ANNUAL REPORT

2017

Bonfiglioli

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MESSAGE FROM THE CHAIRMAN

The key to our success lies in welcoming change with enthusiasm along with pursuit of innovation. This is the spirit with which we faced 2017 and it is with this same spirit that we will confront the coming year and beyond.
During the year, we have achieved significant results with the expansion of our production plants in Italy and abroad. This has brought us increasingly closer to our clients, thanks to the intense research and development that allows us to promptly meet market demand, but above all, **thanks to a tenacious team of people who have positively faced the challenge of change**.
We are dealing with a genuine digital revolution that has already changed the personal scope of our lives, where we are permanently connected and are constantly using digital tools, and this revolution is now invading our work environment. All areas of our company are affected, from internal organizational processes to relations with our external stakeholders, from factory to office work. No matter what level, we need to be aware that **at this time of transition toward adoption of new technology, it is essential to equip ourselves with new skills** that, together with the awareness and experience already acquired, will guide us calmly through these digital challenges.
I am convinced that only **by putting people before tools it is possible to continue along the path of innovation and grow together** in a structured way.
This is why we will continue to invest in development of a proactive company culture and nurturing the skills of our people as our strength for facing the future.

BONFIGLIOLI'S MISSION AND VALUES

As a leader in design, production and distribution of a full range of gearmotors, drive systems, planetary gearboxes and inverters, we can handle the most complex demands in industrial automation, mobile machinery and renewable energy.
Our solutions impact all aspects of daily life, from the food we consume, to the roads we drive on, the clothes we wear, and the light that illuminates our homes; it is with this awareness that we face our daily challenges.
Excellence, innovation and sustainability are the drivers behind our growth as a company and team, and represent the guarantee of the product and service quality we offer our clients.

"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."

CHALLENGE	RESPECT	ACCOUNTABILITY	WINNING TOGETHER
We search for limits, then overcome them through innovative ideas, cutting-edge products, and unrivaled performance	We explore different cultures, religions, and experiences to turn diversity into a resource and pursue sustainable economic growth in harmony with the environment	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	We foster talent to generate and share the knowledge that leads to success

MILESTONES

1956

Clementino founded "Costruzioni Meccaniche Bonfiglioli"

1964
Work started in the factory at Lippo di Calderara, Bologna, Italy. Still our Headquarters today

1968
Tecnotrans Bonfiglioli SA in Barcelona is established. This is the start of our international growth

1975
Trasmital takeover

1993
Certifications DNV and TÜV

1995
Debut of the C-A-F series

1999
Inauguration of the plant in Chennai, India

2000
MOSAICO is founded, the first E-commerce system

2001
Vectron Takeover

2002
BEST, the international distribution network is established

2003
Tecnoingranaggi Takeover

Bonfiglioli Drives is established in Shanghai, China

2005
Bonfiglioli sets up in Slovakia

2006
Bonfiglioli Turkey is established

2008
Organisation per Business Unit

Bonfiglioli Vietnam Ltd. is established in Ho Chi Minh City

2009
Bonfiglioli Brazil is established

2010
Sonia Bonfiglioli takes over control of the Group

2011
Inauguration of the plant in Mannur, India

BMR, the mechatronics research centre is set up

2012
Creation of the Electromobility Competence Center

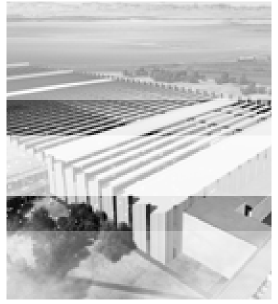
2013
Bonfiglioli South East Asia opens in Singapore

2014
Inauguration of the plant in Bangalore, India

Takeover of 95% of Tecnotrans

2015
Takeover of O&K Antriebstechnik GmbH

2016
EVO project, future Headquarters



2017
Expansion of plants in Slovakia and Pune, India

The path towards Digital Transformation begins

BONFIGLIOLI TODAY

For over 60 years Bonfiglioli has been supplying more markets, sectors and applications than any other drive manufacturer and is world leader in a number of sectors.
Our internal organization into business units has allowed us to achieve maximum expertise in each field of application of our products and ensures in-depth knowledge of local markets. Our expertise centers, with highly specialized teams, provide us with in-depth knowledge of each individual client.
Bonfiglioli has three business units, **Power Transmission Solutions - Mechatronics Drives & Solutions - Mobile & Wind Solutions**, that embody the expertise and experience acquired over the years in their respective industries.

Thanks to an international network of sales branches and closely interconnecting production plants, we can guarantee the same high standards of Bonfiglioli quality anywhere at any given time.
Aware that our direct presence in local markets is the key to long-lasting success, we have continued our growth and expansion policy during the year, extending existing plants and planning further expansions.
Today, our family includes 22 sales branches, 14 production plants, 250 distributors and an overall team of 3,700 employees.

BUSINESS UNITS

GLOBAL PRESENCE

FOCUS 2017

MANUFACTURING

QUALITY

R&D

NEW PRODUCTS

EVO

TRAINING CENTER

SOCIAL RESPONSIBILITY

BUSINESS UNITS

FOOD AND BEVERAGE | PACKAGING | TEXTILE | INTRALOGISTICS | WASTE WATER TREATMENT

MINING | MARINE AND OFF-SHORE | CONSTRUCTION | AGRICULTURE AND FORESTRY | WIND TURBINE

POWER TRANSMISSION SOLUTIONS

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.

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 by acting as a riskless partner and a provider of energy-efficient solutions in the field of industrial automation.

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.

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.

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, are dedicated to serving the wind industry.

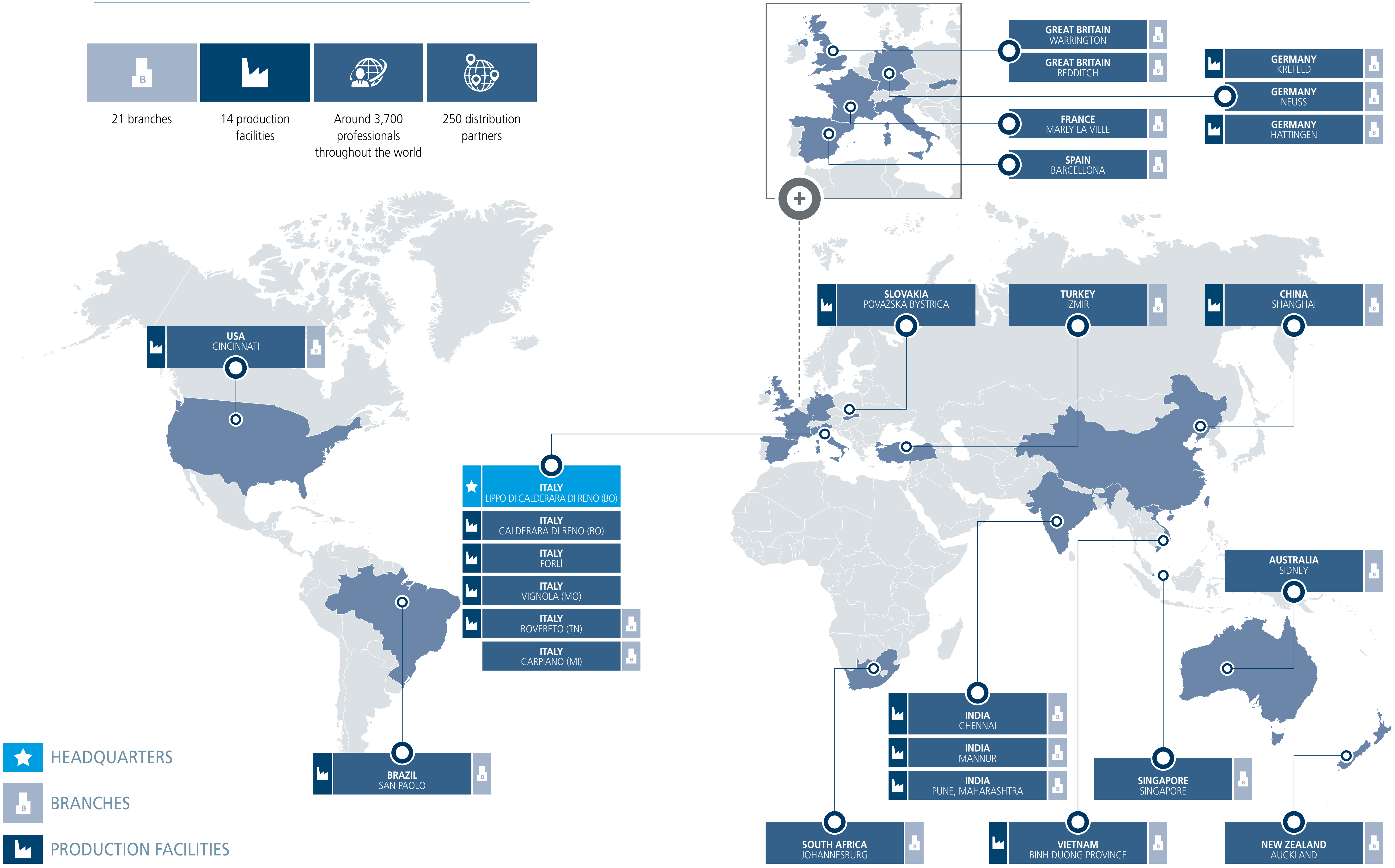
GLOBAL PRESENCE
FOR LOCAL SUPPORT

21 branches

14 production facilities

Around 3,700 professionals throughout the world

250 distribution partners



HEADQUARTERS

BRANCHES

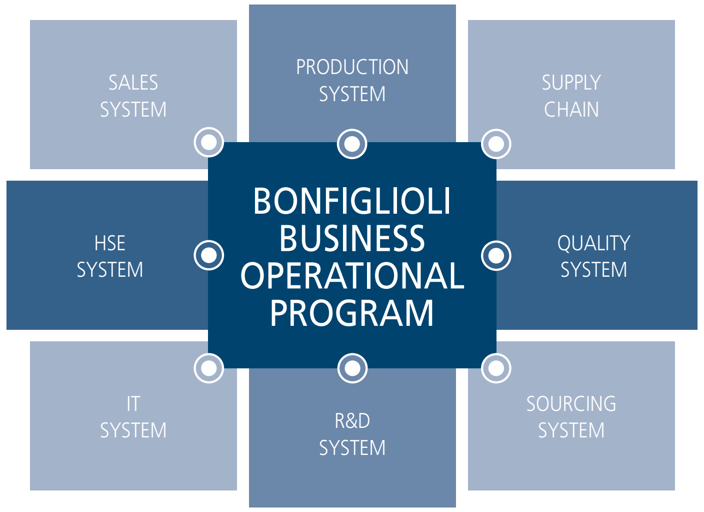
PRODUCTION FACILITIES

MANUFACTURING

Our manufacturing is based on 8 key pillars that drive all the internal production processes and assembly, and fall within the **Bonfiglioli Business Operational Excellence Program**. Alongside these are the people, a qualified work force capable of handling technological changes and evolving as a result to achieve common goals. These include continuous improvement of component quality, reduced delivery times and a reduction in production losses which are a daily priority.

Performance measurement and process uniformity across all our plants at world level guarantee our clients the same quality production and assembly no matter where the solutions designed for them are created. The interconnection of our plants gives us the opportunity to increase our production capacity thanks to precise monitoring of our global operations. While end-to-end digital integration of our suppliers offers valuable support to our operating processes right from the initial stages.

Already effective in different plants, **the Bonfiglioli Production System is a tangible example of how Bonfiglioli combines Industry 4.0 and lean management**. Thanks to intelligent production monitoring, we can measure efficiency in real time as well as the quality and optimisation of production processes in order to constantly improve each stage of the process right up to delivery. The system allows for greater control of information giving us the opportunity to be more efficient when we need to provide our clients with an answer.



QUALITY

Our team is entirely dedicated to continuous improvement in the quality, safety and environmental sectors, throughout the value chain from the smallest supplier to the end client.
The Bonfiglioli management systems are certified ISO 9001:2015, ISO 14001 and OHSAS 18001, our products are covered by seven international certificates. Responsibility, excellence and continuous improvement are the basic elements that make us the favoured partner of our clients and suppliers.

Also in 2017 Bonfiglioli has shown its natural attitude toward excellence starting from internal company processes, with **the update of ISO 9001: 2015 certification** obtained in a very short time and respecting the deadline. Indeed, after publication of new legislation at the end of 2015, for companies already certified with ISO 9001: 2008, 2018 was set as the deadline for adapting to the new legislation. Aware of the benefits to be gained from its implementation, our team anticipated this adaptation to 2017. It also worked on extending the application perimeter. **The new ISO 9001:2015 standard was adopted worldwide** in one go, involving all the Bonfiglioli sites: headquarters, 14 plants and 21 branches, and adding 2 new plants in India and Germany (O&K) to the Group certificate.

MANAGEMENT SYSTEM CERTIFICATION:

PRODUCT CERTIFICATION:

R&D

More than 200 engineers specialised by area of expertise, are involved in research and development for the group at the global level. Their job is to develop mechanically and electrically innovative technology that helps create value for our clients.
From development to creation of a prototype right up to the test stage, the vast R&D at Bonfiglioli follows a rigorous and well defined process.

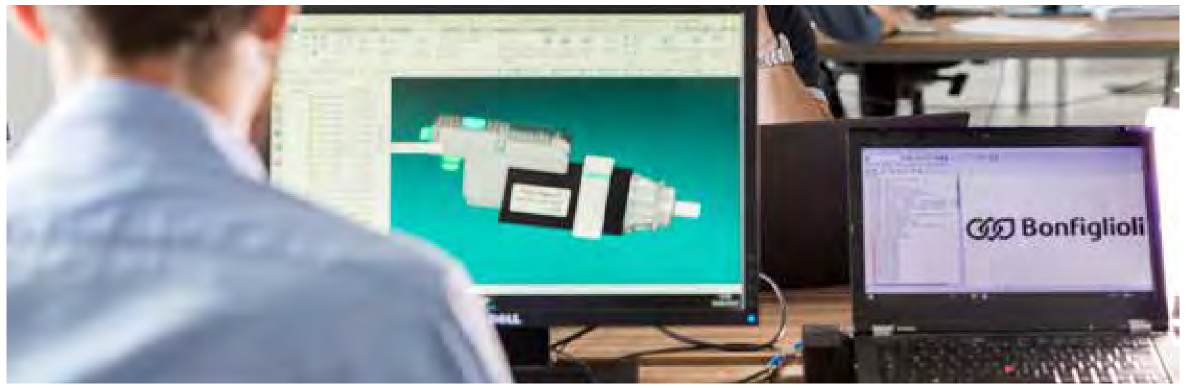
The design of our solution includes the identification of precise client needs after in-depth analysis deriving from our specific applied skills. Our wide experience allows us to rapidly draw up a proposal and accurately assess the development process requested. We can perform **capacity simulations and transmission performances thanks to specific calculation tools** that allow us to considerably reduce development times.

Sharing information with the client throughout the entire product design and development period means we can align our product with client feedback on key matters of performance, installation and maintenance.
After creating the prototype, we test the product under realistic operating conditions to once again clarify performance, sturdiness and efficiency.

All this takes place in each of our research and development centres in Italy in Bologna, Forlì and Rovereto, in Germany in Krefeld and Hattingen, in India and in China.

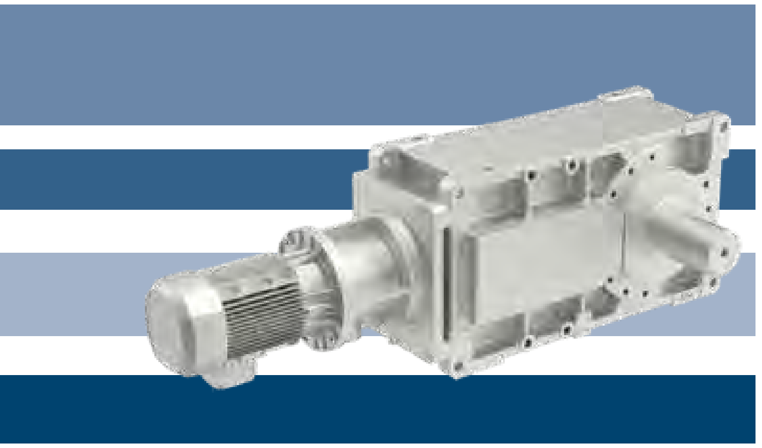
BONFIGLIOLI MECHATRONIC RESEARCH

Established in 2011 in the Mechatronics Pole at Rovereto with 3 employees and 540 sqm of surface area and initially only a research centre, **today Bonfiglioli Mechatronics Research is, by all accounts, a production plant with 81 employees and 3,000 sqm**.
The choice of Trentino for our investments in the industry of the future proved a success. It is an outstanding area thanks not only to Trentino Sviluppo, a key partner in our project, but to decisive support from the local policies that back innovation. It is also due to the ease with which highly specialised skills and a network of innovative companies are found.
Bonfiglioli continues to invest in new technology pertinent to mechatronics and continues to do it in Rovereto, where **an expansion of the plant, team and new product lines are planned for 2019**.

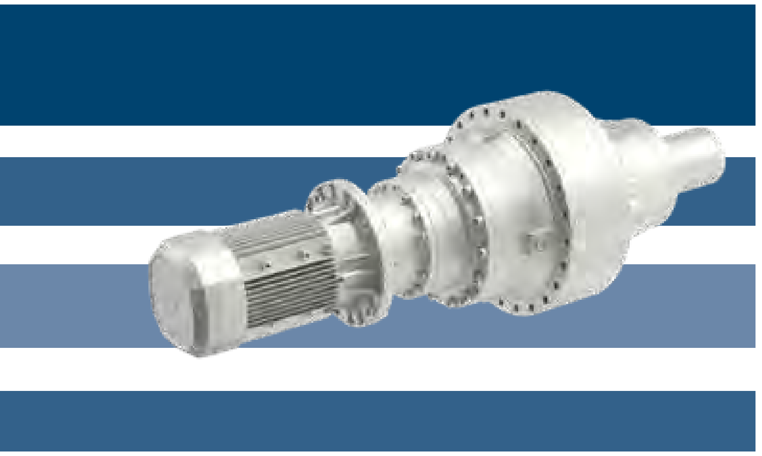


We create solutions for the future	Flexible approach	Co-engineering development	Energy saving	Reduced costs

NEW PRODUCTS



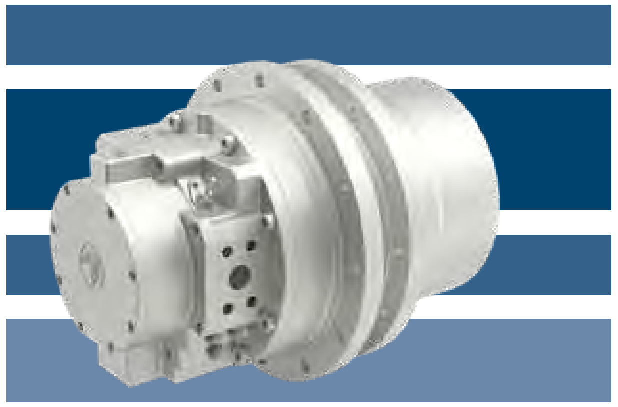
HDO - HELICAL-BEVEL GEAR UNITS: four new sizes in the HDO series designed for heavy-duty industry and for material handling, mining industry, the food and drinks industry, the construction industry, waste water treatment and recycling.



300 M PLANETARY GEAR MOTOR IN 20 SIZES with optional integrated self-ventilated motor attachment, mean a saving of at least one gear motor size. Applicable to all industries where high torque density is required together with optimisation of space.

ACU 7 is the new compact activation with excellent performance for heavy-duty industry. The new, high-performance ACU 7 is a point of reference for numerous applications that require high power, considerable flexibility, open communication and restricted installation spaces.

600WT - COMPACT HYDRAULIC DRIVE UNIT: the new compact wheel activation with integrated axial piston motor, was specifically designed for agricultural machinery.



600 SERIES - WHEEL-TRACTION DRIVES: are the new drives for wheel command specifically designed to improve precision and efficiency of the revolutionary machines with fully hybrid Huddig Tigon Technology, a leading Swedish company in the production of backhoe loaders.

BSR SYNCHRONOUS RELUCTANCE MOTORS: the new Bonfiglioli Synchronous Reluctance motors have been designed to achieve high efficiency and improved power density, allowing for considerable energy and financial savings.

S2U IP66 VARIABLE FREQUENCY INVERTER is the new series of inverters with a high level of protection, especially suited to applications in hostile environments and with the presence of dust, humidity and chemical substances for cleaning. Thanks to a balanced combination of sturdiness and extensive logical functions, the S2U IP66 series suits a wide range of applications such as pumps, ventilators, intelligent conveyors, textile machinery, material handling, wood processing and food.

EVOLUTION

Ready to start construction, **EVO** is not only the future headquarters but also the fulfillment of the commitment already taken last year toward the Group's digital transformation.
The largest of Bonfiglioli's industrial sites in Italy has been entirely designed with the business logic of **Industry 4.0**. EVO will be the result of more than 60 million € in overall investment and will stand on an area of 148,700 sqm with almost zero energy impact, providing work for about 600 people.

60 million € worth of investment	Industry 4.0	Zero energy impact	600 people employed	148,700 sqm of site

TRAINING CENTRE

During 2017, and continuing on from the work done in previous years, **our Training Centre has provided training for more than 12,600 hours, involving about 620 people with differing, transversal paths**. Among the numerous initiatives of particular interest was the involvement of all the managers at world level as part of the people management training. Partnerships with institutes for excellency such as ESCP and IESE that have allowed 10 of our colleagues to take part in executive training programs, are also worth mentioning.

The Bonfiglioli **Digital Re-Training** was presented at the Malpighi La. B. site. Devised in collaboration with Porsche Consulting, the Emilia Romagna Regional Council and FIOM (trade union), it **is the first synergy project in Italy between Industry, Territory, Institutions and Trade Union Bodies to re-train those who already work and provide them with new digital skills, thus achieving an advantage from the changes offered by Industry 4.0**.

From the Bonfiglioli Digital Re-training model, from which new organisational needs emerge, the skills gaps and changes to the working environment for the manufacturing industry 4.0 stems a specific training plan that will be distributed in the new re-training programme; this programme is part of an overall three-year investment at local level worth 130 million €.
As Sonia Bonfiglioli said "The Industry 4.0 challenge needs to be seen by the workers as an important growth and re-training opportunity as it can offer significant improvements to their working conditions. This is on condition that the companies and territory make new training opportunities available not only to those entering the world of employment but also, and above all, to those who are already part of it, so that they can enjoy all this as an important growth opportunity and not as a threat".

1	2	3	4	5
Use case identification	Choice of new technology	Definition of key roles	Skills gap 4.0	Training

SOCIAL RESPONSIBILITY

Bonfiglioli has always directed its business model toward a sustainable future for the company and for the surrounding area. Acting at the world level, we have a significant responsibility toward the local realities where we find ourselves operating and with whom we integrate. We support numerous projects and initiatives in countries where we are present with a sales branch or factory, concentrating particularly on **training and educating young people**. As of this year, a cross-disciplinary team of volunteers will dedicate themselves to existing social responsibility projects, committing to creating new opportunities for children, youth and students throughout the world.

INDIA

CheerFUTURELAND BONFIGLIOLI CheerFUTURE RoseLAND BONFIGLIOLI

CheerFutureRoseLand is the second initiative introduced by Bonfiglioli in a village near the plant at Chennai and is now ready to welcome orphan girls from families in financial difficulty. The home for boys, **CheerFutureLand**, was built in 2009 and houses about 50 boys, guaranteeing them a future with suitable education in a protected environment.

VIETNAM

Since 2001, we have been supporting a **school in Ho Chi Minh City** that provides children from poor and disadvantaged backgrounds with free education.

SOUTH AFRICA

St Mary's Foundation

Established in 1888, **St. Mary's School** is the oldest school in Johannesburg. It is an independent school that educates promising young girls. Bonfiglioli supports the **St. Mary's Foundation** by guaranteeing that the girls have everything they need to receive a top-class education.

ITALY

In Italy Bonfiglioli focuses on training the great minds and hands who will work in tomorrow's mechatronical industry. Once again, in 2017, the **Clementino Bonfiglioli Prize** has been assigned in collaboration with the **Leonardo committee**. Since 2011, we have supported this award for young people who demonstrate excellency in their studies or in their university dissertation on a matter linked to industrial automation, power transmission and control or innovative mechatronics.

COMITATO LEONARDO
ITALIAN QUALITY COMMITTEE

LEO NAR DO

In 2016, we also launched numerous projects for **Work Experiences** with leading professional institutes in the region. To date, we have taken 40 young people into the company thanks to partnerships with the following schools: Istituto Istruzione Superiore Aldini Valeriani in Bologna; Istituto Istruzione Superiore A. Paradisi in Vignola (Modena); Istituto Tecnico Tecnologico Statale Guglielmo Marconi in Forlì; Istituto Tecnico Tecnologico Marconi in Rovereto and the Centro di Formazione Professionale G. Veronesi in Rovereto.

MALPIGHI LA.B

The always very positive collaboration with **Malpighi La.B** continued during 2017. **This robotics, IT and 3D planning and Design Laboratory dedicated to Clementino Bonfiglioli at the Liceo Malpighi in Bologna** is a space open to any young person wishing to cultivate and experiment with ideas while in contact with the world of employment and research.

SLOVAKIA

Our donations and sponsorships in Slovakia have contributed to funding: training activities in the **secondary professional school of Povazska Bystrica**; art laboratories and sports associations for children, students and talented young people in Povazska Bystrica; various cultural events in the city, such as Young Talent of Povazska Bystrica, Cooltajner, Run of Hope and Night Run.

UK

Circus Starr
the circus with a purpose

For years, Bonfiglioli UK has been financing the **Circus Starr** initiative in England, a circus show for young people with learning difficulties and their families.

FINANCIAL DATA

THE GROUP
AS OF DECEMBER 31, 2017

EMEA | APAC | AME | OTHER COMPANIES

BONFIGLIOLI RIDUTTORI S.p.A.

EMEA

- 100% BONFIGLIOLI ITALIA S.P.A. — ITALY
- 100% BONFIGLIOLI MECHATRONIC RESEARCH S.P.A. — ITALY
- 100% BONFIGLIOLI SLOVAKIA s.r.o. — SLOVAKIA
- 100% BONFIGLIOLI TRANSMISSION S.A. — FRANCE
- 100% BONFIGLIOLI UK LTD. — UNITED KINGDOM
- 95% TECNOTRANS BONFIGLIOLI SA — SPAIN
- 100% BONFIGLIOLI DEUTSCHLAND GMBH — GERMANY
  - 100% BONFIGLIOLI VECTRON GMBH — GERMANY
  - 100% BONFIGLIOLI VECTRON MDS GMBH — GERMANY
- 100% BONFIGLIOLI POWER TRANSMISSIONS & AUTOMATION TECHNOLOGIES JSC — TURKEY
- 83,75% BONFIGLIOLI POWER TRANSMISSION PTY LTD. — SOUTH AFRICA
  - 75% BONFIGLIOLI SOUTH AFRICA PTY LTD — SOUTH AFRICA
- 95,50% O&K ANTRIEBSTECHNIK GMBH — GERMANY

APAC

- 83,33% BONFIGLIOLI DRIVES (SHANGHAI) CO. LTD. — CHINA
  - 100% BONFIGLIOLI TRADING (SHANGHAI) Co. Ltd. — CHINA
- 100% BONFIGLIOLI TRANSMISSION (AUST.) PTY LTD. — AUSTRALIA
- 100% BONFIGLIOLI SOUTH EAST ASIA PTE LTD — SINGAPORE
- 100% BONFIGLIOLI VIETNAM Ltd. — VIETNAM
- 97,52% BONFIGLIOLI TRANSMISSION PVT LTD. — INDIA (2,48% held by BONFIGLIOLI VECTRON GMBH)
  - 100% BONFIGLIOLI RENEWABLE POWER CONVERSION INDIA Pvt. Ltd. — INDIA

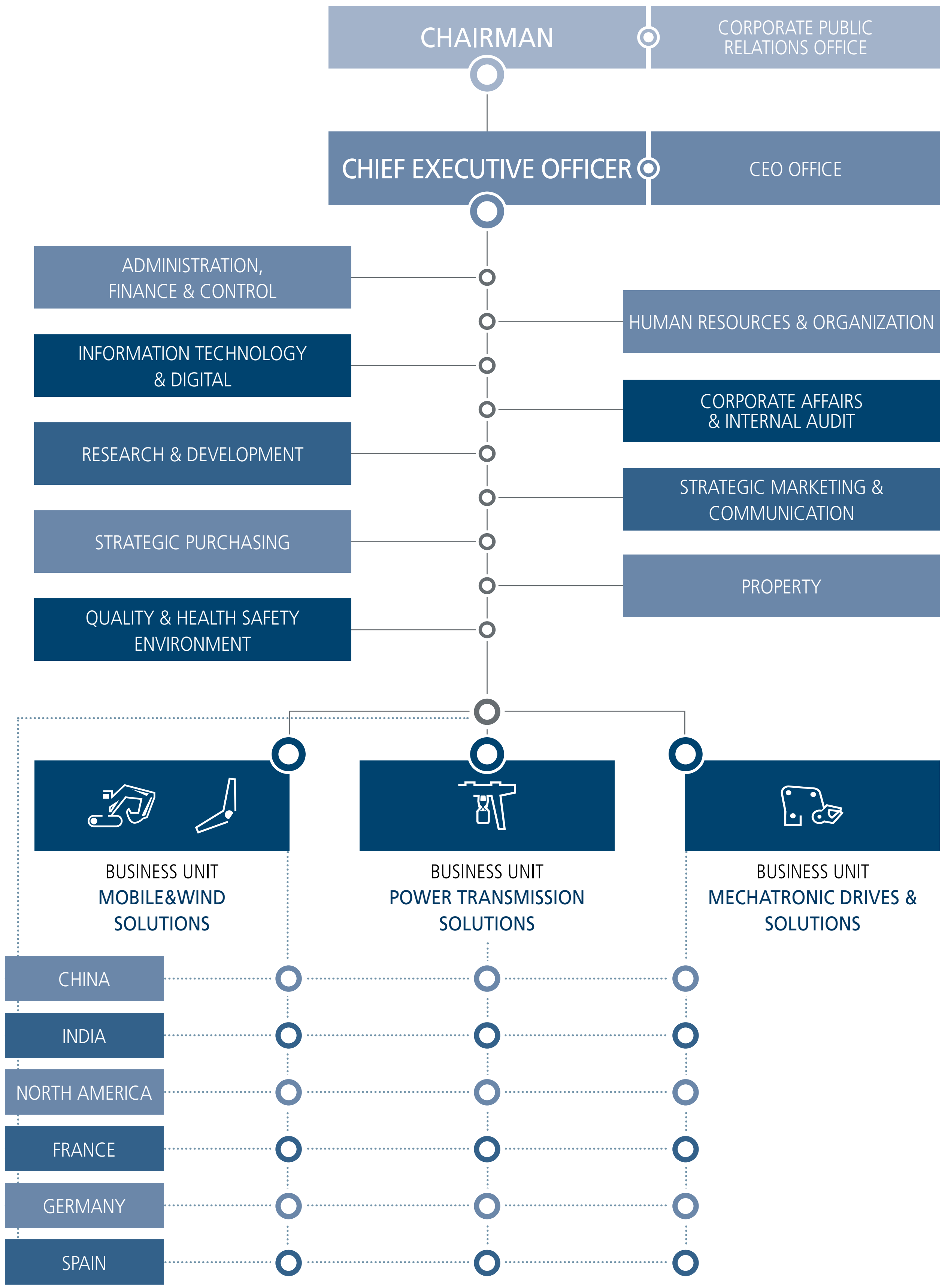
AME

- 100% BONFIGLIOLI CANADA INC. — CANADA
- 100% BONFIGLIOLI USA INC. — USA
- 100% BONFIGLIOLI REDUTORES DO BRASIL INDUSTRIA E COMERCIO LTDA — BRAZIL

OTHER COMPANIES

- 10% B.E.S.T. HELLAS SA — GREECE
- 10,05% SKS SWEDEN AB — SWEDEN

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

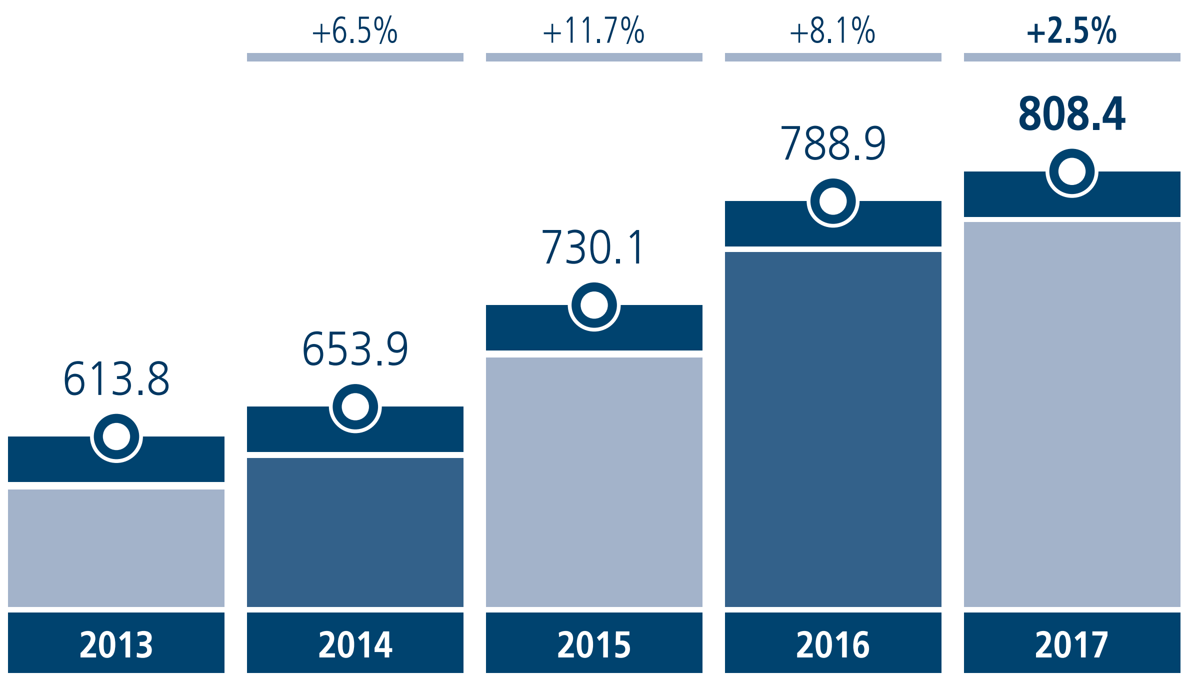
Chairman • **Alessandro Gualtieri**
Member • **Monica Marisaldi**
Member • **Ruggero Mazza**

INDEPENDENT AUDITORS

PriceWaterhouseCoopers S.p.A.

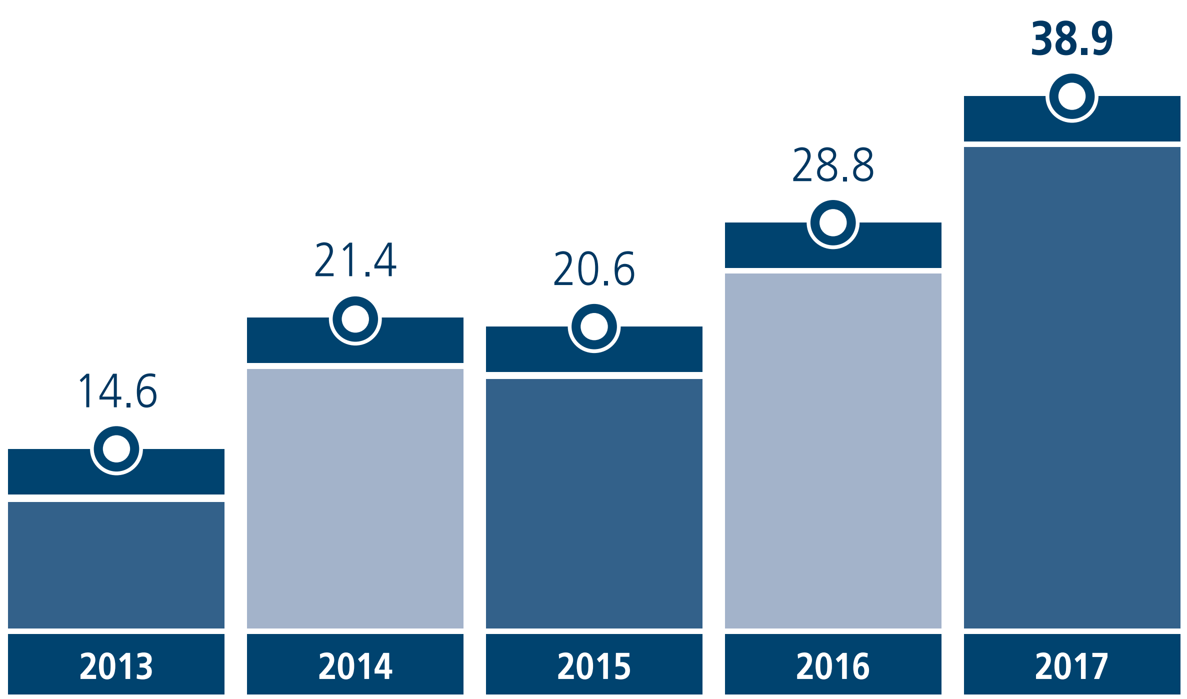
GROUP SALES

(EURO / MILLION)



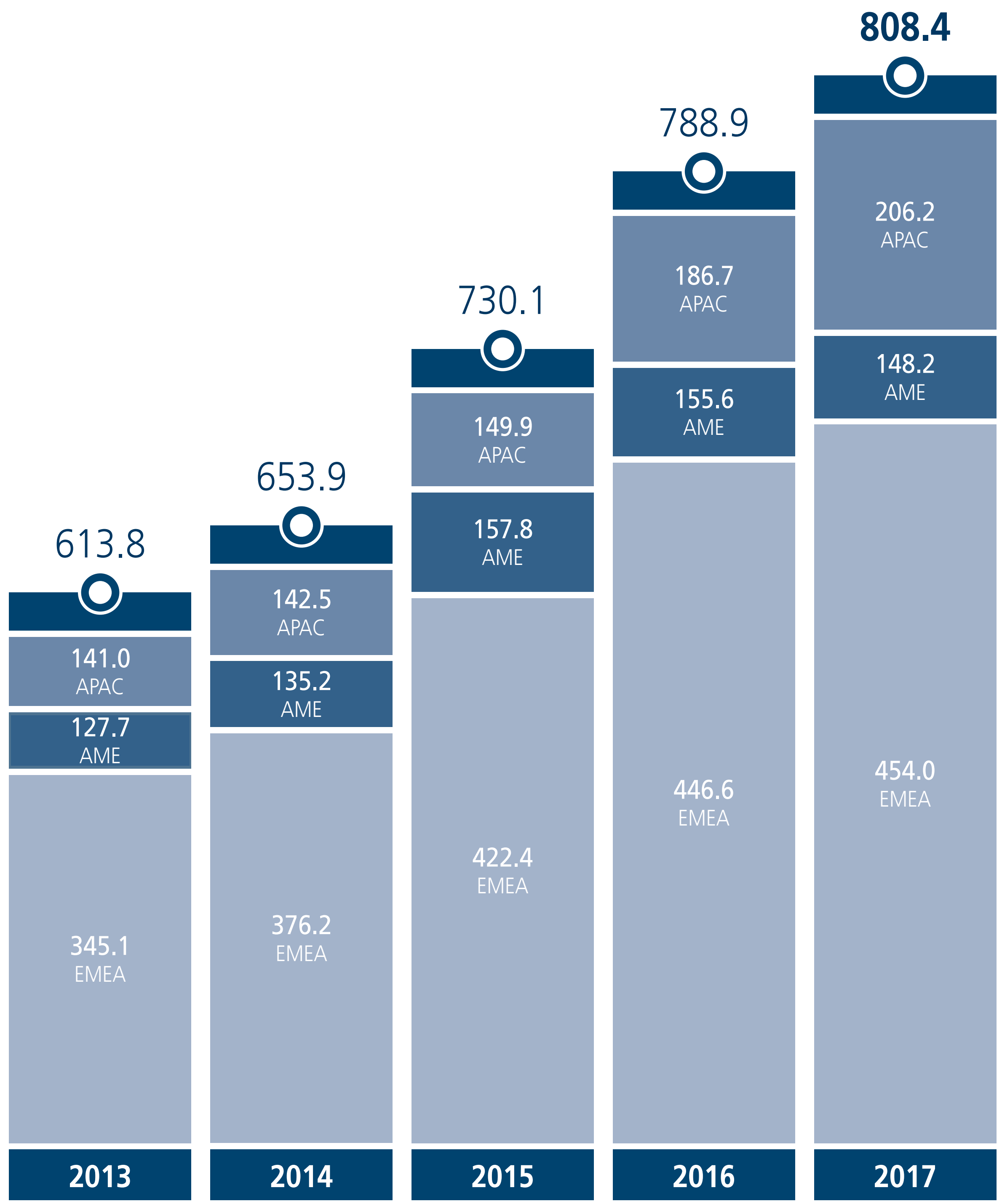
NET CAPITAL EXPENDITURE

(EURO / MILLION)



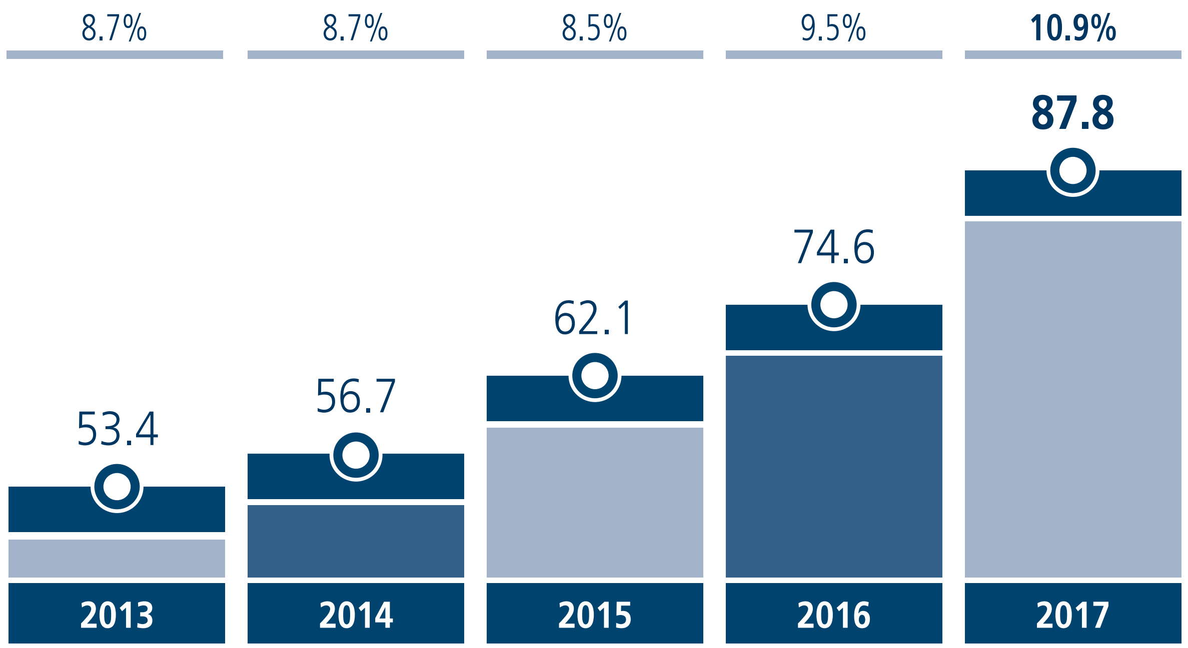
SALES BY GEOGRAPHICAL AREA

(EURO / MILLION)



EBITDA

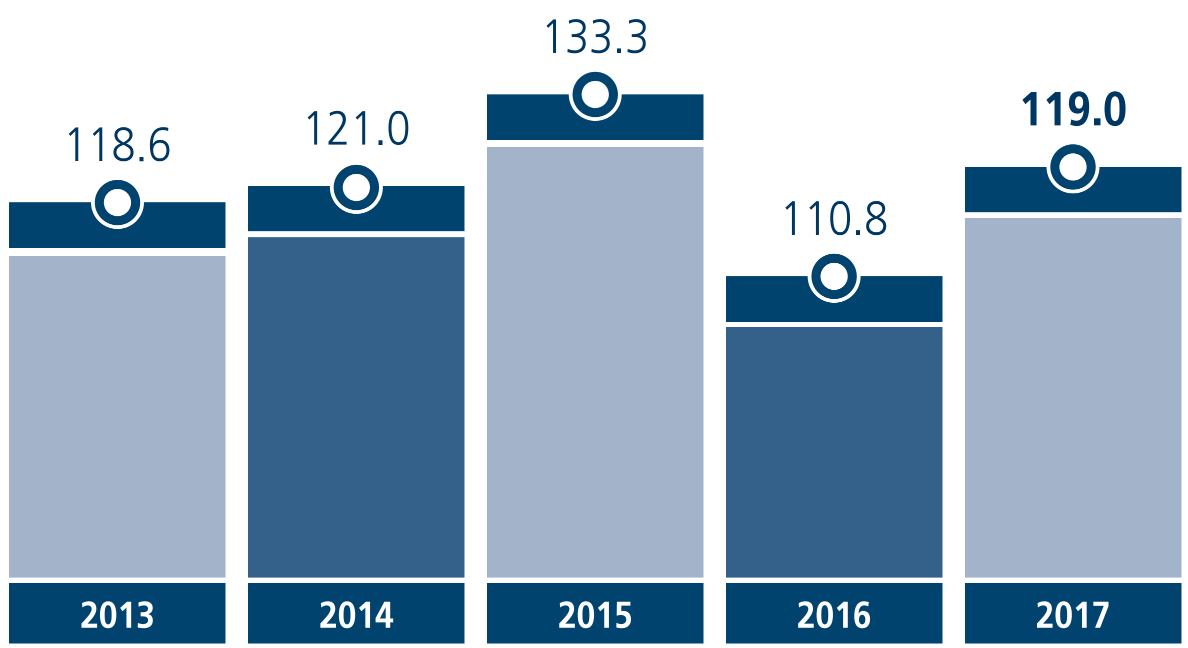
(EURO / MILLION - % ON TURNOVER)



(*) EBITDA values of 2013 and 2014 recalculated coherently with new OIC principles.

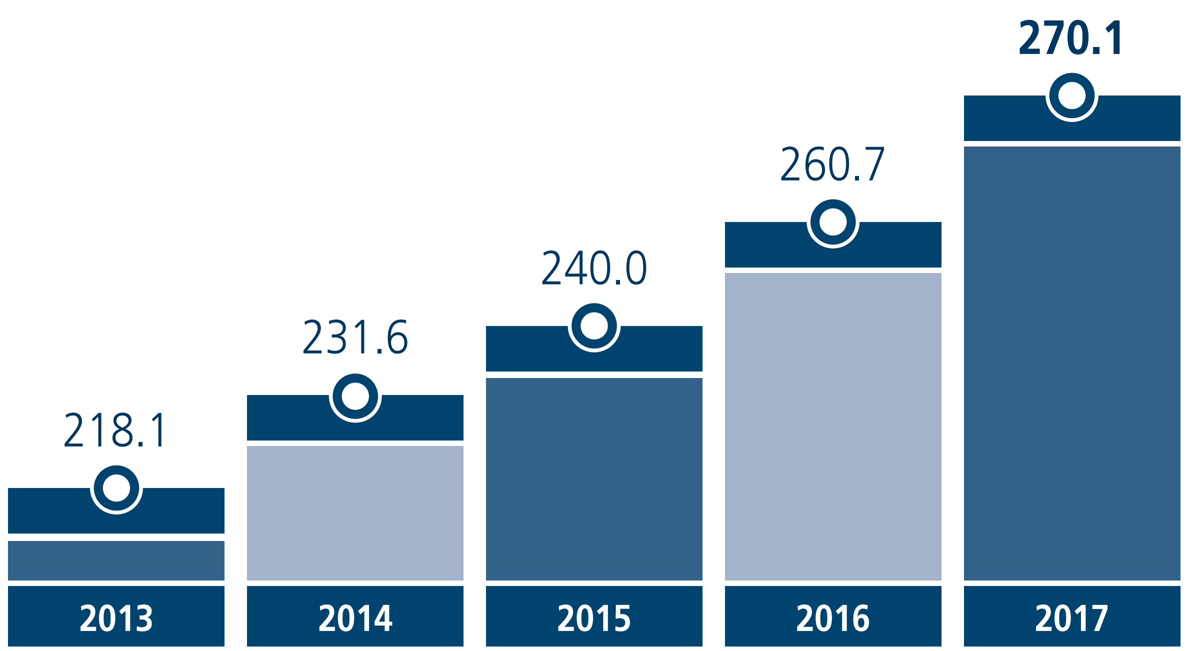
NET DEBT

(NCP - EURO / MILLION)

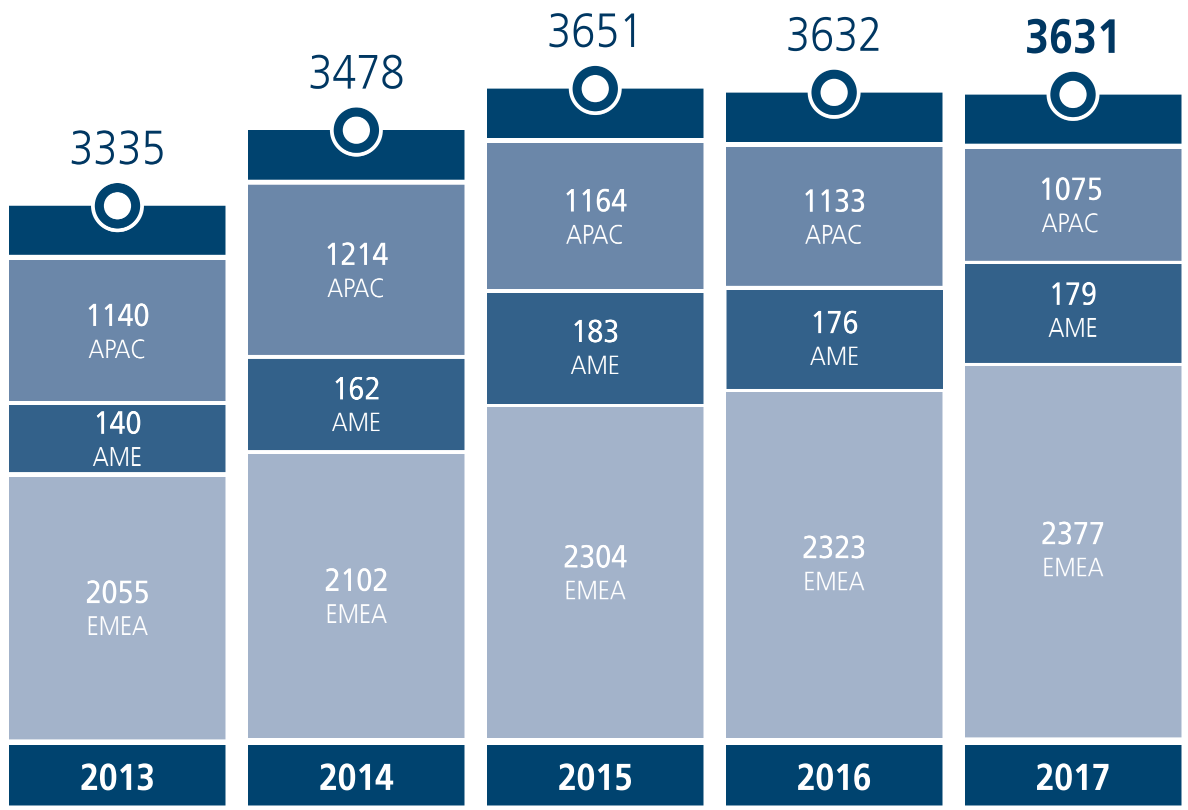


GROUP SHAREHOLDERS' EQUITY

(EURO / MILLION)



NUMBER OF EMPLOYEES



MANAGEMENT REPORT

THIS SECTION HAS BEEN TRANSLATED INTO ENGLISH SOLELY FOR THE CONVENIENCE OF INTERNATIONAL READERS

FOREWORD

This management report, drawn up in compliance with the provisions of Legislative Decree 139 of 18th August 2015 implementing Directive 2013/34/EU and in conformity to the national accounting principles issued by the OIC (Italian Accounting Organisation) updated by amendments published on 29th December 2017, in force for financial statements starting from January 1st,2017 or from following dates, is submitted as a comment on the results recorded in the consolidated financial statement of the Bonfiglioli Group.
Unless otherwise indicated, data are shown in Euro/millions.

REFERENCE ECONOMIC SITUATION

The global economy maintained the positive trend that began in the second half of 2016. Growth for 2017 is estimated at 3.7% (half a percentage point higher than the previous year), with widespread improvement in the last part of the year, particularly in Europe and Asia, despite the geopolitical risks deriving from North Korea and the Middle East and uncertainty concerning the tax reform recently approved by the United States.
Various factors contributed to reinforcing the global recovery: higher than expected growth in China (+6.8%) and lasting signs of dynamic growth in the USA and Eurozone economies were complemented by improvements in emerging nations like Russia and Brazil, whose economies have finally stabilised after years of serious recession.
For the first time since 2010, the Chinese economy saw an increase in annual growth rate with respect to the previous year, even in excess of government targets, providing greater room for manoeuvre in reducing rising debt and in implementing the authorities' promise to move towards less polluting technology.
The Chinese economy is undergoing a phase of transformation driven by growth in "New Economy" sectors like on-line financial services and e-commerce. Growth is expected to slow to 6.5% in 2018 and risks remain that the Trump administration might still resort to manoeuvres to reduce America's significant trade deficit with China.
Despite the trade deficit recorded during the year, the United States saw growth of +2.2%, confirming the economy's resilience and its ability to continue the expansion begun in the second half of 2009, though performance fell short of targets in the last part of the year.
The EU economy grew (+2.3%), driven by growth in the global economy and in domestic demand. Consumer spending provided the main driving force, encouraged by rising employment and by an upturn in investments stimulated by favourable financial conditions and less economic uncertainty than in the recent past.
Under such positive conditions, unemployment figures are also falling on the various national labour markets though the rate of improvement varies between the area's largest economies (Germany, France, Italy and Spain). Uncertainty also remains over the effects of Brexit and the geopolitical turmoil seen recently in Catalonia.
The United Kingdom saw a slightly lower rate of growth (+1.8%) than in the previous year as a result of weak domestic demand and the uncertainty associated with Brexit.
At currency level, 2017 saw the US Dollar becoming progressively weaker compared to the Euro, with the January exchange rate of 1.06 rising to 1.18 in December. Though mitigated by the potential benefits deriving from US tax reform in the Autumn, this negative trend was exacerbated by recovery in the Eurozone and by the re-dimensioning of market expectations after the initial optimism that followed the U.S. presidential elections in 2016.
Italy saw significantly better growth (+1.5%) than in the previous year but at a rate still lower than that of the other main EU economies. Following global trends, Italian growth was driven by excellent export performance and renewed domestic demand, itself encouraged by higher family spending and an increase in industrial investment, with significantly higher expenditure on plant, machinery, patents and vehicles.
Relevant was the boost given by the traditional industry, although there were important signs of recovery also in the services and tourism sectors. A sense of uncertainty nevertheless remains, aggravated by the confused political scenario created by the recent elections and by growth prospects that, as the European Commission recently emphasised, remain low because of the limited potential of the Italian economy and the still fragile state of the country's banking sector.
In engineering, increased domestic demand and a growth in turnover from exports consolidated the positive dynamic begun in late 2014.
Increased industrial output was driven by manufacturers of metal goods and by companies in the engineering and automotive sectors, which saw a rise in exports of over six percentage points compared to 2016, especially to Russia and China.
As confirmed by Federmeccanica, the expansive phase, given the trend in the order backlog and in the production prospects of companies, should continue through the first half of 2018, with a positive effect on employment.
Economic prospects point to a progressive, large-scale consolidation of the global economy and a final end to a crisis that has lasted for the last ten years.
On a global level, the International Monetary Fund is forecasting a further increase in growth for the next two years (+3.9% annual) as a result of recent global trends and the probable impact of U.S. tax reforms, with Brazil and Russia likely to consolidate and stabilise their recoveries.
Further weakening of the Dollar, offsetting the rise in the price of raw materials like oil, could nevertheless hinder the recovery of inflation in the Eurozone, delaying change in the EU's monetary policies and restricting growth in GDP.
Finally, the possibility of EU expansion in conditions of below-target inflation creates an unprecedented situation in which European economists see equal risks of growth and contraction.

AREA OF CONSOLIDATION

As of 31st December 2017, 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 15 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 2017 (see the Notes for further details):

- an increase in the parent company's shareholding in the controlled company O&K Antriebstechnik GmbH, from 55% to 95.5%, achieved through an increase in company capital by the parent company alone and a reduction in the minority shareholding of Carraro Drive Tech S.p.A.

ANALYSIS OF 2017 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.

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

	VALUES			% OF TURNOVER		
RECLASSIFIED INCOME STATEMENT	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
TURNOVER	**808.4**	**788.9**	**730.1**	**100.0%**	**100.0%**	**100.0%**
COST OF SALES	(612.9)	(605.3)	(567.0)	(75.8%)	(76.7%)	(77.7%)
GROSS MARGIN	**195.6**	**183.6**	**163.1**	**24.2%**	**23.3%**	**22.3%**
STRUCTURAL AND OPERATING EXPENSES	(145.0)	(145.9)	(135.5)	(17.9%)	(18.5%)	(18.6%)
EBIT	**50.5**	**37.7**	**27.7**	**6.3%**	**4.8%**	**3.8%**
Financial income (and expenses)	(6.2)	(7.6)	(9.2)	(0.8%)	(1.0%)	(1.3%)
Exchange rate differences	(5.6)	3.3	(3.9)	(0.7%)	0.4%	(0.5%)
PRE-TAX INCOME	**38.7**	**33.3**	**14.5**	**4.8%**	**4.2%**	**2.0%**
Taxes	(14.3)	(19.3)	(9.6)	(2.0%)	(2.4%)	(1.3%)
CONSOLIDATED INCOME AFTER TAX	**24.4**	**14.0**	**5.0**	**3.0%**	**1.8%**	**0.7%**
Minority	(0.9)	4.5	(0.6)	(0.1%)	0.6%	(0.1%)
NET GROUP PROFIT	**23.5**	**18.5**	**4.3**	**2.9%**	**2.3%**	**0.6%**
INCOME STATEMENT - DETAILS						
PERSONNEL COSTS	**(162.6)**	**(157.8)**	**(140.1)**	**(20.1%)**	**(20.0%)**	**(19.2%)**
AMORTIS.,DEPR., WRITE-DOWNS AND PROVISIONS	**(37.2)**	**(36.9)**	**(34.5)**	**(4.6%)**	**(4.7%)**	**(4.7%)**
EBITDA	**87.8**	**74.6**	**62.1**	**10.9%**	**9.5%**	**8.5%**

	VALUES			ROTATION (*)		
BALANCE SHEET	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Net working capital	**219.6**	**212.8**	**209.1**	**98**	**97**	**103**
Fixed assets	220.8	217.0	214.4	98	99	106
Other invested capital	**(43.9)**	**(51.59**	**(39.1)**	**(20)**	**(23)**	**(19)**
Minority	(7.5)	(6.9)	(11.2)	(3)	(3)	(6)
CAPITAL EMPLOYED	**389.0**	**371.4**	**373.2**	**173**	**169**	**184**
Group shareholders' equity	270.1	260.7	240.0	120	119	118
Net Financial Position (NFP)	119.0	110.8	133.3	53	51	66
FUNDS	**389.0**	**371.4**	**373.2**	**173**	**169**	**184**

(*) average turnover rotation days (base 360)

	VALUES			% OF TURNOVER		
TURNOVER BY GEOGRAPHIC AREA	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
EMEA	**454.0**	**446.6**	**422.4**	**56.2%**	**56.6%**	**57.9%**
AME	148.2	155.6	157.8	18.3%	19.7%	21.6%
APAC	**206.2**	**186.7**	**149.9**	**25.5%**	**23.7%**	**20.5%**
TOTAL TURNOVER	**808.4**	**788.9**	**730.1**	**100.0%**	**100.0%**	**100.0%**

	VALUES			DESCRIPTION
INDICATORS	**2017**	**2016**	**2015**	
ECONOMIC				
Net ROE	8.7%	7.1%	1.8%	(Net profit/Shareholders' equity)
ROI	13.0%	10.1%	7.4%	(EBIT/Lending)
ROS	6.3%	4.8%	3.8%	(EBIT/Turnover)
EBITDA/ Net Financial charges	14.2	9.8	6.8	
EQUITY AND STRUCTURAL				
Primary structural balance ratio	1.2	1.2	1.1	(Shareholders' equity/Fixed assets)
Financial indebtedness ratio	0.4	0.4	0.6	(NFP/Shareholders' equity)
NFP/EBITDA ratio	1.4	1.5	2.1	(NFP/EBITDA)
Shareholders' equity tangibility ratio	0.9	0.9	0.8	(Equity-Intangible assets / Equity)
OTHER				
Average number of employees	3721	3710	3655	Annual mean
Turnover per employee	217	213	200	Data expressed in thousands of Euro

In 2017, the Group continued to implement its strategy of growth and expansion by making various investments already included in the 2016 Business Plan drafted with the support of the Boston Consulting Group. These initiatives are intended primarily to rationalise production capacity and to bring plants closer to the Group's Industry 4.0 Strategies by revising production processes with a view to offering customers better service and modernising plant organisation while maintaining a strong human component.
In particular, preparations were completed prior to construction of the EVO Project, destined to become the Group's largest industrial centre in Italy. The plant now under construction on the "Clementino Bonfiglioli" area, of around 150,000 sq.m. will occupy an area of around 60,000 sq.m. along with some 56,000 sq.m. of green areas and parking and will bring together industrial activities currently distributed between the Calderara di Reno and Vignola plants.
In the autumn, work also began on extending the factory in Chennai Thirumudivakkam, India, in order to boost the production capacity of the Mobile & Wind Business Unit. The extension covers an area of 10,000 sq.m. alongside the existing production plant. Also in India, an assembly plant was inaugurated for BU PTS in the city of Pune, with the aim of increasing production capacity and cutting delivery times to customers in the north of the country.
The expansion project of the historic Forlì plant (BU MWS) was also finalized and will be completed in 2018 with a covered area of about 10,000 square meters. Again on the subject of projects designed to increase production capacity and to "digitally enhance" the Group's factories, expansion was completed on the Slovakian plant and inaugurated by the Group's President and CEO during the annual International Meeting.
A further development project concerns the MDS BU and, in particular, for the Rovereto mechatronic research site: a new plant is being designed in collaboration with Trentino Sviluppo, our consolidated partner, with the objective of seizing all possible opportunities presented by the market in this area.
In early 2017, the Group also finalised its new corporate mission, which blends manufacturing traditions with an ability to keep pace with change, to compete more effectively and to take on new challenges, especially in the areas of innovation and sustainability.
The sale of our Indian company's Bangalore branch to our Danish partner KK is also to be reported. In the first few weeks of 2018, Bonfiglioli also sold its minority holding in SKS (Sweden), which is no longer of strategic interest to the Group.

Group turnover in 2017 grew by 2.5% with respect to that of the previous year (808.4 M€ compared to 788.9 M€ in 2016), a decidedly positive performance considering that the photovoltaic business (which accounted for almost 20M€ of turnover) has now been completely phased out.
For a better understanding of turnover dynamics at Business Unit level, figures for the last three years are presented in the following table.

	VALUES			% OF TURNOVER		
TURNOVER BY BUSINESS UNIT	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
PTS	284.6	262.5	252.4	35.2%	33.3%	34.6%
MDS	44.1	35.6	34.5	5.5%	4.5%	4.7%
MWS	478.9	471.2	417.6	59.2%	59.7%	57.2%
PV	0.8	19.6	25.6	0.1%	2.5%	3.5%
TOTAL TURNOVER	**808.4**	**788.9**	**730.1**	**100.0%**	**100.0%**	**100.0%**

The Consolidated Income Statement records Group earnings before interest, taxes, depreciation and amortisation (EBITDA) as 87.8 M€, equivalent to 10.9% of turnover, an improvement over the previous year of +13.2 M€ in absolute value and of +1.4% in percentage terms.

It should also be noted that:

- Cost of sales for 2017 came to 75.8% of turnover. The improvement in profitability over 2016 (+0.9%) should be ascribed primarily to savings and efficiencies in provisioning and production implemented by all Business Units, with BU MWS performing particularly well. Further contributions to increased profitability came from a reduction in the wind sector's percentage of turnover (generally of lower added value) and from the successful minimisation of raw material price increases in general;
- Structural and operating expenses fell by an absolute figure of 0.9 M€, giving an improvement in percentage of turnover (17.9% compared to 18.5% last year);
- Total cost of labour rose from 157.8 to 162.6 M€ but remained substantially unchanged in terms of percentage of turnover (20.1% compared to 20% last year);
- Amortisation, depreciation and other provisions increased slightly in absolute value (+0.3M€) while remaining largely unchanged in terms of percentage of turnover (4.6% compared to 4.7% last year).
- Net financial income and expenses fell slightly, from 1.0% of turnover in 2016 to 0.8% of turnover in 2017. In absolute value, net financial expenses actually fell by 1.4M€ as a result of the finance agreement signed with 4 banks in May 2017, which led to a reduction in the interest rates applied to Group indebtedness. A reduction in the indebtedness of companies subject to high interest rates (above all China and Brazil) and favourable interest rate dynamics within the Eurozone also contributed to this positive effect;
- Variations in exchange rates and especially the fall in value of the US Dollar, Brazilian Real and Chinese Yuan generated losses of 5.6M€, accounting for 0.7% of consolidated turnover (+0.4% compared to 2016).

With regard to the Group's assets and liabilities, Net Working Capital rose in absolute value from 212.8 M€ to 219.6 M€ while remaining substantially unchanged in terms of rotation on sales (from 97 to 98 average rotation days).
Net Financial Position (NFP) saw a 8.2 M€ rise in overall indebtedness (from 110.8 M€ in December 2016 to 119.0 M€ in December 2017) while leaving leverage virtually unchanged at the end of 2017, at an index of 1.4 (1.5 at the end of 2016).

Net investments amount to 38.9 M€. Details are given below:

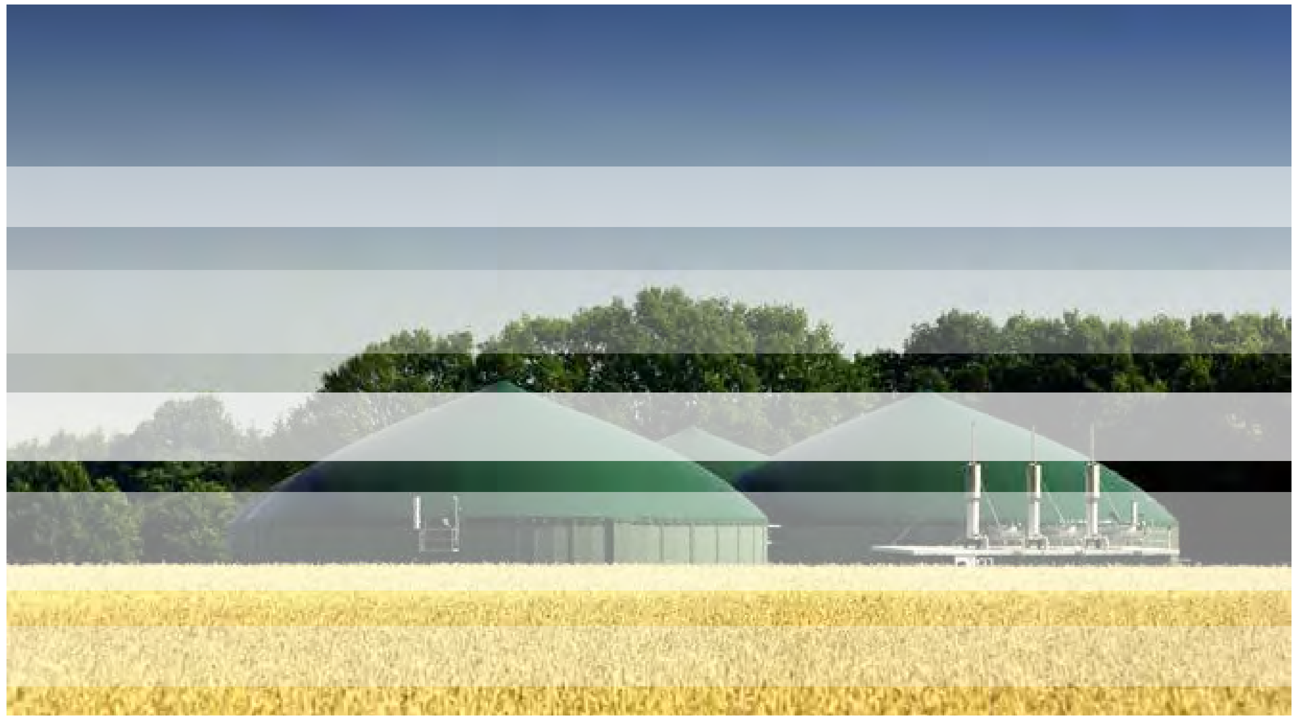
VALUES IN MILLIONS OF EURO

	2017	2016	2015	2014	2013
Land and buildings	9.3	1.9	9.8	(0.5)	1.5
Plant and machinery	7.4	12.0	8.4	4.1	5.2
Equipment	7.9	7.6	3.8	8.7	4.7
Other assets	2.6	2.6	1.6	1.3	1.6
Assets in progress	8.6	1.2	(5.3)	6.0	0.1
TANGIBLE FIXED ASSETS	**35.8**	**25.3**	**18.3**	**19.6**	**13.1**
Software, trademarks, patents	1.7	1.5	0.8	0.7	0.6
Other	1.4	2.0	1.5	1.1	0.9
INTANGIBLE FIXED ASSETS	3.1	3.5	2.3	1.8	1.5
TOTAL INVESTMENTS	**38.9**	**28.8**	**20.6**	**21.4**	**14.6**

The Group's main investments in 2017 are described below:

- Investments in land and buildings were made primarily by Bonfiglioli Slovakia Sro (5.3 M€, net of an additional 0.2 M€ made in late 2016) for the completion of the production plant extension and also by the parent company (3.8 M€), mainly for the purchase of land and buildings for the EVO Project.
- Investments in plants, machinery and equipment were made mainly by the parent company, which spent 4.2 M€ on machinery purchases mainly for the national "Industry 4.0" project. Bonfiglioli Vietnam Ltd also invested in the construction of a new production line (0.8 M€ net of an additional 0.4 M€ invested in late 2016). The parent company also made investments in industrial equipment (4.1M€), mainly for the purchase of moulds and measurement instruments for the Forlì and Calderara di Reno plants. Other significant investments were made by the plants in India (1.5M€), Slovakia (1.3M€) and China (1.3M€).
- Ongoing investments in tangible fixed assets, including the completion of investments in tangible fixed assets begun in 2016, are being made mainly by the parent company (4.9 M€) for expansion work under the EVO Project (2.6 M€) and for advances on industrial machinery (2.9 M€). Other ongoing investments concern the Quinpu plant in China (2.7 M€).
- Investments in software, trademarks and patents mainly cover the purchase of enterprise software by the parent company (1.3 M€ net of an additional 0.3 M€ made in late 2016).
- Investments in other intangible fixed assets mostly concern ongoing expenses for the development of Bonfiglioli Vectron MDS GmbH (1.4 M€).

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 customer bases for the sectors concerned.

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 2017 in the field of Research and Development totalled around 12.5 M€ at Group level. On top of this, total costs of 1.4 M€ were capitalised by Bonfiglioli Vectron MDS.

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

POWER TRANSMISSION SOLUTIONS

PRODUCT PROJECTS

Special projects of varying degrees of complexity were run in 2017 to satisfy specific customer needs: 10% of these, involving special gearboxes, motors and gearmotors, were paid for by the R&D department of the parent company. Other simple "pull" projects were handled by the parent company's Drive Service Center and by other companies in the Group.

The most important standard range developments included projects for the New DC Brake and its associated electronic control system, the self-starting reluctance motor feasibility study, improvements to the 300 Series, the development of new HDO sizes and the Palm Oil HDP gearbox. New sizes were also developed for specific customers in the field of recycling, along with a new range of helical in-line gearmotors better able to respond to demands from the market. A project for a new motor with integrated inverter was also completed.

In the field of digitisation and Industry 4.0, a demo installation of a condition monitoring system was completed, with a connection to the cloud, to monitor both gearmotors and inverters.

Finally, a system was developed to classify components by attributes, accessible from the corporate PLM and ERP (SAP) and therefore available to R&D, production, logistics and provisioning resources. The one classifier will serve all Bonfiglioli Business Units. The classification system defines component classes and attributes that users can include in searches and filters.

In the field of organisational/management projects, Kissys models and databases were implemented, support provided for the development of Mosaico 2.1 and various research projects run with the help of the universities of Ferrara and Modena/Reggio Emilia.

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 2017 are summarised below.

ROVERETO

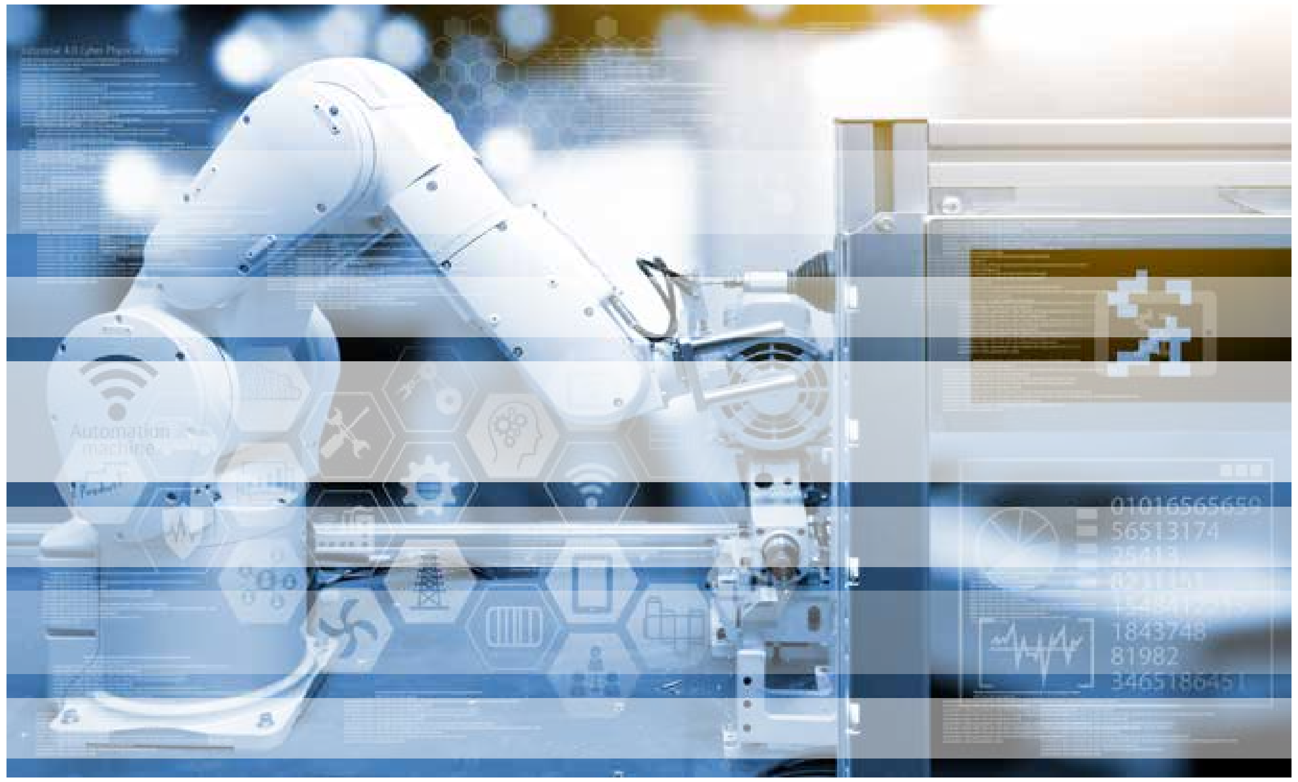
During 2017, the development of the new BSR range of synchronous reluctance motors continued, with design and validation activities completed for the selected technical solutions. Projects were also started to improve brushless servomotors with the aim of optimising performance, simplifying internal process and improving product reliability.

KREFELD

In 2017, the R&D department of Bonfiglioli Vectron MDS focused on research into new strategies and mathematical models for condition monitoring. Initial assessments of the frequency converter and its main components were completed and possible analysis methods identified for forecasting lifetime limits and imminent failures.

The new Active Cube 7 160 KW inverter was developed, achieving an excellent power density and compact dimensions for power ratings up to 160 KW (air cooled) and 200 KW (liquid cooled).

Vectron's R&D department also continued with the development of three new frequency converters begun in the second half of 2016. New market needs, including energy efficiency, grid energy regeneration and the "Industrial Internet of Things" will be satisfied by new product functionality. Particular attention was paid to product usability, with the development of innovative man-machine interfaces for local and remote control based on fixed and mobile devices.



MOBILE & WIND SOLUTIONS

PRODUCTS FOR MOBILE MACHINES

Projects were launched to expand the current offering for the agricultural sector. The extension and implementation of integrated service brakes for wheeled agricultural vehicles also continued.

In the skylift sector, the development of a gearmotor for a 4WD, 4WS hybrid machine capable of operating in the harshest environmental conditions was completed.

GEARBOXES FOR THE MOVEMENT OF TRACKED VEHICLES

Track drive and slewing gearboxes for machines up to 250 tons were developed for the construction and mining sectors using the technologies and synergies of the new group member O&K Antriebstechnik, now fully integrated in the Bonfiglioli Group.

WIND TURBINE PRODUCTS

A project was begun to develop new interior permanent magnet (IPM) motors for pitch and yaw control with the aim of significantly improving the thermal and dynamic performance of drive systems. This project also led to the integration of special fail-safe brakes and transducers, allowing customers to implement new wind turbine control strategies and improve overall reliability while also offering the key benefit of significantly better electrical energy production by the turbine.

MARINE & OFFSHORE

New product versions were developed specifically for applications and customers in the Marine and Offshore market and research is continuing into material types and load sharing, for example, aimed at achieving the type approval requirements of the notified bodies ABS, DNVGL and RS.

ACTIVITIES INDIRECTLY AFFECTING PRODUCTS AND TESTING

In the context of Industry 4.0 and digital transformation, an interconnection system for the corporate intranet was designed and will shortly be implemented to permit the real-time supervision of bench testing and even the possibility of monitoring and controlling tests remotely. A data acquisition and experimental measurement system is also being introduced for use on mobile machines and equipment to obtain real usage figures for market applications with a view to optimising designs and completing validation and verification in a manner coherent with the latest product development processes. In keeping with Group sustainability policies, a new oil recovery and purification system will be introduced during the course of the year to serve test bench power units that use hydraulic fluid under pressure to drive hydraulic motors and, through them, various types of gearbox.

QUALITY, SAFETY, HEALTH AND ENVIRONMENT

2017 saw the launch of Group level activities designed to bring the Bonfiglioli Quality System into line with the requirements of the new ISO 9001:2015 standard. These activities were completed in July 2017 when the Group obtained certification to the new ISO 9001:2015 standard.
In particular, Risk and Opportunity Management has been introduced in conformity to the new requirements: this process uses Context and Interested Parties Analysis to determine the risks and opportunities facing different corporate processes. An action plan has been put in place to mitigate the effects of identified risks and take advantage of opportunities.
2017 also saw the BTPL MWS plant in Chennai (India) and the O&K plant in Hattingen (Germany) included in the Group certificate.
To make the main corporate indicators easier to use, a Group KPI Scorecard, developed using a new software application, was implemented, providing access to available and analysable data from mobile devices and optimising the monitoring of corporate processes.
The Supplier Quality function helped Purchasing to define a Group Vendor List and to launch a project aimed at rationalising the supply chain.
Work continued on the auditing of production processes and the definition of standards valid at Group level, with plants being supported in the installation of new benches/ production lines and in the implementation of process FMEA (Failure Mode and Effects Analysis) for new assembly and machining lines.
With regard to product quality, local quality functions continued to receive support in handling claims and a project was launched to introduce APQP (Advance Product Quality Planning) methodology in the product development process.
The performance of customer ppm (Parts per Million) is particularly positive, as the figure is down by 10% with respect to the previous year.

HUMAN RESOURCES

Total Group workforce remained substantially stable, falling from 3,632 at the end of 2016 to 3,631 at the end of 2017. The parent company employs 1,305 persons, while 1,473 are employed by other production companies, 375 by commercial branches in Europe and 478 by commercial branches overseas.
2017 saw a number of important projects running in the area of Human Resources.
Intensive search and selection activities were completed on a global level, leading to 64 new employees being taken on in Italy alone, 41 below the age of 33, demonstrating the Group's focus on young people and their professional development.
As in the last four years, all new employees attended a "Welcome on Board" event that brought together everybody employed by Bonfiglioli Riduttori and Bonfiglioli Mechatronic Research over the last 12 months. The event was held on 1st December in Forlì and provided an opportunity to present the main projects the Group will be running over the next few years.
Demonstrating the Group's commitment to young people, the School-Work Alternation project was extended in 2017 in Italy and elsewhere and numerous factory visits were arranged for middle and high school students to experience life within the Group.
2017 also stood out for the continued implementation of a sustainable model of industrial relations in Italy. Implementation of this system led to the signing, on 22 September, of an integrative corporate contract approved by 95% of the workforce that will remain in force until 31 December 2020. The contract contains important innovations in the field of social solidarity and the valorisation of skills and professionalism and regulates the three fundamental aspects of participation, innovation and welfare. On the subject of welfare, it is important to point out that a very large number of employees joined the B-Welfare flexible benefits scheme introduced in July. Over 90% of the population of the Group's Italian companies spent the budget available to them on the purchase and/or reimbursement of innumerable goods and services offered through the digital platform, demonstrating just how effective this tool has proved in satisfying real user needs.
Following on progress made in recent years, training remained an important activity in 2017 with initiatives involving all Group companies. A total of over 12,000 hours of training, centrally coordinated and customised to meet different local needs, was delivered to more than 620 people following various transversal development paths. The Group's managers played a major role in promoting training as part of People Management. Also worth noting are the partnership initiatives with excellent organisations such as ESCP and IESE, which led to 10 employees taking part in executive training courses and an undertaking to offer quality training to younger individuals.
Closely linked with training is the question of personal development: 2017 was a highly successful year in terms of Overall Performance and, as with training, activities in this area involved colleagues from all parts of the world. The 2017 performance management system was extended with respect to that of 2016, involving over 200 persons in Middle Management and Top Management globally. 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.
Finally, 2017 saw the launch of the "Bonfiglioli Digital Re-training" programme, a professional re-training project that supports workers in the process of digitisation and adopts an inclusive approach that offers real opportunities for learning and growth. The cue for this initiative was the by now imminent inauguration of the EVO plant, which will contain a concentration of Industry 4.0 technology. The training, which has already begun with a pilot project, will allow those involved to develop new technical skills while simultaneously reducing resistance to change by focusing heavily on cultural aspects. This pioneering project is unique at national level.

INFORMATION TECHNOLOGY

On the infrastructure level, the trials and proofs of concepts begun in 2016 to prepare the way for a better-informed adoption of hybrid cloud technologies led to the migration of the SAP corporate ERP (used in over twenty Group companies by a total of over 1600 employees) from the overly traditional architecture of IBM iSeries AS400 servers and IBM DB2 databases to a modern, open architecture balanced between private and public (Microsoft Azure) cloud platforms.

Work also began on replacing the servers in plants and companies in Italy and elsewhere with hyper-convergent solutions designed to minimise setup times, critical service outage risks and above all total cost of ownership (TCO). 5 sites are already up and running and another 8 will follow in 2018. Work on improving the system will end in 2019.

The process of modernising our network infrastructure also began in 2017, focusing initially on smaller and/or more distant sites. Implementation of the Cisco-Meraki solution will simplify the management of intra-group VPNs and allow us to prioritise network traffic, with particular reference to WIFI networks.

On the applications front, activation of the new CRM (Customer Relationship Management) platform based on Salesforce technology is continuing and moving outside Europe: the United States, India and China are already able to work on the same platform. The project is scheduled to end in mid-June 2018.

A sales force automation component was also added to the CRM platform. This is of fundamental importance to speeding up the sales process as it permits the management of sales offers on the basis of product configurations and prices aligned with the ERP system.

This functionality played a key part in the launch, in May 2017, of the Mosaico 2.0 e-commerce platform.

The new Mosaico system replaces that launched over ten years ago: it introduces a far more modern interface along with functionalities not available in the old system (the explosion of bills of material for configured products, the alignment of product configuration options with those in the corporate ERP system and the monitoring of order progress right up to invoicing). The new system can also be used outside Italy.

Cybersecurity reinforcement activities also continued, supported by the adoption of both technical and organisational measures. On this subject, the campaign is continuing to raise users' awareness of the dangers of phishing and other similar cyber-threats. Simulated phishing campaigns are being run to verify the ability of Bonfiglioli users to deal with this kind of attack. All those who fall victim receive further on-line training.

At the International Meeting that Bonfiglioli holds annually and that welcomes to Bologna over two hundred colleagues, mainly from the Group's foreign companies, a special section was dedicated to the theme of cyber-attacks and a practical session was arranged to demonstrate the risks deriving from an uninformed use of internet technologies.

BUSINESS OUTLOOK

Orders received in the first two months of 2018 are significantly over than in the same period of the previous year (+28%), with a positive effect on all areas of business: PTS (+11%), MWS (+37%) and MDS (+27%). In geographic terms, most countries have contributed to this increase in orders: China, Brazil, India, Spain and the United States have done particularly well while results from South Africa and South East Asia have been more hesitant.

In terms of consolidated turnover for the first two months of 2018, growth of 14% has been recorded compared to the same period of the previous year. All BUs are performing well, with BU MWS recording +15%, BU PTS +11% and BU MDS +19%.

While it is premature to draw conclusions as to performance in the 2018 business year, given the complexity and turbulence of the markets and economic, fiscal and legislative policies, we believe that the Group should see significantly higher sales from all BUs, though the high growth rates of the first two months are unlikely to be maintained.

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.

Calderara di Reno (Bo), March 29th, 2018
for The Board of Directors
The Chairman
Sonia Bonfiglioli

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31ST, 2017

THIS SECTION HAS BEEN TRANSLATED INTO ENGLISH SOLELY FOR THE CONVENIENCE OF INTERNATIONAL READERS

CONSOLIDATED FINANCIAL STATEMENT AS OF DECEMBER 31, 2017

CONSOLIDATED BALANCE SHEET

(Euro Thousand)

ASSETS	2017	2016
B) Fixed assets (net of cumulated depreciation)		
I. Intangible fixed assets		
1) Start up costs	38	35
2) Development costs	2,176	-
3) Patents and rights to use intellectual properties	3,255	2,865
4) Concessions, licenses, trademarks and similar rights	6,761	7,363
5) Goodwill and consolidation differences	13,729	16,280
6) Assets in progress and advances	2,387	4,036
7) Other intangible fixed assets	4,959	5,676
Total Intangible fixed assets	**33,305**	**36,255**
II. Tangible fixed assets		
1) Land and buildings	108,651	108,127
2) Plant and machinery	38,967	42,350
3) Industrial and commercial equipments	17,446	16,829
4) Other tangible fixed assets	6,109	5,432
5) Assets in progress and advances	16,255	7,968
Total Tangible fixed assets	**187,428**	**180,706**
III. Financial fixed assets		
1) Investments		
dbis) other companies	80	76
Total Financial fixed assets	**80**	**76**
B) TOTAL FIXED ASSETS (NET OF CUMULATED DEPRECIATION)	**220,813**	**217,037**
C) Current assets		
I. Inventory		
1) Raw materials, supplies and consumables	30,687	25,929
2) Work in progress and semifinished goods	83,700	71,594
4) Finished goods and goods for resale	99,625	92,970
5) Advances	658	158
Total Inventory	**214,670**	**190,651**

CONSOLIDATED BALANCE SHEET

(Euro Thousand)

ASSETS		2017	2016
II. Receivables			
1) Trade receivables			
- due within 12 months		189,948	187,583
5-bis) Tax receivables			
- due within 12 months		4,826	9,284
- due after 12 months		5,752	1,344
	Subtotal	10,578	10,628
5-ter) Deferred tax assets			
- due within 12 months		29,609	9,224
- due after 12 months		8,783	28,988
	Subtotal	38,392	38,212
5-quater) Other receivables			
- due within 12 months		4,369	3,627
- due after 12 months		3,372	3,866
	Subtotal	7,741	7,493
Total Receivables		**246,659**	**243,916**
III. Current financial assets			
5) Positive financial derivatives		153	55
6) Other securities		207	205
Total Current financial assets		**360**	**260**
IV. Cash at bank and on hand			
1) Banks		28,251	25,047
2) Cheques		-	1
3) Cash on hand		56	45
Total Cash at bank and on hand		**28,307**	**25,093**
C) TOTAL CURRENT ASSETS		**489,996**	**459,920**
D) Prepaid expenses and accrued income		**818**	**1,787**
TOTAL ASSETS		**711,627**	**678,744**

CONSOLIDATED BALANCE SHEET

(Euro Thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	2017	2016
A) Shareholders' equity		
I. Share capital	50,000	30,000
III. Revaluation reserves	40,550	60,550
IV. Legal reserve	6,000	6,000
VI. Other reserves		
-) Extraordinary reserve	61,713	43,831
-) Consolidation reserve	16,965	16,965
-) Foreign exchange currency conversion reserve	(5,718)	5,877
-) Other reserves	5,452	5,474
Subtotal	78,412	72,147
VII. Reserves for hedging	(228)	(116)
VIII. Retained earnings (losses) carried forward	71,875	73,572
IX. Net income (loss) of the Group	23,454	18,522
GROUP SHAREHOLDERS' EQUITY	**270,063**	**260,675**
Minority interests share capital and reserves	6,552	11,393
Minority interests net income (loss)	942	(4,487)
Total Minority Interests	**7,494**	**6,906**
A) CONSOLIDATED SHAREHOLDERS' EQUITY	**277,557**	**267,581**
B) Reserves for risks and charges		
1) Termination indemnity and similar liabilities	11,225	11,394
2) Tax Reserve	1,232	790
2bis) Deferred taxes liabilities	7,511	8,328
3) Negative financial derivatives	425	460
3bis) Consolidated reserve for future losses	269	269
4) Other reserves	31,307	31,992
B) TOTAL RESERVES FOR RISKS AND CHARGES	**51,969**	**53,233**
C) EMPLOYEE SEVERANCE INDEMNITY RESERVE	**10,362**	**10,796**

CONSOLIDATED BALANCE SHEET

(Euro Thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	2017	2016
D) Payables		
1) Bonds		
- due after 12 months	2,625	2,625
Subtotal		
4) Banks		
- due within 12 months	60,433	57,732
- due after 12 months	78,376	67,635
Subtotal	138,809	125,367
5) Other financial institutions		
- due within 12 months	1,654	2,289
- due after 12 months	4,390	5,785
Subtotal	6,044	8,074
6) Advances		
- due within 12 months	5,348	3,201
7) Trade payables		
- due within 12 months	179,662	162,257
12) Tax payables		
- due within 12 months	2,463	10,450
- due after 12 months	41	92
Subtotal	2,504	10,542
13) Social security		
- due within 12 months	9,037	8,353
14) Other payables		
- due within 12 months	23,140	23,530
- due after 12 months	2,522	2,615
Subtotal	25,662	26,145
D) TOTAL PAYABLES	**369,691**	**346,564**
E) TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**2,048**	**570**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**711,627**	**678,744**

CONSOLIDATED INCOME STATEMENT

(Euro Thousand)

	2017	2016
A) Production value		
1) Net revenue from sales and services	808,442	788,913
2) Change in work in progress, semi-finished and finished goods	27,490	(6,485)
4) Assets increase for internal works	1,411	357
5) Other revenues and incomes		
- operating grants	1,391	1,063
- others	15,974	14,246
Subtotal	17,365	15,309
A) TOTAL PRODUCTION VALUE	**854,708**	**798,094**
B) Production costs		
6) Raw materials, supplies, consumables & goods for resale	480,306	432,390
7) Services	115,274	117,609
8) Use of third party assets	9,930	9,779
9) Personnel		
a) Wages and salaries	123,252	120,013
b) Social contributions	33,118	31,619
c) Severance indemnity	4,375	4,347
d) Pension and retirement costs	723	531
e) Other costs	1,082	1,321
Subtotal	162,550	157,831
10) Depreciation, amortization and write-downs		
a) Amortization of intangible fixed assets	5,670	4,976
b) Depreciation of tangible fixed assets	21,168	20,886
c1) Intangible fixed assets write off	40	189
c2) Tangible fixed assets write off	3,895	400
d) Bad debts provision	3,504	3,231
Subtotal	34,277	29,682
11) Change in raw materials, supplies, consumables & goods for resale	(6,260)	897
13) Other provisions	2,954	7,244
14) Other operating expenses	5,141	4,977
B) TOTAL PRODUCTION COSTS	**804,172**	**760,409**
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS (A–B)	**50,536**	**37,685**

CONSOLIDATED INCOME STATEMENT

(Euro Thousand)

	2017	2016
C) Financial income and expenses		
16) Other financial income		
d) other income from		
- others	1,307	1,057
17) Interest expenses and other financial charges		
d) other	(7,467)	(8,703)
17bis) Exchange rate gains and losses, net	(5,638)	3,304
Subtotal	(13,105)	(5,399)
C) TOTAL FINANCIAL INCOME AND EXPENSES	**(11,798)**	**(4,342)**
D) Adjustments to financial assets and liabilities		
18) Revaluations		
c) securities current assets write up	2	2
D) TOTAL ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES	**2**	**2**
INCOME BEFORE TAXES (A–B±C±D)	**38,740**	**33,345**
20) Income taxes		
- current	(15,608)	(18,119)
- deferred	1,580	(47)
- other components of direct taxes	-	(227)
- direct taxes related previous years	(316)	(917)
20) TOTAL INCOME TAXES	**(14,344)**	**(19,310)**
21) NET INCOME (LOSS) INCLUDING MINORITY INTEREST	**24,396**	**14,035**
Minority interest (income)/loss	(942)	4,487
NET INCOME (LOSS) OF THE GROUP	**23,454**	**18,522**

CASH FLOW STATEMENT DEFINED WITH INDIRECT METHOD

(Euro Thousand)

	2017	2016
A. Cash flows from operating activities (indirect method)		
Income (Loss) for the year - Group	**23,454**	**18,522**
Income (Loss) for the year - Thirds	**942**	**(4,487)**
Income taxes	14,344	19,310
Negative Interests/(Positive interests)	6,160	7,646
(Gain)/losses from tangible assets	(58)	89
(Gain)/losses from intangible assets	-	4
1. Income (Loss) for the year before income taxes, interests, dividends and gain/losses from dismissal	**44,842**	**41,084**
Adjustments for non-cash items that had no counterpart in net working capital		
Provisions:		
- Bad Debt Reserve	3,504	3,231
- Warranty	2,954	6,200
- Restructuring	-	1,044
- Pension fund	723	531
Depreciation	21,168	20,886
Amortization	5,670	4,976
Write-downs for impairment losses tangible	3,895	400
Write-downs for impairment losses intangible	40	189
Derivative value adjustments	(133)	480
Other adjustments for non monetary items	2	-
2. Cash Flow before net working capital variations	**82,665**	**79,021**
Net Working Capital variations		
Decrease/(increase) of inventory	(24,019)	4,286
Decrease/(increase) of trade receivables	(5,869)	769
Increase/(decrease) of trade payables	17,405	(11,299)
Increase/(decrease) of advances from customers	2,147	(664)
Decrease/(increase) positive accruals and deferrals	332	259
Increase/(decrease) negative accruals and deferrals	1,224	(40)
Minority variation	(354)	197
Other variation of working capital	2,184	(1,522)
3. Cash Flow after net working capital variations	**75,715**	**71,007**
Other adjustments		
Interest cashed/(paid)	(5,269)	(7,330)
(Income taxes paid)	(25,118)	(12,544)
Provisions utilization	(4,965)	(1,679)
Cash flows from operating activities (A)	**40,363**	**49,454**

CASH FLOW STATEMENT DEFINED WITH INDIRECT METHOD

(Euro Thousand)

	2017	2016
B. Cash flows from Investment activity		
Tangible assets		
(Investments)	(36,366)	(27,507)
Dismissal	611	2,237
+/- FX effect	3,970	(314)
Capital Gains/(Losses)	58	(89)
Intangible assets		
(Investments)	(3,160)	(3,503)
Dismissal	2	21
+/- FX effect	398	34
Capital Gains/(Losses)	-	(4)
Financial assets		
(Investments)	(4)	(9)
Financial assets that are not fixed		
(Investments)	(4)	(205)
Cash flows from Investment activity (B)	**(34,495)**	**(29,339)**
C. Cash flows from financial activity		
Third-party funding		
Increase (decrease) payables to banks and other financial inst.	21,250	(25,816)
New loans	101,097	23,801
(loans reimbursement)	(110,935)	(16,887)
Own funds		
Bonds variation	-	(125)
FEX variation on Equity	(11,595)	2,264
Derivatives reserves variation	(112)	(92)
Other variation on Group Equity	1	1
Dividends (and interim dividends) paid	(2,360)	(8)
Cash flows from financial activity (C)	**(2,654)**	**(16,862)**
Increase (decrease) in cash and equivalents (A ± B ± C)	**3,214**	**3,253**
Cash and cash equivalents at January 1st	**25,093**	**21,840**
of which:		
bank and postal deposits	25,047	21,792
cheques	1	-
cash	45	48
Cash and cash equivalents at December 31st	**28,307**	**25,093**
of which:		
bank and postal deposits	28,251	25,047
cheques	-	1
cash	56	45
Cash flow	**3,214**	**3,253**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

THIS SECTION HAS BEEN TRANSLATED INTO ENGLISH SOLELY FOR THE CONVENIENCE OF INTERNATIONAL READERS

FOREWORD

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 and according to Italian Accounting principles issued by OIC as modified by amendments published on December 29th, 2017, valid for financial statements starting from January 1st, 2017 or from following dates.
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 additionally annexed to the Notes (Annexed A).
As regards the nature of the activities conducted by the Group and related performance, 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 31st December 2017 are as follows:

DENOMINATION	COUNTRY	CURRENCY	SHARE CAPITAL	SHAREHOLDING	
				31/12/17	31/12/16
Bonfiglioli Riduttori S.p.A.	Italy	€	50,000,000	Parent Company	
Bonfiglioli Italia S.p.A. Unipersonale	Italy	€	16,000,000	100%	100%
Bonfiglioli Canada Inc.	Canada	CAD	2,000,000	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	United Kingdom	GBP	200,000	100%	100%
Bonfiglioli Power Transmissions 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	1,281,818,180	100%	100%
Bonfiglioli Drives (Shanghai) Co. Ltd	China	USD	30,000,000	83.33%	83.33%
Bonfiglioli Vectron GmbH (**)	Germany	€	500,000	100%	100%
Bonfiglioli Slovakia Sro	Slovakia	€	14,937,263	100%	100%
Bonfiglioli Power Trasmission Jsc	Turkey	TRY	8,000,000	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 S.p.A Unipersonale	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%	83.33%
Bonfiglioli Vectron MDS GmbH (**)	Germany	€	25,000	100%	100%
Tecnotrans Bonfiglioli Sa	Spain	€	2,175,000	95%	95%
O&K Antriebstechnik GmbH	Germany	€	1,000,000	95.50%	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
(*****) Owned at 2.48% by Bonfiglioli Vectron GmbH

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

- contribution of assets pertaining the business ex photovoltaic (from which the Group exited in July 2016) from Indian subsidiary "Bonfiglioli Renewable Power Conversion Ltd" to Indian subsidiary "Bonfiglioli Power Transmissions Pvt Ltd". The transaction has been finalized in November 2017 through share capital increase paid in nature and allotment of shares for 2.48% to German subsidiary "Bonfiglioli Vectron GmbH";
- reduction to cover losses and re-establishment of the share capital of subsidiary "O&K Antriebstechnik GmbH", through payment by only Bonfiglioli Riduttori S.p.A. shareholder, occurred in November 2017 that diluted

minority shareholder at 4.5%;

- reduction to cover losses and re-establishment, through receivables decrease, of share capital of subsidiary "Bonfiglioli Turkey JSC" occurred in December 2017 that brought subsidiary share capital to the actual 8 MTRY (around 1.8 M€);
- share capital reimbursement by subsidiary "Bonfiglioli Canada Inc" occurred in December 2017 which involved 2 MCAD return (around 1.3 M€).

CONSOLIDATION AREA CHANGES

With respect to the Consolidated Financial Statement of 31.12.2016, 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 2017	P.L. EXCHANGE RATE 2017	B.S. EXCHANGE RATE 2016	P.L. EXCHANGE RATE 2016
Bonfiglioli U.K. Ltd	GBP	0.88723	0.87667	0.856	0.819
Bonfiglioli Canada Inc.	CAD	1.5039	1.4647	1.419	1.466
Bonfiglioli USA Inc.	USD	1.1993	1.1297	1.054	1.107
Bonfiglioli Transmission (Aust) Pty Ltd	AUD	1.5346	1.4732	1.460	1.488
Bonfiglioli Power Transmissions Pty Ltd	ZAR	14.8054	15.049	14.457	16.268
Bonfiglioli Transmission Pvt Ltd	INR	76.6055	73.5324	71.593	74.372
Bonfiglioli Renewable Power Conversion India Pvt Ltd	INR	76.6055	73.5324	71.593	74.372
Bonfiglioli Drives (Shanghai) Co. Ltd.	CNY	7.8044	7.629	7.320	7.352
Bonfiglioli Trading (Shanghai) Co. Ltd	CNY	7.8044	7.629	7.320	7.352
Bonfiglioli Power Trasmission JSC	TRY	4.5464	4.1206	3.707	3.343
Bonfiglioli Redutores Do Brasil Ltda	BRL	3.9729	3.6054	3.430	3.856
Bonfiglioli South East Asia Pte Ltd	SGD	1.6024	1.5588	1.523	1.528
Bonfiglioli Vietnam Ltd	VND	27,223.00	25,661.50353	23,991.80	24,753.84

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;
- 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 revaluated 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:

20%	20%	20% - 33.33%	5% - 33.33%	10% - 20%	20%*
START-UP COSTS	DEVELOPMENT COSTS	PATENTS & RIGHT TO USE INTELLECTUAL PROPERTY	CONCESSIONS, LICENCES, TRADEMARKS AND SIMILAR RIGHTS	GOODWILL	OTHER

(*) or other specific rates tied, for example, to the term of the contracts to which the fixed assets refer

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:

2% TO 10%	10% TO 25%	10% TO 30%	10% TO 30%
BUILDINGS	PLANT AND MACHINERY	INDUSTRIAL / COMMERCIAL EQUIPMENT	OTHER ASSETS

EQUITY 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 revaluated 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.

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 rate variations.

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	69	19	-	-	88
- Development costs	-	-	-	2,720	2,720
- Patents & rights to use intellectual property	25,413	893	(31)	1,525	27,800
- Concessions, licences & trademarks	8,963	11	-	(755)	8,219
- Goodwill	17,983	-	(35)	-	17,948
- Assets in progress and advances	4,036	1,921	-	(3,570)	2,387
- Other	9,283	317	(1,983)	(111)	7,506
Total (A)	**65,747**	**3,161**	**(2,049)**	**(191)**	**66,668**
ACCUMULATED AMORTISATION					
- Start-up costs	34	16	-	-	50
- Development costs	-	544	-	-	544
- Patent & rights to use intellectual property	22,548	1,556	(29)	470	24,545
- Concessions, licences & trademarks	1,600	385	-	(527)	1,458
- Goodwill	1,703	2,551	(35)	-	4,219
- Other	3,607	658	(1,983)	265	2,547
Total (B)	**29,492**	**5,710**	**(2,047)**	**208**	**33,363**
NET VALUES					
- Start-up costs	35	3	-	-	38
- Development costs	-	(544)	-	2,720	2,176
- Patents & rights to use intellectual property	2,865	(663)	(2)	1,055	3,255
- Concessions, licences & trademarks	7,363	(374)	-	(228)	6,761
- Goodwill	16,280	(2,551)	-	-	13,729
- Assets in progress and advances	4,036	1,921	-	(3,570)	2,387
- Other	5,676	(341)	-	(376)	4,959
Total (A-B)	**36,255**	**(2,549)**	**(2)**	**(399)**	**33,305**

The "other changes" column includes the effect of the exchange rates fluctuation, as well as reclassifications made for a more homogeneous presentation of various items.
In keeping with art.10 of Italian Law 72/83 an indication is provided of assets still recognised in equity for which monetary revaluation has been carried out, specifying the relative amounts as 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.

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 principally due to expenses sustained by the Parent Company for the share capital increase transaction.

DEVELOPMENT COSTS
This caption includes costs for the "SMART GEARBOX" development project co-financed by the Trentino region, sustained by the company "Bonfiglioli Mechatronic Research SpA" to realize high efficiency mechatronic systems, that were recorded in the financial statements with the consent of the Statutory Auditors.

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.
The increase during the year is mainly due to purchase and software implementation for information technology management by Parent Company and by Indian subsidiary "Bonfiglioli Power Transmission Pvt Ltd".

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	2,226	20%
O&K Antriebstechnnik GmbH	11,503	10%
Total	**13,729**	

The changes during the year pertain to amortization.

ASSETS IN PROGRESS AND ADVANCES

The increase for the year is tied, for 1.4 M€, to the Development project "BPD" for the realization of a new generation inverter by the company "Bonfiglioli Vectron MDS GmbH". The project has a realising time horizon of 3 years and it is planned to start amortization in 2020 in correlation with the new product' sales start. Other increases of the year are connected 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	145,478	5,388	(4)	564	151,426
- Plant and machinery	225,074	6,808	(1,586)	(2,702)	227,594
- Industrial and commercial equipment	99,311	7,824	(1,266)	(1,066)	104,803
- Other assets	25,760	2,734	(1,233)	(427)	26,834
- Assets in progress and advances	7,968	13,693	(175)	(5,231)	16,255
Total (A)	**503,591**	**36,447**	**(4,264)**	**(8,862)**	**526,912**
ACCUMULATED DEPRECIATION					
- Land and buildings	37,351	7,089	-	(1,665)	42,775
- Plant and machinery	182,724	9,474	(1,580)	(1,991)	188,627
- Industrial and commercial equipment	82,482	6,727	(1,028)	(824)	87,357
- Other assets	20,328	1,773	(1,045)	(331)	20,725
Total (B)	**322,885**	**25,063**	**(3,653)**	**(4,811)**	**339,484**
NET VALUE					
- Land and buildings	108,127	(1,701)	(4)	2,229	108,651
- Plant and machinery	42,350	(2,666)	(6)	(711)	38,967
- Industrial and commercial equipment	16,829	1,097	(238)	(242)	17,446
- Other assets	5,432	961	(188)	(96)	6,109
- Assets in progress and advances	7,968	13,693	(175)	(5,231)	16,255
Total (A-B)	**180,706**	**11,384**	**(611)**	**(4,051)**	**187,428**

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 Slovak subsidiary (3.9 M€).

With reference to the item "Land and Buildings", it is noted that the caption includes the variation of the value of the building in Vignola site by the Parent Company (3.6 M€) necessary to align the value recorded in financial statements to the market value.

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 amounts:

DESCRIPTION:	REV. L. 72/83	REV. L. 413/91	REV. L. 342/2000	RIV. L. 2/2009	OTHER	TOTAL
- Land and buildings	406	2,264	-	32,766	225	35,661
- Plant and machinery	224	-	13,145	-	155	13,524
- Industrial / commercial equipment	153	-	-	-	-	153
- Other assets	19	-	-	-	-	19
Total	**802**	**2,264**	**13,145**	**32,766**	**380**	**49,357**

It is clarified that the revaluation pursuant to Italian Law 2/2009 has led to a 230 K€ increase in depreciation on the 2017 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	76	4	-	-	80
Total	**76**	**4**	**-**	**-**	**80**

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

WORKING CAPITAL

INVENTORY

A breakdown is given below:

	31/12/2017	31/12/2016	CHANGES
Raw materials, supplies and consumables	30,687	25,929	4,758
Work in progress and semi-finished goods	83,700	71,594	12,106
Finished goods and goods for resale	99,625	92,970	6,655
Advances	658	158	500
Total	**214,670**	**190,651**	**24,019**

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

	31/12/2017	31/12/2016	CHANGES
Raw and consumable materials	6,758	7,620	(862)
Semi-finished products	16,093	16,797	(704)
Finished goods and goods for resale	11,111	11,955	(844)
Total	**33,962**	**36,372**	**(2,410)**

Changes in the obsolescence provision are shown below:

	2017	2016
Opening value	36,372	35,460
Increases	1,813	4,733
Decreases	(2,891)	(3,958)
Other changes	(1,332)	137
Closing value	**33,962**	**36,372**

The increase in inventories, mainly connected with slowdown in wind sector occurred in India and to higher inventories required in Chinese subsidiaries and in O&K due to strong increase in sales order collection, has been accompanied by a reduction of obsolescence reserve obtained by the Group's thanks to actions to improve stock rotation in all the companies. Rotation index shows a decline from 87 at 2016 yearend to 96 average days at the end of 2017.

RECEIVABLES

TRADE RECEIVABLES

A breakdown is given below:

	31/12/2017	31/12/2016	CHANGES
Trade receivables from customers	214,234	210,326	3,908
(minus) Bad debt reserve	(24,286)	(22,743)	(1,543)
Total	**189,948**	**187,583**	**2,365**

The trend of trade receivables and related average rotation on sales remain at 2016 level (85 days at 2017 yearend and 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:

	2017	2016
Opening value	22,743	21,067
Provisions	3,504	3,231
Applications	(1,223)	(1,568)
Other changes	(738)	13
Closing value	**24,286**	**22,743**

Breakdown of trade receivables by geographical area:

	2017	2016
Italy	52,794	47,110
Europe	65,752	58,986
Overseas	71,402	81,487
Total	**189,948**	**187,583**

OTHER RECEIVABLES

A breakdown is given below:

	31/12/2017	31/12/2016	CHANGES
Tax receivables	10,578	10,628	(50)
Deferred Tax assets	38,392	38,212	180
Receivables from others	7,741	7,493	248
Total	**56,711**	**56,333**	**378**

Tax receivables can be broken down as follows:

	2017	2016
SHORT-TERM RECEIVABLES		
Direct Tax Receivables	276	-
Indirect Tax Receivables	4,417	8,047
Other	133	1,237
Total short-term tax credits	**4,826**	**9,284**
MID-LONG-TERM RECEIVABLES		
Direct Tax Receivables	773	1,324
Indirect Tax Receivables	4,979	-
Other	-	20
Total mid-long-term tax credits	**5,752**	**1,344**
TOTAL	**10,578**	**10,628**

The caption Indirect Taxes Receivables Mid-long-term is connected to a reclassification of a receivable recorded in 2016 within short-term receivables by Brazilian subsidiary whose settlement has been estimated after one year, but within five years.
Mid-long-term Direct Tax receivables refer to the receivable, booked by the Parent Company and "Bonfiglioli Italia S.p.A.", for income tax reimbursement (IRES) due to higher IRAP deductions recognized for 2007-2011 fiscal years as per Italian Law Decree no. 201/2011. Related settlement is expected within next five years.

Changes in Deferred tax assets are as follows:

	2017	2016
Opening balance	38,212	38,395
Provisions	5,181	4,270
Applications	(3,436)	(4,443)
Changes in rate	(844)	(55)
Other changes	(721)	45
Closing Balance	**38,392**	**38,212**

Other receivables can be broken down as follows:

	2017	2016
SHORT-TERM RECEIVABLES		
Receivables from employees	830	699
Advances to suppliers for services	1,273	1,157
Receivables from social security institutions	449	451
Insurance refunds	16	1,060
Guarantee deposits	313	11
Other	1,488	249
Total other short-term receivables	**4,369**	**3,627**
MID-LONG-TERM RECEIVABLES		
Receivables for pensions fund insurance	2,779	2,869
Guarantee deposits	560	488
Other	33	509
Total other mid-long-term receivables	**3,372**	**3,866**
TOTAL	**7,741**	**7,493**

The increase in receivables for advance to suppliers is mainly connected to the dynamics of payment of the Parent Company.
The increase in other receivables is mainly connected with the posting done by subsidiary "Bonfiglioli Mechatronic Research SpA" of a receivable of 1.4 M€ from APIAE (a Trentino region's authority) pertaining the contribution connected with development project approved in 2012 whose costs are posted in intangible fixed assets. Having opted for the "indirect" accounting method, the contribution has been recorded by competence based on estimated useful life of the assets to which it refers (five years) hence for 1/5 in caption A5 -Other revenues and income and for the residual amount deferred for competence to following years, through caption deferred income, to grant correlation within costs and revenues.
There are no receivables due in a period beyond five years.

CURRENT FINANCIAL ASSETS

A breakdown is given below:

	31/12/2017	31/12/2016	CHANGES
Positive financial derivatives	153	55	98
Other securities	207	205	2
Total	**360**	**260**	**100**

POSITIVE FINANCIAL DERIVATIVES

The full caption refers to the total balance of positive fair value of derivatives connected with purchase/sell of forward currency in place at December 31st, 2017. The caption can be broken down as follows:

	2017	2016
USD sales	40	-
GBP sales	3	22
AUD sales	110	25
EUR purchase	-	8
Total	**153**	**55**

OTHER SECURITIES

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

CASH AT BANKS AND ON HAND

	31/12/2017	31/12/2016	CHANGES
Bank and post office deposits	28,251	25,047	3,204
Cheques	-	1	(1)
Cash and cash equivalents	56	45	11
Total	**28,307**	**25,093**	**3,214**

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 EXPENSENS AND ACCRUED INCOME

Breakdown:

	2017	2016
Advertising	43	160
Insurance policies	143	152
Bank commissions	252	915
Hire charges and rentals	78	70
Other	302	490
Total	**818**	**1,787**

The decrease in prepaid expenses for bank commissions is to be reconnected with the new financing agreement signed by the Parent Company, recorded in financial statement at amortized cost, that caused cancellation of previous financing agreement's commissions. Further details will be given below.

SHAREHOLDERS' EQUITY

On April 21st 2017, a share capital increase for free has been finalized for a total amount of € 20,000,000 through utilization for same amount of Revaluation Reserve ex L. 342/2000. At 31/12/2017 the overall share capital of € 50,000,000 was represented by 50,000,000 ordinary shares with par value of € 1 each.

RECONCILIATION STATEMENT BETWEEN NET EQUITY AND INCOME FOR THE YEAR AT 31 DECEMBER 2017 OF PARENT COMPANY BONFIGLIOLI RIDUTTORI S.P.A.

	RESULT FOR THE YEAR	SHAREOLDERS' EQUITY
Bonfiglioli Riduttori S.p.A. statutory financial statement	**12,574**	**196,456**
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	13,163	104,209
Dividend distributed by Parent Company	-	(2,351)
Shareholders' equity and profit attributable to minority interests	(942)	(7,494)
Elimination of infragroup profits on stock	(893)	(23,686)
Reversal of extraordinary infragroup transactions (injections/sales of branches)	291	(1,486)
Leasing agreements recorded using financial method	(693)	4,661
BRI Derivatives fair value variation reserve	-	(223)
Other	(46)	(23)
Consolidated Group financial statement	**23,454**	**270,063**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS AT 31ST DECEMBER 2017

	SHARE CAPITAL	LEGAL RESERVE	REVALUATION RESERVE	CONSOLIDATION RESERVE	CURRENCY CONVERSION RESERVE	OTHER RESERVE	HEDGING RESERVE	RETAINED EARNINGS CARRIED FORWARD	NET INCOME (NET LOSS)	TOTAL
Balance at 01/01/2015	**30,000**	**4,240**	**60,195**	**16,965**	**(82)**	**50,412**	**(186)**	**64,244**	**5,675**	**231,463**
Allocation of 2014 profit	-	-	-	-	-	(4,248)	-	9,923	(5,675)	-
Currency conversion differences	-	-	-	-	3,695	-	-	-	-	3,695
Derivatives fair values changes	-	-	-	-	-	-	162	-	-	162
Other changes	-	-	355	-	-	-	-	-	-	355
Net income (Loss) of the Group for 2015	-	-	-	-	-	-	-	-	4,313	4,313
Balance as at 31/12/2015	**30,000**	**4,240**	**60,550**	**16,965**	**3,613**	**46,164**	**(24)**	**74,167**	**4,313**	**239,988**
Allocation of 2015 profit	-	1,760	-	-	-	3,141	-	(588)	(4,313)	-
Currency conversion differences	-	-	-	-	2,264	-	-	-	-	2,264
Derivatives fair values changes	-	-	-	-	-	-	(92)	-	-	(92)
Dividends distributed	-	-	-	-	-	-	-	(8)	-	(8)
Other changes	-	-	-	-	-	-	-	1	-	1
Net income (Loss) of the Group for 2016	-	-	-	-	-	-	-	-	18,522	18,522
Balance as at 31/12/2016	**30,000**	**6,000**	**60,550**	**16,965**	**5,877**	**49,305**	**(116)**	**73,572**	**18,522**	**260,675**
Allocation of 2016 profit	-	-	-	-	-	20,211	-	(1,689)	(18,522)	-
Share capital increase	20,000	-	(20,000)	-	-	-	-	-	-	-
Dividends distributed	-	-	-	-	-	(2,351)	-	(9)	-	(2,360)
Currency conversion differences	-	-	-	-	(11,595)	-	-	-	-	(11,595)
Derivatives fair values changes	-	-	-	-	-	-	(112)	-	-	(112)
Other changes	-	-	-	-	-	-	-	1	-	1
Net income (Loss) of the Group for 2017	-	-	-	-	-	-	-	-	23,454	23,454
Balance as at 31/12/2017	**50,000**	**6,000**	**40,550**	**16,965**	**(5,718)**	**67,165**	**(228)**	**71,875**	**23,454**	**270,063**

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

MINORITY INTERESTS

	MINORITY PROFIT/LOSS	MINORITY CAPITAL AND RESERVES	MINORITY INTERESTS
Balance as at 01/01/2015	**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**
Allocation of net income for 2016	4,487	(4,487)	-
Distribution of dividends	-	(307)	(307)
Currency conversion differences	-	(47)	(47)
Net income for 2017 attributable to minority interests	942	-	942
Balance as at 31/12/2017	**942**	**6,552**	**7,494**

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	**2017**			**2016**		
	Profit (loss)	**Capital and reserves**	**Total**	**Profit (loss)**	**Capital and reserves**	**Total**
Bonfiglioli Power Transmission Pty Ltd (*)	738	2,479	3,217	663	2,170	2,833
Bonfiglioli Drives Shanghai Co. Ltd. (**)	188	3,759	3,947	-	3,759	3,759
Tecnotrans Bonfiglioli S.a.	16	314	330	(2)	316	314
O&K Antriebstechnik GmbH	-	-	-	(5,148)	5,148	-
Total	**942**	**6,552**	**7,494**	**(4,487)**	**11,393**	**6,906**

(*) 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

	31/12/2017	31/12/2016	CHANGES
Termination indemnity and similar liabilities	11,225	11,394	(169)
Tax reserve	1,232	790	442
Deferred Tax Liabilities	7,511	8,328	(817)
Negative Financial derivatives	425	460	(35)
Consolidated reserve for future losses	269	269	-
Other reserves	31,307	31,992	(685)
Total	**51,969**	**53,233**	**(1,264)**

TERMINATION INDEMNITY AND SIMILAR LIABILITIES

This caption includes sales agents' indemnity reserve, pension fund and "ATZ" prepension fund. The aforementioned funds saw the following changes during the year:

	2017	2016
Opening value	11,394	10,942
Provisions	545	549
Actuarial value (including related interest)	358	98
Other movements	(98)	402
Utilization	(974)	(597)
Closing value	**11,225**	**11,394**

TAX RESERVE

Changes in the year are broken down as follows:

	2017	2016
Opening value	790	150
Provision for taxation	250	762
Applications	(183)	(150)
Other changes	375	28
Closing value	**1,232**	**790**

DEFERRED TAX LIABILITIES

Changes in the year are broken down as follows:

	2017	2016
Opening value	8,328	8,465
Provision for deferred taxation	591	352
Applications/releases	(1,270)	(533)
Other changes	(138)	44
Closing value	**7,511**	**8,328**

NEGATIVE FINANCIAL DERIVATIVES

The caption 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, 2017. The caption can be broken down as follows:

	2017	2016
GBP sales	2	18
AUD sales	2	16
JPY purchase	77	284
EUR purchase	61	14
IRS Bonfiglioli Riduttori	278	115
IRS Tecnotrans	5	13
Total	**425**	**460**

CONSOLIDATED RESERVE FOR FUTURE LOSSES

This caption can be broken down as follows:

DESCRIPTION:	OPENING BALANCE	PROVISIONS	APPLICATIONS	OTHER CHANGES	BALANCE
Consolidated Reserve for future losses	269	-	-	-	269
Total	**269**	**-**	**-**	**-**	**269**

OTHER RESERVES FOR RISKS AND CHARGES

This caption can be broken down as follows:

DESCRIPTION:	OPENING BALANCE	PROVISIONS	APPLICATIONS	OTHER CHANGES	BALANCE
Product warranties	22,318	2,781	(2,306)	(457)	22,336
Legal risks	447	-	(95)	(2)	350
Other	9,227	173	(775)	(4)	8,621
Total	**31,992**	**2,954**	**(3,176)**	**(463)**	**31,307**

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.
The item "Other" mainly includes:

- "Restructuring fund" set up to cover restructuring expenses in some subsidiaries for total approx 7.6 M€;
- "Losses on returned goods fund" of the Parent Company of 0.5 M€;
- "Retirement incentive fund" pertaining to subsidiary "O&K Antriebstechnik GmbH" of total 0.3 M€;
- "Environmental Recovery fund" pertaining to Spanish and Vietnamese subsidiaries for 0.2 M€ in total.

EMPLOYEES' SEVERANCE INDEMNITY RESERVE

Changes in the severance indemnity fund in 2017 were as follows:

	2017	2016
Opening balance	10,796	11,515
Provisions	4,375	4,347
Applications	(4,777)	(4,718)
Other changes	(32)	(348)
Closing balance	**10,362**	**10,796**

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

	31/12/2017	31/12/2016	2017 AVERAGE	2016 AVERAGE
Executives and managers	177	182	188	185
White collar and middle management	1,645	1,623	1,629	1,631
Direct and indirect blue collar	1,708	1,726	1,726	1,726
Temporary staff	101	101	178	168
Total	**3,631**	**3,632**	**3,721**	**3,710**

PAYABLES

BONDS

	31/12/2017	31/12/2016	CHANGES
Bonds	2,625	2,625	-

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 3,750 K€, is recorded in the financial statements as at the end of 2017 for 2,625 K€. The remaining debt recorded is due for 250 K€ within five years and the residual amount after five years.

FINANCIAL BORROWINGS

	31/12/2017	31/12/2016	CHANGES
Overdraft and self-liquidating advances	47,750	33,971	13,779
Financing m/l term (within and over 12 months)	91,059	91,396	(337)
Total due to banks	**138,809**	**125,367**	**13,442**
Amounts due to other financial institutions	6,044	8,074	(2,030)
Bonds	2,625	2,625	-
(minus) Cash at banks and on hand	(28,307)	(25,093)	(3,214)
(minus) Other securities	(207)	(205)	(2)
Net Cash Position	**118,964**	**110,768**	**8,196**

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) 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.
With reference to changes during the year, the Parent Company has signed a medium/long-term loan agreement with a pool of banks for total 170 M€ in order to guarantee financial stability and investment support. 80 out of 170 M€ are related to the refinancing of existing loans on more favourable terms, 60 M€ to support investments planned for the three-year period 2017-2019 and 30 M€ of mortgage financing to support the real estate part of the EVO project. Said loan has been utilized at the date of financial statement for face value of 76.4 M€ (of which 1.4 M€ mortgage) and has been recorded according to amortized cost criteria for 75.1 M€ in total.
Medium/long-term lines of credit (loans) recorded by Parent Company provide standard covenants connected to the trend of Group EBITDA, that as of 31.12.2017 are fully compliant.
Changes occurring during the year with reference to NCP are detailed in the following table:

COMPANY	BALANCE AS AT 31/12/2016	AMOUNTS LOANED	AMOUNTS REPAID	RECLASSIFI-CATIONS	EXCHANGE RATE DELTA	BALANCE AS AT 31/12/2017	WITHIN 12 MONTHS	BEYOND 12 MONTHS	BEYOND 5 YEARS	GUARANTEES
Overdraft and self-liquidating advances	**33,971**	**29,334**	**(14,226)**	**-**	**(1,289)**	**47,750**	**47,750**	**-**	**-**	**(*)**
Financing with term > 12 months										
Bonfiglioli Riduttori SpA	81,000	101,097	(107,000)	-	-	75,097	9,680	39,567	25,850	(**)
Bonfiglioli Deutschland GmbH	2,826	-	(422)	-	-	2,404	447	1,957	-	(**)
Bonfiglioli Transmission PVT LTD	12	-	(12)	-	-	-	-	-	-	
Bonfiglioli Drives (Shanghai) Co. Ltd	4,348	-	(798)	-	(270)	3,280	-	3,280	-	(**)
Bonfiglioli Slovakia Sro	3,210	9,771	(2,703)	-	-	10,278	2,556	6,217	1,505	(**)
Total Financing with term > 12 months	**91,396**	**110,868**	**(110,935)**	**-**	**(270)**	**91,059**	**12,683**	**51,021**	**27,335**	
AMOUNTS DUE TO OTHER FINANCIAL INSTITUTIONS										
Bonfiglioli Riduttori SpA	7,100	-	(1,900)	-	-	5,200	1,334	3,317	549	
Bonfiglioli Transmission PVT Ltd	19	-	(19)	-	-	-	-	-	-	
Bonfiglioli Italia SpA	106	-	(106)	-	-	-	-	-	-	
Bonfiglioli USA Inc.	283	169	-	-	(34)	418	140	278	-	
O&K Antriebstechnick GmbH	217	-	(28)	-	-	189	30	135	24	
Bonfiglioli Transmission France SA	-	28	-	-	-	28	8	20	-	
Tecnotrans Bonfiglioli SA	349	-	(140)	-	-	209	140	69	-	
Total due to other financial institutions	**8,074**	**197**	**(2,193)**	**-**	**(34)**	**6,044**	**1,652**	**3,819**	**573**	

(*) Indian subsidiary line of credit for 3.2 M€ granted by collateral on assets (inventory and machinery)
(**) Loan secured by pledge on owned factory premises

TRADE PAYABLES

	31/12/2017	31/12/2016	CHANGES
Advances	5,348	3,201	2,147
Trade payables due to suppliers	179,662	162,257	17,405
Total	**185,010**	**165,458**	**19,552**

Breakdown of trade payables by geographical area:

	2017	2016
Italy	124,817	116,340
Europe	18,369	13,422
Overseas	41,824	35,696
Total	**185,010**	**165,458**

OTHER PAYABLES

	31/12/2017	31/12/2016	CHANGES
Tax payables	2,504	10,542	(8,038)
Amounts due to social security	9,037	8,353	684
Other payables	25,662	26,145	(483)
Total	**37,203**	**45,040**	**(7,837)**

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

	2017	2016
Direct Tax Payables/withholding taxes to be paid	2,198	9,734
Other	265	716
Total short-term tax payables	**2,463**	**10,450**
Direct Tax Payables/withholding taxes to be paid	41	92
Total mid-long-term tax payables	**41**	**92**
Total	**2,504**	**10,542**

The variation occurred in Direct Tax Payables has to be mainly attributable to the dynamic of 2016 advances calculation of Parent Company that originated a substantial payable at previous financial year end.

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

	2017	2016
Amounts due to employees	19,569	20,224
Payables for purchasing investments	2,200	2,200
Other	1,371	1,106
Total other short-term payables	**23,140**	**23,530**
Amounts due to employees	2,522	309
Payables for purchasing investments	-	2,200
Other	-	106
Total other mid-long-term payables	**2,522**	**2,615**
Total	**25,662**	**26,145**

"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" after achieved pre-requirements.

ACCRUED EXPENSES AND DEFERRED INCOME

Breakdown:

	2017	2016
Interest payable on loans	744	503
Insurance policies	14	25
Contribution APIAE BMR	1,090	-
Other	200	42
Total	**2,048**	**570**

The increase in the year is mostly attributable to the interests on loans booked by the Parent Company and to deferment of contribution connected with the BMR development project.

INCOME STATEMENT

NET REVENUES FROM SALES AND SERVICES

	31/12/2017	31/12/2016	CHANGES
Total	**808,442**	**788,913**	**19,529**

Sales were made in the following geographic areas:

VALUES IN M€	2017	%	2016	%
EMEA	454.0	56.2%	446.6	56.6%
AME	148.2	18.3%	155.6	19.7%
APAC	206.2	25.5%	186.7	23.7%
Total	**808.4**	**100%**	**788.9**	**100%**

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

ASSETS INCREASE FOR INTERNAL WORKS

	31/12/2017	31/12/2016	CHANGES
Total	**1,411**	**357**	**1,054**

This caption reflects the increase for intangible assets concerning specifically the project of company Bonfiglioli Vectron MDS dedicated to new generation inverters.

OTHER REVENUES AND INCOME

	31/12/2017	31/12/2016	CHANGES
Total	**17,365**	**15,309**	**2,056**

This item can be broken down as follows:

	2017	2016
Sales and minor services	5,837	2,586
Refund for packaging and transport costs	3,695	3,929
Refunds for defective processing/material	999	1,300
Capital gains and contingent assets	1,554	2,919
Capital contribution	1,391	1,063
Funds releases	1,570	-
Insurance refunds	868	2,249
Other	1,451	1,263
Total	**17,365**	**15,309**

The caption Insurance refunds is connected with refunds received, mainly, from German subsidiary O&K.
Capital contribution has been received principally by Parent Company and by subsidiary "Bonfiglioli Mechatronic Research SpA".

Within contingent assets are included 103 K€ of non-recurring, related to the sale to thirds of the non-photovoltaic business by Bonfiglioli Renewable Power Conversion India.

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

	31/12/2017	31/12/2016	CHANGES
Total	**480,306**	**432,390**	**47,916**

COSTS FOR SERVICES

	31/12/2017	31/12/2016	CHANGES
Total	**115,274**	**117,609**	**(2,335)**

This caption includes outsourced processes in the amount of 27.9 M€ (30.2 M€ in 2016), 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

	31/12/2017	31/12/2016	CHANGES
Total	**9,930**	**9,779**	**151**

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.

PERSONNEL COSTS

	31/12/2017	31/12/2016	CHANGES
Salaries and wages	123,252	120,013	3,239
Social security contributions	33,118	31,619	1,499
Employees severance indemnity	4,375	4,347	28
Employee termination indemnity and similar liabilities	723	531	192
Other costs	1,082	1,321	(239)
Total	**162,550**	**157,831**	**4,719**

DEPRECIATION, AMORTISATION AND WRITE-DOWNS

	31/12/2017	31/12/2016	CHANGES
Amortisation of intangible fixed assets	5,670	4,976	694
Depreciation of tangible fixed assets	21,168	20,886	282
Intangible Fixed Assets write-downs	40	189	(149)
Tangible Fixed Assets write-downs	3,895	400	3,495
Bad debts provision	3,504	3,231	273
Total	**34,277**	**29,682**	**4,595**

OTHER PROVISIONS

	31/12/2017	31/12/2016	CHANGES
Restructuring fund	-	1,044	(1,044)
Warranty reserve	2,781	6,200	(3,419)
Environmental recovery fund and others	173	-	173
Total	**2,954**	**7,244**	**(4,290)**

OTHER OPERATING EXPENSES

	31/12/2017	31/12/2016	CHANGES
Total	**5,141**	**4,977**	**164**

This caption is a residual item and it includes expenses and charges that cannot be classified under the previous headings. It refers to local duties, general production, commercial, and minor administrative expenses, capital losses of an ordinary nature, and other minor items.

It is noted 108 K€ non-recurring, connected for 28 K€ to costs for the transfer and closure of the warehouse of the Canadian company and for 80 K€ charges related to the donation of a portion of land to the municipality of the area where the Slovak factory is located, in accordance with the plant expansion plan.

FINANCIAL INCOME

	31/12/2017	31/12/2016	CHANGES
Total	**1,307**	**1,057**	**250**

This caption can be broken down as follows:

	2017	2016
Bank interest receivable	902	573
Leasing rentals indexation	82	82
Cash discounts received	100	135
Commercial and other interest receivable	223	267
Total	**1,307**	**1,057**

INTEREST PAYABLE AND FINANCIAL EXPENSES

	31/12/2017	31/12/2016	CHANGES
Total	**7,467**	**8,703**	**(1,236)**

This caption can be broken down as follows:

	2017	2016
Interest on amounts due to banks	2,278	3,540
Interest payable on loans	2,679	2,760
Interest payable on bonds	43	45
Premiums and expenses on derivatives (IRS and forward contracts)	581	124
Cash discounts distributed	1,240	1,503
Other	646	731
Total	**7,467**	**8,703**

EXCHANGE RATE GAINS (LOSSES)

	31/12/2017	31/12/2016	CHANGES
Total	**(5,638)**	**3,304**	**(8,942)**

This amount can be broken down as follows:

	2017	2016
Currency exchange gains	13,750	15,332
Currency exchange losses	(19,388)	(12,028)
Total	**(5,638)**	**3,304**

ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES

	31/12/2017	31/12/2016	CHANGES
Securities current assets write up	2	2	-
Total	**2**	**2**	**-**

INCOME TAXES

	31/12/2017	31/12/2016	CHANGES
Current taxes	(15,608)	(18,119)	2,511
Deferred taxes	679	181	498
Prepaid taxes	901	(228)	1,129
Other components of direct taxes	-	(227)	227
Direct taxes related with previous years	(316)	(917)	601
Total	**(14,344)**	**(19,310)**	**4,966**

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

	31/12/2017	31/12/2016	CHANGES
Performance Guarantee	6,482	7,686	(1,204)
Collaterals	17,437	13,424	4,013
Commitments for acquisition of shares	3,947	3,759	188
Total	**27,866**	**24,869**	**2,977**

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 beard by Bonfiglioli of 6.5 M€;
- commitments for the acquisition of shares (Bonfiglioli Drives (Shanghai) China) of 3.9 M€ taken up by the Parent Company in compliance with agreements with SIMEST;
- mortgages on buildings of German subsidiary for 5.8 M€ and of Slovak subsidiary for 7 M€, of Parent Company for 1.4 M€ and for collateral on assets of the Indian subsidiary for 3.2 M€.

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 Share Capital, to be exercised within 2020. As said transactions will be closed at values that approximate to date estimated fair value, no values have been recorded in financial statement.

REMUNERATION PAID TO DIRECTORS AND STATUTORY AUDITORS

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

	2017	2016
Directors	1,100	1,047
Auditors	817	820
Total	**1,917**	**1,867**

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.

CHAIN OF CORPORATE CONTROL

As noticed in Notes to consolidated financial statements of 2016, on March 17th, 2017, the majority of the Parent Company' shareholders has finalized, through transfer of their own shares, the incorporation of company BON-FI S.r.l, having holding activity as object. It is to be noted then that the top shareholder of Bonfiglioli Riduttori S.p.A. is the company BON-FI S.r.l..

SIGNIFICANT EVENTS AFTER YEAR END

There are no significant events to be noted at the financial statements' date.

Calderara di Reno (Bo), March 29th, 2018
for The Board of Directors
The Chairman
Sonia Bonfiglioli

ANNEX A

CONSOLIDATED CASH-FLOW STATEMENT

(in K€)	2017	2016
A. OPENING NET CASH POSITION	**(110,768)**	**(133,253)**
B. OPERATING ACTIVITIES		
Net income of the group	23,454	18,522
Minority interest income	942	(4,487)
Depreciation, amortisation and write-downs	34,277	29,682
Provision for funds	2,954	7,244
Tax provision	14,344	19,310
First level Cash Flow	**75,971**	**70,271**
Decrease (Increase) in Trade Receivables	(5,869)	769
Decrease (Increase) in INVENTORY	(24,019)	4,286
Decrease (Increase) in other ASSETS	591	2,996
Decrease (Increase) in TRADE PAYABLES	17,405	(11,299)
Decrease (Increase) in other LIABILITIES	6,187	(4,647)
Derivatives FV variation	(133)	480
(Utilization) of funds	(4,242)	(1,148)
Tax payments	(25,118)	(12,544)
B. Cash flow originating from (used for) operating activities	**40,773**	**49,164**
C. INVESTING ACTIVITIES		
Net investments in tangible and intangible fixed assets	(38,913)	(28,752)
(Increase) in share investments and other financial fixed assets	(4)	(9)
C. Cash flow originating from (used for) investing activities	**(38,917)**	**(28,761)**
D. FINANCING ACTIVITIES		
Dividends	(2,360)	(8)
Change in minority interests	(354)	197
Net effect of exchange rate change	(11,595)	2,264
Exchange rate (gains) losses fixed assets	4,368	(280)
Derivatives Reserve FV variation	(112)	(92)
Other minor changes	1	1
D. Cash flow originating from (used for) financing activities	**(10,052)**	**2,082**
E. CASH FLOW FOR THE YEAR (B+C+D)	**(8,196)**	**22,485**
F. CLOSING NET CASH POSITION (A+E)	**(118,964)**	**(110,768)**

INDEPENDENT AUDITOR'S REPORT

THIS SECTION HAS BEEN TRANSLATED INTO ENGLISH SOLELY FOR THE CONVENIENCE OF INTERNATIONAL READERS

Independent auditor's 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 Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bonfiglioli Riduttori Group (the "Group"), which comprise the balance sheet as of 31 December 2017, the income statement and the statement of cash flows for the year then ended and the related notes.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017 and of the result of its operations and cash flows for the year then ended in accordance with the Italian laws governing the criteria for their preparation.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Bonfiglioli Riduttori SpA (hereinafter also the "Company") pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the Italian laws governing the criteria for their preparation and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Bonfiglioli Riduttori SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010

Management of Bonfiglioli Riduttori SpA is responsible for preparing the report on operations of the Bonfiglioli Riduttori Group as of 31 December 2017, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of the Bonfiglioli Riduttori Group as of 31 December 2017 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the consolidated financial statements of Bonfiglioli Riduttori Group as of 31 December 2017 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Bologna, 11 April 2018

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

NOTE

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NOTE

Bonfiglioli

Bonfiglioli
Forever Forward

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.

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