Saleri SIL
INDUSTRIE SALERI ITALO

COOLING UNDER CONTROL

AT THE HEART OF THE PERFORMANCE

SALERI GROUP
CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

CONTENTS

1 - Directors' Report

INDUSTRIE SALERI ITALO S.p.A.

Registered office in Lumezzane (BS), via Ruca, 406

Approved share capital € 17,922,413.12

Share capital subscribed and paid € 13,160,000

Tax Number 03066870175 VAT Number 01589150984

Brescia Register of Companies no 03066870175

Brescia R.E.A./Business Database no 317605

Directors' Report on the

Consolidated Financial Statements at 31/12/2017

CONTENTS

Letter from the Chairman

Dear Shareholders,

The year 2017 was a very important one for the Industrie Saleri Italo S.p.A. Group («Saleri Group») and confirmed the strength of the industrial project and the quality of the strategic decisions made. The consolidated results for 2017 provide confirmation.

Sales Revenue from ordinary activities amounts to more than € 163 million (an increase of € 8 million compared to 2016) while the long-term order backlog stands at more than Euro 1 billion. Other income statement highlights include:

- Consolidated EBITDA of € 20.0 million, EBITDA Margin of 12.5%, + 70% compared to 2016 (consolidated EBITDA 2016 of € 12.0 million with an EBITDA Margin of 7.8%);
- Consolidated EBIT of € 7.7 million, EBIT Margin of 4.8%, with an improvement of more than € 7.8 million compared to 2016 (EBIT 2016 was negative by € 0.1 million);
- Consolidated net profit for the Group of € 3.9 million compared to a net loss of € 4.7 million for 2016;

These figures are accompanied by improved balance sheet and financial situations:

- The Net Financial Position has improved by€ 14 million (net debt of € 70.0 million at 31 December 2017 compared to € 84.0 million at 31 December 2016);
- Trade Working Capital remains broadly unchanged, even after extension of the scope of consolidation, with a € 0.4 million increase compared to 2016 (€ 11.5 million at 31.12.2017 vs € 11.1 million at 31.12.2016);

This is the result of efficiency and reorganizational measures strongly desired by Management and implemented from the end of 2016 onwards which are now starting to bear fruit.

The quality of the work done by all of the Personnel of Group companies, the significant improvement in performance indicators and the enduring faith of our Customers thanks to the quality and reliability of our products enable us to face up with confidence to the challenges that lie ahead.

The year 2018 has already been characterised by three, very different extraordinary events:

- The fire that hit one of the buildings at the parent company's factory in Lumezzane, the assets present therein and the activities conducted there; this event was immediately and effectively managed in all significant aspects, also thanks to the cooperation of many Suppliers and Customers who deserve the thanks of myself, the Company and the entire management team;
- The agreement reached for the acquisition by the Queastio Italian Growth Fund – one of Italy's most important investment growth funds, managed by Quaestio Capital SGR S.p.A. – of a qualified minority equity interest in the parent company. The Fund's financial and organisational support will help sustain the Group's growth and consolidation;
- The signature with Financial Creditors representing more than 97% of the parent company's debt of a Framework Agreement that makes it possible to rationalise and revise the cost and structure of existing loans.

All of the events and the resulting effects on the current year and the foreseeable effects on the years ahead are dealt with in detail on the following pages. Drawing on the experience acquired, we want to continue to grow to consolidate the Group's position in one of the world's most competitive manufacturing segments, creating work opportunities and value for the shareholders.

The Directors' Report which accompanies the Consolidated Financial Statements paints a detailed picture of the Group's situation, describes the main risks and uncertainties to which the Group is exposed and sets out the possible paths that may be chosen to develop the business. It refers the reader to the relevant sections of the Notes to the Consolidated Financial Statements for further information.

We submit for your review and approval the Consolidated Financial Statements (comprising the Balance Sheet, the Income Statement, the Statement of Cash Flows and the Notes) of the Group headed by Industrie Saleri Italo S.p.A. for the year ended 31 December 2017.

Lumezzane, 11 May 2018 **Basilio Saleri**

Parent Company Corporate Governance Bodies

The current composition of the key corporate governance bodies is shown below.

The Board of Directors has four members, as resolved by the Ordinary General Meeting of 22 December 2017 convened to approve the financial statements at 31 December 2016.

In terms of the Articles of Association, the Board of Directors is invested with the broadest powers of ordinary and extraordinary administration of SIL. No limitations apply and the Board can take all appropriate action to implement and achieve the corporate objectives, except only for those reserved by law to the General Meeting. In more detail:

- The Board reviews and approves strategic, industrial and financial plans and the corporate structure of SIL
- The Board also supervises operating performance.

The Chairman of the Board of Directors is SIL's legal representative in terms of the Articles of Association.

At its meeting of 22 December 2017, the Board of Directors granted Chairman Basilio Saleri all of the powers necessary to carry out all operations of ordinary and extraordinary administration subject to the limits and exceptions of the matters reserved to the Board of Directors.

Pursuant to the Articles of Association, the Board of Statutory Auditors has three standing members and two substitute members who remain in office for three years and may be re-elected. The Board of Statutory Auditors was appointed by the Ordinary General Meeting of 22 December 2017 and shall remain in office until approval of the financial statements at 31 December 2019.

The Ordinary General Meeting of Industrie Saleri Italo S.p.A. of 23 November 2017 appointed Deloitte & Touche S.p.A. to audit the separate and consolidated financial statements of the Saleri Group for the three-year period 2017-2019, until the General Meeting convened to approve the financial statements for the year ending 31 December 2019.

Board of Directors

Chairman	Basilio Saleri
Director	Sergio Saleri
Director	Giovanna Maria Saleri
Director	Luca Saleri

Board of Statutory Auditors

President	Roberta Lecchi
Standing Auditor	Ornella Saottini
Standing Auditor	Giuseppe Bianchi
Substitute Auditor	Lorenzo Keller
Substitute Auditor	Luca Fioratti

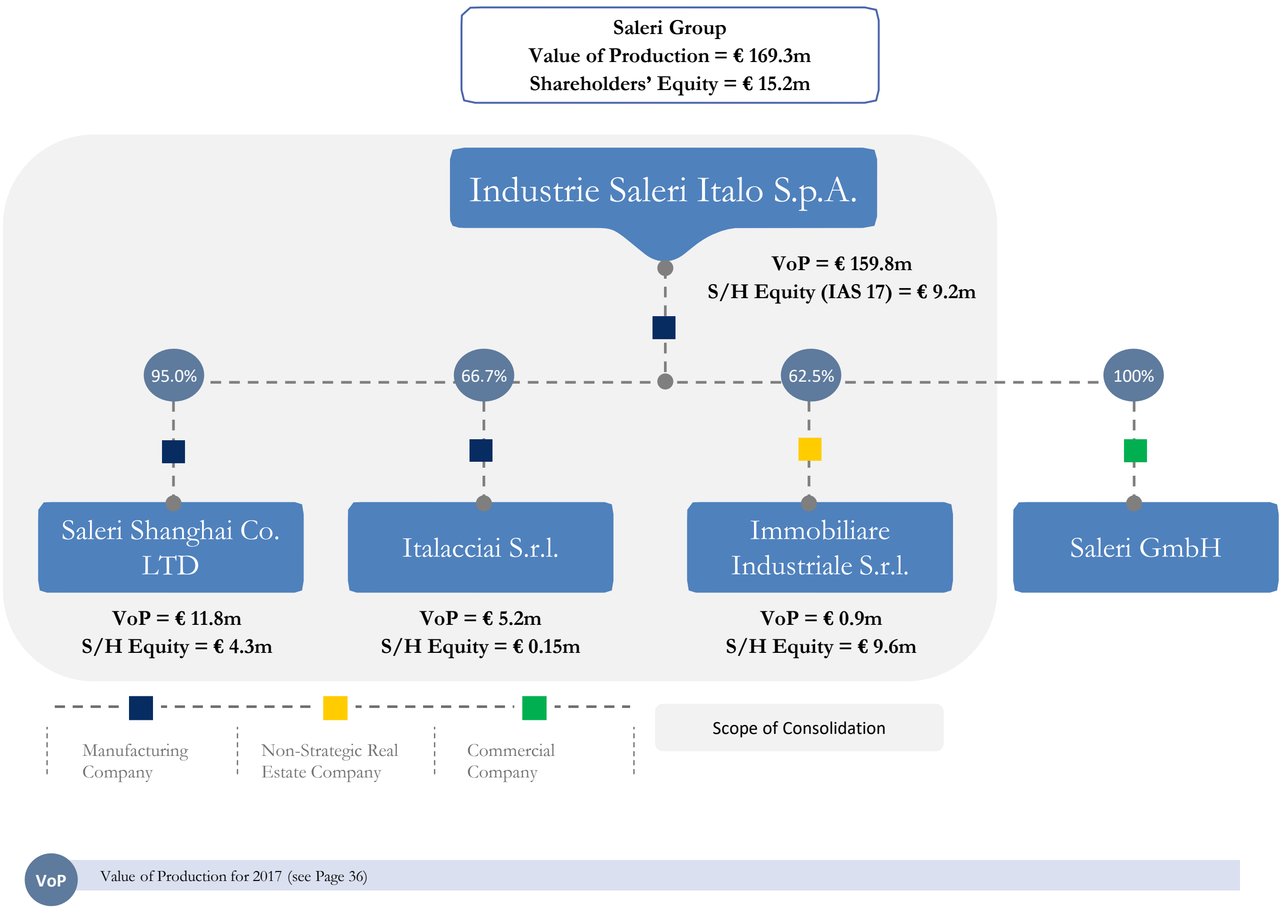
External Auditor

DELOITTE & TOUCHE S.P.A

Section 1

Saleri Group Structure

Group Perimeter and scope of consolidation



Industrie Saleri Italo S.p.A. («SIL»): industrial parent company, designs, manufactures and sells water pumps and cooling systems for the automotive market in the Original Equipment and Independent Aftermarket segments.

Saleri Shanghai Co Limited: incorporated in 2008 (local shareholder owns 5% interest), operates as a *local to local supply company* producing and selling water pumps and modules for the automotive industry.

Italacciai S.r.l.: 66.71% interest acquired in January 2017, produces rigid radial bearings for water pumps for the automotive industry at a factory in Lumezzane.

Immobiliare Industriale S.r.l.: established in 2015 following the spin-off of the real estate assets of Italpresse Industrie S.p.A. (former subsidiary of SIL that was sold to third parties in 2015). The Company now owns a property in Capriano del Colle (Brescia) which is let to Italpresse Industrie S.r.l. and to Gauss Automazione S.r.l. (both Norican Group companies). The Company also holds investments in three more Real Estate SPVs that have been put into liquidation and which, in 2017, completed the sale of all properties owned by them; the liquidation will be completed in 2018.

Saleri GmbH: company that represents parent company SIL on the German market. The Company is based on Munich, a strategic centre for the development of commercial and technical relations with some of the leading players on the automobile market.

Consolidated financial statements and scope of consolidation

The Saleri Group consolidated financial statements are prepared by Industrie Saleri Italo S.p.A.. The following are included in the scope of consolidation:

- Industrie Saleri Italo S.p.A.;
- Saleri Shanghai Co Limited;
- Immobiliare Industriale S.r.l.;
- Italacciai S.r.l. – with effect from 2017.

The other companies controlled directly or indirectly are excluded because they are immaterial or are in liquidation.

Parent Company Share Capital Increase

On 13 February 2018, in view of the operation described below, shareholders Basilio Saleri and Giovanna Maria Saleri contributed their ordinary shares in SIL to a newly incorporated company (El.Fra Holding S.r.l.).

***

On 14 February 2018, the Quamvis S.C.A. Sicav – FIS - Italian Growth Fund, managed by Quaestio Capital SGR S.p.A. (**«Quaestio IGF»**) signed an investment agreement (subject to satisfaction of several conditions) to acquire a 26.6% equity investment in SIL.

The transaction involved an approved share capital increase (the "**Share Capital Increase**") totalling Euro 23 million which, at the date of this report, had been subscribed and paid in the amount of € 8,000,000 by the Saleri family (the "Current Shareholders") and which will be subscribed and paid in the amount of € 15,000,000 by Quaestio IGF upon satisfaction of the aforementioned conditions, expected by the end of May 2018.

Once the Share Capital Increase has been subscribed, based on the agreed valuation of SIL, **Quaestio IGF** will hold a 26.6% investment while the Current Shareholders will hold a 73.4% investment.

Quaestio IGF, established in June 2015 and a segment of the Quamvis S.C.A. Sicav – FIS Fund, is one of the leading funds dedicated to medium-sized, quoted Italian companies. It aims to be a partner, providing a financial contribution but also an entrepreneurial approach, with the intention of bringing out the unexpressed potential of the companies it invests in and sustaining a new phase of growth for companies that are not yet quoted but are striving to enter the Stock Market in the medium term.

The share capital increase by the Current Shareholders alongside an investor like Quaestio will provide SIL with the financial support needed further to strengthen its position on global markets on one of the world's most competitive industries while providing SIL with the necessary resources and the right partners to embark upon new paths of internal growth and possible future combinations and acquisitions.

***

As a result of the contribution to EL.FRA Holding and the approved Share Capital Increase, SIL's share capital will be held as shown in the following table:

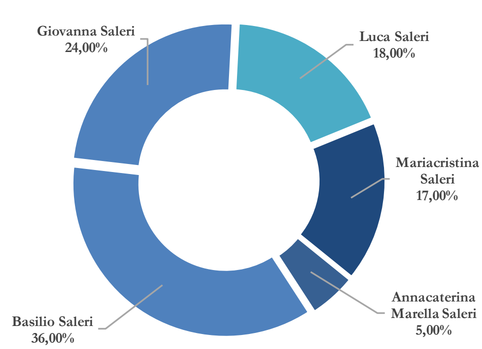
Share Capital composition and ownership

31 December 2017

Share Capital: € 5,160,000

Ordinary Shares: 900,000

Implied Nominal Value per Share: € 5.73

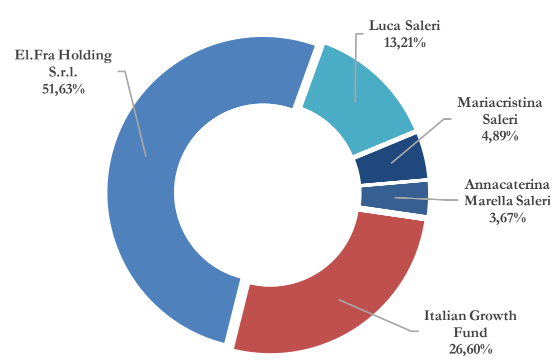


Post Share Capital Increase

Approved Share Capital: € 17,922,413.12

Ordinary Shares: 3,126,997

Implied Nominal Value per Share: € 5.73



Section 2

Saleri Group

Key Consolidated Performance Indicators

Income Statement and Financial Performance Indicators

The following table shows the reclassified consolidated Income Statement and Balance Sheet highlights of the Saleri Group for the last three years.

Saleri Group - 2017	2015	2016	2017	▲YoY
Amounts in Millions of Euro				
Value of Production	161,4	162,1	169,3	+ 4,4%
Revenue and Chg in FG inventory	155,1	154,1	159,7	+ 3,6%
INDUSTRIAL MARGINS	33,9	41,3	48,3	+ € 7,0
% of Revenue	21,8%	26,8%	30,2%	+ 3,4%
INDIRECT COSTS	(7,9)	(7,9)	(5,8)	+ € 2,1
% su Ricavi	-5,1%	-5,1%	-3,7%	+ 1,5%
EBITDA	6,6	12,0	20,0	+ € 8,0
% of Revenue	4,2%	7,8%	12,5%	+ 4,8%
EBIT	(5,5)	(0,1)	7,7	+ € 7,8
% of Revenue	-3,5%	-0,1%	4,8%	+ 4,9%
EBTE	(9,6)	(4,1)	4,3	+ € 8,3
% of Revenue	-6,2%	-2,6%	2,7%	+ 5,3%
Non-Recurring Income (Expenses)	14,1	(1,8)	0,9	+ € 2,7
Profit (Loss) for the Year (IAS 17)	6,8	(4,7)	3,9	+ € 8,6
Fixed Assets	78,8	84,4	80,3	- € 4,1
of which Production Assets	39,7	45,0	41,9	- € 3,1
Investments	30,0	22,3	7,4	- € 14,9
Ratio of Investments / Revenue	19,3%	14,5%	4,6%	-9,8%
Trade Working Capital	21,8	11,1	11,5	+ € 0,5
of which Inventory	37,6	37,1	27,2	- € 9,9
TWC on Revenue	14%	7%	7%	+ 0,0%
Invested Capital	100,3	96,0	85,2	- € 10,9
Net Financial Position	81,8	84,0	70,0	- € 14,0
Shareholders' Equity	18,4	12,1	15,2	+ € 3,1
Shareholders' Equity - AUCAP Eff	18,4	12,1	38,2	+ 26,1
NFP/EQUITY	4,4 x	7,0 x	4,6 x	
NFP/EQUITY * (including AuCAP)	4,4 x	7,0 x	1,8 x	-74%
NFP/EBITDA	12,4 x	7,0 x	3,5 x	-50%

Notes on the changes

Increase generated by change in scope of consolidation (Italacciai) and by revenue increase for Saleri Shanghai

Combined effect mainly due to:
- Reduction in SIL's direct production costs due to less use of outsourcing, greater efficiency at production facility, reduction in non-quality costs (reworking, scrap, etc.)
- Change in scope of consolidation (Italacciai)

Stabilisation of indirect costs and reduction in general costs for parent company and Chinese subsidiary

Resulting significant improvement in EBITDA in absolute terms and as a percentage of revenue

€ 0.5m decrease in financial expenses thanks to gradual reduction in debt

Positive impact of earn-out from sale of investment in Italpresse in 2015

Combined effect mainly due to depreciation/amortisation, net capex, change in scope of consolidation

In 2017, only capex to complete massive plan of investment in industrial automation carried out in period 2014-2016

Combined effect of improvement in SIL working capital management (especially inventory through Lean Production action on Supply Chain) and Saleri Shanghai, as partly offset by increase due to expansion of scope of consolidation with Italacciai

Repayment of MLT debt
Less use of new loans
Less use of self-liquidating facilities

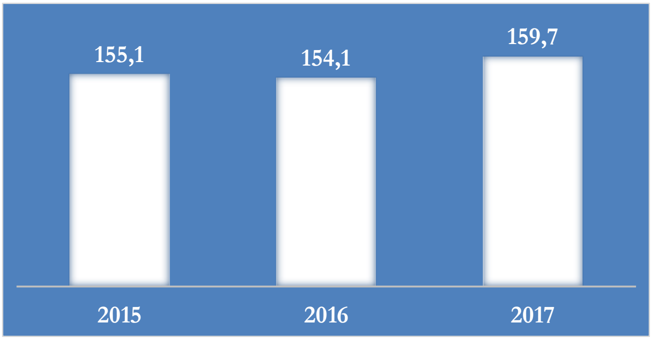
Increase thanks to profits

Approved Share Capital Increase of € 23m

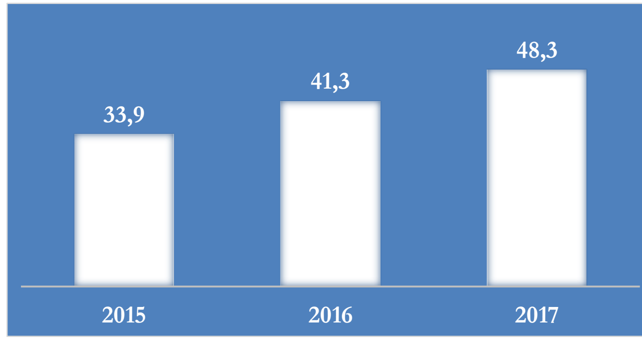
74% reduction in Debt/Equity ratio as a result of positive results and paid share capital increase

Income Statement and Financial Performance Indicators

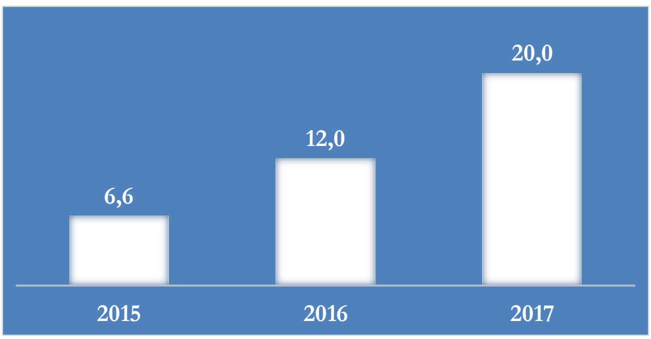
Saleri Group - Revenue €/m



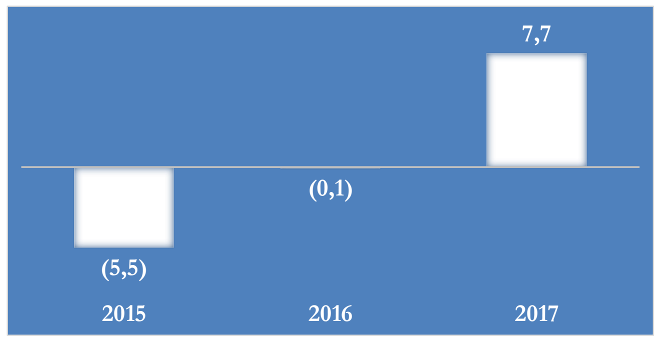
Saleri Group – Industrial Margin €/m



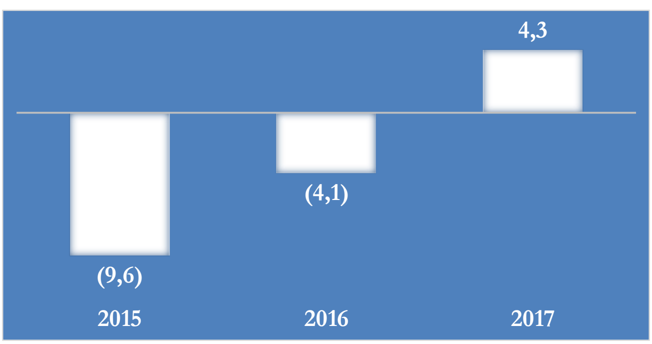
Saleri Group - EBITDA €/m



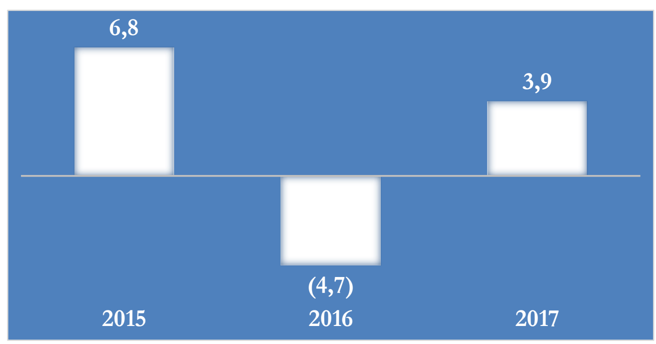
Saleri Group - EBIT €/m



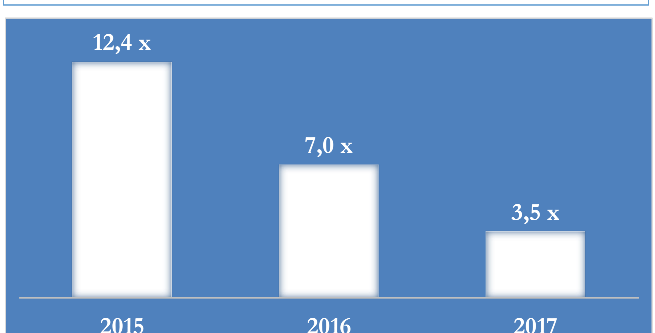
Saleri Group - EBTE (Earning before taxes and extraor. items) €/m



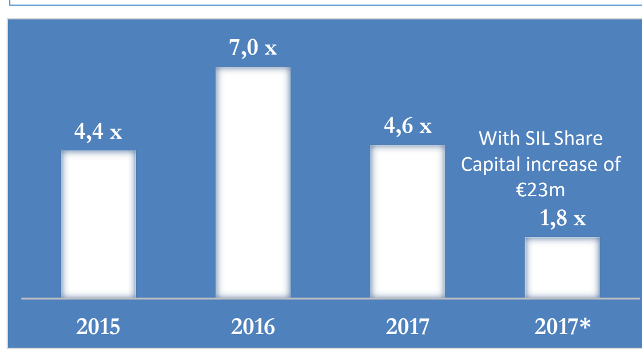
Saleri Group – Net Profit(Loss) €/m



Saleri Group – NFP/ EBITDA Ratio



Saleri Group – NFP / Equity Ratio



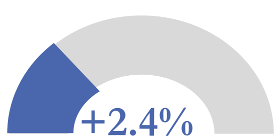
Revenue Performance Indicators

Breakdown by Company	2015	2016	2017	▲ YoY	2015	2016	2017
Amounts in Millions of Euro							
Industrie Saleri Italo S.p.A.	157,6	158,3	159,8	0,9%	97,7%	97,6%	94,4%
Italacciai	-	-	5,2	n/s	0,0%	0,0%	3,1%
Immobiliare Industriale	0,8	0,9	0,9	3,2%	0,5%	0,5%	0,5%
Saleri Shanghai	10,1	11,5	11,8	2,5%	6,3%	7,1%	6,9%
Intercompany Sales	(7,1)	(8,5)	(8,4)	-1,4%	-4,4%	-5,2%	-5,0%
Value of Production	**161,4**	**162,1**	**169,3**	4,4%	100,0%	100,0%	100,0%

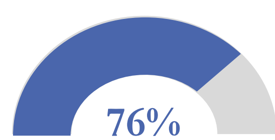
Breakdown by Business Unit	2015	2016	2017	▲ YoY	2015	2016	2017
OE/OES	127,2	126,9	128,6	1,4%	78,8%	78,3%	76,0%
IAM	33,1	26,4	25,1	-4,9%	20,5%	16,3%	14,8%
R&D	5,6	4,9	6,8	38,4%	3,5%	3,0%	4,0%
Other	(4,5)	4,0	8,8	n/s	-2,8%	2,4%	5,2%
Value of Production	**161,4**	**162,1**	**169,3**	4,4%	100,0%	100,0%	100,0%

Geographical Breakdown	2015	2016	2017	▲ YoY	2015	2016	2017
Other Countries	124,8	146,0	154,6	5,9%	77,3%	90,1%	91,3%
Italy	36,6	16,1	14,7	-8,8%	22,7%	9,9%	8,7%
Value of Production	**161,4**	**162,1**	**169,3**	4,4%	100,0%	100,0%	100,0%

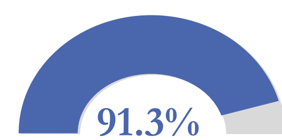
YoY change in VoP



% Revenue OE/OES



% Export



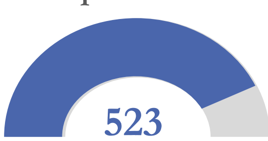
The change in the mix of value of production by BU with increases in the % contribution of OE/OES, R&D and % of Exports are the result of the strategic decision to focus on the OE market with its strong component of technological innovation and a customer base mainly in export markets.

Human Capital

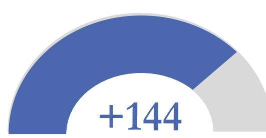
	SIL	Saleri Shanghai	Italacciai	Immobiliare Industriale	Total	▲	
	TOTAL EMPLOYEES						
Total Employees							
2017 >>	405	85	33	0	**523**	+ 74	
2016 >>	369	80	fpc	0	**449**	+ 70	
2015 >>	309	70	fpc	0	**379**	.	
out of which Direct Workers							
2017 >>	264	58	27	0	**349**	+ 49	67%
2016 >>	241	59	fpc	0	**300**	+ 52	67%
2015 >>	198	50	fpc	0	**248**	.	65%
out of which Indirect Workers							
2017 >>	141	27	6	0	**174**	+ 25	33%
2016 >>	128	21	fpc	0	**149**	+ 18	33%
2015 >>	111	20	fpc	0	**131**	.	35%

** osc: outside scope of consolidation*

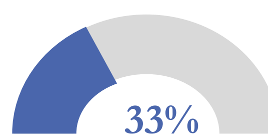
Group Headcount

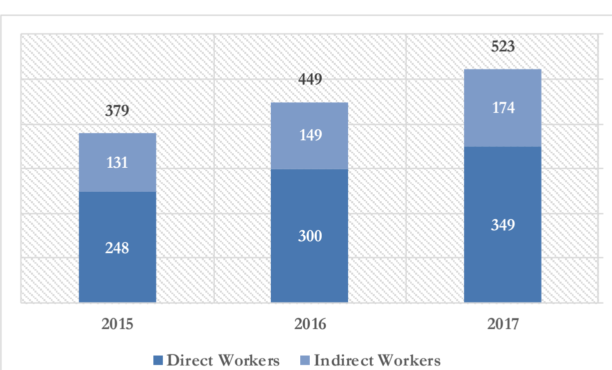


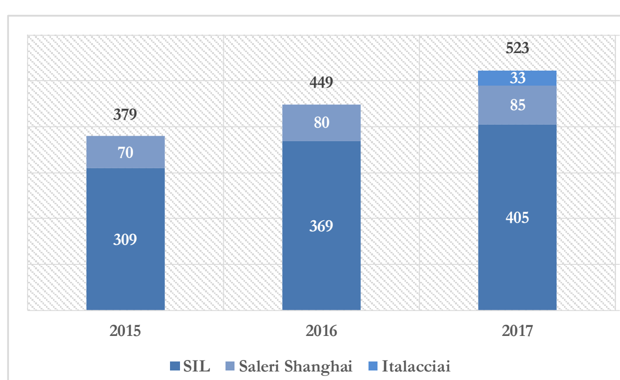
Increase in FTEs L2Y



% Indirect Workers







Section 3

Saleri Group Profile

Group Profile and business areas

Founded in 1942, Industrie Saleri Italo S.p.A. (hereinafter, in short, the "Company" or "SIL") is now the parent company of an international group **("Saleri Group")**, the leader in the design, development and production of water pumps and cooling systems for the automotive industry.

SIL has its registered office and main production facility in Lumezzane (BS) in a complex extending over more than 30,000 sqm. Another 7,000 sqm production facility in Shanghai is operated by subsidiary Saleri Shanghai Co Ltd.

The company Italacciai S.r.l. of Lumezzane joined the Saleri Group in January 2017 when SIL acquired 66.7% of said company which produces rigid radial bearings for water pumps for the automotive industry.

In 2017, the Saleri Group had an average of 523 employees.

Business Segments

The Saleri Group operates as a Tier 1 Automotive Supplier in the Original Equipment (77% of revenue in 2017) and Independent Aftermarket (19% of revenue in 2017) segments. The vast majority of revenue (more than 93% of total) is generated by export sales, mainly on markets in the EMEA area.

- **Water Pumps and Cooling Systems for Original Equipment («OE»)**
- The Saleri Group's Core Business is the production of mechanical, electrical and electro-mechanical Water Pumps and more complex Cooling Systems as Original Equipment for the Light Vehicles segment. Customers are mainly car manufacturers, especially premium brand German car manufacturers. Saleri Group also produces original spare parts defined as Original Equipment Spare Parts or «OES».
- **Water Pumps and Distribution Kits for Independent Aftermarket (IAM)**
- Production and/or sale of water pumps (SIL brand or Private Label) and Distribution Kits for the Independent Aftermarket. The Saleri Group's customers are Europe's leading distributors or wholesalers. Some of the production for the IAM segment is carried out at Saleri Shanghai's factory in China.
- **R&D - Pre Production Activities**
- Activities on request by customers regarding the development and prototyping of products and processes.

The Saleri Group has established itself as a leading supplier to the automotive industry thanks to many decades of collaboration on the design and development of cooling systems for the most prestigious brands in the European automotive industry. This guarantees:

• long-term contracts (5-7 years)

• strong idea of future revenue

• significant entry barriers

Sector: Automotive Suppliers
Segment: Cooling Systems and water pumps

Consolidated Value of Production 2017 – around € 170 million

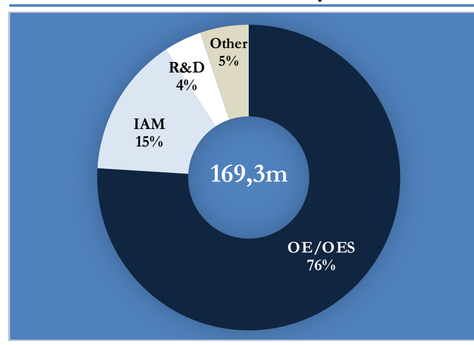
Tier 1 Supplier Premium Automotive Brands

Technology – driven business model
More than 100 active patents

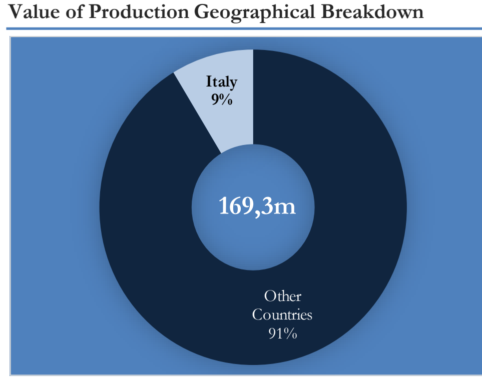
Consolidated EBITDA 2017
€ 20.0 million

Order Backlog F5Y: € 1 billion

Value of Production Breakdown by Business Unit



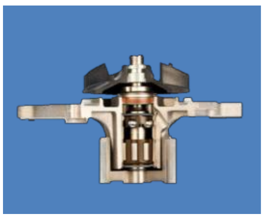
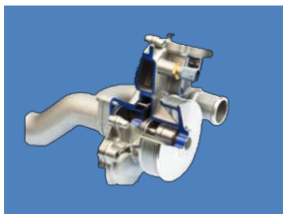
Value of Production Geographical Breakdown



Product Portfolio

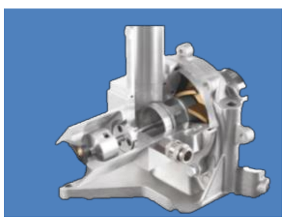
Any system regulated by the circulation of fluid requires the best possible Thermal Management strategy. The Saleri Group has developed the most advanced temperature control and cooling systems in line with increasing market demands in terms of performance and environmental impact. It offers a vast range of solutions from mechanical water pumps, to electrical pumps and to variable pumps that regulate the flow by means of a device with rising capacity.

Original Equipment

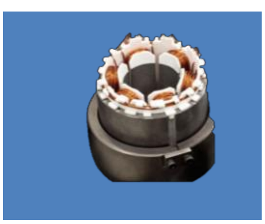
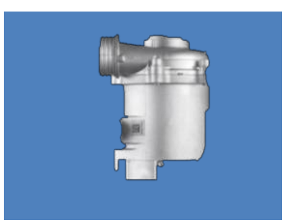
Mechanical Pumps

Mechanical water pumps. They may circulate the cooling fluid only or act as multi-purpose components, incorporating several different devices.

Adjustable Mechanical Pumps

Regulation systems, divided into several families based on how they operate. They provide optimal support to temperature control strategies with the aim of reducing CO_2 emissions.

Electric / Electro-mechanical Pumps

Fully adjustable electric pumps for both the main circuit and auxiliary circuits. There is a range of solutions with different power and voltage levels, which allow extremely precise regulation of the coolant fluid flow.

Independent Aftermarket

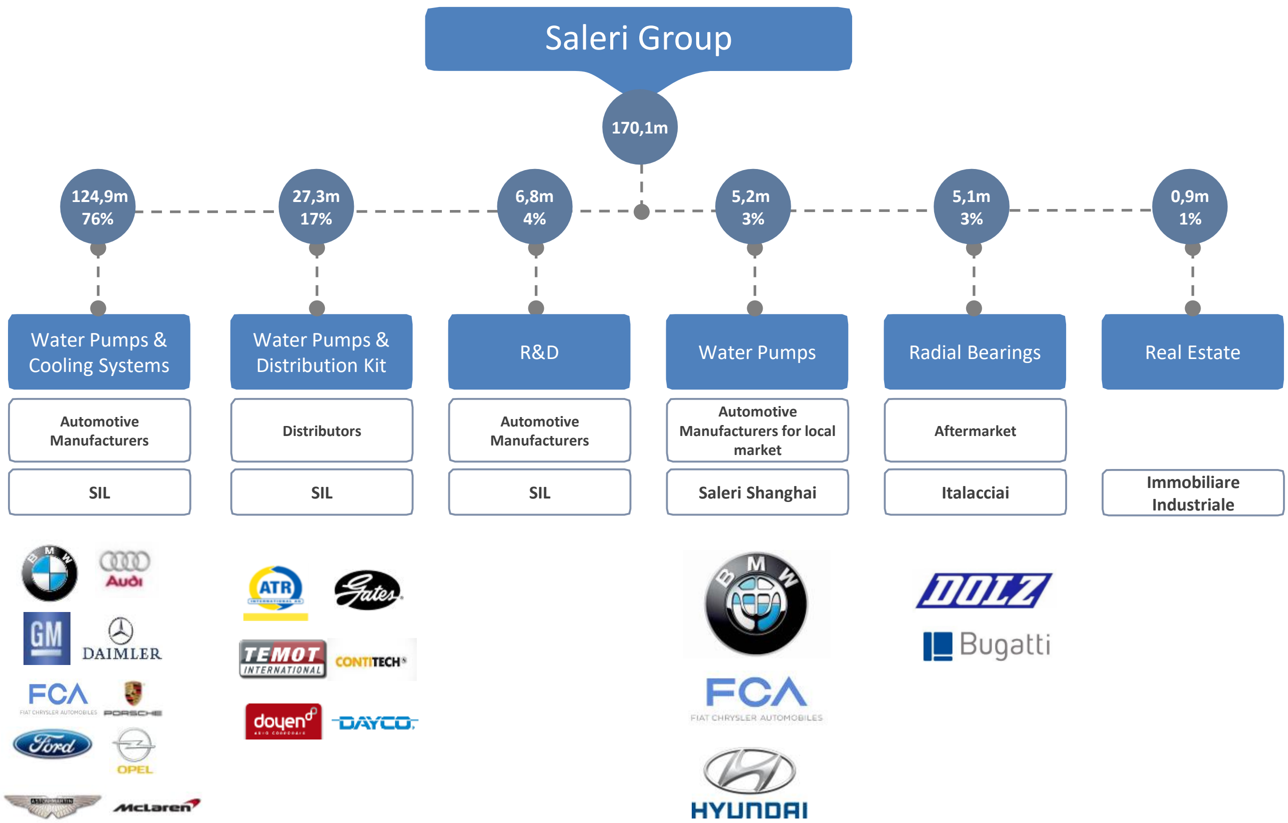
Water Pumps

With a catalogue of more than 1,000 products, SIL provides excellent coverage of European cars. Products – marketed under the SIL brand – are produced to the same technological standards as the OE segment and quality is equivalent to the original.


Distribution kits

SIL offers a wide range of distribution kits with water pumps. The sale of a kit minimises the risk of errors when identifying the products necessary for repair/replacement and the kit provides a complete set of all components.

Business Segments



Revenue: Revenue from Sales and Revenue from Preproduction operations in 2017
Revenue of Saleri Shanghai restated net of revenue from sales to parent company SIL

Saleri Group – Original Equipment («OE»)

The Saleri Group's Core Business is the production of mechanical, electrical and electro-mechanical Water Pumps and more complex Cooling Systems as Original Equipment for the Light Vehicles segment. Customers are mainly car manufacturers, especially premium brand German car manufacturers. Saleri Group also produces original spare parts defined as Original Equipment Spare Parts or «OES».

Saleri Group - Independent Aftermarket («IAM»)

Production and/or sale of water pumps (SIL brand or Private Label) and Distribution Kits for the Independent Aftermarket. The Saleri Group's customers are Europe's leading distributors or wholesalers. Some of the production for the IAM segment is carried out at Saleri Shanghai's factory in China (€ 6.8m).

R&D – Development of prototypes and processes for original productions

The R&D division works in close collaboration with the R&D departments of car manufacturers (especially BMW) and plans, designs and tests prototypes and production process solutions (including moulds/tooling that are sold to customers in relation to specific projects), typically for the production of water pumps and cooling systems for new generation engines.

Saleri Shanghai - Water Pumps for the Chinese market

Production of OE water pumps for local manufacturers (especially local production branches of European car manufacturers).

Radial Bearings

Since 1996, Italacciai S.r.l has produced rigid radial bearings for water pumps for the automotive industry. SIL has completed the acquisition of 66.71% of the company's quota capital and it ha been included in the Group scope of consolidation with effect from 2017.

Research and Development Activities

ORGANISATION OF THE R&D DEPARTMENT

Research and development activities – not only in relation to products but also in terms of processes – are strategic in order to maintain competitiveness and strengthen the Group's positioning. Therefore, they are carried out – almost entirely by the parent company – in close collaboration with leading European car manufacturers with which innovative, new solutions are co-designed with a view to subsequent mass production.

R&D activities commence with a needs analysis and the development of new concepts (pre-internal development); this phase involves intensive patenting activities.

Subsequently, customised, applied versions of the concepts developed are proposed to the customer and, once the contract has been acquired, the product/process is developed together with the customer, carrying out all of the stages from prototyping to mass production.

Structured development area: Technical Division, Advanced Engineering (pre-development), Electronic Design, Electric Pump Design, Design of OE applications, CAE (Computer-Aided Engineering), Project Management, Testing.

Design	New products are developed in a simulated environment, using advanced technology and software than ensure high levels of speed and reliability from the early stages of the process
Prototyping and Testing	Development of test sequences to check the performance and reliability of the water pumps in real, extreme conditions of use (test of characterisation, endurance, corrosion, thermal shock in a climactic chamber, acoustic, vibration analysis, etc.)
Simultaneous Engineering	All development activities are performed by an inter-divisional team in collaboration with counterparts from customers and suppliers

Once again in 2017, the work of the R&D division made it possible to deposit several important international patents that will protect the Group's intellectual property and know-how, ensuring that it maintains a competitive advantage, with positive effects in terms of revenue and profit in the years ahead.

The work of he R&D division is carried out by a team of more than 40 FTEs in collaboration with three universities in Italy (University of Brescia, University of Padua and University of Bergamo).

The Saleri Group has developed and supported 2 research doctorates close to completion, 10 master's theses and various training activities in high schools. Every year, the Company takes on around 100 high school students on work experience placements and holds around 15 round table debates on Technical and Strategic issues

In collaboration with the University of Graz, the Saleri Group is involved in the development of innovative cooling systems for applications in the truck segment. The project will be completed with the supply of components to be tested directly on an engine at the university. This activity lets the Saleri Group technicians play an active role in a prestigious engineering environment while providing training on cooling systems as a whole.

Research and Development Activities

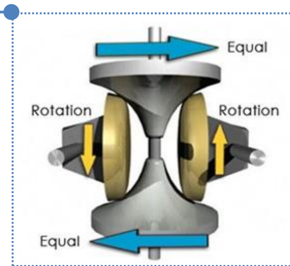
Research Areas

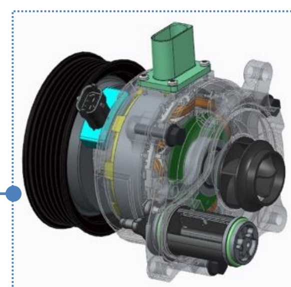
In 2017, research and development activities focused on the development of new systems in order to:

- **increase the technological content** of existing products to improve the performance of internal combustion engine cooling systems;
- help **reduce the atmospheric emissions** and fuel consumption of engines, thus satisfying ever more demanding anti-pollution regulations, both present and future;
- **Improve on competitors' patents**, while maintaining system functions unchanged as well as the quality, duration and easy of assembly with automatic systems.

In particular, the activities summarised below were carried out in 2017:

- research, development and characterisation of an **electric water pump** with an axial electrical motor, in order to limit weight and size, simplify the production process and keep costs down;
- Research and development of innovative technical solutions with electric water pumps that use **magnetorheological fluids**;
- Research and development of innovative technical solutions for **devices to regulate** water pumps in a cooling system on a vehicle, consisting of various independent circuits and auxiliary devices – patent application no. BS2015U000002;
- Development of an innovative variable water pump with integration of a **CVT transmission** to enable control of the water pump flow irrespective of engine speed;
- Research and development of innovative water pump solutions using **shape memory materials**, through electrical, thermal or magnetic stimulus in order to regulate the flow and control performance, irrespective of engine speed;
- Development of a family of electric water pumps with a **high level of efficiency** and a **high degree of component standardisation**, in order to reduce size, weight and costs;
- Development of an innovative **"modular" electric water pump** solution for car engine cooling applications, consisting of two independent modules connected by a mechanical coupling – patent application no. 102016000038137;
- Research and development of innovative electric water pump design solutions that guarantee **noise and vibration** levels in line with the latest demands of leading car manufacturers, with much more restrictive limits than in the past;
- Research and development of an **electromechanical water pump** solution for the automotive industry in order to control effectively and efficiently the cooling of an internal combustion engine, reducing the voltage absorbed and guaranteeing a more stable operating temperature – patent applications no. 102016000024199, no. 102016000047902, no 102016000047914 and no. 102016000126189;
- Study and development of technical specifications designed to define and optimise the hydraulics of an engine cooling water pump in order to achieve an ever high level of hydraulic efficiency;
- Optimisation of the electric actuator used to move the regulation valve inside the water pump, in terms of both components and production process;
- Development of innovative electric pump structures designed to reduce size and simplify components and processes;
- Research and development of a system to measure the vibrations and level of noise generated by an electric pump, in relation to the car system and how noise/vibrations are amplified or dampened by the car system;
- Development of innovative electric pump solutions using plastomagnets.





Section 4

Main Risks and Uncertainties of the Saleri Group

RISKS REGARDING INDUSTRY PERFORMANCE

The Saleri Group operates mainly in the Automotive industry which is characterised by the following trends

- Process of concentration of market players (both assemblers and Autoparts suppliers);
- Reduction in demand on mature markets but growth in volumes in emerging countries which, however, have different selling conditions and an unstable macroeconomic environment;
- Toughening of competition leading to aggressive price policies;
- Expected technological change with methods and impacts not yet fully apparent.

In order to deal with this situation, the Group aims to maintain and, where possible, strengthen its position of leadership by:

- Anticipating market requirements and developing products through stable collaboration with the Group's main customers;
- Developing new technologies that can guide and orient the engineering decisions of leading customers;
- Maintaining high quality and safety standards that can differentiate the Group's product through the use of resources and implementation of production processes that competitors would struggle to match;
- Making production processes more efficient.

PRODUCT LIABILITY RISK

The Sectors in which the Group operates have particularly demanding requirements in terms of product quality as any defects could result in product liability towards end customers or a market recall campaign resulting in additional costs. Therefore, the Company has implemented quantity control procedures in accordance with its quality certification.

RISKS REGARDING THE LOSS AND RECEUITMENT OF KEY RESOURCES AND SKILLS

Under the current organisational structure, line management play a significant role in the decision-making process and are considered key. If one of these resources should leave the Group, it could temporarily make it difficult to manage certain critical activities.

For some years, the Group has implemented staff loyalty measures including the granting of employee benefits and the signing of non-competition agreements and loyalty agreements with key personnel.

RISKS REGARDING THE NON-PROTECTION OF PRODUCT EXCLUSIVITY ON THE MARKETS WHERE THE GROUP OPERATES

Most of the Saleri group's products and project/design solutions are patent protected. There is a risk that competitors might breach these patents and/or that the markets where such patents are breached will fail adequately to safeguard the rights of the patent holder.

Commercial activities in countries where it is hard to enforce industrial patent rights exposes the Group to a greater risk in relation to the protection of its products. The Saleri Group has adopted structured processes to manage innovations and protect intellectual property. The Group also performs regular monitoring of the patent strategies adopted /to be adopted based on a cost/opportunity analysis.

REVENUE CONCENTRATION RISK

SIL's products are destined mainly for the Premium automotive segment so it is inevitable that revenue is concentrated on a limited number of leading customers (around 70% of revenue is generated by sales to BMW, Audi, GM). Customer relations are stable and long-established as cooling systems following the path of development and production of the engine on which they are applied. There are significant entry barriers due to the high engineering content in the production process, the long development period (time to market in excess of 2 years) and the high initial investment to develop projects and processes. Compared to other sectors or segments of the same industry, revenue is relatively easy to forecast as contracts acquired tend to be long-term (in line with engine life cycles, generally 7-8 years). Sales contracts with Premium automotive customers do not provide for guaranteed minimum volumes. However, historically, the variance between budget and actual contract orders has never exceeded 5% (duly taken into account by the parent company when making production and revenue forecasts).

The leading customers in the OE segment (BMW, Audi, GM) have excellent credit ratings, as do Aftermarket customers which belong to large international groups.

The risk is constantly monitored through preliminary customer assessment and checks on compliance with agreed terms of payment.

INTEREST RATE RISK

In order to contain the interest rate risk in relation to sources of finance, mainly bank borrowing at variable rates of interest linked to the Euribor rate, the Group is party to Interest Rate Swap agreements with leading banks which enable it to transfer the risk of interest rate fluctuation to the other party and effectively pay a fixed rate.

Analysis of trade receivable balances does not show any variation in credit quality; therefore, no significant changes to commercial credit protection policy have been implemented.

Risk Management

EXCHANGE RATE RISK

The Saleri Group mainly operates in Euro. Except for a few transactions denominated in Euro, the Chinese subsidiary operates in Chinese renminbi. We note that, in 2017, Chinese renminbi revenue represented less than 4% of consolidated revenue so the potential impact on consolidated revenue does not appear significant. Nonetheless, the Company constantly monitors exchange rate trends and the management of activities relating to the Chinese subsidiary.

RISK OF VOLATILITY OF RAW MATERIALS PRICES

There are no risks in relation to raw materials price fluctuation – prices are broadly stable – or in relation to exchange rates as almost all transactions take place in Euro.

Although the Group purchases raw materials and components from a large number of suppliers and relies on the services and products supplied, there is no significant dependence on any of these suppliers.

LIQUIDITY RISK

The liquidity risk regards difficulty in raising funds to fulfil commitments. Prudent management of the liquidity risk involves:

- Maintaining an appropriate level of cash invested in short-term securities that can be easily liquidated;
- Ensuring the availability of funds accessible through an appropriate level of credit facilities.

We note that the Directors have promptly acted in various ways to mitigate the above risk and in relation to the liquidity situation that was created as a result of circumstances already commented upon in this Report. In more detail:

- An action plan was implemented to provide the business with best working capital management practices – this helped optimise turnover ratios and reduce inventory.
- Prompt monitoring tools have been used to improve the customer invoicing and collections cycle;
- Short term cash flow control and forecast systems have been implemented to guarantee the right levels of cash.

SIL has also enjoyed a repayment holiday in relation to outstanding loans and finance leases, as granted in relation to ongoing negotiations over the interbank agreement intended to improve SIL's finances, as described below.

REFINANCING OF SIL'S CREDIT FACILITIES AND BORROWING

On 9 April 2018, SIL signed:

- a series of bilateral agreements (the "Bilateral Agreements") with banks and leasing companies ("Financial Creditors") in order to bring repayment plans into line with SIL's forecast operating cash flows, as per the Business Plan 2017-2022;
- A Framework Agreement designed, *inter alia*, to regulate the Company's reporting obligations towards the Financial Creditors and its commitments towards them in terms of the proper implementation of the Plan.

The provisions of the Bilateral Agreements signed by SIL may be summarised as follows:

- The MLT loan facilities are rescheduled and their repayment plans brought into line with the cash flows forecast in the Plan;
- SIL continues to enjoy access to commercial credit facilities in line with its utilisation requirements;
- Non-rotating short-term facilities are consolidated into an unsecured loan repayable over five years;
- The interest rates applied are amended and standardised.

As described in more detail in the note on "Bank Borrowing", the plan was proposed to all lending banks with outstanding loans in excess of Euro 100 thousand (in terms of principal) at 31.12.2017 and to all banks that have provided commercial credit facilities. The banks that have agreed to the plan represent 97% of the total exposure.

We note that the Framework Agreement and the Bilateral Agreements are also subject to execution of the overall Share Capital Increase of Euro 23,000,000 which should be subscribed by May 2018 (see Page 8).

The positive results achieved by the Company in 2017 and the balance sheet and cash effects of the capital operations (which will make it possible to recapitalise the Company and guarantee sufficient liquidity) and the independent review performed of the Business Plan in support of the refinancing proposal made it possible to complete the agreement without using the mechanisms provided for by the Italian Insolvency Act.

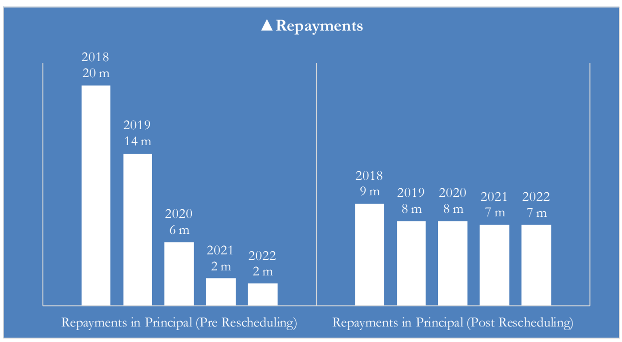
Risk Management

The Company also requested (i) renewal of *Commerciali Facilities* (Factoring, advance a/c) and *Cash Facilities* totalling € 30,550,000 (amount in line with expected receivables funding requirements over the Plan period) and (ii) a reduction in the interest applied (2.00% for Factoring and 1.00% for Self-Liquidating facilities) in line with the improvement in balance sheet ratios.

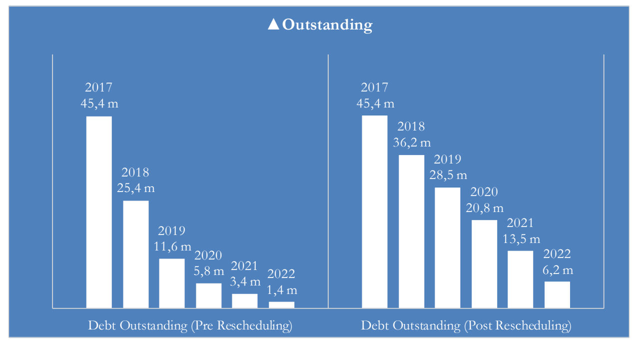
The following graphs compare the pre and post-refinancing situations. They show that while total repayments of medium/long-term debt are very similar over the period 2018-2022, the repayments have been rescheduled and distributed more evenly over the same period.

- Principal Repayments: The rescheduling reduces cash outflows for principal repayments by around € 15m in the next two years of the Plan (2018-2019).
- Debt Balance: Outstanding debt at the end of the Plan period (December 2022) remains fairly contained in the rescheduled scenario (€ 6.2m against € 1.4m).
- Residual Duration: repayment periods extended by 2.4 years on average (from 3 to 5.4 year).

MLT Borrowing – Repayments – Pre and Post Rescheduling

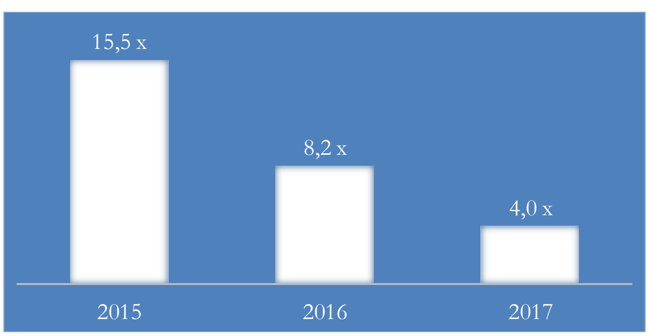


MLT Borrowing – O/S Debt – Pre and Post Rescheduling

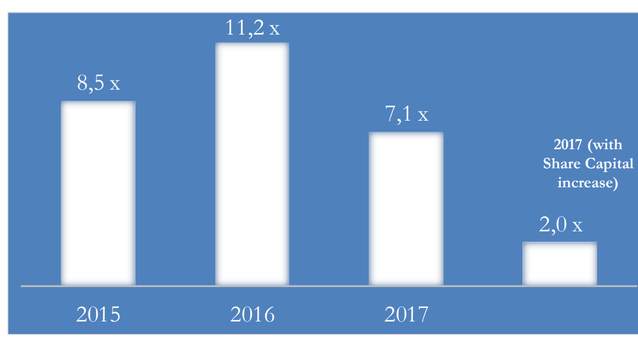


As a result of the Share Capital Increase Operation and the positive results for 2017, the main debt sustainability ratios have improved significantly i.e. the NFP/Equity ratio (Equity is also shown considering the approved Share Capital Increase of € 23 million) and the NFP/EBITDA ratio as shown in the following graphs:

Saleri Group – NFP / EBITDA Ratio



Saleri Group – NFP / Equity Ratio



Saleri Shanghai

With regard to Saleri Shanghai, there are revolving, short-term revolving credit facilities with Unicredit S.p.A. to sustain the company's working capital and capex. These facilities are under a credit agreement for an amount of € 2.7m signed by Unicredit and SIL in 2015, whereby SIL also acted as guarantor for SIL Shanghai.

The bilateral agreement with Unicredit S.p.A. also established a repayment plan for this facility (utilised in the amount of € 2.3m) over 5 years.

Section 5

Significant events after the reporting date

Fire at the SIL C Factory

FIRE AT THE SIL C FACTORY ON 11 JANUARY 2018

On 11 January 2018, fire broke out at the leased factory premises in Lumezzane, as used for production, shipment and storage activities (SIL C). The fire was accidental and mainly affected the ground floor and the first floor. As a result of the fire, the ground floor and the first floor and everything contained therein (sundry equipment, finished goods, semi-finished goods and components) were totally destroyed. Fortunately, other assets – specifically, the production lines in the basement used to assemble pumps – were only partly damaged. Damage was also incurred by the adjacent building held under a finance lease by Framon S.p.A. and by Framon S.p.A. itself. Fire damage also occurred to other assets owned by third parties that were affected by the fire. Luckily, no persons were injured in the fire.

SIL management immediately took the following action in order (i) to limit the impact on general operating activities, production levels and, therefore, customer service and (ii) to maintain commitments towards all stakeholders:

- the building affected by the fire was made safe and all items that could be reutilised were recovered – this regarded the production lines, in particular;
- reorganisation of the production set-up and process in order to cope with the lack of production of the pumps previously manufactured at SIL C and resolution of the resulting operational problems;
- prompt activation and utmost cooperation with the process to assess damages covered by insurance, together with the various experts appointed.

Details of main interventions in relation to the first two lines of action indicated above are described as follows:

- installation at the Lumezzane factory (SIL A) of new assembly machines – less automated and requiring more manual input – in order to minimise the problems caused to customers by the suspension of production of pumps previously assembled at SIL C;
- increase in number of shifts per week from 15 to 21 (weekend included) in accordance with the Trades Unions and employees;
- outsourcing of storage and logistics management of all OE finished products to international operator Kuehne Nagel which already handles storage and shipping of the highest turnover IAM products at its logistics centre in Capriate (BG);
- a request to access state-assisted lay-off scheme CIGS for up to 271 employees was submitted and approved (on 9 March 2018, with effect backdated to 24 January 2018). At the date of approval of these Notes, no employees were currently laid off under this scheme and SIL only used the scheme during the three weeks after the fire in relation to an average 10 direct employees a week.
- search for and selection of a new production site - On 8 February 2018, a preliminary rental agreement was signed for a new production facility (“SIL E”) of around 8,000 sqm in Provaglio d’Iseo (BS); the assembly and logistics services formerly carried out at SIL C will be relocated to these premises. At present, the new premises are being fitted with the necessary systems and equipment to enable the definitive, optimised reactivation of the former SIL C production process. On 7 March 2018, the company gave notice to terminate the rental agreement for the property affected by the fire.

From a financial perspective, the company proposed and agreed with the main suppliers a plan to postpone payments due at the end of January and February 2018 with new payment dates that had been met in full at the date of this Report. In some cases, agreement was also reached over an extension to the terms of payment for new purchases (on average by 30/60 days depending on the supplier).

All of the above measures were made possible also thanks to the helpful cooperation of many suppliers and customers.

In terms of the third line of action, note that

- SIL is covered by insurance policies with a leading insurance company (HDI Assicurazione) for all of the types of damages suffered (damage suffered, loss of earnings, third party liability, etc.);
- The maximum pay-outs under these policies are sufficient to cover the damages suffered and under quantification.

Therefore:

- In order to reduce the amount of time needed for collection of compensation for the various types of damages, the Company has requested that they be settled separately as permitted by the insurance policy;
- Consequently, we note that, at the date of this Report, a Compensation Agreement for a total of Euro 8,000,000 has already been signed in relation to Inventory; this claim had already been paid at the date of this Report;

Fire at the SIL C Factory

- Loss adjusters are currently performing analysis with a view to the settlement of the other forms of compensation:
  - Damage suffered in relation to certain plant and machinery and the extraordinary costs incurred as a result of the fire;
  - Loss of earnings;
  - Damages caused to third parties, mainly in relation to the building itself (both that leased by Saleri and the damaged parts owned by third parties), the damages caused to Framon S.p.A. and to the third parties affected by the fire.

See the "Significant events after the reporting date" section of the Notes to the Consolidated Financial Statements for more details of the Balance sheet, Income Statement and Cash effects of the fire.

For the other significant events after the reporting date – Share Capital Increase and refinancing operation with changes to key terms of loan agreements – reference should be made to the previous pages of this report ("Share Capital Increase" and "Risk Management" Sections, respectively) and to the "Significant events after the reporting date" section of the Notes to the Consolidated Financial Statements.

Section 6

Operating Outlook

Automotive Suppliers market performance

Forecast volumes of production for the Global Light Vehicles market show a positive trend for the period 2017-2023. Considering constant growth in the global population and in demand for mobility, the threshold of 100 million light vehicles produced will be reached by 2019.

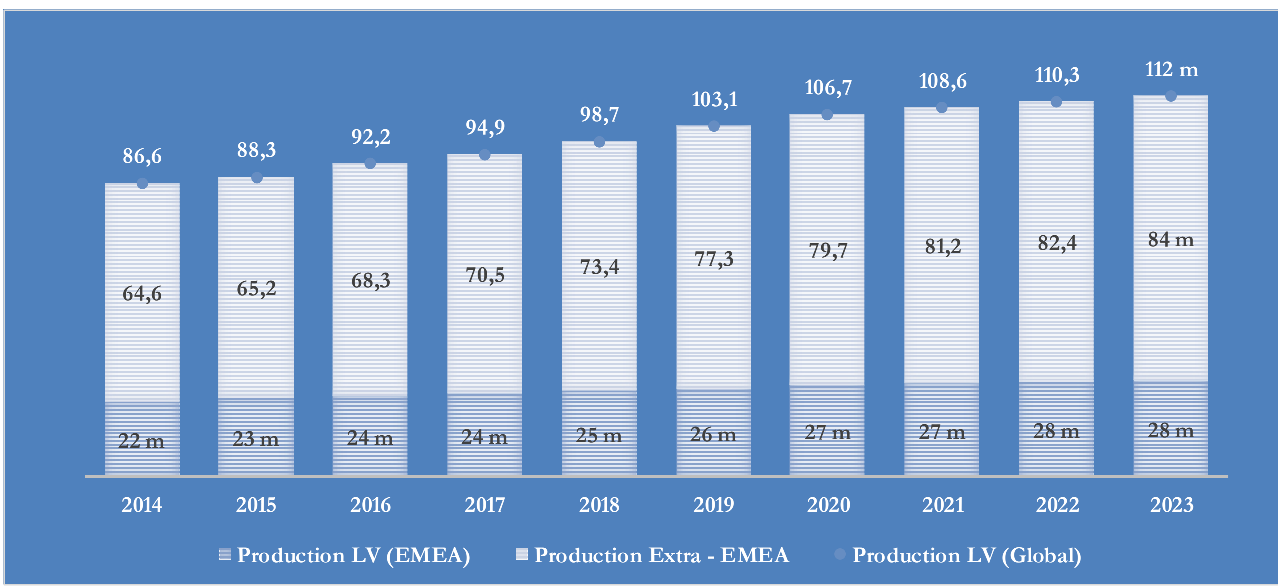
In terms of Global Production of Light Vehicles, now that the recovery of volumes lost in the pre-crisis period has been completed (CAGR 2014-2017 of **2.3%**), strong growth is forecast in the coming years (CAGR 2017-2023 of **4.2%**).

Looking at the EMEA area (the Saleri Group's main market), growth in production volumes is slightly lower than for the global market (CAGR 2017- 2023 of 3.8%) but higher than in the last four years.

The main growth drivers identified regard:

- A change in the engine technology mix with the share of LVs powered by electric/hybrid motors expected to represent around 20% of global production by 2025;
- The launch of new products by domestic manufacturers;
- Investment by foreign manufacturers in order to increase existing production capacity.

Global Production of Light Vehicles (million units)



Source: *prepared by us from IHS Markit figures*

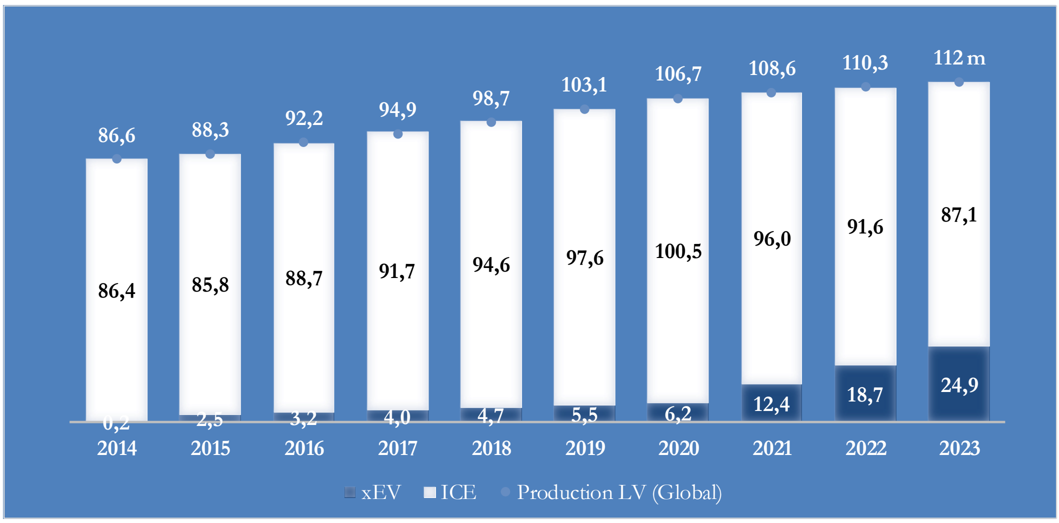
LV Production (Global)	of which LV Production (EMEA)
112 million vehicles by 2023	28 million vehicles by 2023
C.A.G.R 2014 – 2017 = 2.3%	C.A.G.R 2014 – 2017 = 2.6%
C.A.G.R 2017 – 2023 = 4.2%	C.A.G.R 2017 – 2023 = 3.8%

Outlook for fuel systems on the Automotive market

Global LV (Light Vehicle) production volumes show a positive trend and are expected to reach 100 million units produced after 2020, driven by the growing need for urban mobility and an increase in the global population in urban centres.

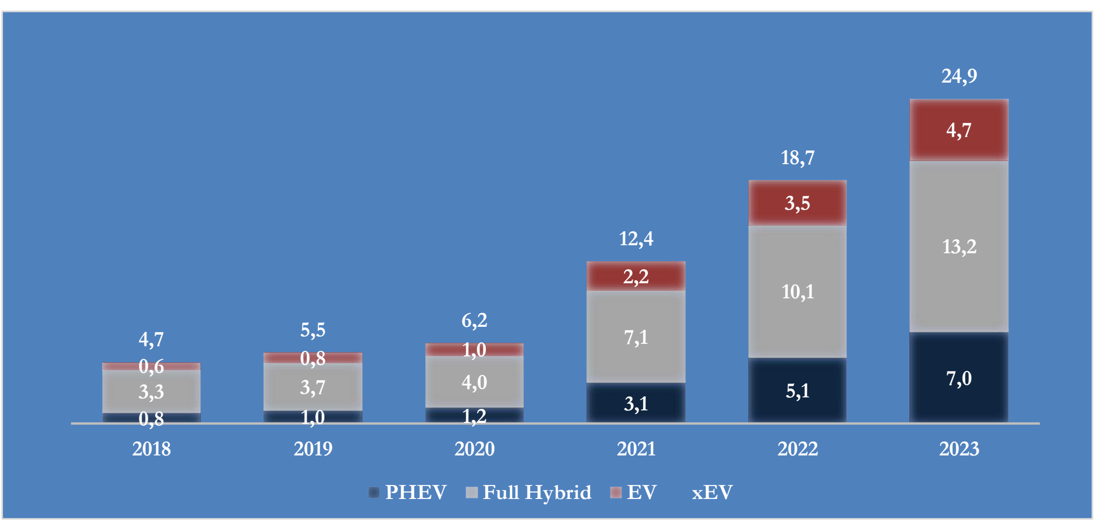
The growth is driven by a significant change in the engine technology mix with the share of LVs powered by electric/hybrid engines increasing to around 20% of global production by 2025 (around 25 million cars).

Global powertrain production [m units]



Source: *prepared by us based on IHS Markit figures*

Global xEV production [m units]



Source: *prepared by us based on IHS Markit figures*

ICE - Internal Combustion Engines including mild hybrid vehicles (up to 20 kW) and ICE start-stop

xEV - Plug-In Vehicles include:

- Full Hybrid (with maintenance of ICE power);
- Plug-in Hybrid Electric Vehicles (PHEV), hybrid propulsion and batteries can be charged without assistance from the ICE;
- EV – vehicles with electric propulsion system powered by rechargeable batteries.

Foreseeable operating outlook for the Saleri Group

As described on the previous pages, there are positive signs in terms of global economic performance with a direct effect on the primary automotive market. Confirmed growth trends on that market should help sustain forecasts of new production orders.

Despite the unfortunate fire, described in detail in this Report and in the Notes under "Significant events after the reporting period", the first few months of 2018 have seen the confirmation of significant new orders from major customers. On an annual basis (based on long-term mass production contracts), OE water pump orders are in line with Business Plan forecasts.

The award to SIL of the most significant production contract, in terms of revenue, has also reached an advanced stage with the Start of Production expected in 2019.

R&D activities continue to be prioritised, especially in terms of research into cooling systems for electric engines (generally, all xEV technology). As per normal practice in the Saleri Group, these projects are conducted in collaboration with the relevant divisions of leading customers or with science departments from leading universities.

Without any more unforeseeable events, the factory fire is likely to lead to a slight fall in industrial margin in 2018, even though the Company's insurance cover provides for compensation for additional costs incurred and profits lost because of the fire. Nonetheless, certain operating efficiencies that cannot be separately quantified could affect operating profit, especially for the Aftermarket BU.

Now that the planned investments on configuration of the new automated production facilities have been completed and as already occurred in 2017, the only capex forecast for 2018 regards the maintenance and refitting of existing production plant and equipment (capex already envisaged in the Plan). This capex will be financed from the Saleri group's existing cash resources.

In conclusion, at present, there is no evidence to suggest that the objectives set out in the Business Plan for 2018 should not be largely achieved.

Based on the (i) trading results reported for 2017, (ii) analysis of these results confirming that they can be repeated thanks to the Group's consolidated, established capabilities (iii) the foreseeable operating outlook based on the comments made above, (iv) the results of analysis of the risks to which the Saleri Group is exposed and, last but not least,, (v) the forthcoming share capital transaction together with the debt refinancing agreement reached with financial creditors, it is reasonable to believe that (as stated in the Notes under "Going concern issue), at present, there are no significant uncertainties that could give risk to significant doubt over the Group's ability to continue to operate as a going concern.

Section 7

Saleri Group

Consolidated Financial Information

Reclassified Income Statement – management format

Income Statement	SIL S.p.a (IAS 17)		Italacciai		Immobiliare Industriale		Saleri Shanghai		Consolidation Adjustments		Saleri Group - consolidated	
Amounts in Euro Thousands	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Revenue from Sales	152.603	152.116		5.111	864	876	10.692	13.213	(8.504)	(8.036)	155.655	163.280
Change in FG Inventory	(289)	(586)		-	-	-	63	(1.505)	-	(200)	(227)	(2.291)
Discounts, Allowances	(1.284)	(1.284)		-	-	-	-	-	-	-	(1.284)	(1.284)
Revenue and Chg in FG Inventory	**151.030**	**150.246**		**5.111**	**864**	**876**	**10.755**	**11.708**	**(8.504)**	**(8.236)**	**154.145**	**159.705**
Incr. In N-C Assets (Cap. of Dev. Costs)	947	790		-	-	-	-	-	-	-	947	790
Sundry Income	-	-		-	-	14	718	56	-	(148)	718	(78)
Other Net Income	**947**	**790**		**-**	**-**	**14**	**718**	**56**	**-**	**(148)**	**1.666**	**712**
Net Revenues	**151.977**	**151.036**		**5.111**	**864**	**890**	**11.473**	**11.764**	**(8.504)**	**(8.384)**	**155.810**	**160.417**
Direct Consumption Costs	(110.121)	(106.213)		(2.296)	-	-	(6.780)	(7.030)	8.326	8.572	(108.576)	(106.968)
Variable Production Costs	(5.922)	(4.574)		(557)	-	-	(30)	(66)	-	-	(5.952)	(5.197)
Industrial Margin	**35.934**	**40.249**		**2.258**	**864**	**890**	**4.662**	**4.668**	**(178)**	**188**	**41.282**	**48.252**
% of Revenue and Chg in FG Inventory	**23,8%**	**26,8%**		**44,2%**	**100,0%**	**101,6%**	**43,4%**	**39,9%**	**2,1%**	**-2,3%**	**26,8%**	**30,2%**
Revenue from Pre-Production Operations	4.908	6.793		-	-	-	-	-	-	-	4.908	6.793
Costs for Pre-Production Operations	(3.719)	(5.214)		-	-	-	-	-	-	-	(3.719)	(5.214)
Profit from Pre-Production Operations	**1.189**	**1.579**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1.189**	**1.579**
% of Revenue and Chg in FG Inventory	*0,8%*	*1,1%*									*0,8%*	*1,0%*
Personnel Costs	**(21.567)**	**(21.122)**		**(1.627)**	**-**	**-**	**(1.038)**	**(1.227)**	**-**	**-**	**(22.605)**	**(23.976)**
% of Revenue and Chg in FG Inventory	*-14,3%*	*-14,1%*		*-31,8%*	*0,0%*	*0,0%*	*-9,7%*	*-10,5%*	*0,0%*	*0,0%*	*-14,7%*	*-15,0%*
Indirect Costs	**(6.190)**	**(4.355)**		**(352)**	**(151)**	**(214)**	**(1.556)**	**(1.371)**	**(0)**	**450**	**(7.897)**	**(5.842)**
% of Revenue and Chg in FG Inventory	*-4,1%*	*-2,9%*		*-6,9%*	*-17,4%*	*-24,5%*	*-14,5%*	*-11,7%*	*0,0%*	*-5,5%*	*-5,1%*	*-3,7%*
EBITDA	**9.367**	**16.351**		**278**	**713**	**675**	**2.068**	**2.070**	**(178)**	**638**	**11.970**	**20.013**
% of Revenue and Chg in FG Inventory	**6,2%**	**10,9%**		**5,4%**	**82,6%**	**77,1%**	**19,2%**	**17,7%**	**2,1%**	**-7,7%**	**7,8%**	**12,5%**
Depreciation of Tangible Assets	(7.804)	(8.613)		(118)	(317)	(325)	(774)	(910)	(0)	63	(8.895)	(9.902)
Amortisation of Intangible Assets	(1.781)	(1.027)		-	-	-	(490)	(524)	-	-	(2.270)	(1.551)
Allocations to Provisions	(915)	(809)		(2)	-	-	-	(30)	-	-	(915)	(841)
Depreciation, Amortisation & Allocations	**(10.499)**	**(10.449)**		**(120)**	**(317)**	**(325)**	**(1.263)**	**(1.463)**	**(0)**	**63**	**(12.079)**	**(12.294)**
EBIT	**(1.132)**	**5.902**		**158**	**396**	**350**	**804**	**606**	**(178)**	**701**	**(110)**	**7.719**
% of Revenue and Chg in FG Inventory	**n/s**	**3,9%**		**3,1%**	**n/s**	**n/s**	**7,5%**	**5,2%**	**n/s**	**n/s**	**n/s**	**4,8%**
Financial income (expenses)	**(3.500)**	**(3.014)**		**(93)**	**(86)**	**(61)**	**(367)**	**(270)**	**(0)**	**(19)**	**(3.953)**	**(3.458)**
Writedowns	(1.331)	(778)		-	-	-	-	-	-	321	(1.331)	(457)
Income from Investments	-	2.238		-	235	227	-	-	-	-	235	2.465
Other Non-Recurring Income / (Expenses)	(668)	(1.088)		-	-	(0)	1	4	-	-	(667)	(1.084)
Non-Recurring Income / (Expenses)	**(1.999)**	**372**		**-**	**235**	**227**	**1**	**4**	**-**	**321**	**(1.763)**	**924**
Profit (Loss) before taxation	**(6.631)**	**3.260**		**65**	**545**	**516**	**439**	**340**	**(178)**	**1.003**	**(5.825)**	**5.185**
Taxes	1.353	(849)		(15)	(132)	(76)	(142)	(149)	44	(148)	1.123	(1.236)
Profit (Loss) for the year	**(5.278)**	**2.411**		**50**	**414**	**440**	**296**	**192**	**(133)**	**855**	**(4.701)**	**3.948**
Profit pertaining to Non-Controlling Interests	-	-		17	155	165	15	10	-	-	170	191
Net Profit (Loss) - Group	**(5.278)**	**2.411**		**33**	**258**	**275**	**282**	**182**	**(133)**	**855**	**(4.871)**	**3.757**

Reclassified Income Statement – management format

Consolidated revenue from sales amounted to € 163.3 million for 2013 with an increase of € 7.6 million (+3.6%) on prior year; this increase was mainly generated by the inclusion of subsidiary Italacciai in the scope of consolidation and by higher sales for the Chinese subsidiary (albeit negatively impacted, in part, by the €/Yuan exchange rate trend).

Consolidated other net revenue for 2017 amounted to around € 0.7 million against € 1.6 million in 2016 but the 2016 figure included gains on the sale of several assets.

Consolidated **Industrial Margin** for 2017 amounted to around € 48.2 million with an increase both in absolute terms (+ € 6.9 million) and as a percentage of Consolidated revenue from sales (up by 3.4 pp from 26.8% in 2016 to 30.2% in 2017). In addition to the aforementioned inclusion of Italacciai in the scope of consolidation (effect of €2.2 million on margin), this improvement is due to: rationalisation and efficiency measures in relation to the entire supply chain; the recovery of internal operating efficiency thanks to said rationalisation; o the fact that the production process is now running almost at maximum potential (i.e. less use of outsourcing, lower "non-quality costs", etc.); and, finally, the general cost containment efforts by the parent company leading to savings on direct costs and variable production costs while revenue has remained broadly stable. The decrease in margins for the Chinese subsidiary must be examined together with the comparatively higher amount of other revenue.

Consolidated EBITDA for 2017 amounts to around € 20.0 million with a significant increase both in absolute terms (+ € 8.0 million approx.) and as a percentage of consolidated revenue from sales (+4.8 pp from 7.8% to 12.5%); in addition to the recovery in industrial margin described above, this improvement is thanks to:

- the positive contribution of around € 1.8 million from the reduction in certain indirect costs (e.g. sundry ordinary consulting costs, entertainment expenses, marketing and promotional expenses, etc.) achieved mainly by the parent company and by the Chinese subsidiary;
- the positive contribution of around € 0.4 million from the increase in margin on sales of equipment commissioned by customers ("pre-production operations");
- The overall negative contribution of € 1.1 million from the increase in personnel costs mainly due to the consolidation of Italacciai and partially mitigated by the reduction in parent company personnel costs (down by around € 0.4 million), as greater production efficiency has reduced the need for overtime.

Consolidated depreciation, amortisation and allocations to provisions for 2017 amount to around € 12.3 million. This represents an increase of around € 0.4 million - or +4%, mainly because of higher depreciation of tangible assets because of capex incurred during the year and in prior year in order to improve the production assets of the parent company and the Chinese subsidiary).

In 2017, there was net extraordinary/non-recurring income of € 1.0 million This was mainly due to the recognition during the year of an earn-out payment (income from investments of € 2.2 million) on the sale of the investment in Italpresse in 2015 and income realised by Immobiliare Industriale S.r.l. on the liquidation of its subsidiaries (€ 0.2 million), as partially offset by consulting costs incurred in relation to the debt refinancing process (around € 1.1 million) and by non-recurring writedowns of non-current assets and inventory.

As a result of the profits reported by all subsidiaries and the resulting taxable income, there was an overall tax expenses leading to a **consolidated net profit of € 3.9 million** (of which € 366 thousand pertaining to non-controlling interests).

Reclassified Balance Sheet – management format

Balance Sheet	SIL S.p.a (IAS 17)		Italacciai		Immobiliare Industriale		Saleri Shanghai		Consolidation Adjustments		Saleri Group - consolidated	
Amounts in Euro Thousands	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**
Tangible Asset	64.030	60.402	-	1.238	11.263	11.263	3.924	3.336	-	(1)	79.217	76.239
Intangible Asset	3.904	3.792	-	4	67	44	798	607	0	(102)	4.768	4.346
Financial Assets	7.756	7.930	-	-	547	173	-	-	(7.671)	(7.880)	632	223
Fixed Assets	**75.690**	**72.124**	**-**	**1.242**	**11.877**	**11.481**	**4.722**	**3.944**	**(7.671)**	**(7.983)**	**84.617**	**80.808**
Trade Receivables	8.891	10.957	-	456	-	-	2.507	2.255	(1.993)	(1.562)	9.405	12.106
Trade Payables	(32.667)	(25.694)	-	(495)	(60)	(1)	(2.734)	(1.548)	47	-	(35.413)	(27.739)
Inventory	33.193	23.166	-	1.556	-	-	4.406	2.976	(539)	(545)	37.060	27.153
Trade Working Capital	**9.418**	**8.429**	**-**	**1.517**	**(60)**	**(1)**	**4.179**	**3.683**	**(2.485)**	**(2.107)**	**11.052**	**11.521**
Intra-Group Receivables (Payables)	(196)	(1.348)	-	-	8	(104)	(468)	-	1.677	1.017	1.020	(436)
Tax Receivables (Payables)	2.684	174	-	6	(13)	13	242	(67)	218	-	3.132	126
Deferred Tax Assets	3.954	3.984	-	-	-	43	-	-	-	49	3.954	4.076
Other Current Assets (Liabilities)	(4.197)	(4.011)	-	(275)	-	18	166	83	-	(1.561)	(4.031)	(5.746)
Other Current Asset (Liabilities)	**2.245**	**(1.202)**	**-**	**(268)**	**(4)**	**(30)**	**(61)**	**17**	**1.895**	**(496)**	**4.075**	**(1.979)**
Accrued Expenses and Def Income	1.069	1.897	-	(10)	2	1	-	-	(0)	0	1.071	1.888
TFR Provision	(1.544)	(1.550)	-	(911)	-	-	-	-	-	-	(1.544)	(2.460)
Provisions for Risks and Charges	(3.237)	(4.572)	-	(49)	-	-	-	-	0	0	(3.237)	(4.621)
Invested Capital	**83.642**	**75.126**	**-**	**1.521**	**11.814**	**11.451**	**8.840**	**7.644**	**(8.261)**	**(10.585)**	**96.034**	**85.156**
Payables to Factoring Companies	3.172	26	-	-	-	-	-	-	-	-	3.172	26
Bank Borrowing	58.395	56.162	-	1.370	3.075	2.094	3.567	3.374	-	-	65.037	63.000
Payables to Leasing Companies	17.992	15.300	-	-	-	-	1.175	958	(0)	(1.938)	19.167	14.319
Cash and Cash Equivalents	(2.756)	(5.639)	-	(2)	(404)	(226)	(239)	(944)	-	(546)	(3.400)	(7.357)
Net Financial Position	**76.802**	**65.849**	**-**	**1.368**	**2.671**	**1.868**	**4.502**	**3.387**	**(0)**	**(2.484)**	**83.975**	**69.988**
Share Capital	5.160	5.160	-	100	10	10	2.025	1.986	(2.035)	(2.096)	5.160	5.160
Equity Reserves	6.958	1.706	-	3	8.719	9.133	2.017	2.079	(5.923)	(6.670)	11.771	6.251
Profit for the Year	(5.278)	2.411	-	50	414	440	296	192	(303)	664	(4.871)	3.757
Shareholders' Equity	**6.840**	**9.277**	**-**	**153**	**9.143**	**9.583**	**4.338**	**4.256**	**(8.261)**	**(8.102)**	**12.060**	**15.168**
Sources of Finance	**83.642**	**75.126**	**-**	**1.521**	**11.814**	**11.451**	**8.840**	**7.644**	**(8.261)**	**(10.585)**	**96.035**	**85.156**

Reclassified Balance Sheet – management format

Some comments on the main Balance Sheet items are presented below. See the Notes to the Consolidated Financial Statements for further details.

Non-Current Assets

Net non-current assets decreased by € 3.8 million, mainly as a result of:

- Depreciation and amortisation of tangible and intangible assets totalling € 11.1 million and lower net capex (€ 7.4 million) following completion of the massive investment plan at the end of 2016;
- Expansion of the scope of consolidation - € 1.2 million;
- Disposals in relation to the liquidation of non-consolidated subsidiaries - € 0.4 million.

Trade Working Capital

At 31 December 2017, Consolidated Trade Working Capital amounts to € 11.5 million, a slight increase compared to prior year (€ 11.1 million). The increase is mainly due to:

- An increase in trade receivables (+ € 2.7 million) due to less use of Factoring; trade receivables remain broadly stable as a percentage of Consolidated revenue from sales (6% in 2016 and 7% in 2017);
- A significant € 9.9 million decrease in inventory; this decrease was mainly due to inventory reductions due to progress with supply chain management made by both the parent company and the Chinese subsidiary, as only partially offset by the increase in inventory generated by the inclusion of Italacciai;
- A € 7.7 million decrease in ***Trade payables*** (€ 27.7 million at 31 December 2017) compared to 31 December 2016. At the end of 2016, the parent company had agreed a plan to defer payment due dates with several strategic suppliers and the related trade payables increased accordingly. At the end of 2017, trade payables decreased to 24% of purchases (from 27% at 31 December 2016).

Other Current Assets and Liabilities

There are net Other Current Liabilities of € 1.9 million, a decrease of € 6.0 million compared to the net Other Current Assets at 31 December 2016. The change is mainly due to a decrease in tax receivables (around € 2.6 million) and to a reduction in Other Payables.

Provisions for Risks and Charges and TFR Provision

Provisions for risks and charges have increased mainly in relation to further net allocations to the provision for deferred taxes (in relation to items with temporary differences between statutory and tax balances – € 0.7 million) and to the product warranty provision (€ 0.4 million). The TFR provision has increased by € 0.9 million.

Net Financial Position

At 31 December 2017, the Consolidated Net Financial Position shows net debt of € 69.9 million, a decrease of € 13.9 million compared to 31 December 2016, mainly as a result of:

- around € 6.8 million of principal repayments on bank loans and finance lease obligations by SIL; almost all of these payments were made in the first half of 2017 i.e. before the moratorium on principal repayments granted by the leading banks as part of the overall negotiations to refinance SIL's debt;
- A reduction of factoring facilities and, therefore, in utilisation of factoring with recourse - € 3.1 million;
- An increase in cash and cash equivalents thanks to positive operating cash flows.

Shareholders' Equity

Consolidated Shareholders' Equity amounted to € 15.1 million at 31 December 2017 (against € 12.0 million at 31 December 2016).

See the Notes to the Consolidated Financial Statements for a schedule of movements on shareholders' equity and for a reconciliation between consolidated net profit and shareholders' equity and parent company net profit and shareholders' equity.

Reclassified Income Statement – statutory format

For the sake of completeness, the following table shows the aggregation and consolidation of figures from the consolidated financial statements based on the statutory reporting format; figures for SIL have been adjusted to reflect the effect of accounting for finance leases in accordance with IAS 17. See the Notes to the Financial Statements for further details.

Income Statement	SIL S.p.a (IAS 17)		Italacciai		Immobiliare Industriale		Saleri Shanghai		Consolidation Adjustments		Saleri Group - consolidated	
Amounts in Euro Thousands	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Revenue from sales and services	156.211	157.947	-	4.955	864	876	10.692	13.213	(8.504)	(8.036)	159.263	168.955
Chg in inv of WIP, semi-finished and finished goods	(289)	(586)	-	272	-	-	63	(1.505)	-	(200)	(227)	(2.019)
Revenue from sales and chg in FG-SFG-WIP inventory	**155.922**	**157.361**	**-**	**5.227**	**864**	**876**	**10.755**	**11.708**	**(8.504)**	**(8.236)**	**159.037**	**166.936**
Other Revenue and Sundry Income	1.439	1.622	-	17	-	16	718	56	-	(148)	2.157	1.563
Increase in fixed assets due to internal works capitalised	947	790	-	-	-	-	-	-	-	-	947	790
Other Revenue	**2.386**	**2.412**	**-**	**17**	**-**	**16**	**718**	**56**	**-**	**(148)**	**3.105**	**2.353**
Value of Production	**158.308**	**159.773**	**-**	**5.244**	**864**	**892**	**11.473**	**11.764**	**(8.504)**	**(8.384)**	**162.142**	**169.289**
Costs for raw, ancillary and consumable materials	(93.831)	(83.537)	-	(1.952)	-	-	(6.856)	(7.464)	7.866	8.130	(92.821)	(84.823)
Chg in inv of raw, ancillary and consumable materials	(1.210)	(9.563)	-	(7)	-	-	109	535	460	442	(640)	(8.593)
Costs for services	(31.668)	(28.624)	-	(1.306)	(35)	(90)	(1.049)	(983)	-	-	(32.752)	(31.004)
Use of third party assets / Lease and rental costs	(888)	(952)	-	(87)	-	-	(367)	(161)	(0)	443	(1.255)	(756)
Personnel Costs	(21.567)	(21.122)	-	(1.624)	-	-	(1.038)	(1.226)	-	-	(22.605)	(23.972)
Sundry Operating Expenses	(1.648)	(935)	-	(16)	(116)	(127)	(708)	(763)	-	7	(2.471)	(1.834)
Depreciation & Amortisation	(9.584)	(9.640)	-	(118)	(317)	(325)	(758)	(1.060)	(0)	63	(10.659)	(11.080)
Writedowns	(245)	(362)	-	(2)	-	-	-	(30)	-	-	(245)	(394)
Cost of Production	**(160.641)**	**(154.734)**	**-**	**(5.113)**	**(468)**	**(542)**	**(10.666)**	**(11.154)**	**8.326**	**9.085**	**(164.319)**	**(163.211)**
Diff. Between Value and Cost of Production	**(2.333)**	**5.039**	**-**	**132**	**396**	**350**	**807**	**610**	**(178)**	**701**	**(2.177)**	**6.077**
Income from investments	-	2.238	-	-	233	226	-	-	-	-	233	2.464
Other financial income	0	10	-	-	-	-	-	-	-	-	0	10
Interest and other financial expenses	(3.316)	(2.913)	-	(41)	(84)	(60)	(367)	(270)	(0)	(19)	(3.766)	(3.303)
Adjustments to value of financial assets	(114)	(359)	-	-	-	-	-	-	-	321	(114)	(38)
Profit (Loss) before Taxation	**(6.631)**	**3.259**	**-**	**90**	**545**	**516**	**440**	**340**	**(178)**	**1.003**	**(5.823)**	**5.210**
Taxation	1.353	(848)	-	(40)	(132)	(76)	(142)	(149)	44	(148)	1.123	(1.261)
Profit (Loss) for the Year	**(5.278)**	**2.411**	**-**	**50**	**414**	**440**	**298**	**192**	**(133)**	**855**	**(4.700)**	**3.948**
Profit pertaining to Non-Controlling Interests	-	-	-	17	155	165	15	10	170	191	170	191
Net Profit (Loss) of Group	**(5.278)**	**2.411**	**-**	**33**	**258**	**275**	**283**	**182**	**(303)**	**664**	**(4.870)**	**3.757**

Section 7 –Saleri Group – Consolidated Financial Information

Reclassified Balance Sheet – statutory format

For the sake of completeness, the following table shows the aggregation and consolidation of figures from the consolidated financial statements based on the statutory reporting format; figures for SIL have been adjusted to reflect the effect of accounting for finance leases in accordance with IAS 17. See the Notes to the Financial Statements for further details.

Balance Sheet	SIL S.p.A. (IAS 17)		Italacciai		Immobiliare Industriale		Saleri Shanghai		Consolidation Adjustments		Saleri Group - consolidated	
Amounts in Euro Thousands	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017
Tangible Assets	3.704	3.508	-	27	67	44	798	607	-	(1)	4.568	4.186
Intangible Assets	64.030	60.202	-	1.215	11.263	11.263	3.924	3.336	0	(102)	79.217	75.914
Financial Assets	7.743	7.923	-	-	547	173	-	-	(7.671)	(7.880)	619	216
Fixed Assets	**75.477**	**71.632**	**-**	**1.242**	**11.877**	**11.481**	**4.722**	**3.944**	**(7.671)**	**(7.983)**	**84.404**	**80.317**
Inventory	33.193	23.166	-	1.556	-	-	4.406	2.976	(539)	(545)	37.060	27.153
Trade receivables	8.807	10.717	-	176	-	-	2.507	2.255	(1.993)	(1.562)	9.321	11.586
Receivables from subsidiaries	85	240	-	-	30	21	-	-	(85)	(240)	30	21
Receivables from parent companies	-	-	-	242	-	0	-	-	-	(242)	-	0
Tax Receivables	3.734	1.452	-	128	8	17	242	10	197	-	4.181	1.606
Deferred Tax Assets	3.954	3.984	-	-	-	43	-	-	-	49	3.954	4.076
Receivables from others	294	424	-	3	-	14	183	141	-	-	478	582
Other current financial assets	13	13	-	-	-	-	-	-	-	-	13	13
Cash and cash equivalents	2.763	5.668	-	2	404	226	244	948	-	546	3.411	7.390
Current Assets	**52.843**	**45.665**	**-**	**2.106**	**442**	**321**	**7.582**	**6.331**	**(2.420)**	**(1.995)**	**58.447**	**52.428**
Prepaid expenses and accrued income	**1.073**	**1.958**	**-**	**(16)**	**13**	**9**	**-**	**-**	**(0)**	**0**	**1.086**	**1.951**
Assets	**129.393**	**119.255**	**-**	**3.332**	**12.332**	**11.811**	**12.304**	**10.274**	**(10.092)**	**(9.978)**	**143.937**	**134.695**
Share Capital	5.160	5.160	-	100	10	10	2.025	1.986	(2.035)	(2.096)	5.160	5.160
Revaluation reserves	4.609	4.609	-	-	2.911	2.911	-	-	(5.833)	(5.833)	1.687	1.687
Legal reserve	1.032	1.032	-	-	2	2	-	-	(2)	(2)	1.032	1.032
Other Equity Reserves	7.309	2.020	-	3	5.828	6.220	1	(151)	1.905	495	15.044	8.587
Retained earnings (Accumulated losses)	(5.993)	(5.955)	-	-	(22)	-	2.014	2.230	(1.993)	(1.330)	(5.994)	(5.055)
Profit (Loss) for the year	(5.278)	2.411	-	50	414	440	298	192	(303)	664	(4.870)	3.757
Shareholders' Equity	**6.840**	**9.277**	**-**	**153**	**9.143**	**9.583**	**4.338**	**4.256**	**(8.261)**	**(8.102)**	**12.059**	**15.168**
Provision for taxation, including deferred tax	2.123	2.834	-	-	-	-	-	-	0	0	2.123	2.834
Provision for derivatives	114	61	-	-	-	-	-	-	-	-	114	61
Other provisions	800	1.200	-	-	-	-	-	-	-	-	800	1.200
Provisions	**3.037**	**4.095**	**-**	**-**	**-**	**-**	**-**	**-**	**0**	**0**	**3.037**	**4.095**
TFR Provision	**1.544**	**1.550**	**-**	**911**	**-**	**-**	**-**	**-**	**-**	**-**	**1.544**	**2.460**
Bank Borrowing	58.395	56.162	-	1.378	3.075	2.094	3.567	3.374	-	-	65.037	63.008
Payables to Other Lenders	21.164	15.326	-	-	-	-	1.175	958	(0)	(1.938)	22.339	14.346
Payments on Account	-	(962)	-	-	-	-	-	-	-	1.561	-	600
Trade payables	30.908	27.244	-	495	60	1	2.734	1.548	(47)	-	33.655	29.289
Payables to subsidiaries	-	-	-	26	22	125	468	-	-	(151)	490	0
Tax payables	1.050	1.278	-	95	21	-	0	76	(22)	-	1.049	1.450
Payables to Soc Sec and Pensions Institutions	1.265	1.319	-	59	-	-	-	-	-	-	1.265	1.378
Other Payables	3.426	2.556	-	221	-	-	22	62	-	-	3.447	2.839
Payables	**117.969**	**104.273**	**-**	**2.274**	**3.178**	**2.221**	**7.965**	**6.018**	**(1.830)**	**(1.876)**	**127.282**	**112.910**
Accrued expenses and deferred income	3	61	-	16	12	8	-	-	-	-	15	84
Liabilities and Shareholders' Equity	**129.393**	**119.255**	**-**	**3.353**	**12.332**	**11.811**	**12.304**	**10.274**	**(10.092)**	**(9.978)**	**143.937**	**134.716**

Statement of Cash Flows

The following table shows the cash flows that generated the change in cash and cash equivalents. For further details, see the Statement of Cash Flows included in the consolidated financial statements.

Statement of Cash Flows	Consolidated
Amounts in Euro Thousands	**2017**
Operating cash flows	**18.618**
Net investment in tangible, intangible and financial assets	(7.574)
Cash flows from divestments/disposals	952
Net cash flows from investing activities	**(6.622)**
Free Cash Flow	**11.996**
Increase (decrease) in short-term bank borrowing	4.799
Loan repayments	(13.306)
Net cash flows from financing activities	**(8.507)**
Increase (decrease) in cash and cash equivalents	**3.489**

Operating cash flows for 2017 amounted to € 18,618 thousand. Positive contributions were made by items not involving cash flows (e.g. depreciation/amortisation but also allocations to provisions and the TFR provision for a total of € 13,127 thousand) but also by the decrease of around € 2,787 thousand in working capital (amount substantially equivalent to interest paid during the period).

Investing/divesting activities led to the absorption of cash totalling € 7,574 thousand for investments made during the period (€ 6,034 thousand for tangible assets and € 1,370 thousand for intangible assets) and to the generation of cash totalling € 952 thousand in relation to the disposal of tangible assets.

The resulting Free Cash Flow totalling € 11,996 thousand was absorbed to the extent of around € 8,507 thousand to reduce the Group's exposure towards the banks and other lenders. Aa a result there was an overall increase of € 3,489 thousand in cash and cash equivalents.

Intra-Group transactions

During 2017, the parent company had relations with the other Group companies as described below:

- intra-Group transactions primarily of a commercial nature;
- relations under the consolidated taxation arrangements in terms of Articles 117 to 129 of Presidential Decree D.P.R. 917/1986.

These transactions took place on an arm's length basis.

The following table contains a summary of costs/revenue and payables/receivables for each subsidiary. Information is provided for those companies included in the Scope of Consolidation and for those excluded from it:

Intercompany relations with companies included in the Scope of Consolidation

Amounts in Euro thousands	Costs	Revenue
Trade relations		
Saleri Shanghai Co. Ltd	346.000	7.199.000
Italacciai S.r.l.	70.000	701.000

Amounts in Euro thousands	Receivables	Payables
Trade relations		
Saleri Shanghai Co. Ltd	90.000	1.106.000
Italacciai S.r.l.	26.000	242.000
Financial relations		
Immobiliare Industriale S.r.l.	-	211.000
Consolidated taxation relations		
Immobiliare Industriale S.r.l.	125.000	-

Intercompany relations with companies excluded from the Scope of Consolidation

Amounts in Euro Thousands	Receivables	Payables
Societè Civile Immobilière IP in liquidation	20.689	-

Section 8

Industrie Saleri Italo S.p.A.

Financial Information

Key Performance Indicators

The following table shows the main, reclassified Income Statement and Balance Sheet amounts for the last three years. Given the importance of finance lease agreements, the table also shows the amounts that would result from application of IAS 17 (as occurs in the consolidated financial statements).

SIL - 2017	2015	2016	2017	▲L2Y	Notes on changes
Amounts in Millions of Euro					
Value of Production	157,6	158,3	159,8	+ 1,4%	Consolidation of revenue
Revenue and Chg in FG inventory	151,3	151,0	150,2	-0,7%	
INDUSTRIAL MARGINS	30,5	35,9	40,2	+ € 9,8	Reduction in external production due to less use of outsourcing and greater efficiency at the production facility; Reduction in non-quality costs generated by production inefficiencies (reworking, scrap, etc.).
% of Revenue	20,1%	23,8%	26,8%	+ 6,6%	
INDIRECT COSTS	(6,9)	(6,2)	(4,4)	+ € 2,5	Stabilisation of indirect costs; Reduction in general expenses.
% su Ricavi	-4,5%	-4,1%	-2,9%	+ 1,7%	
EBITDA	4,8	9,4	16,4	+ € 11,5	
% of Revenue	3,2%	6,2%	10,9%	+ 7,7%	
EBIT	(6,1)	(1,1)	5,9	+ € 12,0	
% of Revenue	-4,1%	-0,7%	3,9%	+ 8,0%	
EBTE	(9,9)	(4,6)	2,9	+ € 12,8	Reduction in financial expenses.
% of Revenue	-6,6%	-3,1%	1,9%	+ 8,5%	
Non-Recurring Income (Expenses)	13,8	(2,0)	0,4	- € 13,4	In 2015, positive effect of gain on sale of investment in Italpresse.
Profit (Loss) for the Year (IAS 17)	6,3	(5,3)	2,4	- € 3,9	
Profit (Loss) for the Year	6,3	(7,3)	1,5	- € 4,8	
Fixed Assets	65,5	75,7	72,1	+ € 6,6	Revaluation of investment in Immobiliare Industriale.
of which Production Assets	37,4	41,4	37,4	+ € 0,1	
Investments	20,0	18,0	7,4	- € 12,6	Completion in 2016 of massive plan of investment in industrial automation.
Ratio of Investments / Revenue	13,2%	11,9%	4,9%	-8,3%	
Trade Working Capital	20,6	9,4	8,4	- € 12,2	
of which Inventory	34,8	33,2	23,2	- € 11,6	Implementation of Lean Production on Supply Chain.
TWC on Revenue	14%	6%	6%	-8,0%	
Invested Capital	84,0	83,6	75,1	- € 8,9	
Net Financial Position	75,2	76,8	65,8	- € 9,4	Repayment of MLT debt; Less use of new loans; Less use of self-liquidating facilities.
Shareholders' Equity	8,8	6,8	9,3	+ € 0,5	Increase due to net profits.
Shareholders' Equity - AUCAP Effect	8,8	6,8	32,3	+ 23,5	Share Capital increase
NFP/EQUITY	8,5 x	11,2 x	7,1 x		
NFP/EBITDA	8,5 x	11,2 x	2,0 x		

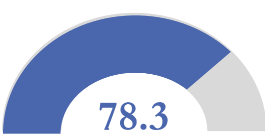
Performance Indicators - Revenue

Breakdown by Business Unit	2015	2016	2017	2015	2016	2017	▲
Amounts in Millions of Euro							
OE	118,2	118,4	118,9	75,0%	74,8%	74,4%	0,3%
OES	5,9	6,2	6,3	3,7%	3,9%	3,9%	2,9%
IAM	33,1	26,4	25,1	21,0%	16,7%	15,7%	-12,9%
R&D	5,6	4,9	6,8	3,6%	3,1%	4,3%	9,8%
Other Sales	(5,2)	2,4	2,7	-3,3%	1,5%	1,7%	n/s
Value of Production	**157,6**	**158,3**	**159,8**	100,0%	100,0%	100,0%	**0,7%**

Breakdown by Channels	2015	2016	2017	2015	2016	2017	▲
OE/OES	124,1	124,6	125,1	78,7%	78,7%	78,3%	0,4%
IAM	33,1	26,4	25,1	21,0%	16,7%	15,7%	-12,9%
Other	0,4	7,3	9,5	0,3%	4,6%	6,0%	387,3%
Value of Production	**157,6**	**158,3**	**159,8**	100,0%	100,0%	100,0%	0,7%

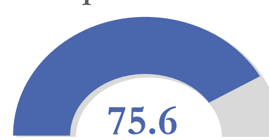
Geographical Breakdown	2015	2016	2017	2015	2016	2017	▲
Other Countries	132,0	138,3	140,2	83,7%	87,3%	87,8%	3,1%
Italy	25,6	20,1	19,5	16,3%	12,7%	12,2%	-12,7%
Value of Production	**157,6**	**158,3**	**159,8**	100,0%	100,0%	100,0%	0,7%

% Revenue OE/OES



% Exports

% Top 4 Customers



* An analysis of revenue concentration is provided on page 21 of this Report

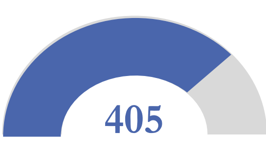
Human Capital

		Average Age of Employees (Years)	EDUCATION LEVEL (degree and diploma holders / total)	OUTGOING TURNOVER (resignations and dismissals / total)			HOURS OF TRAINING PER EMPLOYEE (training hours / average no of employees)
				Average	Men	Women	
2017	>>	37,0	61%	7,5%	9,3%	4,9%	15,7
2016	>>	36,4	59%	6,2%	8,1%	3,5%	15,5
2015	>>	37,8	56%	19,7%	20,0%	19,4%	7,5

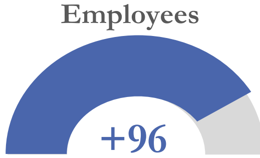
		INVESTMENT IN TRAINING/REVENUE	HOURS OF STRIKE ACTION FOR INTERNAL REASONS	TOTAL EMPLOYEES			SICKNESS RATE (hours of sickness/total hours workable)
				Totale	Uomini	Donne	
2017	>>	0,33%	0,0	405	59%	41%	2,80%
2016	>>	0,28%	0,0	369	59%	41%	3,10%
2015	>>	0,10%	0,0	309	58%	42%	2,50%

		INJURT FREQUENCY (num. injuries x 1 mln /tot. Hours worked)	INJURY SERIOUSNESS INDEX (days of absence x 1,000/ tot. Hours worked)	JOBS CREATED (LOST)
2017	>>	8,5	0,80	18
2016	>>	8,8	0,73	19
2015	>>	9,7	0,39	94

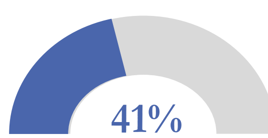
Employees - SIL



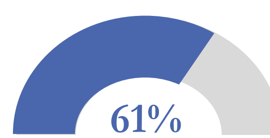
L2Y Increase in Employees



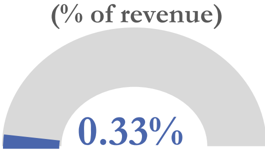
% Women



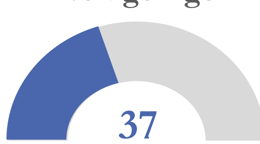
% Degree / Diploma-holders



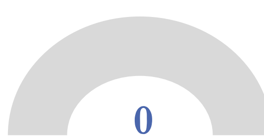
Investment on Training (% of revenue)



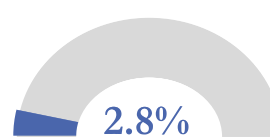
Average Age



Hours of Strike Action



Sickness Rate %



Reclassified Income Statement – management format

Management Account - CE	2015		2016		2017	
Amounts in Euro Thousands						
Revenue from Sales	148.463	98,1%	152.603	101,0%	152.116	101,2%
Change in FG Inventory	3.801	2,5%	(289)	-0,2%	(586)	-0,4%
Discounts, Allowances	(943)	-0,6%	(1.284)	-0,9%	(1.284)	-0,9%
Revenue and Chg in FG Inventory	**151.321**	**100,0%**	**151.030**	**100,0%**	**150.246**	**100,0%**
Incr. In N-C Assets (Cap. of Dev. Costs)	-	0,0%	947	0,6%	790	0,5%
Sundry Income	-	0,0%	-	0,0%	-	0,0%
Other Net Income	**-**	**0,0%**	**947**	**0,6%**	**790**	**0,5%**
Net Revenues	**151.321**	**100,0%**	**151.977**	**100,6%**	**151.036**	**100,5%**
Direct Consumption Costs	(114.016)	-75,3%	(110.121)	-72,9%	(106.213)	-70,7%
Variable Production Costs	(6.821)	-4,5%	(5.922)	-3,9%	(4.574)	-3,0%
Industrial Margin	**30.484**	**20,1%**	**35.934**	**23,8%**	**40.249**	**26,8%**
Revenue from Pre-Production Operations	5.639	3,7%	4.908	3,2%	6.793	4,5%
Costs for Pre-Production Operations	(3.265)	-2,2%	(3.719)	-2,5%	(5.214)	-3,5%
Profit from Pre-Production Operations	**2.374**	**1,6%**	**1.189**	**0,8%**	**1.579**	**1,1%**
Personnel Costs	**(21.136)**	**-14,0%**	**(21.567)**	**-14,3%**	**(21.122)**	**-14,1%**
Indirect Costs	**(6.883)**	**-4,5%**	**(6.190)**	**-4,1%**	**(4.355)**	**-2,9%**
EBITDA	**4.839**	**3,2%**	**9.367**	**6,2%**	**16.351**	**10,9%**
Depreciation of Tangible Assets	(9.198)	-6,1%	(7.804)	-5,2%	(8.613)	-5,7%
Amortisation of Intangible Assets	(1.701)	-1,1%	(1.781)	-1,2%	(1.027)	-0,7%
Allocations to Provisions	(73)	0,0%	(915)	-0,6%	(809)	-0,5%
Depreciation, Amortisation & Allocations	**(10.972)**	**-7,3%**	**(10.499)**	**-7,0%**	**(10.449)**	**-7,0%**
EBIT	**(6.134)**	**-4,1%**	**(1.132)**	**-0,7%**	**5.902**	**3,9%**
Financial income (expenses)	(3.790)	-2,5%	(3.500)	-2,3%	(3.014)	-2,0%
Writedowns	-	0,0%	(1.331)	-0,9%	(778)	-0,5%
Income from Investments	13.982	9,2%	-	0,0%	2.238	1,5%
Other Non-Recurring Income / (Expenses)	(184)	-0,1%	(668)	-0,4%	(1.088)	-0,7%
Non-Recurring Income / (Expenses)	**13.798**	**9,1%**	**(1.999)**	**-1,3%**	**372**	**0,2%**
Profit (Loss) before taxation	**3.874**	**2,6%**	**(6.631)**	**-4,4%**	**3.260**	**2,2%**
Taxes	2.393	1,6%	1.353	0,9%	(849)	-0,6%
Profit (Loss) for the year	**6.267**	**4,1%**	**(5.278)**	**-3,5%**	**2.411**	**1,6%**

In 2017, the volumes of the OE Division were in line with prior year. Commercial relations with Europe's leading car manufacturers are now well-established. In 2017, the Company also added new projects and new, long-term contracts with new customers.

The IAM division saw its sales decrease compared to prior year in a highly competitive environment. This was also due to the process of concentration of the retail networks of the major international groups.

The significant increase in EBITDA both in absolute terms (around € 6,985 thousand) and as a percentage of value of production (from 6.2% to 10.9%) is explained as follows:

- around € 4,705 thousand due to the recovery in industrial margin achieved mainly thanks to higher levels of internal efficiency (new production process almost fully up and running, less use of outsourcing, indirect benefits of supply chain reorganisation) and the resulting containment of "non-quality costs" (reworking of products not up to standard);
- around € 445 thousand due to reduction in personnel costs as a result of less use of overtime;
- around € 1,835 thousand from reduction in certain indirect costs (e.g. sundry ordinary consulting costs, entertainment expenses, marketing and sundry promotional expenses, etc.);
- to a residual extent from margins on the sale of equipment commissioned by customers ("pre-production operations").

Depreciation/amortisation and allocations to provisions were, overall, almost in line with prior year so the increase in EBITDA led to a corresponding increase in EBIT.

In 2017, there was net non-recurring/extraordinary income of € 402 thousand mainly as a result of recognition of an earn-out payment on the sale of the investment in Italpresse in 2015 as countered by non-recurring consulting costs incurred for the debt refinancing process.

Reclassified Balance Sheet – management format

Balance Sheet	SIL S.p.A. (IAS 17)		
Amounts in Euro Thousands	Dec-15	Dec-16	Dec-17
Tangible Asset	59.873	64.030	60.402
Intangible Asset	3.765	3.904	3.792
Financial Assets	1.893	7.756	7.930
Fixed Assets	**65.532**	**75.690**	**72.124**
Inventory	34.755	33.193	23.166
Incidence on Sales	23,0%	22,0%	15,4%
Trade Receivables	14.501	8.891	10.957
Incidence on Sales	9,6%	5,9%	7,3%
Trade Payables	(28.655)	(32.667)	(25.694)
Incidence on Sales	-18,9%	-21,6%	-17,1%
Trade Working Capital	**20.602**	**9.418**	**8.429**
Incidence on Sales	13,6%	6,2%	5,6%
Intra-Group Receivables (Payables)	(196)	(196)	(1.348)
Tax Receivables (Payables)	2.175	2.684	174
Deferred Tax Assets	2.145	3.954	3.984
Other Current Assets (Liabilities)	(4.183)	(4.197)	(4.011)
Accrued Expenses and Def Income	1.093	1.069	1.897
Other Current Asset (Liabilities)	**1.034**	**3.315**	**695**
Net Funds	(1.519)	(3.237)	(4.572)
TFR Provision	(1.634)	(1.544)	(1.550)
Net Funds	**(3.153)**	**(4.781)**	**(6.122)**
Invested Capital	**84.014**	**83.642**	**75.126**
Payables to Factoring Companies	7.618	3.172	26
Bank Borrowing	55.594	58.395	56.162
Payables to Leasing Companies	16.985	17.992	15.300
Cash and Cash Equivalents	(4.989)	(2.756)	(5.639)
Net Financial Position	**75.208**	**76.802**	**65.849**
Share Capital	5.160	5.160	5.160
Equity Reserves	(2.621)	6.958	1.706
Utile d'Esercizio	6.267	(5.278)	2.411
Shareholders' Equity	**8.806**	**6.840**	**9.277**
Shareholders'S Equity / NFP	**8,5 x**	**11,2 x**	**7,1 x**
Sources of Finance	**84.014**	**83.642**	**75.126**

Non-current assets decreased by around € 3,566 thousand mainly as a result of depreciation/amortisation of tangible and intangible assets.

During 2017, the Company incurred net capex totalling € 7,393 thousand, most of it to further improve its production facilities. The remainder related to R&D activities (R&D department costs of € 790 thousand were capitalised) and to the acquisition of the investment in Italacciai.

At 31 December 2017, trade working capital decreased by around € 988 thousand (remaining stable at around 6% of revenue). We highlight the significant reduction in inventory (around € 10,027 thousand) which provides further confirmation of the progress made in relation to supply chain management and working capital management in general.

At 31 December 2017, other current assets and liabilities remained broadly in line with their 31 December 2016 level.

Provisions for risks and charges have increased mainly in relation to further net allocations to the deferred tax provision (in relation to finance leases and other items with temporary differences between statutory value and tax value) and to the product warranty provision.

At 31 December 2017, the net financial position shows net debt of around € 65,849 thousand, a reduction of around € 10,953 thousand compared to 31 December 2016.

At 31 December 2017, Shareholders' Equity amounts to € 9,277 thousand. The ratio of the NFP to Equity – before completion of the planned Share Capital Increase – stands at 7.1 (against 112 at 31 December 2016).

Reclassified Income Statement – statutory format

The following table shows financial information in the statutory format and reflects the adjustments made to account for finance leases in accordance with IAS 17. See the Notes to the Financial Statements for further details.

Income Statement - Industrie Saleri Italo S.p.A.	SIL S.p.A.			IAS 17 adjustments			SIL S.p.A. (IAS 17)		
Amounts in Euro Thousands	2015	2016	2017	2015	2016	2017	2015	2016	2017
Revenue from sales and services	153.443	156.211	157.947	-	-	-	153.443	156.211	157.947
Chg in inv of WIP, semi-finished and finished goods	3.801	(289)	(586)	-	-	-	3.801	(289)	(586)
Revenue from sales and chg in FG-SFG-WIP inventory	**157.244**	**155.922**	**157.361**	**-**	**-**	**-**	**157.244**	**155.922**	**157.361**
Other Revenue and Sundry Income	389	1.439	1.622	-	-	-	389	1.439	1.622
Increase in fixed assets due to internal works capitalised	-	947	790	-	-	-	-	947	790
Other Revenue	**389**	**2.386**	**2.412**	**-**	**-**	**-**	**389**	**2.386**	**2.412**
Value of Production	**157.633**	**158.308**	**159.773**	**-**	**-**	**-**	**157.633**	**158.308**	**159.773**
Costs for raw, ancillary and consumable materials	(99.441)	(93.831)	(83.537)	-	-	-	(99.441)	(93.831)	(83.537)
Chg in inv of raw, ancillary and consumable materials	2.410	(1.210)	(9.563)	-	-	-	2.410	(1.210)	(9.563)
Costs for services	(33.253)	(31.668)	(28.624)	-	-	-	(33.253)	(31.668)	(28.624)
Use of third party assets / Lease and rental costs	(5.607)	(7.661)	(6.706)	4.904	6.773	5.755	(703)	(888)	(952)
Personnel Costs	(21.136)	(21.567)	(21.122)	-	-	-	(21.136)	(21.567)	(21.122)
Sundry Operating Expenses	(1.027)	(1.648)	(935)	-	-	-	(1.027)	(1.648)	(935)
Depreciation & Amortisation	(6.710)	(6.330)	(5.982)	(4.189)	(3.254)	(3.658)	(10.899)	(9.584)	(9.640)
Writedowns	(73)	(245)	(362)	-	-	-	(73)	(245)	(362)
Cost of Production	**(164.839)**	**(164.160)**	**(156.831)**	**715**	**3.519**	**2.097**	**(164.124)**	**(160.641)**	**(154.734)**
Diff. Between Value and Cost of Production	**(7.205)**	**(5.852)**	**2.942**	**715**	**3.519**	**2.097**	**(6.490)**	**(2.333)**	**5.039**
Income from investments	13.982	-	2.238	-	-	-	13.982	-	2.238
Other financial income	5	0	10	-	-	-	5	0	10
Interest and other financial expenses	(2.578)	(2.556)	(2.339)	(773)	(760)	(574)	(3.352)	(3.316)	(2.913)
Adjustments to value of financial assets	-	(114)	(359)	-	-	-	-	(114)	(359)
Non-recurring income	-	-	-	-	-	-	-	-	-
Non-recurring expenses	(271)	-	-	-	-	-	(271)	-	-
Profit (Loss) before Taxation	**3.932**	**(9.390)**	**1.736**	**(58)**	**2.759**	**1.523**	**3.874**	**(6.631)**	**3.259**
Taxation	2.375	2.053	(277)	18	(700)	(571)	2.393	1.353	(848)
Profit (Loss) for the Year	**6.307**	**(7.337)**	**1.459**	**(40)**	**2.059**	**952**	**6.267**	**(5.278)**	**2.411**

Reclassified Balance Sheet – statutory format

The following table shows financial information in the statutory format and reflects the adjustments made to account for finance leases in accordance with IAS 17. See the Notes to the Financial Statements for further details.

Balance Sheet - Industrie Saleri Italo S.p.A.	SIL S.p.A.		IAS 17 adjustments		SIL S.p.A. (IAS 17)	
Amounts in Euro Thousands	dic-16	dic-17	dic-16	dic-17	dic-16	dic-17
Tangible Assets	3.704	3.508	-	-	3.704	3.508
Intangible Assets	41.276	41.046	22.754	19.156	64.030	60.202
Financial Assets	7.743	7.923	-	-	7.743	7.923
Fixed Assets	**52.723**	**52.477**	**22.754**	**19.156**	**75.477**	**71.632**
Inventory	33.193	23.166	-	-	33.193	23.166
Trade receivables	8.807	10.717	-	-	8.807	10.717
Receivables from subsidiaries	85	240	-	-	85	240
Receivables from parent companies	-	-	-	-	-	-
Tax Receivables	3.734	1.452	-	-	3.734	1.452
Deferred Tax Assets	3.954	3.984	-	-	3.954	3.984
Receivables from others	294	424	-	-	294	424
Other current financial assets	13	13	-	-	13	13
Cash and cash equivalents	2.763	5.668	-	-	2.763	5.668
Current Assets	**52.843**	**45.665**	**-**	**-**	**52.843**	**45.665**
Prepaid expenses and accrued income	**3.575**	**3.616**	**(2.502)**	**(1.658)**	**1.073**	**1.958**
Assets	**109.141**	**101.758**	**20.252**	**17.497**	**129.393**	**119.255**
Share Capital	5.160	5.160	-	-	5.160	5.160
Revaluation reserves	4.609	4.609	-	-	4.609	4.609
Legal reserve	1.032	1.032	-	-	1.032	1.032
Other Equity Reserves	7.739	364	(429)	1.655	7.309	2.020
Retained earnings (Accumulated losses)	(5.993)	(5.955)	-	-	(5.993)	(5.955)
Profit (Loss) for the year	(7.337)	1.459	2.059	952	(5.278)	2.411
Shareholders' Equity	**5.210**	**6.670**	**1.630**	**2.607**	**6.840**	**9.277**
Provision for taxation, including deferred tax	1.493	1.682	631	1.152	2.123	2.834
Provision for derivatives	114	61	-	-	114	61
Other provisions	800	1.200	-	-	800	1.200
Provisions	**2.406**	**2.943**	**631**	**1.152**	**3.037**	**4.095**
TFR Provision	**1.544**	**1.550**	**-**	**-**	**1.544**	**1.550**
Bank Borrowing	58.395	56.162	-	-	58.395	56.162
Payables to Other Lenders	3.172	26	17.992	15.300	21.164	15.326
Payments on Account	-	600	-	(1.561)	-	(962)
Trade payables	30.908	27.244	-	-	30.908	27.244
Payables to subsidiaries	-	-	-	-	-	-
Tax payables	1.050	1.278	-	-	1.050	1.278
Payables to Soc Sec and Pensions Institutions	1.265	1.319	-	-	1.265	1.319
Other Payables	3.426	2.556	-	-	3.426	2.556
Payables	**99.977**	**90.534**	**17.992**	**13.738**	**117.969**	**104.273**
Accrued expenses and deferred income	3	61	-	-	3	61
Liabilities and Shareholders' Equity	**109.141**	**101.758**	**20.252**	**17.497**	**129.393**	**119.255**

Section 9

Other Saleri Group Companies

Financial Information

Results of Saleri Shanghai Co LTD

CORPORATE GOVERNANCE AND KEY MANAGEMENT

Board of Directors

- Luca Saleri – Chairman and legal representative
- Jihong Zhuang
- Basilio Saleri
- Francesco Italo Saleri
- Fausto Timelli

External Auditors

- HUIYONG – Shanghai Huiyong Certified Public Accountants

Income Statements	2016		2017	
Amounts in Euro Thousands				
Revenue and Chg in FG Inventory	**10.755**	**100,0%**	**11.708**	**100,0%**
Direct Consumption Costs	(6.780)	-63,0%	(7.030)	-60,0%
Variable Production Costs	(30)	-0,3%	(66)	-0,6%
Industrial Margin	**4.662**	**43,4%**	**4.668**	**39,9%**
% of Revenue and Chg in FG Inventory	**43,4%**	**0,0%**	**39,9%**	**0,0%**
Personnel Costs	(1.038)	-9,7%	(1.227)	-10,5%
Indirect Costs	(1.556)	-14,5%	(1.371)	-11,7%
EBITDA	**2.068**	**19,2%**	**2.070**	**17,7%**
% of Revenue and Chg in FG Inventory	**19,2%**	**0,0%**	**17,7%**	**0,0%**
Depreciation, Amortisation & Allocations	(1.263)	-11,7%	(1.463)	-12,5%
EBIT	**804**	**7,5%**	**606**	**5,2%**
% of Revenue and Chg in FG Inventory	**7,5%**	**0,0%**	**5,2%**	**0,0%**
Financial income (expenses)	(367)	-3,4%	(270)	-2,3%
Non-Recurring Income / (Expenses)	1	0,0%	4	0,0%
Taxes	(142)	-1,3%	(149)	-1,3%
Profit (Loss) for the year	**296**	**2,8%**	**192**	**1,6%**
Profit pertaining to Non-Controlling Interest	15	0,1%	10	0,1%
Net Profit (Loss) - Group	282	2,6%	182	1,6%

Balance Sheet	31-Dec-16	31-Dec-17
Tangible Asset	3.924	3.336
Intangible Asset	798	607
Financial Assets	-	-
Fixed Assets	**4.722**	**3.944**
Inventory	4.406	2.976
Trade Receivables	2.507	2.255
Trade Payables	(2.734)	(1.548)
Trade Working Capital	**4.179**	**3.683**
Other Current Asset (Liabilities)	(61)	17
Accrued Expenses and Def Income	-	-
Net Funds	-	-
Other Current Asset (Liabilities)	**(61)**	**17**
Invested Capital	**8.840**	**7.644**
Net Financial Position	4.502	3.387
Shareholders' Equity	4.338	4.256
Sources of Finance	**8.840**	**7.644**

ACTIVITIES

SIL operates on the Asian market through subsidiary Saleri Shanghai Co. Ltd which produces water pumps.

The investment in Saleri Shanghai does not represent the relocation of European activities but is the result of the requirement of the automotive components market to service key customers locally. It reinforces the Group's position on the global market for cooling systems for the automotive industry.

Saleri Shanghai's production output was previously destined mainly for the parent company (water pumps for the IAM segment) but, in 2015, it saw the start of work on the first long-term OE production contract for the Chinese market, with BMW Brilliance.

The forecast growth and development of the business has made it necessary to extend the production facility (by signing a second property lease agreement) and to install new production lines and quality control systems based on technology similar to that used at SIL's factory in Lumezzane. This also ensures that the subsidiary offers the same quality standards for which the Saleri Group is recognised on the domestic market.

Key management has received technical and professional training in Italy.

FINANCIALS

In 2017, Revenue amounted to RMB 89.7 million (€ 11,708 thousand), a 6.4 increase (in local currency) compared to prior year (RMB 84.3 million - € 10,755 thousand).

A net profit of RMB 1.5 million (€ 192 thousand) is reported for 2017. Moreover, in 2017, the percentage of revenue generated by third party customers other than SIL increased (40.0% in 2017 vs 20.0% in 2016).

Invested capital at 31 December 2017 showed no significant changes compared to 31 December 2016.

Fixed assets amount to € 3,944 thousand and decreased compared to prior year solely as a result of depreciation and amortisation.

Working Capital stands at € 3,683 thousand. The increase compared to prior year is mainly due to a reduction in trade payables / payables to parent company SIL. Inventory has also decreased significantly while receivables have increased in line with revenue growth.

The NFP mainly consists of short-term bank borrowing and has decreased by more than € 1.0 million because of less use of self-liquidating facilities.

At 31 December 2017, Shareholders' equity amounted to € 4,256 thousand (equivalent of RMB 33.2 million at the 31 December 2017 exchange rate).

OPERATING OUTLOOK

The Company is actively involved in attempts to acquire business from new customers on the local market. Such local customers need to increase their production quality levels compared to their current procurement sources. Ultimately, 70% of production is expected to be destined for the local market while 30% will got to service SIL's IAM channel.

Results of Immobiliare Industriale S.r.l.

CORPORATE GOVERNANCE AND KEY MANAGEMENT

Membership of the Board of Directors is as follows.

Board of Directors

- Basilio Saleri – Chairman and legal representative
- Luca Saleri - Director
- Gianfranco Corini - Director

In light of the relevant parameters, the Company is not required to set up a Board of Statutory Auditors or to have its financial statements audited

Income Statement	2016		2017	
Amounts in Euro Thousands				
Revenue and Chg in FG Inventory	**864**	**100,0%**	**876**	**100,0%**
Direct Consumption Costs	-	0,0%	-	0,0%
Variable Production Costs	-	0,0%	-	0,0%
Industrial Margin	**864**	**100,0%**	**890**	**101,6%**
% of Revenue and Chg in FG Inventory	**100,0%**	**0,1%**	**101,6%**	**0,1%**
Personnel Costs	-	0,0%	-	0,0%
Indirect Costs	(151)	-17,4%	(214)	-24,5%
EBITDA	**713**	**82,6%**	**675**	**77,1%**
% of Revenue and Chg in FG Inventory	**82,6%**	**0,1%**	**77,1%**	**0,1%**
Depreciation, Amortisation & Allocations	(317)	-36,7%	(325)	-37,1%
EBIT	**396**	**45,9%**	**350**	**40,0%**
% of Revenue and Chg in FG Inventory	**45,9%**	**0,1%**	**40,0%**	**0,0%**
Financial income (expenses)	(86)	-10,0%	(61)	-7,0%
Non-Recurring Income / (Expenses)	235	27,2%	227	25,9%
Taxes	(132)	-15,2%	(76)	-8,7%
Profit (Loss) for the year	**414**	**47,9%**	**440**	**50,3%**
Profit pertaining to Non-Controlling Interest	155	17,9%	165	18,8%
Net Profit (Loss) - Group	258	29,9%	275	31,4%

Balance Sheet	31-Dec-16	31-Dec-17
Tangible Asset	11.263	11.263
Intangible Asset	67	44
Financial Assets	547	173
Fixed Assets	**11.877**	**11.481**
Inventory	-	-
Trade Receivables	-	-
Trade Payables	(60)	(1)
Trade Working Capital	**(60)**	**(1)**
Other Current Asset (Liabilities)	(4)	(30)
Accrued Expenses and Def Income	2	1
Net Funds	-	-
Other Current Asset (Liabilities)	**(3)**	**(29)**
Invested Capital	**11.814**	**11.451**
Net Financial Position	2.671	1.868
Shareholders' Equity	9.143	9.583
Sources of Finance	**11.814**	**11.451**

ACTIVITIES

Since the spin-off of the real estate activities of Italpresse Industrie S.p.A. (February 2015), the Saleri Group has operated in the "Real Estate" segment through 62.5% owned subsidiary Immobiliare Industriale S.r.l..

The Company's activities involve renting out its real estate properties i.e. an industrial property in the Municipality of Capriano del Colle (BS). The building is used by Italpresse Industrie S.r.l. and Gauss Automazione S.r.l. (Norican Group) under a rental agreement signed on 14 February 2015 for a total period of 12 years.

Immobiliare Industriale S.r.l. holds the following investments in three foreign subsidiaries:

- Société Civile Immobilière IP in liquidation (France) with 99.0% of share capital;
- Industriale Deutschland GmbH in liquidation (Germany) with 100.0% of share capital;
- Saleri Iberica Immobiliare Industriale SL in liquidation (Spain) with 100.00% of share capital;

The three foreign subsidiaries have been put into liquidation following the sale of the assets owned by them and originally used to support business activities.

The liquidation of these companies is expected to be completed in 2018 without any significant impact on the carrying amount of the investments in the financial statements of Immobiliare Industriale S.r.l..

FINANCIALS

In 2017, revenue amounted to € 876 thousand and consisted of rental income from the property in Capriano del Colle. The increase (+3.21% compared to 2016) is due to annual, index-linked rent rises.

The Company reports a net profit of € 440 thousand for 2017.

Fixed assets include the Capriano al Colle property under tangible assets. Intangible assets include capitalised expenses and financial assets include the value of the investments held. The decrease of around € 400 thousand is due to liquidation of the German subsidiary.

At 31.12.2017, the NFP consisted of two loan agreements with Banca Popolare di Sondrio (residual amount of € 725 thousand and scheduled expiry in April 2020) and with Mediocredito Italiano S.p.A. (residual amount of € 1,368 thousand and scheduled expiry in September 2019). The decrease of around € 800 thousand is mainly due to scheduled loan repayments.

Quotaholders' Equity stands at € 9,583 thousand.

OPERATING OUTLOOK

It is expected that, through the rental income received and the residual proceeds from the liquidation of investments, the Company will be able duly to make its loan repayments in accordance with the existing repayment plans.

Results of Italacciai S.r.l

CORPORATE GOVERNANCE AND KEY MANAGEMENT

Details of corporate governance bodies are as follows.

Board of Directors

- Piermarco Bianchi – Chairman and Managing Director – Legal Representative
- Francesco Italo Saleri – Director
- Angelo Bona – Director
- Paolo Bona - Director
- Annacaterina Marella Saleri - Director

Auditor

- Paolo Saita – External Auditor

Income Statement	2016		2017	
Amounts in Euro Thousands				
Revenue and Chg in FG Inventory	**4.994**	**100,0%**	**5.111**	**100,0%**
Direct Consumption Costs	(2.228)	-44,6%	(2.296)	-44,9%
Variable Production Costs	(1.034)	-20,7%	(557)	-10,9%
Industrial Margin	**1.732**	**34,7%**	**2.258**	**44,2%**
% of Revenue and Chg in FG Inventory	**34,7%**	**0,0%**	**44,2%**	**0,0%**
Personnel Costs	(1.826)	-36,6%	(1.627)	-31,8%
Indirect Costs	(286)	-5,7%	(352)	-6,9%
EBITDA	**(379)**	**-7,6%**	**278**	**5,4%**
% of Revenue and Chg in FG Inventory	**-7,6%**	**0,0%**	**5,4%**	**0,0%**
Depreciation, Amortisation & Allocations	(120)	-2,4%	(120)	-2,4%
EBIT	**(500)**	**-10,0%**	**158**	**3,1%**
% of Revenue and Chg in FG Inventory	**-10,0%**	**0,0%**	**3,1%**	**0,0%**
Financial income (expenses)	(84)	-1,7%	(93)	-1,8%
Non-Recurring Income / (Expenses)	(451)	-9,0%	-	0,0%
Taxes	-	0,0%	(15)	-0,3%
Profit (Loss) for the year	**(1.035)**	**-20,7%**	**50**	**1,0%**

Balance Sheet	31-Dec-16		31-Dec-17	
Tangible Asset			1.238	
Intangible Asset			4	
Fixed Assets			**1.242**	
Inventory			1.556	
Trade Receivables			456	
Trade Payables			(495)	
Trade Working Capital			**1.517**	
Other Current Asset (Liabilities)			(268)	
Accrued Expenses and Def Income			(10)	
Net Funds			(960)	
Other Current Asset (Liabilities)			**(1.238)**	
Invested Capital			**1.521**	
Net Financial Position			1.368	
Shareholders' Equity			153	
Sources of Finance			**1.521**	

ACTIVITIES

Italacciai S.r.l is a limited liability company established following the transformation (with effect from 20 January 2017) of the former partnership Italacciai di Bianchi Virgilio e C. sas.

Italacciai S.r.l operates in the automotive industry and manufactures rigid radial bearings for water pumps at a factory in Lumezzane. Its products are destined mainly for customers other than parent company Saleri (86% of annual revenue is generated by non-Saleri Group business). The company's production is characterised by the sue of steel with a high degree of micro-purity.

Leading customers include Industrias Dolz S.A. (54% of revenue), Metalurgica Schadek Ltda (9%), Bugatti Autoricambi SpA (8%) and others (15%). Sales to parent company Industrie Saleri Italo S.p.A. amount to around 14% of total revenue.

FINANCIALS

The figures presented for 206 are based on internal data provided by management. The company is excluded from the scope of consolidation for 2016.

Revenue for 2017 amounts to € 5,111 thousand, in line with prior year (+2.3%).

Industrial Margin has recorded a strong improvement to stand at € 2,258 thousand, a 9.5pp improvement as a percentage of revenue. This is the result of efficiency measures in relation to procurement policies and to the containment of raw material costs.

Personnel costs have decreased by a total of € 199 thousand because of increased use of outsourcing (tempering, lathing and milling and certain treatments, including waste disposal)

As a result of the above changes, EBITDA became positive once more at € 278 thousand (5.5% of revenue) with a +€ 657 thousand increase on prior year. Although it remains limited compared to other companies in the sector, this figures shows that the business has been returned to a more profitable state.

Net profit for 2017 amounts to € 50 thousand.

At 31 December 2017, fixed assets consisted almost exclusively of tangible assets, amounted to around € 1,242 thousand and represented more than 80% of invested capital.

Working capital amounts to € 1,517 thousand and mainly consists of inventory.

At 31 December 2017, the Net Financial Position shows net debt of € 1,368 thousand, equal to 8.9x Quotaholders' Equity which amounts to € 153 thousand.

Section 10

Other Information

Other Information

INFORMATION ON PERSONNEL

In 2017, trade union relations were again good, forming part of a collaborative and constructive relationship. With regard to personnel, we note that, during the year, Saleri Group employees participated in training courses in many different areas. The courses organised included an assessment of workplace risks and safety as well as wide ranging subjects such as the environment, research, development, design, software, foreign languages and quality (to confirm renewal of international quality certificates). In terms of safety, there are no significant workplace accidents or injuries to report. There have been no complaints of workplace bullying or mobbing. There has been no litigation in relation to professional illness claimed by employees or former employees or with regard to risks relating to the employment relationship. We do not believe that any such risks exist to an extent that would require particular action in addition to the measures routinely adopted by the Company in compliance with existing laws and regulations.

INFORMATION ON SAFETY

The Group operates, at all of its premises, in compliance with the requirements of Legislative Decree 81/08 on worker health and safety.

INFORMATION ON THE ENVIRONMENT

Finally, we note that the Group's environmental policy pays scrupulous attention to compliance with applicable laws and regulations. This has enabled it to obtain and maintain ISO 14.001 environmental certification.

PURCHASE OR DISPOSAL AND POSSESSION OF TREASURY SHARES AND SHARES OR QUOTAS OF PARENT COMPANIES

During the period, the Group companies did not purchase – nor did they hold at the reporting date – whether directly or indirectly, or through a subsidiary, a fiduciary company or other persona, any treasury shares or shares or quotas in parent companies.

MANAGEMENT AND COORDINATION ACTIVITIES

The parent company exercises management and coordination over Immobiliare Industriale S.r.l..

Industrie Saleri Italo S.p.A. is not subject to management and coordination by El.Fra Holding S.r.l., in terms of Articles 2497 et seq. of the Italian Civil Code, as the following indicators of probable management and coordination by another entity are not present: i) preparation of business plans, strategic plans, financial plans and budgets of SIL by the parent company; ii) the issue of guidelines on financial and credit policy; (iii) centralisation of departments like treasury, administration, finance and control; (iv) determination of SIL's growth strategies, strategic and market positioning, especially where policies are capable of influencing and determining implementation by Company management.

PERSONAL DATA PROTECTION

In 2017, the Saleri Group conducted its activities in compliance with applicable laws (Legislative Decree 196 of 30 June 2033 and related legislation).

LITIGATION AND DISPUTES

The parent company is party to certain civil and administrative proceedings and to legal actions relating to the normal conduct of its business. Appropriate provisions for risks have been made in the Financial Statements in relation to these situations. See the Notes to the Financial Statements under "Provisions for risks and charges" for more details.

LAW 231 MODEL

In 2017, the parent company launched a project for the adoption of an Organisation, Management and Control Model in terms of Legislative Decree 231/2001. The project was approved by the Board of Directors on 10 April 2018. The Board of Directors of Italacciai will approve the Organisation, Management and Control Model in terms of Legislative Decree 231/2001 on 14 May 2018.

DERIVATIVE INSTRUMENTS

As already described in this report with regard to the interest rate risk, the Company uses derivatives for hedging purposes. See the Notes to the Financial Statements under "Derivative Instruments" for further details.

CONSOLIDATED TAXATION

As described in the Section on relations with subsidiaries, associated and related companies, parent company Industrie Saleri Italo S.p.A. and Immobiliare Industriale S.r.l. have opted for the consolidated taxation regime (Group taxation) for the three-year period 2016-2018, in terms of Articles 117-129 of the Consolidated Income Taxes Act (Consolidating entity Industrie Saleri Italo S.p.A.).

2 - External Auditors’ Report

Deloitte.

Deloitte & Touche S.p.A.
Via Cefalonia, 70
25124 Brescia
Italia

Tel : +39 02 83327030
Fax: +39 02 83327029
www.deloitte.it

INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Industrie Saleri Italo S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Industrie Saleri Italo S.p.A and its subsidiaries (the "Saleri Group"), which comprise the consolidated balance sheet as of December 31, 2017, the consolidated income statement and the statement of cash flows for the year then ended and the explanatory notes.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of this report, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Italian law governing financial statements.

Basis for Qualified Opinion

We were appointed as auditors of the financial statements of Industrie Saleri Italo S.p.A. as of December 31, 2017, on November 23, 2017, and we did not observe the counting of physical inventories at the beginning of the year and we were not able to satisfy ourselves by alternative means concerning the inventory quantities held by Industrie Saleri Italo S.p.A. as of December 31, 2017 and which are stated in the statement of financial position at that date.

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 our report. We are independent of Industrie Saleri Italo S.p.A. in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matters

Going concern issue

We draw attention to the information provided in the paragraph "Going concern issue" in the explanatory notes, in which the Directors indicate that the drafting of the Company's financial statements as of December 31, 2017 was based on the going concern assumption of the considerations described.

Significant events after the reporting date

Please also refer to what indicated by the Directors in the explanatory notes, and in particular to the paragraph "*Significant events after the reporting date*" regarding the fire at the "SIL C" plant on January 11, 2018.

Other matters

The consolidated financial statements of Industrie Saleri Italo S.p.A. for the year ended as of December 31, 2016, it has been audited by another auditor who, on December 19, 2017, expressed an unmodified opinion on this financial statements.

Responsibilities of the Management and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance the Italian law governing financial statements and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established 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 auditor's 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 these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Sole Director.

- Conclude 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.

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

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

We communicate with those charged with governance, identified at 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 identify during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10

The Directors of Industrie Saleri Italo S.p.a. are responsible for the preparation of the report on operations of Saleri Group as of December 31, 2017, including its consistency with the related consolidated financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of Industrie Saleri Italo S.p.a. as of December 31, 2017 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, with the exception of the possible effects of what is described in the paragraph "Basis for Qualified Opinion " of the report on the consolidated financial statements, the report on operations is consistent with the consolidated financial statements of Saleri Group as of December 31, 2017 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Piergiulio Bizioli
Partner

Brescia, Italy
May 15, 2018

This report has been translated into the English language solely for the convenience of international readers.

3 - Consolidated Financial Statements at 31.12.2017

INDUSTRIE SALERI ITALO S.P.A.

Consolidated financial statements
at 31-12-2017

General details	
Registered office	VIA RUCA 406, SAN SEBASTIANO 25065 LUMEZZANE (BS)
Tax Number	03066870175
REA/Business database number	BS 317605
VAT Number	01589150984
Share Capital in Euro	5,160,000 wholly paid
Legal form	*SOCIETA' PER AZIONI* – Joint Stock Company
Main business segment (ATECO)	29.32.09
Is company in liquidation?	no
Does company have a sole shareholder?	no
Is company subject to management and coordination by another entity	no
Does company belong to a group	Yes
Name of Group holding company	EL.FRA HOLDING S.R.L.
Country of Group holding company	ITALIA

Consolidated Balance Sheet

	31-12-2017	31-12-2016
Balance Sheet		
Assets		
B) Non-current assets		
I – Intangible assets		
1) start-up and expansion costs	44,368	66,552
2) development costs	410,999	263,976
3) patents and intellectual property rights	285,389	548,761
4) concessions, licences, trademarks and similar rights	3,533	-
6) assets in progress and payments on account	1,789,225	1,247,363
7) other	1,652,601	2,441,235
Total intangible assets	4,186,115	4,567,887
II – Tangible assets		
1) land and buildings	34,084,221	33,925,145
2) plant and machinery	35,355,597	35,988,230
3) industrial and commercial equipment	4,737,308	5,046,608
4) other tangible assets	1,576,684	2,043,693
5) assets under construction and payments on account	160,493	2,213,228
Total tangible assets	75,914,303	79,216,904
III – Financial assets		
1) investments in		
a) subsidiaries	198,372	572,343
d-bis) other entities	4,458	60,066
Total investments	202,830	632,409
3) other securities	7,111	-
4) derivatives	6,243	-
Total financial assets	216,184	632,409
Total non-current assets (B)	80,316,602	84,417,200
C) Current assets		
I – Inventory		
1) raw, ancillary and consumable materials	9,278,704	18,352,891
2) work in progress and semi-finished goods	4,170,347	1,818,855
4) finished goods	13,166,414	16,224,675
5) payments on account	537,881	663,481
Total inventory	27,153,346	37,059,902
II – Receivables		
1) trade accounts		
due within a year	11,584,030	9,320,607
Total trade receivables	11,584,030	9,320,607
2) due from subsidiaries		
due within a year	20,689	30,000
Total due from subsidiaries	20,689	30,000
5-bis) tax receivables		
due within a year	1,606,027	4,204,951
Total tax receivables	1,606,027	4,204,951
5-ter) deferred tax assets	4,076,319	3,953,802
5-quater) receivables from others		
due within a year	430,524	503,133

due after more than a year	180,090	168,077
Total receivables from others	610,614	671,210
Total receivables	17,897,679	18,180,570
III – Current financial assets		
4) other investments	13,294	-
Total current financial assets	13,294	-
IV – Cash and cash equivalents		
1) bank and post office accounts	7,356,848	3,891,254
3) cash and cash equivalents on hand	33,596	10,624
Total cash and cash equivalents	7,390,444	3,901,878
Total current assets (C)	52,454,763	59,142,350
D) Prepaid expenses and accrued income	1,972,324	892,059
Total assets	134,743,689	144,451,609
Liabilities and shareholders' equity		
A) Shareholders' equity – Group		
I – Share capital	5,160,000	5,160,000
III – Revaluation reserves	2,832,678	2,832,678
IV – Legal reserve	1,032,000	1,032,000
VI – Other reserves, disclosed separately		
Extraordinary reserve	-	7,374,806
Consolidation reserve	3,363,056	2,557,256
Translation difference reserve	(143,132)	-
Sundry other reserves	364,052	364,052
Total other reserves	3,583,976	10,296,114
VIII – Retained earnings (Accumulated losses)	(5,055,365)	(5,992,737)
IX – Profit (Loss) for the year	3,757,008	(4,870,992)
Total shareholders' equity – Group	11,310,297	8,457,063
Shareholders' equity – non-controlling interests		
Capital and reserves of non-controlling interests	3,666,045	3,432,455
Profit (Loss) of non-controlling interests	191,324	169,900
Total shareholders' equity of non-controlling interests	3,857,369	3,602,355
Total consolidated shareholders' equity	15,167,666	12,059,418
B) Provisions for risks and charges		
2) taxation, including deferred tax	2,834,037	2,123,382
3) derivatives	60,624	113,510
4) other	1,200,000	800,000
Total provisions for risks and charges	4,094,661	3,036,892
C) Employee severance indemnity / "TFR" provision	2,460,390	1,543,786
D) Payables		
4) bank borrowing		
due within a year	44,573,092	39,774,187
due after more than a year	18,463,668	25,559,807
Total bank borrowing	63,036,760	65,333,994
5) payables to other lenders		
due within a year	15,634,780	8,977,099
due after more than a year	493,750	13,361,571
Total payables to other lenders	16,128,530	22,338,670
6) payments on account		
due within a year	599,530	-
Total payments on account	599,530	-
7) trade accounts		

due within a year	27,504,905	34,120,519
Total trade payables	27,504,905	34,120,519
12) tax payables		
due within a year	1,449,731	1,094,893
Total tax payables	1,449,731	1,094,893
13) payables to social security and pensions institutions		
due within a year	1,378,159	1,264,671
Total payables to social security and pensions institutions	1,378,159	1,264,671
14) other payables		
due within a year	2,839,253	3,643,804
Total other payables	2,839,253	3,643,804
Total payables	112,936,868	127,796,551
E) Accrued expenses and deferred income	84,104	14,962
Total liabilities and shareholders' equity	134,743,689	144,451,609

Consolidated income statement

	31-12-2017	31-12-2016
Income statement		
A) Value of production		
1) revenue from sales and services	168,957,262	159,193,828
2) change in inventory of WIP, semi-finished and finished goods	(2,019,223)	(226,513)
4) increase in non-current assets due to capitalisation of internal works	790,334	947,363
5) other revenue and income		
operating grant income	-	623,867
other	1,604,586	1,532,876
Total other revenue and income	1,604,586	2,156,743
Total value of production	169,332,959	162,071,421
B) Cost of production		
6) raw, ancillary and consumable materials and goods	84,881,013	92,797,019
7) services	31,073,549	33,070,067
8) uses of third party assets – lease and rental costs	756,345	1,255,303
9) personnel costs		
a) wages and salaries	17,781,273	17,122,417
b) social contributions	4,891,198	4,320,306
c) employee severance indemnity / “TFR”	976,453	837,941
e) other personnel costs	232,020	31,419
Total personnel costs	23,880,944	22,312,083
10) depreciation, amortisation & writedowns		
a) amortisation of intangible assets	1,614,053	2,138,244
b) depreciation of tangible assets	9,465,878	8,520,937
c) other writedowns of non-current assets	277,747	200,000
d) writedowns of current receivables and cash and cash equivalents	116,680	44,901
Total depreciation, amortisation & writedowns	11,474,358	10,904,082
11) change in inventory of raw, ancillary and consumable materials and goods	8,593,009	640,167
12) provisions for risks	-	300,000
13) other provisions	754,790	500,000
14) sundry operating expenses	1,841,045	2,471,124
Total cost of production	163,255,053	164,249,845
Difference between value and cost of production (A - B)	6,077,906	(2,178,424)
C) Financial income and expenses		
15) income from investments		
from subsidiaries	226,240	233,000
other	2,237,615	-
Total income from investments	2,463,855	233,000
16) other financial income		
a) from non-current receivables		
Other	-	3,240
Total financial income from non-current receivables	-	3,240
b) from non-current securities other than equity investments	150	-
d) income other than the above		
from subsidiaries	689	-
other	12,843	-
Total income other than the above	13,532	-
Total other financial income	13,682	3,240

17) interest and other financial expenses		
other	3,358,122	3,633,167
Total interest and other financial expenses	3,358,122	3,633,167
17-bis) exchange gains and losses	50,874	(135,723)
Total financial income and expenses (15 + 16 - 17 + - 17-bis)	(829,711)	(3,532,650)
D) Adjustments to value of financial assets and liabilities		
19) writedowns		
a) of investments	20,415	-
d) of derivatives	18,052	113,510
Total writedowns	38,467	113,510
Total adjustments to value of financial assets and liabilities (18 - 19)	(38,467)	(113,510)
Profit (Loss) before taxation (A - B + - C + - D)	5,209,728	(5,824,584)
20) Taxes on income for the year – current, deferred and deferred tax income		
current taxes	574,581	161,971
deferred tax (income)	686,815	(1,285,463)
Total taxes in income for the year – current, deferred and deferred tax income	1,261,396	(1,123,492)
21) Consolidated profit (loss) for the year	3,948,332	(4,701,092)
Profit (Loss) pertaining to the Group	3,757,008	(4,870,992)
Profit (Loss) pertaining to non-controlling interests	191,324	169,900

Consolidated statement of cash flows, indirect method

	31-12-2017	31-12-2016
Statement of cash flows, indirect method		
A) Cash flows from operating activities (indirect method)		
Profit (Loss) for the year	3,948,332	(4,701,092)
Taxes on income	1,261,396	(1,123,492)
Interest expenses/(income)	3,118,200	3,765,650
(Dividends)	-	(233,000)
(Gains)/Losses on disposal of non-current assets	(2,237,615)	-
1) Profit (Loss) for the year before taxes on income, interest, dividends and gains/ losses on disposals	6.090.313	(2.291.934)
Adjustments for non-cash items with no impact on net working capital		
Allocations to provisions	754,790	1,751,451
Depreciation/Amortisation of non-current assets	11,079,931	11,164,495
Impairment writedowns	298,162	1,605,388
Adjustments of value to financial assets and liabilities re derivatives that do not involve any cash flows	18.052	0
Other adjustments for non-cash items	976,453	457,638
Total adjustments for non-cash items with no impact on net working capital	13.127.388	14.978.972
2) Cash flows before changes in net working capital	19,217,701	12,687,038
Changes in net working capital		
Decrease/(Increase) in inventory	9,906,556	(314,512)
Decrease/(Increase) in trade receivables	(2,380,103)	5,186,011
Increase/(Decrease) in trade payables	(6,615,614)	4,448,372
Decrease/(Increase) in prepaid expenses and accrued income	(1,080,265)	241,205
Increase/(Decrease) in accrued expenses and deferred income	69,142	(31,634)
Other decreases/(Other increases) in net working capital	2,887,770	(654,199)
Total changes in net working capital	2,787,486	8,875,243
3) Cash flows after changes in net working capital	22,005,187	21,562,281
Other adjustments		
Interest received/(paid)	(2,952,827)	(3,765,650)
(Taxes on income paid)	(19,754)	-
Dividends received	-	233,000
(Use of provisions)	(354,790)	(928,400)
Other receipts/(payments)	(59,849)	-
Total other adjustments	(3,387,220)	(4,461,050)
Cash flows from operating activities (A)	18,617,967	17,101,231
B) Cash flows from investing activities		
Tangible assets		
(Additions)	(6,034,467)	(19,536,684)
Disposals	551,021	4,239,427
Intangible assets		
(Additions)	(1,369,743)	(2,792,066)
Disposals	12,489	49,863
Non-current financial assets		
(Investments)	-	(20,462)
Divestments	388,971	-
Current financial assets		
(Investments)	(170,298)	-

Cash flows from investing activities (B)	(6,622,027)	(18,059,922)
C) Cash flows from financing activities		
Debt		
Increase/(Decrease) in bank borrowing	4,798,905	3,240,960
Loans arranged	-	978,034
(Loans repaid)	(13,306,279)	(4,616,849)
Equity		
(Dividends and advances on dividends paid)	-	(1,000,000)
Cash flows from financing activities (C)	(8,507,374)	(1,397,855)
Increase (decrease) in cash and cash equivalents (A ± B ± C)	3,488,566	(2,356,546)
Cash and cash equivalents at start of period		
Bank and post office accounts	3,891,254	6,251,114
Cash and cash equivalents on hand	10,624	7,310
Total cash and cash equivalents at start of period	3,901,878	6,258,424
Cash and cash equivalents at end of period		
Bank and post office accounts	7,356,848	3,891,254
Cash and cash equivalents on hand	33,596	10,624
Total cash and cash equivalents at end of period	7,390,444	3,901,878

INDUSTRIE SALERI ITALO S.P.A.
Via Ruca n. 406 – Lumezzane (BS)
Share capital Euro 13,160,000.00 – wholly paid
Tax Number and Brescia Register of Companies no. 03066870175
VAT Number 01589150984

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

GENERAL INFORMATION

The Consolidated Financial Statements at 31 December 2017, as prepared in accordance with Articles 25 et seq. of Legislative Decree 127/1991, reflect the line-by-line consolidation of the financial statements of Industrie Saleri Italo S.p.A. and its subsidiaries, as described in more detail in the "Scope of Consolidation" Note.
They comprise the Balance Sheet, the Income Statement, the Statement of Cash Flows and the Notes – prepared in accordance with Article 38 of the aforementioned Legislative Decree – which constitute an integral part of the Consolidated Financial Statements.
Moreover, we note that the accounting policies and criteria used when preparing the Consolidated Financial Statements at 31/12/2017 take account of the changes to Italian GAAP introduced by Legislative Decree 139/2015 which implemented Directive 2013/34/EU. Italian Accounting Standards ("OIC") were amended as a result of Legislative Decree 139/2015.
The Consolidated Financial Statements are presented with prior year comparative figures. It should be noted that, where necessary, the prior year figures have been reclassified in order to produce a consistent comparison between the two periods but without altering the result for the period or Shareholders' Equity at 31 December 2016.
Unless otherwise stated, the figures reported in these Notes are stated in Euro, given that the Euro is the currency in which the majority of the Group's transactions are carried out.

THE GROUP'S BUSINESS ACTIVITIES

The Group headed by parent company Industrie Saleri Italo S.p.A., a company founded in 1942, is mainly involved in the design, manufacture and sale of engine cooling systems for the automobile industry and operates in both the original equipment and the aftermarket segments. Through subsidiary Italacciai S.r.l. (acquired during 2017), the Group also manufactures rigid, radial bearings for water pumps.

The Group's ability to provide a leading customer base in the automotive industry with a wide range of technologically advanced solutions has enabled the business to grow strongly in recent years. Long-term production contracts have been acquired, guaranteeing a healthy workload for the years ahead.

Through subsidiary Immobiliare Industrial S.r.l., the Group also operates to a minor extent in the real estate industry.

REPORTING PRINCIPLES

The Consolidated Financial Statements have been prepared in accordance with Legislative Decree no 127/1991 which implemented in Italy EEC VII Directive on consolidated reporting. Their preparation also took account of the financial reporting provisions of the Italian Civil Code, as amended by Legislative Decree no 6 of 17 January 2003 as subsequently amended, concerning the "Organic reform of corporate legislation" where applicable to consolidated financial statements.
The Notes are intended to illustrate, analyse and, in some cases, interpret the amounts reported in the financial statements and contain the disclosures required by Article 38 and by other provisions of Legislative Decree no 127/1991. Such additional information considered necessary to present a true and fair view of

the situation has been provided even if not specifically required by law.

Where statutory reporting requirements demand particular information on items and events not present or non-existent, rather than indicating their non-applicability to these Financial Statements, we have proven to make no mention thereof in order to avoid increasing unnecessarily the information provided in these Notes. The Group Statement of Cash Flows has been attached in order to complete the financial information provided by the Consolidated Financial Statements.
The Consolidated Financial Statements are also accompanied by a report of the Board of Director's on the Group's operating activities, in terms of Article 40 of Legislative Decree 127/91.
The scope of consolidation, the consolidation principles, the main accounting policies and details of each of the captions reported in the Consolidated Financial Statements are presented below.

The Financial Statements have been prepared in Euro. Roundings have been allocated as follows:

- Roundings of Balance Sheet assets and liabilities have been allocated to Shareholders' equity line item "VII Other reserves", even where said line item has a zero balance;
- Positive roundings of Income Statement items have been allocated to caption "A5 Other revenues and income";
- Negative roundings of Income Statement items have been allocated to caption "B14 Sundry operating expenses".

In the Notes to the Consolidated Financial Statements, unless otherwise stated, all amounts are stated to the nearest Euro.

We note that, on 29 December 2017, the Italian Accounting Standards Board / "OIC" published several amendments already applicable to the 2017 financial statements. These amendments had no impact on the Group's Consolidated Financial Statements and regard the following accounting standards:

- OIC 13 "Inventory", OIC 16 "Tangible assets", OIC 21 "Investments" and OIC 24 "Intangible assets": an amendment has been made in relation to "Purchase costs and purchase related expenses" where payment is deferred on terms different than those normally practised on the market. For such transactions, assets are recognised at the amount equal to the payable determined in accordance with OIC 19 "Payables" plus related expenses. This amendment has not produced any impact;

- OIC 16 "Tangible assets" has been amended to clarify the method for use in writing down previously revalued assets in order to confirm that the writedown of an asset revalued in prior years must always be recorded in the Income Statement, unless otherwise required by law;

- OIC 19 "Payables": the amendment provides that payables shall be classified under the various payable captions based on their nature (or origin) in relation to ordinary activities, irrespective of the period within which the liabilities must be settled, also in the case where, following renegotiation, an overdue trade payable becomes long-term. The OIC has also abolished OIC 6 "Debt restructuring and disclosure" and has amended OIC 19 to cover this issue. Companies that do not apply the amortised cost method shall record transaction expenses relating to a debt restructuring operation in the Income Statement for the period in which the benefit is received. Therefore, in case of a "debt reduction", transaction expenses shall be allocated to the same period in which the benefit is received. In other cases (e.g. interest reduction, changes to originally terms of payment), the costs shall be recorded as prepaid expenses up to the amount of the benefits obtained through reduction of the fair value of the debt. In subsequent periods, the prepaid expenses will be taken to the Income Statement over the residual period of the debt and their recoverability will be assessed;

- OIC 29 "Changes of accounting principles, changes of accounting estimates, correction of errors, significant events after the reporting date": clarifies that changes of estimates are to be classified in the Income Statement caption required by OIC 12 or by another accounting standard. The effects of any changes of accounting estimate shall be classified in the Income Statement caption relating to the Balance Sheet item subject to estimation;
- OIC 32 "Derivative instruments": the amendment states that there is no absolute presumption that the contract will not be carried out through the delivery of the goods if, in practice, the company settles such contracts in case or if it uses the goods delivered for trading purposes. Indeed, in such circumstances, the delivery of goods for use in the entity's production cycle is an exception rather than the rule. Therefore, classifying the contract as a derivative ensures its representation is more consistent with the entity's ordinary operating activities. The sole exception to this rule based on the entity's operating practice regards cases where the contract is an option (put or call) which offers both parties the change to settle in case or where the underlying item is immediately convertible into cash. In such cases, the contract is also classed as a derivative. In fact, in an option where both parties have the change to settle on a net basis, the company cannot guarantee that it will physically receive the goods as this will depend on the intentions of the counterparty.

The OIC also felt it should clarify the proper classification of goods and losses determined upon the derecognition for accounting purposes of derivatives not designated as hedges. It clarified that the effect (i.e. the effect arising on the accounting derecognition of a non-hedging derivative) shall be recorded in the same Income Statement caption as the fair value (i.e. D) 18) d) and D) 19) d)). This classification fully highlights the difference between risk management and other purposes.

CONSOLIDATION CRITERIA

The financial statements used for consolidation purposes are those prepared as at 31 December 2017 by the respective Boards of Directors for approval by the shareholders. Such financial statements have been adjusted, where necessary, to eliminate tax items and to render them consistent with Group accounting principles which are in line with consolidated statutory reporting purposes, as interpreted by the accounting standards issued by the Italian Accounting Profession ("*i Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri*") and by the IASB (*International Accounting Standard Board*).

All of the subsidiaries included in the scope of consolidation are consolidated on a line-by-line basis, as follow:

a) assets, liabilities, revenues and costs are included in full, irrespective of the percentage investment held, while the portion of Shareholders' Equity and result for the year pertaining to non-controlling interests are disclosed separately;

b) the carrying amount of investments on consolidated companies is eliminated against the corresponding portion of equity while the assets and liabilities, revenues and costs are included on a line-by-line basis; the difference emerging, at the acquisition date, from the elimination of the carrying amount of an entity included in the scope of consolidation against the corresponding portion of shareholders' equity at present value is allocated, where possible, to the assets and liabilities of the entity in question. Any residual amount is treated as follows:

   - if positive, it is recorded under "consolidation differences" under "intangible assets" and amortised on a straight-line basis over its expected useful life (not more than 20 years);
   - if negative, it is recorded under Shareholders' Equity as a "consolidation reserve" or, where unfavourable results are forecast, under a caption called "consolidation provision for risks and charges";

c) all receivables and payables and transactions between consolidated entities are eliminated;

d) significant gains realised between consolidated entities and profits included in intangible assets coming from consolidated entities have been eliminated;

e) profits and losses from trade or financial transactions between Group companies, net of related deferred tax and/or deferred tax income, are eliminated; an exception to this rule regards positive intercompany margins realised and relating to assets recorded in inventory at the reporting date – such margins are not eliminated in terms of Article 31(2)(d);

f) any provisions made by foreign subsidiaries included in the scope of consolidation in order to take advantage of tax benefits otherwise not available have been eliminated from the Consolidated Financial Statements, net of the related tax effects, based on the tax rate in force at the date of preparation of the Consolidated Financial Statements;

g) income and expenses resulting from transactions between the same entities are eliminated;

h) profits included in tangible and intangible assets and resulting from purchases of goods and services produced within the Group on an arm's length basis are eliminated. The portion of intra-Group revenues relating to such goods and services is reclassified, net of the related "internal profits", under the caption "increases in non-current assets due to internal works ";

i) assets and liabilities expressed in currencies other than the Euro are translated at the reporting date exchange rate; revenues and costs are translated at average rates for the period. The exchange rates used are those officially published. Exchange differences arising from the comparison between opening equity translated at the spot rates at the end of prior period and the difference between the result for the period, translated at average rates, and those obtained from the translation at reporting date rates are allocated directly to consolidated shareholders' equity under the caption "Reserve for translation differences". In detail:

- for balance sheet items, equity items and current assets, the Euro / Renmimbi reporting date exchange rate is Euro 1: Renmimbi 7.8044;

- for income statement items, the average rate for 2017 is Euro 1: Renmimbi 7.6290.

SCOPE OF CONSOLIDATION

The scope of consolidation at 31 December 2017 includes all of the Italian and foreign entities shown in the following table, in which the Company holds a majority of voting rights and, in any cases, the entities over which it exercises dominant influence.
The financial statements of the Companies in the scope of consolidation have been included on a line-by-line basis.
The companies not included in the scope of consolidation and those in which the percentage interest held is lower than 20% and which constitute non-current assets are valued under the cost method.
For consolidation purposes, the financial statements used are those of the individual companies, as approved or under approval by the respective General Meetings, as reclassified and adjusted to bring them into line with the accounting principles and valuation criteria adopted by the Group.

Compared to 31 December 2016, the only change to the scope of consolidation regards the inclusion in 2017 of Italacciai S.r.l..
On 20 January 2017, Industrie Saleri Italo S.p.A. acquired a 66.71% interest in the share capital of Italacciai S.a.s. On the same date it rescheduled its share of the negative equity of said subsidiary (as per a sworn

appraisal report) and restored the subsidiary's quota capital to Euro 100,00; this made it possible to transfer the company into Italacciai S.r.l., a limited liability company (deeds prepared by Notary Rebuffoni Rep. 50651 Racc. 26291).

The following table contains a list of the subsidiaries included in the scope of consolidation on a line-by-line basis:

NAME	REGISTERED OFFICE	SHARE CAPITAL	PERCENTAGE INTEREST
Saleri Shanghai Co.Ltd	Taifeng road 188/b,Anting Town Jiading district 201.814 Shanghai China	RMB 14,821,016	95%
Immobiliare Industriale S.r.l.	Via Ruca, 406 – Lumezzane (BS)	Euro 10,000	62.5%
Italacciai S.r.l.	Via Industriale, 120 – Lumezzane (BS)	Euro 100,000	66.71%

The subsidiaries excluded from the scope of consolidation are listed below:

NAME	REGISTERED OFFICE	Shareholder	SHARE CAPITAL	PERCENTAGE INTEREST
Saleri GMBH	Spitzerstrasse, 14 – Munich (Germany)	Industrie Saleri Italo S.p.A.	Euro 25,000	100%
SOC. CIVILE IMMOBILIERE IP in liquidation	36 avenue des Arriveaux – ZI Chesnes Therabie 38070 Saint Quentin- Fallavier (France)	Immobiliare Industriale S.r.l. Industrie Saleri Italo S.p.A.	Euro 1,600	99% 1%
IMM. INDUSTRIALE DEUTSCHLAND GMBH in liquidation	Siemenstrasse, 26 70825 – Korntal Munchingen (Germany)	Immobiliare Industriale S.r.l.	Euro 540,000	100%
SALERI IBERICA IMM. INDUSTRIALE S.L. in liquidation	Calle Cienca, n. 19 - Pol. Ind. "El Regas", Sector C, 08850 Gavà (Barcelona) (Spain)	Immobiliare Industriale S.r.l.	Euro 150,750	100%

REASONS FOR EXCLUSION

Pursuant to Article 28(2)(a) of Legislative Decree 127/91, we note that the following companies have been excluded from the scope of consolidation as their financial statements are immaterial in relation to the provision of a true and fair representation of the Group's balance sheet and financial position:

- **Saleri Gmbh** – company that essentially operates as a branch office on the German market;
- **Société Civile Immobilière IP in liquidation, Immobiliare Industriale Deutschland Gmbh in liquidation and Saleri Iberica Immobiliare Industriale S.L. in liquidation**, controlled by Immobiliare Industriale S.r.l. – these companies were originally the owners of properties leased to third parties. They are now at an advanced stage of the liquidation process and have sold all of their properties. At the date of these Notes, the final, formal steps of the liquidation of the legal

entities were in progress. The liquidation processes have not produced any significant effects on the financial statements of the companies in question.

ACCOUNTING POLICIES AND VALUATION CRITERIA

The accounting policies and valuation criteria adopted by the Company in preparing the attached Financial Statements are those required by the applicable legislation (Article 2423(2) of the Italian Civil Code), as well as by the accounting standards issued by the Italian Accounting Profession ("*Commissione congiunta dei Dottori Commercialisti e dei Ragionieri*"), by the OIC – Italian Accounting Standards Board – and, where they are lacking, those issued by the IASB (*International Accounting Standard Board*).

The Financial Statements have been prepared clearly and provide a true and fair representation of the Company's balance sheet and financial situation and its result for the year.
Further information is provided in the notes on each caption.
The criteria used when preparing the Financial Statements at 31 December 2017 are those used in the separate financial statements of the parent company which prepares the consolidated financial statements. They are consistent with those used when preparing the prior year Consolidation Financial Statements, especially with regard to valuations and the consistent application of the same principles.
The amounts reported in the Financial Statements have been measured using the general prudence and accrual principles, on a going concern basis and taking account of the economic function of each asset and liability considered.

Prudence
Application of the prudence principle involved the separate measurement of each component item of the individual asset or liability captions, in order to avoid offsetting of losses that should be recognised and profits that should not as they have not been realised.

Accruals
In accordance with the accrual principle, the effect of transactions and other events has been accounted for and allocated to the period to which such transactions and events refer and not to those in which the related cash movements (collections and payments) take place.

Going concern issue

The 2017 Consolidated Financial Statements have been prepared on a going concern basis. As already stated in the Notes to the Financial Statements of the Parent Company at 31 December 2016 (see for further details), in prior year (2016), the Parent Company had to deal with a period of limited profitability and resulting financial distress, the reasons for which were as follows:

- The capital expenditure plan carried out in prior years (2012-2016) in support of plans for growth in the automotive industry – premium OE segment;
- Production inefficiencies and the resulting impact on industrial margin as a result of preparations for the new production process;
- The structure of the financing of the capex activities which became unaligned (especially in terms of the repayment period) with the generation of operating cash flows, also as a result of the aforementioned low margins.

We highlight immediately the fact that, as better confirmed by the Income Statement figures commented upon in these Notes and in the Directors' Report, the 2017 reporting period was characterised by a significant recovery in terms of both gross margin and net profit (all the more so considering the presence of a series of non-recurring expenses – professional fees).
We also note – with regard to the financial difficulty and accompanying financial distress – that, during the period, the Parent Company carefully managed its relations with the lenders in question and, at the date of these Notes, it had reached bilateral agreements with almost all of the banks (97.4%) to which proposals were made on the restructuring of the terms of borrowing (expiry dates, interest rates, other conditions,

etc.). Further analysis of this debt refinancing is included later in these Notes and in the Directors' Report. For the sake of completeness, we also recall that, as already described in the Notes to the Financial Statements at 31 December 2016, that, in 2017, the Parent Company:

- prepared the Business Plan 2017 – 2022 (the "SIL Business Plan") as founded (i) on a solid revenue forecast for the next six year (in excess of Euro 1 billion) and (ii) on consolidation of the operating margins achieved in 2017 (Industrial Margin of around 27.7% and EBITDA margin of 10.9%. In more detail, the SIL Business Plan forecasts:
  - Revenues from OE Orders already in backlog – currently in production – of around Euro 450,000,000;
  - Revenues from OE Orders confirmed - with Start of Production in period 2018-2022 – of more than Euro 300,000,000;
  - Revenues based on orders contained in Calls for Tenders for new work, in relation to which the Company is competing, in excess of Euro 162,000,000;
  - A forecast that consolidated revenues of the IAM segment will remain at around Euro 30,000,000 per annum;
  - Industrial margin in line with that achieved in 2017 (27.7%);
- In order to validate the assumptions contained in the SIL Business Plan, it submitted the plan for an «Independent Business Review» by PricewaterhouseCoopers Advisory S.p.A. («PWC») which, in its final report dated 22 September 2017, concluded that there was no need to make any adjustments to the SIL Business Plan as the underlying assumptions were «reasonable».
- Hired additional professionals who have improved certain, specific business departments, also in order to bring the organisational-administrative and accounting structure into line with the greater complexity and size of the business.
- Implemented internal procedures designed to guarantee constant monitoring of income statement and cash figures and industrial performance, as well as to check promptly if the objectives set out in the approved SIL Business Plan were being achieved.

Finally, in completion of the review of the going concern issue, in addition to the aforementioned bank debt refinancing operation, we must also consider the operation whereby the Quamvis S.C.A. Sicav – FIS – Italian Growth Fund acquired an interest in the Company and the resulting share capital increase totalling Euro 23 million (see later in these Notes for further details of both).

Consistent application of accounting policies and valuation methods is essential to ensure the comparability of the Company's financial statements from one reporting period to another.
Details of the most significant accounting policies and valuation criteria applied during the period are provided below.

INTANGIBLE ASSETS

Intangible assets are recorded at purchase or production cost, including related expenses, and amortised on a straight-line basis.
Start-up and expansion costs are reported under the relevant caption and amortised over their useful life which cannot exceed five years.
Development costs are expenses in the Income Statement for the period in which they are incurred. This is except for expenses relating to projects designed to realise new products whose sale on a commercial basis – with margins sufficient to enable recovery of the expenses incurred – is realistically foreseeable. Deferred development costs are amortised over a period of not more than five years.
Leasehold improvements made during the period are amortised over the residual period of the related lease/rental agreement.
The consolidation difference (disclosed separately under Balance Sheet caption B.I.5 bis) emerges upon preparation of the Consolidated Financial Statements when the carrying amount of investments is

eliminated for the first time against the corresponding portion of equity of the subsidiaries. Any excess that cannot be allocated to individual asses of the entities included in the consolidation is recorded under the caption "Consolidation difference", where requirements are met; this caption is amortised based on its useful life i.e. the period over which economic benefits are expected to be enjoyed.
Other items included in intangible assets but not specifically mentioned here are recorded in the Financial Statements at purchase cost and amortised on a straight-line basis over their estimated useful lives which cannot exceed five years.
Where required by the Italian Civil Code, the above items have been recognised with the agreement of the Board of Statutory Auditors.
Intangible assets whose fair value at the reporting date is permanently impaired compared to the amortised cost determined as above are adjusted to bring them into line with their fair value; the amount and reasons for any impairment adjustments made to intangible assets are disclosed, with specific reference to their involvement in the future generation of profits, their estimated useful life and, insofar as relevant, their market value. Details of differences with adjustments made in prior periods are also shown and their impact on the results for the period is highlighted.

TANGIBLE ASSETS

Tangible assets are recorded at purchase or production cost, adjusted for certain assets in application of specific monetary revaluation laws, as reported on a specific schedule. Cost includes related expenses and direct and indirect expenses insofar as reasonably attributable to the asset until the time the assets become available for use.
Tangible assets are systematically depreciated every year on a straight-line basis using rates determined based on the residual useful lives of the assets.

The depreciation rates used are unchanged compared to prior year and are in line with those established by the Finance Ministry Decree of 31/12/1988, as follows:

Category	Rate
Land and buildings	
Industrial buildings	3.00%
Plant and machinery	
General plant and machinery	10.00%
Specific plant and machinery	10.00-9.00%
Industrial and commercial equipment	
Equipment	25.00-18.00%
Other tangible assets	
Office furniture and equipment	12.00%
Electronic office equipment	20.00%
Motor vehicles	25.00%
Internal means of transport	20.00%
Assets costing not more than Euro 516.46	100.00%

Ordinary maintenance expenses are charged in full to the Income Statement. Incremental maintenance expenses are allocated to the relevant tangible asset and depreciated over the remaining useful life of that asset.
Tangible assets under construction are valued at cost including direct and indirect related expenses and disclosed under the asset caption reserved for them.
Tangible assets purchased under finance leases with a final purchase option are recognised as assets in the period in which the final purchase option is exercised.

Any assets subject to sale and purchase with a final return obligation are recorded in the Balance Sheet of the seller.
Tangible assets whose fair value at the reporting date is permanently impaired compared to the depreciated cost determined as above are adjusted to bring them into line with their fair value; the amount and reasons for any impairment adjustments made to tangible assets are disclosed, with specific reference to their involvement in the future generation of profits, their estimated useful life and, insofar as relevant, their market value. Details of differences with adjustments made in prior periods are also shown and their impact on the results for the period is highlighted.

FINANCIAL ASSETS

Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies classified as non-current assets are measured at purchase and/or subscription cost. Cost is adjusted for impairment if the subsidiaries/associated companies have incurred losses and sufficient profits to absorb said losses are not foreseeable in the immediate future. Investments recorded under non-current financial assets represent a permanent, strategic investment by the Company. Investments that are not considered long-term are classified as current assets.

Other investments and non-current securities

Securities constituting short-term investments have been measured at the lower of purchase or subscription cost and fair value.

INVENTORY, SECURITIES AND FINANCIAL ASSETS - CURRENT

Inventory, securities and financial assets – current assets – are recorded at the lower of purchase cost – including direct related expenses – and estimated realisable amount, based on market trends.

The cost calculation methods adopted are as follows:
- for raw and ancillary materials, purchase cost is determined applying the weighted average cost method;
- for finished goods and work in progress, production cost includes the purchase cost of raw materials and components determined as above plus the portion of direct and indirect production costs ("general production costs") reasonably attributable to them, also taking account of the percentage of completion of the production phase they have reached;
- for some items such as prototypes and equipment ("tooling"), purchase cost is determined using the specific cost method;

Estimated realisable amount, based on market trends, is determined based on the current prices-costs and prices-revenues of inventory at the reporting date. If estimated realisable amount is lower than purchase or production cost, the inventory is written down accordingly by means of an allocation to the inventory provision.
The value of obsolete and slow moving inventory has been written down based on their possible future utilisation or realisation by means of an allocation to the inventory obsolescence provision.

RECEIVABLES

Receivables are classified as non-current assets or as current assets based on their destination/origin in relation to ordinary activities. They are reported at estimated realisable amount, after the provision for bad debts calculated in relation to the risk of bad debts resulting from a specific analysis of each balance and taking account of historical bad debt trends and the country risk; the amount recorded in the bad debt provision is considered reasonable in relation to expected bad debts. Where necessary, this amount is obtained by means of direct adjustment to specific receivables on a detailed basis.

Receivables due after more than 12 months are recorded using the amortised cost method, taking account of the time factor. The amortised cost method is not applied when the effective interest rate is not significantly different than the market interest rate or when the effects of application of the amortised cost method are immaterial compared to the method already adopted.

Receivables include invoices issued and invoices not yet issued but referring to transactions relating to the reporting period.

Receivables are derecognised from the Balance Sheet when the right to receive cash flows is extinguished and substantially all of the risks and rewards of title to the asset have been transferred or if the receivable is definitively considered non-recoverable after all necessary recovery procedures have been completed.

Any receivables from customers involved in insolvency proceedings or in a state of proven economic distress which render enforcement measures pointless are written off in full or to the extent that information obtained or the procedures in progress lead to the conclusion that they will prove uncollectable.

CASH AND CASH EQUIVALENTS

This caption contains all cash and cash equivalents held by the Company whether on hand or on bank accounts. They are reported at nominal amount.

PREPAID EXPENSES AND ACCRUED INCOME, ACCRUED EXPENSES AND DEFERRED INCOME

Prepaid expenses and accrued income include income relating to the period but collectible in future periods and expenses incurred before the reporting date but relating to future periods. Accrued expenses and deferred income include expenses relating to the period but payable in future periods and income already received by the reporting date but relating to future periods.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges have been created to cover losses or liabilities of a determinate nature, which are certain or probable, but whose amount or due date could not be determined at the reporting date.

Provisions for risks and charges also include the provision for "taxation, including deferred tax" which includes amounts relating to probable tax liabilities whose amount or due date is uncertain and which originate from tax assessments not yet finalised or ongoing tax disputes or similar circumstances. The provision "for taxation, including deferred tax" includes deferred tax liabilities determined based on taxable temporary differences.

These provisions were calculated in accordance with the prudence and accrual principles. No general provisions for risks without any economic justification have been created.

EMPLOYEE SEVERANCE INDEMNITY ("TFR") PROVISION

The employee severance indemnity provision represents the Company's effective commitment towards each employee, as determined in accordance with current legislation in each country and for the Italian companies, in particular, in accordance with the terms of Article 2120 of the Italian Civil Code, national collective labour agreements and supplementary local agreements. Therefore, the "Employee severance indemnity provision" includes indemnities accruing in favour of employees at the reporting date, net of advances paid and after deducting partial advances maturing and paid. For the Italian companies, following supplementary pension reform in 2006, amounts accruing from 1 January 2007 onwards may be maintained in the company or allocated to a supplementary pension fund, as the employee chooses. This liability is subject to index-based revaluation.

PAYABLES

Payables falling due within a year are stated at nominal amount and include, where applicable, interest accruing and due at the reporting date.

Payables falling due after more than a year are recorded using the amortised cost method, taking account of the time factor. The amortised cost method is not applied when the effective interest rate is not significantly different than the market interest rate or when the effects of application of the amortised cost method are immaterial compared to the method already adopted.

Payables include invoices received and invoices yet to be received but for services relating to the reporting period.

Payables are derecognised from the Balance Sheet when the specific contractual obligation is extinguished.

DERIVATIVE INSTRUMENTS

Derivative instruments classified as held for trading - as they do not fulfil hedge account requirements or if they were entered into to manage the main risks (interest rate risk and exchange risk) to which the Group is exposed, they have not been designated for hedge accounting. Changes in fair value are recorded in the Balance Sheet and in the Income Statement under captions D18 or D19.
Derivatives embedded in other financial instruments must also be measured at fair value. An embedded derivative is separated from the primary contract and accounted for as a derivative instrument only if:

a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the primary contract. There is a close relationship in cases where the hybrid contract is entered into in accordance with market practice;

b) all elements of the definition of derivative instrument provided by OIC 32.11 are satisfied.

TRANSLATION OF AMOUNTS DENOMINATED IN FOREIGN CURRENCY

Receivables and payables originally expressed in foreign currency are translated into Euro at the historical rates on the date they arose. Exchange differences realised upon settlement of payables and collection of receivables in foreign currency are recorded in the Income Statement.

Foreign currency receivables outstanding at the reporting date have been translated into Euro at the reporting date exchange rate. Exchange gains and losses arising in this way have been recorded in the Income Statement under caption C.17-bis "Exchange gains/losses ", while allocating an amount equal to any net gain arising to a non-distributable equity reserve until the time of realisation.

REVENUE, INCOME, COSTS AND EXPENSES

Revenue and expenses are recorded in the Income Statement on an accrual basis, while recognising prepaid expenses and accrued income, accrued expenses and deferred income, in accordance with the prudence principle.
Revenue and income, costs and expenses are recorded net of returns, discounts, allowances and bonuses, as well as any taxes directly related to the sale of products and the provision of services.
Revenue from the sale of products is recognised upon change of ownership which normally coincides

with shipment or delivery. Revenue for services is recognised when the services have been rendered. Revenue relating to contract work in progress is recognised in proportion to the percentage of completion of the works.
Revenue and income, costs and expenses relating to transactions in foreign currency are determined at the spot rate on the date when the related transaction took place.
Income and expenses relating to sale and purchase transactions with a future return obligation, including the difference between forward price and spot price, are recognised on an accrual basis.
Gains on finance lease transactions are allocated over the period of the finance lease agreement. Financial income and revenue from services are recognised on an accrual basis.

TAXES ON INCOME FOR THE PERIOD

Current taxes, deferred taxes and deferred tax income are calculated applying tax rules in the countries where the consolidated companies are based.

Current taxes are determined based on a realistic estimate of the expense payable in application of current tax legislation; the related liability is stated net of payments on account, withholding taxes suffered and tax credits under the caption "Tax payables"; any net receivable is recorded under "Tax receivables".
Deferred taxes are calculated in the financial statements of the individual consolidated entities based on temporary differences between the amount attributed to assets and liabilities for statutory reporting purposes and the amount attributed to the same assets and liabilities for tax purposes; they are also recorded in the consolidated financial statements in relation to differences generated by consolidation adjustments. Deferred tax assets, including the benefit of tax loss carry-forwards, are recognised when it is reasonably certain that they will be realised.
Once again in 2017, the consolidated taxation arrangement elected for by Industrie Saleri Italo S.p.A. together with subsidiary Immobiliare Industriale S.r.l. for the period 2016-2018 was again in operation.
The related rules, as contained in Articles 117-129 of Legislative Decree 917/86, as subsequently amended and integrated, involve the determination for corporate income tax (IRES) purposes of an overall amount of taxable income consisting of the sum of the income and/or losses of the parent company and the participating subsidiaries. This leads to a single tax payment or to a single tax receivable that may be collected or carried forward by the parent company. The parent company also carries forward any consolidated tax loss.

FINANCE LEASE CONTRACTS

Finance lease contracts have been accounted for in accordance with the finance lease method required by IAS 17.
Therefore, the related tangible assets have been capitalised and are reported net of accumulated depreciation. The outstanding principal payable is reported as a liability. Interest expense and depreciation have been recorded in the Income Statement in place of the finance lease instalments.

USE OF ESTIMATES

Preparation of the Consolidated Financial Statements requires the use of estimates and assumptions that affect the value of assets and liabilities at the reporting date. Inevitably, the actual results that will subsequently materialise may differ from these estimates.
In particular, estimates are used to determine the useful life of tangible assets and to record the related depreciation, to make provisions for bad debts and for inventory obsolescence, to make writedowns, to provide for employee benefits and to provide for taxation and other items. Estimates and assumptions are revised periodically and the effects of every change are reflected in the Income Statement for the period in which the estimate is revised.

CHANGES TO ACCOUNTING POLICIES AND VALUATION CRITERIA

We note that in these financial statements no changes have been made to accounting policies and valuation criteria compared to prior year. This is except for foreign currency assets and liabilities which have been measured in accordance with the new requirements of Article 2426 (8-bis) of the Italian Civil Code.

EXCEPTIONS IN TERMS OF ARTICLE 2423 (4)

No exceptions in terms of Article 2423(4) of the Italian Civil Code were made when preparing the Financial Statements.

COMPARABILITY OF ACCOUNT BALANCES

We note that, in accordance with Article 2423-*ter* of the Italian Civil Code, all of the account balances are suitable for comparison.
We note that when preparing the financial statements, certain items were reclassified and the prior year consolidated financial statements were adjusted accordingly. The reclassifications relate to certain types of production cost (costs for raw, ancillary and consumable materials and goods, costs for services, lease and rental costs, personnel costs, amortisation of intangible assets and sundry operating expenses) and have not had any impact on total cost of production. The reclassification adjustments were necessary in light of the more detailed information received from the Chinese subsidiary.

NOTES TO THE BALANCE SHEET ITEMS

NON-CURRENT ASSETS

INTANGIBLE ASSETS

Movements	Start-up and expansion costs	Development costs	Patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Assets under construction and payments on account	Other	Total
Historical cost	110,920	1,646,973	1,111,960	0	1,247,363	4,788,061	8,905,277
Previous revaluations	0	0	0	0	0	0	0
Accumulated amortisation	(44,368)	(1,182,997)	(563,199)	0	0	(2,346,826)	(4,137,390)
Previous writedowns	0	(200,000)	0	0	0	0	(200,000)
Opening amount	**66,552**	**263,976**	**548,761**	**0**	**1,247,363**	**2,441,235**	**4,567,887**
Additions during the year	0	173,051	69,937	3,566	714,333	408,856	1,369,743
Change in scope of consolidation (cost)	0	0	0	83,767	0	0	83,767
Change in scope of consolidation (Accum. Amort'n)	0	0	0	(81,514)	0	0	(81,514)
Reclassifications	0	172,471	0	0	(172,471)	0	0
Movements to other caption during period	0	0	0	0	0	0	0
Disposals (historical cost)	0	0	(18,648)	0	0	0	(18,648)
Disposals (Accum. Amort'n)	0	0	6,159	0	0	0	6,159
Revaluations during year	0	0	0	0	0	0	0
Amortisation for the year	(22,184)	(398,499)	(320,820)	(2,286)	0	(870,264)	(1,614,053)
Writedowns for the year	0	0	0	0	0	(277,747)	(277,747)
Other Changes	0	200,000	0	0	0	(49,479)	150,521
Total Changes	**(22,184)**	**147,023**	**(263,372)**	**3,533**	**541,862**	**(788,634)**	**(381,772)**
Historical cost	110,920	2,192,495	1,163,249	87,333	1,789,225	5,147,438	10,490,660
Revaluations	0	0	0	0	0	0	0
Accumulated amortisation	(66,552)	(1,581,496)	(877,860)	(83,800)	0	(3,217,090)	(5,826,798)
Writedowns	0	(200,000)	0	0	0	(277,747)	(477,747)
Net Book Value at 31/12/2017	**44.368**	**410.999**	**285.389**	**3.533**	**1.789.225**	**1.652.601**	**4.186.115**

The amounts reported under "Changes to Scope of Consolidation (cost)" and "Changes to Scope of Consolidation (accumulated amortisation) entirely refer to the 2016 balances of subsidiary Italacciai S.r.l..
Where the subsidiaries apply significantly different amortisation rates than those applied by the Parent Company, in the Consolidated Financial Statements the rates have been standardised.

Start-up and expansion costs

The amount of Euro 44,368 (against Euro 66,552), net of accumulated amortisation of Euro 66,552, entirely refers to deferred expenses relating to the spin-off operation in 2015 whereby subsidiary Immobiliare Industriale S.r.l. was established.

Development Costs

The amount of Euro 410,999 (against Euro 263,976 at 31 December 2016), net of accumulated amortisation of Euro 1,581,496, refers to development costs wholly incurred by the Parent Company.
During 2017, the Company carried out intensive research and development activities into technological innovation. Further details are provided in the Directors' Report.
With regard to development activities alone, in 2017, the Company incurred personnel costs totalling around Euro 1,536,000. Based on a careful analysis of available information on the number of hours spent on development projects already assigned or under assignment by customers, the Directors concluded that they could capitalise a total amount of Euro 790,334. In more detail:

- Euro 617,283 relating to projects where the development phase has not yet been completed have been recorded under Intangible Assets in progress;
- Euro 173,051 relating to projects where the development phase has been completed have been capitalised under Development costs together with Euro 172,471 relating to prior year (out of development costs of Euro 947,363 incurred in 2016).

The amount of Euro 200,000 recorded under "Other changes" refers to balances recorded last year as intangible assets which have now been more correctly classified to machinery.
The following table contains the disclosures required by Article 2427(3) in relation to development costs.

Description	Opening balance	Increases	Decreases	Closing balance
Development costs				
Total	**263,976**	**545,522**	**398,499**	**410,999**

These include costs for internal personnel working on development projects commissioned by customers and/or connected with production of future series. The value of capitalised development costs is recovered through positive revenue flows and cash flows from long-term production contracts acquired. Development costs have been capitalised with the consent of the Board of Statutory Auditors because, based on prudent judgment, they will produce long-term benefits.
The capitalised costs are amortised over period of not more than five years. This period is normally shorter than the production period of a series.
Decreases of Euro 398,499 relate to amortisation for the period.

Patents and intellectual property rights

This item amounts to Euro 285,389 (Euro 548,761 at 31 December 2016) after accumulated amortisation of Euro 877,860. It includes:

- Patents of Euro 37,256;
- Software of Euro 248,133.

Increases of Euro 69,937 refer to Patents registered during the period (Euro 14,640) and to purchases of new software (Euro 55,297).
This category of intangible assets is amortised on a straight-line basis over a period of three years.

Concessions, licences, trademarks and similar rights

This balance of Euro 3,533, after accumulated amortisation of Euro 83,800, entirely refers to the Software licences of subsidiary Italacciai S.r.l..

Assets in progress and payments on account

This balance amounts to Euro 1,789,225 (Euro 1,247,363 at 31 December 2016) and entirely consists of payments on account relating to the Parent Company.
The caption includes Euro 617,283 of internal development costs incurred during the period and capitalised in relation to development projects in progress. Once reclassified to the relevant asset category as described above, these capitalised costs will be amortised over five years commencing from the date of completion of the development phase.
Furthermore, this caption also includes Euro 774,892 of internal development costs incurred in 2016 in relation to development projects not yet completed.
The additional increase of Euro 97,050 refers to payments on account towards purchases of software licences and related updates.

Other intangible assets

This caption amounts to Euro 1,652,601 (against Euro 2,441,235 at 31 December 2016) after accumulated amortisation of Euro 3,217,090.
The balance is detailed as follows:

Industrie Saleri Italo S.p.A.

This item, amount to Euro 1,022,180, refers to:

- Leasehold improvements of Euro 614,168;
- Other deferred expenses of Euro 685,759.

In 2017, the Company recorded an impairment provision of Euro 277,747 after testing the value of certain assets for impairment.

Italacciai S.r.l.

This item, amounting to Euro 23,058, refers to leasehold improvements.

Saleri Shanghai Co.Ltd

This item, amounting to Euro 607,363, refers to leasehold improvements.

TANGIBLE ASSETS

Movements	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other tangible assets	Assets under construction and payments in account	Total
Historical cost	32,733,628	67,965,691	26,353,783	5,171,925	2,213,228	134,438,255
Previous revaluations	6,502,686	0	0	0	0	6,502,686
Accumulated depreciation	(5,311,169)	(31,977,461)	(21,307,175)	(3,128,232)	0	(61,724,037)
Previous writedowns	0	0	0	0	0	0
Opening amount	**33,925,145**	**35,988,230**	**5,046,608**	**2,043,693**	**2,213,228**	**79,216,904**
Additions during the year	1,099,159	2,894,037	1,593,418	88,221	359,632	6,034,467
Change in scope of consolidation (cost)	0	2,848,098	1,251,195	194,370	0	4,293,663
Change in scope of consolidation (Accum. Depre'n)	0	(2,122,389)	(777,084)	(178,373)	0	(3,077,846)
Reclassifications	0	1,756,445	165,330	0	(1,921,775)	0
Movements to other caption during period	0	0	0	0	0	0
Disposals (historical cost)	0	(459,999)	(38,200)	(16,331)	(474,788)	(989,318)
Disposals (Accum. Depr'n)	0	416,388	5,850	16,059	0	438,297
Revaluations during year	0	0	0	0	0	0
Amortisation for the year	(940,083)	(5,506,903)	(2,464,415)	(554,477)	0	(9,465,878)
Writedowns for the year	0	(200,000)	0	0	0	(200,000)
Other Changes	0	(258,310)	(45,394)	(16,478)	(15,804)	(335,986)
Total changes	**159,076**	**(632,633)**	**(309,300)**	**(467,009)**	**(2,052,735)**	**(3,302,601)**
Historical cost	33,832,787	74,745,962	29,280,132	5,421,707	160,493	143,441,081
Revaluations	6,502,686	0	0	0	0	6,502,686
Accumulated depreciation	(6,251,252)	(39,190,365)	(24,542,824)	(3,845,023)	0	(73,829,464)
Writedowns	0	(200,000)	0	0	0	(200,000)
Net Book Value at 31/12/2017	**34,084,221**	**35,355,597**	**4,737,308**	**1,576,684**	**160,493**	**75,914,303**

The amounts shown under "Changes to Scope of Consolidation" entirely refer to the 2016 balances of subsidiary Italacciai S.r.l..
"Other changes" refers almost exclusively to the difference generated in relation to the opening balance of Saleri Shanghai Co. Ltd. as measured at the exchange rate used for 2017.
Where the subsidiaries used significantly different depreciation rates than the Parent Company, in the Consolidated Financial Statements, such rates were adjusted and brought into line with those of the Parent Company. The resulting difference was Euro 93,699.

The following table contains details of revaluations of tangible assets at the reporting date:

Description	*Revaluation under Legislative Decree no. 185/2008*	*Total revaluations*
Land and buildings	13,005,145	13,005,145
Total	**13,005,145**	**13,005,145**

Land and Buildings

This caption amounts to Euro 34,084,221 (against Euro 33,925,145 at 31 December 2016) and is stated net of accumulated depreciation of Euro 6,251,252.
It is analysed in more detail as follows:

Industrie Saleri Italo S.p.A.
The balance amounts to Euro 22,820,887 (Euro 22,662,416 at 31 December 2016) after accumulated depreciation of Euro 3,698,565.
During the period, the balance increased by Euro 795,659 following the purchase of a further 1/3 interest in a building already 2/3 owned and let to Group companies.

Immobiliare Industriale S.r.l.
This balance amounts to Euro 11,263,334 after accumulated depreciation of Euro 2,552,687. It refers to property including Land and Buildings in the Municipality of Capriano del Colle (BS), via Industriale n.11.
During the period, the balance increased by Euro 303,500, entirely as a result of refurbishment work on said property.

Plant and machinery

This balance, amounting to Euro 35,355,597 (against Euro 35,988,230 at 31 December 2016), is stated net of accumulated depreciation of Euro 39,190,365. It includes plant and machinery of euro 19,083,996 held under finance leases and reported in accordance with IAS17; it also includes additional depreciation of Euro 17,820 due to adaptation of depreciation rates.
The balance may be detailed as follows:

Industrie Saleri Italo S.p.A.
The balance amounts to Euro 32,203,409 (Euro 33,262,403 at 31 December 2016) after accumulated depreciation of Euro 36,215,576.
Increases during the period totalled Euro 4,377,814 (Euro 1,563,698 of which was reclassified from Assets under construction in relation to payments previously made on account).
Following analysis of old plant and machinery not yet fully depreciated and whose value has been impaired, the company created an impairment loss provision of Euro 200,000

Italacciai S.r.l.
The balance amounts to Euro 730,593 after accumulated depreciation of Euro 2,197,426.
Increases during the period totalled Euro 79,921.

Saleri Shanghai Co.Ltd
The balance amounts to Euro 2,421,595 after accumulated depreciation of Euro 777,363.
Increases during the year totalled Euro 192,747 due to reclassifications from Assets under construction in relation to payments previous made on account.
Net decreased for the period totalled Euro 41,707.

Industrial and Commercial Equipment
This caption amounts to Euro 4,737,308 (against Euro 5,046,608 at 31 December 2016) and is stated net of accumulated depreciation of Euro 24,542,824. The balance includes additional depreciation of Euro 75,721 due to adaptation of depreciation rates.

The balance may be detailed as follows:

<u>Industrie Saleri Italo S.p.A.</u>
The balance amounts to Euro 3,584,954 (Euro 4,209,439 at 31 December 2016) after accumulated depreciation of Euro 22,938,395.
Increased during the period totalled Euro 1,529,718 (of which Euro 4,377 reclassified from Assets under construction).
The increases were made in relation to the capex plan necessary to introduce the additional production capacity needed to cope with the new, long-term production contracts acquired by the Original Equipment Division.

<u>Italacciai S.r.l.</u>
The balance amounts to Euro 359,208 after accumulated depreciation of Euro 901,709.
Increases for the period totalled Euro 9,722.

<u>Saleri Shanghai Co.Ltd</u>
The balance amounts to Euro 793,146 after accumulated depreciation of Euro 702,720.
Increases for the period totalled Euro 219,308 (Euro 160,953 of which was reclassified from Assets under construction in relation to payments previously made on account).

Other tangible assets
This caption amounts to Euro 1,576,684 (against Euro 2,043,693 at 31 December 2016) and is stated net of accumulated depreciation of Euro 3,845,023.
The balance is detailed as follows:

<u>Industrie Saleri Italo S.p.A.</u>
The balance amounts to Euro 1,465,930 (Euro 1,937,107 at 31 December 2016) after accumulated depreciation of Euro 3,589,327.
Increases for the period totalled Euro 60,459 while there were decreases of Euro 11,348.
The increases were made in relation to the capex plan necessary to introduce the additional production capacity needed to cope with the new, long-term production contracts acquired by the Original Equipment Division.

<u>Italacciai S.r.l.</u>
The balance amounts to Euro 31,167 after accumulated depreciation of Euro 180,995.
Increases for the period totalled Euro 22,778.

<u>Saleri Shanghai Co.Ltd</u>
The balance amounts to Euro 79,587 (against Euro 106,588 at 31 December 2016) after accumulated depreciation of Euro 74,701.
Increases for the period totalled Euro 4,984.

Assets under construction and payments on account
Assets under construction and payments on account totalled Euro 160,493 (against Euro 2,213,228 at 31 December 2016).

The balance is detailed as follows:

Industrie Saleri Italo S.p.A.
The balance amounts to Euro 118,475 (Euro 1,958,505 at 31 December 2016) and refers to payments made on account during the period (a total of Euro 127,145 including the amount already reclassified to tangible asset categories) towards additions to tangible assets.

During the period, Euro 1,568,075 was reclassified to the relevant tangible asset categories following the completion of the related additions. Decreases for the period totalled Euro 399,100 and mainly referred to the reversal of payments on account following a decision to purchase tangible assets under finance leases.

Saleri Shanghai Co.Ltd
The balance amounts to Euro 42,018 (against Euro 254,723 at 31 December 2016).
Decreases for the period totalled Euro 75,688.

FINANCIAL ASSETS

Total financial assets	**Euro**
Historical cost	632,409
Previous revaluations	0
Previous writedowns	0
Opening amount	**632,409**
Acquisitions during the period	201
Reclassifications from another caption	13,354
Reclassifications to another caption	(33,244)
Disposals	(388,971)
Revaluations during the period	0
Writedowns during the period	(7,565)
Amount at 31 December 2017	**216,184**

INVESTMENTS

Investments in	**Subsidiaries**	**Associated companies**	**Parent companies**	**Other compani es**	**Total**
Historical cost	572,343	0	0	60,066	632,409
Previous revaluations	0	0	0	0	0
Previous writedowns	0	0	0	0	0
Opening amount	**572,343**	**0**	**0**	**60,066**	**632,409**
Acquisitions during the period	0	0	0	201	201
Reclassifications from another caption	0	0	0	0	0
Reclassifications to another caption	0	0	0	(33,244)	(33,244)
Disposals	(373,971)	0	0	(15,000)	(388,971)
Revaluations during the period	0	0	0	0	0
Writedowns during the period	0	0	0	(7,565)	(7,565)
Amount at 31 December 2017	**198,372**	**0**	**0**	**4,458**	**202,830**

INVESTMENTS IN SUBSIDIARIES

"Investments in subsidiaries" refers to the following investments not included in the scope of consolidation:

Name	Location	Share capital Euro
Saleri Gmbh	Spitzerstrasse,14 Munich – Germany	25,000
So. Civile Immobiliere IP in liquidation	36 avenue des Arriveaux – ZI Chesnes Therabie 38070 Saint Quentin-Fallavier (France)	1,600
Immobiliare Industriale Deutschland Gmbh in liquidation	Siemenstrasse, 26 70825 – Korntal Munchingen (Germany)	540,000
Saleri Iberica Immobiliare Industriale SL in liquidation	Calle Cienca, n. 19 - Pol. Ind. "El Regas", Sector C, 08850 Gavà (Barcelona) (Spain)	150,750

Name	% Interest	Share-holders' Equity	Profit (loss) for prior year	Share of equity	Carrying Amount	Difference
Saleri Gmbh	100,00%	27,610	(7,344)	20,266	25.000	(4.734)
So. Civile Immobiliere IP in liquidation	62,88%	259,349	245,285	317,289	20.911	296.378
Immobiliare Industriale Deutschland Gmbh in liquidation	62,50%	773,109	219,992	620,688	0	620.688
Saleri Iberica Immobiliare Industriale SL in liquidation	62,50%	265,296	14,828	175,078	152.461	22.617
			Total	**1,133,320**	**198,372**	**934,948**

The financial information of the subsidiaries refer to the most recent, approved financial statements at 31.12.2016. This is except for SCI IP in liquidation whose figures refer to the liquidation financial statements at 31.12.2017. At the date of preparation of these Notes, the financial statements at 31.12.2017 had not yet been approved.

The decrease for the period of Euro 373,971 entirely relates to subsidiary Immobiliare Industriale Deutschland Gmbh in liquidation which, during the period, refunded part of its share capital in the form of an advance on the liquidation proceeds; the amount of Euro 427,428 paid was greater than the carrying amount of the investment which was, therefore, eliminated.

With regard to the investments in Societè Civile Immobiliere IP and Saleri Iberica Immobiliare Industriale S.L., we note that the only properties sold by these companies were sold during 2017 so liquidation proceedings have been commenced in relation to both companies.

Although the cost of the investment in Saleri Gmbh is greater than the corresponding portion of Shareholders' Equity, no writedown has been made as the difference is not felt to reflect any permanent impairment of value.

OTHER SECURITIES

Other Securities	Total
Historical cost	0
Previous revaluations	0
Previous writedowns	0
Opening amount	**0**
Acquisitions during the period	0
Reclassifications from other captions	7,111
Reclassifications to other captions	0
Disposals	0
Revaluations during the period	0
Writedowns during the period	0
Amount at 31 December 2017	**7,111**

The amount of Euro 7,111 refers to equity investments in companies that were classified under "Other entities" at 31 December 2016.

DERIVATIVE INSTRUMENTS

Derivative Instruments – Assets	Total
Historical cost	0
Previous revaluations	0
Previous writedowns	0
Opening amount	**0**
Acquisitions during the period	0
Reclassifications from other captions	6.243
Reclassifications to other captions	0
Disposals	0
Revaluations during the period	0
Writedowns during the period	0
Amount at 31 December 2017	**6.243**

This caption entirely refers to the parent company. It includes the reporting date measurement of the positive fair value of the derivative instruments in place at that date. These derivatives have been arranged to hedge the interest rate risk in relation to medium/long-term loans and finance leases agreements at 31 December 2017.

CURRENT ASSETS

INVENTORY

Description	*31/12/2016*	*Change*	*31/12/2017*
Raw, ancillary & consumable mat.	18,352,891	(9,074,187)	9,278,704
WIP	1,818,855	2,351,492	4,170,347
Finished goods and products	16,224,675	(3,058,261)	13,166,414
Payments on account	663,481	(125,600)	537,881
Total	**37,059,902**	**(9,906,556)**	**27,153,346**

At 31 December 2017, inventory totalled Euro 27,153,346 and mainly referred to parent company Industrie Saleri Italo S.p.A. (around 85%) and to subsidiaries Saleri Shanghai Co. Ltd and Italacciai S.r.l. (around 9% and 6% of the total, respectively).

The significant Euro 9,906,556 decrease (- 27% approx.) compared to 31 December 2016 mainly regards the inventory of parent company Industrie Saleri Italo S.p.A. (down by around Euro 9,435,131 excluding consolidation adjustments) and subsidiary Saleri Shanghai Co. Ltd (down by Euro 2,027,346) as a result of measures to make the supply chain more efficient and improve management of this working capital component. The overall decrease also includes the effect of the increase due to the inclusion of the inventory of newly acquired – and consolidated - company Italacciai S.r.l. (around Euro 1,555,922 thousand). The decrease also includes the negative effect (around € 270,000) relating to translation into Euro of the amounts reported by the Chinese subsidiary.

In terms of inventory categories, the decrease mainly affected raw, ancillary and consumable materials and finished goods for the reasons stated above.

The inventory balance reported above is stated net of the Inventory provision recorded to take account of obsolete and slow moving items and to report carrying amount at the lower of cost and realisable value. The following table shows movements on the inventory provision.

Description	*31/12/2016*	*Allocated*	*Utilised*	*31/12/2017*
Raw, ancillary & consumable mat.	(211,394)	(118,140)	0	(329,534)
WIP	0	0	0	0
Finished goods and products	(803,426)	0	0	(803,426)
Payments on account	(964,000)	(29,884)	964,000	(29,884)
Total	**(1,978,820)**	**(148,024)**	**964,000**	**(1,162,844)**

RECEIVABLES

There are no receivables relating to transactions that involve a forward return obligation for the purchaser.

Description	*31/12/2016*	*Change*	*31/12/2017*
Trade receivables	9,320,607	2,263,423	11,584,030
Receivables from non-consolidated subsidiaries	30,000	(9,311)	20,689
Receivables from associated companies	-	-	-
Receivables from parent companies	-	-	-
Receivables from entities controlled by parent companies	-	-	-
Tax receivables	4,204,951	(2,598,924)	1,606,027
Deferred tax assets	3,953,802	122,517	4,076,319
Receivables from others	671,210	(60,596)	610,614
Total	**18,180,570**	**(282,891)**	**17,897,679**

Breakdown by residual duration

Description	*31/12/2017*	*Due within a year*	*Due after > a year*
Trade receivables	11,584,030	11,584,030	-
Receivables from non-consolidated subsidiaries	20,689	20,689	-
Receivables from associated companies	-	-	-
Receivables from parent companies	-	-	-
Receivables from entities controlled by parent companies	-	-	-
Tax receivables	1,606,027	1,606,027	-
Deferred tax assets	4,076,319		
Receivables from others	610,614	430,524	180,090
Total	**17,897,679**	**13,641,270**	**180,090**

TRADE RECEIVABLES

At 31 December 2017, trade receivables amounted to Euro 11,584,030 and mainly referred to parent company Industrie Saleri Italo S.p.A. (93%) and to subsidiaries Saleri Shanghai Co.Ltd and Italacciai S.r.l. (6% and 2 % of the total, respectively).
The increase of Euro 2,263,423 (around 24%) compared to 31 December 2016 is mainly due to an increase in the parent company's receivables from non-Italian customers because of the comparatively higher level of shipments made in the month of December 2017; this increase was only partially offset by a reduction in trade receivables from Italian customers and, to a small extent, by the increase in the provision for bad debts.
Trade receivables are stated net of a provision for bad debts created to take account of collection issues. The following table shows movements on the provision for bad debts which is considered reasonable compared to expected losses on receivables, also in light of ongoing disputes and litigation.

Provision for bad debts

Description	*31/12/2016*	*Allocated*	*Utilised*	*31/12/2017*
Provision for bad debts	(107,126)	(54,239)	0	(161,365)

RECEIVABLES FROM SUBSIDIARIES

Receivables from subsidiaries amount to Euro 20,689, against Euro 30,000 at 31 December 2016. They entirely refer to receivables from French subsidiary Societè Civile Immobilière IP in liquidation for an interest-bearing loan, inclusive of interest accruing as at 31 December 2017. During 2017, the subsidiary repaid Euro 10,000 of the loan.

TAX RECEIVABLES

Description	*Industrie Saleri Italo S.p.A.*	*Immobiliare Industriale S.r.l.*	*Italacciai S.r.l.*	*Saleri Shanghai Co.Ltd*	*Consolidated*
VAT receivables	587,011	13,109	96,170	9,569	705,859
IRES / IRPEF/IRAP receivables	438,830	3,810	31,361	-	474,001
Other tax receivables	426,071	-	-	-	426,071
Withholding taxes suffered	96	-	-	-	96
Total	**1,452,008**	**16,919**	**127,531**	**9,569**	**1,606,027**

The balance of Euro 1,606,027 (Euro 4,204,951 at 31 December 2016) is detailed as follows:

Industrie Saleri Italo S.p.A.

- "IRES Receivables", amounting to Euro 438,830, mainly refers to the refund request filed, as consolidating entity, in relation to the non-deduction of IRAP in relation to personnel costs. It should be noted that, during the period, the Company received a refund of Euro 117,790 relating to the refund request filed in relation to the period prior to the tax consolidation;
- "VAT Receivables", amounting to Euro 587,011, refers to the VAT balance resulting from the December 2017 VAT return;
- "Other tax receivables", amounting to Euro 426,071, mainly refer to tax credits (Euro 387,206) while the remainder regards foreign VAT receivables in EU countries where the company operates directly;
- "Withholding tax receivables" amounting to Euro 96.

Immobiliare Industriale S.r.l.

- "IRAP receivables", amounting to Euro 3,810, refer to the IRAP balance for the year;
- "VAT receivables", amounting to Euro 13,109, refer to the VAT balance resulting from the December 2017 VAT return.

Italacciai S.r.l.

- "IRES receivables", amounting to Euro 31,361, refer to the refund request filed in relation to the non- deduction of IRAP in relation to personnel costs;
- "VAT receivables", amounting to Euro 96,170, refers to the VAT balance resulting from the December 2017 VAT return.

Saleri Shanghai Co.Ltd

- "VAT receivables", amounting to Euro 9,569.

DEFERRED TAX ASSETS

Deferred tax assets amount to Euro 4,076,319 (Euro 3,953,802 at 31 December 2016) and mainly comprise the amounts recognised in the financial statements of the parent company and Immobiliare Industriale S.r.l. in relation to temporary differences, in accordance with current tax legislation.
Deferred tax assets manly refer to tax losses and to the carry forward of interest expenses deductible in future periods. These deferred tax assets were calculated using an IRES rate of 24%.
A small portion (Euro 48,688) of deferred tax assets were recognised in relation to consolidation adjustments.

OTHER RECEIVABLES

The balance of Euro 610,614 (Euro 671,210 at 31 December 2016) is analysed as follows:

Description	*Industrie Saleri Italo S.p.A.*	*Immobiliare Industriale S.r.l.*	*Italacciai S.r.l.*	*Saleri Shanghai Co.Ltd*	*Consolidated*
Advances to suppliers	334,405	-	-	-	334,405
Guarantee deposits	118,002	-	-	-	118,002
Other receivables	-	13,927	3,261	132,285	149,473
Receivables from employees	-		-	8,734	8,734
Total	**452,407**	**13,927**	**3,261**	**141,019**	**610,614**

The amount of Euro 334,405 relating to advances to suppliers is stated net of the bad debt provision of Euro 30,000 recorded during the period.
Guarantee deposits of Euro 118,002 mainly refer to rental agreements.

CURRENT FINANCIAL ASSETS

This balance, amounting to Euro 13,294, entirely relates to the parent company and includes minor investments that are not considered long-term but are destined for sale.

CASH AND CASH EQUIVALENTS

This balance includes cash on hand of Euro 33,596 plus bank current account balances of Euro 7,356,848.

Description	*31/12/2016*	*Change*	*31/12/2017*
Bank and post office accounts	3,891,254	3,465,594	7,356,848
Cash and cash equivalents on hand	10,624	22,972	33,596
Total	**3,901,878**	**3,488,566**	**7,390,444**

It is broken down further as follows:

Description	*Industrie Saleri Italo S.p.A.*	*Immobiliare Industriale S.r.l.*	*Italacciai S.r.l.*	*Saleri Shanghai Co. Ltd*	*Consolidated*
Bank and post office accounts	5,639,120	226,048	1,674	1,490,006	7,356,848
Cash and cash equivalents on hand	29,217	-	237	4,142	33,596
Total	**5,668,337**	**226,048**	**1,911**	**1,494,148**	**7,390,444**

The overall increase of Euro 3,489,566 is mainly due to increases in the cash and cash equivalents of the parent company (Euro 2,414,283) and subsidiary Saleri Shanghai Co.Ltd. (Euro 1,250,551) as partially offset by a decrease in the cash and cash equivalents of subsidiary Immobiliare Industriale S.r.l. (Euro 178,179).

PREPAID EXPENSES AND ACCRUED INCOME

Description	*31/12/2016*	*Change*	*31/12/2017*
Prepaid expenses:			
Contributions to customers	610,000	679,176	1,289,176
Insurance Policies	16,160	2,547	18,707
Other costs	265,899	398,542	664,441
Total	**892,059**	**1,080,265**	**1,972,324**

This item, amounting to Euro 1,972,324 at 31 December 2017, mainly refers to the prepaid expenses of parent company Industrie Saleri Italo S.p.A. (a total of Euro 1,957,786) in relation to contributions paid to customers (Euro 1,289,176) as well as for maintenance contracts and rental costs.

SHAREHOLDERS' EQUITY

MOVEMENTS ON GROUP CONSOLIDATED SHAREHOLDERS' EQUITY

	Opening amount	Allocation of prior year net profit (loss)		Other changes			Profit (Loss) for year	Amount at 31/12/2017
		Allocation to dividends	Other Allocations	Increases	Decreases	Reclassif.		
Share capital	5,160,000	0	0	0	0	0		5,160,000
Share premium reserve	0	0	0	0	0	0		0
Revaluation reserves	2,832,678	0	0	0	0	0		2,832,678
Legal reserve	1,032,000	0	0	0	0	0		1,032,000
Statutory reserves	0	0	0	0	0	0		0
Other reserves								
Consolidation reserve	2,557,256	0	2,465,929		(1,660,129)	0		3,363,056
Extraordinary reserve	7,374,806	0	(1,382,069)	0	(5,992,737)	0		0
Reserve for translation of foreign currency financial statements	0	0	0	0	(143,132)	0		(143,132)
Sundry other reserves	364,052	0	0	0	0	0		364,052
Total other reserves	10,296,114	0	1,083,860	0	(7,795,998)	0		3,583,976
Retained earnings (Accumulated losses)	(5,992,737)	0	(5,954,852)	0	6,892,224	0		(5,055,365)
Profit (Loss) For the year	(4,870,992)	0	4,870,992	0	0	0	3,757,008	3,757,008
Total shareholders' equity - Group	**8,457,063**	0	**0**	**0**	**(903,774)**	**0**	**3,757,008**	**11,310,297**
Capital and reserves of non-controlling interests	3,432,455	169,900	0	63,690	0	0	0	3,666,045
Profit (Loss) for year pertaining to non-controlling interests	169,900	(169,900)	0	0	0	0	191,324	191,324
Total shareholders' equity – non-controlling interests	**3,602,355**	**0**	**0**	**63,690**	**0**	**0**	**191,324**	**3,857,369**
Total consolidated shareholders' equity	**12,059,418**	**0**	**0**	**63,690**	**(903,774)**	**0**	**3,948,332**	**15,167,666**

SHARE CAPITAL

Share capital, wholly subscribed and paid at 31 December 2017, amounts to Euro 5,160,000 and consists of 900,000 shares.

REVALUATION RESERVES

This balance refers to monetary revaluations carried out in application of the following revaluation laws:

- Law no 413/91 - Euro 84,651;
- Decree Law no 185/08 - Euro 2,748,027.

LEGAL RESERVE

At 31 December 2017, this reserve amounted to Euro 1,032,000 and did not change during the period.
The reserve has reached the limit permitted by Article 2430 of the Italian Civil Code.

CONSOLIDATION RESERVE

At 31 December 2017, this caption had a balance of Euro 2,832,678 and contained all of the consolidation adjustments generated by the elimination of investments and by differences on the translation of financial statements in foreign currency.

EXTRAORDINARY RESERVE

During 2017, the Parent Company's extraordinary reserve was utilised in full to cover accumulated losses of Euro 5,992,737 and to cover part of the loss for 2016 (Euro 1,382,069), as per the General Meeting resolution of 22 December 2017.

RESERVE FOR TRANSLATION OF FINANCIAL STATEMENTS IN FOREIGN CURRENCY

This caption shows a negative balance of Euro 143,132 at 31 December 2017 in relation to the translation of the foreign currency financial statements of subsidiary Saleri Shanghai Co.Ltd..

SUNDRY OTHER RESERVES

This item, amounting to Euro 364,052, did not change during the period.

RETAINED EARNINGS (ACCUMULATED LOSSES)

This caption showed accumulated losses of Euro 5,055,365 at 31 December 2017 against accumulated losses of Euro 5,992,737 at 31 December 2016. Movements during the year were as follows:

- Full coverage of prior year accumulated losses of Euro 5,992,737, using the extraordinary reserve;
- Increase of Euro 5,954,852 due to allocation to accumulated losses of the parent company net loss for 2016 of Euro 7,336,921, net of portion of the extraordinary reserve amounting to Euro 1,382,069;
- Consolidation adjustments totalling Euro 899,487 – negative – mainly generated by application of IAS 17.

RECONCILIATION BETWEEN THE NET PROFIT/(LOSS) AND SHAREHOLDERS' EQUITY OF THE CONSOLIDATING ENTITY AND THE CORRESPONDING AMOUNTS PER THE CONSOLIDATED FINANCIAL STATEMENTS

Amounts in thousands of Euro	YEAR 2017 Share-holders' equity	YEAR 2017 Of which Profit for the year	YEAR 2016 Share-holders' equity	YEAR 2016 of which Loss for the year
Shareholders' equity and result for the year of the Parent Company	6,669,659	1,459,337	5,210,322	(7,336,921)
Elimination of carrying amount of investments and proportionate amount of shareholders' equity	1,764,480	321,000	1,497,107	(169,900)
Pro-quota results of investee companies	490,463	490,463	710,166	710,166
Gains net of depreciation/amortisation allocated to fixed assets and consolidation difference at date of acquisition of investments	0	0	0	0
Elimination of effects of transactions between consolidated companies	(146,063)	444,071	(590,134)	(133,311)
Alignment of accounting policies	2,531,758	1,042,137	1,629,602	2,058,974
Restatement of investments at Equity	0	0	0	0
Shareholders' equity and result for year pertaining to the **Group**	**11,310,296**	**3,757,007**	**8,457,063**	**(4,870,992)**
Shareholders' equity and result for the year pertaining to **non-controlling interests**	3,857,369	191,324	3,602,355	169,900
Shareholders' equity and result for the year - **consolidated**	**15,167,665**	**3,948,331**	**12,059,418**	**(4,701,092)**

PROVISIONS FOR RISKS AND CHARGES

Description	Provision for taxation, including deferred tax	Provision for derivative instruments	Other provisions	Total provisions for risks and charges
Opening amount	2,123,382	113,510	800,000	3,036,892
Changes during the year				
Allocated	726,165	24,295	754,790	1,505,250
Utilised	(15,510)	(77,181)	(354,790)	(447,481)
Other changes	0	0	0	0
Total changes	710,655	(52,886)	400,000	1,057,769
Amount at 31 December 2017	**2,834,037**	**60,624**	**1,200,000**	**4,094,661**

The "Provision for taxation, including deferred tax", amounting to Euro 2,834,037, includes taxes resulting from application of IAS 17 and deferred taxes recorded by the parent company in relation to the revaluation of properties performed in 2008 in terms of Decree Law no 185/08 which was not deductible for tax purposes. The provision "Liabilities for derivative" entirely refers to the parent company and includes the reporting date measurement of the negative fair value of derivative instruments in place at that date. These derivative instruments have been entered as hedges of the interest rate risk regarding medium/long-term loan agreements and finance lease agreements in place at 31 December 2017.

"Other provisions", amounting to Euro 1,200,000, entirely refer to the parent company and include:

- Euro 300,000 of prudent provisions made for sundry litigation in progress or threatened which, at the date of approval of the financial statements, had not yet been settled; no additional provision was made in relation to these risks during the period;
- Euro 900,000 of product warranty provisions. During the period, utilisation of the provision totalled Euro 354,790 while increases totalled Euro 754,790; the provision is reasonable in relation to the estimated costs that the company could be called upon to sustain to fulfil its contractual warranty commitments.

EMPLOYEE SEVERANCE INDEMNITY ("TFR") PROVISION

The TFR provision has been calculated, for the parent company and subsidiary Italacciai S.r.l., in accordance with Article 2120 of the Italian Civil Code, taking account of legislative requirements and the specific provisions of employment contracts and professional agreements. It includes annual accruals and revaluations performed based on ISTAT coefficients.

It represents the effective liability accruing in favour of employees in accordance with the law and applicable labour agreements, considering all forms of continuous remuneration.

The provision represents the total of the individual indemnities accruing in favour of employees at the reporting date. It is stated net of payments made on account and amounts paid to social security and pensions institutions and pension funds, in accordance with current legislation. It represents the companies' liability towards employees at the reporting date.

The following table provides details of the creation and utilisation of the provision (Art. 2427(4) of the Italian Civil Code).

Description	Employee Severance Indemnity - TFR
Opening amount	1,543,786
Changes during the year	
Change in scope of consolidation	1,095,371
Allocated during year	976,453
Utilised during year	(1,155,220)
Other changes	0
Total changes	916,604
Amount at 31 December 2017	**2,460,390**

The amount of Euro 1,095,371 reported as "changes to scope of consolidation" represents the opening balance of subsidiary Italacciai S.r.l..

PAYABLES

There are no payables relating to transactions involving a future return obligation for the buyer.

Description	*31/12/2016*	*Change*	*31/12/2017*
Bonds	-	-	-
Convertible bonds	-	-	-
Shareholders' loans payable	-	-	-
Bank borrowing	65,333,994	(2,297,234)	63,036,760
Payables to other lenders	22,338,670	(6,210,140)	16,128,530
Payments on account	-	599,530	599,530
Trade payables	34,120,519	(6,615,614)	27,504,905
Payables in form of credit instruments	-	-	-
Payables to non-consolidated subsidiaries	-	-	-
Payables to associated companies	-	-	-
Payables to parent companies	-	-	-
Payables to companies controlled by parent companies	-	-	-
Tax payables	1,094,893	354,838	1,449,731
Payables to social security and pensions institutions	1,264,671	113,488	1,378,159
Other payables	3,643,804	(804,551)	2,839,253
Total	**127,796,551**	**(14,859,683)**	**112,936,868**

Breakdown by residual duration

Description	*31/12/2017*	*Due within a year*	*Due after more than a year*	*Of which due after more than five years*
Bonds	-	-	-	-
Convertible bonds	-	-	-	-
Shareholders' loans payable	-	-	-	-
Bank borrowing	63.036.760	44.573.092	18.463.668	1.316.103
Payables to other lenders	16.128.530	15.634.780	493.750	-
Payments on account	599.530	599.530	-	-
Trade payables	27.504.905	27.504.905	-	-
Payables in form of credit instruments	-	-	-	-
Payables to non-consolidated subsidiaries	-	-	-	-
Payables to associated companies	-	-	-	-
Payables to parent companies	-	-	-	-
Payables to companies controlled by parent companies	-	-	-	-
Tax payables	1.449.731	1.449.731	-	-
Payables to social security and pensions institutions	1.378.159	1.378.159	-	-
Other payables	2.839.253	2.839.253	-	-
Total	**112.936.868**	**93.979.450**	**18.957.418**	**1.316.103**

BANK BORROWING

Description	31/12/2016	31/12/2017	Change
a) Bank borrowing due within a year	39,774,187	44,759,656	4,985,469
Lines of credit	2,201,948	1,250,000	(951,948)
Current account overdrafts	1,464,582	1,704,353	239,771
Loans	15,373,384	17,831,208	2,457,824
Advances on receivables	20,734,273	23,974,095	3,239,822
Other payables			
b) Bank borrowing due after more than a year	25,559,807	18,277,104	(7,282,703)
Loans	25,559,807	18,277,104	(7,282,703)
Advances on receivables			
Other payables			
Total bank borrowing	**65,333,994**	**63,036,760**	**(2,297,234)**

The following bank borrowing – as also analysed by maturity date – is secured on the assets of the companies included in the scope of consolidation:

Description	Due within a year	Due after 12 months to 5 years	Due after > 5 years	Total	Owner of Mortgaged Asset
Popolare di Sondrio Loan	242,365	-	-	242,365	Industrie Saleri Italo S.p.A.
BPM Loan	526,316	421,053	-	947,368	Industrie Saleri Italo S.p.A.
BPM Loan	652,724	1,055,977	-	1,708,701	Industrie Saleri Italo S.p.A.
ICCREA Loan	654,931	392,959	-	1,047,889	Industrie Saleri Italo S.p.A.
ICCREA Loan	715,742	3,284,258	-	4,000,000	Immobiliare Industriale S.r.l.
Mediocredito Loan	684,210	684,210	-	1,368,420	Immobiliare Industriale S.r.l.
Banco di Brescia - Ubi Banca	39,615	165,145	21,419	226,179	Industrie Saleri Italo S.p.A.
Total	**3,515,902**	**6,003,601**	**21,419**	**9,540,922**	

For secured bank borrowing, reference should be made to the detailed notes below for each consolidated company. The amount of the guarantees shown in the table represents the value of the guarantees in relation to the outstanding debt at the reporting date.

The total amount of Euro 63,036,760, against Euro 65,333,994 at 31 December 2016, is detailed as follows:

Industrie Saleri Italo S.p.A.

Description	31 December 2016	31 December 2017	Change
a) Bank borrowing due within a year	35,226,373	39,018,307	3,791,934
Lines of credit	2,201,948	1,250,000	(951,948)
Current account overdrafts	1,464,582	1,269,857	(194,725)
Loans	10,825,570	13,167,363	2,341,793
Advances on receivables	20,734,273	23,331,087	2,576,814
Other payables			
b) Bank borrowing due after more than a year	23,465,720	17,172,542	(6,293,178)
Loans	23,465,720	17,172,542	(6,293,178)
Advances on receivables			
Other payables			
Total bank borrowing	**58,692,093**	**56,190,849**	**(2,501,244)**

Loans payable at 31 December 2017 (both current and non-current) amount to Euro 30,339,905 (Euro 34,291,289 at 31 December 2016) and are analysed as follows:

- Secured loan with an outstanding amount of Euro 947,368 and original principal of Euro 2,000,000. The loan is repayable over 64 months between 30/09/2014 and 31/12/2019; repayment is due in 22 quarterly instalments in arrears and interest is index linked to the Euribor 3 month rate;
- Secured loan with an outstanding amount of Euro 1,708,701 and original principal of Euro 5,000,000. The loan is repayable over 128 months between 31/12/2009 and 31/07/2020; repayment is due in 128 monthly instalments in arrears and interest is index-linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 616,950 and original principal of Euro 750,000. The loan is repayable over 68 months between 30/06/2016 and 31/01/2022; repayment is due in 68 monthly instalments in arrears and interest is index-linked to the Euribor 3 month rate;
- Secured syndicated loan with an outstanding amount of Euro 1,047,889, original principal of Euro 2,000,000. The loan is repayable over 60 months between 31/10/2014 and 30/09/2019; repayment is due in 20 quarterly instalments in arrears and interest is index-linked to the Euribor 3 month rate;
- Secured syndicated loan with an outstanding amount of Euro 4,000,000, original principal of Euro 4,000,000. The loan is repayable over 95 months between 30/06/2016 and 31/03/2024; repayment is due in 32 quarterly instalments in arrears and interest is index-linked to the Euribor 3 month rate;
- Unsecured syndicated loan with an outstanding amount of Euro 400,000, original principal of Euro 1,400,000. The loan is repayable over 84 months between 30/11/2012 and 31/05/2019; repayment is due in 14 six-monthly instalments in arrears and interest is index-linked to the Euribor 6 month rate;
- Unsecured syndicated loan with an outstanding amount of Euro 171,429, original principal of Euro 600,000. The loan is repayable over 84 months between 30/11/2012 and 31/05/2019; repayment is due in 14 six-monthly instalments in arrears and interest is index-linked to the Euribor 6 month rate;
- Unsecured loan with an outstanding amount of Euro 3,156,828 and original principal of Euro 5,000,000. The loan is repayable over 53 months between 31/07/2015 and 31/12/2018; repayment is due in 53 monthly instalments in arrears and interest is index-linked to the Euribor 6 month rate;
- Unsecured loan, with an outstanding amount of Euro 563.757 and original principal of Euro 1.500.000. The loan is repayable over 53 months between 31/07/2015 and 31/12/2018; repayment is due in 53 monthly instalments in arrears and interest is index-linked to the Euribor 6 month rate;
- Unsecured loan with an outstanding amount of Euro 433,217 and original principal of Euro 1,500,000. The loan is repayable over 67 months between 10/05/2015 and 10/11/2019; repayment is due in 67 monthly instalments in arrears and interest is index-linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 511,713 and original principal of Euro 1,000,000. The loan is repayable over 54 months between 10/05/2015 and 10/11/2019; repayment is due in 19 quarterly instalments in arrears and interest is index-linked to the Euribor 6 month rate;
- Unsecured loan with an outstanding amount of Euro 818,528 and original principal of Euro 1,000,000. The loan is repayable over 54 months between 10/11/2016 and 10/02/2021; repayment is due in 19 monthly instalments in arrears and interest is index-linked to the Euribor 6 month rate;
- Unsecured loan with an outstanding amount of Euro 1,076,901 and original principal of Euro 2,000,000. The loan is repayable over 64 months between 31/01/2015 and 30/04/2020; repayment is due in 64 monthly instalments in arrears and interest is index-linked to the Euribor 1 month rate;
- Unsecured loan with an outstanding amount of Euro 3,949,225 and original principal of Euro 4,000,000. The loan is repayable over 88 months between 31/05/2016 and 31/08/2023; repayment is due in 88 monthly instalments in arrears and interest is index-linked to the Euribor 1 month rate;
- Unsecured loan with an outstanding amount of Euro 376,050 and original principal of Euro 500,000. The loan is repayable over 15 months between 30/04/2017 and 30/04/2018; repayment is due in 5 quarterly instalments in arrears and interest is index-linked to the Euribor 3 month rate;
- Secured loan with an outstanding amount of Euro 242,365 and original principal of Euro 6,000,000. The loan is repayable over 102 months between 31/07/2009 and 31/10/2017 (original expiry date); repayment is due in 34 quarterly instalments in arrears and interest is index-linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 900,000 and original principal of Euro 2,000,000.

The loan is repayable over 60 months between 30/09/2014 and 30/06/2019; repayment is due in 20 quarterly instalments in arrears and interest is index-linked to the Euribor 3 month rate;

- Unsecured loan with an outstanding amount of Euro 4,900,000 and original principal of Euro 7,000,000. The loan is repayable over 60 months between 31/12/2015 and 30/06/2020; repayment is due in 10 quarterly instalments in arrears and interest is index-linked to the Euribor 6 month rate;
- Unsecured loan with an outstanding amount of Euro 1,380,073 and original principal of Euro 2,000,000. The loan is repayable over 60 months between 23/02/2015 and 23/11/2019; repayment is due in 10 quarterly instalments (plus 30 monthly instalments) in arrears and interest is index-linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,028,895 and original principal of Euro 2,000,000. The loan is repayable over 60 months between 23/02/2015 and 23/11/2019; repayment is due in 10 quarterly instalments (plus 30 monthly instalments) in arrears and interest is index-linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,925,577.59 and original principal of Euro 4,000,000. The loan is repayable over 48 months between 30/04/2015 and 30/04/2019; repayment is due in 48 monthly instalments in arrears and interest is index-linked to the Euribor 6 month rate.

As described in more detail later in these Notes under “Significant events after the reporting date”, on 9 April 2018, the Parent Company signed a Framework Agreement and specific Bilateral Agreements with banks and leasing companies (“the Financial Creditors” representing more than 97% of its total debt. The objective was to restructure the MLT debt repayment plans bringing them into line with the Company’s prospective operating cash flows and to ensure the availability of the lines of credit needed to finance working capital.

The Bilateral Agreements renegotiated the medium/long-term borrowing as follows:

- for all unsecured loans payable, repayment over 60 months (from 01.01.2018) and interest rate plus a Margin of 2%.
- for all secured loans payable, repayment over 108 months for agreements expiring after 2019 and over 84 months for contracts expiring by 2018 with a maxi-final instalment equal to 25 months’ repayments and an interest rate plus a Margin of 1.50%
- for all finance lease agreements, an extension over the existing expiry date of 24 months for contracts expiring by 2018 and of 36 months for contracts expiring after 2018; interest rates plus a Margin of 2.50%
- consolidation of several non-revolving, unsecured loans with repayment over 60 months (from 01.01.2018) and an interest rate plus a Margin of 2.00%

Furthermore, confirmation was requested (based on the terms contained in the original agreements) of a total of € 30,550,000 of Commercial Facilities (Factoring, advance accounts, Cash Facilities), to be utilised in line with changes in trade receivables forecast in the Business Plan and a realignment of the interest rates applied, in line with the improvement of income statement/balance sheet ratios, of 2.00% for Factoring and 1.00% for the self-liquidating lines.

The following table presents – for indicative purposes and based on information available at the date of these Notes – the pro-forma debt situation at 31 December 2017 i.e. the situation that would have been present at the reporting date had the changes per the refinancing been finalised at said date:

Description	Due within a year	Due after more than a year	Of which due after more than five years	Total
Amount reported at 31 December 2017				
Lines of credit	1,250,000	-	-	1,250,000
Current account overdrafts	1,269,857	-	-	1,269,857
Loans	13,167,363	17,172,542	1,305,372	30,339,905
Advances on receivables	23,331,087	-	-	23,331,087
Total	**39,018,307**	**17,172,542**	**1,305,372**	**56,190,849**
Pre-forma situation at 31 December 2017				
Lines of credit	249,942	1,000,058	-	1,250,000
Current account overdrafts	1,269,857	-	-	1,269,857
Loans	6,489,569	23,850,336	3,726,405	30,339,905
Advances on receivables	14,164,321	9,166,766	-	23,331,087
Total pro-forma	**22,173,689**	**34,017,160**	**3,726,405**	**56,190,849**
Change as a result of refinancing plan	**(16,844,618)**	**16,844,618**	**2,421,033**	**-**

Immobiliare Industriale S.r.l.

Description	31 December 2016	31 December 2017	Change
a) Bank borrowing due within a year	981,252	989,631	8,379
Lines of credit	0	0	0
Current account overdrafts	0	0	0
Loans	981,252	989,631	8,379
Advances on receivables	0	0	0
Other payables			
b) Bank borrowing due after more than a year	2,094,087	1,104,562	(989,525)
Loans	2,094,087	1,104,562	(989,525)
Advances on receivables			
Other payables			
Total bank borrowing	**3,075,339**	**2,094,193**	**(981,146)**

Loans payable totalling (both due within a year and due after more than a year) Euro 989,631 (Euro 981,252 at 31 December 2016) include the following:

- Unsecured loan with an outstanding amount of Euro 725,666 and original principal of Euro 1,500,000. The loan is repayable over 60 months between 31/05/2015 and 30/04/2020; repayment is due in 60 monthly instalments in arrears and interest is index-linked to the Euribor 1 month rate;
- Secured loan with an outstanding amount of Euro 1,368,421 and original principal of Euro 6,500,000. The loan is repayable over 132 months between 31/03/2009 and 27/09/2019; repayment is due in 22 six- monthly instalments in arrears and interest is index-linked to the Euribor 3 month rate.

Italacciai S.r.l.

Description	31 December 2016	31 December 2017
a) Bank borrowing due within a year	0	1,378,078
Lines of credit	0	0
Current account overdrafts	0	434,496
Loans	0	300,574
Advances on receivables	0	643,008
Other payables		
b) Bank borrowing due after more than a year	0	0
Loans	0	0
Advances on receivables		
Other payables		
Total bank borrowing	**0**	**1,378,078**

Loans payable totalling (both due within a year and due after more than a year) Euro 300,574 include the following:

- Unsecured loan with an outstanding amount of Euro 74,395 and original principal of Euro 600,000. The loan is repayable between 30/04/2006 and 31/01/2019 in quarterly instalments in arrears; interest is index-linked to the Euribor 3 month rate;
- Secured Property Loan with an outstanding amount of Euro 226,178 and original principal of Euro 500,000. The loan is repayable between 28/04/2009 and 30/06/23 in quarterly instalments in arrears; interest is index-linked to the Euribor 6 month rate. We note that:
    - The loan agreement was originally signed by the partnership "Italacciai di Bianchi Virgilio e C. s.a.s." which, as already stated in these Notes, was later transformed into Italacciai S.r.l.;
    - The loan is secured by a (second ranking) mortgage originally granted by the partners in the partnership on assets owned by them. The mortgage is now attached to assets owned by parent company "Industrie Saleri Italo S.p.A" following to the transfer to said company by the original owners of the secured assets.

Saleri Shanghai Co.Ltd

Bank borrowing amounting to Euro 3,373,640, against Euro 3,566,562 at 31 December 2016, entirely consists of loans.

PAYABLES TO OTHER LENDERS

This caption amounts to Euro 16,128,530 (Euro 22,338,670 at 31 December 2016) and refers to payables towards Leasing Companies.
We note that the debt refinancing mentioned above also involved several leasing companies. In most cases, the finance lease payment plans were extended by 36 months over the original payment period.

PAYMENTS ON ACCOUNT

This item entirely relates to the Parent Company. It amounts to Euro 599,530 (zero at 31 December 2016) and refers to advances received from customers towards the supply of equipment

TRADE PAYABLES

Description	*Industrie Saleri Italo S.p.A.*	*Immobiliare Industriale S.r.l.*	*Italacciai S.r.l.*	*Saleri Shanghai Co. Ltd*	*Consolidated*
Trade Payables	25,461,684	1,488	493,581	1,548,152	27,504,905
Total	**25,461,684**	**1,488**	**493,581**	**1,548,152**	**27,504,905**

Trade payables amount to Euro 27,504,905 against Euro 34,120,519 at 31 December 2016. They include liabilities for purchases of goods and services based on agreed contractual terms and conditions.
The significant decrease compared to prior year (Euro 6,615,614) mainly relates to the parent company's trade payables which, at 31 December 2016, included payables that had been rescheduled and which were settled in 2017.

TAX PAYABLES

Tax payables amount to Euro 1,449,731 against Euro 1,094,893 at 31 December 2016 and are detailed as follows:

Description	*Industrie Saleri Italo S.p.A.*	*Immobiliare Industriale S.r.l.*	*Italacciai S.r.l.*	*Saleri Shanghai Co. Ltd*	*Consolidated*
IRAP Payable	170,516	-	10,083	-	180,599
IRES payable	-	-	30,288	-	30,288
Taxes withheld at source from employees	422,654	-	54,308	-	476,962
Taxes withheld at source from freelance professionals	11,039	-	86	-	11,125
Substitute taxes	590,748	-	-	-	590,748
Other tax payables	83,527	-	286	76,196	160,009
Total	**1,278,484**	**-**	**95,051**	**76,196**	**1,449,731**

PAYABLES TO SOCIAL SECURITY AND PENSIONS INSTITUTIONS

Payables to Social Security and Pensions Institutions amount to Euro 1,378,159 against Euro 1,264,671 at 31 December 2016. They are detailed as follows:

Description	*Industrie Saleri Italo S.p.A.*	*Immobiliare Industriale S.r.l.*	*Italacciai S.r.l.*	*Saleri Shanghai Co. Ltd*	*Consolidated*
Payables to INPS	767,905	-	58,238	-	826,143
Payables to INAIL	7,617	-	567	-	8,184
Payables to other social security and pensions institutions	543,832	-	-	-	543,832
Total	**1,319,354**	**-**	**58,805**	**-**	**1,378,159**

PAYABLES TO OTHERS

Payables to Others amount to Euro 2,839,253 against Euro 3,643,804 at 31 December 2016. They are detailed as follows:

Description	*Industrie Saleri Italo S.p.A.*	*Immobiliare Industriale S.r.l.*	*Italacciai S.r.l.*	*Saleri Shanghai Co. Ltd*	*Consolidated*
Payables to employees	2,247,999	-	209,512	-	2,457,511
Payables to directors and statutory auditors	26,520	-	5,432	-	31,952
Other	281,305	-	6,492	61,993	349,790
Total	**2,555,824**	**-**	**221,436**	**61,993**	**2,839,253**

ACCRUED EXPENSES AND DEFERRED INCOME

Accrued expenses and Deferred income amount to Euro 84,104 against Euro 14,962 at 31 December 2016. They mainly comprise the parent company's deferred income in relation to contributions from customers.

NOTES TO THE INCOME STATEMENT ITEMS

The analysis of the Income Statement items should be read with reference to the "Comparability of Account Balances" paragraph in the introductory section of these Notes.

VALUE OF PRODUCTION

REVENUE FROM SALES AND SERVICES

This item amounts to Euro 168,957,262 against Euro 159,193,828 in 2016. It mainly refers to the Parent Company and regards the production and sale of cooling pumps.
The overall increase of Euro 9,763,434 (+6%) is due to the inclusion of Italacciai in the scope of consolidation (effect of Euro 4,253,680) and also to an increase in the third party sales of the Chinese subsidiary (+ 160% in local currency or up by around Euro 3,888 thousand net of the negative Euro / Renminbi exchange rate effect compared to prior year).

BREAKDOWN OF SALES BY GEOGRAPHICAL AREA

Geographical Area	*2017*
Italy	12,874,590
Other Countries	156,082,673
Total	**168,957,262**

OTHER REVENUE AND INCOME

Other revenue totals Euro 1,604,586 against Euro 2,156,743 in 2016. It mainly refers to the other revenue of the parent company for amounts charged to customers for project cancellations and for charges to suppliers for problems with the goods supplied by them.
The decrease of Euro 552,157 compared to 2016 is mainly due to the reduction (by around Euro 662,457) in the other revenue and income of the Chinese subsidiary (in 2016, it also included income from the disposal of several non-current assets) which was only partially offset by an increase in the other revenue of subsidiaries (Euro 77,315) and by a small increase in that of other consolidated companies.

COST OF PRODUCTION

COSTS FOR RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS

These costs are reported in the Income Statement net of adjustments for returns, discounts, allowances and bonuses. They amount to Euro 84,881,013 against Euro 92,797,019 in 2016.

The decrease of Euro 7,916,006 is due to a reduction (of around Euro 10,209,509) in the parent company's purchases of raw, ancillary and consumable materials as only partially countered by an increases in said costs for the Chinese subsidiary and due to expansion of the scope of consolidation.

The significant decrease (-8.5% approx.) compared to prior year must be considered together with the change in the related inventory as they key results of the general policy of cost containment, rationalisation and greater efficiency for the supply chain as a whole.
The total decrease in inventory of raw, ancillary and consumable materials and goods in 2017 amounted to Euro 8,593,009, some Euro 7,952,842 more than the decrease recorded in prior year (in this case, too, almost entirely attributable to the parent company).
Consequently, the total cost recorded in the 2017 consolidated income statement for purchases of raw, ancillary and consumable materials and goods and for the change in related inventory amounted to Euro 93,374,022 i.e. just Euro 63,164 less than in 2016 (Euro 93,437,186).

Reference should be made to the Directors' Report for further information on this cost category and movements thereon, as well as for analysis of other cost categories.

COSTS FOR SERVICES

Description	*Industrie Saleri Italo S.p.A.*	*Immobiliare Industriale S.r.l.*	*Italacciai S.r.l.*	*Saleri Shanghai Co. Ltd*	*Consolidated*
Costs for Services	28,701,923	90,148	1,298,430	983,048	31,073,549
Total	**28,701,923**	**90,148**	**1,298,430**	**983,048**	**31,073,549**

Costs for services amount to Euro 31,073,549 against Euro 33,070,067 in 2016. They mainly comprise the parent company's costs for services, as follows:

Description	**2017**
Industrial services	20,150,681
Consulting	1,482,650
General Expenses	5,745,402
Other services	1,323,191
Total	**28,701,924**

Industrial services mainly refer to outsourced services including die-casting and other casting, machining, other processing and treatments regarding certain stages of the production process. The decrease in costs for services mainly regards costs for die-casting and outsourcing services which were lower in 2017 than in 2016 mainly because of utilisation of items in inventory at the start of the year.
Consulting costs include accounting, management and tax consulting but also sales and marketing advice and services in relation to patents, quality control and the environment.
General Expenses include costs for Freight, Utilities, Maintenance etc. relating to the Company's operating activities.

USE OF THIRD PARTY ASSETS – LEASE AND RENTAL COSTS

This item amounts to Euro 756,345 against Euro 1,255,303 in 2016. It is analysed as follows:

Description	*Industrie Saleri Italo S.p.A.*	*Immobiliare Industriale S.r.l.*	*Italacciai S.r.l.*	*Saleri Shanghai Co. Ltd*	*Consolidated*
Use of third party assets	555,497	-	39,867	160,981	756,345
Total	**555,497**	**-**	**39,867**	**160,981**	**756,345**

The balance mainly includes hire and rental expenses.

PERSONNEL COSTS

Personnel costs amount to Euro 23,880,944 against Euro 22,312,083 in 2016 and are analysed as follows:

Description	*Industrie Saleri Italo S.p.A.*	*Immobiliare Industriale S.r.l.*	*Italacciai S.r.l.*	*Saleri Shanghai Co. Ltd*	*Consolidated*
Personnel costs					
a) wages and salaries	15.927.227		1.153.864	700.182	17.781.273
b) social contributions	4.058.012		372.344	460.842	4.891.198
c) employee severance indemnity / TFR	879.528		96.925	-	976.453
d) retirement benefits and similar				-	-
e) other personnel costs	165.641		1.213	65.166	232.020
Total	**21.030.408**	**-**	**1.624.346**	**1.226.190**	**23.880.944**

The overall increase of Euro 1,568,861 (+7%) compared to prior year is mainly due to the inclusion of Italacciai S.r.l. in the scope of consolidation and to an increase in personnel costs for the Chinese subsidiary (+Euro 187,682 or + 18%). These increases were only partially offset by a decrease in personnel costs for the parent company (down by Euro 243,167 or -1%).

AMORTISATION OF INTANGIBLE ASSETS

Amortisation of intangible assets (Euro 1,614,053 against Euro 2,138,244 in 2016) has already been commented upon in the Note on intangible assets.

DEPRECIATION OF TANGIBLE ASSETS

Depreciation of tangible assets (Euro 9,465,878 against Euro 8,520,937 in 2016) has already been commented upon in the Note on tangible assets. We note, however, that it has been calculated based on the useful life of tangible assets and their use in the production process.

OTHER WRITEDOWNS OF NON-CURRENT ASSETS

As stated in the note on intangible assets, the Company has written down intangible assets by Euro 277,747.

WRITEDOWNS OF CURRENT RECEIVABLES

Writedowns of current receivables of Euro 116,680 were recorded in 2017 against Euro 44,901 in prior year.

OTHER PROVISIONS

This item, amounting to Euro 754,790, refers to allocations to the product warranty provision.

SUNDRY OPERATING EXPENSES

Sundry operating expenses amount to Euro 1,841,045 against Euro 2,471,124 in 2016 and are detailed as follows:

Description	*Industrie Saleri Italo S.p.A.*	*Immobiliare Industriale S.r.l.*	*Italacciai S.r.l.*	*Saleri Shanghai Co. Ltd*	*Consolidated*
Sundry operating expenses	927,626	126,577	23,467	763,375	1,841,045
Total	**927,626**	**126,577**	**23,467**	**763,375**	**1,841,045**

The overall decrease of Euro 630,079 (-25%) compared to prior year is mainly due to a reduction in the sundry expenses incurred by the parent company (down by Euro 712,853 or -43%) thanks to the efficiency and cost containment measures implemented during the period.

FINANCIAL INCOME AND EXPENSES

INCOME FROM INVESTMENTS

The amount of Euro 2,463,855 against Euro 233,000 in 2016 mainly refers to the earn-out finalised and received during the year in relation to the sale in 2015 of an investment in Italpresse S.p.A.. It also includes income from subsidiary Immobiliare Industriale Deutschland GMBH upon its liquidation.

INTEREST AND OTHER FINANCIAL EXPENSES

Interest and other financial expenses amount to Euro 3,358,122 against Euro 3,633,167 in 2016 and are analysed as follows:

Description	*Amount*
Bonds	-
Bank Borrowing	2,459,585
Other	898,537
Total	**3,358,122**

EXCHANGE GAINS AND LOSSES

Exchange gains of Euro 50,874, compared to exchange losses of Euro 135,723 in 2016, mainly refer to the exchange differences of subsidiary Saleri Shanghai Co.Ltd..

WRITEDOWNS OF INVESTMENTS

The balance of Euro 20,415 regards the writedown of minor investments not included in the scope of consolidation.

WRITEDOWNS OF DERIVATIVE INSTRUMENTS

The amount of Euro 18,052 against Euro 113,510 in 2016 is due to the reporting date measurement of the negative fair value of derivative instruments in place at said date.

TAXES ON INCOME – CURRENT, DEFERRED AND DEFERRED TAX INCOME

Description	*31/12/2016*	*Change*	*31/12/2017*
Current Taxation	574,581	(412,610)	161,971
Deferred Taxation	760,644	(327,264)	433,380
Deferred Tax Income	(73,829)	(1,645,014)	(1,718,843)
Total	**1,261,396**	**(2,384,888)**	**(1,123,492)**

OTHER INFORMATION

RELATED PARTY TRANSACTIONS

We note that the Group companies routinely enter into commercial and financial transactions with one another. As already highlighted in the "Consolidation Methods" paragraph, receivables and payables, revenue and expenses between companies in the scope of consolidation have been eliminated. All intercompany transactions have been entered into on an arm's length basis.

FEES

As required by law, the following table contains details of the total fees of the Directors, the members of the Board of Statutory Auditors and the External Auditor for performance of their duties.

Description	*Consolidated*
Directors' Fees	700,288
Board of Statutory Auditors' Fees	61,058
External Auditors' Fees	19,836
Total	**781,182**

EMPLOYMENT DETAILS

The following table shows the average number of employees – by employee category – of the companies consolidated line-by-line.

Workforce	*31/12/2016*	*Change*	*31/12/2017*
White collars – Managers	149	25	174
Blue collars – Intermediates	300	50	350
Total	**449**	**75**	**524**

The headcount increase – excluding the 33 employees ofItalacciai S.r.l. which entered the scope of consolidation in 2017 – refers almost exclusively to the Parent Company.
See the Directors' Report for further information on personnel.

DISCLOSURES REGARDING FINANCIAL INSTRUMENTS

The following table contains information on transactions to hedge the interest rate risk in relation to loans and finance leases in place at 31/12/2017:

Description	*Fair value current year*	*Fair value prior year*	*Change in IS*	*Change in Equity*	*Nature*	*Amou nt*
Interest rate swap	(54,024)	(127,448)	73,424		Hedging	2,222,457
Options	6,600	13,938	(7,338)		Hedging	11,702,263

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Details of significant events after the reporting date are provided below. They entirely relate to parent company Industrie Saleri Italo S.p.A..

FIRE AT THE SIL C FACTORY ON 11 JANUARY 2018

On 11 January 2018, fire broke out at the leased factory premises in Lumezzane, as used for production, shipment and storage activities (SIL C). The fire was accidental and mainly affected the ground floor and the first floor. As a result of the fire, the ground floor and the first floor and everything contained therein (sundry equipment, finished goods, semi-finished goods and components) were totally destroyed. Fortunately, other assets – specifically, the production lines in the basement used to assemble pumps – were only partly damaged. Damage was also incurred by the adjacent building held under a finance lease by Framon S.p.A. and by Framon S.p.A. itself. Fire damage also occurred to other assets owned by third parties that were affected by the fire. Luckily, no persons were injured in the fire.
Company management immediately took the following action in order to limit the impact on general operating activities, production levels and, therefore, customer service while maintaining commitments towards all stakeholders:

- The building affected by the fire was made safe and all items that could be reutilised were recovered
  – this regarded the production lines, in particular;
- Reorganisation of the production set-up and process in order to cope with the lack of production of the pumps previously manufactured at SIL C and resolution of the resulting operational problems;
- Prompt activation and utmost cooperation with the process to assess damages covered by insurance, together with the various experts appointed.

We highlight the following main interventions in relation to the first two lines of action indicated above:

- Installation at the Lumezzane factory (SIL A) of new assembly machines – less automated and requiring more manual input – in order to minimise the problems caused to customers by the suspension of production of pumps previously assembled at SIL C.
- Increase in number of shifts per week from 15 to 21 (weekend included) in accordance with the Trades Unions and employees.
- Outsourcing of storage and logistics management of all OE finished products to international operator Kuehne Nagel which already handles storage and shipping of the highest turnover IAM products at its logistics centre in Capriate (BG).
- A request to access state-assisted lay-off scheme CIGS for up to 271 employees was submitted and approved (on 9 March 2018, with effect backdated to 24 January 2018). At the date of approval of these Notes, no employees have been laid off under this scheme.
- Search for and selection of a new production site - On 8 February 2018, a preliminary rental agreement was signed for a new production facility (“SIL E”) of around 8,000 sqm in Provaglio d’Iseo (BS); the assembly and logistics services formerly carried out at SIL C will be relocated to these premises. At present, the new premises are being fitted with the necessary systems and equipment to enable the definitive, optimised reactivation of the former SIL C production process. On 7 March 2018, the company gave notice to terminate the rental agreement for the property affected by the fire.

From a financial perspective, the company proposed and agreed with the main suppliers a plan to postpone payments due at the end of January and February 2018- The new payment dates agreed fall between 10 and 15 May 2018. In some cases, agreement was also reached over an extension to the terms

of payment for new purchases (on average by 30/60 days depending on the supplier).
In terms of the third line of action, note that:

- The Company is covered by insurance policies with a leading insurance company (HDI Assicurazione) for all of the types of damages suffered (damage suffered, loss of earnings, third party liability, etc.);
- The maximum pay-outs under these policies are sufficient to cover the damages suffered and under quantification.

Therefore:

- In order to reduce the amount of time needed for collection of compensation for the various types of damages, the Company has requested that they be settled separately as permitted by the insurance policy;
- Consequently, we note that, at the date of this Report, a Compensation Agreement for a total of Euro 8,000,000 has already been signed in relation to Inventory; this claim will be paid by 15 April 2018 and part of the proceeds will be used to settle trade payables due at the end of January and February, as postponed to May (as described above);
- Loss adjusters are currently performing analysis with a view to the settlement of the other forms of compensation:
  - Damage suffered in relation to certain plant and machinery and the extraordinary costs incurred as a result of the fire;
  - Loss of earnings;
  - Damages caused to third parties, mainly in relation to the building itself (both that leased by Saleri and the damaged parts owned by third parties), the damages caused to Framon S.p.A. and to the third parties affected by the fire.

Balance sheet, income statement and cash effects
Pursuant to Article 2427(1)(22)(iv) of the Italian Civil Code, we note that the balance sheet, income statement and cash effects resulting from the above event and quantifiable at the date of these Notes refer solely to Inventory in relation to which insurance compensation of Euro 8,000,000 has been paid. Compared to the net book value of the inventory destroyed by fire, this pay-out means that the residual Income Statement effect is not significant.
Analysis of the other balance sheet items affected by the fire is still in progress and agreement has not yet been reached with the insurance company on the compensation due for the other categories of damages. Such insurance compensation could cover the damages suffered in relation to several of these balance sheet items. At present, it is not possible for us to estimate the net effect on the Income Statement, on the Balance Sheet or the related cash effect.

However, we note the following:

Leasehold Improvements
Leasehold improvements made to the SIL C property have been completely destroyed.

Plant, Machinery and Production Lines
Extraordinary work is currently being carried out on plant and machinery partially damaged by the fire. This work involves repair and testing procedures at the original suppliers of such assets. The work in question will lead to the total recovery of the assets.
The Income Statement effects of the fire may include:

- Costs (higher and/or additional) as a direct result of the event (Damage suffered). The following is a non-exhaustive list of examples:

Clean-up and clear-out expenses for property SIL C
Cost of work to make SIL C safe
Cost of relocating SIL C assets to the other production facility
Cost of redesigning the production lay-out at other SIL factories
Extraordinary maintenance costs – repair and testing of fire-damaged assets
Cost of fitting out the new SIL E plant
Double rental cost (SIL C terminated contract and SIL E new rental contract)

Costs / Allocation to provisions for risks for possible litigation with owners of damaged assets

- Costs (higher and/ or additional) and related repercussions as direct/indirect effect of the event (Damages Arising/Suffered) including:

Higher costs for logistics services
Higher personnel costs due to shift work
Higher production costs due to lower degree of automation of production process
Lost profit due to production down time
Lost profit due to greater inefficiencies
Lost margin on sale of SIL C finished goods

Operations regarding SIL Share Capital

On 14 February 2018, the Quamvis S.C.A. Sicav – FIS - Italian Growth Fund ("**Italian Growth Fund**" "**IG**"), managed by Quaestio Capital SGR S.p.A. ("**Quaestio**"), signed an investment agreement (subject to a number of conditions such as signature of the Framework Agreement and the Bilateral Agreements) to acquire a 26.6% equity interest in SIL.
The operation involved a paid share capital increase (the "**Share Capital Increase** ") totalling Euro 23 million, to be subscribed as follows:
- Euro 15,000,000 by Italian Growth Fund;
- Euro 8,000,000 by the Saleri family ("**Current Shareholders**").

Once the Share Capital Increase has been subscribed, based on the agreed valuation of SIL, IG will hold a 26.6% investment while the Current Shareholders will hold a 73.4% investment.
On 13 February 2018, Basilio Saleri and Giovanna Maria Saleri contribute their ordinary shares in SIL to a newly incorporated company (El.Fra Holding S.r.l.).
As a result of the contribution and the Share Capital Increase, the share capital of SIL will increase from the existing amount of € 5,160,000 to € 17,922.,13.22.

Refinancing plan
On 9 April 2018, the Company signed:
- A series of bilateral agreements (the "**Bilateral Agreements**") with banks and leasing companies ("Financial Creditors") designed to bring repayment plans into line with the Company's prospective operating cash flows, as set out in the Business Plan 2017-2022;
- A framework agreement (the "**Framework Agreement**") designed, *inter alia*, to regulate the Company's reporting obligations towards the Financial Creditors and its commitments towards them in terms of the proper implementation of the Plan.

The provisions of the Bilateral Agreements signed by SIL may be summarised as follows:
- The MLT loan facilities are rescheduled and their repayment plans brought into line with the cash flows forecast in the Plan;

- SIL continues to enjoy access to commercial credit facilities in line with its utilisation requirements;
- Non-rotating short-term facilities are consolidated into an unsecured loan repayable over five years
- The interest rates applied are amended and standardised.

As described in more detail in the note on "Bank Borrowing", the plan was proposed to all lending banks with outstanding loans in excess of Euro 100 thousand (in terms of principal) at 31.12.2017 and to all banks that have provided commercial credit facilities. The banks that have agreed to the plan represent 97% of the total exposure.
We note that the Framework Agreement and the Bilateral Agreements are also subject to execution of the overall Share Capital Increase of Euro 23,000,000 which should be subscribed by May 2018.

The positive results achieved by the Company in 2017 and the balance sheet and cash effects of the capital operations (which will make it possible to recapitalise the Company and guarantee sufficient liquidity) and the independent review performed of the Business Plan in support of the refinancing proposal made it possible to complete the agreement without using the mechanisms provided for by the Italian Insolvency Act.

Lumezzane, 11 May 2018

THE BOARD OF DIRECTORS

Basilio Saleri (Chairman)

Giovanna Saleri

Sergio Saleri

Luca Saleri

INDUSTRIE SALERI ITALO
Via Ruca, 406 | 25065 Lumezzane BS
Ph. +39 030 825 0411 | Fax +39 030 8922536

info@saleri.it | www.saleri.it