITIES		
Net income of the group	18,522	4,325
Minority interest income	(4,487)	644
Depreciation, amortisation and write-downs	29,682	27,922
Provision for funds	7,775	6,938
Tax provision	19,310	9,508
First level Cash Flow	70,802	49,325
Decrease (Increase) in Trade Receivables	769	(17,641)
Decrease (Increase) in INVENTORY	4,286	6,981
Decrease (Increase) in other ASSETS	2,996	1,154
Decrease (Increase) in TRADE PAYABLES	(11,299)	12,543
Decrease (Increase) in other LIABILITIES	(4,647)	11,770
Derivatives FV variation	480	(281)
(Utilization) of funds	(1,679)	(2,819)
Tax payments	(12,544)	(10,992)
B. Cash flow originating from (used for) operating activities	49,164	50,040
C. INVESTING ACTIVITIES		
Net investments in tangible and intangible fixed assets	(28,752)	(20,717)
(Increase) in share investments and other financial fixed assets	(9)	-
Co.Bo.Wheels Srl aggregation	-	(7,767)
O&K Antriebstechnik GmbH aggregation	-	(32,283)
C. Cash flow originating from (used for) investing activities	(28,761)	(60,767)
D. FINANCING ACTIVITIES		
Dividends	(8)	-
Change in minority interests	197	(3,018)
Net effect of exchange rate change	2,264	3,695
Exchange rate (gains) losses fixed assets	(280)	(2,539)
Derivatives Reserve FV variation	(92)	12
Other minor changes	1	355
D. Cash flow originating from (used for) financing activities	2,082	(1,495)
E. CASH FLOW FOR THE YEAR (B+C+D)	22,485	(12,222)
F. CLOSING NET CASH POSITION (A+E)	(110,768)	(133,253)

(*) Cash flow of the year 2015 considers the balances of the company O&K Antriebstechnik GmbH/Co.Bo.Wheels.



INDEPENDENT AUDITOR'S REPORT





INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the Shareholders of
Bonfiglioli Riduttori SpA

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bonfiglioli Riduttori SpA (hereinafter also the "Company") and its subsidiaries (hereinafter the "Bonfiglioli Riduttori Group"), which comprise the balance sheet as of 31 December 2016, the income statement and statement of cash flows for the year then ended and related notes.

Directors' responsibility for the consolidated financial statements

The Directors of Bonfiglioli Riduttori SpA are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with the Italian laws governing the criteria for their preparation.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311



Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Bonfiglioli Riduttori Group as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in compliance with the Italian laws governing the criteria for their preparation.

Report on compliance with other laws and regulations

Opinion on the consistency of the Management report on operations with the consolidated financial statements

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the Management report on operations, which is the responsibility of the Directors of the Company, with the consolidated financial statements of Bonfiglioli Riduttori Group as of 31 December 2016. In our opinion, the Management report on operations is consistent with the consolidated financial statements of Bonfiglioli Riduttori Group as of 31 December 2016.

Bologna, 19 April 2017

PricewaterhouseCoopers SpA

Signed by

Roberto Sollevanti
(Partner)

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

ANNUAL
REPORT **2016**





We have a relentless commitment to excellence, innovation and sustainability. Our team creates, distributes and services world-class power transmission and drive solutions to keep the world in motion.

HEADQUARTERS

Bonfiglioli Riduttori S.p.A.

Via Giovanni XXIII, 7/A

40012 Lippo di Calderara di Reno

Bologna (Italy)

tel: +39 051 647 3111

fax: +39 051 647 3126

bonfiglioli@bonfiglioli.com

www.bonfiglioli.com

