

LU-VE S.p.A.
Via Vittorio Veneto n. 11 – 21100 Varese
Economic and Administrative Index Number: VA-191975
Tax Code: 01570130128



ANNUAL FINANCIAL REPORT

AS AT 31 DECEMBER 2017

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CORPORATE BODIES AND COMPANY INFORMATION

Board of Directors

Chairman	Iginio Liberali
Vice Chairman	Pierluigi Faggioli
Directors	Matteo Liberali Michele Faggioli Attilio Arietti Giovanni Cavallini Michele Garulli Anna Gervasoni Fabio Liberali Laura Oliva Stefano Paleari Roberta Pierantoni Marco Vitale

Board of Statutory Auditors

Chairman	Paola Mignani
Standing Auditors	Stefano Beltrame Ivano Pelassa
Alternate Auditors	Mauro Cerana Giulia Chiarella

Auditing Firm	Deloitte & Touche S.p.A.
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Registered office and company information

LU-VE S.p.A.
Via Vittorio Veneto no. 11, Varese
I - 21100 Varese (VA) Italy
Tel: +39 02 96716270
Share capital €62,704,488.80 fully paid in
Tax Code and VAT no.: 01570130128

DIRECTORS' REPORT AS AT 31 DECEMBER 2017

26 March 2018

Dear Shareholders,

2017 was a year of important political as well as economic events. In Europe, the presidential elections in France and the confirmation of the coalition between the two largest parties in Germany, along with the early UK elections, offered a structure of greater stability. Positive signs are also being seen in countries that have been suffering for some time now, such as Greece and Portugal, while the Catalan crisis seems to be taking a path of greater moderation. At international level, the first year of the new US presidency has brought with it a different approach than past administrations, in terms of foreign policy as well as economic policy, with the introduction in the early months of 2018 of the first trade tariffs on US imports.

In any event, the year just completed saw a period of sustained economic growth, equal to roughly 4% at global level and 2.3% for the Eurozone. The year 2018 is also expected to reach these levels, although the consequences of the US's new trade policies cannot yet be quantified.

In the course of 2017, global growth has also been accompanied by stresses in the commodities market, particularly in terms of copper and oil, and this had a significant impact on the companies concerned in their sale or use.

As concerns monetary policy, in the year just ended the US Fed's change of route was confirmed, as it continued with its policy of hiking interest rates, which started at the end of 2016. On the other hand, rates are stable in the Eurozone despite the slowdown in quantitative easing decided upon by the ECB. These trends also seem to be confirmed for the year under way, when rates may rise in the Eurozone as well.

In Italy, 2017 came to an end with GDP growth of 1.5%, lower than that seen in the Eurozone, but exceeding that recorded in the years subsequent to the 2008 crisis. The figure concerning Italian industrial production is even better, up for the third consecutive year and capable of achieving a rise of 3% in 2017.

However, our country is embarking upon this new year with its fair share of unknowns. The elections delivered us a geographically divided country, and it is necessary to see which government structures will be made possible and, especially, which economic policies will ensue. In addition, the trade policies intended to protect US domestic interests are arousing concern. For Europe and even more for Italy, an exporter, such policies could be deleterious and compromise the good headway we had at the start of this year.

For the LU-VE Group, 2017 was a controversial year from the perspective of the results achieved and also historic, because on 21 June 2017 with the start of trading on the MTA market, the Group's listing process initiated with Spac Industrial Stars of Italy at the end of 2014 concluded completely in line with the expected timing.

A historic step that led in the months between the end of 2016 and the start of 2017 to a profound commitment on the part of the Group's management, which should be thanked for its great efforts. In the year under way, this effort may be dedicated entirely to industrial activities, with a view to improving Group profitability.

The Group's consolidated turnover reached more than €270 million, with an increase of 14.3% compared to 2016, and of 7.5% on an "expanded" basis, i.e., taking into consideration for the year 2016 twelve months of sales of the Indian subsidiary Spirotech Heat Exchangers Private Limited (hereinafter referred to only as "Spirotech") acquired in October 2016 (and as a result consolidated for only three months in 2016).

At Business Unit level, the comparison on an "expanded" basis shows a figure for the "OEM" SBU (whose internal name was changed to "Components" in the course of 2017) significantly influenced by two main factors: the considerable impact of the growth of the Indian subsidiary Spirotech (active only in the field of heat exchangers) and the negative performance of the subsidiary Thermo Glass Doors S.p.A., the only Group company working in the sector of glass doors intended for the supermarket counters market.

Against an overall turnover of €168.2 million, growth of the "Components" SBU reached 6.8% with an impact on total product sales which rose nearly to 64%.

The increase relating to heat exchangers alone (which represent more than 94% of total SBU sales) reached 11.9% with turnover equal to €158.9 million, while the glass doors segment recorded total turnover of €9.3 million, marking a decline of 40.5% due to certain negative extraordinary events that will be described in more detail in the section relating to the reference markets.

On the other hand, growth (+6.1%) of the "Air-Cooled" SBU, renamed "Cooling Systems" in 2017, was not influenced at all by the change in the scope of consolidation, reaching turnover of €96.3 million with an impact on sales declining to around 36%.

In the refrigeration market (historically the Group's first application segment), the value of sales on an "expanded" basis grew by 2%, with turnover equal to €171.1 million. Net of the effect caused by the decline in glass door sales, growth in refrigeration would have been 6.3% with a rise of nearly 11% in air-cooled equipment, primarily by virtue of the great development in the segment of industrial refrigeration intended for logistics centres linked to the world of Large Scale Retail stores.

Lastly, it should be noted that the impact of refrigeration on total Group product sales, traditionally well above 70%, fell to 64.7%, confirming the Group's strategic decision aimed at developing alternative markets to further expand the field of applications served and reduce concentration in the refrigeration market.

In the air conditioning market, turnover rose by 9.3% in 2017 to €47.7 million, accounting for around 18% of total sales, thanks to growth in heat exchangers, while in the sector of high power air-cooled equipment some large scale projects are no longer under way, especially in Northern Europe.

Obviously, the sales area impacted most favourably by the acquisition of Spirotech is that of "special applications", which ranges from compressed air to domestic appliances and marked an increase in turnover to €37.4 million (+15.7%) primarily thanks to obtaining increasing market shares within the field of high energy efficiency heat pump laundry dryers and growth in "mobile" applications (refrigerated transport and railway air conditioning). As a result of this significant development, the impact on total Group product sales rose to 14%.

Lastly, the power gen and industrial processes markets, which did not benefit at all from the acquisition of Spirotech, recorded turnover of €8.3 million, with growth of 82% seen primarily in the second half with the acquisition of several large projects with leading global customers.

Unfortunately, the good increase in sales was not followed by a development of profitability in line with expectations. Consolidated EBITDA, which reached €29.1 million, backtracked primarily as a result of the late adjustment of sale prices to increasing costs for the acquisition of the main raw materials. In particular, in the first half of the year, the Group indeed had unexpected difficulties in transferring the significant increases in procurement costs to the market, due to the sudden and expected uptick at the end of 2016 in the values of the main raw materials (particularly copper). With the exception of customers with price lists that call for automatic adjustments linked to the trend of average commodity prices on the London LME, for other customers increases were more difficult to apply, also considering that the main competitors, unlike in the past, significantly delayed applying the required increases. Certain other factors also penalised EBITDA, such as non-recurring costs linked to the listing on the MTA (equal to around €1.5 million) and costs relating to restructuring plans (around €0.4 million) as well as the negative result in the segment of glass doors for refrigerated counters (roughly €1.9 million).

With reference to the normalised income statement, i.e., not considering the non-recurring costs mentioned above, the first half of 2017 (in this respect, please refer to the half-yearly financial report as at 30 June 2017) showed unsatisfactory profit trends, with revenue of €133 million and EBITDA, EBIT, EBT and Net profit respectively equal to 10.7%, 5.6%, 2.9% and 2.5% of revenue. On the other hand, the second half of the year was quite positively impacted by the actions carried out and recorded sales of €137.0 million and EBITDA, EBIT, EBT and Net profit respectively equal to 12.2%, 6.3%, 4.8% and 3.6% of revenue.

During the year, the Italian Revenue Agency accessed the company to conduct a general tax audit (direct, indirect and withholding taxes and transfer pricing) with reference to the 2012, 2013, 2014 and 2015 tax periods of the parent company LU-VE S.p.A. The audit was completed before the end of the year, with a settlement that resulted in the payment of higher taxes of €0.3 million and penalties and interest of €0.1 million.

The net profit for the period of €6.3 million was influenced by the above-mentioned impact of taxes not pertaining to the year relating to the tax audit at the parent company as well as by exchange losses, almost entirely unrealised (€5.6 million), primarily linked to the trends in the Polish zloty, the Indian rupee, the Russian rouble and the Hong Kong dollar.

For the year 2017, the capex programme across all of the Group's facilities was aimed at boosting the efficiency and automation of production processes as well as strengthening and streamlining installed production capacity in the various geographical areas in which the Group is present. These investments are intended primarily to expand production capacity in the highest growth application segments and adapt existing plants to satisfy increasing demand for products compatible with increasingly stringent requirements imposed by new regulations on energy efficiency, safety and environmental impact.

During the year, a significant capex project was launched for the expansion of the production site of the subsidiary Sest-LUVE-Polska Sp.z.o.o. in Poland.

The overall capex plan, which is expected to be completed by the end of 2021, has an estimated value of €36 million on a lot of land of roughly 60,000 m² situated within the same special economic park of Gliwice and calls for the construction of a facility with a covered surface area of more than 20,000 m² (for roughly 50% of the overall investment) and the acquisition of new plant and equipment under a special tax relief system.

The strategic objective of this investment is to increase and streamline the Group's production capacity in order to best take advantage of market growth opportunities. At the end of the year 2017, investments relating to this project amounted to roughly €3.6 million (including the acquisition of the land for €2.4 million).

In the course of 2017, the trend of price growth in the main raw materials used by the Group, which was particularly evident in the last two months of 2016, continued. The average cost of copper and aluminium rose by around 25% and roughly 20% compared to 2016, respectively. To protect profit margins on sales, the Group revised its price lists for catalogue equipment and applied increases for equipment not in the catalogue (if the prices were not already contractually linked to average raw material prices). In the first half of the year however, these price adjustments were applied over more extended periods of time than expected, penalising margins, also due to the competitive sector situation. On the other hand, there was a more significant recovery in the second half of the year, when the impact of material consumption declined from 53.1% to 52.4%.

As highlighted previously, in the first half of the year the Parent Company was considerably committed to the transfer of its financial instruments listed on the AIM Italia, the alternative capital market organised and managed by Borsa Italiana S.p.A., to the MTA market.

In particular, the Parent Company's shareholders' meeting, which met in ordinary and extraordinary session on 10 March 2017, approved: (1) the transfer of the listing of its financial instruments on the AIM Italia to the MTA; (2) certain amendments to the articles of association in force at the time, as well as the articles of association that would enter into force as of the date on which the LU-VE securities started trading on the MTA, in compliance with the rules applicable to companies with shares listed in regulated markets, as well as the shareholders' meeting regulation; (3) the acknowledgement of the resignation of all directors previously in office, and the appointment of the new Board of Directors, effective as of the date of the shareholders' meeting; (4) the acknowledgement of the resignation of all statutory auditors in office and the appointment of the new Board of Statutory Auditors, effective as of the date on which the LU-VE securities start trading on the MTA; (5) the assignment, also effective as of the date on which the LU-VE securities begin trading on the MTA, of the nine-year auditing engagement, pursuant to art. 17, paragraph 1 of Italian Legislative Decree 39/2010, to the company Deloitte & Touche S.p.A., at the same time approving the consensual termination of the auditing engagement already existing with Deloitte & Touche S.p.A.

On 14 March, LU-VE submitted an application to Borsa Italiana for the admission of its securities to trading on the MTA and, at the same time, a request to Consob to receive authorisation for the publication of the Prospectus. Once the respective preliminary investigations were completed, Borsa Italiana admitted the LU-VE ordinary shares to trading on the MTA with measure no. 8361 of 12/06/2017 and Consob authorised the publication of the prospectus with measure no. 79230/17 on 16/06/2017; trading began on 21/06/2017.

On 31 March 2017, the remaining 50,000 special shares were converted into 350,000 ordinary shares.

In January-April 2017, a total of 240,388 warrants were exercised, with the resulting issue of 43,463 ordinary shares; in addition, on 29 April 2017, as the average price of the LU-VE security in the course of April was higher than €13, the "acceleration condition for the exercise of the warrants" was met, as a result of which those of the 7,228,765.00 warrants outstanding at the time which were not exercised within 30 days would become void. At the deadline of 29 May 2017, the exercise of 7,106,910 warrants became effective, against which 2,038,248 shares were issued, with a share capital increase of €203,824.80. The remaining 121,855 unexercised warrants were forfeited and were rendered completely void.

As a result of the conversion of the special shares and the exercise of the warrants, the share capital went from €62,496,372.30 at 1 January 2017, broken down into 19,803,206 ordinary shares and 50,000 special shares, to €62,704,488.80 at 30 June 2017, broken down into 22,234,368 shares, all ordinary.

The subsidiary Sest S.p.A. approved the organisation and management model pursuant to Italian Legislative Decree 231/2001 on 2 March 2017.

During the year, the integration of the newly acquired Spirotech within the Group continued according to plan:

- the commercial integration is already almost completely finished with the involvement of the sales organisation of the “Components” SBU;
- the machinery and equipment capex plan was redefined and integrated within the overall Group budget, and a study began concerning the expansion of the production site, as laid out in the business plan;
- the integration of information systems was successfully launched with the installation of the “Financial” SAP module for the management of general accounting (“go live” took place in early October, 6 months ahead of the initial schedule) and the same email system for all Group companies;
- in addition, the integration of procurement and supplier management began, entailing expectations of significant improvements in the management of net working capital.

During the year, Spirotech fully confirmed expectations with an increase in sales of roughly 28% compared to the year 2016 (12 months) and an EBITDA/turnover ratio exceeding 20%. Likewise, the significant growth outlooks linked to the new collaboration with several new prestigious customers were also confirmed, which should allow for a further significant development of sales starting already from 2018.

With reference to the subsidiary Thermo Glass Door S.p.A. (“TGD”), please note that, within a particularly complex year for the reasons specified above, it suffered from heavy losses which required recapitalisation interventions.

In particular, against losses realised in the first two months amounting to a total of €278,028, an initial recapitalisation was carried out at the shareholders’ meeting on 6 April 2017, during which losses were covered as follows: €5,131 through the use of reserves, €150,000 through the elimination of the share capital existing at the time and €122,897 through shareholder payments to cover losses, in proportion with the equity investment held. At the same time, the share capital was increased to €850,000 with a proportional subscription by all shareholders.

Due to the total loss of €1,139,431 for the 1 January - 31 December 2017 period which, also taking into account the coverage transaction already carried out in April, resulted in another erosion of the entire share capital and a negative shareholders’ equity, on 21 December 2017, the TGD shareholders’ meeting approved the coverage of the additional loss as follows: €850,000 by eliminating the share capital and for the remaining €11,403 through payments made by the sole shareholder Sest S.p.A. At the same time, the share capital was increased to €100,000, subscribed in full by Sest S.p.A.

During the year, the project was launched for the introduction throughout the Group of a single PLM (“Product Lifecycle Management”) system in order to best manage the entire product life cycle. Once this solution is fully implemented, it should allow for more efficient management of the technical planning processes, an improvement in supply chain work flows and reduced time to market. The final objective also includes the creation of a technical database (designs, basic lists and processing cycles) shared by all production sites, a flexible data structure and the possibility to

plan the production of the various facilities at central level on the basis of their respective work loads and strategic decisions.

The project calls for the completion of several distinct phases (or “waves”), with the first that was positively concluded in December in full compliance with the planned timing.

Another important project successfully completed in 2017 is that relating to the implementation of a new “business intelligence” tool based on the Sap Hana operating system (in turn introduced in October 2016), which allows for a quicker preparation and analysis of operating data, with the systematic processing of reports for the management.

In April, the subsidiary LU-VE Deutschland GmbH also began using the SAP operating system.

Lastly, in order to further strengthen the Group’s commercial presence within German language speaking countries, on 21 October 2017 the company LU-VE Austria GmbH was established, with registered office in Vienna.

In the first half of the year, production and marketing began on a new range of high power equipment named “Emeritus” in honour of professor Ennio Macchi, who has been awarded the title of ‘Professor Emeritus’ and participated in the development of LU-VE products starting from the very first years of the Group’s establishment. This new extremely innovative range for which a patent application was filed and which was presented at the Chillventa trade fair in October 2016, once again was based on the collaboration between the Group and the Polytechnic University of Milan, which has continued without interruption since 1986.

The new “Emeritus”, under equal conditions, may provide up to 400% more capacity than traditional dry products; all of this is managed and monitored by a sophisticated control system which makes it particularly suited to air conditioning and refrigeration, making it possible to obtain a high plant COP (coefficient of performance), even during times of the year when temperatures reach their highest peaks.

In the last four months of 2016, the rouble significantly appreciated compared to the euro, from an exchange of 72.8 at 1 September 2016 to 64.3 at 31 December 2016. This trend then continued in the course of 2017. The majority of the sales of the subsidiary “OOO” Sest LUVE are made based on a price list in euro converted into roubles on the basis of the exchange rate in force during the invoicing period. This generated a significant decline in turnover values in roubles, which in the course of the initial months of the year was combined with the negative effect generated by the increase in the costs of the main raw materials. This situation generated a loss in profit margins, which had a negative effect of roughly €0.5 million on the first half of the year.

In the course of the second half, all of the necessary corrective measures were put into place to allow for the almost complete recovery of the decline in margins recorded in the first half of the year.

CONSOLIDATED NON-FINANCIAL STATEMENT

On 22 October 2014, the European Parliament and the Council of the European Union adopted Directive 2014/95/EU (Barnier Directive) on the disclosure of non-financial information by large companies. The Directive aims to improve the uniformity and comparability of non-financial information, map and monitor the non-financial risks linked to corporate activities and thus facilitate investor access to non-financial information.

The Directive was transposed into Italian law with Italian Legislative Decree no. 254 of 30 December 2016 (Italian Legislative Decree 254/2016). In compliance with the provisions of article 5, paragraph 3, letter b of Italian Legislative Decree 254/2016, the Parent Company therefore prepared the Consolidated non-financial statement relating to the year 2017, the reporting scope of which includes all companies belonging to the LU-VE Group. The statement, which constitutes a report distinct from this one and which should be referred to for a more detailed treatment of the topics, was prepared in accordance with the GRI “Sustainability Reporting Standards”, defined in 2016 by the GRI – Global Reporting Initiative.

The statement is published in the 2017 Sustainability Report and is available on the Group’s website (www.luvegroup.com – “Investor Relations” section - Sustainability).

The consolidated non-financial statement reports on the Group’s performance in relation to topics that influence its capacity to create value in the short, medium and long term, which reflect the significant impacts of the organisation and which are of interest for the Group’s stakeholders.

A materiality analysis was conducted in accordance with the GRI Standards in order to identify these topics. Specifically, a trend and context analysis was conducted through an examination of the documents of international organisations and an analysis of peers at Italian and global level, to study the main sector pressures on sustainability. In addition, during two different workshops with the Parent Company’s top management, topics were identified with respect to which the Group has a greater capacity of impact and an indirect analysis was conducted on stakeholder expectations to evaluate which topics may most significantly influence their assessment of the Group.

From this analysis, the nine significant matters for the LU-VE Group and for its stakeholders were identified and subsequently connected to the three sides of the Group’s “golden triangle”: distinctive positioning, responsible growth and shared value, the three elemental points of the business strategy.

The nine material topics

Responsible growth	1. Growth strategies	Promoting growth strategies aimed at commercial expansion at domestic and international level through the development of new geographical markets and an increase in shares in existing markets, within a context characterised by the reduction of labour in Industry 4.0 and delocalisation within a global economy.
	2. Women, men and ideas	Safeguarding and strengthening the know-how of our people through professional growth paths which make it possible to provide customers with a competent and professional service, while motivating personnel and promoting talent.

	3. The well-being of our people	Promoting the well-being of our people and offering them a workplace in which every individual can best express their potential, guaranteeing equal opportunities and investing in security and the creation of an inclusive environment which is capable of welcoming the many people who find themselves working side by side with their different cultures, ethnicities and religions.
Distinctive positioning	4. Customer orientation	Making our customers excited about our excellent products and services, that meet their needs and the quality requirements defined at Group level, as well as supporting them throughout the product life cycle.
	5. Cutting-edge solutions	Promoting sector technological progress by investing in research concerning solutions capable of minimising the environmental impact and the noise emissions of finished products, also in collaboration with highly qualified partners linked to the world of universities and research.
	6. Sales ethics	Managing relationships marked by transparency with all Group stakeholders, ensuring compliance with regulations in force in terms of combatting active and passive corruption and guaranteeing institutional communications and honest, truthful promotions based on factual information.
Creation of shared value	7. Economic and financial sustainability	Guaranteeing long-term economic results and financial coverage for the Group through adequate accounting management and the capacity to meet the needs of the market and of current and future customers.
	8. Reduction of environmental impact	Minimising the environmental impact of its production processes, enacting energy efficiency policies, reducing direct and indirect emissions, water consumption and the generation of waste.
	9. Quality of life	Offering solutions capable of boosting food preservation and ensuring control over temperature, humidity and air purity levels in specific environments (clean rooms) to increase service quality and improve quality of life.

CONSIDERATIONS ON THE SECURITY'S MARKET VALUE

During the year, the LU-VE security performed better than the FTSE Italia All-Share index until the publication of the half-yearly data in the second half of September. In the second part of the year the security was trading at roughly 20 percentage points less than the index.

The main figures and share price trends are shown below:

Price as at 2 January 2017: €11.20

Price as at 29 December 2017: €10.72

Change during the period: -4.3%

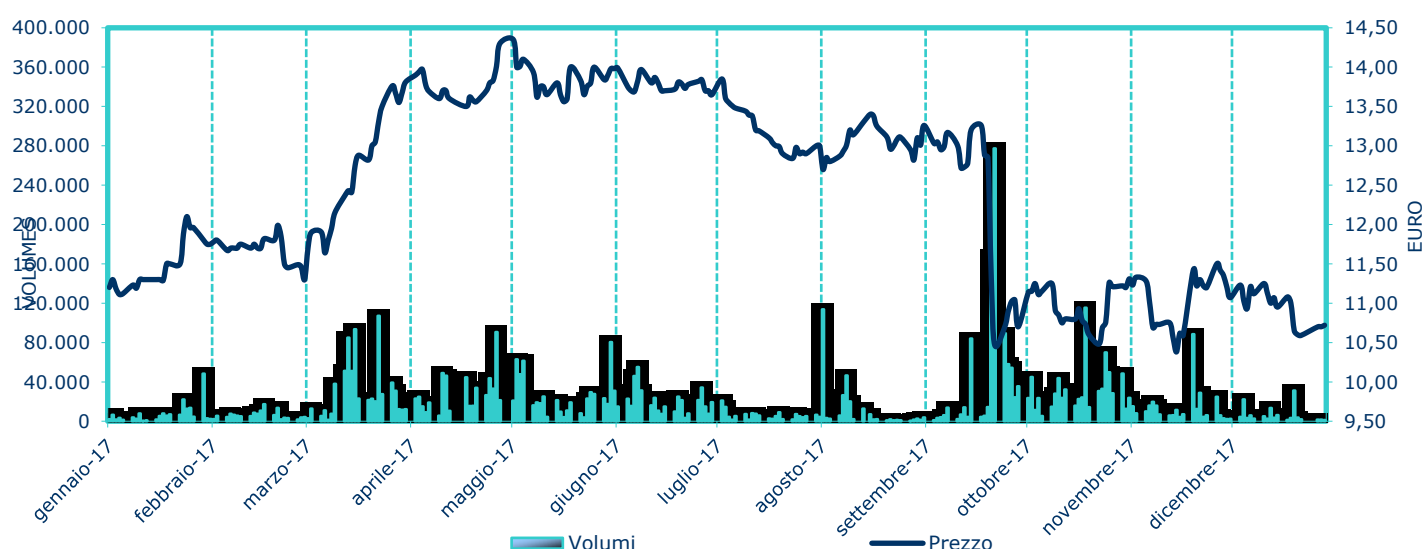
Maximum Price: €14.35 (2 May 2017)

Minimum Price: €10.38 (15 November 2017)

Weighted Average Price: €12.38

Volumes traded: 4,926,333

Market Capitalisation as at 31 December 2017: €238.35 million



SUBSIDIARIES AND ASSOCIATES

As at 31 December 2017, the Group comprises the following:

Industrial subsidiaries:

- **SEST S.p.A.** in Limana (BL), wholly-owned: manufactures and markets heat exchangers for refrigerated counters and display cabinets and for other applications;
- **SEST-LUVE-POLSKA Sp.z.o.o.** in Gliwice (Poland), 95% stake held by SEST S.p.A.: manufactures and markets heat exchangers for refrigerated counters and display cabinets;

- **“OOO” SEST-LUVE** in Lipetsk (Russia), 95% stake held by SEST S.p.A.: manufactures and markets heat exchangers and air cooled equipment under the LU-VE brand for the market comprising Russia and neighbouring countries;
- **HEAT TRANSFER SYSTEM (HTS) s.r.o.** in Novosedly (Czech Republic), wholly-owned: manufactures and markets heat exchangers for the air conditioning and refrigeration sectors and for special applications, as well as air cooled condensers under the LU-VE brand;
- **TECNAIR LV S.p.A.** in Uboldo (VA), 79.9% stake held: manufactures close control air conditioners and air super-filtration equipment for applications in operating rooms, data centres and telephony;
- **LU-VE HEAT EXCHANGERS (CHANGSHU) LTD** in Changshu (China), wholly-owned through LU-VE Asia Pacific Ltd: manufactures and markets air cooled products and heat exchangers;
- **LU-VE SWEDEN AB** in Asarum (Sweden), wholly-owned: manufactures and markets air cooled products (mainly large condensers and dry coolers using the AIA brand) in the Scandinavian markets;
- **THERMO GLASS DOOR S.p.A.** in Travacò Siccomario (PV), wholly-owned by SEST S.p.A.: manufactures and markets glass doors and frames for refrigerated counters and display cases;
- **SPIROTECH HEAT EXCHANGERS PRIVATE LIMITED** in New Delhi (India), 95% stake held through LU-VE India Corporation Private Ltd: manufactures and markets heat exchangers for domestic applications, refrigeration and air conditioning;
- **MANIFOLD S.r.l.** in Uboldo (VA), 99.0% stake held: manufactures copper components (collectors and distributor units) for Group companies;
- **LUVEDIGITAL S.r.l.** in Uboldo (VA), 50% stake held: develops software and IT solutions dedicated to generating estimates and promoting Group products.

Commercial subsidiaries:

- * **LU-VE France s.a.r.l.** in Lyon (France), 86.06% stake held: carries out direct sales activities and provides commercial and technical support services to distributors of air cooled equipment, heat exchangers and close control air conditioners in the French and North African markets;
- * **LU-VE Deutschland GmbH** in Stuttgart (Germany), wholly-owned: sells air cooled equipment directly or through distributors throughout the German market;
- * **LU-VE Iberica s.l.** in Madrid (Spain), 85% stake held: sells air cooled equipment, heat exchangers and close control air conditioners directly or through distributors in the Iberian peninsula and the Central and South American markets;
- * **LU-VE Contardo Pacific Pty. Ltd.** in Thomastown (Australia), 75.5% stake held: markets air cooled equipment in the Oceania market. It also markets some other complementary brands of companies that are not part of the Group;

* **LU-VE India Corporation Private Ltd** in New Delhi (India), 99.98% stake held: sells and carries out agency activities for air cooled equipment in the markets of India and neighbouring countries. It holds a 95% investment in Spirotech;

* **LU-VE Asia Pacific Ltd.** in Hong Kong, wholly-owned: sells air cooled equipment and heat exchangers directly in the Far East markets (excluding China).

* **LU-VE Austria GmbH** in Vienna (Austria), wholly-owned: sells and carries out agency activities for air cooled equipment primarily in German language speaking countries.

REFERENCE MARKETS

In terms of product type and family, the Group's activities may be broken down into four main **product categories**:

- (i) air cooled heat exchangers;
- (ii) air cooled equipment;
- (iii) close control air conditioners;
- (iv) glass doors for refrigerated counters and display cabinets ("insulated glazing").

With reference to the figures provided below, please recall that in the course of the year the Group earned other revenue of €5.5 million (€3 million in 2016), which brings revenues and operating income to a total of €270 million (€251.3 million in 2016).

The Lu-Ve Group's four main **product** categories feature distinctive technical and manufacturing characteristics.

Heat Exchangers

"Finned" heat exchangers are fundamental components of refrigeration circuits and are constructed by mechanically coupling special tubes (usually in copper), which represent what is known as the primary exchange surface, with stamped "specialised fins" (usually in aluminium), which represent what is known as the secondary exchange surface.

In brief, the function performed by a heat exchanger entails subtracting or transferring heat from a certain environment and its functioning is based on the change of state of special cooling mixtures or gases which flow inside the tubes, combined with the passage of hot or cold air which passes through the fins.

In the majority of cases, heat exchangers represent a component of a complete unit or machine, designed and constructed by an OEM (in the case of the Lu-Ve Group, these are mainly manufacturers of refrigerated counters and cabinets, air conditioners, heat pumps, compressed air machines, special electrical cabinets, clothes dryers, etc.).

Revenues from sales (including the turnover of Spirotech for twelve months in 2016) of heat exchangers represented:

- in 2017: approx. 59% of the Group's total revenues;
- in 2016: approx. 57% of the Group's total revenues.

Air Cooled Equipment

Air cooled equipment (unit coolers, condensers and dry coolers) are finished products consisting of heat exchangers of various styles and sizes (in the case of the Lu-Ve Group, up to over 12 metres long and 3 metres high), coupled with: (i) housings, appropriately designed and shaped to maximise the performance of the heat exchangers contained in them and to facilitate their transfer and

installation on site; *(ii)* electrical or electronic fans, specifically designed and sized to optimise heat exchange, reduce electricity consumption and the level of noise generated; *(iii)* a range of other electric, electronic and mechanical accessories (designed, for example, to increase the output power in the event of extreme environmental conditions; to further reduce the level of noise pollution; to modulate both electricity consumption and silence depending on whether it is to be used during the day or night; or to enable several functioning parameters to be remotely managed according to the latest communication protocols).

The specific function performed by this equipment, given specific parameters and working conditions, is to guarantee the supply of a specific cooling power (measured mainly in kW), within specific constraints in terms of electrical energy absorbed, noise pollution generated and clearance spaces.

Air cooled equipment may be installed, depending on the type, both inside refrigerated rooms, and outside refrigerated and/or air conditioned rooms (usually on roofs or in dedicated “technical” rooms).

Revenues from sales (including the turnover of Spirotech for twelve months in 2016) of air cooled equipment represented:

- in 2017: approx. 32% of the Group’s total revenues;
- in 2016: approx. 32% of the Group’s total revenues.

Close control air conditioners

Close control air conditioners are special air conditioners specifically designed for use within particularly delicate “technological” spaces such as data centres, operating theatres and clean rooms.

The specific nature of these air conditioners is represented by the fact that they have to guarantee (in the case of data centres, 365 days a year, 24 hours a day) the strict control, with extremely limited tolerances, of temperature, humidity and air purity parameters, as well as remotely reporting, using the latest communication protocols, any irregularities, malfunctioning or alarms.

To this end, these special air conditioners have a “brain” represented by one or more electronic microprocessors, specifically developed and designed according to the type of installation.

Revenues from sales (including the turnover of Spirotech for twelve months in 2016) of close control air conditioners represented around 4% of the Group’s total revenues in 2017 (around 4.1% in 2016).

Glass doors for refrigerated counters and display cabinets “insulated glazing”

These glass doors for refrigerated counters are manufactured by coupling and isolating up to three different sheets of special glass, inside which an insulating gas is injected.

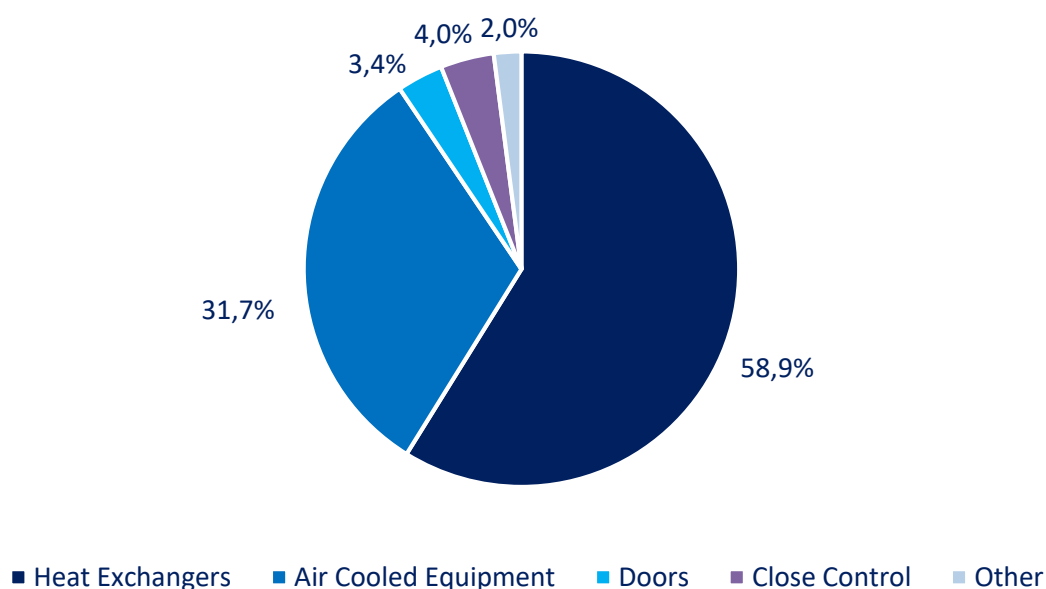
The specific function of this type of door, installed on refrigerated cabinets and counters, at positive and negative temperatures, is to guarantee, even if subject to numerous or continuous cycles of opening and closing: *(i)* the maintenance of the temperature inside the refrigerated counters and cabinets (both at positive and negative temperatures), *(ii)* the perfect visibility of the goods displayed/contained in any condition (avoiding the door misting up also by means of applying special nanotechnological film), *(iii)* the illumination of the inside and *(iv)* in certain cases, also the illumination of advertising logos on the surface of the door in question.

Revenues from sales (including the turnover of Spirotech for twelve months in 2016) of glass doors represented around 3.4% of the Group’s total revenues in 2017, down with respect to 2016 (6.2%).

As noted in the introduction, the cause of this decline lies in the simultaneous occurrence of two extraordinary negative events. On one hand was the initiation in January 2017 by the main customer (which represented roughly 50% of the value of sales in 2016) of internal production of two of the highest volume product families. The second negative event instead regarded the second most important customer which, following a quality issue only partially attributable to your subsidiary, decided to temporarily suspend purchases in Italy pending the results of several field tests, which were successfully concluded in July. Once this misunderstanding was resolved, purchases resumed on a regular basis beginning in October.

In light of these difficulties, the sales force made a considerable effort to search for new customers and in the development and approval of new products (process which in turn may require various months of testing in the lab as well as in the field) with new and existing customers, as well as in seeking out new fields of application other than refrigeration, with a view to bringing sales back to the levels seen in the recent past. The results of this intense activity are comforting and make it possible to identify good possibilities for a recovery.

The chart below shows the breakdown of turnover by product type in 2017:



The table below shows turnover trends (including the turnover of Spirotech for twelve months in 2016) by product type in the two years subject to comparison:

PRODUCTS	€ /000 2017	%	€ /000 2016	%	Delta %
Heat exchangers	158,918	58.9%	141,956	56.5%	+11.9%
Air Cooled Equipment	85,602	31.7%	80,507	32.0%	+6.3%
Doors	9,264	3.4%	15,576	6.2%	-40.5%
Close Control	10,736	4.0%	10,270	4.1%	+4.5%
TOTAL PRODUCTS	264,520	98.0%	248,309	98.8%	+6.5%
Other	5,512	2.0%	2,970	1.2%	+85.6%
TOTAL	270,032	100.0%	251,279	100.0%	+7.5%

In terms of product application, the Lu-Ve Group's operations relate primarily to three different **market segments**.

(i) the refrigeration sector, which includes activities relating to the supply chain for food products (the “**Refrigeration Sector**”);

(ii) the air conditioning sector, which regards the treatment of the air in public and “technological” spaces (the “**Air Conditioning Sector**”);

(iii) the so-called “special applications” sector, which primarily includes specific heat exchangers used in various fields of activity ranging from high energy efficiency clothes dryers to “mobile” applications (refrigerated transport, air conditioning for railways and large scale vehicles) to compressed air machines and other industrial applications (the “**Special Applications Sector**”).

Furthermore, the Lu-Ve Group's high power products are also addressed to the “power gen” and industrial process applications sector, although their revenues are significantly lower than those earned in the three main sectors described above.

The Refrigeration Sector

The Refrigeration Sector is addressed to applications relating to the entire supply chain involving the preservation, processing, transformation and storage of food products (such as fruit, vegetables, meat and fish) at controlled temperature, from the time they are harvested/bred/produced, to when they become available to the general public at large scale retail stores and local food stores.

Revenues from sales (including the turnover of Spirotech for twelve months in 2016) of the Refrigeration Sector represented:

- in 2017: approx. 63% of the Group's total revenues;
- in 2016: approx. 67% of the Group's total revenues.

The Air Conditioning Sector

The Air Conditioning Sector includes the manufacture of products and components for air treatment in public and “technological” spaces, in order to guarantee control of temperature, humidity and air purity.

Revenues from sales (including the turnover of Spirotech for twelve months in 2016) of the Air Conditioning Sector represented around 18% of the Group's total revenues in 2017, a slight increase with respect to the previous year (roughly 17%).

The Heat exchangers for special applications sector

The “special applications” market, as highlighted previously, covers numerous different and highly specialised applications.

With the acquisition of Spirotech, two applications in particular take on significance: heat pump exchangers used in clothes dryers with high energy efficiency (domestic appliance segment) and exchangers for refrigerated transport (particularly for lorries and vans).

Revenues from sales (including the turnover of Spirotech for twelve months in 2016) made by the Lu-Ve Group in this sector represented:

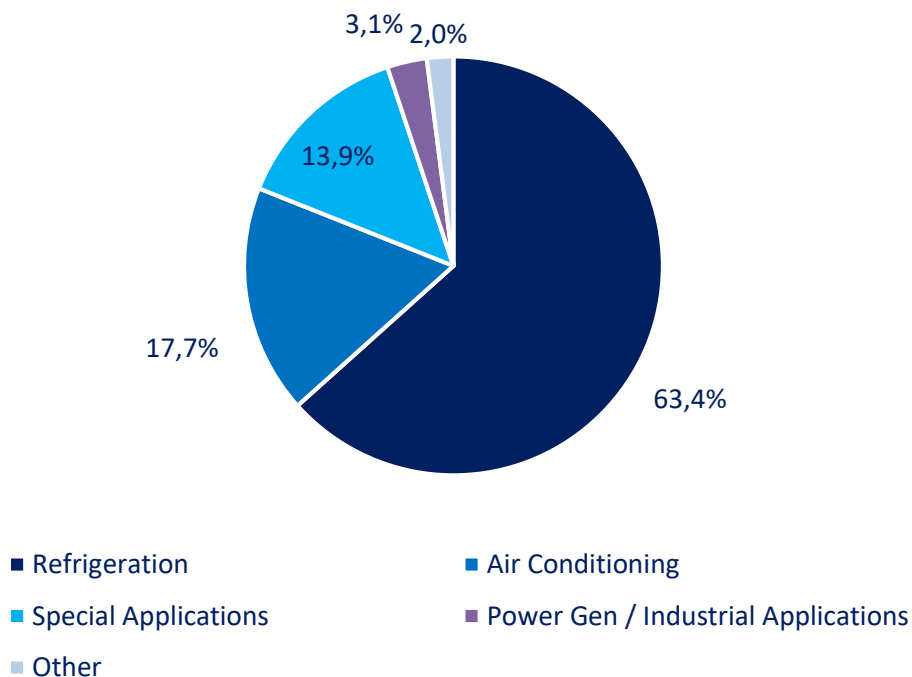
- in 2017: approx. 14% of the Group's total revenues;
- in 2016: approx. 13% of the Group's total revenues (roughly 9% before the acquisition of Spirotech).

The “power gen” sector

The Group started operating in the “power gen” sector, regarding the manufacture of units for energy production, only in recent years, and this market still represents a sector with important future growth prospects that is still being developed. The air cooled products meant for this specific application for motor cooling in the production of electrical energy are special large, high power radiators.

Revenues from sales (including the turnover of Spirotech for twelve months in 2016) made in this sector represented just over 3% of total revenues in 2017 (less than 2% in 2016).

The chart shows the breakdown of turnover by segment in 2017:

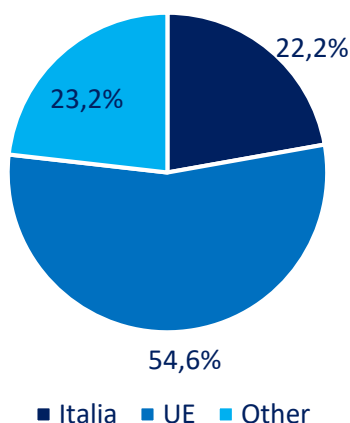


The table below shows turnover trends (including the turnover of Spirotech for twelve months in 2016) by application type in the two years subject to comparison:

APPLICATIONS	€ /000 2017	%	€ /000 2016	%	Delta %
Refrigeration	171,109	63.4%	167,765	66.7%	+2.0%
Air Conditioning	47,707	17.7%	43,638	17.3%	+9.3%
Special Applications	37,418	13.9%	32,354	12.9%	+15.7%
Power Gen / Industrial Applications	8,286	3.1%	4,552	1.8%	+82.0%
TOTAL APPLICATIONS	264,520	98.0%	248,309	98.8%	+6.5%
Other	5,512	2.0%	2,970	1.2%	+85.6%
TOTAL	270,032	100.0%	251,279	100.0%	+7.5%

Turnover of the Lu-Ve Group is earned primarily abroad (78%), in more than 100 countries: in particular, its main export markets were Germany (where in 2017, the Group recorded around 8% of its turnover), Russia, Poland (which posted significant growth due to the acquisition of Spirotech), France and the Czech Republic.

The chart below shows the geographical breakdown of turnover in 2017:



The Lu-Ve Group's turnover does not depend to a significant extent on individual commercial or industrial contracts. As at 31 December 2017, sales to the top 10 customers of the Group together represented a percentage of around 33% of the total. The turnover generated by the main customer, an international group with 14 different companies, represented around 6.1% of the Group's total turnover.

ECONOMIC AND FINANCIAL DATA

The reclassified income statement and balance sheet are provided below:

Reclassified Consolidated Income Statement (<i>in thousands of Euro</i>)	31/12/2017	% Revenues	31/12/2016 (*) (**)	% Revenues	% Change 2017 compared to 2016
Revenues and operating income	270,032	100.0%	251,279	100.0%	7.5%
Purchases of materials	(150,006)	55.6%	(129,461)	51.5%	
Changes in inventories	7,502	-2.8%	3,489	-1.4%	
Services	(40,105)	14.9%	(39,424)	15.7%	
Personnel costs	(56,280)	20.8%	(50,879)	20.2%	
Other operating costs	(2,071)	0.8%	(2,029)	0.8%	
Total operating costs	(240,960)	89.2%	(218,304)	86.9%	10.4%
EBITDA	29,072	10.8%	32,975	13.1%	-11.8%
Change in fair value of derivatives	170	-0.1%	306	-0.1%	
Depreciation and amortisation	(15,143)	5.6%	(13,491)	5.4%	
Gains/losses on non-current assets	24	0.0%	431	-0.2%	
EBIT	14,123	5.2%	20,221	8.0%	-30.2%
Net financial income and expense	(5,610)	2.1%	2,169	-0.9%	
EBT	8,513	3.2%	22,390	8.9%	-62.0%
Income taxes for the year	(2,234)	0.8%	(4,069)	1.6%	
Net profit (loss) for the year	6,279	2.3%	18,321	7.3%	-65.7%
Profit attributable to non-controlling interests	637		793		
Profit attributable to the group	5,642	2.1%	17,528	7.0%	-67.8%

(*) In 2016, the income statement of the company Spirotech was consolidated for the period 1 October - 31 December 2016. In order to allow for a better understanding of the Indian company's contribution to the Group's consolidated financial statements, the income statement as at 31/12/2016 in the table above considers the Spirotech figures as of 1 January 2016.

(**) The data for the year 2016 do not contain the effects deriving from the reallocation of part of the goodwill arising on the initial consolidation of the Indian subsidiary Spirotech Heat Exchangers Private Ltd to Customer Relationships.

“Revenues and operating income” rose by 7.5%. This increase was obtained despite slightly rising prices, as a result of the upward trend of the main raw material prices.

Total operating costs rose from €218.3 million (86.9% as a percentage of revenues) to €241 million (89.2% as a percentage of revenues). The total increase of 10.4% (+€22.7 million) was substantially caused by the following factors:

- consumption of materials grew by €16.5 million, from 50.1% as a percentage of revenues in 2016 to 52.8% in 2017. This increase is due for €6.5 million to the increase in costs for the acquisition of the main raw materials (copper and aluminium) and for €10 million to the increase in volumes and the change in the sales mix;

- the increase in personnel costs by €5.4 million was linked to the impact of volumes on the direct workforce and the increase in the structure and salary trends. The percentage of personnel costs compared to revenues dropped from 20.2% to 20.8%.

“EBITDA” amounted to €29.1 million (10.8% of revenues) compared to €33 million (13.1% of revenues) in 2016. Net of the impact of costs for the transfer to the MTA market (€1.5 million) and certain restructuring costs (€0.4 million), EBITDA would have totalled €31 million (11.5% of sales). As at 31 December 2016, adjusted EBITDA amounted to €35 million. The change with respect to the previous year (-€4 million) was caused by the negative effects linked to the cost of raw materials (-€6 million), labour costs (-€0.8 million), the effect already noted of TGD (-€1.9 million) and “OOO” Sest LU-VE (-€0.1 million), partially offset by the improved profitability of Spirotech (€1.6 million) and growing prices and volumes (€3.2 million).

Amortisation and depreciation rose by €1.7 million, substantially linked to the acceleration of investments.

“EBIT” amounted to €14.1 million (5.2% of revenues) compared to €20.2 million (8% of revenues) in 2016. Net of non-recurring costs, it would have been €16 million (5.9% of revenues).

The balance of financial income and expense was negative, at €5.6 million, compared to a positive value of €2.1 million in 2016. The difference (negative in the amount of €7.8 million) derives from returns on invested liquidity and the reduction in financial expenses (totalling +€0.8 million compared to 2016), but is primarily attributable to negative unrealised exchange differences of €5.5 million (positive and totalling €3 million at 31 December 2016).

The “EBT” in the year ending on 31 December 2017 was equal to €8.5 million (3.2% of revenues) against a value of €22.4 million as at 31 December 2016 (8.9% of revenues). The 2017 figure normalised for non-recurring costs and exchange rates would have been €16.0 million (5.9% of revenues).

The impact of taxes fell by €1.8 million as a result of the reduction in the tax base. The impact on EBT went from 18.2% to 26.2%, substantially as a result of the non-deductibility of unrealised exchange losses commented on in previous paragraphs and the effect of taxes not attributable to the year due to the tax audit by the Italian Revenue Agency on the parent company.

The “Net profit for the year” as at 31 December 2017 was €6.3 million (2.3% of revenues) compared to €18.3 million (7.3% of revenues) as at 31 December 2016.

Reclassified Consolidated	31/12/2017	% of net invested capital	31/12/2016 (*)	% of net invested capital	% Change 2017 compared to 2016
Balance Sheet (in thousands of Euro)					
Net intangible assets	62,718		61,631		
Net property, plant and equipment	111,191		103,127		
Deferred tax assets	3,359		3,059		
Financial assets	1,941		2,050		
Non-current assets (A)	179,209	102.3%	169,867	103.2%	9,342
Inventories	37,988		30,914		7,074
Trade receivables	47,616		45,456		2,160
Other receivables and current assets	11,258		7,525		3,733
Current assets (B)	96,862		83,895		12,967
Trade payables	63,405		53,070		10,335
Other payables and current liabilities	17,677		16,407		1,270
Current liabilities (C)	81,082		69,477		11,605
Net working capital (D=B-C)	15,780	9.0%	14,418	8.8%	1,362
Provisions for employee benefits	4,047		3,936		111
Deferred tax liabilities	13,217		13,596		(379)
Provisions for risks and charges	2,472		2,182		290
Medium/long-term liabilities (E)	19,736	11.3%	19,714	12.0%	22
Net Invested Capital (A+D-E)	175,253	100.0%	164,571	100.0%	10,682
Shareholders' equity attributable to the group	137,842		132,504		5,338
Non-controlling interests	2,124		1,823		301
Total Consolidated Shareholders' Equity	139,966	79.9%	134,327	81.6%	5,639
Medium- Term Net Financial Position	115,074		107,705		7,369
Short- Term net financial position	(79,787)		(77,461)		(2,326)
Total Net Financial Position	35,287	20.1%	30,244	18.4%	5,043
Own funds and net financial Debt	175,253	100.0%	164,571	100.0%	10,682

(*) The data at 31 December 2016 were reclassified to take into account the Purchase Price Allocation ("PPA") relating to the allocation of part of Goodwill emerging on the initial consolidation of the subsidiary Spirotech to Customer Relationships.

The increase in Non-current assets (equal to €9.3 million) was linked to the acceleration of the capex programme. Capex expenses for the period amounted to roughly €24 million (of which around €11 million to be deemed non-recurring).

The Group's working capital (equal to the sum of inventories and trade receivables net of trade payables) amounted to €22.2 million (8.2% of turnover), marking a reduction of €1.1 million compared to 2016 (€23.3 million, equal to 9.3% of turnover).

Consolidated shareholders' equity amounted to €140 million compared to €134.3 million as at 31 December 2016. The increase (of €5.7 million) was due to the profit for the year (€6.3 million) and the positive effect of the translation reserve (€4.5 million), adjusted by the distribution of dividends for €4.7 million by the Parent Company and the acquisition of treasury shares for €0.4 million.

The net financial position was negative by €35.3 million (€30.2 million as at 31 December 2016), with a difference of €5.1 million, primarily due for €4.7 million to the distribution of dividends and for €24.3 million to investments net of roughly €24.1 million in positive flows from operations. The cash flow from operations adjusted by extraordinary items totalled roughly €13.6 million. The debt is all medium-term, and liquidity as at 31 December 2017 totalled around €123 million.

ECONOMIC AND FINANCIAL DATA FROM THE FINANCIAL STATEMENTS OF THE PARENT COMPANY LU-VE S.P.A.

The reclassified income statement and balance sheet are provided below:

LU-VE Spa Reclassified	31/12/2017	% Revenues	31/12/2016	% Revenues	% Change 2017 compared to 2016
Income Statement (in thousands of Euro)					
Revenues and operating income	77,754	100.0%	71,339	100.0%	9.0%
Purchases of materials	(41,536)	53.4%	(33,388)	46.8%	
Changes in inventories	1,722	-2.2%	276	-0.4%	
Services	(17,534)	22.6%	(15,791)	22.1%	
Personnel costs	(15,677)	20.2%	(15,162)	21.3%	
Other operating costs	(600)	0.8%	(1,795)	2.5%	
Total operating costs	(73,625)	94.7%	(65,860)	92.3%	11.8%
EBITDA	4,129	5.3%	5,479	7.7%	-24.6%
Change in fair value of derivatives	2,203	-2.8%	436	-0.6%	
Depreciation and amortisation	(5,299)	6.8%	(5,306)	7.4%	
Gains/losses on non-current assets	109	-0.1%	193	-0.3%	
EBIT	1,142	1.5%	802	1.1%	42.4%
Net financial income and expense	2,238	-2.9%	6,864	-9.6%	
EBT	3,380	4.3%	7,666	10.7%	-55.9%
Income taxes for the year	133	-0.2%	(423)	0.6%	
Net profit (loss) for the year	3,513	4.5%	7,243	10.2%	-51.5%

“Revenues and operating income” rose by 9% in 2017, primarily due to the effect of sales volumes.

Total operating costs rose from €65.9 million (92.3% as a percentage of revenues) to €73.6 million (94.7% as a percentage of revenues). The overall increase was 11.8% (€7.8 million) and was primarily due to the increase in the consumption of materials (total impact of €6.7 million, with a percentage of revenues rising from 46.4% to 51.2%, primarily due to the above-mentioned increase in the cost of the main raw materials as well as the change in the sales mix), the increase in costs for services of €1.7 million (due primarily to advisory costs incurred for the transfer to the MTA market), the increase in labour costs of €0.5 million (linked to production volume growth and ordinary salary trends) and the reduction (€1.2 million) in other operating costs, penalised in 2016 by the recognition of a bad debt provision.

“EBITDA” amounted to €4.1 million (5.3% of revenues) as at 31 December 2017, compared to €5.5 million (7.7% of revenues) in 2016. The decrease (-€1.4 million) was due to the effects on operating costs noted above, which eroded margins deriving from the increase in sales.

“EBIT” amounted to €1.1 million (1.5% of revenues) compared to €0.8 million (1.1% of revenues) in the year ending on 31 December 2016, with a positive difference of €0.3 million, linked to the positive change in the fair value of the bond issued in 2016 by LU-VE India to fund the acquisition of Spirotech and subscribed by the Parent Company.

The balance of financial income and expense for the year ending 31 December 2017 was positive, at €2.2 million, compared to a positive value of €6.9 million for the year ending 31 December 2016. The difference (negative in the amount of €4.6 million) derives from lower dividends collected in 2016 (-€1 million), the improvement in the balance between financial income and expenses (+€0.3 million) and the effect of exchange differences, almost exclusively unrealised, positive and totalling €1.2 million in 2016 and negative in the amount of €2.7 million in 2017 (delta with a negative impact of -€3.9 million on the 2017 income statement).

The “EBT” in the year ending on 31 December 2017 was equal to €3.4 million (4.3% of revenues) against a value of €7.7 million as at 31 December 2016 (10.7% of revenues).

The “Net profit for the year” as at 31 December 2017 was €3.5 million (4.5% of revenues) compared to €7.2 million (10.2% of revenues) as at 31 December 2016.

LU-VE Spa Reclassified	31/12/2017	% of net invested capital	31/12/2016	% of net invested capital	% Change 2017 compared to 2016
Balance Sheet (in thousands of Euro)					
Net intangible assets	22,357		22,010		
Net property, plant and equipment	40,916		39,593		
Deferred tax assets	1,437		1,453		
Equity investments	58,693		58,675		
Financial assets	34,379		34,286		
Non-current assets (A)	157,782	95.9%	156,017	98.6%	1,765
Inventories	7,790		6,068		1,722
Trade receivables	39,577		29,970		9,607
Other receivables and current assets	5,085		3,607		1,478
Current assets (B)	52,452		39,645		12,807
Trade payables	28,581		20,746		7,835
Other payables and current liabilities	6,722		5,778		944
Current liabilities (C)	35,303		26,524		8,779
Net working capital (D=B-C)	17,149	10.4%	13,121	8.3%	4,028
Provisions for employee benefits	967		992		(25)
Deferred tax liabilities	8,418		8,953		(535)
Provisions for risks and charges	991		951		40
Medium/long-term liabilities (E)	10,376	6.3%	10,896	6.9%	(520)
Net Invested Capital (A+D-E)	164,555	100.0%	158,242	100.0%	6,313
Share capital	62,704		62,496		208
Reserves and retained earnings (losses)	44,940		42,600		2,340
Profit (loss) for the year	3,513		7,243		
Total shareholders' equity	111,157	67.6%	112,339	71.0%	(1,182)
Medium- Term Net Financial Position	93,151		80,471		12,680
Short- Term net financial position	(39,753)		(34,568)		(5,185)
Total Net Financial Position	53,398	32.4%	45,903	29.0%	7,495
Own funds and net financial Debt	164,555	100.0%	158,242	100.0%	6,313

Non-current assets performed basically the same as in 2016.

Working capital (equal to the sum of inventories and trade receivables net of trade payables) rose by €3.5 million (rising from 21.4% to 24.2% of sales).

Shareholders' equity amounted to €111.2 million compared to €112.3 million as at 31 December 2016. The decrease (of €1.1 million) was due to the profit for the year (€3.5 million), net of a distribution of dividends of €4.4 million and other changes for €0.3 million.

The net financial position was negative by €53.4 million (negative by €45.9 million as at 31 December 2016), marking a deterioration of €7.5 million. The debt is all medium-term, and liquidity as at 31 December 2017 totalled around €107 million.

ALTERNATIVE PERFORMANCE INDICATORS

In compliance with ESMA recommendation on alternative performance indicators (ESMA/2015/1415), the table below highlights the main alternative performance indicators used to monitor the Group's economic and financial performance:

<i>Monetary amounts in thousands of Euro</i>	2017	2016 (*)
Average days in inventory (1)	51	44
Inventory turnover ratio (2)	7.11	8.13
Receivables turnover ratio (3)	5.67	5.53
Average days sales outstanding (4)	63	65
Payables turnover ratio (5)	2.91	3.15
Average days payable outstanding (6)	124	114
Net Invested Capital	175,253	164,571
EBITDA	29,072	32,975
EBITDA/Financial expense	17.32	11.20
Basic earnings per share (7)	0.26	0.81
Diluted earnings per share (8)	0.26	0.71
Dividends per share (9)	0.22	0.20
Net financial debt	(35,287)	(30,244)
Net financial debt/EBITDA	1.21	0.92
Debt ratio (10)	0.26	0.23
Goodwill and Other Intangible assets/Total assets	0.16	0.16
Goodwill and Other Intangible assets/Shareholders' equity	0.45	0.46

(*) The economic data used to calculate the rates for the year 2016 include the contribution of Spirotech for 12 months.

Note:

The methods for calculating the indicators noted above are:

- (1) Inventories/Revenues and other operating income*360;
- (2) Revenues and other operating income/Inventories;
- (3) Revenues/trade receivables;
- (4) Trade receivables/revenues*360;

- (5) Trade-related operating costs/trade payables. Trade-related operating costs include acquisitions of materials and changes in inventories, costs for services and other costs and charges. The item does not include personnel costs;
- (6) Trade payables/trade-related operating costs*360;
- (7) Profit (loss) for the period/Weighted average number of ordinary shares;
- (8) Profit (loss) for the period/(Weighted average number of ordinary shares + potential number of additional ordinary shares);
- (9) Nominal value of the dividend per share approved in each year.
- (10) Net financial debt/Shareholders' equity.

Industrial companies

Revenues of SEST S.p.A. totalled €31.6 million, up by roughly 10% compared to the previous year. Net profit, with around €6.2 million coming from dividends of the Polish subsidiary and penalised by around €1.5 million by the write-down of the TGD equity investment, came to €5 million (+180% compared to 2016) after depreciation and amortisation of €1.9 million and taxes of €260 thousand.

Sest-LUVE-Polska Sp.z.o.o. reached turnover of €47.8 million, an increase of around 13% compared to last year. Net profit came to €7.9 million (€10.5 million in 2016) after depreciation and amortisation of €1.6 million and taxes of €149 thousand.

“OOO” Sest LU-VE recorded turnover of €19.8 million (€16 million in 2016).

Net profit came to roughly €1.8 million (€3.8 million in 2016) after depreciation and amortisation of €1 million and taxes of €0.1 million.

HTS S.r.o. reached turnover of €36.9 million, an increase of roughly 6%.

Net profit came to €0.6 million (€1.8 million in 2016) after depreciation and amortisation of €2.1 million and taxes of €0.4 million.

LU-VE Sweden AB recorded turnover of €10.4 million (€12 million in 2016), with a net loss of €0.3 million (+€0.8 million in 2016) after depreciation and amortisation of €0.3 million.

LU-VE Heat Exchangers (Changshu) LTD recorded turnover of €5.8 million (€3.8 million in 2016), with a net loss of €0.5 million (loss of €0.5 million in 2016) after depreciation and amortisation of €0.4 million.

Tecnair LV S.p.A. recorded turnover of €12.2 million (€10.4 million in 2016, marking an increase of 17%), and achieved a net profit of €160 thousand (€10 thousand in 2016) after depreciation and amortisation of €79 thousand and taxes of €106 thousand.

Thermo Glass Door S.p.A. achieved turnover of €9.7 million (around -41% compared to 2016) and a net loss of €1.5 million (profit of €5 thousand in 2016) after depreciation and amortisation of €0.8 million and a positive tax effect of €0.4 million.

Manifold S.r.l. recorded turnover of €1.3 million (€0.4 million in 2016), with a net profit of €2 thousand after depreciation and amortisation of €1 thousand and taxes of €3 thousand.

Spirotech Heat Exchangers Private Limited recorded total revenues of €25.3 million (€19.8 million in 2016), with a net profit of €3.4 million (€2.1 million) after depreciation and amortisation of €0.5 million and taxes of €1.9 million.

Sales Companies

The situation of each company is summarised below:

LU-VE France s.a.r.l. recorded turnover of €9.9 million (15% compared to 2016), with a net profit of €0.1 million after depreciation and amortisation and taxes of €0.1 million.

LU-VE Deutschland GmbH recorded turnover of €3.9 million (12% compared to 2016), with a net loss of €6 thousand after depreciation and amortisation and taxes of €20 thousand.

LU-VE Iberica SL recorded turnover of €10.2 million (+2% compared to 2016), with a net loss of €20 thousand after depreciation and amortisation and taxes of €16 thousand.

LU-VE Contardo Pacific Pty. Ltd. recorded turnover of €1.7 million (+17% compared to 2016), with a net loss of €0.3 million after depreciation and amortisation of €16 thousand.

LU-VE Asia Pacific Ltd. recorded turnover of €13 million (€0.9 million in 2016), with a net loss of €1.4 million.

LU-VE India Corporation Private Ltd recorded revenues of €173 thousand, with a net profit of €12 thousand.

LUVEDIGITAL S.r.l. recorded turnover of €0.4 million, with a net profit of roughly €11 thousand after depreciation and amortisation and taxes of roughly €15 thousand.

LU-VE Austria GmbH, in the first year of consolidation, recorded turnover of €89 thousand, with a net loss of around €6 thousand.

INVESTMENTS

The investments of the Group amounted to €24.3 million in 2017 (€19.2 million in 2016). The investments by company are summarised below:

In thousands of Euro Category	INVESTMENTS								Total
	LUGE	SEST	SEST LUGE POLSKA	"OOO" SEST LUGE	HTS	SPIROTECH	TGD	OTHER	
Land and buildings	286	202	2,576	6	95	32	-	-	3,197
Plant and equipment	3,330	1,017	2,306	1,263	757	703	564	39	9,979
Other	1,918	825	235	70	271	736	333	697	5,085
Work in progress	1,477	115	2,123	601	845	240	256	370	6,027
TOTAL	7,011	2,159	7,240	1,940	1,968	1,711	1,153	1,106	24,288

In 2017, the capex programme continued for the expansion and streamlining of certain production sites and for the strengthening of installed production capacity (particularly with reference to the Polish facility, described previously). The main investments for the year regarded:

- the expansion of existing production capacity and adjustment to fire prevention regulations (for €4.4 million) by the Parent Company;
- the expansion of existing production capacity (for €1.7 million) by the subsidiary SEST S.p.A.;
- the expansion of the production site and the expansion of production capacity (for €7 million) by the subsidiary Sest-LUVE-Polska Sp.z.o.o.;
- the expansion of existing production capacity (for €1.7 million) by the Russian subsidiary “OOO” Sest LU-VE;
- the expansion of existing production capacity (for €1.7 million) by the Czech subsidiary HTS sro;
- the expansion of existing production capacity (for €1.1 million) by the Indian subsidiary Spirotech;
- expenses for software of around €2.6 million (mainly linked to the PLM and Business Intelligence projects commented on above and the roll-out of SAP in the Indian facility);
- the capitalisation of development expenses (as commented on below) at Group level for roughly €2.4 million.

PERSONNEL

In the course of 2017, the strengthening of the personnel structure continued with the hiring of senior and junior figures to complete the organisation at Corporate level.

In addition, strategic projects have been activated involving all of the Group Companies, such as the PLM and SAP HR Success Factor, in order to allow for improved control over several company processes and the certification of data to meet new requirements deriving from the Stock Exchange listing.

During the year, the new supplementary company employment contract was entered into. Negotiations were conducted within a collaborative and proactive climate and the contract will remain in force for three years.

Training activities continued with development and growth programs across all areas. In terms of activities linked to workplace safety, all personnel received updates and were targeted by constant awareness-raising initiatives. Other initiatives regarded foreign language courses, technical training on a new 3D design program, leadership and sales courses and constant updates on specific topics, fundamentally linked to new regulatory requirements.

With the introduction of the 231 organisational models, an important disclosure was provided to all employees on the importance of the new procedures introduced within the company.

Please take note of the creation and development of a company welfare system, deriving from contractual aspects as well as company decisions, to favour and meet the needs of all personnel. In this regard, an Easywelfare portal was introduced, providing a broad range of expense and benefit opportunities for workers as well as their families.

As at 31 December 2017, the number of Group employees came to 2,481 (including 1,914 blue-collar, 536 white-collar and middle managers, 31 executives), against 2,404 as at 31 December 2016.

OCCUPATIONAL HEALTH AND SAFETY

In 2017, with a view to continuous improvement, the Group continued carrying out activities intended to guarantee occupational health and safety and environmental protection.

Specifically, the following matters were dealt with:

- Installation of automatic external defibrillators (AED), although it is not one of the businesses defined by the Decree of 24 April 2013 (OT 24);
- Training and updating of the emergency fire prevention and first aid teams, defibrillator (AED) operators, forklift operators and on the use of the overhead crane;
- Implementation of training with the management of deadlines using a new dedicated software;
- Evaluation of work machines and equipment in order to achieve regulatory compliance;
- Improvement in the management and internal movement of forklifts with the imposition of limits and the installation of specific mirrors and one-way paths;
- Identification of specific PPE for forklift operators and maintenance personnel for uses at low winter temperatures with the installation of closed cabins and forklift heating;
- Specific analysis of accident events, incidents and reporting during 2017 with periodic meetings;
- Creation of special teams for travel and interventions at job sites;
- Specific activities for obtaining the INAIL OT24 relief;
- Updating and implementation of specific risk assessments (AOR, Legionella, EMF, Noise, Vibrations, Electrical, Confined Environments, ATEX, Fire, Chemical, Earthquake, Air dispersion);
- Implementation of methods for the management of chemicals;
- Periodic/annual analysis of waste and emissions in accordance with the provisions of Italian Legislative Decree 152/2006;
- Improvement of the management of visitor and supplier entries into facilities;
- Installation of automatic distributors for picking up Personal Protection Equipment with the formal/computerised registration of deliveries, ensuring compliance with what is laid out in the Risk Assessment document;
- Improvement of ergonomic impacts within production activities, especially for activities subject to erect posture and repeated movement risk;
- Installation of mechanical “lifts/handlers” for activities that have an ergonomic impact on the risk of lifting heavy objects;
- Update and adjustment of all activities established for the maintenance of the Single Environmental Authorisations;
- Improvement of the microclimate in certain departments with the installation of dedicated machinery;
- Environmental assessment of all environmental impacts;
- Improvement in operator visual comfort with the installation within the entire factory of low consumption LED lamps with DALI adjustment which is “self-adjusted” with external LUX levels and presence/people;
- The achievement by several of the group’s companies of the 14001 Environmental certification; for the other companies, an environmental check list system is being implemented to prepare a risk assessment document.

With respect to accidents, in the course of 2017 please take note of the following for the Group:

- there were no fatalities at work;

- there were no serious accidents at work which entailed serious or very serious injury to personnel;
- there were no charges concerning occupational illness against employees or former employees or cases of mobbing.

In addition, with respect to the environment, please take note of the following:

- no damages were caused to the environment for which the Group companies were declared at fault;
- there were no sanctions or penalties inflicted upon the company for environmental crimes or damages.

For more information, please refer to the “*The well-being of our people*” and “*Respect for the environment*” chapters of the 2017 consolidated non-financial statement.

OBSERVATIONS ON THE FINANCIAL PROFILE AND ON BUSINESS CONTINUITY

At 31 December 2017, the Group and the Parent Company had a solid and balanced financial structure with a Net financial debt/Shareholders’ equity ratio (Debt ratio) of 0.25 and 0.48 respectively and a positive short-term net financial position of €79.8 million and €39.8 million, respectively; therefore, the repayment of medium/long-term debt maturing in 2018 is guaranteed by current liquidity.

There are no substantial restrictions on the freeing up of invested liquidity which therefore, if required, may be used to meet any payment commitments.

In light of what is laid out above, the consolidated financial statements of the Group and the financial statements of the Parent Company at 31 December 2017 were prepared on the basis of the going concern assumption.

MAIN RISKS AND UNCERTAINTIES

RISKS RELATED TO TRENDS IN RAW MATERIAL PRICES

The production costs of the Group are influenced by the prices of raw materials, such as copper and aluminium. The majority of raw materials are purchased in the European Union. Risks are related to fluctuations in the prices of these materials on the reference markets (on which they are quoted in USD) and the fluctuation in the Euro/USD exchange rate (as the Group purchases in euro, while listings are in USD), as well as the reliability and the policies of mining and/or transformation companies.

The fluctuation in the availability and price of the above-mentioned materials could be significant, depending on a number of factors, including the economic cycle of the reference markets, supply conditions and other factors that are out of the control of the Group and are difficult to predict (such as: problems regarding the extraction or transformation capacity of individual suppliers which could hinder or delay the delivery of the raw materials ordered; operational and/or industrial decisions made by individual suppliers which entail an interruption of the mining or processing of the raw materials and the consequential greater difficulty in immediately finding said raw materials in the reference market; significant delays in the transport and delivery of these raw materials to Group companies).

To manage these risks, the Group constantly monitors the availability of raw materials in the market as well as the relative price trends (also taking into consideration USD currency fluctuations with respect to the euro), in order to promptly identify any shortfalls in the availability of raw materials and take suitable actions to guarantee the required production autonomy, and also to keep its production activities competitive with regard to this aspect as well. In particular, as regards the major raw material purchased - copper - the Group has long-standing relations with the same suppliers, selected on the basis of trust. Furthermore, when it deems this necessary in relation to expected trends, the Group enters into contracts to hedge the risk of fluctuations in the price of raw materials.

Lastly, please note that oil price volatility impacts (aside from raw material prices) investments made at global level in the Power Gen market, making it difficult to predict trends in this market segment.

RISKS RELATED TO NET FINANCIAL DEBT

In relation to a significant part of existing loan agreements, the Group has committed to respecting specific financial parameters (covenants). In addition, a significant portion of the Group's loan agreements include cross-default - cross acceleration clauses (in some cases also external), negative pledge clauses, pari passu clauses and/or clauses limiting the amount of distributable dividends. In the future, if the above-mentioned financial covenants or other commitments laid out in existing loan agreements are not respected (also including those resulting from the above-mentioned cross default - cross acceleration, negative pledge and pari passu clauses), the Group could be required to repay the relative debt early.

Lastly, a significant portion of the LU-VE Group's loan agreements establish informational obligations to be fulfilled on various occasions by the borrower, the obligation to request prior consent in the event of new loans or particular extraordinary transactions, as well as the obligation not to establish new mortgages.

To mitigate this risk, the Group carefully monitors respect for financial covenants, all clauses laid out in the loan agreements and the disclosure obligations through formalised procedures involving the legal and financial function. In addition, it also maintains a significant quantity of available financial liquidity or financial resources that can be liquidated within a short period of time and short-term credit lines to deal with any, even remote, obligations for the early repayment of medium and long-term loans.

The financial instruments, the Group invests its available liquidity in, are primarily represented by capitalisation policies and bond and monetary instruments, almost exclusively denominated in euro. Please note that the capitalisation policies provide for a guarantee on the capital and a non-negative guaranteed minimum rate of return as well as several penalties in the case of early redemption.

Also please note that financial instruments in general present the following risks:

- specific risks linked to the characteristics of the relative issuer: capital strength of the issuer, its economic characteristics, taking into account the unique features of the sectors in which it operates, which impact the risk that the issuer itself may be unable to repay the accrued interest and/or the invested capital;
- the generic (or systematic) risk linked to: (i) interest rate fluctuations, (ii) market price trends and (iii) the difficulty/impossibility of easily monetising positions in financial assets without significantly and unfavourably influencing their price.

It cannot be excluded that in the future, the value that will be obtained from disinvestment from the financial instruments themselves may be lower than the fair value recognised in the financial statements, thus generating a deterioration of net financial debt. Against the recognition of recurring costs in the income statement, deriving from financial expenses on existing loans, returns on

investments in cash and cash equivalents are uncertain and are characterised by high volatility, also on the negative side. However, the Group selects its investments by privileging low risk ones and makes them with leading banking institutions. In addition, a careful liquidity management policy and the existence of short-term credit lines mitigate the risk of having to proceed with the sudden and unforeseen freeing up of liquidity.

RISKS RELATED TO EXCHANGE RATE FLUCTUATIONS

The Group is exposed to the risk of fluctuations in the exchange rates of currencies deriving from different circumstances.

(i) First of all, the Group is exposed to “translation” exchange rate risk.

Indeed, the Issuer prepares its consolidated financial statements in euro, while it holds controlling interests in companies that prepare their financial statements in currencies other than the euro (Polish zloty, Russian rouble, Czech koruna, Swedish krona, Indian rupee, Australian dollar, Chinese yuan renminbi). The Group is therefore exposed to the risk that fluctuations in the exchange rates used to translate the values in subsidiary financial statements originally expressed in foreign currency may significantly influence the Group’s results as well as the consolidated net financial debt and consolidated shareholders’ equity. The main exposures are monitored, but hedging translation exchange rate risk is not part of the Group’s current policies.

(ii) In the second place, the Group is exposed to “transaction” exchange rate risk for acquisitions of goods and materials from suppliers as well as for sales to customers.

In terms of acquisitions, the main currency to which the Group is exposed is the US dollar (USD, currency to which the cost of the main raw materials is linked): indeed, raw materials in the reference markets are quoted in USD and the cost is converted into euros by applying the USD/Euro exchange rate for the day to the price in dollars; thus, exchange rate risk is borne by the buyer. Furthermore, the Group companies located in countries in which the reference currency is not the euro (which also acquire raw materials with contracts under which the euro is the payment currency and therefore bear the USD/Euro exchange rate risk noted above) are also exposed to the risk of fluctuations in the euro/local currency exchange rate.

Sales are mainly made in euros. In addition, although Sest-LUVE Polska Sp.z.o.o., HTS and Spirotech are located in countries that do not use the euro as their reference currency, they make almost all sales in euros and therefore they are exposed to the risk of fluctuations in the exchange rate between the euro and their local currencies.

At centralised level, in order to protect the income statement and the balance sheet items from such fluctuations and reduce the risk arising from changes in exchange rates, the Issuer has subscribed derivative financial instruments (primarily range accrual forward and forward plan vanilla) which are used with the intent of hedging the underlying risks. However, from a merely accounting perspective, although such instruments substantially hedge the risks mentioned, they do not meet all requirements laid out in IAS 39; therefore, the Issuer has decided to consider these instruments as for trading and not hedges and as a result such instruments were measured at fair value through profit or loss.

On some currencies (Australian dollar, Chinese yuan, Swedish krona, Indian rupee, Russian rouble and US dollar) in which operating revenues and costs are expressed there is also “natural” hedging (revenues expressed in a given currency are naturally hedged by operating costs expressed in the same currency).

LIQUIDITY RISK

The liquidity risk to which the Group may be exposed consists of the failure to locate the adequate financial means needed for its operations, as well as for the development of its industrial and commercial activities.

The Group's liquidity is mainly supplied by the resources generated or absorbed by operating or investment activities, and on the other hand the maturity characteristics of medium and long-term financial debt.

In relation to this last aspect, the liquidity management guidelines adopted by the Group consist of:

- maintaining adequate medium/long-term loans in light of the level of non-current assets;
- maintaining an adequate level of short-term bank loans (both in cash and for the assignment of domestic receivables and export credit).

Also thanks to the application of this policy, to date the Group has lines of credit granted by leading Italian and international banking institutions which are adequate to meet its current needs.

RISKS RELATED TO THE HIGH DEGREE OF COMPETITIVENESS OF THE SECTORS IN WHICH THE GROUP OPERATES AND THE CAPACITY TO CONTINUE TO ACHIEVE PRODUCT INNOVATIONS, ALSO IN RELATION TO CONTINUOUS SECTOR TECHNOLOGICAL EVOLUTIONS AND INVESTMENTS IN RESEARCH AND DEVELOPMENT

The market segments in which the Group operates are characterised by a high level of competition in terms of product quality, innovation, economic conditions, energy efficiency and service reliability and safety, as well as the presence of competition from other internationally relevant business groups.

The Group's ability to generate value also depends on the capacity of its companies to propose innovative products in terms of technology and in line with market trends.

From this perspective, the Group has demonstrated in the past that it is the reference operator in terms of technological innovation, also thanks to its policy of promoting resources dedicated to product development, which it intends to keep in place in the future by continuing to rely on well-established partnerships with prestigious universities in Italy and abroad.

Moreover, if the Group is unable to develop and continue to offer innovative products that are competitive with those of its main competitors in terms, inter alia, of price, quality or function, or if there are delays in the introduction into the market of strategic business models, the Group's market shares could decline, with a negative impact on its activities, financial position and/or cash flows, profit and loss results and outlooks.

To mitigate exposure to these risks, the Group constantly monitors the reference market and the interim results generated in the various phases of the research and development process in order to select and move forward with exclusively the most reliable initiatives, or those with the highest probability of success and economic/financial returns, also pursuing a policy of progressive diversification and enhancement of its product portfolio and continuous product range development.

RISKS RELATED TO THE CONCENTRATION OF SALES

Although there is no Group customer which alone represents more than 6.1% of consolidated turnover and although the Group's top 10 customers together represent 33.3% of consolidated turnover, the sectors of static heat exchangers (in which the Group is on the list of the preferred suppliers of all of the most important European manufacturers of refrigerated counters and realised 59% of its turnover in the year 2017) and of glass doors for refrigerated counters (in which the

Group realised 4% of its turnover in 2017) are characterised by strong commercial leadership by the main manufacturers.

As a result, if the supply to one of the Group's customers in the above-mentioned sectors is cancelled, the Group companies that operate in those sectors would have difficulty recovering the lost turnover with other customers (as unfortunately took place in 2017 in the product family of glass doors for refrigerated counters following the decision by the main customer (which represented roughly 50% of the value of sales in 2016) to initiate internal production activities for the two highest volume product families) and may suffer a negative impact in terms of their income statement results and/or the equity and/or financial situation.

The Group regularly takes measures to diversify the risk linked to the concentration of sales, by regularly conducting business surveys aimed at always seeking out new customers in Italy and abroad through the activity of the commercial offices of all Group companies.

RISKS RELATED TO POSSIBLE PROCUREMENT DIFFICULTIES AND RELATIONS WITH SUPPLIERS

The Group acquires raw materials from external parties as well as semi-finished materials and components (including engines, electronic components, collectors, sheet metal items, distributor units) and is therefore exposed to risks deriving from relations with third party manufacturers and suppliers, which may not guarantee the current continuous supply of such materials and components in the future. In particular, the Group is exposed to the risk linked to difficulties in the procurement of large "EC" technology electronic motors due to the fact that global supply of these engines is concentrated in the hands of two manufacturers, which may not be able to continue to guarantee a supply of these components that meets market demand.

The Group manages the above-mentioned risks by means of (a) a permanent assessment model of the reliability of each recurrent supplier in terms of both quality and price of the products manufactured; (b) checks on the economic assessment of suppliers and, consequently, on the respective award to each of adequate production volumes; (c) assessment of the services provided by suppliers in terms of their performance in logistics terms and punctuality of respective deliveries and the resulting decisions taken on a case by case basis. Nevertheless, we cannot rule out the non-fulfilment of contractual obligations by one or more suppliers which supply Group companies, or in any event a lack of supply continuity; these possibilities could entail additional costs or prevent delivery to customers in accordance with agreed timing and/or specifications, with negative impacts on operations and on the profit and loss, equity and/or financial situation of the Group.

RISKS RELATED TO ENVIRONMENTAL MATTERS

The industrial production carried out by the Group with its own facilities and plants could, in the event of serious breakdowns or failures of said plants or catastrophic events, result in damages to third parties, accidents or environmental damage. This risk is also linked to the presence in the plants of potentially hazardous products for the environment, such as flammable materials and chemicals.

Although the Group works to prevent these types of risks, if environmental incidents or damages occur, it would be exposed to unforeseeable and significant obligations to provide compensation and liability, also criminal in nature, with respect to the injured parties and/or the competent authorities, and could suffer interruptions in production activities with ensuing possible negative effects on the business, on the income statement, equity and/or financial situation, on the economic results and on prospects.

Although the Group companies have taken out insurance policies to cover the third-party liability deriving from such events, the limits of which are deemed consistent in relation to the estimated risk in question, it is however not possible to exclude the occurrence of any damages the compensation of which exceeds the limits laid out in such policies.

Through its dedicated offices, the Group continues all activities needed to guarantee respect for the environment and the optimised use of energy sources and natural resources. In addition, research and development activities have always been oriented towards products with a lower environmental impact, in terms of energy consumption, the use of refrigerant gas and noise reduction.

RISKS RELATED TO THE CONSEQUENCES OF ANY INTERRUPTIONS OF BUSINESS OPERATIONS

The Group operates with a production process associated with fixed costs connected with the operations of its facilities. Therefore, the Group is exposed to the risk resulting from the interruption of production activities in one or more of its plants due, by way of example, to accidents, breakdowns of machinery, malfunctioning of IT systems, the revocation or contestation of permits or licenses by the competent public authorities, strikes or lack of a workforce, natural disasters and significant interruptions in the supply of raw materials or energy, or lastly disasters caused by humans such as accidents, fires and acts of terrorism. More specifically, an interruption in production activities could entail a partial lack of absorption of fixed production costs and/or render the Group temporarily unable to promptly meet the demands of its customers.

Although the Group companies have taken out loss of profit and all risk insurance policies against damages from fire and natural disasters, the limits and excesses of which are deemed consistent in consideration of the possible damages that could take place, any significant interruption in activities at its industrial facilities, due to the events mentioned above and other events outside the Group's control, could have negative effects on the activities and on the income statement, equity and/or financial situation, the economic results and on prospects.

RISKS RELATED TO PRODUCT QUALITY AND LIABILITY

The Group's products are primarily intended for commercial and industrial refrigeration and must comply with different quality and safety standards depending on the different jurisdictions in which they are sold. Therefore, there is the risk that a product may not comply with the safety and quality standards envisaged by the laws in force in the above-mentioned jurisdictions. This could legitimise the return of said product, impacting production costs.

The recurrence of product defect events has historically been very limited and absolutely natural for the business segment; in cases in which they take place, the Group company involved agreed on corrective actions to be taken with the Customer by activating, if necessary, the insurance taken out for that reason.

Furthermore, as the Group's products are usually part of more complex products, the malfunction of a component supplied by the Group could result in the recall of a series of products sold and/or installed by Group customers.

Furthermore, it should be noted that the Group produces categories of products that use carbon dioxide (rather than Freon) as refrigerant gas. While carbon dioxide has a lower impact on the environment than the more widely used refrigerant gases, due to its high operating pressure, it has a higher risk profile during the production and testing phase as well as in the event of manufacturing defects that emerge during installation and/or functioning in the field.

Lastly, it should be noted that certain Group products are intended for applications on power gen plants, the supply agreements of which typically call for the assumption of liability by the suppliers in the case of malfunctioning or defects, and also for damages ensuing from the abovementioned malfunctioning or defect, which are difficult to estimate and not proportionate to the value of the supply provided. To date, in a limited number of cases, customers have reported product malfunctions, which were resolved with on-site interventions by the Group's technicians.

In this regard, the Group applies strict control standards to its products: this entails a quality risk management protocol which envisages a number of activities and procedures to safeguard product quality; in addition, there is an office dedicated to quality control, which is conducted directly at production units and at supplier facilities.

To deal with this potential liability, which moreover is traditionally modest, the Group has taken out insurance coverage on all products for sale, the limit of which is deemed adequate with respect to the risks and is continuously monitored.

In addition, it has recognised a dedicated product warranty provision to cover potential defects, based on criteria of prudence and statistical data.

RISKS RELATED TO INTEREST RATE TRENDS

The Group makes recourse to short as well as medium/long-term bank debt in accordance with adequate procedures and technical forms in relation to the structure of its investments.

Exposure to interest rate risk derives from the fact that the Group holds assets and liabilities sensitive to fluctuations in interest rates which are needed for the management of liquidity and financial requirements.

In particular, the main source of exposure to the risk in question for the Group derives from financial debt, which is almost all floating rate. This risk is managed by entering derivative contracts (primarily interest rate swaps) to hedge this risk based on its own needs. This hedging policy allows the Group to reduce its exposure to the risk of interest rate fluctuations.

RISKS RELATED TO CREDIT

The Group is exposed to credit risk deriving from commercial dealings with exposure to potential losses arising from the failure of commercial counterparties to meet their obligations. Trade credit risk is monitored on the basis of formalised procedures for the selection and assessment of the customer portfolio, for the definition of credit limits by individual customer, for the monitoring of expected cash inflows and for any debt collection actions. In certain cases, customers are asked for further guarantees, primarily in the form of sureties.

Any extensions of payment times by customers may also make it necessary for the Group to finance the connected working capital requirement.

The historically low levels of losses on receivables recognised are proof of the good results achieved.

SOCIO-POLITICAL RISKS CONNECTED TO THE GROUP'S OPERATIONS AT GLOBAL LEVEL, INCLUDING IN EMERGING COUNTRIES

The Group operates on a global level, with a strong presence in a range of geographical markets.

More specifically, the Group:

(i) has a strong bent towards exports, with turnover earned predominantly outside the Italian market (in the years ending 31 December 2017, 2016 and 2015, Group revenues from sales made abroad represented 77.8%, 73.7% and 73.3% of total revenues from sales, respectively);

(ii) is present abroad not only through its commercial branches, but also with industrial companies and production facilities located in different geographical areas (Poland, Russia, China, Sweden, the Czech Republic and India).

This geographical diversity exposes the Group to risks deriving from its operations in multiple international markets, including the risk that changes in the political and socioeconomic conditions of a geographical area may impact production and distribution by the Group in that area.

In addition, the Group also conducts its business in countries with economic and political systems characterised by different factors of potential instability, including: (i) political and economic instability; (ii) boycotts and embargoes which could be imposed by the international community; (iii) unfavourable changes in governmental policies, in particular with respect to foreign investments; (iv) significant fluctuations in interest and exchange rates; (v) expropriation or repossession of assets; (vi) bureaucratic requirements that are difficult to meet; (vii) the impossibility of protecting certain legal and contractual rights in certain jurisdictions; (viii) the imposition of taxes, duties or other unforeseen payments; (ix) currency controls which could limit the remittance of funds or currency conversion; and (x) widespread corruption.

In addition, operations in emerging markets could be influenced by the typical difficulties of the economies of developing countries such as, for example, transport difficulties, lack of infrastructure or greater difficulties in finding a qualified workforce.

In addition, the primary or secondary regulations of emerging countries or their interpretation could be subject to expected or unforeseeable changes, or there could be a limited number of precedents linked to the interpretation, implementation and application of those regulations.

Particularly with regard to Russia - where the Group is present with its subsidiary "OOO" Sest-LU-VE, which has a production facility located in Lipetsk - please note that the current relations between western countries and the Russian Federation are still characterised by instability. This results in significant and unpredictable Euro/Rouble exchange rate fluctuations and further consequences that are difficult to predict, which could entail risks of: (i) expropriation or repossession of land and/or plants and/or equity investments, (ii) unfavourable measures regarding foreign investment, (iii) a block of customs procedures and/or the prohibition to export capital and/or dividends.

Particularly with respect to India - where the Group is present with the company Spirotech, which has a production facility located in Bhiwadi, close to the capital New Delhi - please note, against the significant potential for development, the presence of the following risks: (i) risk of political instability due to increasing autonomies and powers of the individual States of the Union; (ii) security and terrorism risk: over the years, domestic unrest has been frequent, at times involving violence, which can become more significant in the run-up to elections, and various types of terrorist attacks; (iii) corruption risk; (iv) risk of inflation and depreciation of the Rupee; (v) risks relating to infrastructures and services: the inadequacy of the transport network continues to represent a relevant cost; the inadequacy of the electricity production and distribution system causes frequent black-outs, which Spirotech has resolved with an energy co-generation plant; (vi) risks deriving from the uncertainty of the regulatory environment and the retroactive application of tax regulations; (vii) risks deriving from excessively burdensome bureaucracy and slow legal processes; consider - amongst others - the rather extended timing required for customs clearance (nearly

double the timing required in other south Asian countries such as Thailand, and roughly 3 or 4 times longer than the main OECD countries).

Definitively, although the spread at global level and operations in emerging countries evidently represent significant opportunities for the Group to take advantage of the potential to develop the various geographical areas concerned, it cannot be excluded that the occurrence of one or more of the risks noted above may have negative consequences on the activities and on the profit and loss, financial position and cash flows, results and outlooks of the Group. Therefore, the Group carefully monitors the situation in the various countries with a view to promptly intervening in the case of significant negative changes in the reference scenarios.

RISKS RELATED TO GENERAL ECONOMIC CONDITIONS

The income statement results and the equity and financial position of the LU-VE Group, which operates at international level in the various European and Asian countries, are influenced by various factors which reflect macroeconomic trends, including consumption trends, the cost of raw materials, interest rate fluctuations and those of the currency markets. The year 2017 was one of important political and economic events, with a situation of greater stability in Europe and with a different approach of the new US administration with respect to past administrations, in terms of foreign policy as well as economic policy, with the introduction in the early months of 2018 of the first trade tariffs on US imports.

In any event, the year just completed saw a period of sustained economic growth, equal to roughly 4% at global level and 2.3% for the Eurozone. In the course of 2017, global growth has also been accompanied by stresses in the commodities market, particularly in terms of copper and oil, and this had a significant impact on the companies concerned in their sale or use.

As concerns monetary policy, in the year just ended the US Fed's change of route was confirmed, as it continued with its policy of hiking interest rates, which started at the end of 2016. On the other hand, rates are stable in the Eurozone despite the slowdown in quantitative easing decided upon by the ECB. In Italy, 2017 came to an end with GDP growth of 1.5%, lower than that seen in the Eurozone, but exceeding that recorded in the years subsequent to the 2008 crisis. The figure concerning Italian industrial production is even better, up for the third consecutive year and in 2017 capable of achieving a rise of 3%.

Considering the extreme complexity of the current environment and the unpredictability of its future evolution, the risk in any case remains that the factors described above will develop to such an extent so as to negatively impact activities, the equity and/or financial situation, the economic results and the outlooks of the Group. As part of its activities, the Group carefully monitors the domestic and international situation described above as much as possible, to be ready to adjust its sales and product development strategies as a result, while seeking to maintain the highest possible level of flexibility.

DEVELOPMENT ACTIVITIES

In the course of 2017, the Group carried out intense development activities, as usual, to offer the market increasingly advanced products (a key distinctive element of its competitive strategy), broken down over some 31 different projects, some of which are carried out in partnership with prestigious European universities.

Part of these projects are still under way and for their development, the Group incurred Research and Development costs of €2.4 million during the year (including €2.3 million capitalised under Intangible assets with the consent of the Board of Statutory Auditors).

The main projects regarded the creation of innovative adiabatic and spray systems to optimise the performance of high power heat exchange equipment, the miniaturisation and specialisation of tube surfaces and matrixes for the improvement of heat exchange efficiencies, the introduction of electronic control systems optimised for unit coolers and air coolers as well as the development of new ranges of products, components and accessories in the heat exchangers and glass doors segments.

EXEMPTION FROM THE OBLIGATIONS TO PUBLISH DISCLOSURE DOCUMENTS IN THE CASE OF SIGNIFICANT TRANSACTIONS (“opt-out”)

On 13 March 2017, the Board of Directors of the Parent Company decided to apply, pursuant to art. 3 of Consob Resolution no. 18079 of 20 January 2012, the opt-out regime established by arts. 70, paragraph 8, and 71, paragraph 1-bis, of Consob Regulation no. 11971/99 as amended, therefore taking advantage of the right to exemption from the obligations to publish the disclosure documents required in the case of significant merger, spin-off, share capital increase through the contribution of assets in kind, acquisition and disposal transactions.

PERFORMANCE IN THE OPENING MONTHS OF 2018: significant events and business outlook

Consolidated turnover of only products in the first two months of 2018 reached roughly €43.9 million, with growth of more than 17% compared to the same period of the previous year.

The acquisition of orders during the period (+25%) and the order portfolio (+34%) also marked particularly positive growth, taking into account the acquisition of several special projects with a significant unit value which will not be repeated in the course of the year.

To protect sales margins within a market in which raw material prices continue to rise, although this is partially offset by an appreciation of the euro with respect to the US dollar, since 1 January the Group has made official a further increase in the price list of catalogue equipment, once again in advance of its main competitors, while for products not in the catalogue, negotiations are under way to revise sales prices in cases in which they are not contractually linked to average prices of raw materials on the London Metal Exchange.

The general scenario remains highly competitive, and the visibility of demand is, as usual, rather limited. However, several relevant projects with new customers in part already started or which are

expected to begin during the year, make it reasonable to predict that the Group's sales will increase again in 2018, in line with budget forecasts.

From the financial perspective, in January the Group entered into a 62-month loan agreement with Unicredit for €25,000,000, to be repaid in equal instalments every six months, with an interest rate equal to the 6M Euribor (without a zero floor), plus a spread. With part of this amount, the Parent Company and the subsidiary Sest S.p.A. paid off previous loans that were no longer competitive in terms of their contractual or economic conditions (specifically, the Parent Company paid off two loans outstanding with UBI Banca, with a residual principal of €3,029,635 and €2,050,492, respectively; Sest S.p.A. paid off two loans outstanding with Unicredit with a residual principal of €3,900,000 and €600,000, respectively).

MANAGEMENT AND COORDINATION ACTIVITIES

There are no management and coordination relationships or activities.

RELATED PARTY TRANSACTIONS

For information on related party transactions, please refer to the detailed tables provided in the Notes to LU-VE S.p.A.'s financial statements and the LUVE Group's consolidated financial statements. All transactions with related parties are carried out on an arm's length basis.

TREASURY SHARES

Pursuant to law, please recall that as at 31 December 2017, the Group held 137,805 treasury shares, equal to 0.6198% of the share capital, which was acquired at an average price of €10.3069 based on the authorisation resolutions approved by the Shareholders' Meeting on 28 April 2015, 29 April 2016 and 12 April 2017. In application of international accounting standards, these instruments are recognised as a deduction from the Group's shareholders' equity.

CERTIFICATION PURSUANT TO ART. 15 OF CONSOB REGULATION 20249/2017

Pursuant to art. 2.6.2, paragraph 8 of the Regulation of the Markets organised and managed by Borsa Italiana S.p.A., LU-VE S.p.A. declares that the requirements referred to in art. 15 of Consob Regulation no. 20249/2017 letters a), b) and c) in relation to the subsidiaries established and governed by the law of states not belonging to the European Union have been met.

INFORMATION PURSUANT TO ARTICLES 70 AND 71 OF CONSOB REGULATION 11971/99 (ISSUER REGULATIONS)

The Board of Directors of LU-VE S.p.A. has decided to apply, pursuant to art. 3 of Consob Resolution no. 18079 of 20 January 2012, the opt-out regime established by arts. 70, paragraph 8, and 71, paragraph 1-bis, of the Issuer Regulations, therefore taking advantage of the right to exemption from the obligations to publish the disclosure documents required in the case of significant merger, spin-off, share capital increase through contribution of assets in kind, acquisition and disposal transactions.

DECLARATION OF THE MANAGER IN CHARGE OF FINANCIAL REPORTING

The Manager in charge of financial reporting, Eligio Macchi, declares, pursuant to art. 154-bis, paragraph 2 of the Consolidated Law on Finance, that the accounting disclosure contained in this Directors' Report as at 31 December 2017 corresponds to the results of the accounting documents, books and entries.

SECONDARY OFFICES

The Parent Company LU-VE S.p.A. carries out its activities at the registered office at via Caduti della Liberazione, 53, Uboldo. On 4 January 2017, it opened a secondary office used as a warehouse at via Achille Grandi, 5, Origgio.

ALLOCATION OF PROFIT (LOSS) FOR THE YEAR OF LU-VE S.p.A.

Dear Shareholders,

We propose that you approve the financial statements we have presented to you and

Allocate the net profit for the period, equal to €3,513,046.0 (three million five hundred and thirteen thousand forty-six/00) as follows:

- €351,304.60 (three hundred and fifty-one thousand three hundred and four/60) to the legal reserve;
- €3,161,741.40 (three million one hundred and sixty-one seven hundred and forty-one/40) to the shareholders in the form of a dividend.

There is no restriction on the distribution of the dividend, as the financial statements include sufficient reserves to cover capitalised development costs.

On behalf of the Board of Directors

The Chairman

Iginio Liberali

LU-VE GROUP

*CONSOLIDATED FINANCIAL
STATEMENTS
AS AT 31 DECEMBER 2017*



GROUP STRUCTURE AND CORPORATE BODIES

Group Structure

Parent Company

LU-VE S.p.A.

Subsidiaries and stake held by the group

SEST S.p.A.	100.00%
SEST-LUVE-POLSKA Sp.z.o.o.	95.00%
“OOO” SEST-LUVE	95.00%
HEAT TRANSFER SYSTEM (HTS) s.r.o.	100.00%
TECNAIR LV S.p.A.	79.90%
LU-VE HEAT EXCHANGERS (CHANGSHU) LTD	100.00%
LU-VE SWEDEN AB	100.00%
THERMO GLASS DOOR S.p.A.	100.00%
LU-VE India Corporation Private Ltd	99.98%
LU-VE France s.a.r.l.	86.06%
LU-VE Deutschland GmbH	100.00%
LU-VE Iberica s.l.	85.00%
LU-VE Pacific Pty Ltd. – Australia	75.50%
LU-VE Asia Pacific Ltd. – Hong Kong	100.00%
LuveDigital S.r.l.	50.00%
MANIFOLD S.r.l.	99.00%
SPIROTECH HEAT EXCHANGERS PRIVATE Ltd	94.98%
LU-VE AUSTRIA GmbH	100.00%

Corporate bodies

Board of Directors

Chairman	Liberali Iginio
Vice Chairman	Faggioli Pierluigi
CEO	Liberali Matteo
CEO	Faggioli Michele
Director	Vitale Marco
Director	Liberali Fabio
Director	Garulli Michele
Director (*)	Paleari Stefano
Director	Cavallini Giovanni
Director	Arietti Attilio Francesco
Director (*)	Gervasoni Anna
Director	Pierantoni Roberta
Director	Oliva Laura

(*) Independent directors

Board of Statutory Auditors

Chairman	Mignani Paola
Standing Auditor	Beltrame Stefano
Standing Auditor	Pelassa Ivano
Alternate Auditor	Cerana Mauro
Alternate Auditor	Chiarella Giulia

Auditing Firm

Deloitte & Touche S.p.A.

STATEMENT OF FINANCIAL POSITION			
(in thousands of Euro)	Note	31.12.17	31.12.16 *
ASSETS			
Goodwill	1	42,503	42,503 (*)
Other intangible assets	1	20,215	19,128 (*)
Property, plant and equipment	2	100,618	93,030
Other property, plant and equipment	2	10,573	10,097
Deferred tax assets	19	3,359	3,059
Equity investments	3	6	6
Other non-current assets	4	1,935	2,044
NON-CURRENT ASSETS		179,209	169,867
Inventories	5	37,988	30,914
Trade receivables	6	47,616	45,456
Due from the tax authorities for current taxes	7	9,236	5,380
Current financial assets	8	72,308	74,145
Other current assets	9	2,022	2,145
Cash and cash equivalents	10	50,762	46,455
CURRENT ASSETS		219,932	204,495
ASSETS HELD FOR SALE		-	-
TOTAL ASSETS		399,141	374,362

Note:

(*) values restated pursuant to IFRS 3 revised, so as to retrospectively take into account the effects of the measurement at fair value of the assets and liabilities of Spirotech Heat Exchangers Private Ltd at the acquisition date, previously considered provisional (see the note "Information relating to IFRS 3 revised").

(in thousands of Euro)	Note	31.12.17	31.12.16 *
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital		62,704	62,496
Reserves and retained earnings (losses)		69,496	54,230
Profit (loss) for the year		5,642	15,778 (*)
<i>Total shareholders' equity attributable to the Parent Company</i>		137,842	132,504
<i>Shareholders' equity attributable to non-controlling interests</i>		2,124	1,823
SHAREHOLDERS' EQUITY	11	139,966	134,327
Loans	12	112,973	105,289
Provisions	13	2,472	2,182
Employee benefits	14	4,047	3,936
Deferred tax liabilities	19	13,217	13,596 (*)
Other financial liabilities	15	2,101	2,416
NON-CURRENT LIABILITIES		134,810	127,419
Trade payables	16	63,405	53,070
Loans	12	42,234	41,834
Provisions	13		
Tax payables	17	2,273	3,415
Other financial liabilities	15	1,049	1,305
Other current liabilities	18	15,404	12,992
CURRENT LIABILITIES		124,365	112,616
LIABILITIES HELD FOR SALE	-	-	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		399,141	374,362

Note:

(*) values restated pursuant to IFRS 3 revised, so as to retrospectively take into account the effects of the measurement at fair value of the assets and liabilities of Spirotech Heat Exchangers Private Ltd at the acquisition date, previously considered provisional (see the note "Information relating to IFRS 3 revised").

INCOME STATEMENT			
(in thousands of Euro)	Note	31.12.17	31.12.16 *
REVENUES AND OPERATING INCOME			
Revenues	21	269,195	236,018
Other revenues	22	837	248
Total revenues and operating income		270,032	236,266
OPERATING COSTS			
Purchases of materials	23	(150,006)	(120,685)
Changes in inventories	5	7,502	3,650
Services	24	(40,105)	(37,462)
Personnel costs	25	(56,280)	(49,902)
Other operating costs	26	(2,071)	(1,826)
Total operating costs		(240,960)	(206,225)
Net change in fair value of derivatives		170	313
Depreciation and amortisation	1.2	(15,143)	(13,057) (*)
Capital gains on the sale of non-current assets		176	430
Write-downs on non-current assets		(152)	
EBIT		14,123	17,727
Financial income	27	1,633	2,055
Financial expense	28	(1,679)	(2,862)
Exchange gains and losses	29	(5,564)	2,814
Gains and losses from equity investments		0	(15)
EBT		8,513	19,719
Income taxes	30	(2,234)	(3,237) (*)
NET PROFIT (LOSS)		6,279	16,482
Attributable to non-controlling interests		(637)	(704)
PROFIT (LOSS) FOR THE YEAR		5,642	15,778

Note:

(*) values restated pursuant to IFRS 3 revised, so as to retrospectively take into account the effects of the measurement at fair value of the assets and liabilities of Spirotech Heat Exchangers Private Ltd at the acquisition date, previously considered provisional (see the note "Information relating to IFRS 3 revised").

In Euro	Note	31.12.17	31.12.16
EARNINGS PER SHARE	31		
Basic		0.26	0.81
Diluted		0.26	0.71

(in thousands of Euro)	Note	31.12.17	31.12.16 *
NET PROFIT (LOSS)		6,279	16,482
<i>Components that will not be subsequently reclassified to profit (loss) for the year:</i>			
Actuarial valuation of post-employment benefits		18	(143)
Tax effect		(4)	34
		14	(109)
<i>Components that will be subsequently reclassified to profit (loss) for the year:</i>			
Exchange differences from translation of financial statements in foreign currency		4,403	(799)
TOTAL COMPREHENSIVE INCOME (LOSS)		10,696	15,574
of which:			
Attributable to non-controlling interests		(637)	(704)
ATTRIBUTABLE TO THE GROUP		10,059	14,870

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY												
(in thousands of Euro)	Share capital	Share premium reserve	Legal reserve	FTA Reserve	Treasury shares	Translation reserve	Post-employment benefits discounting reserve	Other reserves	Profit (loss) for the year	Total shareholders' equity of the Group	Shareholders' equity attributable to non-controlling interests	Total shareholders' equity
BALANCE AS AT 01/01/16	62,496	24,762	1,758	(3,373)	(462)	(4,067)	(250)	32,392	9,099	122,355	3,443	125,798
Allocation of profit 2015												
<i>Dividends paid</i>	-	-	-	-	-	-	-	(3,876)	-	(3,876)	(175)	(4,051)
<i>Retained</i>	-	-	246	-	-	-	-	8,853	(9,099)	-	-	-
Purchase/sale of treasury shares	-	-	-	-	(530)	-	-	-	-	(530)	-	(530)
Capital transaction costs	-	-	-	-	-	-	-	(70)	-	(70)	-	(70)
Other	-	-	-	-	-	-	-	(245)	-	(245)	(2,149)	(2,394)
Comprehensive income as at 31/12/2016	-	-	-	-	-	(799)	(109)	-	15,778	14,870	704	15,574
BALANCE AS AT 31/12/16 (*)	62,496	24,762	2,004	(3,373)	(992)	(4,866)	(359)	37,054	15,778	132,504	1,823	134,327
Allocation of profit 2016												
<i>Dividends paid</i>	-	-	-	-	-	-	-	(4,416)	-	(4,416)	(325)	(4,741)
<i>Retained</i>	-	-	362	-	-	-	-	15,416	(15,778)	-	-	-
Purchase/sale of treasury shares	-	-	-	-	(428)	-	-	-	-	(428)	-	(428)
Capital transaction costs	-	-	-	-	-	-	-	(61)	-	(61)	-	(61)
Other	208	-	-	-	-	-	-	(24)	-	184	(11)	173
Comprehensive income as at 31/12/2017	-	-	-	-	-	4,403	14	-	5,642	10,059	637	10,696
BALANCE AS AT 31/12/17	62,704	24,762	2,366	(3,373)	(1,420)	(463)	(345)	47,969	5,642	137,842	2,124	139,966

Note: (*) values restated pursuant to IFRS 3 revised, so as to retrospectively take into account the effects of the measurement at fair value of the assets and liabilities of Spirotech Heat Exchangers Private Ltd at the acquisition date, previously considered provisional (see the note "Information relating to IFRS 3 revised").

Consolidated Statement of Cash Flows
(in thousands of Euro)

31/12/2017

31/12/2016

A.	Cash and cash equivalents at the beginning of the year	46,455	55,266
	Contribution of change in consolidation area	-	1,804
	Profit (loss) for the year	5,642	15,778 (*)
	Adjustments for:		
	- Depreciation and amortisation	15,143	13,057 (*)
	- Realised gains on non-current assets	(176)	(430)
	- Net financial income and expense	47	807
	- Income taxes	2,234	3,237 (*)
	- Fair value changes booked in operating income	(170)	(313)
	Changes in post-employment benefits	71	387
	Changes in provisions	290	5
	<i>Changes in trade receivables</i>	(2,160)	(9,262)
	<i>Changes in inventories</i>	(7,074)	(1,776)
	<i>Changes in trade payables</i>	10,335	5,191
	Changes in net working capital	1,101	(5,847)
	Changes in other receivables and payables, deferred taxes	(2,525)	2,514
	Tax payment	(2,384)	(3,633)
	Net financial income/expenses collected/paid	50	(714)
B.	Cash flows generated/absorbed by operating activities	19,323	24,848
	Investments in non-current assets		
	- intangible assets	(4,968)	(4,066)
	- property, plant and equipment	(19,318)	(16,728)
	- financial assets	-	15
	Business combination net acquisition price	-	(32,234)
C.	Cash flows generated/absorbed by investing activities	(24,286)	(53,013)
	Repayment of loans	(53,916)	(21,616)
	New loans	62,000	55,154
	Changes in other financial liabilities	(530)	676
	Changes in short-term financial assets	2,623	(7,880) (**)
	Purchase of treasury shares	(428)	(530)
	Contributions/repayments of own capital	208	(70)
	Payment of dividends	(4,416)	(3,876)
	Other changes	301	(2,381)
D.	Cash flows generated/absorbed by financing activities	5,842	19,477
	Exchange differences	4,403	(799)
	Other non-monetary changes	(975)	(1,128) (**)
E.	Other changes	3,428	(1,927)
F.	Net cash flows in the year (B+C+D+E)	4,307	(10,615)
	Cash and cash equivalents at the end of the year (A+F)	50,762	46,455
	Current financial debt	(29,025)	(31,006)
	Non-current financial debt	115,074	107,705
	Net financial debt (Note 20)	35,287	30,244

(*) values restated pursuant to IFRS 3 revised, so as to retrospectively take into account the effects of the measurement at fair value of the assets and liabilities of Spirotech Heat Exchangers Private Ltd at the acquisition date, previously considered provisional (see the note "Information relating to IFRS 3 revised").

(**) To improve the representation and comparability of the items, several comparative figures from the previous year have been reclassified.

Notes

INTRODUCTION

Information relating to IFRS 3 (revised)

On 5 October 2016, on the basis of a preliminary purchase agreement signed on 18 September 2016 (“*Share Purchase Agreement*” or “*SPA*”), the LU-VE Group acquired 95% of the shares of the Indian company *Spirotech Heat Exchangers Private Ltd* (“*SPIROTECH*”). The company is active in the production of high tech heat exchangers.

The company was acquired through the LU-VE Group’s Indian subsidiary, LU-VE India Corporation Private Limited, established in 2014, which remained inoperative until July 2016.

The acquired company was consolidated in the financial statements as of the acquisition date, the moment at which the risks and benefits were transferred to the Group, which typically coincides with the acquisition date. With reference to this acquisition, the LU-VE Group applied the reference international accounting standards (particularly IFRS 3 revised), expressing the assets acquired and the liabilities assumed at fair value during the Purchase Price Allocation (“PPA process”) and determining the goodwill deriving from the transaction on a residual basis with respect to the above-mentioned allocation.

In relation to the complexity of this process, which implies the valuation of numerous, diversified assets and liabilities of the entities making up the acquired company, international accounting standards (IFRS 3 revised) allow the acquisition cost to be definitively allocated within twelve months of the acquisition date.

As a result of the limited period of time between the date of acquisition of SPIROTECH and the date of approval of the financial statements at 31 December 2016, as the technical assessment of the assets of the company acquired was not yet completed and available, the LU-VE Group took advantage of this right and accounted for the business combination in the item goodwill in the financial statements at 31 December 2016 on a provisional basis.

Therefore, in the course of 2017, as part of the PPA process, considering the analysis of the business characteristics, the company’s positioning and the reference sector, the LU-VE Group identified Customer Relationships as the Primary Income Generating Asset (“PIGA”). The fair value of Customer Relationships was estimated at roughly €9.5 million; in addition, the provision for deferred tax liabilities was increased by roughly €3.3 million in order to recognise the relative tax effect.

Goodwill is justified by the favourable income and financial outlooks of SPIROTECH, outlined in the forecast 2018-2021 plan, prepared at the end of 2017, which expects a further gradual improvement in sales and the maintenance of profitability on a forward-looking basis. The final residual goodwill of €11.5 million reflects the net change described above of roughly €6.2 million.

As laid out in IFRS 3 revised, the comparative financial statement data at 31 December 2016 were restated so as to retrospectively take into account the effects resulting from the “PPA process”:

(in thousands of Euro)	31/12/2016	Fair Value Measurement	31/12/2016 restatement
ASSETS			
Goodwill	48,744	(6,241)	42,503
Other intangible assets	9,688	9,440	19,128
Property, plant and equipment	93,030	-	93,030
Other property, plant and equipment	10,097	-	10,097
Deferred tax assets	3,059	-	3,059
Equity investments	6	-	6
Other non-current assets	2,044	-	2,044
NON-CURRENT ASSETS	166,668	3,199	169,867
Inventories	30,914	-	30,914
Trade receivables	45,456	-	45,456
Due from the tax authorities for current taxes	5,380	-	5,380
Current financial assets	74,145	-	74,145
Other current assets	2,145	-	2,145
Cash and cash equivalents	46,455	-	46,455
CURRENT ASSETS	204,495	-	204,495
TOTAL ASSETS	371,163	3,199	374,362
(in thousands of Euro)	31/12/2016	Fair Value Measurement	31/12/2016 restatement
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital	62,496	-	62,496
Reserves and retained earnings (losses)	54,230	-	54,230
Profit (loss) for the year	15,846	(68)	15,778
<i>Total shareholders' equity attributable to the Parent Company</i>	<i>132,572</i>	<i>(68)</i>	<i>132,504</i>
<i>Shareholders' equity attributable to non-controlling interests</i>	<i>1,823</i>	<i>-</i>	<i>1,823</i>
SHAREHOLDERS' EQUITY	134,395	(68)	134,327
Loans	105,289	-	105,289
Provisions	2,182	-	2,182
Employee benefits	3,936	-	3,936
Deferred tax liabilities	10,329	3,267	13,596
Other financial liabilities	2,416	-	2,416
NON-CURRENT LIABILITIES	124,152	3,267	127,419
Trade payables	53,070	-	53,070
Loans	41,834	-	41,834
Provisions	-	-	-
Tax payables	3,415	-	3,415
Other financial liabilities	1,305	-	1,305
Other current liabilities	12,992	-	12,992
CURRENT LIABILITIES	112,616	-	112,616
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	371,163	3,199	374,362

ACCOUNTING STANDARDS

Declaration of compliance and accounting policies

The consolidated financial statements for 2017 of the LU-VE Group have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union at that date. IFRS refers to all International Financial Reporting Standards and International Accounting Standards and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC), endorsed by the European Union and contained in the relative EU Regulations.

The consolidated financial statements have been prepared in Euro, which is the currency used in the economies in which the Group primarily carries on business, with amounts rounded to thousands, and are compared with the consolidated financial statements for the previous year, prepared with the same criteria. They consist of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and these notes.

Following the application of IFRS 3 revised, as already described in the “Introduction”, to improve the representation and comparability of the items, several comparative figures from the previous year have been reclassified and adjusted. In particular, these changes concerned the following items: “Goodwill”, “Other intangible assets”, “Deferred tax liabilities”, “Depreciation and amortisation” and “Income taxes”.

The financial statements have been drawn up on the basis of the historical cost principle and the going concern assumption.

With reference to this last assumption, at 31 December 2017, the LU-VE Group has a solid and balanced financial structure with a Net financial debt/Shareholders' equity ratio (Debt ratio) of 0.25 and a positive short-term net financial position of €79.8 million, therefore the repayment of medium/long-term debt maturing in 2018 is guaranteed by current liquidity. In addition, there are no substantial restrictions on the freeing up of invested liquidity, which therefore, if required, may be used to meet any payment commitments.

In light of what is laid out above, the consolidated financial statements of the LU-VE Group at 31 December 2017 were prepared on the basis of the going concern assumption, pursuant to paragraphs 25 and 26 of IAS 1.

Financial statements

The Group has adopted the following financial statements:

- a statement of financial position, which shows current and non-current assets and liabilities separately;
- a statement of changes in shareholders' equity;
- an income statement in which costs are classified by nature;
- a statement of comprehensive income, which shows revenue and cost items that are not recognised in profit and loss as required or permitted by IFRS;
- a statement of cash flows that presents cash flows from operations using the indirect method.

The use of these statements provides the most meaningful view of the LU-VE Group's profit and loss, equity and financial situation.

Consolidation area

The consolidated financial statements of the LU-VE Group, which manufactures heat exchangers, air cooled equipment, close control products and insulated glazing, include the annual figures of the Parent Company LU-VE S.p.A. and its direct and indirect subsidiaries, based on the financial statements approved by the respective Boards of Directors, properly adjusted, when necessary, to bring them into line with the IAS/IFRS adopted by the LU-VE Group in preparing its consolidated financial statements:

Company name	Registered office	% stake	Share capital
Direct subsidiaries:			
SEST S.p.A.	Limana (BL)	100.00%	€1,000,000
Tecnair LV S.p.A.	Uboldo (VA)	79.90%	€200,000
Heat Transfer Systems s.r.o. (HTS)	Novosedly (Czech Rep.)	100.00%	CZK 133,300,000
LU-VE Sweden AB	Asarum (Sweden)	100.00%	SEK 50,000
LU-VE France S.a.r.l.	Lyon (France)	86.06%	€84,150
LU-VE Pacific Pty Ltd	Thomastown (Australia)	75.50%	AUD 200,000
LU-VE Deutschland GmbH	Stuttgart (Germany)	100.00%	€230,000
LU-VE Iberica S.L.	Madrid (Spain)	85.00%	€180,063.23
LU-VE Asia Pacific Limited	Wan Chai (Hong Kong)	100.00%	HKD 10,000
LU-VE INDIA CORPORATION PRIVATE LTD	New Delhi (India)	99.98%	INR 100.000
LuveDigital S.r.l.	Uboldo (VA)	50.00%	€10,000
MANIFOLD S.r.l.	Uboldo (VA)	99.00%	€10,000
LU-VE AUSTRIA GmbH	Vienna (Austria)	100.00%	€17,500
Indirect subsidiaries:			
SEST-LUVE- Polska SP.z.o.o. (95% owned by SEST S.p.A.)	Gliwice (Poland)	95.00%	PLN 16,000,000
« ООО » SEST LUVE (95% owned by SEST S.p.A.)	Lipetsk (Russia)	95.00%	RUB 136,000,000
LU-VE HEAT EXCHANGERS Ltd (wholly-owned by LU-VE Asia Pacific Limited)	Changshu (China)	100.00%	CNY 38,211,761
Thermo Glass Door S.p.A. (100% owned by SEST S.p.A.)	Travacò Siccomario (PV)	100.00%	€100,000
Spirotech Ltd 95% owned by Lu-VE India	New Delhi (India)	95.00%	INR 25,448,050

Pursuant to IFRS 10, the companies with regard to which LU-VE S.p.A. simultaneously has the following three elements are considered to be subsidiaries: (a) power over the investee; (b) exposure, or rights, to variable returns deriving from its involvement with the investee; (c) the ability to use its power to affect the extent of such variable returns. If the subsidiaries carry out a significant activity, to provide a fair view of the equity, profit and loss and financial situation of the Group, they are consolidated from when control begins until the date on which it ends.

The following changes compared to the previous period took place in the consolidation area during the period:

- on 21 October 2017, a new company was incorporated named LU-VE Austria GmbH S.r.l., which is 100% held by the Parent Company and was consolidated as the Group holds control over it and therefore defines its economic, capital and financial policies;
- on 21 December 2017, SEST S.p.A. alone subscribed the entire share capital increase approved by the subsidiary Thermo Glass Door S.p.A. ("TGD") following the full elimination of the share capital for losses accounted for during the year. After the subscription of the share capital increase noted above, SEST's holding increased from 85% to 100%.

Consolidation criteria

The data used for the consolidation are drawn from the income statements and balance sheets prepared by the Directors of the individual subsidiaries. These data have been appropriately modified and reclassified when necessary to bring them into line with international accounting standards and the uniform classification criteria used within the Group.

The following criteria have been adopted for the consolidation:

- a) The assets and liabilities, income and expenses in the financial statements subject to line-by-line consolidation are included in the Group's financial statements, irrespective of the extent of the equity investment. The carrying amount of equity investments has also been eliminated against the shareholders' equity attributable to the investee companies;
The Group has now included the overseas subsidiary Brener a.s., holder mainly of land and industrial buildings rented to another Group company, in the consolidated financial statements as the recognition of the "acquisition of assets" and not through the consolidation of its financial statements;
- b) Positive differences arising from the elimination of the value of equity investments against the value of shareholders' equity recognised at the date of initial consolidation are allocated as an increase of assets and liabilities and, for the remainder, to goodwill. In accordance with the provisions of IFRS 3, the Group amended the accounting policy for goodwill on a prospective basis beginning from the transition date. Therefore, starting on 1 January 2014, the Group no longer amortises goodwill and instead tests it for impairment;
- c) Payable/receivable and cost/revenue items between the consolidated companies and profit/loss from intra-group transactions are eliminated. Likewise, dividends and write-downs on equity investments recognised in the annual financial statements are eliminated;
- d) If there are non-controlling shareholders, the portion of shareholders' equity and the net profit (loss) of the year attributable to them are highlighted in separate items of the consolidated balance sheet and income statement;
- e) Final stocks, for products acquired from group companies, are adjusted by the intra-group margins they contain, as they have not yet been realised with respect to third parties.

Translation into Euro of income statements and balance sheets drafted in foreign currency

The separate financial statements of each company belonging to the Group are prepared in the currency of the primary economic environment in which it conducts business (functional currency). For the consolidated financial statements, the financial statements of each overseas entity are expressed in Euro, which is the functional currency of the Group and the presentation currency of the consolidated financial statements.

Balance sheet items from financial statements expressed in a currency other than the Euro are translated by applying the current exchange rates at year end. Income statement items are translated at average exchange rates for the year.

Translation exchange differences resulting from the comparison between the opening shareholders' equity translated at current exchange rates and the same converted at historical exchange rates, as well as the difference between the economic result expressed at average

exchange rates and that expressed at current exchange rates, are recognised in the shareholders' equity item "Other reserves".

The exchange rates used for the translation into Euro of the financial statements of the overseas subsidiaries, prepared in local currency, are shown in the table below:

2017			2016	
Currency	Exchange rate at 31/12	Average exchange rate	Exchange rate at 31/12	Average exchange rate
AUD	1.5346	1.4732	1.4596	1.4883
PLN	4.177	4.2570	4.4103	4.3632
CZK	25.535	26.326	27.021	27.034
RUB	69.392	65.9383	64.300	74.1446
SEK	9.8438	9.6351	9.5525	9.4689
HKD	9.372	8.8045	8.1751	8.5922
CNY	7.8044	7.6290	7.3202	7.3522
INR	76.6055	73.5324	71.5935	72.729

Statement of reconciliation between shareholders' equity and profit for the year of the parent company and consolidated shareholders' equity and profit for the year

	2017		2016	
	Net profit for the year	Shareholders' Equity	Net profit for the year	Shareholders' Equity
<i>(in thousands of Euro)</i>				
Amounts from LU-VE S.p.A. financial statements	3,513	111,157	7,243	112,339
Difference between carrying amount of consolidated equity investments and pro rata value of shareholders' equity and profit (loss) of consolidated subsidiaries	2,135	27,580	8,885	21,054 (*)
Elimination of unrealised intra-group profits	(10)	(267)	(37)	(256)
Other	4	(628)	(313)	(633)
Profit and shareholders' equity attributable to the Group	5,642	137,842	15,778	132,504 (*)

Note: (*) values restated pursuant to IFRS 3 revised, so as to retrospectively take into account the effects of the measurement at fair value of the assets and liabilities of Spirotech Heat Exchangers Private Ltd at the acquisition date, previously considered provisional (see the note "Information relating to IFRS 3 revised").

Segment reporting

The Group's operating segments pursuant to IFRS 8 - Operating Segments are identified as the business segments that generate revenues and costs, the results of which are periodically reviewed by the highest decision-making level to assess performance and to take decisions regarding resource allocation. The Group has the following operating segments:

- *Cooling Systems*, which until 2016 was named "Air cooled", which includes air cooled products and close control air conditioners;

- *Components*, which until 2016 was named “*Original Equipment Manufacturers*” (“OEM”), which includes heat exchangers and glass doors.

Measurement criteria

The accounting standards and measurement criteria adopted to prepare the consolidated financial statements as at 31 December 2017, which did not change compared to the previous year, are described below:

INTANGIBLE ASSETS

Goodwill and business combinations

Goodwill represents the difference between the purchase price and the current value of the identifiable assets and liabilities of the investees on the acquisition date.

Any negative difference (negative goodwill), after a further verification, is instead recognised in the income statement at the time of acquisition. Any liabilities associated with the business combinations for payments subject to conditions are recognised at the date of acquisition of the companies and business units relating to the business combinations. The costs connected to the business combinations are recognised in the income statement.

With respect to acquisitions prior to the date of adoption of IFRS, the LU-VE Group exercised the right set forth in IFRS 1 not to apply IFRS 3 relating to business combinations to the acquisitions that took place before the transition date. As a result, the goodwill resulting from acquisitions that took place in the past was not restated and was recognised at the value determined on the basis of the previous accounting standards, net of amortisation accounted for as at 31 December 2013 and any impairment losses.

As of 1 January 2014, goodwill, representing an intangible asset with an indefinite useful life, is not amortised, but rather subject to impairment testing every year or more frequently any time there is an indication that there may have been an impairment loss. However, the original value is not written back if the reasons resulting in the impairment loss no longer apply. Goodwill is not revalued, not even in application of specific laws, and any write-downs are not subject to any subsequent write-backs.

In the event of the sale of part of a business or the entire business previously acquired, the acquisition of which resulted in goodwill, in the determination of the capital gain or loss from the disposal, the corresponding attributable value of goodwill is taken into account.

Other intangible assets

Trademarks

This item includes long-term expenses incurred for the protection and distribution of Group trademarks. These expenses are recognised as assets in accordance with IAS 38 “Intangible assets” when it is probable that the use of the asset will generate future economic benefits and when the cost of the asset can be determined in a reliable manner.

Research and development costs

Development costs on projects for the production of new products or components are recognised as assets only if the costs can be reliably determined, the Group has the intent and available resources to complete the asset, it is technically feasible to complete the project so as to make it available for use and expected volumes and prices indicate that the costs incurred in the development phase will be capable of generating future economic benefits.

Capitalised development costs include only expenses incurred that may be directly attributed to the development process.

Capitalised development costs are amortised systematically, beginning from the start of production and throughout the estimated life of the product or process, which has been evaluated as four years. All other development costs are recognised in the income statement when incurred. Research costs are attributed to the income statement when incurred.

Other intangible assets

Other intangible assets are recognised as assets in accordance with IAS 38 when it is probable that the use of the asset will generate future economic benefits and when the cost of the asset can be determined in a reliable manner. If such future economic benefits do not arise with reference to development costs, they are written down in the year in which this is confirmed.

These assets are measured at acquisition or production cost and amortised on a straight line basis throughout their estimated useful life, if they have a finite useful life.

In particular, investments in software are amortised over a period of 3 years.

With reference to the PPA process, as specified in more detail in the “Introduction” section above, the LU-VE Group identified Customer Relationships as the Primary Income Generating Asset (“PIGA”). Customer Relationships are amortised over 23 years.

PROPERTY, PLANT AND EQUIPMENT

These assets include Land and buildings, plant and equipment, equipment and other property, plant and equipment.

They are recognised at acquisition or construction cost. The cost includes accessory costs directly attributable to the asset. As set forth in IAS 16, depreciation is calculated on the basis of uniform rates for categories of similar assets, deemed suitable to break down the carrying amount of the property, plant and equipment over the period of its useful life. The estimated useful life is as follows, in years:

Buildings	33
Light constructions	10
Plant and equipment	6 – 10
Fixtures and fittings, tools and other equipment	3 – 10
Other assets	4 - 8

Ordinary maintenance costs are charged to the income statement in the year in which they are incurred; costs that increase the value or useful life of the asset are capitalised and depreciated in line with the remaining useful life of the assets to which they refer.

If there are indicators of impairment, property, plant and equipment are tested for impairment. The testing process is described in the “Impairment of assets” section. Any impairment losses may be subject to subsequent write-backs.

Land is not depreciated.

Leased assets

Assets acquired under finance lease agreements are accounted for in accordance with the financial methodology and recognised as assets at acquisition value less depreciation. The depreciation of these assets is reflected in the annual consolidated financial statements by applying the same criterion used for owned property, plant and equipment. As a matching entry to the recognition of the asset, short and medium/long-term payables to the lessor financial institution are recognised under “Other financial liabilities”; in addition, the financial expense applicable to the period is recognised in the income statement.

Equity investments and non-current receivables

Other equity investments not classified as held for sale are measured with the cost method, less impairment losses. The original value is written back in subsequent years if the reasons for the write-down recognised no longer apply.

Non-current receivables are recognised at their estimated realisable value.

Impairment of assets

At least every year, the LU-VE Group reviews the carrying amount of goodwill and its property, plant and equipment and intangible assets to check whether there are indications that these assets have been impaired. If these indications exist, the recoverable amount of these assets is estimated to determine the amount of the impairment. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs.

In particular, the recoverable amount of the cash-generating units is verified by determining the value in use. The recoverable amount is the higher of the fair value net of selling costs and the value in use. In calculating value in use, future cash flows net of taxes, estimated on the basis of past experience, are discounted to their present value using a rate net of taxes, which reflects current market assessments of the present value of money and the specific risks of the asset. The main assumptions used to calculate value in use regard the discount rate, the growth rate, expected changes in sale prices and the trend in direct costs during the period assumed for the calculation. The growth rates adopted are based on growth forecasts for the applicable industrial sector. Changes in sale prices are based on past experience and on future market expectations. The Group prepares forecasts of operating cash flows deriving from the business plan prepared by the Directors and approved by the Parent Company’s Board of Directors and determines the terminal value (present value of perpetual cash flows) on the basis of a medium and long-term growth rate in line with that of the specific applicable sector.

If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than the relative carrying amount, the carrying amount of the asset is reduced to the lower recoverable amount, with the impairment loss immediately recognised in the income statement. Subsequently, if the impairment loss on an asset is no longer applicable or is reduced, the carrying amount of the asset (or of the cash-generating unit), with the exception of goodwill, is increased to the new value corresponding to the estimated recoverable amount, which may be no higher than the net carrying amount that the asset would have had if the impairment loss had never been recognised. The write-back is recognised immediately in the income statement.

Financial Instruments

Derivative financial instruments

Derivative financial instruments are used primarily for hedging, in order to reduce the risk of fluctuating exchange rates, interest rates and raw material costs. In line with IAS 39, derivative financial instruments are accounted for using hedge accounting methods only when:

- a) at the inception of the hedge, the hedging relationship is formally designated and documented;
- b) the hedge is expected to be highly effective;
- c) this effectiveness may be reliably measured;
- d) the hedge is determined to have been highly effective during the different accounting periods for which it is designated.

All derivative financial instruments are measured at fair value, as established by IAS 39.

If the instrument is not eligible for hedge accounting, the gains or losses arising from the measurement of the derivative financial instrument at fair value are recognised in the income statement.

The Group notes that the derivative instruments were subscribed in order to hedge the underlying risks.

However, at the date of presentation of these financial statements, not all requirements of IAS 39 were satisfied. Therefore, the Group management deemed it appropriate to treat those instruments as trading, not hedging, transactions.

The relative effects were recognised under “Net change in fair value of derivatives” in the income statement.

Disclosure

IFRS 7 requires additional information that enables users to evaluate the significance of the financial instruments in relation to the economic performance and financial position of the Group. This accounting standard requires a description of the objectives, policies and procedures put into place by the Management for the different types of financial risk (liquidity, market and credit) to which the Group is exposed, inclusive of a sensitivity analysis for each type of market risk (exchange rate, interest rate, equity, commodity) and a disclosure regarding the concentration and average, minimum and maximum exposures to the various types of risk during the reference period, if the exposure at the end of the period is not sufficiently representative.

IAS 1 governs, inter alia, the disclosures to be provided regarding capital management objectives, policies and processes, specifying, if there are any externally imposed capital requirements, their nature and management methods and any consequences of non-compliance.

Inventories

Inventories are measured at the lower of acquisition or production cost, determined on the basis of the weighted average cost method, and the corresponding market value represented by the replacement cost for purchased materials and the estimated realisable value for finished and semi-finished products, calculated by taking into account any manufacturing costs as well as the direct sales costs yet to be incurred. The cost of inventories includes the amount of accessory costs and direct and indirect production costs reasonably attributable to them. Obsolete or slow-moving stocks are written down based on their possibilities of use or realisation. The write-down of inventories is eliminated in subsequent years if the reasons for it no longer apply.

Trade receivables and other receivables

The receivables are initially recognised at fair value.

Subsequently, receivables are valued with the amortised cost method on the basis of the effective internal interest rate represented by the rate, which makes the present value of future cash flows and the carrying amount equal at the moment of initial recognition.

The value thus determined is reduced to the realisable value if there are any impairment losses.

Write-downs are calculated in relation to the degree of solvency of individual debtors, also based on the specific characteristics of the underlying credit risk, taking into account available information and also considering historical experience.

Assignment of receivables

Receivables assigned based on factoring transactions are eliminated from the assets in the statement of financial position only if the risks and benefits correlated with their ownership have been substantially transferred to the assignee. Assigned receivables that do not meet the above requirement remained recognised in the Group's financial statements even though they have legally been transferred. In that case, a financial liability of an equal amount is recognised in the liabilities against the advance received.

Current financial assets

Financial assets held for trading are measured at fair value with the economic effects recognised under financial income or expense.

Loans

Loans are initially measured at cost, corresponding to the fair value of the consideration received, net of accessory acquisition costs. This value is subsequently adjusted to take into account any difference between the initial cost and the repayment value throughout the term of the loan using the effective interest rate method.

Loans are classified as current liabilities unless the Group has the unconditional right to defer the settlement of the liability for at least twelve months after the reporting date.

Provisions

Provisions for risks and charges represent probable liabilities of uncertain amount and/or timing deriving from past events, the settlement of which will entail an outflow of resources. Provisions are recognised exclusively if there is a present legal or constructive obligation requiring the use of economic resources, provided such obligation can be reliably estimated. The amount recognised in the provision represents the best estimate of the expenditure required to settle the obligation at the balance sheet date. Provisions are reviewed at each balance sheet date and adjusted so as to represent the best current estimate.

If the outflow of resources connected to the obligation is expected to take place beyond normal payment terms and the effect of discounting is relevant, the amount of the provision is represented by the present value of the expected future payments for the settlement of the obligation.

Contingent assets and liabilities are not recognised in the financial statements. However, they are subject to adequate disclosure.

Employee benefits

Short-term benefits

Short-term employee benefits are accounted for in the income statement in the period in which the services are rendered.

Post-employment benefits

On 1 January 2007, the Financial Act (law 296/2006) and the relative implementing decrees introduced considerable amendments to the rules on post-employment benefits, including the selection to be made by the worker with respect to the allocation of accruing benefits. In particular, for companies with more than 50 employees on the date of introduction of the reform, these new regulations required new post-employment benefit contributions to be allocated to pension plans chosen by the worker or, if the worker decided to keep those contributions within the company, to an INPS treasury account. The method for accounting for post-employment benefits was updated based on these regulatory amendments.

Before the reform introduced by Law 296/2006, international accounting standards classified post-employment benefits as “defined-benefit plans”. Now, only the post-employment benefits accrued up to 31 December 2006 continue to be classified as “defined-benefit plans”, while those accruing subsequent to that date are classified as a “defined-contribution plan”, as all obligations of the company are met when it makes the periodic contribution to third-party entities. Therefore, discounted amounts are no longer recognised in the income statement. Instead, outlays made to the various types of pension plans selected by employees or to the separate INPS

treasury fund, calculated based on art. 2120 of the Italian Civil Code, are recognised under personnel costs.

Defined-benefit plans

The provision for post-employment benefits (limited to the share accrued up to 31 December 2006) is calculated by an independent actuary using the projected unit method to determine the liability. Any actuarial effects are recognised in shareholders' equity and included in the statement of comprehensive income.

Defined-contribution plans

The Group participates in publicly or privately managed defined-contribution pension plans on an obligatory, contractual or voluntary basis. As noted above, this category includes provisions for post-employment benefits calculated based on art. 2120 of the Italian Civil Code and paid to the various types of pension plans selected by employees or to the separate INPS treasury fund. The Group meets its obligation to employees with the payment of these contributions. Therefore, the contributions are classified as costs in the period in which they are due.

Payables

Trade payables, other payables and other liabilities are initially recognised at fair value, plus any costs connected to the transaction. Subsequently they are measured at nominal value, as it is not deemed necessary to apply any discounting or separately attribute explicit or separated interest expense in the income statement, as it is not considered material in light of expected payment times.

Criteria for the translation of items in foreign currency

Receivables and payables originally expressed in foreign currencies are translated to euro at the exchange rates of the date on which the transactions giving rise to them take place. The exchange differences realised upon collection of the receivables and payment of the payables in foreign currency are recognised in the income statement. Income and expenses relating to transactions in foreign currency are recognised at the current exchange rate on the date on which the relative transaction takes place.

At year end, assets and liabilities expressed in foreign currency, with the exception of non-current assets, are recognised at the spot exchange rate as at the end of the financial year and the relative exchange gains and losses are recognised in the income statement. If the translation gives rise to a net profit, a non-distributable reserve for a corresponding amount is restricted until its actual realisation.

Revenue and cost recognition

Revenues are recognised net of returns, discounts, allowances and premiums, as well as taxes directly connected to the sale of goods and the provision of services.

Revenues from sales are recognised when the Group has transferred the significant risks and benefits connected to ownership of the asset and the amount of the revenue may be reliably determined.

Costs and expenses are recognised in the financial statements on an accrual basis.

Financial income

Financial income includes interest income on invested funds and income from financial instruments. Interest income is allocated to the income statement when it accrues, considering the actual yield.

Financial expense

Financial expense includes interest expense on financial payables calculated using the effective interest method.

Income taxes for the year

Income taxes include all taxes calculated on the Group's taxable income. Income taxes are recognised in the income statement, with the exception of those relating to items directly charged or credited to shareholders' equity, in which case the tax effect is recognised directly under shareholders' equity. Other taxes not correlated with income, such as property taxes, are classified as operating expenses.

Deferred tax liabilities are recognised based on the full liability method. They are calculated on all temporary differences emerging between the taxable amount of an asset or liability and the carrying amount in the consolidated financial statements, with the exception of goodwill, which is not tax deductible and those differences from investments in subsidiaries which are not expected to be offset in the foreseeable future.

Deferred tax assets on tax losses and unused tax credits that may be carried forward are recognised to the extent to which it is likely that future taxable income will be available against which they may be recovered. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and when there is a legal right to offset. Deferred tax assets and liabilities are calculated using the tax rates expected to be applicable in the respective legal systems of the countries in which the Group carries on business, in the years in which the temporary differences will be realised or extinguished.

Dividends

Dividends are accounted for on an accrual basis when the right to receive them arises, corresponding to when the distribution resolution is passed.

Treasury shares

Treasury shares are recognised as a deduction from shareholders' equity. The carrying amount of treasury shares and revenues from any subsequent sales are recognised as changes in shareholders' equity.

Earnings per share

Basic earnings per share are calculated by dividing the Group's share of profit or loss by the weighted average of ordinary shares outstanding during the year. Diluted earnings per share are calculated by dividing the Group's share of profit or loss by the weighted average of shares outstanding, adjusted to assume the subscription of all potential shares deriving from the granting of bonds and the exercise of warrants, if issued by the Parent Company.

Use of estimates

The preparation of the financial statements and the relative notes in application of IFRS requires the management to make estimates and assumptions that impact the values of the assets and liabilities in the financial statements and the disclosure relating to contingent assets and liabilities as at the reporting date. Actual results may differ from those estimates. Estimates are used to assess goodwill and property, plant and equipment and intangible assets tested for impairment, as described above, as well as to recognise provisions for credit risks, inventory obsolescence, depreciation and amortisation, asset impairment, employee benefits, taxes and other provisions (i.e., product warranty provision). Estimates and assumptions are reviewed periodically and the

effects of each change are reflected in the income statement in the period in which the estimate is reviewed. More specifically:

Recoverability of the value of goodwill, intangible assets and property, plant and equipment

The procedure for determining the impairment losses on goodwill, intangible assets and property, plant and equipment described in the accounting standard “Impairment of assets” implies - in estimating the value in use - assumptions regarding the forecast of expected cash flows from the cash generating units (“CGUs”) identified, making reference to the 2018-2021 plan, the determination of an appropriate discounting rate (WACC) and a long-period growth rate (g-rate). These assumptions are based on the Management’s expectations of focusing on new geographical markets deemed most attractive in terms of size, stability, growth and profit margins, strengthening and expanding existing production capacity, continuously improving the performance of existing products and developing innovative products.

As laid out in IAS 36, as the above-mentioned CGUs include goodwill, the Group’s Management conducted an impairment test to determine whether the carrying amounts relating to the assets of the individual CGUs are recognised in the financial statements at 31 December 2017 at a value no higher than the recoverable amount. In particular, the Group has recognised goodwill totalling €42.5 million in the consolidated financial statements at 31 December 2017. This goodwill has been attributed to two cash generating units (“CGUs”): “Components” and “Cooling Systems”, to which the intangible assets with a finite useful life and property, plant and equipment have also been allocated.

Provisions for credit risks

Receivables are adjusted by the relative bad debt provision to take into account their recoverable amount. To determine the amount of write-downs, the Directors are required to make subjective assessments based on available documentation and information regarding customer solvency, as well as experience and historical collection trends.

Provisions for inventory obsolescence

Obsolescent or slow-moving inventories are assessed systematically and, if their recoverable amount is lower than their carrying amount, they are written down. Write-downs are calculated based on the management’s assumptions and estimates deriving from experience and historical results.

Provisions for warranties

The Group recognises provisions for the estimated costs of product warranties. The management establishes the consistency of these provisions on the basis of historical information with reference to the frequency and average cost of warranty claims.

Employee benefits

The present value of liabilities for employee benefits depends on a series of factors determined with actuarial techniques using specific assumptions (note 14). The assumptions regard the discount rate, estimates of future wage increases, mortality rates and resignations. Every change in these assumptions may have significant effects on the liability for pension benefits.

Income taxes

The Group is subject to various income tax legislations. To determine the Group’s tax liabilities, the management needs to make assessments with respect to transactions that have uncertain tax implications at the reporting date. In addition, deferred tax assets are measured on the basis of expected income in future years as laid out in the 2018-2021 plan; the assessment of this expected income depends on factors that could change over time and have significant effects on the measurement of deferred tax assets.

Other provisions

With regard to processes for estimating the risk of contingent liabilities from disputes, the Directors rely on communications received regarding the progress of recovery procedures and disputes from the legal advisors who represent the Group in disputes. These estimates are determined by taking into account the gradual evolution of the disputes.

Estimates and assumptions are reviewed periodically and the effects of each change are immediately reflected in the income statement.

New accounting standards

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS OF 1 JANUARY 2017

The following IFRS accounting standards, amendments and interpretations have been applied by the Group for the first time as of 1 January 2017:

- Amendment to **IAS 7 “Disclosure Initiative”** (published on 29 January 2016). The document aims to provide several clarifications to improve the disclosure on financial liabilities. In particular, the amendments require a disclosure to be provided which enables users of financial statements to understand changes in liabilities deriving from loan transactions. The Group has adopted the amendment and improved the disclosure in note 12.
- Amendment to **IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses”** (published on 19 January 2016). The document has the objective of providing several clarifications on the recognition of deferred tax assets on unrealised losses in the measurement of available for sale financial assets in certain circumstances and on the estimate of taxable income for future years. The adoption of these amendments had no effects on the Group’s consolidated financial statements.

IFRS ACCOUNTING STANDARDS AND AMENDMENTS AND IFRIC INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, FOR WHICH APPLICATION IS NOT YET REQUIRED AND NOT ADOPTED EARLY BY THE GROUP AS AT 31 DECEMBER 2017

- **IFRS 15 – Revenue from Contracts with Customers** (published on 28 May 2014 and supplemented with further clarifications published on 12 April 2016), which is meant to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue-Barter Transactions Involving Advertising Services. This standard establishes a new revenue recognition model to be applied to all contracts entered into with customers with the exception of those falling within the scope of application of other IAS/IFRSs such as leases, insurance contracts and financial instruments. The fundamental steps for accounting for revenues in accordance with the new model are:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract;
- recognise revenue when the entity satisfies each performance obligation.

The standard applies as of 1 January 2018. The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers were endorsed by the European Union on 6 November 2017. On the basis of the analyses conducted, the directors expect that the application of IFRS 15 will not have a significant impact on the amounts of revenues recognised and on the relative disclosure provided in the Group's consolidated financial statements.

- Final version of **IFRS 9 - Financial instruments** (published on 24 July 2014). This document incorporates the results of the IASB project for the replacement of IAS 39:
 - it introduces new criteria for the classification and measurement of financial assets and liabilities (along with the measurement of unsubstantial changes in financial liabilities);
 - With reference to the impairment model, the new standard requires losses on receivables to be estimated on the basis of the expected losses model (and not the incurred losses model used in IAS 39) using supportable information available without unreasonable cost or effort, including historical, current and forecast data;
 - it introduces a new hedge accounting model (increase in the type of transactions eligible for hedge accounting, change in the methods for accounting for forward contracts and options when included in a hedge accounting relationship, amendments to the effectiveness test).

The new standard must be applied in financial years beginning on or after 1 January 2018.

On the basis of the analyses conducted, the directors expect that the application of IFRS 9 will not have a significant impact on the amounts and on the relative disclosure provided in the Group's consolidated financial statements.

- **IFRS 16 – Leases** (published on 13 January 2016) which is meant to replace IAS 17 – Leases, as well as the interpretations IFRIC 4 – Determining whether an Arrangement contains a Lease, SIC-15 – Operating Leases—Incentives and SIC-27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The new standard provides a new definition of lease and introduces an approach based on control (right of use) of an asset to distinguish lease agreements from service agreements, identifying as distinguishing factors: the identification of the asset, the right of substitution, the right to substantially obtain all economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the contract.

The standard establishes a single model for the recognition and measurement of lease agreements for the lessee which requires the recognition of the asset subject to the lease, including an operating lease, in the assets with a matching entry under financial payables, also providing the possibility not to recognise as leases those contracts which concern low-value assets and leases with a contract term of equal to or less than 12 months. The standard does not include significant amendments for lessors.

The standard applies as of 1 January 2019, but early application is permitted, only for companies that have already applied IFRS 15 - Revenue from Contracts with Customers. The directors expect that the application of IFRS 16 may have a very significant impact on the amounts and on the relative disclosure provided in the Group's consolidated financial statements.

The directors have initiated a project for the implementation of the new standard, which calls for a first phase consisting of a detailed analysis of contracts and accounting impacts and a second phase for the implementation and/or adjustment of administrative processes and the accounting system. The main qualitative and quantitative impacts of the new standard expected by the Directors at the date of initial application are reported below:

- a decrease in operating costs between €1.7 and 2.3 million;
- an increase in depreciation and amortisation between €1.7 and 2.3 million;
- a deterioration of the net financial position between €5.3 and 7.5 million.

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

At the date of these Consolidated Financial Statements, the competent bodies of the European Union have not yet completed the approval process required for the adoption of the amendments and standards described below.

- Amendment to **IFRS 2 “Classification and measurement of share-based payment transactions”** (published on 20 June 2016), which contains several clarifications on accounting for the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with net settlement and accounting for amendments to the terms and conditions of a share-based payment which change the classification from cash-settled to equity-settled. The amendments apply as of 1 January 2018, but early application is permitted.
- **“Annual Improvements to IFRSs: 2014-2016 Cycle”**, published on 8 December 2016 (including IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard) which partially supplement pre-existing standards. The majority of the amendments apply as of 1 January 2018, but early application is permitted.
- Interpretation **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (published on 8 December 2016). The interpretation has the objective of providing guidelines for transactions carried out in foreign currency when non-monetary advances or payments on account are recognised in the financial statements, before the recognition of the relative asset, cost or revenue. This document provides instructions on how an entity must determine the date of a transaction and as a result the spot exchange rate to be used when transactions in foreign currency are carried out, in which payment is made or received in advance. IFRIC 22 applies as of 1 January 2018, but early application is permitted.
- Amendment to **IAS 40 “Transfers of Investment Property”** (published on 8 December 2016). These amendments clarify transfers of a property to, or from, investment property. In particular, an entity is required to reclassify a property as, or from, investment property, only when there is evidence that the property use has changed. This change must be related to a specific event that took place and therefore

should not be limited to a change in the intentions of the entity's management. These amendments apply as of 1 January 2018, but early application is permitted.

- On 7 June 2017, the IASB published the interpretation document **IFRIC 23 – Uncertainty over Income Tax Treatments**. The document deals with the matter of uncertainties over the income tax treatment to be adopted.

The document requires uncertainties in the determination of tax liabilities or assets to be reflected in the financial statements only when it is likely that the entity will pay or recover the amount in question. In addition, the document does not contain any new disclosure requirement, but highlights that the entity will need to establish if it will be necessary to provide information on the considerations of the management and relating to the uncertainty inherent in accounting for taxes, in accordance with the provisions of IAS 1.

The new interpretation applies as of 1 January 2019, but early application is permitted.

- Amendment to **IFRS 9 “Prepayment Features with Negative Compensation”** (published on 12 October 2017). This document specifies that instruments that require prepayment could respect the “SPPI” test even if the reasonable additional compensation to be paid in the case of prepayment is negative compensation for the lender. The amendment applies as of 1 January 2019, but early application is permitted.
- Amendment to **IAS 28 “Long-term Interests in Associates and Joint Ventures”** (published on 12 October 2017). This document clarifies the need to apply IFRS 9, including impairment-related requirements, to other long-term interests in associates and joint ventures for which the equity method is not applied. The amendment applies as of 1 January 2019, but early application is permitted.
- Document **Annual Improvements to IFRSs 2015-2017 Cycle**, published on 12 December 2017 (including IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Remeasurement of previously held interests in a joint operation, IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity, IAS 23 Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation) which incorporates amendments of several standards within the annual improvement process. The amendments apply as of 1 January 2019, but early application is permitted.
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- Amendment to **IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”** (published on 11 September 2014). This document was published to resolve the current conflict between IAS 28 and IFRS 10 regarding the measurement of the profit or loss resulting from the disposal or contribution of a non-monetary asset to a joint venture or an associate in exchange for a stake in the latter. The IASB has currently indefinitely deferred the application of this amendment.

Comment on the main items of the consolidated statement of financial position

1. GOODWILL AND OTHER INTANGIBLE ASSETS

<i>(in thousands of Euro)</i>	Goodwill (*)	Trademarks	Development costs	Other intangible assets (*)	Total
Historical					
As at 01 January 2016	42,478	10,880	9,054	8,255	70,667
Increases	22,645	-	1,133	2,144	25,922
Decreases	-	-	(218)	-	(218)
Reclassifications	(9,705)	216	207	9,351	69
Exchange differences	-	(8)	(15)	11	(12)
As at 31 December 2016	55,418	11,088	10,161	19,761	96,428
Increases	-	-	427	4,541	4,968
Decreases	-	-	-	(65)	(65)
Reclassifications	-	-	267	(320)	(53)
Exchange differences	-	(4)	(7)	30	19
As at 31 December 2017	55,418	11,084	10,848	23,947	101,297
Provision					
As at 01 January 2016	12,903	5,326	6,420	6,895	31,544
Increases	-	738	1,572	1,025	3,335
Decreases	-	-	(218)	-	(218)
Reclassifications	12	85	37	9	143
Exchange differences	-	(3)	(12)	8	(7)
As at 31 December 2016	12,915	6,146	7,799	7,937	34,797
Increases	-	739	1,369	1,706	3,814
Decreases	-	-	-	(65)	(65)
Reclassifications	-	-	-	-	-
Exchange differences	-	(3)	(6)	42	33
As at 31 December 2017	12,915	6,882	9,162	9,620	38,579
Net carrying amount					
As at 31 December 2016	42,503	4,942	2,362	11,824	61,631
As at 31 December 2017	42,503	4,202	1,686	14,327	62,718

(*) values restated pursuant to IFRS 3 revised, so as to retrospectively take into account the effects of the measurement at fair value of the assets and liabilities of Spirotech Heat Exchangers Private Ltd at the acquisition date, previously considered provisional (see the note “Information relating to IFRS 3 revised”).

Goodwill

Goodwill did not change compared to last year. Please note that in 2017 part of the goodwill relating to the acquisition of SPIROTECH was allocated to the customer list, thus changing the values of intangible assets from the previous year, as specified in the “Introduction”.

Pursuant to IAS 36, goodwill is not subject to amortisation, but rather impairment testing on a yearly basis or more frequently if specific events and circumstances take place that could result in an impairment loss (impairment test).

The Group tested the recoverability of the carrying amount of Net Invested Capital (NIC) as at 31 December 2017. Net invested capital is inclusive of the value of goodwill and other assets measured with a finite useful life. For the purpose of impairment testing, the value of goodwill was allocated to the two cash-generating units (CGUs) identified (“Components” and “Cooling Systems”) in line with the operating segments identified in accordance with IFRS 8. The management has not identified other lower level cash-generating units with largely independent cash flows to be considered in the allocation of goodwill.

In particular, the Group has recognised goodwill totalling €42.5 million in the consolidated financial statements at 31 December 2017, attributed to the “Components CGU” (€25 million) and the “Cooling Systems CGU” (€17.5 million), to which intangible assets with a finite useful life amounting to €20.2 million and property, plant and equipment of €111.2 million were also allocated.

In determining the recoverable amount, identified as the value in use, i.e., the sum of discounted cash flows generated in the future and on an ongoing basis from NIC (unlevered discounted cash flow method), the management made reference to the 2018-2021 Business Plan approved by the Board of Directors on 8 February 2018, the assumptions of which include the Management’s expectations of focusing on new geographical markets deemed most attractive in terms of size, stability, growth and profit margins, strengthening and expanding existing production capacity, continuously improving the performance of existing products and developing innovative products.

In more detail, in order to determine the recoverable amount of Net Invested Capital, cash flows were discounted using a discounting rate (WACC) which takes into account the specific risks of the asset and which reflects current market assessments of the cost of money. Two different WACCs were calculated, equivalent to 7.69% for the Components CGU and 6.67% for the Cooling Systems CGU.

The recoverable amount also includes the terminal value of income flows, which was calculated with the “perpetual cash flow” method considering a growth rate (g rate) of 2%. In the terminal value, an operating cash flow equal to the last year of the plan (2021), adjusted so as to reflect a situation “under normal circumstances”, was considered. The level of amortisation and investments was balanced and a change in working capital equal to zero was assumed.

The weighted average cost of capital calculated for the discounting of cash flows is based on a weighting between the cost of debt and the cost of equity, determined on the basis of the values of companies comparable to LU-VE and therefore operating within the same business segments.

No impairment losses emerged based on the testing carried out, as the value in use of the CGUs was found to be higher than the carrying amount.

In addition, as the recoverable amount is determined on the basis of projections, the Management also developed sensitivity analyses, in which the underlying assumptions of the impairment test are changed.

For both CGUs, the sensitivity analysis carried out did not bring to light potential losses in value considering a growth rate of zero and a WACC appreciably higher than the one used.

Development costs

The total *Development costs* for the year 2017 was €2,304 thousand (of which €427 thousand capitalised and €1,877 thousand in projects under way), referring to new product development. For a more detailed analysis, please refer to the Directors’ Report.

Other intangible assets

Other intangible assets rose by €4,541 thousand, of which:

- €2,191 thousand relating to software development costs. The main project developed in 2017 was PLM (Product Lifecycle Management), for roughly €1,050 thousand, which will be used in all of the Group’s production facilities;
- €1,877 thousand, as reported above, refers to product development projects currently being completed;
- €473 thousand refers to software projects currently being completed (primarily PLM for roughly €340 thousand).

This item also includes Customer Relationships (equal to €9,544 thousand) relating to the process of allocating part of the acquisition cost of the subsidiary SPIROTECH (for more details, please refer to the “Information relating to IFRS 3 revised” section).

These intangible assets were included in the impairment test described above as they were allocated to the two CGUs identified by the Management.

2. PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of Euro)</i>	Property	Plant and equipment	Other assets	Work in progress	Total
Historical					
As at 01 January 2016	73,852	96,787	28,362	1,464	200,465
Increases	6,539	15,197	2,533	3,296	27,565
Decreases	(17)	(2,720)	(780)	-	(3,517)
Reclassifications	(152)	108	(752)	(900)	(1,696)
Exchange differences	1,097	370	(49)	18	1,436
As at 31 December 2016	81,319	109,742	29,314	3,878	224,253
Increases	3,196	9,980	2,467	3,675	19,318
Decreases	-	(689)	(163)	(29)	(881)
Reclassifications	191	3,130	151	(3,419)	53
Exchange differences	343	294	62	33	732
As at 31 December 2017	85,049	122,457	31,831	4,138	243,475
Provision					
As at 01 January 2016	16,354	73,071	21,909	-	111,334
Increases	2,393	9,503	2,223	-	14,119
Decreases	(5)	(2,535)	(584)	-	(3,124)
Reclassifications	(336)	(887)	(438)	-	(1,661)
Exchange differences	153	320	(15)	-	458
As at 31 December 2016	18,559	79,472	23,095	-	121,126
Increases	1,982	6,970	2,377	-	11,329
Decreases	-	(506)	(97)	-	(603)
Reclassifications	12	-	(12)	-	-
Exchange differences	85	314	33	-	432
As at 31 December 2017	20,638	86,250	25,396	-	132,284
Net carrying amount					
As at 31 December 2016	62,760	30,270	6,219	3,878	103,127
As at 31 December 2017	64,411	36,207	6,435	4,138	111,191

As at 31 December 2017, property, plant and equipment rose by €19,318 thousand.

In 2017, the technological capex programme continued in Italy and abroad for the expansion and streamlining of certain production sites and for the strengthening of installed production capacity. These investments were in part meant for new application segments and in part linked

to technological evolutions under way due to the introduction of new regulations regarding refrigerant fluids with a low environmental impact. The main investments for the year regarded:

- the expansion of existing production capacity and adjustment to fire prevention regulations (for €4.4 million) by the Parent Company;
- the expansion of existing production capacity (for €1.7 million) by the subsidiary SEST;
- the expansion of the production site and the expansion of production capacity (for €7.0 million) by the subsidiary SEST-LUVE Polska;
- the expansion of existing production capacity (for €1.7 million) by the Russian subsidiary OOO SEST LUVE;
- the expansion of existing production capacity (for €1.7 million) by the Czech subsidiary HTS sro;
- the expansion of existing production capacity (for €1.1 million) by the Indian subsidiary SPIROTECH.

This property, plant and equipment was included in the impairment test described above as it was allocated to the two CGUs identified by the Management.

3. EQUITY INVESTMENTS

The Group holds the following equity investments:

<i>(in thousands of Euro)</i>	31/12/2017	31/12/2016
Industria e Università S.r.l.	6	6
Total	6	6

4. OTHER NON-CURRENT ASSETS

They amounted to €1.935 thousand, an increase of around €109 thousand compared to €2,044 thousand in the previous year. The item includes:

- €1,349 thousand relating to the residual value of the prepayment by the subsidiary SPIROTECH to the Indian government to acquire the right to occupy the land on which the production facility is located for a period of 99 years (€1,460 thousand in the previous period);
- €408 thousand in receivables due from the tax authorities payable beyond the year which refer to the refund request due to the deductibility of IRES from IRAP for the period 2007-2011 (€409 thousand in the previous period);
- €178 thousand referring to security deposits provided for the provision of services (€175 thousand in the previous period).

5. INVENTORIES

This item in question was broken down as follows at 31 December 2017:

<i>(in thousands of Euro)</i>	31/12/2017	31/12/2016	Change
Raw materials and consumables	26,574	21,922	4,652
Work in progress and semi-finished products	3,311	2,875	436
Finished products and goods for resale	10,825	8,634	2,191
Provision for inventory losses	(2,722)	(2,517)	(205)
Total	37,988	30,914	7,074

The increase in value compared to 2016 was mainly caused by the different monthly breakdown of sales in 2017 compared to the previous year. Turnover rose in the last months of the year under way, and therefore stocks increased accordingly (sales trends in the first two months of 2018, commented on in the Directors' Report, provide confirmation of this trend).

The inventories of subsidiaries, for the products acquired from Group companies, are adjusted by intra-group margins and the related tax effect has been calculated.

The provision for inventory losses, equal to €2,722 thousand as at 31 December 2017, reflects the best estimate of obsolescence risk, on the basis of specific analyses carried out at the end of the year on unsold inventory or inventory with a low turnover rate. The provision increased by €205 thousand compared to the previous year, broken down as follows:

- Increase in provisions of €173 thousand;
- Negative exchange differences of €32 thousand.

6. TRADE RECEIVABLES

This item was broken down as follows at the end of the year:

<i>(in thousands of Euro)</i>	31/12/2017	31/12/2016	Change
Trade receivables	50,610	48,588	2,022
Bad debt provision	(2,994)	(3,132)	138
Total	47,616	45,456	2,160

Trade receivables rose due primarily to the increase in sales.

In addition, in December 2017 receivables of roughly €16,264 thousand were transferred to the Factor, compared to €10,968 thousand in the same period of the previous year. These assignments were without recourse. Assigned receivables as a percentage of turnover came to 6% in 2017 and 5% in 2016.

All trade receivables are due within the subsequent year and derive from normal sales transactions.

The bad debt provision rose during the year to reflect the recoverability of the receivables (roughly €66 thousand) and approximately €206 thousand of it was used for losses recognised during the year, registering a negative exchange effect of €2 thousand.

The breakdown of trade receivables by geographical area is shown below:

<i>(in thousands of Euro)</i>		
Country	31/12/2017	31/12/2016
Italy	11,899	15,829
EU Countries	24,618	22,048
Non-EU Countries	14,094	10,711
Bad debt provision	(2,995)	(3,132)
Total	47,616	45,456

The decrease in Italy was for the most part due to the growth in receivables of Italian customers assigned to the Factor in 2017 compared to the previous year.

The ageing of trade receivables is shown below:

<i>(in thousands of Euro)</i>		
	31/12/2017	31/12/2016
Current receivables (not past due)	36,156	35,881
Past due up to 30 days	6,389	4,248
Past due from 30 to 60 days	1,532	1,837
Past due from 60 to 90 days	1,177	527
Past due for more than 90 days	5,356	6,095
Total	50,610	48,588

No trade receivables with a residual maturity of more than 5 years were recognised in the financial statements.

7. DUE FROM THE TAX AUTHORITIES FOR CURRENT TAXES

This item was broken down as follows:

<i>(in thousands of Euro)</i>			
	31/12/2017	31/12/2016	Change
Due from the tax authorities for VAT	6,207	2,836	3,371
Due from the tax authorities for payments on account of current taxes	2,943	2,037	906
Others	86	507	(421)
Total	9,236	5,380	3,856

VAT receivables rose by €3,371 thousand compared to 2016; this growth was the result of:

- €1,358 thousand recorded by SPIROTECH for delayed reimbursements by the Indian government due to the entry into force in the second half of 2017 of the new procedure relating to the “Goods and Services Tax” (“GST”);
- €1,478 thousand recorded by the Parent Company;
- €535 thousand recorded by other Group companies.

Tax receivables for payments on account of current taxes payable within the subsequent year refer to the excess of taxes prepaid for the year 2017 with respect to the effective tax burden.

8. CURRENT FINANCIAL ASSETS

This item was broken down as follows:

<i>(in thousands of Euro)</i>	31/12/2017	31/12/2016	Change
Asset management	19,154	39,468	(20,314)
Capitalisation policies	40,192	27,457	12,735
Other securities	12,716	7,102	5,614
Fair value of derivative instruments	246	118	128
Total	72,308	74,145	(1,837)

The Asset management agreement was entered into with Bnp Paribas Investment Partners SGR S.p.A. and the assets may be disinvested upon simple request. The funds are primarily invested in bonds and in units and/or shares of bond and/or flexible funds. There is also a component of investment in equity instruments and units and/or shares of equity funds and, to a limited extent, also investments in financial instruments denominated in currencies other than the Euro. Asset management had a negative overall impact of around €74 thousand in the income statement for the year.

The Capitalisation policies taken out were issued by Aviva Vita S.p.A and are the type of policies which allow, after the payment of a lump-sum premium, for an annual capital revaluation based on the return obtained from management (almost exclusively invested in government securities and very highly rated bonds). The fair value measurement at the reporting date entailed the recognition of a positive amount of roughly €735 thousand. During the year, policies were taken out for an additional nominal amount of €12,000 thousand (with the payment of an entry fee totalling €64 thousand).

Other securities referred to investments made through UBI Banca S.p.A. (where the securities account is held) in Italian government securities, corporate bonds, bond funds and mixed funds whose fair value measurement at the reporting date entailed the recognition of a positive amount of roughly €293 thousand. During the year, around €396 thousand of these securities was liquidated and there was a roughly €5,426 thousand increase. The net effect of disposals and acquisitions entailed the recognition in the 2017 income statement of a positive effect of around €53 thousand.

In May 2017, a new agreement was entered into with UNICREDIT for €300 thousand, which entailed the recognition of a negative fair value equal to €10 thousand.

The “Fair value of derivative instruments” represented the fair value as at 31 December 2017 of derivatives subscribed by the Group. The change during the year had a positive effect of €246 thousand on the income statement.

The summary relating to outstanding derivative financial instruments as at 31 December 2017 broken down by type is provided below:

(in thousands of
Euro)

		31/12/2017		31/12/2016		31/12/2017	31/12/2016
TYPE	ORIGINAL NOTIONAL	NOT. Short	NOT. M/L	NOT. Short	NOT. M/L	FAIR VALUE	FAIR VALUE
IRS on loans	138,267	29,556	66,165	23,748	66,088	(522)	(879)
Currency options	8,992	7,315	-	16,865	569	(245)	65
Commodity Swaps	2,250	2,250	-	-	-	123	-
Total	149,509	39,121	66,165	40,613	66,657	(644)	(814)
Total Notional		105,286		107,270			

The details relating to outstanding derivative financial instruments as at 31 December 2017 broken down by type are provided below:

IRS on loans (in thousands of Euro)

DEBTOR COMPANY	COUNTERPARTY	TAKEN OUT	MATURITY	ORIGINAL NOTIONAL	31/12/2017		31/12/2017
					NOT. Short	NOT. M/L	FAIR VALUE
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	11/08/2014	15/09/2020	2,321	357	714	(16)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	11/08/2014	16/10/2020	3,500	583	1,167	(22)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	21/07/2015	29/06/2020	4,818	1,205	1,825	(26)
LU-VE S.P.A.	Intesa San Paolo S.p.A.	04/02/2016	31/03/2020	10,000	2,500	3,750	(23)
LU-VE S.P.A.	Cassa di Risparmio di Parma e Piacenza Spa	21/11/2012	22/11/2017	1,000	-	-	-
LU-VE S.P.A.	Cassa di Risparmio di Parma e Piacenza Spa	16/06/2015	31/12/2019	8,000	2,134	2,664	(42)
LU-VE S.P.A.	Deutsche Bank	29/10/2013	31/12/2018	1,000	200	-	-
LU-VE S.P.A.	Banca Nazionale del Lavoro	11/08/2014	16/10/2020	3,500	583	1,167	(25)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/07/2015	09/06/2020	17,778	4,444	6,667	(113)
LU-VE S.P.A.	Banca Nazionale del Lavoro	25/10/2016	21/09/2020	28,000	8,000	14,000	(15)
LU-VE S.P.A.	UniCredit Spa	17/09/2015	31/12/2020	10,000	2,500	5,000	(82)
LU-VE S.P.A.	Deutsche Bank	27/03/2017	23/03/2021	5,500	1,375	3,094	(17)
LU-VE S.P.A.	Mediocredito italiano	21/06/2017	28/02/2022	25,000	2,941	19,118	(17)
SEST S.P.A.	Cassa di Risparmio di Parma e Piacenza Spa	24/06/2015	31/12/2019	4,000	1,067	1,332	(21)
SEST S.P.A.	UniCredit Spa	02/10/2015	28/06/2019	1,500	400	200	(2)
SEST S.P.A.	UniCredit Spa	02/10/2015	28/06/2024	5,100	600	3,300	(56)
SEST LUIVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	05/09/2015	18/04/2017	3,750	-	-	-
SEST LUIVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	05/10/2016	08/11/2021	3,500	667	2,167	(45)
					138,267	29,556	66,165
							(522)

Currency options (in thousands of Euro)

DEBTOR COMPANY	COUNTERPARTY	TYPE	HEDGED ELEMENT	TAKEN OUT	MATURITY	NOT. ORIG.	31/12/2017		31/12/2017
							NOT. Short	NOT. M/L	FAIR VALUE
LU-VE S.P.A.	Deutsche Bank	FX Option	€/€ Exchange Rate	22/12/2016	27/03/2018	2,001	500	-	(78)
LU-VE S.P.A.	Deutsche Bank	FX Option	€/€ Exchange Rate	28/03/2017	26/07/2018	2,001	1,501	-	(119)
LU-VE S.P.A.	Banca Nazionale del Lavoro	FX Option	€/€ Exchange Rate	09/06/2017	28/011/2018	1,751	1,376	-	(63)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	01/01/2018	200	200	-	(9)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	31/01/2018	200	200	-	(9)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	28/02/2018	200	200	-	(9)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	29/03/2018	200	200	-	(10)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	30/04/2018	200	200	-	(10)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	31/05/2018	200	200	-	(11)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	29/06/2018	200	200	-	(11)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	31/07/2018	200	200	-	(11)
SEST LUVÉ POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	16-01-2017	05-01-2018	400	400	-	28
SEST LUVÉ POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	16-02-2017	18-01-2018	100	100	-	4
SEST LUVÉ POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	06-07-2017	05-07-2018	400	400	-	9
SEST LUVÉ POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	06-07-2017	07/05/2018	400	400	-	11
SEST LUVÉ POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	06-07-2017	05-06-2018	400	400	-	10
SEST LUVÉ POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	06-07-2017	06-03-2018	400	400	-	12
SEST LUVÉ POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	06-07-2017	05-04-2018	400	400	-	11
SEST LUVÉ POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	06-07-2017	05-02-2018	400	400	-	13
SEST LUVÉ POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	11-08-2017	06-08-2018	400	400	-	14
SEST LUVÉ POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	20-09-2017	05-09-2018	400	400	-	11
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	12/01/2017	02/01/2018	40	40	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	18/01/2017	02/01/2018	50	50	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	18/01/2017	10/01/2018	50	50	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	28/04/2017	02/01/2018	30	30	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	28/04/2017	31/01/2018	30	30	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	28/04/2017	28/02/2018	30	30	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	28/04/2017	28/03/2018	30	30	-	(2)

DEBTOR COMPANY	COUNTERPARTY	TYPE	HEDGED ELEMENT	TAKEN OUT	MATURITY	ORIGINAL NOTIONAL	31/12/2017		31/12/2017
							NOT. Short	NOT. M/L	FAIR VALUE
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	28/04/2017	16/04/2018	30	30	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	18/05/2017	02/01/2018	25	25	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	18/05/2017	31/01/2018	25	25	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	18/05/2017	28/02/2018	25	25	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	18/05/2017	30/03/2018	25	25	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	18/05/2017	30/04/2018	25	25	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	18/05/2017	10/05/2018	25	25	-	(2)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	24/07/2017	02/01/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	24/07/2017	31/01/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	24/07/2017	28/02/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	24/07/2017	28/03/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	24/07/2017	27/04/2018	25	25	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	24/07/2017	31/05/2018	25	25	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	24/07/2017	29/06/2018	25	25	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	24/07/2017	26/07/2018	25	25	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	14/08/2017	02/01/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	14/08/2017	31/01/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	14/08/2017	28/02/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	14/08/2017	28/03/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	14/08/2017	27/04/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	14/08/2017	31/05/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	14/08/2017	29/06/2018	25	25	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	14/08/2017	31/07/2018	25	25	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	14/08/2017	20/08/2018	25	25	-	(1)
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	29/08/2017	02/01/2018	25	25	-	1
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	29/08/2017	31/01/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	29/08/2017	28/02/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	29/08/2017	28/03/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	29/08/2017	27/04/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	29/08/2017	31/05/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	29/08/2017	29/06/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	29/08/2017	31/07/2018	25	25	-	-
SPIROTECH	Citi Bank Gurgaon (India)	FX Option	€/INR Exchange Rate	29/08/2017	31/08/2018	50	50	-	(1)
Total						12,168	9,792	-	(245)

Commodities (in thousands of Euro)

DEBTOR COMPANY	COUNTERPARTY	Number	TYPE	HEDGED ELEMENT	TAKEN OUT	MATURITY	NOT. ORIG.	31/12/2017		31/12/2017
								NOT. Short	NOT. M/L	FAIR VALUE
LU-VE S.P.A.	UniCredit S.p.A.	401225788	Commodity Swaps	Commodity Swaps	04/08/2017	30/06/2018	40	40	-	7
LU-VE S.P.A.	UniCredit S.p.A.	407026624	Commodity Swaps	Commodity Swaps	10/11/2017	30/06/2018	45	45	-	2
LU-VE S.P.A.	UniCredit S.p.A.	407140206	Commodity Swaps	Commodity Swaps	14/11/2017	30/06/2018	145	145	-	6
LU-VE S.P.A.	UniCredit S.p.A.	407028800	Commodity Swaps	Commodity Swaps	10/11/2017	30/06/2018	145	145	-	5
LU-VE S.P.A.	UniCredit S.p.A.	407026570	Commodity Swaps	Commodity Swaps	10/11/2017	31/05/2018	45	45	-	2
LU-VE S.P.A.	UniCredit S.p.A.	407140190	Commodity Swaps	Commodity Swaps	14/11/2017	31/05/2018	145	145	-	6
LU-VE S.P.A.	UniCredit S.p.A.	407028764	Commodity Swaps	Commodity Swaps	10/11/2017	31/05/2018	145	145	-	5
LU-VE S.P.A.	UniCredit S.p.A.	401225772	Commodity Swaps	Commodity Swaps	04/08/2017	31/05/2018	40	40	-	7
LU-VE S.P.A.	UniCredit S.p.A.	401225758	Commodity Swaps	Commodity Swaps	04/08/2017	30/04/2018	40	40	-	7
LU-VE S.P.A.	UniCredit S.p.A.	407028729	Commodity Swaps	Commodity Swaps	10/11/2017	30/04/2018	145	145	-	5
LU-VE S.P.A.	UniCredit S.p.A.	407140174	Commodity Swaps	Commodity Swaps	14/11/2017	30/04/2018	145	145	-	6
LU-VE S.P.A.	UniCredit S.p.A.	407026547	Commodity Swaps	Commodity Swaps	10/11/2017	30/04/2018	45	45	-	2
LU-VE S.P.A.	UniCredit S.p.A.	407026525	Commodity Swaps	Commodity Swaps	10/11/2017	31/03/2018	45	45	-	2
LU-VE S.P.A.	UniCredit S.p.A.	407140158	Commodity Swaps	Commodity Swaps	14/11/2017	31/03/2018	145	145	-	6
LU-VE S.P.A.	UniCredit S.p.A.	407028703	Commodity Swaps	Commodity Swaps	10/11/2017	31/03/2018	145	145	-	5
LU-VE S.P.A.	UniCredit S.p.A.	401225741	Commodity Swaps	Commodity Swaps	04/08/2017	31/03/2018	40	40	-	8
LU-VE S.P.A.	UniCredit S.p.A.	401225726	Commodity Swaps	Commodity Swaps	04/08/2017	28/02/2018	40	40	-	8
LU-VE S.P.A.	UniCredit S.p.A.	407028679	Commodity Swaps	Commodity Swaps	10/11/2017	28/02/2018	145	145	-	5
LU-VE S.P.A.	UniCredit S.p.A.	407140142	Commodity Swaps	Commodity Swaps	14/11/2017	28/02/2018	145	145	-	6
LU-VE S.P.A.	UniCredit S.p.A.	407026504	Commodity Swaps	Commodity Swaps	10/11/2017	28/02/2018	45	45	-	2
LU-VE S.P.A.	UniCredit S.p.A.	407026461	Commodity Swaps	Commodity Swaps	10/11/2017	31/01/2018	45	45	-	2
LU-VE S.P.A.	UniCredit S.p.A.	407140116	Commodity Swaps	Commodity Swaps	14/11/2017	31/01/2018	145	145	-	6
LU-VE S.P.A.	UniCredit S.p.A.	407028643	Commodity Swaps	Commodity Swaps	10/11/2017	31/01/2018	145	145	-	5
LU-VE S.P.A.	UniCredit S.p.A.	401225704	Commodity Swaps	Commodity Swaps	04/08/2017	31/01/2018	40	40	-	8
Total							2,250	2,250	-	123

9. OTHER CURRENT ASSETS

The details of this item are shown below:

<i>(in thousands of Euro)</i>	31/12/2017	31/12/2016	Change
From employees	104	78	26
Advances and other receivables	1,918	2,067	(149)
Total	2,022	2,145	(123)

10. CASH AND CASH EQUIVALENTS

The item, equal to €50,762 thousand as at 31 December 2017 (€46,455 thousand as at 31 December 2016), represented the asset balances in current accounts of €50,731 thousand and cash and valuables in hand of €31 thousand. For further details, refer to the Statement of Cash Flows.

11. SHAREHOLDERS' EQUITY

The Parent Company's share capital amounted to €62,704 thousand (€62,496 thousand as at 31 December 2016). Following the exercise of roughly 7,347,298 Warrants, in 2017 a total of 2,081,162 ordinary shares were issued, resulting in a share capital increase of €208,116.20.

In 2017, dividends of €4,416 thousand were distributed by the Parent Company from the reserves and retained earnings.

As at 31 December 2017, the Parent Company held 137,805 treasury shares (0.62% of the share capital), recognised in the financial statements as an adjustment of shareholders' equity for a total value of roughly €1,420 thousand (for further details, see the Directors' Report). During the period, 38,505 treasury shares were acquired.

Non-controlling interests amounted to €2,124 thousand (€1,823 thousand as at 31 December 2016). The profit attributable to non-controlling interests in the year was €637 thousand (€704 thousand in the same period of 2016).

12. LOANS

This item was broken down as follows:

<i>(in thousands of Euro)</i>	31/12/2017		31/12/2016	
	Current	Non-current	Current	Non-current
Bank loans	42,234	112,973	41,531	105,289
Advances subject to collection on bank receipts or invoices	-	-	303	-
Total	42,234	112,973	41,834	105,289

As at 31 December 2017, bank loans amounted to €155,207 thousand.

The breakdown of this item, the evolution with respect to the previous year and the characteristics of the bank loans held by the Group are provided below (thousands of Euro):

DEBTOR COMPANY	COUNTERPARTY	LOAN TYPE	TAKEN OUT	MATURITY	RATE APPLIED	ORIGINAL AMOUNT	31/12/2017		31/12/2016	
							RESIDUAL AMOUNT	OF WHICH CURRENT	RESIDUAL AMOUNT	OF WHICH CURRENT
LU-VE	Intesa San Paolo S.p.A.	Unsecured loan	25/09/2008	01/05/2019	3M Euribor + Spread	1,185	157	113	286	119
LU-VE	Cassa di Risparmio di Parma e Piacenza S.p.A.	Unsecured loan	04/12/2014	31/12/2019	3M Euribor + Spread	8,000	-	-	6,853	2,134
LU-VE	Unione di Banche Italiane Società cooperativa per azioni	Mortgage Loan	18/07/2013	15/03/2020	6M Euribor + Spread	5,000	-	-	2,857	714
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	28/11/2014	28/11/2019	3M Euribor + Spread	5,000	2,037	1,014	3,040	1,000
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	09/06/2015	09/06/2020	6M Euribor + Spread	20,000	10,919	4,356	15,476	4,364
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	29/06/2015	29/06/2020	3M Euribor + Spread	6,000	3,016	1,201	4,210	1,195
LU-VE	UniCredit S.p.A.	Unsecured loan	17/09/2015	31/12/2020	6M Euribor + Spread	10,000	7,500	2,500	10,000	2,500
LU-VE	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	3M Euribor + Spread	30,000	19,952	4,988	24,846	4,946
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + Spread	10,000	7,500	2,500	10,000	2,500
LU-VE	Banca Popolare di Sondrio Società Cooperativa per Azioni	Unsecured loan	24/06/2016	31/10/2017	Average of 3M Euribor prev. quarter + Spread	5,000	-	-	4,001	4,001
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/09/2016	20/09/2020	3M Euribor floor 0% + Spread	30,000	22,000	8,000	29,889	8,000
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	30/09/2016	30/09/2021	3M Euribor + Spread	10,000	7,519	1,994	9,505	1,986
LU-VE	Banca Popolare di Sondrio Società Cooperativa per Azioni	Unsecured loan	15/12/2016	31/01/2020	Average of 3M Euribor prev. quarter + Spread	10,000	7,508	3,331	10,000	2,492
LU-VE	GE Capital Interbanca S.p.A.	Mortgage Loan	16/10/2013	16/10/2020	6M Euribor + Spread	7,000	-	-	-	-
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	23/03/2021	3M Euribor + Spread	1,500	1,198	399	-	-
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	28/11/2020	3M Euribor + Spread	5,500	4,460	1,373	-	-
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	31/03/2017	28/02/2022	3M Euribor + Spread	25,000	25,000	5,882	-	-
LU-VE	UniCredit S.p.A.	Unsecured loan	20/04/2017	31/12/2020	Fixed	10,000	8,562	2,854	-	-
LU-VE	Unione di Banche Italiane Società cooperativa per azioni	Unsecured loan	20/12/2017	20/12/2020	3M Euribor + Spread	20,000	20,000	-	-	-
HTS	FORTIS BANK SA/NV	Mortgage Loan	17/04/2012	31/03/2017	3M Euribor + Spread	3,000	-	-	150	150
HTS	BNP PARIBAS FORTIS SA/NV	Mortgage Loan	26/06/2013	30/06/2017	3M Euribor + Spread	1,000	-	-	125	125
SEST	UniCredit S.p.A.	EIB Mortgage Loan	14/04/2014	30/06/2024	6M Euribor + Spread	6,000	3,900	600	4,500	600
SEST	UniCredit S.p.A.	Unsecured loan	14/04/2014	30/06/2019	3M Euribor + Spread	2,000	600	400	1,000	400
SEST	Cassa di Risparmio di Parma e Piacenza S.p.A.	Unsecured loan	04/12/2014	31/12/2019	3M Euribor + Spread	4,000	-	-	3,466	1,067
SEST LU-VE POLSKA SP. Z O.O.	BNP Paribas bank Polska SA	Unsecured loan	16/04/2014	18/04/2017	3M Euribor + Spread	5,000	-	-	2,500	2,500
SEST LU-VE POLSKA SP. Z O.O.	BNP Paribas bank Polska SA	EIB Mortgage Loan	08/11/2011	08/11/2021	3M Euribor + Spread	5,000	2,843	679	3,532	690
LU-VE FRANCE S.A R.L.	BNP PARIBAS S.A.	Mortgage Loan	08/11/2011	03/11/2026	Fixed	798	536	50	584	48
Total							155,207	42,234	146,820	41,531

In relation to certain loan agreements, the LU-VE Group committed to respecting specific financial parameters (covenants). For the loans still outstanding as at 31 December 2017, the details of loans that require financial covenants to be met are provided below (in thousands of Euro):

DEBTOR COMPANY	COUNTERPARTY	LOAN TYPE	TAKEN OUT	MATURITY	RATE APPLIED	FINANCIAL COVENANTS	ORIGINAL AMOUNT
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	28/11/2014	28/11/2019	3M Euribor + Spread	NFP/EBITDA <=3; NFP/SE <=1.5; EBITDA/net financial expense <= 4	5,000
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	09/06/2015	09/06/2020	6M Euribor + Spread	NFP/EBITDA <= 2.5; NFP/SE <= 1.5	20,000
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	29/06/2015	29/06/2020	3M Euribor + Spread	NFP/EBITDA <=3; NFP/SE <=1.5; EBITDA/net financial expense <= 4	6,000
LU-VE	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	3M Euribor + Spread	NFP/EBITDA at 30/06 <= 3; NFP/EBITDA at 31/12 <= 2.5	30,000
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + Spread	NFP/EBITDA <= 2.5; NFP/SE <1	10,000
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/09/2016	20/09/2020	3M Euribor + Spread	NFP/EBITDA <= 2.5; NFP/SE <= 1.5	30,000
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	30/09/2016	30/09/2021	3M Euribor + Spread	NFP/EBITDA <= 3.5; NFP/SE <= 1.5	10,000
LU-VE	Deutsche Bank	Unsecured loan	23/03/2017	28/11/2020	3M Euribor + Spread	NFP/EBITDA <=3	1,500
LU-VE	Deutsche Bank	Unsecured loan	23/03/2017	28/02/2022	3M Euribor + Spread	NFP/EBITDA <=3	5,500
LU-VE	Mediocredito italiano	Unsecured loan	31/03/2017	28/02/2022	3M Euribor + Spread	NFP/EBITDA <= 2.5; NFP/SE <=1	25,000
LU-VE	UniCredit S.p.A.	Unsecured loan	20/04/2017	31/12/2020	Fixed Rate	NFP/EBITDA <= 2.5; NFP/SE <=1.5	10,000
LU-VE	Unione di Banche Italiane SpA	Unsecured loan	13/12/2017	20/12/2020	3M Euribor + Spread	NFP/EBITDA <= 3.5; NFP/SE <= 1.5	20,000
SEST LU-VE POLSKA SP. Z O.O.	BNP Paribas bank Polska SA	EIB Mortgage Loan	08/11/2011	08/11/2021	3M Euribor + Spread	NFP/EBITDA <=2.5, SE / TOTAL ASSETS >= 40%, DSCR >= 1.2	5,000

Note:

NFP: net financial position;

SE: shareholders' equity;

DSCR: debt service coverage ratio

LR: leverage ratio (NFP/Ebitda)

GR: gearing ratio (NFP/SE)

The changes in loans during the period are shown below:

<i>(in thousands of Euro)</i>	Opening balance	Taken out	Annual repayments	Closing Balance
Loans	146,820	62,000	(53,613)	155,207
Advances on bank invoices	303	-	(303)	-
Total	147,123	62,000	(53,916)	155,207

The following changes took place in loans in 2017:

- unsecured medium-term loan for a total of €1,500 thousand taken out from Deutsche Bank, maturing on 28 November 2020, with repayment in equal quarterly instalments and an interest rate equal to the 3-month Euribor plus a spread. The loan is subject to compliance with financial covenants;
- unsecured medium-term loan for a total of €5,500 thousand taken out from Deutsche Bank, maturing on 23 March 2021, with repayment in equal quarterly instalments and an interest rate equal to the 3-month Euribor plus a spread. The loan is subject to compliance with financial covenants;
- unsecured medium-term loan for a total of €25,000 thousand taken out from Mediocredito, maturing on 28 February 2022, with repayment in equal quarterly instalments and an interest rate equal to the 3-month Euribor plus a spread. The loan is subject to compliance with financial covenants;
- unsecured medium-term loan for a total of €10,000 thousand taken out from UniCredit, maturing on 31 December 2020, with repayment in decreasing half-yearly instalments and a fixed interest rate. The loan is subject to compliance with financial covenants;
- unsecured medium-term loan for a total of €20,000 thousand taken out from UBI Banca, with a single maturity on 31 December 2020 and an interest rate equal to the 3-month Euribor plus a spread. The loan is subject to compliance with financial covenants;
- early repayment of the UBI Banca loan for €2,143 thousand taken out by LU-VE S.p.A. on 07 August 2013 and maturing on 07 September 2020;
- early repayment of the CARIPARMA loan for €5,332 thousand taken out by LU-VE S.p.A. on 04 December 2014 and maturing on 04 December 2019;
- early repayment of the CARIPARMA loan for €2,666 thousand taken out by SEST S.p.A. on 04 December 2014 and maturing on 04 December 2019.

With reference to the loans that require compliance with covenants, all of such covenants were respected at the reporting date.

All outstanding bank loans were denominated in Euro, and were floating rate and pegged to the Euribor. Note 34 below provides the information on financial risks required by IFRS 7.

13. PROVISIONS

The details of this item are shown below:

<i>(in thousands of Euro)</i>	31/12/2016	Prov./incr	Exchange delta	Uses	Release of excess portion	31/12/2017
Provision for agents' leaving indemnities	25	-	-	-	-	25
Product warranty provision	1,597	43	13	(72)	-	1,581
Other provisions for risks and charges	560	335	6	-	(35)	866
Total	2,182	378	19	(72)	(35)	2,472

The provision for agents' leaving indemnities covers amounts to be paid out to agents in the event of termination of the agency relationship by the Group.

The product warranty provision covers the risk of returns or charges from customers for products already sold. The provision was adjusted at year-end on the basis of analyses conducted and past experience.

The allocation for the year to other provisions and for risks refers to provisions for costs of early retirement incentives.

Provisions, which represent the estimated future outflows calculated partly based on historical experience, were subject to actuarial valuation at the reporting date. As the effect was deemed negligible, it was not incorporated in the consolidated financial statements.

14. EMPLOYEE BENEFITS

Employee benefits amounted to €4,047 thousand, a net increase of €111 thousand compared to 31 December 2016. The entire amount referred to the provision for post-employment benefits.

The provision for post-employment benefits refers only to the Group's Italian companies and includes substantially the post-employment benefits accrued by personnel employed as at 31 December, net of advances paid out to employees.

In accordance with what is established by domestic regulations, the amount due to each employee accrues based on services rendered and is disbursed when the employee leaves the company. The amount due upon termination of the employment relationship is calculated on the basis of its duration and the taxable wages of each employee. The liability is revalued each year on the basis of the official cost of living index and legal interest.

The relative regulations were supplemented by Italian Legislative Decree no. 252/2005 and Law no. 296/2006 (2007 Financial Act), which established that for companies with at least 50 employees the amounts accrued starting in 2007 would be allocated to the INPS Treasury Fund or to supplementary pension plans, at the choice of the employee, and would therefore become "Defined contribution plans".

In application of IAS 19, the provision for post-employment benefits is recalculated using the actuarial valuation methodology with the support of an external expert, and adjusted in relation to the occurrence of events which require its updating.

The date of the last actuarial valuation was 31 December 2017.

The breakdown and changes in the item as at 31 December 2017 are shown below:

<i>(in thousands of Euro)</i>	31/12/2017	31/12/2016
Liabilities as at 1 January	3,936	3,305
Provisions	226	550
Financial expense	56	100
Payments made	(153)	(162)
Actuarial (gains)/losses	(18)	143
Liabilities as at 31 December	4,047	3,936

The equity adjustment for actuarial gains and losses includes a net actuarial gain of €18 thousand, calculated as follows:

- Actuarial loss deriving from the change in the main actuarial assumptions used as at 31 December 2017 with respect to the previous valuation as at 31 December 2016: €5 thousand;
- Actuarial gain deriving from the effect of the change in the group subject to valuation between one valuation and another, which was different from what was assumed: €23 thousand.

Actuarial gains and losses are posted to shareholders' equity through the statement of comprehensive income.

The amounts recognised in the income statement are included in “Personnel costs” (Note 25).

The main financial and demographic assumptions used at the date of the last reference valuation of 31 December 2017 are shown below:

FINANCIAL ASSUMPTIONS	31/12/2017	31/12/2016
Discount rate	1.30%	1.31%
Inflation	1.50%	1.50%
Salary increase rate	2.63%	2.50%
Wage increase rate	1.00%	1.00%

DEMOGRAPHIC ASSUMPTIONS	31/12/2017	31/12/2016
Mortality rate	State General Accountancy Table RG48	State General Accountancy Table RG48
Disability	INPS Tables	INPS Tables
Personnel turnover	1.3%-5.5%	1.3%-5.5%
Advances	0.5% - 5%	0.5% - 5%
Retirement age	100% upon satisfaction of general compulsory insurance requirements	100% upon satisfaction of general compulsory insurance requirements

15. OTHER FINANCIAL LIABILITIES

The details of this item are shown below:

M/L term financial liabilities

(in thousands of Euro)

	31/12/2017	31/12/2016	Change
Lease payables	313	656	(343)
Other financial liabilities	1,788	1,760	28
Total	2,101	2,416	(315)

Short-term financial liabilities

(in thousands of Euro)

	31/12/2017	31/12/2016	Change
Fair value of derivatives	891	932	(41)
Lease payables	158	373	(215)
Due to other lenders	-	-	-
Total	1,049	1,305	(256)

Other long-term financial liabilities refer to the agreement with the non-controlling shareholder for the acquisition of the remaining 5% of SPIROTECH through a put & call agreement that can be exercised 3 years after the option agreement was entered into, at the value resulting from the application of a formula set forth in the agreement (put option in favour of the non-controlling shareholder and call option in favour of LU-VE India).

The option represents a financial liability measured at fair value. Taking into account that the put option is held by the non-controlling shareholders of SPIROTECH, the option's fair value was not recognised in the income statement, but in the share of Shareholders' Equity pertaining to the non-controlling shareholders, with a matching entry under the item “other financial liabilities”. Subsequent fair value measurements likewise will not be recognised in the income statement, but

in the portion of Shareholders' Equity attributable to non-controlling shareholders ("Shareholders' equity attributable to non-controlling interests").

The decline of €28 thousand compared to the previous year was due to the negative impact of the adjustment to fair value for €143 thousand and the positive exchange delta for €115 thousand.

Lease payables declined by €558 thousand:

- €450 thousand refer to the early payment of the business lease fees between Manifold and Master Cold. The agreement between the two parties was recognised and assessed in 2016 as a finance lease in accordance with what is laid out in IAS 17, as the risks and benefits deriving from the agreement were substantially transferred by the lessor to the LU-VE Group. As at 31 December 2017, the residual debt is equal to €230 thousand;
- €108 thousand refers to the payment of lease instalments on contracts already existing last year.

In addition, the item "fair value of derivative instruments" represents the negative fair value as at 31 December 2017 of derivatives subscribed by the Group companies. For further information, please refer to note 8.

16. TRADE PAYABLES

The breakdown of trade payables by geographical area is shown below:

<i>(in thousands of Euro) - Country</i>	31/12/2017	31/12/2016	Change
Italy	37,455	33,660	3,795
EU Countries	17,187	14,246	2,941
Non-EU Countries	8,763	5,164	3,599
Total	63,405	53,070	10,335

The average payment terms have not changed since the previous year. As at 31 December 2017, there were no past-due payables of significant amounts, and the Group has received no payment orders for past-due payables.

No trade payables with a residual maturity of more than 5 years were recognised in the financial statements.

17. TAX PAYABLES

The details of this item are shown below:

<i>(in thousands of Euro)</i>	31/12/2017	31/12/2016	Change
Due to the tax authorities for income taxes	595	1,677	(1,082)
Tax withholdings	1,297	1,406	(109)
Other tax payables	381	332	49
Total	2,273	3,415	(1,142)

18. OTHER CURRENT LIABILITIES

The details of this item are shown below:

<i>(in thousands of Euro)</i>	31/12/2017	31/12/2016	Change
To personnel	7,724	7,333	391
To social security institutions	3,596	3,184	412
To Directors and statutory auditors	1,790	1,211	579
Other current payables	2,294	1,264	1,030
Total	15,404	12,992	2,412

As at 31 December 2017, amounts due to personnel rose due to new hirings during the year.

In the beginning of 2018, payables to personnel and social security institutions were paid in accordance with the relative due dates.

The increase in the item “Other current payables” was caused mainly by trade payables for investments of the Polish subsidiary SEST-LUVE POLSKA.

19. DEFERRED TAX ASSETS AND LIABILITIES

The details of this item are shown below:

<i>(in thousands of Euro)</i>	31/12/2017	31/12/2016	Change
Deferred tax assets	3,359	3,059	300
Deferred tax liabilities	(13,217)	(13,596)	379
Net position	(9,858)	(10,537)	679

The nature of the temporary differences that resulted in the recognition of deferred tax liabilities and assets and the relative changes during the year and the previous year are analysed below.

<i>(in thousands of Euro)</i>	TAX LOSSES	DEPREC./AMORT. AND LEASING	FAIR VALUE OF DERIVATIVE INSTRUMENTS	GROSS UP (*)	ACTUARIAL VALUATION	PROV. AND VALUE ADJUST.	OTHER DIFFERENCES	TOTAL
01.01.16	(1,415)	2,178	(296)	8,173	(60)	(1,012)	(1,081)	6,487
In income statement	304	(359)	249	(482)	5	(153)	785	349
In shareholders' equity	-	-	6	3,303	(34)	-	70	3,345
Exchange differences	20	-	-	-	-	3.00	-	23
Other	0	473	(26)	-	-	(148)	34	333
Reclas.	1	473	-	(2)	(1)	(145)	(326)	-
31.12.16	(1,090)	2,765	(67)	10,992	(90)	(1,455)	(518)	10,537
In income statement	4	11	22	(424)	(4)	(131)	(187)	(709)
In shareholders' equity	-	-	-	-	4	-	61	65
Exchange differences	15	(37)	-	-	-	(13)	-	(35)
Reclas.	-	-	-	(1)	(8)	(1)	10	-
31.12.17	(1,071)	2,739	(45)	10,567	(98)	(1,600)	(634)	9,858

(*) values restated pursuant to IFRS 3 revised, so as to retrospectively take into account the effects of the measurement at fair value of the assets and liabilities of Spirotech Heat Exchangers Private Ltd at the acquisition date, previously considered provisional (see the note “Information relating to IFRS 3 revised”).

As at 31 December 2017, deferred tax assets referred to:

- tax losses that may be carried forward relating to some subsidiaries;
- the fair value of derivative instruments, exchange rates and interest rates, subscribed by the Parent Company and three subsidiaries;
- the deferred tax impact of the actuarial valuation of the post-employment benefits of Italian companies following the application of IAS 19;
- tax differences on increases in the provisions of Group companies;
- other tax differences, regarding net temporary recoveries such as unpaid remuneration, exchange differences and other.

As at 31 December 2017, deferred tax liabilities referred to:

- tax differences on depreciation, amortisation and leasing, regarding primarily the application of IAS 17, with respect to Italian GAAP;
- the recognition of taxes on the 2008 merger deficit allocated to trademarks, buildings, land, plant and equipment and the tax effect deriving from the allocation of part of the goodwill of SPIROTECH to “Customer Relationships”, as described in more detail in the “Introduction”.

20. NET FINANCIAL POSITION

In accordance with the requirements of the Consob Communication of 28 July 2006, the Group’s financial position is shown below (in thousands of Euro):

	<i>(in thousands of Euro)</i>	31/12/2017	31/12/2016	Change
A. Cash (Note 10)		31	52	(21)
B. Unrestricted current account asset balances (Note 10)		50,731	46,403	4,328
C. Current financial assets (Note 8)		72,308	74,145	(1,837)
D. Liquidity (A+B+C)		123,070	120,600	2,470
E. Current bank payables (Note 12)		-	303	(303)
F. Current portion of non-current debt (Note 12)		42,234	41,531	703
G. Other current financial liabilities (Note 15)		2,101	1,305	796
H. Current financial debt (E+F+G)		44,335	43,139	1,196
I. Net current financial debt (H-D)		(78,735)	(77,461)	(1,274)
J. Non-current bank payables (Note 12)		112,973	105,289	7,684
K. Other non-current financial liabilities (Note 15)		1,049	2,416	(1,367)
L. Non-current financial debt (J+K)		114,022	107,705	6,317
M. Net financial debt (I+L)		35,287	30,244	5,043

The consolidated statement of cash flows shows changes in cash and cash equivalents (letter A and B of this statement).

Comment on the main items of the consolidated income statement

21. REVENUES

In 2017, revenues from sales amounted to €269,195 thousand, an increase of 14.1% compared to the previous year (€236,018 thousand as at 31 December 2016).

Revenues by product family

(in thousands of Euro)

PRODUCTS	€ /000	%	€ /000	%	Delta	Delta %
	2017		2016			
Heat exchangers	158,918	59.0%	127,474	54.0%	31,444	24.7%
Air Cooled Equipment	85,602	31.8%	80,366	34.1%	5,236	6.5%
Doors	9,264	3.5%	15,576	6.6%	(6,312)	-40.5%
Close Control	10,736	4.0%	10,713	4.5%	23	0.2%
Sub-total	264,520	98.3%	234,129	99.2%	30,391	13.0%
Other	4,675	1.7%	1,889	0.8%	2,786	147.5%
TOTAL	269,195	100.0%	236,018	100.0%	33,177	14.1%

Revenues by geographical area

(in thousands of Euro)

GEOGRAPHICAL AREA	€ /000	%	€ /000	%	Delta	Delta %
	2017		2016			
Italy	58,853	21.9%	61,996	26.3%	(3,143)	-5.1%
Germany	21,782	8.1%	22,311	9.5%	(529)	-2.4%
Russia	21,145	7.9%	18,434	7.8%	2,711	14.7%
Poland	18,968	7.0%	9,672	4.1%	9,296	96.1%
France	15,109	5.6%	13,413	5.7%	1,696	12.6%
Czech Republic	13,713	5.1%	10,750	4.6%	2,963	27.6%
Austria	12,683	4.7%	11,443	4.8%	1,240	10.8%
Sweden	11,009	4.1%	11,936	5.1%	(927)	-7.8%
Other countries	95,933	35.6%	76,063	32.1%	19,870	26.1%
TOTAL	269,195	100.0%	236,018	100.0%	33,177	14.1%

In 2017, revenues from sales amounted to €269,195 thousand, an increase of 14.1% compared to the previous year (€236,018 thousand as at 31 December 2016), thanks to natural growth as well as the initial consolidation for 12 months of the company SPIROTECH.

Please refer to the Directors' Report for detailed comments on trends in the reference markets during the year and an analysis of revenue "on a like-for-like basis", i.e., considering the revenue of SPIROTECH for the entire year 2016 (and not only the revenue accounted for as of the acquisition date, i.e., for the last quarter of 2016).

22. OTHER REVENUES

(in thousands of Euro)	2017	2016	Change
Own work capitalised	288	-	288
Contingent assets	-	110	(110)
Royalty income	-	3	(3)
Rent income	1	3	(2)
Other income	548	132	416
Total	837	248	589

“Other income” refers to export incentives of the subsidiary SPIROTECH.

23. PURCHASES OF MATERIALS

(in thousands of Euro)	2017	2016	Change
Raw materials and purchased components	144,080	116,203	27,877
Consumables	5,926	4,482	1,444
Total	150,006	120,685	29,321

In 2017, the cost for the purchase of materials rose significantly, due to the consolidation for 12 months of SPIROTECH (only 3 months in 2016) and a generalised increase in the cost of raw materials and the increase in sales volumes. Please refer to the Directors’ Report for detailed comments.

24. SERVICES

(in thousands of Euro)	2017	2016	Change
Expenses for energy, telephone and telex	3,602	3,368	234
General and advisory expenses	13,134	12,647	487
Advertising and promotional expenses	898	1,291	(393)
Transport expenses	6,437	5,053	1,384
Maintenance expenses	3,101	2,699	402
External processing	3,185	3,904	(719)
Commissions	1,010	995	15
Remuneration to the corporate bodies	2,917	2,474	443
Other costs for services	3,513	2,956	557
Costs for use of third-party assets	2,308	2,075	233
Total	40,105	37,462	2,643

In the course of 2017, the cost for services rose by €2,643 thousand as a result primarily of:

- the consolidation of SPIROTECH for 12 months (3 months in 2016) which impacted all items for a total of roughly €2.2 million (particularly transport);
- listing costs of roughly €1.3 million, primarily on the item “General and advisory expenses”;
- the initial consolidation of Manifold (collector processing), which generated a decrease in external processing of around €0.7 million (and likewise an increase in personnel costs, see note 25).

25. PERSONNEL COSTS

(in thousands of Euro)	2017	2016	Change
Wages and salaries	42,784	38,052	4,732
Social security costs	11,698	10,238	1,460
Post-employment benefits	1,584	1,446	138
Other personnel costs	214	166	48
Total	56,280	49,902	6,378

The average number of Group employees was 2,551 in 2017. As at 31 December 2017, the number of Group employees came to 2,481 (1,914 blue-collar, 536 white-collar and middle managers, 31 executives), against 2,404 in 2016 (1,855 blue-collar, 525 white-collar and middle managers, 24 executives).

As at 31 December 2017, the number of temporary workers came to 516, against 571 in 2016.

26. OTHER OPERATING COSTS

(in thousands of Euro)	2017	2016	Change
Losses and write-downs on trade receivables	71	344	(273)
Contingent liabilities	53	75	(22)
Non-income taxes	572	582	(10)
Provisions for risks	343	60	283
Other operating costs	1,032	765	267
Total	2,071	1,826	245

Non-income taxes included mainly taxes on owned property.

27. FINANCIAL INCOME

(in thousands of Euro)	2017	2016	Change
Interest income	137	87	50
Other income	1,496	1,968	(472)
Total	1,633	2,055	(422)

The increase in income was mainly due to returns from the investment of liquidity (see Note 8) and the part realised on derivatives.

28. FINANCIAL EXPENSE

(in thousands of Euro)	2017	2016	Change
Interest expense to banks	1,302	1,668	(366)
Interest expense to other lenders	160	126	34
Other financial expense	217	1,068	(851)
Total	1,679	2,862	(1,183)

“Interest expense to banks” decreased due to the reduction in interest rates compared to 2016.

29. EXCHANGE GAINS AND LOSSES

In 2017, the Group realised net losses of roughly €5,564 thousand (net gains of €2,814 thousand in 2016).

30. INCOME TAXES

(in thousands of Euro)	2017	2016	Change
Current taxes	2,658	3,372	(714)
Deferred tax liabilities	(709)	349	(1,058)
Adjustment previous year	285	(484)	769
Total	2,234	3,237	(1,003)

In 2017, taxes relating to previous years referred primarily to the adjustment of taxes from 2016. During the year, the Italian Revenue Agency accessed the company to conduct a general tax audit (direct, indirect and withholding taxes and transfer pricing) with reference to the 2012, 2013, 2014 and 2015 tax periods of the Parent Company. For more information, please refer to the Directors' Report.

(in thousands of Euro)	2017	2016
Theoretical income taxes	2,043	5,451
Tax effect of permanent differences	615	(2,080)
Income taxes recognised in the financial statements	2,658	3,371
<i>Broken down as follows:</i>		
IRES Italian subsidiaries	187	774
<i>Of which IRES Parent Company</i>	196	497
IRAP	288	406
Taxes foreign companies	2,183	2,191
Total	2,658	3,371

Theoretical taxes were determined by applying the IRES tax rate in force, equal to 24%, to the pre-tax profit.

As at 31 December 2017, there were no significant tax disputes.

31. EARNINGS PER SHARE

The basic and diluted earnings per share were calculated based on the following data:

CALCULATION OF BASIC AND DILUTED EARNINGS

EARNINGS (in thousands of Euro)	2017	2016
Net profit for the year	5,642	15,846
NUMBER OF SHARES	2017	2016
Average weighted number of ordinary shares for the calculation of basic earnings per share	21,380,521	19,499,993
Dilution effect deriving from potential ordinary shares	737,090	2,717,167
Average weighted number of ordinary shares for the calculation of diluted earnings per share	22,117,611	22,217,160
EARNINGS PER SHARE (in Euro)	2017	2016
Basic earnings per share	0.26	0.81
Diluted earnings per share	0.26	0.71

32. DIVIDENDS

In April 2017, dividends totalling €4,416 thousand were distributed, corresponding to the distribution of a gross dividend of €0.22 (zero/22) for each of the 20,074,965 shares outstanding, net of treasury shares.

With respect to the year under way, the Directors proposed the payment of a €0.22 dividend per share. This dividend is subject to the approval of the shareholders at the annual meeting called for the approval of the financial statements of the Parent Company and therefore it was not included under liabilities in these financial statements.

Any proposed dividend will be payable as of 9 May 2018 (coupon no. 3 ex-dividend date 7 May 2018 and record date 8 May 2018).

33. SEGMENT REPORTING

As regards segment reporting, the Group has applied IFRS 8, which focuses attention on the reporting used internally by the company management, by requiring the publication of segment reporting information based on the elements used by management to take operating decisions.

The Group's Strategic Business Units (SBU) pursuant to IFRS 8 are identified as the business segments that generate revenues and costs, the results of which are periodically reviewed by the highest decision-making level to assess performance and to take decisions regarding resource allocation. The Group has the following SBUs:

- Cooling Systems SBU (named “Air Cooled” until 2016), which includes air cooled equipment and close control air conditioners;
- Components SBU (named “OEM” until 2016), which includes heat exchangers and special glass doors for refrigerated counters and display cabinets.

Details of turnover by SBU in the two periods in question are provided in the table below:

(in thousands of Euro)

SEGMENT		%		%	Delta	Delta %
	2017		2016			
Air Cooled Equipment	85,602	32.4%	80,366	34.3%	5,236	6.5%
Close Control	10,736	4.1%	10,713	4.6%	23	0.2%
COOLING SYSTEMS SBU	96,338	36.5%	91,079	38.9%	5,259	5.8%
Heat exchangers	158,918	60.1%	127,474	54.4%	31,444	24.7%
Doors	9,264	3.5%	15,576	6.7%	(6,312)	-40.5%
COMPONENTS SBU	168,182	63.6%	143,050	61.1%	25,132	17.6%
TOTAL PRODUCT TURNOVER	264,520	100%	234,129	100%	30,391	13.0%

The SBUs are therefore identified as components of an enterprise whose financial information is available and measured regularly by the top management to decide how to allocate resources and to assess performance.

Information is provided below by SBU as at 31 December 2017 and 31 December 2016 (in thousands of Euro):

<u>2017</u>				<u>2016</u>		
	<u>Components</u>	<u>Cooling Systems</u>	<u>Total</u>	<u>Components</u>	<u>Cooling Systems</u>	<u>Total</u>
<u>Revenues</u>	<u>168,182</u>	<u>96,338</u>	<u>264,520</u>	<u>143,050</u>	<u>91,079</u>	<u>234,129</u>
<u>EBITDA</u>	<u>21,718</u>	<u>7,354</u>	<u>29,072</u>	<u>21,315</u>	<u>8,726</u>	<u>30,041</u>
<u>Investments</u>	<u>16,170</u>	<u>8,116</u>	<u>24,286</u>	<u>43,025</u>	<u>6,800</u>	<u>49,825</u>
<u>Property, plant and equipment</u>	<u>126,669</u>	<u>116,947</u>	<u>243,616</u>	<u>111,591</u>	<u>112,661</u>	<u>224,252</u>

34. INFORMATION ON FINANCIAL RISKS

IFRS 7 requires companies to provide supplemental information in their financial statements that enable users to evaluate:

- a) the significance of financial instruments with reference to the statement of financial position and the profit and loss of the companies;
- b) the nature and extent of risks deriving from financial instruments to which the companies are exposed in the course of the year and at the reporting date, and how they are managed.

The Group is exposed to financial risks connected with its operations, particularly the following types:

- credit risk, particularly with reference to normal trade relations with customers;
- market risk (particularly exchange rate risk, relating to transactions in currencies other than the functional currency; interest rate risk, relating to the Group's financial exposure; raw material price volatility risk);
- liquidity risk, which may take the form of the inability to obtain the financial resources necessary for Group operations.

The coordination and monitoring of the main financial risks is centralised in the head office. The Group carefully and specifically monitors each of the above-mentioned financial risks, intervening with the aim of minimising them promptly, including by using hedging derivatives. The breakdown of financial instruments between the categories laid out in IAS 39 is provided below, along with an indication of the degree of significance of the Group's exposure to the various categories of financial risk identified and the methods for managing them.

Categories of financial instruments

Pursuant to IFRS 7, financial instruments are broken down into the categories set forth by IAS 39 below.

(in thousands of Euro)	31/12/2017	31/12/2016
Financial assets		
<i>Amortised cost</i>		
Cash and cash equivalents	50,762	46,455
Trade receivables	47,616	45,456
Current financial assets	72,062	74,027
<i>Fair Value</i>		
Trading derivatives	246	118
Financial liabilities		
<i>Amortised cost</i>		
Loans	155,207	148,152
Trade payables	63,405	53,070
<i>Fair Value</i>		
Trading derivatives	2,679	2,692

One of the LU-VE Group's policies is to protect its exposure to fluctuations in prices, exchange rates and interest rates using derivative financial instruments. This hedging may be achieved using forward contracts, options and interest rate swaps. Generally, the maximum term of these hedges is no longer than 18 months.

Please note that all derivative instruments were subscribed in order to hedge the underlying risks. However, at the date of presentation of these financial statements, not all requirements of IAS 39 were satisfied. Therefore, the Group management deemed it appropriate to treat those instruments as trading, not hedging, transactions.

Credit risk management

The Group is exposed to credit risk deriving from commercial dealings with exposure to potential losses arising from the failure of commercial counterparties to meet their obligations. Trade credit risk is monitored on the basis of formalised procedures for the selection and assessment of the customer portfolio, for the definition of credit limits by individual customer, for the monitoring of expected cash inflows and for any debt collection actions. In certain cases, customers are asked for further guarantees, primarily in the form of sureties. The Company assesses the creditworthiness of all customers at the start of the supply and then periodically. Each customer is assigned a credit limit based on this assessment. Dedicated insurance coverage is taken out for certain customers.

The historically low levels of losses on receivables recognised by Group companies are proof of the good results achieved.

Exchange rate risk management

Due to its ordinary operations, the Group is exposed to the risk of fluctuations in the exchange rates of currencies other than the reporting currency in which commercial and financial transactions are expressed. In terms of acquisitions, the main currency to which the Group is exposed is USD (currency to which the cost of the main raw materials is linked): indeed, raw materials in the reference markets are quoted in USD and the cost is converted into euros by applying the USD/Euro exchange rate for the day to the price in dollars; thus, exchange rate risk is borne by the buyer.

Furthermore, the Group companies located in countries in which the reference currency is not the euro, which also acquire raw materials with contracts under which the euro is the payment currency (and therefore bear the USD/Euro exchange rate risk noted above) are also exposed to the risk of fluctuations in the euro/local currency exchange rate.

Sales are mainly made in euros. In addition, although Sest LuVe Polska, HTS and Spirotech are located in countries that do not use the euro as their reference currency, they make almost all sales in euros and therefore they are also exposed to the risk of fluctuations in the exchange rate between the euro and their local currencies.

In order to limit the potential impact arising from currency fluctuations, the Group adopts a hedging policy that uses procedures and instruments for that purpose. Hedging is carried out at centralised level using instruments and policies compliant with international standards.

The Group also holds controlling interests in companies that prepare their financial statements in currencies other than the euro (zloty, rouble, Czech koruna, Swedish Krona, rupee, Australian dollar, yuan). Therefore, the Group is exposed to the translation risk that fluctuations in the exchange rates of certain currencies with respect to the consolidation currency may have on the value of consolidated shareholders' equity. The main exposures are monitored, but this is not part of the Group's current policies for hedging these risks.

Sensitivity analysis

With reference to financial assets and liabilities in foreign currency as at 31 December 2017, a theoretical and immediate revaluation of the euro by 10% compared to other currencies would have entailed a loss of €351 thousand.

Interest rate risk management

The Group makes use of external financial resources in the form of medium/long-term financial debt. Therefore, changes in interest rates may influence the cost of different forms of financing, impacting the level of the Group's net financial expense. The Group's policy aims to limit the risk of interest rate fluctuations by means of fixed rate loans or derivatives used only for hedging purposes. These hedging activities have reference rates, maturities and amounts perfectly aligned with the underlying medium/long-term loans.

This hedging policy allows the Group to reduce its exposure to the risk of interest rate fluctuations.

Sensitivity analysis

With reference to the floating rate financial assets and liabilities as at 31 December 2017, a theoretical increase in interest rates by 100 basis points with respect to the exact interest rates in force at the same date, with all other variables remaining the same, would have entailed an increase in financial expense equal to €2,846 thousand, without taking into account transactions with derivative instruments which were considered for trading.

Raw material price risk management

The production costs of the LU-VE Group are influenced by the prices of the main raw materials, such as copper and aluminium. The majority of raw materials are purchased in the European Union. Risks are related to fluctuations in the prices of these materials on the reference markets (on which they are quoted in USD) and the reliability and the policies of mining and/or transformation companies.

To manage these risks, the LU-VE Group constantly monitors the availability of raw materials in the market as well as the relative price trends, in order to promptly identify any situations of unavailability of raw materials and take suitable actions to guarantee the required production autonomy, and also to keep its production activities competitive with regard to this aspect as well. In particular, as regards the major raw material purchased - copper - the LU-VE Group has long-standing relations with the same suppliers, selected on the basis of trust. Furthermore, when it deems this necessary in relation to expected trends, the Group enters into contracts to hedge the risk of fluctuations in the price of raw materials.

Liquidity risk management

The liquidity risk to which the Group may be exposed consists of the failure to locate the adequate financial means needed for its operations, as well as for the development of its industrial and commercial activities. The main factors that determine the Group's liquidity situation are, on one hand, the resources generated or absorbed by operating and investment activities, and on the other hand the maturity characteristics of medium and long-term financial debt. The Group has lines of credit granted by multiple leading Italian and international banking institutions which are adequate to meet its current needs. The guidelines adopted by the Group consist of:

- maintaining adequate medium/long-term loans in light of the level of non-current assets;
- maintaining an adequate level of short-term bank credit facilities (both in cash and for the assignment of domestic receivables and export credit).

In addition, as at 31 December 2017 the Group has unused short-term credit lines totalling roughly €45 million. In addition, to minimise liquidity risk the Administration and Financial Department:

- constantly checks forecast financial requirements to promptly take any corrective actions;
- maintains the proper composition of net financial debt, financing investments with own funds and possibly with medium/long-term loans.

An analysis of financial liabilities as at 31 December 2017 is provided below by maturity:

<i>(in thousands of Euro)</i>	Carrying amount	Contractual cash flows	Within 1 year	From 1 to 5 years	More than 5 years
Bank loans	155,207	157,119	43,079	112,833	1,192
Advances on invoices	-	-	-	-	-
Finance lease	471	471	158	313	-
Total financial payables	155,678	157,590	43,237	113,146	1,192
Trade payables	63,405	63,405	63,405	-	-
Total	219,083	220,995	106,642	113,146	1,192

The various maturity ranges are based on the period between the reporting date and the contractual maturity of the obligations. The values specified in the table correspond to undiscounted cash flows. The cash flows include principal and interest; for floating rate liabilities, interest is calculated based on the value of the benchmark at the date of year-end close, plus the spread established for each contract.

Fair value hierarchy

In relation to the financial instruments recognised in the statement of financial position at fair value, IFRS 7 requires those values to be classified on the basis of a hierarchy with levels reflecting the significance of the inputs used to measure the fair value. The hierarchy includes the following levels:

- Level 1 - quoted prices in active markets for the assets or liabilities subject to assessment;
- Level 2 - inputs other than the quoted prices pursuant to the point above, which may be observed directly (prices) or indirectly (derived from prices) in the market;
- Level 3 - inputs which are not based on observable market data

The table below shows the assets and liabilities measured at fair value as at 31 December 2017, by fair value hierarchy level.

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Other financial assets	-	246	-	246
Other financial liabilities	-	891	-	891
Total liabilities	-	645	-	645

35. RELATED PARTY TRANSACTIONS

The Parent Company and the other companies belonging to the Group carry out some trade and financial transactions with Related Parties, settled at market conditions from the economic as well as financial perspective, or at the same conditions that would have been applied to independent counterparties. In this regard, there is however no guarantee that, if such transactions were concluded between, or with, third parties, they would have negotiated and entered into the relative contracts, or carried out such transactions, under the same conditions and with the same methods.

In compliance with the provisions of IAS 24, Related Parties are considered to be: (a) companies which directly, or indirectly through one or more intermediary companies, control, or are controlled by or under joint control with, the company preparing the financial statements; (b) associates; (c) the natural persons who directly or indirectly have voting power in the company preparing the financial statements, which gives them dominant influence over the company, and their close family members; (d) key managers, i.e., those who have the power and responsibility to plan, manage and control the activities of the company preparing the financial statements, including directors and officers of the company and their close family members; (e) the businesses in which significant voting power is directly or indirectly held by any natural person described in point c) or d) or in which such natural person is capable of exercising significant influence. The case in point e) includes the businesses held by directors or by the major shareholders of the company preparing the financial statements and the businesses that have a key manager in common with the company preparing the financial statements.

The LU-VE Group's transactions with Related Parties primarily relate to:

- financial transactions;
- transactions connected to service agreements;
- trade transactions;
- transactions entered into as part of the national tax consolidation of the LU-VE Group.

Transactions between consolidated companies were eliminated in the consolidated financial statements and are not shown in these notes.

The table below shows the economic and financial transactions carried out by Group Companies with related parties in 2017:

(in thousands of Euro)	Other Revenues	Costs of raw materials and consumables	Costs for services	Fin. Inc.	Fin. Ex.	Trade receivables	Other receivables	Receivables and other current financial assets	Trade payables	Financial payables	Other payables
RELATED COMPANIES											
FINAMI S.R.L.	-	-	251	9	-	-	-	9	25	-	-
MGPE S.R.L.	-	-	27	-	-	-	-	-	-	-	-
VITALE-NOVELLO & CO SRL	-	-	20	-	-	-	-	-	-	-	-
VITALE ZANE & CO SRL	-	-	20	-	-	-	-	-	-	-	-
Total	-	-	318	9	-	-	-	9	25	-	-

The transactions were governed by dedicated contracts aligned with arm's length conditions.

Please note that the main transactions with Related Parties carried out by the LU-VE Group are governed by the long-term contracts specified below:

- TGD has a sub-lease agreement in place with Finami for the facility and offices located in Travacò Siccomario (PV), of which Finami is in turn user by virtue of two lease agreements with Selmabipiemme Leasing S.p.A.; the agreement was entered into on 16 December 2010 for a period of six years (i.e., until 15 December 2016), renewable for an equal period of time, without prejudice to cancellation to be sent via registered letter with advice of receipt with advance notice of at least six months.

In 2015, the agreement was extended for another part of the property. In 2016, aside from the expiring contract having been renewed, an additional lease agreement was entered into for an industrial property adjacent to that already used by the subsidiary. The annual consideration paid to Finami under the contracts mentioned above was €251 thousand;

- since July 2015, LU-VE has had a strategic advisory agreement in place with the company MGPE S.r.l., in which Michele Garulli (LU-VE director) holds an equity investment. The agreement is valid for twelve months and is subject to automatic renewal if not cancelled by one of the parties. The remuneration for this role includes annual fixed compensation of €25 thousand and variable compensation upon occurrence of the acquisition transactions (success fees) for which the strategic advice was provided.
- the companies Vitale Novello & CO S.r.l. and Vitale Zane & CO S.r.l., in which a close family member of a LU-VE S.p.A. director holds an equity investment, provide strategic advisory services to LU-VE S.p.A. for annual compensation of €40 thousand.

Directors' and Statutory Auditors' fees

The table below shows the economic benefits of Directors of the Parent Company and members of the Board of Statutory Auditors.

Name and surname	Position	Term of office	End of term of office	Fixed fees (€)	Fees for participation in committee meetings (€)	Variable non-equity fees (€)	Non-monetary benefits (€)	Total (€)
						Bonuses and other incentives		
Iginio Liberali	Executive chairman	1/1/2017-31/12/2017	Approval of 2019 financial statements					
(I) Fees from the company that drafts the financial statements				232,000 ⁽¹⁾		183,956		415,956
(II) Fees from associates and subsidiaries				28,500				28,500
(III) Total				260,500		183,956		444,456
Pierluigi Faggioli	Vice Chairman	1/1/2017-31/12/2017	Approval of 2019 financial statements					
(I) Fees from the company that drafts the financial statements				30,000 ⁽²⁾				30,000
(II) Fees from associates and subsidiaries				185,000		183,956	3,574	372,529
(III) Total				215,000		183,956	3,574	402,529
Matteo Liberali	CEO	1/1/2017-31/12/2017	Approval of 2019 financial statements					
(I) Fees from the company that drafts the financial statements				315,000 ⁽³⁾		252,883	11,661	579,544
(II) Fees from associates and subsidiaries				44,000				44,000
(III) Total				359,000		252,883	11,661	623,544
Michele Faggioli	COO	1/1/2017-31/12/2017	Approval of 2019 financial statements					
(I) Fees from the company that drafts the financial statements				155,000 ⁽⁴⁾		113,942		268,942
(II) Fees from associates and subsidiaries				165,000		138,941	15,148	319,089
(III) Total				320,000		252,883	15,148	588,031
Attilio Arietti	Director	1/1/2017-31/12/2017	Approval of 2019 financial statements					

(I) Fees from the company that drafts the financial statements				18,000			18,000
(II) Fees from associates and subsidiaries							-
(III) Total				18,000			18,000
Giovanni Cavallini	Director	1/1/2017-31/12/2017	Approval of 2019 financial statements				
(I) Fees from the company that drafts the financial statements				18,000			18,000
(II) Fees from associates and subsidiaries							-
(III) Total				18,000			18,000
Michele Garulli	Director	1/1/2017-31/12/2017	Approval of 2019 financial statements				
(I) Fees from the company that drafts the financial statements				40,000 ⁽⁵⁾	4,068		44,068
(II) Fees from associates and subsidiaries							-
(III) Total				40,000	4,068		44,068
Anna Gervasoni	Director	10/03/2017-31/12/2017	Approval of 2019 financial statements				
(I) Fees from the company that drafts the financial statements				14,647	8,137		22,784
(II) Fees from associates and subsidiaries							-
(III) Total				14,647	8,137		22,784
Laura Oliva	Director	10/03/2017-31/12/2017	Approval of 2019 financial statements				
(I) Fees from the company that drafts the financial statements				14,647			14,647
(II) Fees from associates and subsidiaries							-
(III) Total				14,647			14,647
Fabio Liberali	Director	1/1/2017-31/12/2017	Approval of 2019 financial statements				
(I) Fees from the company that drafts the financial statements				67,053 ⁽⁶⁾		5,693	72,746
(II) Fees from associates and subsidiaries							-
(III) Total				67,053		5,693	72,746
Stefano Paleari	Director	1/1/2017-31/12/2017	Approval of 2019 financial statements				
(I) Fees from the company that drafts the financial statements				18,000	11,392		29,392
(II) Fees from associates and subsidiaries							-
(III) Total				18,000	11,392		29,392
Roberta Pierantoni	Director	10/03/2017-31/12/2017	Approval of 2019 financial statements				
(I) Fees from the company that drafts the financial statements				14,647	4,068		18,715
(II) Fees from associates and subsidiaries							-
(III) Total				14,647	4,068		18,715
Marco Vitale	Director	1/1/2017-31/12/2017	Approval of 2019 financial statements				
(I) Fees from the company that drafts the financial statements				18,000			18,000
(II) Fees from associates and subsidiaries							-
(III) Total				18,000			18,000
Paola Mignani	Chairman of the Board of Statutory Auditors	21/06/2017-31/12/2017	Approval of 2019 financial statements				
(I) Fees from the company that drafts the financial statements				22,500			22,500
(II) Fees from associates and subsidiaries							-
(III) Total				22,500			22,500
Stefano Beltrame	Standing Auditor	1/1/2017-31/12/2017	Approval of 2019 financial statements				

(I) Fees from the company that drafts the financial statements				26,000			26,000
(II) Fees from associates and subsidiaries				16,000			16,000
(III) Total				42,000			42,000
Ivano Pelassa	Standing Auditor	1/1/2017-31/12/2017	Approval of 2019 financial statements				
(I) Fees from the company that drafts the financial statements				26,000			26,000
(II) Fees from associates and subsidiaries							-
(III) Total				26,000			26,000

- (1) of which €18,000 as director and €214,000 for the office of Chairman of the Board of Directors
(2) of which €18,000 as director and €12,000 for the office of Vice Chairman of the Board of Directors
(3) of which €18,000 as director and €297,000 for the office of CEO
(4) of which €18,000 as director and €137,000 for the office of COO
(5) of which €18,000 as director and €22,000 for the office of Investor Relator
(6) of which €18,000 as director and €49,052.70 by virtue of the employment relationship in place with LU-VE S.p.A

36. SHARE-BASED PAYMENTS

As at 31 December 2017, there were no share-based incentive plans in favour of Group Directors or employees.

37. COMMITMENTS AND GUARANTEES

The following table provides details on the commitments and guarantees given by the Group:

(in thousands of Euro)	31/12/2017	31/12/2016
Mortgages	58,738	74,682
Third-party goods	804	1,155
Total	59,542	75,837

Mortgages refer to guarantees granted by Group companies to obtain medium/long-term bank loans. As at 31 December 2017, the details of the loans for which a mortgage was granted on properties owned by the Group were:

DEBTOR COMPANY	COUNTERPARTY	LOAN TYPE	TAKEN OUT	MATURITY	GUARANTEES	ORIGINAL LOAN AMOUNT
LU-VE	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	Mortgage	30,000
SEST	UniCredit Spa	EIB Mortgage Loan	14/04/2014	30/06/2024	Mortgage	6,000
SEST LU-VE POLSKA SP. Z O.O.	BNP Paribas bank Polska SA	EIB Mortgage Loan	08/11/2011	08/11/2021	Mortgage	5,000
LU-VE FRANCE S.A R.L.	BNP PARIBAS S.A.	Mortgage Loan	08/11/2011	03/11/2026	Mortgage	798

The item “Third-party goods” relates to products owned by customers, temporarily in the inventory at the Group’s warehouses on 31 December 2017 and 2016.

38. CONSOLIDATION AREA AND SIGNIFICANT EQUITY INVESTMENTS

COMPANIES CONSOLIDATED LINE-BY-LINE

Company name	Registered office	% stake	Share capital		Shareholders' equity as at 31/12/2017		Profit (loss) for the year 2017
<i>Direct subsidiaries:</i>							
SEST S.p.A.	Limana (BL)	100.00%	€1,000,000	€	22,730,573	€	4,961,766
Tecnair LV S.p.A.	Uboldo (VA)	79.90%	€200,000	€	2,699,289	€	160,069
Heat Transfer Systems s.r.o. (HTS)	Novosedly (Czech Rep.)	100.00%	CZK 133,300,000	CZK	343,510,350	CZK	16,858,647
LU-VE Sweden AB	Asarum (Sweden)	100.00%	SEK 50,000	SEK	(28,244,484)	SEK	(3,088,119)
LU-VE France S.a.r.l.	Lyon (France)	86.06%	€84,150	€	1,373,941	€	112,508
LU-VE Pacific Pty Ltd	Thomastown (Australia)	75.50%	AUD 200,000	AUD	(3,169,062)	AUD	(460,688)
LU-VE Deutschland GmbH	Stuttgart (Germany)	100.00%	€230,000	€	(77,699)	€	(5,805)
LU-VE Iberica S.l.	Madrid (Spain)	85.00%	€180,063.23	€	(708,632)	€	(20,489)
LU-VE Asia Pacific Limited	Wan Chai (Hong Kong)	100.00%	HKD 10,000	HKD	(27,040,748)	HKD	(12,570,998)
LU-VE INDIA CORPORATION PRIVATE LTD	New Delhi (India)	99.98%	INR 100,000	INR	(622,378)	INR	905,922
LuveDigital S.r.l.	Uboldo (VA)	50.00%	€10,000	€	21,647	€	10,957
MANIFOLD S.r.l.	Uboldo (VA)	99.00%	€10,000	€	18,329	€	2,011
LU-VE AUSTRIA GmbH	Vienna (Austria)	100.00%	€17,500	€	11,504	€	(5,996)
<i>Indirect subsidiaries:</i>							
SEST-LUVE- Polska SP.z.o.o. (95% owned by SEST S.p.A.)	Gliwice (Poland)	95.00%	PLN 16,000,000	PLN	191,884,921	PLN	33,743,934
« ООО » SEST LUVE (95% owned by SEST S.p.A.)	Lipetsk (Russia)	95.00%	RUB 136,000,000	RUB	656,229,976	RUB	118,318,560
LU-VE HEAT EXCHANGERS Ltd (wholly-owned by LU-VE Asia Pacific Limited)	Changshu (China)	100.00%	CNY 38,211,761	CNY	13,628,723	CNY	(3,972,215)
Thermo Glass Door S.p.A. (100% owned by SEST S.p.A.)	Travacò Siccomario (PV)	100.00%	€100,000	€	100,000	€	(1,498,727)

39. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

During 2017, no significant non-recurring transactions were carried out.

40. TRANSACTIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob communication of 28 July 2006, please note that in 2017 the Group did not carry out atypical and/or unusual transactions, i.e., transactions which in terms of their significance, the nature of the counterparties, the subject of the transaction, the pricing methods

and the timing of occurrence may give rise to doubts with regard to the accuracy of the information in the financial statements, conflicts of interests, the safeguarding of the company assets or the protection of non-controlling shareholders.

41. EVENTS SUBSEQUENT TO 31 DECEMBER 2017

There were no significant events from 31 December 2017 to the date of these financial statements.

Certification of the consolidated financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 as amended

The undersigned Matteo Liberali, CEO, and Eligio Macchi, Manager in charge of financial reporting of LU-VE S.p.A., certify, also taking into account what is laid out in art. 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998:

1. the adequacy in relation to the characteristics of the business and
2. the effective application

of the administrative and accounting procedures for the formation of the consolidated financial statements in the period 1 January - 31 December 2017.

It is also certified that the consolidated financial statements as at 31 December 2017:

- have been prepared in compliance with the applicable international accounting standards recognised in the European Community pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to the results of the accounting books and entries;
- are suitable to provide a true and fair view of the financial position, profit and loss and cash flow situation of the issuer and of the group of consolidated companies.

The directors' report includes a reliable analysis of the performance and results of operations, as well as the situation of the issuer and the group of consolidated companies, along with a description of the main risks and uncertainties to which they are exposed.

5 April 2017

Matteo Liberali
CEO

Eligio Macchi
Manager in charge
of financial reporting

**REPORT OF THE INDEPENDENT AUDITING FIRM
PURSUANT TO ART. 14 OF ITALIAN LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010 AND ART.
10 OF REGULATION (EU) NO. 537/2014**

**To the Shareholders of
LU-VE S.p.A.**

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of the LU-VE Group (the "Group"), consisting of the statement of financial position as at 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year ending on that date and the notes to the financial statements, which also include a summary of the most significant accounting standards applied.

In our opinion, the consolidated financial statements provide a true and fair view of the statement of financial position of the Group as at 31 December 2017, the economic result and the cash flows for the year ending on that date in compliance with the International Financial Reporting Standards adopted by the European Union as well as the measures issued in implementation of art. 9 of Italian Legislative Decree no. 38/05.

Elements underlying the opinion

We conducted our audit in compliance with the international audit standards (ISA Italy). Our responsibilities pursuant to these principles are further described in the *Responsibility of the auditing firm for the audit of the consolidated financial statements* section of this report. We are independent with respect to the company LU-VE S.p.A. (the "Company") in compliance with the ethics and independence rules and principles applicable within the Italian legal system to the auditing of financial statements. We believe that we have acquired sufficient and appropriate proof on which to base our opinion.

Key aspects of the audit

The key aspects of the audit are those aspects which, in our professional opinion, have been most significant in the audit of the consolidated financial statements for the year in question. We dealt with these aspects during the audit and in preparing our opinion on the consolidated financial statements as a whole; therefore, we are not expressing any separate opinion on such aspects.

Impairment testing on goodwill, intangible assets and property, plant and equipment

Description of the key aspect of the audit

The Group has recognised goodwill totalling €42.5 million in the consolidated financial statements at 31 December 2017 (11% of consolidated assets). This goodwill has been attributed to two cash generating units ("CGUs"): "Components" (€25 million) and "Cooling Systems" (€17.5 million), to which intangible assets with a finite useful life (€20.2 million) and property, plant and equipment (€111.2 million) have also been allocated.

As laid out in IAS 36, as the above-mentioned CGUs include goodwill, the Group's Management conducted an impairment test to determine whether the carrying amounts relating to the assets of the individual CGUs

are recognised in the financial statements at 31 December 2017 at a value no higher than the recoverable amount. As a result of this testing, the Group did not identify any impairment losses on assets.

The Management's process of assessing the recoverability of the values recognised in the financial statement assets, which is carried out by determining the value in use, is complex and based on assumptions regarding, inter alia, the forecast of expected cash flows from the CGUs, making reference to the 2018-2021 plan, the determination of an appropriate discounting rate (WACC) and a long-term growth rate (g-rate). These assumptions are based on the Management's expectations of focusing on new geographical markets deemed most attractive in terms of size, stability, growth and profit margins, strengthening and expanding existing production capacity, continuously improving the performance of existing products and developing innovative products.

Considering the relevance of the amount of the assets recognised in the financial statements, the subjectivity of the estimates concerning the determination of the cash flows of the CGUs and the key variables described previously, we considered the impairment test a key aspect of the audit of the Group's consolidated financial statements.

Note 1 "Intangible Assets" of the consolidated financial statements provides a disclosure on the impairment test, including a sensitivity analysis conducted by the Management which describes the effects that could arise when certain key assumptions change.

Audit procedures performed

To evaluate the recoverability of the assets of the individual CGUs, we preliminarily examined the methods used by the Management to determine the value in use of the CGUs, analysing the methods and assumptions used for the development of the impairment test.

As part of our audits we, inter alia, performed the following procedures, also relying on the support of experts within our Network:

- identification and understanding of the significant controls put into place by the Group on the process of conducting impairment testing;
- analysis of the reasonableness of the primarily assumptions adopted by the Management to develop cash flow forecasts and obtain information;
- analysis of variances in actual data with respect to original plans, so as to evaluate the nature of the variances and the reliability of the process of preparing the plans;
- evaluation of the methods for determining the discounting rate (WACC) by analysing its individual elements and their consistency with generally used valuation practices and analysis of the reasonableness of the long-term growth rate (g-rate);
- verification of the mathematical accuracy of the model used for the determination of the value in use of the Components and Cooling Systems CGUs;
- verification of the proper determination of the carrying amount of the Components and Cooling Systems CGUs and their consistency with the methods for determining values in use;
- verification of the sensitivity analysis prepared by the Management;
- verification of the adequacy and compliance of the disclosure provided by the Group on the impairment test with what is laid out in IAS 36.

Responsibility of the Directors and the Board of Statutory Auditors for the consolidated financial statements

The Directors are responsible for the preparation of consolidated financial statements that provide a true and fair view in compliance with the International Financial Reporting Standards adopted by the European Union as well as the measures issued in implementation of art. 9 of Italian Legislative Decree no. 38/05 and, within the terms laid out by law, for that part of internal control that they deem necessary to allow for the preparation of financial statements that do not contain material errors due to fraud or unintentional conduct or events.

The Directors are responsible for evaluating the Group's capacity to continue to operate as a going concern and, in the preparation of the consolidated financial statements, for the appropriateness of the use of the going concern assumption, as well as for an adequate disclosure on the matter. The Directors use the going concern assumption in the preparation of the consolidated financial statements unless they have evaluated that conditions are met for the liquidation of the parent company LU-VE S.p.A. or for the interruption of activities or they do not have realistic alternatives to such decisions.

The Board of Statutory Auditors is responsible for the supervision, within the terms laid out by law, of the process of preparing the Group's financial reporting.

Responsibility of the auditing firm for the audit of the consolidated financial statements

Our objectives are the acquisition of reasonable certainty that the consolidated financial statements as a whole do not contain material errors, due to fraud or unintentional conduct or events, and the issue of an audit report that includes our opinion. Reasonable certainty refers to a high level of certainty which, however, does not provide the guarantee that an audit conducted in compliance with the international audit standards (ISA Italy) will always identify any material errors. Errors may derive from fraud or from unintentional conduct or events and are deemed material if it can be reasonably expected that they, individually or as a whole, are able to influence the economic decisions made by users on the basis of the consolidated financial statements.

Within the scope of the audit conducted in compliance with the international audit standards (ISA Italy), we exercised our professional judgement and maintained professional scepticism for the entire duration of the audit. In addition:

- we have identified and evaluated the risks of material errors in the consolidated financial statements due to fraud or unintentional conduct or events; we have defined and carried out audit procedures in response to such risks; we have acquired sufficient and appropriate proof on which to base our opinion. The risk of not identifying a material error due to fraud is higher than the risk of not identifying a material error deriving from unintentional conduct or events, as fraud may imply the existence of collusion, falsification, intentional omissions, misleading representations or the avoidance of internal control;
- we have acquired understanding of the internal controls relevant for the purposes of the audit in order to define audit procedures appropriate to the circumstances and not to express an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of the accounting standards used as well as the reasonableness of the accounting estimates carried out by the Directors, including the relative disclosure;
- we have reached a conclusion on the appropriateness of the use by the Directors of the going concern assumption and, on the basis of the proof acquired, on any existence of significant uncertainties with respect to events or circumstances that could give rise to significant doubts as to the Group's capacity to continue to operate as a going concern. In the presence of significant uncertainty, in the audit report we are required to call the reader's attention to the relative financial statement disclosure or, if such

disclosure is inadequate, to reflect such circumstance in the development of our opinion. Our conclusions are based on the proof acquired until the date of this report. However, subsequent events or circumstances may cause the Group to stop operating as a going concern;

- we have evaluated the presentation, structure and content of the consolidated financial statements as a whole, including the disclosure, and whether the consolidated financial statements represent the underlying transactions and events so as to provide an accurate representation;
- we have acquired sufficient and appropriate proof on the financial information of the businesses or the different economic activities carried out within the Group to express an opinion on the consolidated financial statements. We are responsible for the management, supervision and performance of the accounting engagement for the Group. We are the only parties responsible for providing an audit opinion on the consolidated financial statements.

We have notified those responsible for governance, identified at an appropriate level as required by the ISA Italy standards, amongst other aspects, of the extent and timing planned for the audit and the significant results which emerged, including any significant gaps in internal controls identified in the course of the audit.

We have also provided those responsible for governance activities with a statement on the fact that we have complied with the ethics and independence rules and principles applicable within the Italian legal system and we notified them of all situations which could reasonably have an effect on our independence and, when applicable, the relative safeguards.

Amongst the aspects reported to those responsible for governance activities, we have identified those which were most relevant within the scope of the audit of the consolidated financial statements for the year in question, which therefore constituted key aspects of the audit. We have described such aspects in the audit report.

Other information reported pursuant to art. 10 of Regulation (EU) 537/2014

The LU-VE S.p.A. shareholders' meeting assigned us the engagement to audit the separate and consolidated financial statements of the Company for the years from 31 December 2017 to 31 December 2025 on 10 March 2017.

We declare that no services aside from auditing were provided which are prohibited pursuant to art. 5, par. 1 of Regulation (EU) 537/2014 and that we remained independent with respect to the Company in performing the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is aligned with what is laid out in the additional report for the Board of Statutory Auditors, in its function as Committee for Internal Control and Auditing, prepared pursuant to art. 11 of the above-mentioned Regulation.

REPORT ON OTHER LEGAL AND REGULATORY PROVISIONS

Opinion pursuant to art. 14, paragraph 2, letter e), of Italian Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Italian Legislative Decree 58/98

The Directors of LU-VE S.p.A. are responsible for preparing the directors' report and the report on corporate governance and ownership structures of the LU-VE Group as at 31 December 2017, including their consistency with the relative consolidated financial statements and compliance with legal standards.

We have carried out the procedures set forth in auditing standard (SA Italy) no. 720B in order to express an opinion on the consistency of the directors' report and some specific information contained in the report on corporate governance and ownership structures specified in art. 123-bis, par. 4 of Italian Legislative

Decree 58/98 with the consolidated financial statements of the LU-VE Group as at 31 December 2017 and on their compliance with legal standards, as well as to issue a statement on any material errors.

In our opinion, the directors' report and the specific information contained in the report on corporate governance and ownership structures referred to above are consistent with the consolidated financial statements of the LU-VE Group as at 31 December 2017 and have been prepared in compliance with legal standards.

With reference to the statement pursuant to art. 14, par. 2, letter e) of Italian Legislative Decree 39/10, issued on the basis of the knowledge and understanding of the company and the relative context acquired in the course of the audit activities, we have nothing to report.

Statement pursuant to art. 4 of Consob Regulation implementing Italian Legislative Decree no. 254 of 30 December 2016

The Directors of LU-VE S.p.A. are responsible for preparing the non-financial statement pursuant to Italian Legislative Decree no. 254 of 30 December 2016.

We verified that the Directors approved the non-financial statement.

Pursuant to art. 3, paragraph 10 of Italian Legislative Decree no. 254 of 30 December 2016, we have issued a separate certificate of conformity concerning that statement.

DELOITTE & TOUCHE S.p.A.

Andrea Restelli

Partner

Milan, 4 April 2018

LU-VE S.p.A.

SEPARATE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2017



STATEMENT OF FINANCIAL POSITION

(in euro)	Note	31.12.17	31.12.16
ASSETS			
Goodwill	1	14,629,431	14,629,431
Other intangible assets	1	7,728,136	7,380,884
Property, plant and equipment	2	39,115,562	36,801,215
Other property, plant and equipment	2	1,799,655	2,792,085
Deferred tax assets	19	1,436,711	1,452,948
Equity investments	3	58,692,680	58,675,180
Other non-current financial assets	4	47,636,510	48,423,609
Other non-current assets	5	414,408	414,408
NON-CURRENT ASSETS		171,453,093	170,569,760
Inventories	6	7,789,837	6,068,306
Trade receivables	7	39,577,169	29,969,691
Due from the tax authorities for current taxes	8	3,910,775	2,209,543
Current financial assets	9	78,869,917	80,256,282
Other current assets	10	1,173,977	1,396,535
Cash and cash equivalents	11	28,170,084	24,627,254
CURRENT ASSETS		159,491,759	144,527,612
ASSETS HELD FOR SALE		-	-
TOTAL ASSETS		330,944,852	315,097,372

(in euro)	Note	31.12.17	31.12.16
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital		62,704,489	62,496,372
Reserves and retained earnings (losses)		44,939,860	42,599,534
Profit (loss) for the year		3,513,046	7,243,353
SHAREHOLDERS' EQUITY			
	12	111,157,395	112,339,259
Loans	13	106,822,761	95,011,426
Provisions	14	990,668	950,668
Employee benefits	15	966,611	991,544
Deferred tax liabilities	19	8,417,626	8,952,683
Other financial liabilities	16	-	12,425
NON-CURRENT LIABILITIES		117,197,666	105,918,745
Trade payables	17	28,580,897	20,745,545
Loans	13	40,508,087	35,958,689
Tax payables	18	505,730	623,671
Other financial liabilities	16	26,778,502	34,355,753
Other current liabilities	21	6,216,575	5,155,709
CURRENT LIABILITIES		102,589,791	96,839,368
LIABILITIES HELD FOR SALE		-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		330,944,852	315,097,372

INCOME STATEMENT

(in euro)	Note	31.12.17	31.12.16
REVENUES AND OPERATING INCOME			
Revenues	22	77,650,310	71,228,513
Other revenues	23	104,076	110,545
Total revenues and operating income		77,754,386	71,339,058
OPERATING COSTS			
Purchases of materials	24	(41,536,046)	(33,387,593)
Changes in inventories	6	1,721,531	276,352
Services	25	(17,534,473)	(15,790,967)
Personnel costs	26	(15,677,336)	(15,162,070)
Other operating costs	27	(599,375)	(1,794,955)
Total operating costs		(73,625,699)	(65,859,234)
Net change in fair value of derivatives	9-16	2,203,326	436,223
Depreciation and amortisation	1-2	(5,299,265)	(5,306,315)
Capital gains on the sale of non-current assets	2	108,822	192,164
Write-downs on non-current assets	2	-	-
EBIT		1,141,570	801,896
Financial income	28	6,518,814	8,417,728
Financial expense	29	(1,625,305)	(2,782,373)
Exchange gains and losses	30	(2,655,205)	1,228,882
Gains and losses from equity investments		-	-
EBT		3,379,874	7,666,134
Income taxes	31	133,172	(422,781)
PROFIT (LOSS) FOR THE YEAR		3,513,046	7,243,353
Profit (loss) from assets/liabilities held for sale		-	-
NET PROFIT (LOSS) FOR THE YEAR		3,513,046	7,243,353

STATEMENT OF COMPREHENSIVE INCOME

(in euro)	31.12.17	31.12.16
PROFIT (LOSS) FOR THE YEAR	3,513,046	7,243,353
<i>Components that will not be subsequently reclassified to profit (loss) for the year:</i>		
Actuarial valuation of post-employment benefits	4,772	(26,785)
Tax effect	(1,312)	7,366
	3,460	(19,419)
TOTAL COMPREHENSIVE INCOME (LOSS)	3,516,506	7,223,934

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY										
(in euro)	Share capital	Share premium reserve	Legal reserve	FTA Reserve	Treasury shares	Translation reserve	Post-employment benefits discounting reserve	Other reserves	Profit (loss) for the year	Total shareholders' equity
BALANCE AS AT 01/01/16	62,496,373	24,762,200	1,757,659	1,197,927	(461,776)	0	(39,594)	15,290,654	4,933,000	109,936,443
Allocation of profit 2015										
<i>Dividends paid</i>	-	-	-	-	-	-	-	(3,876,031)	-	(3,876,031)
<i>Retained</i>	-	-	246,650	-	-	-	-	4,686,350	(4,933,000)	-
Purchase/sale of treasury shares	-	-	-	-	(529,786)	-	-	-	-	(529,786)
Capital transaction costs	-	-	-	-	-	-	-	(70,227)	-	(70,227)
Other	-	-	-	-	-	-	-	(345,074)	-	(345,074)
Comprehensive income as at 31/12/2016	-	-	-	-	-	-	(19,419)	-	7,243,353	7,223,934
BALANCE AS AT 31/12/16	62,496,373	24,762,200	2,004,309	1,197,927	(991,562)	-	(59,013)	15,685,672	7,243,353	112,339,259
Allocation of profit 2016										
<i>Dividends paid</i>	-	-	-	-	-	-	-	(4,416,492)	-	(4,416,492)
<i>Retained</i>	-	-	362,168	-	-	-	-	6,881,185	(7,243,353)	-
Purchase/sale of treasury shares	-	-	-	-	(428,705)	-	-	-	-	(428,705)
Capital transaction costs	-	-	-	-	-	-	-	(61,289)	-	(61,289)
Other	208,116	-	-	-	-	-	-	-	-	208,116
Comprehensive income as at 31/12/2017	-	-	-	-	-	-	3,460	-	3,513,046	3,516,506
BALANCE AS AT 31/12/17	62,704,489	24,762,200	2,366,477	1,197,927	(1,420,267)	-	(55,553)	18,089,076	3,513,046	111,157,395

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Statement of cash flows		
	31.12.2017	31.12.2016
(in euro)		
A. Cash and cash equivalents at the beginning of the year	24,627,254	36,516,531
Profit (loss) for the year	3,513,046	7,243,353
Adjustments for:		
- Depreciation and amortisation	5,299,265	5,306,315
- Realised gains on non-current assets	(108,822)	(192,164)
- Net financial income and expense	(4,893,509)	(5,635,355)
- Income taxes	(133,172)	422,781
- Fair value changes booked in operating income	(2,203,326)	436,223
Changes in post-employment benefits	(34,759)	(30,929)
Changes in provisions	40,000	(16,072)
<i>Changes in trade receivables</i>	(9,452,130)	(3,209,470)
<i>Changes in inventories</i>	(1,721,531)	(276,352)
<i>Changes in trade payables</i>	7,835,352	(2,028,001)
<i>Changes in net working capital</i>	(3,338,309)	(5,513,823)
Changes in other receivables and payables, deferred taxes	1,796,129	620,196
Tax payment	(150,587)	(54,334)
Net financial income/expenses collected/paid	4,649,949	5,692,761
B. Cash flows generated/absorbed by operating activities	4,435,905	8,278,952
Investments in non-current assets		
- intangible assets	(2,572,108)	(1,999,063)
- property, plant and equipment	(4,442,854)	(2,781,107)
- financial assets	769,599	(38,459,133)
C. Cash flows generated/absorbed by investing activities	(6,245,363)	(43,239,303)
Repayment of loans	(45,639,266)	(15,520,565)
New loans	62,000,000	55,000,000
Changes in other financial liabilities	(7,674,830)	(2,946,470)
Changes in short-term financial assets	2,022,925	(7,998,562)
Changes in other financial assets	-	240,670
Purchase of treasury shares	(428,705)	(530,000)
Contributions/repayments of own capital	208,116	-
Payment of dividends	(4,416,492)	(3,876,000)
D. Cash flows generated/absorbed by financing activities	6,071,748	24,369,073
Exchange differences	-	-
Other changes	(719,461)	(1,298,000)
E. Other changes	(719,461)	(1,298,000)
F. Net cash flows in the year (B+C+D+E)	3,542,829	(11,889,277)
Cash and cash equivalents at the end of the year (A+F)	28,170,083	24,627,254
Current financial debt	(11,583,328)	(9,941,840)
Non-current financial debt	93,150,941	80,472,032
Net financial debt (Note 20)	53,397,530	45,902,938

Note:

(*) To improve the representation and comparability of the items, several comparative figures from the previous year have been reclassified.

LUVE S.p.A.

NOTES AS AT 31 DECEMBER 2017

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

Information about the company

LU-VE S.p.A. is a company with legal personality organised in accordance with the laws of the Italian Republic. The company is active in the production and marketing of heat exchangers and air cooled equipment. The Company's registered office is in Varese (Italy), Via Vittorio Veneto 11.

As described in more detail in the Directors' Report, LU-VE S.p.A. completed the process of listing its financial instruments on 21 June 2017, with the start of trading on the Mercato Telematico Azionario ("MTA") market organised and managed by Borsa Italiana S.p.A. and, in the capacity of Parent Company, it prepared the consolidated financial statements of the LU-VE Group as at 31 December 2017.

Declaration of compliance and accounting policies

The separate financial statements of LU-VE S.p.A. as at 31 December 2017 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union at that date. The reference to IFRS also includes all International Accounting Standards (IAS) in force. The financial statements consist of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and these notes. The financial statements have been prepared in Euro, which is the currency used in the economies in which the Company carries on business, and are compared with the separate financial statements for the previous year, prepared with the same criteria. The figures in the notes are shown in thousands of Euro.

The financial statements have been drawn up on the basis of the historical cost principle and the going concern assumption.

With reference to this last assumption, at 31 December 2017, the Company has a solid and balanced financial structure with a Net financial debt/Shareholders' equity ratio (Debt ratio) of 0.48 and a positive short-term net financial position of €39.8 million, therefore the repayment of medium/long-term debt maturing in 2018 is guaranteed by current liquidity.

There are no substantial restrictions on the freeing up of invested liquidity, which therefore, if required, may be used to meet any payment commitments.

In light of what is laid out above, the financial statements of LU-VE S.p.A. at 31 December 2017 were prepared on the basis of the going concern assumption, pursuant to paragraphs 25 and 26 of IAS 1.

Financial statements

The Company has adopted the following financial statements:

- a statement of financial position, which shows current and non-current assets and liabilities separately;

- a statement of changes in shareholders' equity;
- an income statement in which costs are classified by nature;
- a statement of comprehensive income, which shows revenue and cost items that are not recognised in profit and loss as required or permitted by IFRS;
- a statement of cash flows that presents cash flows from operations using the indirect method.

The use of these statements provides the most meaningful view of the Company's profit and loss, equity and financial situation.

MEASUREMENT CRITERIA

The accounting standards and measurement criteria adopted to prepare the financial statements as at 31 December 2017, which did not change compared to the previous year, are described below:

INTANGIBLE ASSETS

Goodwill and business combinations

Goodwill represents the difference between the purchase price and the current value of the identifiable assets and liabilities of the investees on the acquisition date.

Any negative difference (negative goodwill), after a further verification, is instead recognised in the income statement at the time of acquisition. Any liabilities associated with the business combinations for payments subject to conditions are recognised at the date of acquisition of the companies and business units relating to the business combinations. The costs connected to the business combinations are recognised in the income statement.

With respect to acquisitions prior to the date of adoption of IFRS, LU-VE S.p.A. exercised the right set forth in IFRS 1 not to apply IFRS 3 relating to business combinations to the acquisitions that took place before the transition date. As a result, the goodwill resulting from acquisitions that took place in the past was not restated and was recognised at the value determined on the basis of the previous accounting standards, net of amortisation accounted for as at 31 December 2013 and any impairment losses.

As of 1 January 2014, goodwill, representing an intangible asset with an indefinite useful life, is not amortised, but rather subject to impairment testing every year or more frequently any time there is an indication that there may have been an impairment loss. However, the original value is not written back if the reasons resulting in the impairment loss no longer apply. Goodwill is not revalued, not even in application of specific laws, and any write-downs are not subject to any subsequent write-backs.

In the event of the sale of part of a business or the entire business previously acquired, the acquisition of which resulted in goodwill, in the determination of the capital gain or loss from the disposal, the corresponding attributable value of goodwill is taken into account.

Other intangible assets

Trademarks

This item includes long-term expenses incurred for the protection and distribution of Company trademarks. These expenses are recognised as assets in accordance with IAS 38 "Intangible assets" when it is probable that the use of the asset will generate future economic benefits and when the cost of the asset can be determined in a reliable manner.

Research and development costs

Development costs on projects for the production of new products or components are recognised as assets only if the costs can be reliably determined, if the Company has the intent and available resources to complete the asset, if it is technically feasible to complete the project so as to make it available for use and if expected volumes and prices indicate that the costs incurred in the development phase will be capable of generating future economic benefits.

Capitalised development costs include only expenses incurred that may be directly attributed to the development process.

Capitalised development costs are amortised systematically, beginning from the start of production and throughout the estimated life of the product or process, which has been evaluated as four years. All other development costs are recognised in the income statement when incurred. Research costs are attributed to the income statement when incurred.

Other intangible assets

Other intangible assets are recognised as assets in accordance with IAS 38 when it is probable that the use of the asset will generate future economic benefits and when the cost of the asset can be determined in a reliable manner. If such future economic benefits do not arise, they are written down in the year in which this is confirmed.

These assets are measured at acquisition or production cost and amortised on a straight line basis throughout their estimated useful life, if they have a finite useful life.

Investments in software are amortised over a period of 3 years.

PROPERTY, PLANT AND EQUIPMENT

These assets include Land and buildings, plant and equipment, equipment and other property, plant and equipment.

They are recognised at acquisition or construction cost. The cost includes accessory costs directly attributable to the asset. As set forth in IAS 16, depreciation is calculated on the basis of uniform rates for categories of similar assets, deemed suitable to break down the carrying amount of the property, plant and equipment over the period of its useful life. The estimated useful life is as follows, in years:

Buildings	33
Light constructions	10
Plant and equipment	8 – 11
Fixtures and fittings, tools and other equipment	3 – 10
Other assets	4 – 8

Ordinary maintenance costs are charged to the income statement in the year in which they are incurred; costs that increase the value or useful life of the asset are capitalised and depreciated in line with the remaining useful life of the assets to which they refer.

If there are indicators of impairment, property, plant and equipment are tested for impairment. Any impairment losses may be subject to subsequent write-backs.

Land is not depreciated.

Leased assets

Assets acquired under finance lease agreements are accounted for in accordance with the financial methodology and recognised as assets at acquisition value less depreciation. The depreciation of these assets is reflected in the annual financial statements by applying the same criterion used for owned property, plant and equipment. As a matching entry to the recognition of the asset, short and medium/long-term payables to the lessor financial institution are recognised under “Other financial

liabilities”; in addition, the financial expense applicable to the period is recognised in the income statement.

Equity investments and non-current receivables

Other equity investments not classified as held for sale are measured with the cost method, less impairment losses. The original value is written back in subsequent years if the reasons for the write-down recognised no longer apply.

Non-current receivables are recognised at their estimated realisable value.

Impairment of assets

At least every year, the Company reviews the carrying amount of goodwill and its property, plant and equipment and intangible assets to check whether there are indications that these assets have been impaired. If these indications exist, the recoverable amount of these assets is estimated to determine the amount of the impairment. When it is not possible to estimate the recoverable amount of an asset individually, the Company estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs.

In particular, the recoverable amount of the cash-generating units is verified by determining the value in use. The recoverable amount is the higher of the fair value net of selling costs and the value in use. In calculating value in use, future cash flows net of taxes, estimated on the basis of past experience, are discounted to their present value using a rate net of taxes, which reflects current market assessments of the present value of money and the specific risks of the asset. The main assumptions used to calculate value in use regard the discount rate, the growth rate, expected changes in sale prices and the trend in direct costs during the period assumed for the calculation. The growth rates adopted are based on growth forecasts for the applicable industrial sector. Changes in sale prices are based on past experience and on future market expectations. The Company prepares forecasts of operating cash flows deriving from the business plan prepared by the Directors and approved by the Company’s Board of Directors and determines the terminal value (present value of perpetual cash flows) on the basis of a medium and long-term growth rate in line with that of the specific applicable sector.

If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than the relative carrying amount, the carrying amount of the asset is reduced to the lower recoverable amount, with the impairment loss immediately recognised in the income statement.

Subsequently, if the impairment loss on an asset is no longer applicable or is reduced, the carrying amount of the asset (or of the cash-generating unit), with the exception of goodwill, is increased to the new value corresponding to the estimated recoverable amount, which may be no higher than the net carrying amount that the asset would have had if the impairment loss had never been recognised. The write-back is recognised immediately in the income statement.

Derivative financial instruments

Derivative financial instruments are used primarily for hedging, in order to reduce the risk of fluctuating exchange rates, interest rates and raw material costs. In line with IAS 39, derivative financial instruments are accounted for using hedge accounting methods only when:

- a) at the inception of the hedge, the hedging relationship is formally designated and documented;
- b) the hedge is expected to be highly effective;
- c) this effectiveness may be reliably measured;
- d) the hedge is determined to have been highly effective during the different accounting periods for which it is designated.

All derivative financial instruments are measured at fair value, as established by IAS 39.

If the instrument is not eligible for hedge accounting, the gains or losses arising from the measurement of the derivative financial instrument at fair value are recognised in the income statement.

The Company notes that the derivative instruments were subscribed in order to hedge the underlying risks.

However, at the date of presentation of these financial statements, not all requirements of IAS 39 were satisfied. Therefore, the Company management deemed it appropriate to treat those instruments as trading, not hedging, transactions.

The relative effects were recognised under “Net change in fair value of derivatives” in the income statement.

Disclosure

IFRS 7 requires additional information that enables users to evaluate the significance of the financial instruments in relation to the economic performance and financial position of the Company. This accounting standard requires a description of the objectives, policies and procedures put into place by the Management for the different types of financial risk (liquidity, market and credit) to which the Company is exposed, inclusive of a sensitivity analysis for each type of market risk (exchange rate, interest rate, equity, commodity) and a disclosure regarding the concentration and average, minimum and maximum exposures to the various types of risk during the reference period, if the exposure at the end of the period is not sufficiently representative.

IAS 1 governs, inter alia, the disclosures to be provided regarding capital management objectives, policies and processes, specifying, if there are any externally imposed capital requirements, their nature and management methods and any consequences of non-compliance.

Inventories

Inventories are measured at the lower of acquisition or production cost, determined on the basis of the weighted average cost method, and the corresponding market value represented by the replacement cost for purchased materials and the estimated realisable value for finished and semi-finished products, calculated by taking into account any manufacturing costs as well as the direct sales costs yet to be incurred. The cost of inventories includes the amount of accessory costs and direct and indirect production costs reasonably attributable to them. Obsolete or slow-moving stocks are written down based on their possibilities of use or realisation. The write-down of inventories is eliminated in subsequent years if the reasons for it no longer apply.

Trade receivables and other receivables

The receivables are initially recognised at fair value.

Subsequently, receivables are valued with the amortised cost method on the basis of the effective internal interest rate represented by the rate, which makes the present value of future cash flows and the carrying amount equal at the moment of initial recognition.

The value thus determined is reduced to the realisable value if there are any impairment losses.

Write-downs are calculated in relation to the degree of solvency of individual debtors, also based on the specific characteristics of the underlying credit risk, taking into account available information and also considering historical experience.

Assignment of receivables

Receivables assigned based on factoring transactions are eliminated from the assets in the statement of financial position only if the risks and benefits correlated with their ownership have been substantially transferred to the assignee. Assigned receivables that do not meet the above requirement remained recognised in the Company’s financial statements even though they have legally been transferred. In that case, a financial liability of an equal amount is recognised in the liabilities against the advance received.

Current and non-current financial assets

Financial assets held for trading are measured at fair value with the economic effects recognised under financial income or expense.

Loans

Loans are initially measured at cost, corresponding to the fair value of the consideration received, net of accessory acquisition costs.

This value is subsequently adjusted to take into account any difference between the initial cost and the repayment value throughout the term of the loan using the effective interest rate method.

Loans are classified as current liabilities unless the Group has the unconditional right to defer the settlement of the liability for at least twelve months after the reporting date.

Provisions

Provisions for risks and charges represent probable liabilities of uncertain amount and/or timing deriving from past events, the settlement of which will entail an outflow of resources. Provisions are recognised exclusively if there is a present legal or constructive obligation requiring the use of economic resources, provided such obligation can be reliably estimated. The amount recognised in the provision represents the best estimate of the expenditure required to settle the obligation at the balance sheet date. Provisions are reviewed at each balance sheet date and adjusted so as to represent the best current estimate.

If the outflow of resources connected to the obligation is expected to take place beyond normal payment terms and the effect of discounting is relevant, the amount of the provision is represented by the present value of the expected future payments for the settlement of the obligation.

Contingent assets and liabilities are not recognised in the financial statements. However, they are subject to adequate disclosure.

Employee benefits

Short-term benefits

Short-term employee benefits are accounted for in the income statement in the period in which the services are rendered.

Post-employment benefits

On 1 January 2007, the Financial Act (law 296/2006) and the relative implementing decrees introduced considerable amendments to the rules on post-employment benefits, including the selection to be made by the worker with respect to the allocation of accruing benefits. In particular, these new regulations required new post-employment benefit contributions to be allocated to pension plans chosen by the worker or, if the worker decided to keep those contributions within the company, to an INPS treasury account. The method for accounting for post-employment benefits was updated based on these regulatory amendments.

Before the reform introduced by Law 296/2006, international accounting standards classified post-employment benefits as “defined-benefit plans”. Now, only the post-employment benefits accrued up to 31 December 2006 continue to be classified as “defined-benefit plans”, while those accruing subsequent to that date are classified as a “defined-contribution plan”, as all obligations of the company are met when it makes the periodic contribution to third-party entities. Therefore, discounted amounts are no longer recognised in the income statement. Instead, outlays made to the various types of pension plans selected by employees or to the separate INPS treasury fund, calculated based on art. 2120 of the Italian Civil Code, are recognised under personnel costs.

Defined-benefit plans

The provision for post-employment benefits (limited to the share accrued up to 31 December 2006) is calculated by an independent actuary using the projected unit method to determine the liability. Any actuarial effects are recognised in shareholders' equity and included in the statement of comprehensive income.

Defined-contribution plans

The Company participates in publicly or privately managed defined-contribution pension plans on an obligatory, contractual or voluntary basis. As noted above, this category includes provisions for post-employment benefits calculated based on art. 2120 of the Italian Civil Code and paid to the various types of pension plans selected by employees or to the separate INPS treasury fund. The Company meets its obligation to employees with the payment of these contributions. Therefore, the contributions are classified as costs in the period in which they are due.

Payables

Trade payables, other payables and other liabilities are initially recognised at fair value, plus any costs connected to the transaction. Subsequently they are measured at nominal value, as it is not deemed necessary to apply any discounting or separately attribute explicit or separated interest expense in the income statement, as it is not considered material in light of expected payment times.

Criteria for the translation of items in foreign currency

Receivables and payables originally expressed in foreign currencies are translated to euro at the exchange rates of the date on which the transactions giving rise to them take place. The exchange differences realised upon collection of the receivables and payment of the payables in foreign currency are recognised in the income statement. Income and expenses relating to transactions in foreign currency are recognised at the current exchange rate on the date on which the relative transaction takes place.

At year end, assets and liabilities expressed in foreign currency, with the exception of non-current assets, are recognised at the spot exchange rate as at the end of the financial year and the relative exchange gains and losses are recognised in the income statement. If the translation gives rise to a net profit, a non-distributable reserve for a corresponding amount is restricted until its actual realisation.

Revenue and cost recognition

Revenues are recognised net of returns, discounts, allowances and premiums, as well as taxes directly connected to the sale of goods and the provision of services.

Revenues from sales are recognised when the Company has transferred the significant risks and benefits connected to ownership of the asset and the amount of the revenue may be reliably determined.

Costs and expenses are recognised in the financial statements on an accrual basis.

Financial income

Financial income includes interest income on invested funds and income from financial instruments. Interest income is allocated to the income statement when it accrues, considering the actual yield.

Financial expense

Financial expense includes interest expense on financial payables calculated using the effective interest method, bank fees and expenses deriving from financial instruments.

Income taxes

Income taxes include all taxes calculated on the Company's taxable income. Income taxes are recognised in the income statement, with the exception of those relating to items directly charged or credited to shareholders' equity, in which case the tax effect is recognised directly under shareholders' equity. Other taxes not correlated with income, such as property taxes, are classified as operating

expenses. Deferred tax liabilities are recognised based on the full liability method. They are calculated on all temporary differences emerging between the taxable amount of an asset or liability and the carrying amount in the consolidated financial statements, with the exception of goodwill, which is not tax deductible and those differences from investments in subsidiaries which are not expected to be offset in the foreseeable future. Deferred tax assets on tax losses and unused tax credits that may be carried forward are recognised to the extent to which it is likely that future taxable income will be available against which they may be recovered. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and when there is a legal right to offset. Deferred tax assets and liabilities are calculated using the tax rates expected to be applicable in the years in which the temporary differences will be realised or extinguished.

Dividends

Dividends are accounted for on an accrual basis when the right to receive them arises, corresponding to when the distribution resolution is passed.

Treasury shares

Treasury shares are recognised as a deduction from shareholders' equity. The carrying amount of treasury shares and revenues from any subsequent sales are recognised as changes in shareholders' equity.

Earnings per share

Basic earnings per share are calculated by dividing the profit (loss) attributable to shareholders of the Company by the weighted average of ordinary shares outstanding during the year. Diluted earnings per share are calculated by dividing the profit (loss) for the year attributable to shareholders of the Company by the weighted average of shares outstanding, adjusted to assume the subscription of all potential shares deriving from the granting of bonds and the exercise of warrants, if issued by the Company.

Use of estimates

The preparation of the financial statements and the relative notes in application of IFRS requires the management to make estimates and assumptions that impact the values of the assets and liabilities in the financial statements and the disclosure relating to contingent assets and liabilities as at the reporting date. Actual results may differ from those estimates. Estimates are used to assess goodwill, intangible assets and property, plant and equipment tested for impairment, as described above, as well as to recognise provisions for credit risks, inventory obsolescence, depreciation and amortisation, asset impairment, employee benefits, taxes and other provisions (i.e., product warranty provision). Estimates and assumptions are reviewed periodically and the effects of each change are reflected in the income statement in the period in which the estimate is reviewed. More specifically:

Recoverability of the value of goodwill, intangible assets and property, plant and equipment

The procedure for determining the impairment losses on goodwill, intangible assets and property, plant and equipment described in the accounting standard "Impairment of assets" implies - in estimating the value in use - assumptions regarding the forecast of expected cash flows from the only cash generating unit ("CGUs") identified, making reference to the 2018-2021 plan, the determination of an appropriate discounting rate (WACC) and a long-term growth rate (g-rate). These assumptions are based on the Management's expectations of focusing on increasing the sales of certain higher-margin product families to improve the absorption of fixed costs, continuously improving the performance of existing products and developing innovative products.

As laid out in IAS 36, as the above-mentioned CGU includes goodwill, the Company's Management conducted an impairment test to determine whether the carrying amounts relating to the assets of the CGU are recognised in the financial statements at 31 December 2017 at a value no higher than the recoverable amount. In particular, the Company has recognised goodwill totalling €14.6 million in the financial statements at 31 December 2017, in addition to intangible assets with a finite useful life and property, plant and equipment.

Recoverability of the value of equity investments

Equity investments in subsidiaries, for which estimates are used in a significant manner in order to determine any write-downs and write-backs, were carefully analysed by the Company Management to identify possible indicators of impairment.

In particular, amongst the equity investments in subsidiaries, the Management tested for impairment the equity investments in the companies LU-VE Sweden AB, LU-VE Iberica s.l., LU-VE Deutschland GmbH, LU-VE Contardo Pacific Pty. Ltd. - Australia and LU-VE Asia Pacific Ltd. – Hong Kong, which had significant losses for the year and/or previous years that led to the recognition of negative shareholders' equities with reference to all of the above-mentioned subsidiaries.

The Management's assessment process is based on estimated expected cash flows that may be inferred from the 2018-2021 plans of such subsidiaries prepared by the local management in collaboration with the Company Management and subsequently included in the consolidation plan approved by the Company Management, and on the determination of an appropriate discounting rate (WACC). In particular, the most significant key variables in determining cash flow forecasts are based on the Management's expectations of focusing on increasing the sales of certain higher-margin product families to improve the absorption of fixed costs, strengthening and expanding existing production capacity, continuously improving the performance of existing products and developing innovative products.

Provisions for credit risks

Receivables are adjusted by the relative bad debt provision to take into account their recoverable amount. To determine the amount of write-downs, the Directors are required to make subjective assessments based on available documentation and information regarding customer solvency, as well as experience and historical collection trends.

Provisions for inventory obsolescence

Obsolescent or slow-moving inventories are assessed systematically and, if their recoverable amount is lower than their carrying amount, they are written down. Write-downs are calculated based on the management's assumptions and estimates deriving from experience and historical results.

Provisions for warranties

The Company recognises provisions for the estimated costs of product warranties. The management establishes the consistency of these provisions on the basis of historical information with reference to the frequency and average cost of warranty claims.

Employee benefits

The present value of liabilities for employee benefits depends on a series of factors determined with actuarial techniques using specific assumptions. The assumptions regard the discount rate, estimates of future wage increases, mortality rates and resignations. Every change in these assumptions may have significant effects on the liability for pension benefits.

Income taxes

To determine the Company's tax liabilities, the management needs to make assessments with respect to transactions that have uncertain tax implications at the reporting date. In addition, deferred tax assets are measured on the basis of expected income in future years; the assessment of this expected income depends on factors that could change over time and have significant effects on the measurement of deferred tax assets.

Other provisions

With regard to processes for estimating the risk of contingent liabilities from disputes, the Directors rely on communications received regarding the progress of recovery procedures and disputes from the legal advisors who represent the Company in disputes. These estimates are determined by taking into account the gradual evolution of the disputes.

Estimates and assumptions are reviewed periodically and the effects of each change are immediately reflected in the income statement.

New accounting standards

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS OF 1 JANUARY 2017

The following IFRS accounting standards, amendments and interpretations have been applied by the Group for the first time as of 1 January 2017:

- Amendment to **IAS 7 “Disclosure Initiative”** (published on 29 January 2016). The document aims to provide several clarifications to improve the disclosure on financial liabilities. In particular, the amendments require a disclosure to be provided which enables users of financial statements to understand changes in liabilities deriving from loan transactions. The Company has adopted the amendment and improved the disclosure in note 12.
- Amendment to **IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses”** (published on 19 January 2016). The document has the objective of providing several clarifications on the recognition of deferred tax assets on unrealised losses in the measurement of available for sale financial assets in certain circumstances and on the estimate of taxable income for future years. The adoption of these amendments had no effects on the separate financial statements.

IFRS ACCOUNTING STANDARDS AND AMENDMENTS AND IFRIC INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, FOR WHICH APPLICATION IS NOT YET REQUIRED AND NOT ADOPTED EARLY BY THE GROUP AS AT 31 DECEMBER 2017

- **IFRS 15 – Revenue from Contracts with Customers** (published on 28 May 2014 and supplemented with further clarifications published on 12 April 2016), which is meant to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue-Barter Transactions Involving Advertising Services. This standard establishes a new revenue recognition model to be applied to all contracts entered into with customers with the exception of those falling within the scope of application of other IAS/IFRSs such as leases, insurance contracts and financial

instruments. The fundamental steps for accounting for revenues in accordance with the new model are:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract;
- recognise revenue when the entity satisfies each performance obligation.

The standard applies as of 1 January 2018. The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers were endorsed by the European Union on 6 November 2017. On the basis of the analyses conducted, the directors expect that the application of IFRS 15 will not have a significant impact on the amounts of revenues recognised and on the relative disclosure provided in the Company's financial statements.

- Final version of **IFRS 9 - Financial instruments** (published on 24 July 2014). This document incorporates the results of the IASB project for the replacement of IAS 39:
 - it introduces new criteria for the classification and measurement of financial assets and liabilities (along with the measurement of unsubstantial changes in financial liabilities);
 - With reference to the impairment model, the new standard requires losses on receivables to be estimated on the basis of the expected losses model (and not the incurred losses model used in IAS 39) using supportable information available without unreasonable cost or effort, including historical, current and forecast data;
 - it introduces a new hedge accounting model (increase in the type of transactions eligible for hedge accounting, change in the methods for accounting for forward contracts and options when included in a hedge accounting relationship, amendments to the effectiveness test).

The new standard must be applied in financial years beginning on or after 1 January 2018.

On the basis of the analyses conducted, the directors expect that the application of IFRS 9 could have an impact on the amounts and on the relative disclosure provided in the separate financial statements.

- **IFRS 16 – Leases** (published on 13 January 2016) which is meant to replace IAS 17 – Leases, as well as the interpretations IFRIC 4 – Determining whether an Arrangement contains a Lease, SIC-15 – Operating Leases—Incentives and SIC-27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The new standard provides a new definition of lease and introduces an approach based on control (right of use) of an asset to distinguish lease agreements from service agreements, identifying as distinguishing factors: the identification of the asset, the right of substitution, the right to substantially obtain all economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the contract.

The standard establishes a single model for the recognition and measurement of lease agreements for the lessee which requires the recognition of the asset subject to the lease, including an operating lease, in the assets with a matching entry under financial payables, also providing the possibility not to recognise as leases those contracts which concern low-value assets and leases with a contract term of equal to or less than 12 months. The standard does not include significant amendments for lessors.

The standard applies as of 1 January 2019, but early application is permitted, only for companies that have already applied IFRS 15 - Revenue from Contracts with Customers. The directors have initiated a project for the implementation of the new standard, which calls for a first phase consisting of a detailed analysis of contracts and accounting impacts and a second phase for the implementation and/or adjustment of administrative processes and the accounting system. The main qualitative and quantitative impacts of the new standard expected by the Directors at the date of initial application are reported below:

- a decrease in operating costs between €0.4 and 0.5 million;
 - an increase in depreciation and amortisation between €0.4 and 0.5 million;
- a deterioration of the net financial position between €1 and 1.5 million.

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

At the date of these financial statements, the competent bodies of the European Union have not yet completed the approval process required for the adoption of the amendments and standards described below.

- Amendment to **IFRS 2 “Classification and measurement of share-based payment transactions”** (published on 20 June 2016), which contains several clarifications on accounting for the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with net settlement and accounting for amendments to the terms and conditions of a share-based payment which change the classification from cash-settled to equity-settled. The amendments apply as of 1 January 2018, but early application is permitted.
- **“Annual Improvements to IFRSs: 2014-2016 Cycle”**, published on 8 December 2016 (including IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard) which partially supplement pre-existing standards. The majority of the amendments apply as of 1 January 2018, but early application is permitted.
- Interpretation **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (published on 8 December 2016). The interpretation has the objective of providing guidelines for transactions carried out in foreign currency when non-monetary advances or payments on account are recognised in the financial statements, before the recognition of the relative asset, cost or revenue. This document provides instructions on how an entity must determine the date of a transaction and as a result the spot exchange rate to be used when transactions in foreign currency are carried out, in which payment is made or received in advance. IFRIC 22 applies as of 1 January 2018, but early application is permitted.
- Amendment to **IAS 40 “Transfers of Investment Property”** (published on 8 December 2016). These amendments clarify transfers of a property to, or from, investment property. In particular, an entity is required to reclassify a property as, or from, investment property, only when there is evidence that the property use has changed. This change must be related to a specific event that

took place and therefore should not be limited to a change in the intentions of the entity's management. These amendments apply as of 1 January 2018, but early application is permitted.

- On 7 June 2017, the IASB published the interpretation document **IFRIC 23 – Uncertainty over Income Tax Treatments**. The document deals with the matter of uncertainties over the income tax treatment to be adopted.

The document requires uncertainties in the determination of tax liabilities or assets to be reflected in the financial statements only when it is likely that the entity will pay or recover the amount in question. In addition, the document does not contain any new disclosure requirement, but highlights that the entity will need to establish if it will be necessary to provide information on the considerations of the management and relating to the uncertainty inherent in accounting for taxes, in accordance with the provisions of IAS 1.

The new interpretation applies as of 1 January 2019, but early application is permitted.

Amendment to **IFRS 9 “Prepayment Features with Negative Compensation”** (published on 12 October 2017). This document specifies that instruments that require prepayment could respect the “SPPI” test even if the reasonable additional compensation to be paid in the case of prepayment is negative compensation for the lender. The amendment applies as of 1 January 2019, but early application is permitted.

- Amendment to **IAS 28 “Long-term Interests in Associates and Joint Ventures”** (published on 12 October 2017). This document clarifies the need to apply IFRS 9, including impairment-related requirements, to other long-term interests in associates and joint ventures for which the equity method is not applied. The amendment applies as of 1 January 2019, but early application is permitted.

Document **“Annual Improvements to IFRSs 2015-2017 Cycle”**, published on 12 December 2017 (including IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Remeasurement of previously held interests in a joint operation, IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity, IAS 23 Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation) which incorporates amendments of several standards within the annual improvement process. The amendments apply as of 1 January 2019, but early application is permitted.

- Amendment to **IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”** (published on 11 September 2014). This document was published to resolve the current conflict between IAS 28 and IFRS 10 regarding the measurement of the profit or loss resulting from the disposal or contribution of a non-monetary asset to a joint venture or an associate in exchange for a stake in the latter. The IASB has currently indefinitely deferred the application of this amendment.

Comment on the main items of the statement of financial position

1. GOODWILL AND OTHER INTANGIBLE ASSETS

(in thousands of Euro)	Goodwill	Trademarks	Development costs	Other intangible assets	Total
Historical					
As at 31 December 2015	21,018	10,799	4,980	3,565	40,362
Increases	60	-	957	1,038	2,055
Decreases	-	-	-	-	-
Reclassifications	-	-	-	-	-
As at 31 December 2016	21,078	10,799	5,937	4,603	42,417
Increases	-	-	110	2,462	2,572
Decreases	-	-	-	-	-
Reclassifications	-	-	-	(53)	(53)
As at 31 December 2017	21,078	10,799	6,047	7,012	44,936
Provision					
As at 31 December 2015	6,449	5,245	3,355	3,290	18,339
Increases	-	717	1,000	351	2,068
Decreases	-	-	-	-	-
Reclassifications	-	-	-	-	-
As at 31 December 2016	6,449	5,962	4,355	3,641	20,407
Increases	-	717	809	645	2,171
Decreases	-	-	-	-	-
Reclassifications	-	-	-	-	-
As at 31 December 2017	6,449	6,679	5,164	4,286	22,578
Net carrying amount					
As at 31 December 2016	14,629	4,837	1,582	962	22,010
As at 31 December 2017	14,629	4,120	883	2,726	22,358

Goodwill

Goodwill did not change compared to last year.

Pursuant to IAS 36, the Company tests goodwill for impairment at least once per year, when preparing the financial statements as at 31 December.

Therefore, the Company tested the recoverability of the carrying amount of the Net Invested Capital (NIC) of LU-VE S.p.A. as at 31 December 2017. Net invested capital is inclusive of the value of goodwill and other assets with a finite useful life.

In determining the recoverable amount, identified as the value in use, i.e., the sum of discounted cash flows generated in the future and on an ongoing basis from NIC (unlevered discounted cash flow method), the management made reference to the 2018-2021 plan approved by the Board of Directors on 8 February 2018, the assumptions of which include the Management's expectations of focusing on increasing the sales of certain higher-margin product families to improve the absorption of fixed costs, continuously improving the performance of existing products and developing innovative products.

In more detail, in order to determine the recoverable amount of Net Invested Capital, cash flows were discounted using a discounting rate (WACC) which takes into account the specific risks of the asset and which reflects current market assessments of the cost of money. The calculation of the weighted average cost of capital resulted in a value of 6.86%.

The recoverable amount also includes the terminal value of income flows, which was calculated with the “perpetual cash flow” method considering a growth rate (g rate) of 2.1%. In the terminal value, an operating cash flow based on the last year of the plan (2021), adjusted so as to reflect a situation “under normal circumstances”, was considered. The level of amortisation and investments was balanced and a change in working capital equal to zero was assumed.

The weighted average cost of capital calculated for the discounting of cash flows is based on a weighting between the cost of debt and the cost of equity, determined on the basis of the values of companies comparable to LU-VE S.p.A. and therefore operating within the same business segments.

No impairment losses emerged based on the testing carried out, as the value in use was found to be higher than the carrying amount.

Sensitivity analyses were conducted on the results of the tests with respect to changes in the underlying assumptions (WACC, g rate and EBITDA “under normal circumstances”), which demonstrated limited coverage. In particular, the management calculated the “break even” WACC and g rate, which came to 6.97% (with the g rate being the same) and 2.01% (with the WACC being the same), respectively. The reduction in the value of EBITDA “under normal circumstances” which could result in a break even situation is instead equal to 1.86%, with the WACC and the g rate remaining the same.

Development costs

The total *Development costs* for the year 2017 was €1,510 thousand (of which €110 thousand capitalised and €1,400 thousand in projects under way), referring to new air-cooled product development. These investments are amortised over a period of 4 years.

The intense activities carried out have aimed to offer the market increasingly advanced products. The main projects during the year regarded the creation of innovative adiabatic and spray systems to optimise the performance of high power heat exchange equipment, the miniaturisation and specialisation of tube surfaces and matrixes for the improvement of heat exchange efficiencies, the introduction of electronic control systems optimised for unit coolers and air coolers as well as the development of new ranges of products, components and accessories in the heat exchanger segment.

Development costs were capitalised with the consent of the Board of Statutory Auditors.

Other intangible assets

Other intangible assets rose by €2,462 thousand, of which:

- €1,062 thousand relating to software development costs. The main project developed in 2017 was PLM (Product Lifecycle Management), for roughly €689 thousand, which will be used in all of the Group’s production facilities;
- €1,400 thousand, as reported above, refers to product development projects currently being completed;

Intangible assets are amortised at various amortisation rates:

- software over three years;
- the LU-VE trademark over 15 years;
- development costs over 4 years;
- other intangible assets over 5 years.

2. PROPERTY, PLANT AND EQUIPMENT

(in thousands of Euro)	Property	Plant and equipment	Other property, plant and equipment	Work in progress	Total
Historical					
As at 31 December 2015	38,882	41,796	15,713	429	96,820
Increases	434	3,001	758	772	4,965
Decreases	-	0	(288)	-	(288)
Reclassifications	32	200	-	(232)	-
As at 31 December 2016	39,348	44,997	16,183	969	101,497
Increases	286	3,330	759	69	4,444
Decreases	-	(176)	(66)	-	(242)
Reclassifications	145	877	-	(969)	53
As at 31 December 2017	39,779	49,028	16,876	69	105,752
Provision					
As at 31 December 2015	7,907	35,607	13,876	-	57,390
Increases	662	3,367	653	-	4,682
Decreases	-	0	(168)	-	(168)
Reclassifications	-	-	-	-	-
As at 31 December 2016	8,569	38,974	14,361	-	61,904
Increases	675	1,649	803	-	3,127
Decreases	-	(176)	(19)	-	(195)
Reclassifications	-	-	-	-	-
As at 31 December 2017	9,244	40,447	15,145	-	64,836
Net carrying amount					
As at 31 December 2016	30,779	6,023	1,822	969	39,593
As at 31 December 2017	30,535	8,581	1,731	69	40,916

The increase in the item Plant and equipment (€3,330 thousand) refers to the expansion of existing production capacity and adjustment to fire prevention regulations.

The increase in Other property, plant and equipment (€758 thousand) referred mainly to the acquisition of industrial equipment and moulds.

During the year, machinery and vehicles were also disposed of, generating a net capital gain of €109 thousand.

During the year, financial expense was not capitalised on property, plant and equipment.

The table below provides detailed information on assets still owned on which the revaluations provided under specific laws were carried out:

Types of revaluations	Item						
(in thousands of Euro)	Property		Plant and equipment		Other property, plant and equipment		Net total as at 31/12/2017
	Gross amount	Net amount as at 31/12/2017	Gross amount	Net amount as at 31/12/2017	Gross amount	Net amount as at 31/12/2017	
Law no. 413 of 30 December 1991	5	1	-	-	-	-	1
Law no. 342 of 21 November 2000	-	-	1,347	-	1,080	-	-
Law no. 350 of 24 December 2003	-	-	1,814	-	1,183	-	-
Law no. 266 of 23 December 2005	-	-	847	-	296	-	-
TOTAL	5	1	4,008	-	2,559	-	1

3. EQUITY INVESTMENTS

The details of this item are shown below:

(in thousands of Euro)	31/12/2017	31/12/2016
Subsidiaries:		
SEST S.p.A.	44,895	44,895
TECNAIR LV S.p.A.	1,043	1,043
METALLUVE S.r.l.	-	-
LUVE France S.à.r.l.	890	890
HTS s.r.o.	9,539	9,539
LUVE Sweden AB	390	390
LUVE Ibérica S.l.	145	145
LUVE Contardo Pacific Pty. Ltd. (Australia)	-	-
LUVE Asia Pacific Ltd. (Hong Kong)	13	13
LUVE Deutschland GmbH	173	173
LUVE India Corporation Private Ltd	1,566	1,566
MANIFOLD S.r.l.	10	10
LUVE DIGITAL S.R.L.	5	5
LU-VE AUSTRIA GmbH	18	-
Total subsidiaries	58,687	58,669
The other companies are:		
Industria e Università S.r.l.	6	6
Total	58,693	58,675

The only transaction carried out in 2017 was the establishment of a new company named LU-VE Austria GmbH, wholly owned by LU-VE S.p.A., on 21 October 2017.

Pursuant to IAS 36, the Company carried out an analysis in order to test for the presence of impairment indicators. To that end, in particular it tested the recoverability of the carrying amount of equity investments in order to ensure that the value recognised in the financial statements does not exceed the recoverable amount.

The method for verifying the recoverable amount, as expressed by IAS 36, is based on the discounting of expected future cash flows from equity investments along with the calculation of the respective terminal value (the DCF or discounted cash flow method).

LU-VE tested the recoverability of the carrying amount of the following equity investments as at 31 December 2017, which had significant losses for the year and/or previous years that led to the recognition of negative shareholders' equities with reference to all of the above-mentioned subsidiaries:

- LU-VE Sweden AB;
- LU-VE Deutschland GmbH;
- LU-VE Iberica s.l.;
- LU-VE Asia Pacific Ltd. (Hong Kong);
- LU-VE Contardo Pacific Pty. Ltd. (Australia).

In determining the recoverable amount, identified as the value in use, i.e., the sum of discounted cash flows generated in the future and on an ongoing basis, the management made reference to the 2018-2021 plans of such subsidiaries prepared by the local management in collaboration with the Company Management and subsequently included in the consolidated plan approved by the Company Management. In particular, the most significant key variables in determining cash flow forecasts are based on the Management's expectations of focusing on increasing the sales of certain higher-margin product families to improve the absorption of fixed costs, strengthening and expanding existing production capacity, continuously improving the performance of existing products and developing innovative products.

In more detail, in order to determine the recoverable amount of the equity investments tested, cash flows were discounted using a discounting rate (WACC) which takes into account the specific risks of the equity investment and which reflects current market assessments of the cost of money. Different WACCs were calculated assuming as a reference basis the risk free rates relating to the different countries of the tested equity investments. The recoverable amount also includes the terminal value of income flows (terminal value), which was calculated with the "perpetual cash flow" method considering a growth rate (g rate) in line with the expected growth rates of the countries in which each Company operates. In the terminal value, an operating cash flow equal to the last year of the plan (2021), adjusted so as to reflect a situation "under normal circumstances", was considered. The Terminal Value cash flow therefore reflects a level of amortisation corresponding to the value of investments under normal circumstances and no change in working capital. The main parameters considered in estimating the Equity value are reported below:

	<i>WACC</i>	<i>g rate</i>
LU-VE Sweden AB	5.5%	2.0%
LU-VE Deutschland GmbH	5.2%	2.5%
LU-VE Iberica s.l.	6.3%	1.9%
LU-VE Asia Pacific Ltd. (Hong Kong)	8.1%	2.6%
LU-VE Contardo Pacific Pty. Ltd. (Australia)	7.2%	2.5%

The level of net financial debt as at 31 December 2017 of the respective equity investments was subtracted from the value obtained from the discounted sum of expected cash flows and the terminal value, in order to obtain the equity value.

No impairment losses emerged based on the testing carried out, as the value in use of the equity investments was found to be higher than the carrying amount recognised in the financial statements.

In addition, as the recoverable amount is determined on the basis of projections, the Company developed sensitivity analyses, in which the underlying assumptions of the impairment test are changed, i.e., WACC is increased by 1% and the g rate is reduced by 1%. These sensitivity analyses did not bring to light any impairment losses for the equity investments tested with the exception of LU-VE Asia Pacific Ltd. (Hong Kong), which had a “break even” WACC and g rate of 8.3% (with the g rate being the same) and 2.3% (with the WACC being the same), respectively.

A dedicated list indicating the information required by art. 2427 of the Italian Civil Code, point no. 5 is provided in an annex.

4. OTHER NON-CURRENT FINANCIAL ASSETS

(in thousands of Euro)	31/12/2017	31/12/2016	Change
CCD LUVE India Corporation Private Ltd.	33,965	33,872	93
Other financial receivables from subsidiaries	13,672	14,552	(880)
Total	47,637	48,424	(787)

The item “*Other non-current financial assets*” amounted to €47,637 thousand compared to €48,424 thousand in the previous year. This change depends substantially:

- for €93 thousand on CCD LUVE India, increased for the adjustment to fair value by €2,309 thousand and decreased by €2,216 thousand as a result of the negative exchange effect;
- for €880 thousand on the decrease in receivables for loans to Group subsidiaries described in more detail below.

Financial receivables from subsidiaries include:

- around €1,556 thousand for a long-term loan granted to the subsidiary LU-VE Ibérica s.l. (unchanged with respect to 2016);
- around €6,775 thousand for a long-term loan granted to the subsidiary LU-VE Asia Pacific Limited (increased by €200,000 thousand in 2017). In the past, the subsidiary used part of that loan to subscribe 100% of the share capital of LU-VE Heat Exchangers (Changshu) LTD in China.
- around €4,001 thousand for a long-term loan granted to the subsidiary LU-VE Sweden AB (unchanged with respect to 2016). The subsidiary used that loan, in 2011 and in 2012, for the acquisition of a business unit that manufactures air cooled equipment in Sweden.
- around €1,340 thousand for the long-term loan granted to the subsidiary Heat Transfer System (HTS) s.r.o. The initial loan in 2016 of €2,420 thousand was repaid in the amount of €1,080 thousand in 2017.

5. OTHER NON-CURRENT ASSETS

(in thousands of Euro)	31/12/2017	31/12/2016	Change
Other non-current assets	414	414	-
Total	414	414	-

“Other non-current assets” amounted to €414 thousand, unchanged compared to last year, and referred to:

- €408 thousand in receivables due from the tax authorities payable beyond the year (referring to the refund request due to the deductibility of IRES from IRAP for the period 2007-2011);
- €6 thousand for security deposits.

6. INVENTORIES

This item was broken down as follows at the end of the year:

(in thousands of Euro)	31/12/2017	31/12/2016	Change
Raw materials and consumables	5,572	4,214	1,358
Work in progress and semi-finished products	1,003	945	58
Finished products and goods for resale	1,860	1,554	306
Provision for inventory losses	(645)	(645)	-
Total	7,790	6,068	1,722

The increase in value compared to 2016 was mainly caused by the increase in sales volumes and the increase in raw material costs.

The provision for inventory losses, equal to €645 thousand as at 31 December 2017 (unchanged with respect to 2016), reflects the best estimate of obsolescence risk, on the basis of specific analyses carried out at the end of the year on unsold inventory or inventory with a low turnover rate.

7. TRADE RECEIVABLES

This item was broken down as follows at the end of the year (in thousands of Euro):

(in thousands of Euro)	31/12/2017	31/12/2016	Change
Trade receivables	42,598	33,098	9,500
Bad debt provision	(3,021)	(3,128)	107
Total	39,577	29,970	9,607

Trade receivables included receivables due from some subsidiaries. For the details, refer to the Note on Related Parties (Note 34). All trade receivables are due within the subsequent year and derive from normal sales transactions. Please note that no receivables with a duration of more than 5 years were recognised in the financial statements.

The bad debt provision decreased during the year by €107 thousand.

The breakdown of receivables by geographical area is shown below:

Country	(in thousands of Euro)	31/12/2017	31/12/2016	Change
Italy		6,879	7,424	(545)
EU Countries		24,098	17,351	6,747
Non-EU Countries		11,621	8,323	3,298
Bad debt provision		(3,021)	(3,128)	107
Total		39,577	29,970	9,607

The ageing of trade receivables is shown below:

	(in thousands of Euro)	31/12/2017	31/12/2016	Change
Current receivables (not past due)		17,784	13,998	3,786
Past due up to 30 days		1,787	1,579	208
Past due from 30 to 60 days		839	1,350	(511)
Past due from 60 to 90 days		1,222	813	409
Past due for more than 90 days		20,966	15,358	5,608
Total		42,598	33,098	9,500

8. DUE FROM THE TAX AUTHORITIES FOR CURRENT TAXES

This item was broken down as follows:

Payable within the year (in thousands of Euro):	31/12/2017	31/12/2016	Change
Due from the tax authorities for VAT	2,951	1,473	1,478
Due from the tax authorities	897	665	232
Others	62	72	(10)
Total payable within the year	3,910	2,210	1,700

The item “*Due from the tax authorities*” refers to advances paid in 2017 and in previous years.

9. CURRENT FINANCIAL ASSETS

The details of this item are shown below:

	(in thousands of Euro)	31/12/2017	31/12/2016	Change
Asset management		19,154	39,468	(20,314)
Capitalisation policies		40,192	27,457	12,735
Other securities		12,715	7,102	5,613
Cash pooling		6,686	6,085	601
Fair value of derivative instruments		123	144	(21)
Total		78,870	80,256	(1,386)

The Asset management agreement was entered into with Bnp Paribas Investment Partners SGR S.p.A. and the assets may be disinvested upon simple request. The funds are primarily invested in bonds and in units and/or shares of bond and/or flexible funds. There is also a component of investment in equity

instruments and units and/or shares of equity funds, but to a limited extent, as well as investments in financial instruments denominated in currencies other than the Euro. Asset management had a negative overall impact of around €74 thousand in the income statement for the year.

The Capitalisation policies taken out were issued by Aviva Vita S.p.A and are the type of policies which allow, after the payment of a lump-sum premium, for an annual capital revaluation based on the return obtained from management (almost exclusively invested in government securities and very highly rated bonds). The fair value measurement at the reporting date entailed the recognition of a positive amount of roughly €735 thousand. During the year, policies were taken out for an additional nominal amount of €12,000 thousand (with the payment of an entry fee totalling €64 thousand).

Other securities referred to investments made through UBI Banca S.p.A. (where the securities account is held) in Italian government securities, corporate bonds, bond funds and mixed funds whose fair value measurement at the reporting date entailed the recognition of a positive amount of roughly €293 thousand. During the year, around €396 thousand of these securities was liquidated and there was a roughly €5,426 thousand increase. The net effect of disposals and acquisitions entailed the recognition in the 2017 income statement of a positive effect of around €53 thousand.

In May 2017, a new agreement was entered into with UNICREDIT for €300 thousand, which entailed the recognition of a negative fair value equal to €10 thousand.

“Cash pooling” represented receivable balances for the Company from the Group’s centralised treasury.

The “Fair value of derivative instruments” represented the fair value as at 31 December 2017 of derivatives subscribed by the Company. The change during the year had a positive effect of €123 thousand on the income statement.

The summary relating to outstanding derivative financial instruments as at 31 December 2017 broken down by type is provided below:

€/000		31/12/2017		31/12/2016		31/12/2017	31/12/2016
	TYPE	ORIGINAL NOTIONAL	NOT. Short	NOT. M/L	NOT. Short	NOT. M/L	FAIR VALUE
	IRS on loans	120,417	26,822	59,166	19,178	44,012	(398)
	Currency options	4,177	2,500	-	9,840	356	(340)
	Commodity Swaps	2,250	2,250	-	9,609	-	123
	Total	126,844	31,572	59,166	38,627	44,368	(615)
	Total Notional		90,738		82,995		

The details relating to outstanding derivative financial instruments as at 31 December 2017 broken down by type are provided below:

IRS on loans (in thousands of Euro)

DEBTOR COMPANY	COUNTERPARTY	TAKEN OUT	MATURITY	ORIGINAL NOTIONAL	31/12/2017		31/12/2017
					NOT. Short	NOT. M/L	FAIR VALUE
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	11/08/2014	15/09/2020	2,321	357	714	(16)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	11/08/2014	16/10/2020	3,500	583	1,167	(22)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	21/07/2015	29/06/2020	4,818	1,205	1,825	(26)
LU-VE S.P.A.	Intesa San Paolo S.p.A.	04/02/2016	31/03/2020	10,000	2,500	3,750	(23)
LU-VE S.P.A.	Cassa di Risparmio di Parma e Piacenza Spa	21/11/2012	22/11/2017	1,000	-	-	-
LU-VE S.P.A.	Cassa di Risparmio di Parma e Piacenza Spa	16/06/2015	31/12/2019	8,000	2,134	2,664	(42)
LU-VE S.P.A.	Deutsche Bank	29/10/2013	31/12/2018	1,000	200	-	-
LU-VE S.P.A.	Banca Nazionale del Lavoro	11/08/2014	16/10/2020	3,500	583	1,167	(25)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/07/2015	09/06/2020	17,778	4,444	6,667	(113)
LU-VE S.P.A.	Banca Nazionale del Lavoro	25/10/2016	21/09/2020	28,000	8,000	14,000	(15)
LU-VE S.P.A.	UniCredit Spa	17/09/2015	31/12/2020	10,000	2,500	5,000	(82)
LU-VE S.P.A.	Deutsche Bank	27/03/2017	23/03/2021	5,500	1,375	3,094	(17)
LU-VE S.P.A.	Mediocredito italiano	21/06/2017	28/02/2022	25,000	2,941	19,118	(17)
				120,417	26,822	59,166	(398)

Currency options (in thousands of Euro)

DEBTOR COMPANY	COUNTERPARTY	TYPE	HEDGED ELEMENT	TAKEN OUT	MATURITY	ORIGINAL NOTIONAL	31/12/2017		31/12/2017
							NOT. Short	NOT. M/L	FAIR VALUE
LU-VE S.P.A.	Deutsche Bank	FX Option	€/€ Exchange Rate	22/12/2016	27/03/2018	2,001	500	-	(78)
LU-VE S.P.A.	Deutsche Bank	FX Option	€/€ Exchange Rate	28/03/2017	26/07/2018	2,001	1,501	-	(119)
LU-VE S.P.A.	Banca Nazionale del Lavoro	FX Option	€/€ Exchange Rate	09/06/2017	28/01/2018	1,751	1,376	-	(63)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	01/01/2018	200	200	-	(9)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	31/01/2018	200	200	-	(9)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	28/02/2018	200	200	-	(9)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	29/03/2018	200	200	-	(10)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	30/04/2018	200	200	-	(10)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	31/05/2018	200	200	-	(11)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	29/06/2018	200	200	-	(11)
LU-VE S.P.A.	Barclays	FX Option	€/€ Exchange Rate	02/02/2017	31/07/2018	200	200	-	(11)
						7,353	4,977	0	(340)

Commodities (in thousands of Euro)

DEBTOR COMPANY	COUNTERPARTY	Number	TYPE	HEDGED ELEMENT	TAKEN OUT	MATURITY	NOT. ORIG.	31/12/2017		31/12/2017
								NOT. Short	NOT. M/L	FAIR VALUE
LU-VE S.p.A.	UniCredit S.p.A.	401225788	Commodity Swaps	Commodity Swaps	04/08/2017	30/06/2018	40	40	-	7
LU-VE S.p.A.	UniCredit S.p.A.	407026624	Commodity Swaps	Commodity Swaps	10/11/2017	30/06/2018	45	45	-	2
LU-VE S.p.A.	UniCredit S.p.A.	407140206	Commodity Swaps	Commodity Swaps	14/11/2017	30/06/2018	145	145	-	6
LU-VE S.p.A.	UniCredit S.p.A.	407028800	Commodity Swaps	Commodity Swaps	10/11/2017	30/06/2018	145	145	-	5
LU-VE S.p.A.	UniCredit S.p.A.	407026570	Commodity Swaps	Commodity Swaps	10/11/2017	31/05/2018	45	45	-	2
LU-VE S.p.A.	UniCredit S.p.A.	407140190	Commodity Swaps	Commodity Swaps	14/11/2017	31/05/2018	145	145	-	6
LU-VE S.p.A.	UniCredit S.p.A.	407028764	Commodity Swaps	Commodity Swaps	10/11/2017	31/05/2018	145	145	-	5
LU-VE S.p.A.	UniCredit S.p.A.	401225772	Commodity Swaps	Commodity Swaps	04/08/2017	31/05/2018	40	40	-	7
LU-VE S.p.A.	UniCredit S.p.A.	401225758	Commodity Swaps	Commodity Swaps	04/08/2017	30/04/2018	40	40	-	7
LU-VE S.p.A.	UniCredit S.p.A.	407028729	Commodity Swaps	Commodity Swaps	10/11/2017	30/04/2018	145	145	-	5
LU-VE S.p.A.	UniCredit S.p.A.	407140174	Commodity Swaps	Commodity Swaps	14/11/2017	30/04/2018	145	145	-	6
LU-VE S.p.A.	UniCredit S.p.A.	407026547	Commodity Swaps	Commodity Swaps	10/11/2017	30/04/2018	45	45	-	2
LU-VE S.p.A.	UniCredit S.p.A.	407026525	Commodity Swaps	Commodity Swaps	10/11/2017	31/03/2018	45	45	-	2
LU-VE S.p.A.	UniCredit S.p.A.	407140158	Commodity Swaps	Commodity Swaps	14/11/2017	31/03/2018	145	145	-	6
LU-VE S.p.A.	UniCredit S.p.A.	407028703	Commodity Swaps	Commodity Swaps	10/11/2017	31/03/2018	145	145	-	5
LU-VE S.p.A.	UniCredit S.p.A.	401225741	Commodity Swaps	Commodity Swaps	04/08/2017	31/03/2018	40	40	-	8
LU-VE S.p.A.	UniCredit S.p.A.	401225726	Commodity Swaps	Commodity Swaps	04/08/2017	28/02/2018	40	40	-	8
LU-VE S.p.A.	UniCredit S.p.A.	407028679	Commodity Swaps	Commodity Swaps	10/11/2017	28/02/2018	145	145	-	5
LU-VE S.p.A.	UniCredit S.p.A.	407140142	Commodity Swaps	Commodity Swaps	14/11/2017	28/02/2018	145	145	-	6
LU-VE S.p.A.	UniCredit S.p.A.	407026504	Commodity Swaps	Commodity Swaps	10/11/2017	28/02/2018	45	45	-	2
LU-VE S.p.A.	UniCredit S.p.A.	407026461	Commodity Swaps	Commodity Swaps	10/11/2017	31/01/2018	45	45	-	2
LU-VE S.p.A.	UniCredit S.p.A.	407140116	Commodity Swaps	Commodity Swaps	14/11/2017	31/01/2018	145	145	-	6
LU-VE S.p.A.	UniCredit S.p.A.	407028643	Commodity Swaps	Commodity Swaps	10/11/2017	31/01/2018	145	145	-	5
LU-VE S.p.A.	UniCredit S.p.A.	401225704	Commodity Swaps	Commodity Swaps	04/08/2017	31/01/2018	40	40	-	8
								2,250	2,250	- 123

10. OTHER CURRENT ASSETS

The details of this item are shown below:

(in thousands of Euro)	31/12/2017	31/12/2016	Change
From employees	36	18	18
Advances to suppliers	776	673	103
Advances on lease instalments	-	-	-
Receivables for tax consolidation	274	274	-
Other receivables	88	432	(344)
Total	1,174	1,397	(223)

11. CASH AND CASH EQUIVALENTS

The item, equal to €28,170 thousand as at 31 December 2017 (€24,627 thousand as at 31 December 2016), represented the asset balances in current accounts. Cash as at 31 December 2017 amounted to €8 thousand (€17 thousand as at 31 December 2016).

12. SHAREHOLDERS' EQUITY

Share capital amounted to €62,704 thousand (€62,496 thousand as at 31 December 2016). Following the exercise of roughly 7,347,298 Warrants, in 2017 a total of 2,081,162 ordinary shares were issued, resulting in a share capital increase of €208,116.20.

In 2017, dividends of €4,416 thousand were distributed by the Company from the reserves and retained earnings.

As at 31 December 2017, the Company held 137,805 treasury shares (0.62% of the share capital), recognised in the financial statements as an adjustment of shareholders' equity for a total value of roughly €1,420 thousand (for further details, see the Directors' Report). During the period, 38,505 treasury shares were acquired.

The table provided below shows the possibility of use of the different items of shareholders' equity and the summary of uses in the last three years (in thousands of Euro):

(in thousands of Euro)				Summary of uses in the last three years (*)	
Nature/description	Amount	Possibility of use	Available portion	to cover losses	for other reasons
Share capital	62,704	-	-	-	-
Profit reserves:					
Legal reserve	2,366	B	-	-	-
Extraordinary reserve	17,706	A,B,C	17,706	-	(11,839)
Revaluation reserve	273	A,B,C	273	-	-
Share premium reserve	24,762	A,B,C	24,762	-	-
Unrealised exchange gains reserve	109	-	-	-	-
FTA Reserve	1,198	-	-	-	-
Reserve for treasury shares	(1,420)	-	-	-	-
Post-employment benefits discounting reserve	(56)	-	-	-	-
Total	107,642	-	42,741	-	(11,839)
Non-distributable portion	64,901	-	-	-	-
Residual distributable portion	42,741	-	-	-	-

(*) The draft financial statements call for a distribution of dividends totalling €0.22 per share.

Key:

A: for capital increases

B: to cover losses

C: for distribution to shareholders

13. LOANS

(in thousands of Euro)	31/12/2017		31/12/2016	
	Current	Non-current	Current	Non-current
Medium/long-term bank loans	40,508	106,823	35,959	95,011
Total	40,508	106,823	35,959	95,011

As at 31 December 2017, bank loans amounted to €147,331 thousand.

The breakdown of this item, the evolution with respect to the previous year and the characteristics of the bank loans held by the Company are provided below (thousands of Euro):

DEBTOR COMPANY	COUNTERPARTY	LOAN TYPE	TAKEN OUT	MATURITY	RATE APPLIED	ORIGINAL AMOUNT	31/12/2017		31/12/2016	
							RESIDUAL AMOUNT	OF WHICH CURRENT	RESIDUAL AMOUNT	OF WHICH CURRENT
LU-VE S.p.A.	Intesa San Paolo S.p.A.	Unsecured loan	25/09/2008	01/05/2019	3M Euribor + Spread	1,185	157	113	286	119
LU-VE S.p.A.	Cassa di Risparmio di Parma e Piacenza S.p.A.	Unsecured loan	04/12/2014	31/12/2019	3M Euribor + Spread	8,000	-	-	6,853	2,134
LU-VE S.p.A.	Unione di Banche Italiane Società cooperativa per azioni	Mortgage Loan	18/07/2013	15/03/2020	6M Euribor + Spread	5,000	-	-	2,857	714
LU-VE S.p.A.	Banca Popolare di Bergamo S.p.A.	Unsecured loan	28/11/2014	28/11/2019	3M Euribor + Spread	5,000	2,037	1,014	3,040	1,000
LU-VE S.p.A.	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	09/06/2015	09/06/2020	6M Euribor + Spread	20,000	10,919	4,356	15,476	4,364
LU-VE S.p.A.	Banca Popolare di Bergamo S.p.A.	Unsecured loan	29/06/2015	29/06/2020	3M Euribor + Spread	6,000	3,016	1,201	4,210	1,195
LU-VE S.p.A.	UniCredit S.p.A.	Unsecured loan	17/09/2015	31/12/2020	6M Euribor + Spread	10,000	7,500	2,500	10,000	2,500
LU-VE S.p.A.	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	3M Euribor + Spread	30,000	19,952	4,988	24,846	4,954
LU-VE S.p.A.	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + Spread	10,000	7,500	2,500	10,000	2,500
LU-VE S.p.A.	Banca Popolare di Sondrio Società Cooperativa per Azioni	Unsecured loan	24/06/2016	31/10/2017	Average of 3M Euribor prev. quarter + Spread	5,000	-	-	4,001	4,001
LU-VE S.p.A.	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/09/2016	20/09/2020	3M Euribor floor 0% + Spread	30,000	22,000	8,000	29,889	8,000
LU-VE S.p.A.	Banca Popolare di Bergamo S.p.A.	Unsecured loan	30/09/2016	30/09/2021	3M Euribor + Spread	10,000	7,519	1,994	9,505	1,986
LU-VE S.p.A.	Banca Popolare di Sondrio Società Cooperativa per Azioni	Unsecured loan	15/12/2016	31/01/2020	Average of 3M Euribor prev. quarter + Spread	10,000	7,508	3,331	10,000	2,492
LU-VE S.p.A.	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	23/03/2021	3M Euribor + Spread	1,500	1,198	399	-	-
LU-VE S.p.A.	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	28/11/2020	3M Euribor + Spread	5,500	4,460	1,373	-	-
LU-VE S.p.A.	Mediocredito Italiano S.p.A.	Unsecured loan	31/03/2017	28/02/2022	3M Euribor + Spread	25,000	25,000	5,885	-	-
LU-VE S.p.A.	UniCredit S.p.A.	Unsecured loan	20/04/2017	31/12/2020	Fixed	10,000	8,562	2,854	-	-
LU-VE S.p.A.	Unione di Banche Italiane Società cooperativa per azioni	Unsecured loan	20/12/2017	20/12/2020	3M Euribor + Spread	20,000	20,000	-	-	-
Total							147,328	40,508	130,963	35,959

In relation to certain loan agreements, LU-VE S.p.A. committed to respecting specific financial parameters (covenants). For the loans still outstanding as at 31 December 2017, the details of loans that require financial covenants to be met are provided below (in thousands of Euro):

DEBTOR COMPANY	COUNTERPARTY	LOAN TYPE	TAKEN OUT	MATURITY	RATE APPLIED	FINANCIAL COVENANTS	ORIGINAL AMOUNT
LU-VE S.p.A.	Banca Popolare di Bergamo S.p.A.	Unsecured loan	28/11/2014	28/11/2019	3M Euribor + Spread	NFP/EBITDA $\leq$ 3; NFP/SE $\leq$ 1.5; EBITDA/net financial expense $\leq$ 4	5,000
LU-VE S.p.A.	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	09/06/2015	09/06/2020	6M Euribor + Spread	NFP/EBITDA $\leq$ 2.5; NFP/SE $\leq$ 1.5	20,000
LU-VE S.p.A.	Banca Popolare di Bergamo S.p.A.	Unsecured loan	29/06/2015	29/06/2020	3M Euribor + Spread	NFP/EBITDA $\leq$ 3; NFP/SE $\leq$ 1.5; EBITDA/net financial expense $\leq$ 4	6,000
LU-VE S.p.A.	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	3M Euribor + Spread	NFP/EBITDA at 30/06 $\leq$ 3; NFP/EBITDA at 31/12 $\leq$ 2.5	30,000
LU-VE S.p.A.	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + Spread	NFP/EBITDA $\leq$ 2.5; NFP/SE $\leq$ 1	10,000
LU-VE S.p.A.	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/09/2016	20/09/2020	3M Euribor + Spread	NFP/EBITDA $\leq$ 2.5; NFP/SE $\leq$ 1.5	30,000
LU-VE S.p.A.	Banca Popolare di Bergamo S.p.A.	Unsecured loan	30/09/2016	30/09/2021	3M Euribor + Spread	NFP/EBITDA $\leq$ 3.5; NFP/SE $\leq$ 1.5	10,000
LU-VE S.p.A.	Deutsche Bank	Unsecured loan	23/03/2017	28/11/2020	3M Euribor + Spread	NFP/EBITDA $\leq$ 3	1,500
LU-VE S.p.A.	Deutsche Bank	Unsecured loan	23/03/2017	28/02/2022	3M Euribor + Spread	NFP/EBITDA $\leq$ 3	5,500
LU-VE S.p.A.	Mediocredito italiano	Unsecured loan	31/03/2017	28/02/2022	3M Euribor + Spread	NFP/EBITDA $\leq$ 2.5; NFP/SE $\leq$ 1	25,000
LU-VE S.p.A.	UniCredit S.p.A.	Unsecured loan	20/04/2017	31/12/2020	Fixed Rate	NFP/EBITDA $\leq$ 2.5; NFP/SE $\leq$ 1.5	10,000
LU-VE S.p.A.	Unione di Banche Italiane SpA	Unsecured loan	13/12/2017	20/12/2020	3M Euribor + Spread	NFP/EBITDA $\leq$ 3.5; NFP/SE $\leq$ 1.5	20,000

Note:

NFP: net financial position;

SE: shareholders' equity;

DSCR: debt service coverage ratio

LR: leverage ratio (NFP/Ebitda)

GR: gearing ratio (NFP/SE)

The changes in loans during the period are shown below:

(in thousands of Euro)	Opening balance	Taken out	Annual repayments	Closing Balance
Loans	130,970	62,000	(45,639)	147,331
Total	130,970	62,000	(45,639)	147,331

The following changes took place in loans in 2017:

- unsecured medium-term loan for a total of €1,500 thousand taken out from Deutsche Bank, maturing on 28 November 2020, with repayment in equal quarterly instalments and an interest rate equal to the 3-month Euribor plus a spread. The loan is subject to compliance with financial covenants;
- unsecured medium-term loan for a total of €5,500 thousand taken out from Deutsche Bank, maturing on 23 March 2021, with repayment in equal quarterly instalments and an interest rate equal to the 3-month Euribor plus a spread. The loan is subject to compliance with financial covenants;
- unsecured medium-term loan for a total of €25,000 thousand taken out from Mediocredito, maturing on 28 February 2022, with repayment in equal quarterly instalments and an interest rate equal to the 3-month Euribor plus a spread. The loan is subject to compliance with financial covenants;
- unsecured medium-term loan for a total of €10,000 thousand taken out from UniCredit, maturing on 31 December 2020, with repayment in decreasing half-yearly instalments and a fixed interest rate. The loan

is subject to compliance with financial covenants;

- unsecured medium-term loan for a total of €20,000 thousand taken out from UBI Banca, with a single maturity on 31 December 2020 and an interest rate equal to the 3-month Euribor plus a spread. The loan is subject to compliance with financial covenants;

- early repayment of the UBI Banca loan for €2,143 thousand taken out on 07 August 2013 and maturing on 07 September 2020;

- early repayment of the CARIPARMA loan for €5,332 thousand taken out on 04 December 2014 and maturing on 04 December 2019;

During the year, repayments amounted to €45,639 thousand.

With reference to the loans that require compliance with covenants, all of such covenants were respected at the reporting date.

All outstanding bank loans were denominated in Euro, and were floating rate and pegged to the Euribor. Note 33 below provides the information on financial risks required by IFRS 7.

As at 31 December 2017, the Company provided industrial properties and the attached land as collateral for payables recognised in the financial statements in the amount of €40,000 thousand. These are mortgages to guarantee medium-term loans taken out from different credit institutions for a total original amount of €30,000 thousand, currently amounting to a nominal value of €20,000 thousand.

14. PROVISIONS

(in thousands of Euro)	31/12/2016	Provisions	Uses	Release of excess portion	31/12/2017
Provision for agents' leaving indemnities	25	-	-	-	25
Product warranty provision	926	-	(40)	-	886
Other provisions for risks and charges	-	80	-	-	80
Total	951	80	(40)	-	991

The provision for agents' leaving indemnities covers amounts to be paid out to agents in the event of termination of the agency relationship by the Company.

The product warranty provision relates to the risk of returns or charges from customers for products already sold. The provision is adjusted on the basis of analyses conducted and past experience.

The allocation for the year to other provisions and for risks refers to provisions for costs of early retirement incentives.

Provisions, which represent the estimated future outflows calculated partly based on historical experience, were subject to actuarial valuation at the reporting date. The effect was not incorporated in the financial statements as it was deemed negligible.

15. EMPLOYEE BENEFITS

Employee benefits amounted to €967 thousand, a net decrease of €26 thousand compared to 31 December 2016. The entire amount of this item referred to the provision for post-employment benefits, which includes substantially the post-employment benefits accrued by personnel employed as at 31 December, net of advances paid out to employees.

In accordance with what is established by domestic regulations, the amount due to each employee accrues based on services rendered and is disbursed when the employee leaves the company. The amount due upon termination of the employment relationship is calculated on the basis of its duration and the taxable wages of each employee. The liability is revalued each year on the basis of the official cost of living index and legal interest.

The relative regulations were supplemented by Italian Legislative Decree no. 252/2005 and Law no. 296/2006 (2007 Financial Act), which established that for companies with at least 50 employees the amounts accrued starting in 2007 would be allocated to the INPS Treasury Fund or to supplementary pension plans, at the choice of the employee, and would therefore become “Defined contribution plans”. In application of IAS 19, the provision for post-employment benefits is recalculated using the actuarial valuation methodology with the support of an external expert, and adjusted in relation to the occurrence of events which require its updating.

The date of the last actuarial valuation was 31 December 2017.

The breakdown and changes in the item as at 31 December 2017 are shown below:

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(in thousands of Euro)	31/12/2017	31/12/2016
Liabilities as at 1 January	992	980
Provisions	-	-
Financial expense	14	16
Payments made	(35)	(156)
Transfers in/out	0	125
Actuarial (gains)/losses	(5)	27
Liabilities as at 31 December	966	992

The provision for post-employment benefits changed primarily based on uses for the year to provide advances and/or payments to former personnel.

The equity adjustment for actuarial gains and losses includes an actuarial gain of €5 thousand, calculated as follows:

- Actuarial gain deriving from the change in the main actuarial assumptions used as at 31 December 2017 with respect to the previous valuation as at 31 December 2016: €1 thousand;
- Actuarial gain deriving from the effect of the change in the group subject to valuation between one valuation and another, which was different from what was assumed: €4 thousand.

Actuarial gains and losses are posted to shareholders' equity through the statement of comprehensive income.

The amounts recognised in the income statement are included in “Personnel costs” (Note 26).

The main financial and demographic assumptions used at the date of the last reference valuation of 31 December 2017 are shown below:

FINANCIAL ASSUMPTIONS	31/12/2017	31/12/2016
Discount rate	1.30%	1.31%
Inflation	1.50%	1.50%
Wage increase rate	1%	1%
Salary increase rate	2.63%	2.50%

DEMOGRAPHIC ASSUMPTIONS	31/12/2017	31/12/2016
Mortality rate	State General Accountancy Table RG48	State General Accountancy Table RG48
Disability	INPS Tables	INPS Tables
Personnel turnover	2%	2%
Advances	5%	5%
Retirement age	100% upon satisfaction of general compulsory insurance requirements	100% upon satisfaction of general compulsory insurance requirements

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16. OTHER FINANCIAL LIABILITIES

The details of this item are shown below:

M/L term financial liabilities (in thousands of Euro)			
	31/12/2017	31/12/2016	Change
Lease payables	-	12	(12)
Total	-	12	(12)

Short-term financial liabilities (in thousands of Euro)			
	31/12/2017	31/12/2016	Change
Cash pooling	26,029	33,652	(7,623)
Fair value of derivatives	738	653	85
Lease payables	12	51	(39)
Total	26,779	34,356	(7,577)

Cash pooling represented payable balances for the Company relating to the Group's centralised treasury. The Fair value of derivative instruments represents the negative fair value of derivatives on lending rates and on currencies as at 31 December 2017.

17. TRADE PAYABLES

The breakdown of trade payables by geographical area is shown below:

Country (in thousands of Euro)	31/12/2017	31/12/2016	Change
Italy	23,594	17,974	5,620
EU Countries	4,063	2,146	1,917
Other countries	924	626	298
Total	28,581	20,746	7,835

The average payment terms have not changed since the previous year. As at 31 December 2017, there were no past-due payables of significant amounts or payables maturing in more than 5 years.

18. TAX PAYABLES

(in thousands of Euro)	31/12/2017	31/12/2016	Change
Tax withholdings	506	624	(118)
Total	506	624	(118)

19. DEFERRED TAX ASSETS AND LIABILITIES

The details of this item are shown below:

(€/000)	31/12/2017	31/12/2016
Deferred tax assets	1,437	1,453
Deferred tax liabilities	(8,418)	(8,953)
Net position	(6,981)	(7,500)

The nature of the temporary differences that resulted in the recognition of deferred tax liabilities and assets and the relative changes during the year and the previous year are analysed below.

(in thousands of Euro)	TAX LOSSES	DEPREC./ AMORT. AND LEASING	FAIR VALUE OF DERIVATIVE INSTRUMENTS	MERGER GROSS UP	ACTUARIAL VALUATION OF POST-EMPLOYMENT BENEFITS	PROVISIONS AND VALUE ADJUSTMENTS	OTHER DIFFERENCES	TOTAL
31.12.2015	(143)	6,212	(270)	2,963	(8)	(547)	(538)	7,669
In income statement	154	(344)	250	(424)	(2)	(272)	780	142
In shareholders' equity	-	-	-	-	(7)	-	70	63
Reclassification	-	(4,452)	-	4,927	-	-	(475)	-
Other	(11)	-	(27)	-	-	-	(336)	(374)
31.12.2016	-	1,416	(47)	7,466	(17)	(819)	(499)	7,500
In income statement	-	(180)	22	(260)	-	(11)	(152)	(581)
In shareholders' equity	-	-	-	-	1	-	61	62
Reclassification	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
31.12.2017	-	1,236	(25)	7,206	(16)	(830)	(590)	6,981

As at 31 December 2017, deferred tax assets referred to:

- the fair value of derivative instruments on exchange rates and interest rates, subscribed by the Company;
- the deferred tax impact of the actuarial valuation of post-employment benefits following the application of IAS 19;
- tax differences on increases in the provisions;
- other tax differences, regarding net temporary recoveries such as unpaid remuneration, exchange differences and other.

As at 31 December 2017, deferred tax liabilities referred to:

- tax differences on depreciation, amortisation and leasing, regarding primarily the application of IAS 17, with respect to Italian GAAP;
- the recognition of taxes on the 2008 merger deficit allocated to trademarks, buildings, land, plant and equipment.

21. OTHER CURRENT LIABILITIES

The details of this item are shown below:

(in thousands of Euro)	31/12/2017	31/12/2016	Change
To personnel	2,636	2,410	226
To social security institutions	1,413	1,318	95
To Directors and statutory auditors	1,444	1,044	400
Other current payables	724	384	340
Total	6,217	5,156	1,061

In the beginning of 2018, payables to personnel and social security institutions were paid in accordance with the relative due dates.

20. NET FINANCIAL POSITION

In accordance with the requirements of the Consob Communication of 28 July 2006, the Company's financial position is shown below:

(in thousands of Euro)	31/12/2017	31/12/2016	Change
A. Cash (Note 11)	8	17	(9)
B. Current account asset balances (Note 11)	28,162	24,610	3,552
C. Current financial assets (Note 9)	78,870	80,256	(1,386)
D. Liquidity (A+B+C)	107,040	104,883	2,157
E. Current bank payables (Note 13)	-	-	-
F. Current portion of loans (Note 13)	40,508	35,959	4,549
G. Other current financial liabilities (Note 16)	26,779	34,356	(7,577)
H. Current financial debt (E+F+G)	67,287	70,315	(3,028)
I. Net current financial debt (H-D)	(39,753)	(34,568)	(5,185)
J. Other non-current financial assets (Note 4)	(13,672)	(14,552)	880
K. Non-current bank payables (Note 13)	106,823	95,011	11,812
L. Other non-current financial liabilities (Note 15)	0	12	(12)
M. Non-current net financial debt (J+K+L)	93,151	80,471	12,680
N. Net financial debt (I+M)	53,398	45,903	7,495

The statement of cash flows shows changes in liquidity (letter D. of this statement).

Comment on the main items of the income statement

22. REVENUES

In 2017, revenues from sales amounted to €77,650 thousand, an increase of 9% compared to the previous year (€71,229 thousand as at 31 December 2016).

Revenues by product family

PRODUCTS	€ /000	%	€ /000	%	Delta	Delta %
	2017		2016			
Air Cooled Equipment	65,062	83.79%	58,941	82.75%	6,121	10.38%
Heat exchangers	12,588	16.21%	12,288	17.25%	300	2.44%
TOTAL	77,650	100.00%	71,229	100.00%	6,421	9.01%

Revenues by geographical area

GEOGRAPHICAL AREA	€ /000	%	€ /000	%	Delta	Delta %
	2017		2016			
Italy	22,580	29.08%	21,944	30.81%	636	2.90%
France	10,382	13.37%	8,614	12.09%	1,768	20.52%
Germany	4,428	5.70%	4,883	6.86%	-455	-9.32%
Spain	4,323	5.57%	4,269	5.99%	54	1.26%
Austria	3,754	4.83%	2,898	4.07%	856	29.54%
Russian Fed.	3,470	4.47%	3,233	4.54%	237	7.33%
United Kingdom	2,905	3.74%	2,649	3.72%	256	9.66%
Sweden	2,549	3.28%	2,617	3.67%	-68	-2.60%
Czech Rep.	2,465	3.17%	2,224	3.12%	241	10.84%
India	2,449	3.15%	743	1.04%	1,706	229.61%
Poland	1,845	2.38%	2,109	2.96%	-264	-12.52%
Ukraine	1,582	2.04%	996	1.40%	586	58.84%
The Netherlands	1,466	1.89%	1,423	2.00%	43	3.02%
Romania	1,289	1.66%	706	0.99%	583	82.58%
Croatia	1,061	1.37%	1,024	1.44%	37	3.61%
Other countries	11,102	14.30%	10,897	15.30%	205	1.88%
TOTAL	77,650	100%	71,229	100%	6,421	9.01%

In 2017, sales in the air conditioning sector decreased by around €250 thousand compared to 2016, while sales in the refrigeration sector (which accounted for more than 60% of the total) saw growth of 6% compared to 2016. Sales to the Group's sales companies grew significantly (+12%) and the power generation segment grew by 60% compared to the previous year.

23. OTHER INCOME

The details of this item are shown below:

(in thousands of Euro)	2017	2016	Change
Royalty income	-	4	(4)
Rent income	81	62	19
Other income	23	45	(22)
Total	104	111	(7)

24. PURCHASES OF MATERIALS

In 2017, the cost for the acquisition of materials rose from €33,388 thousand to €41,536 thousand (increase of €8,148 thousand, equal to around 24.4%). The increase was largely due to the increase in prices and sales volumes.

25. SERVICES

(in thousands of Euro)	2017	2016	Change
Expenses for energy, telephone and telex	1,265	1,319	(54)
General and advisory expenses	6,544	5,260	1,284
Advertising and promotional expenses	317	549	(232)
Transport expenses	1,436	1,434	2
Maintenance expenses	1,277	1,272	5
External processing	2,609	2,292	317
Commissions	477	363	114
Remuneration to the corporate bodies	1,549	1,409	140
Other costs for services	1,506	1,358	148
Costs for use of third-party assets	554	535	19
Total	17,534	15,791	1,743

The increase in general and advisory expenses was due to listing costs of €1.3 million incurred in the course of 2017.

Details on the fees paid to the corporate bodies are provided below (for more details, please see Note 34 “Related party transactions”):

(in thousands of Euro)	2017	2016	Change
Directors’ fees	1,422	1,321	101
Board of Statutory Auditors fees	127	88	39
Total	1,549	1,409	140

Auditing consideration disclosure

Pursuant to article 149-duodecies of the Consob issuer regulations, a summary table of the consideration paid for the auditing provided by the company Deloitte & Touche S.p.A., which was engaged to audit the financial statements of the Company as well as the consolidated financial statements, is provided below. In 2017, no services aside from auditing were provided:

Type of Services	Service provider	Recipient	Fees (in thousands of Euro)
Auditing	Deloitte & Touche	LU-VE S.p.A.	110

The item “auditing” includes consideration for the periodic audits required under art. 155, paragraph 1 letter a) of the Consolidated Law. This amount is not inclusive of expenses and VAT.

The table below shows the consideration for the auditing provided by Deloitte & Touche S.p.A. and by the Deloitte network to the subsidiaries of LU-VE S.p.A.:

Type of Services	Service provider	Recipient	Fees (in thousands of Euro)
Auditing	Deloitte & Touche	Italian subsidiaries	70
	Deloitte Network	Foreign subsidiaries	146

26. PERSONNEL COSTS

(in thousands of Euro)	2017	2016	Change
Wages and salaries	11,179	10,937	242
Social security costs	3,739	3,497	242
Post-employment benefits	752	723	29
Other personnel costs	7	5	2
Total	15,677	15,162	515

The average number of LU-VE S.p.A. employees was 375 in 2017.

As at 31 December 2017, the number of Company employees came to 385 (251 blue-collar, 123 white-collar and middle managers, 11 executives), against 365 in 2016.

As at 31 December 2017, the number of temporary workers came to 25, against 20 in 2016.

27. OTHER OPERATING COSTS

(in thousands of Euro)	2017	2016	Change
Losses and write-downs on trade receivables	80	1,261	(1,181)
Non-income taxes	352	304	48
Other operating costs	167	230	(63)
Total	599	1,795	(1,196)

In 2016, the item “Losses and write-downs on trade receivables” referred primarily to the provision recognised on receivables due from LU-VE Pacific Pty Ltd.

Non-income taxes included mainly taxes on owned property.

28. FINANCIAL INCOME

(in thousands of Euro)	2017	2016	Change
Dividends from consolidated companies	5,000	6,000	(1,000)
Interest income	430	520	(90)
Other income	1,089	1,898	(809)
Total	6,519	8,418	(1,899)

Dividends distributed amounted to €5,000 thousand from SEST S.p.A. The item “Other income” mainly includes the returns on investments of liquidity (see Note 9).

29. FINANCIAL EXPENSE

(in thousands of Euro)	2017	2016	Change
Interest expense to banks	614	630	(16)
Interest expense to other lenders	339	421	(82)
Other financial expense	671	1,730	(1,059)
Total	1,624	2,781	(1,157)

“Other financial expense” includes expense deriving from the negative returns on investments in liquidity (see Note 9).

30. EXCHANGE GAINS AND LOSSES

In 2016, LU-VE S.p.A. realised net exchange losses of €2,655 thousand (net gains of €1,229 thousand in 2016). Exchange losses include roughly €2,215 thousand primarily arising following the appreciation of the Euro against the Indian Rupee, the accounting currency of CCD LU-VE INDIA.

31. INCOME TAXES

(in thousands of Euro)	2017	2016	Change
Current income taxes	368	756	(388)
Deferred income taxes	(581)	142	(723)
Previous years	80	(475)	555
Total	(133)	423	(556)

The reconciliation between the tax charge recognised in the financial statements and the theoretical tax charge, determined on the basis of theoretical tax rates in force in Italy, is shown below (in thousands of Euro):

RECONCILIATION OF IRES THEORETICAL TAX CHARGE			
Pre-tax profit (loss)	3,380	24.00%	2,108
+ Non-deductible amortisation and depreciation	81	0.58%	22
+ Costs for motor vehicles, telephony and food service	144	1.02%	44
+ Non-deductible local taxes	319	2.27%	52
+ Other permanent upward adjustments	62	0.44%	14
- Non-taxable dividends	(4,750)	-33.73%	(1,568)
- Support for economic growth (ACE)	-	0.00%	-
- Deductible IRAP	(147)	-1.04%	(7)
- Other permanent downward adjustments	(251)	-1.78%	(24)
Actual tax charge	(1,162)	-8.25%	641
+ Temporary upward adjustments	3,141	22.30%	1,289
- Temporary downward adjustments	(1,161)	-8.24%	(1,435)
Current tax charge	818	5.81%	495

RECONCILIATION OF IRAP THEORETICAL TAX CHARGE			
Difference between values and costs of production	(1,062)	3.90%	299
+ Non-deductible amortisation and depreciation	73	-0.27%	3
+ Non-deductible local taxes	319	-1.17%	9
+ Non-deductible labour costs	1,789	-6.57%	107
+ Bad debt provision	0	0.00%	49
+ Other permanent upward adjustments	1,672	-6.14%	0
- Permanent downward adjustments	0	0.00%	(268)
Actual tax charge	2,786	-10.25%	199
+ Temporary upward adjustments	1,656	-6.08%	86
- Temporary downward adjustments	(40)	0.15%	(26)
Current tax charge	4,402	-16.18%	259

Theoretical taxes were determined by applying the tax rate in force, equal to 24%, to the pre-tax profit.

As at 31 December 2017, there were no tax disputes.

32. DIVIDENDS

In April 2017, dividends totalling €4,416 thousand were distributed, corresponding to the distribution of a gross dividend of €0.22 (zero/22) for each of the 20,074,965 shares outstanding, net of treasury shares.

With respect to the year under way, the Directors proposed the payment of a €0.22 dividend per share. This dividend is subject to the approval of the shareholders at the annual meeting called for the approval of the financial statements and therefore it was not included under liabilities in these financial statements.

Any proposed dividend will be payable as of 9 May 2018 (coupon no. 3 ex-dividend date 7 May 2018 and record date 8 May 2018).

33. INFORMATION ON FINANCIAL RISKS

Categories of financial instruments

Pursuant to IFRS 7, financial instruments are broken down into the categories set forth by IAS 39 below.

(in thousands of Euro)	31/12/2017	31/12/2016
Financial assets		
<i>Amortised cost</i>		
Cash and cash equivalents	28,170	24,627
Trade receivables	39,577	29,970
Current financial assets	78,747	80,112
Non-current financial assets		
- LU-VE India CCD	33,965	33,872
- Intercompany loans	13,672	14,552
Fair Value		
Trading derivatives	123	144
Financial liabilities		
<i>Amortised cost</i>		
Loans	173,372	164,685
Trade payables	28,581	20,746
Fair Value		
Trading derivatives	738	653

One of the Company's policies is to protect its exposure to fluctuations in prices, exchange rates and interest rates using derivative financial instruments. This hedging may be achieved using forward contracts and interest rate swaps. Generally, the maximum term of these hedges is no longer than 18 months.

Please note that all derivative instruments were subscribed in order to hedge the underlying risks. However, at the date of presentation of these financial statements, not all requirements of IAS 39 were satisfied. Therefore, the Group management deemed it appropriate to treat those instruments as trading, not hedging, transactions.

Credit risk management

The Company is exposed to credit risk deriving from commercial dealings with exposure to potential losses arising from the failure of commercial counterparties to meet their obligations. Trade credit risk is monitored on the basis of formalised procedures for the selection and assessment of the customer portfolio, for the definition of credit limits by individual customer, for the monitoring of expected cash inflows and for any debt collection actions. In certain cases, customers are asked for further guarantees, primarily in the form of sureties. The Company assesses the creditworthiness of all customers at the start of the supply and then periodically. Each customer is assigned a credit limit based on this assessment. Dedicated insurance coverage is taken out for certain customers.

Exchange rate risk management

Due to its ordinary operations, the Company is exposed to the risk of fluctuations in the exchange rates of currencies other than the reporting currency in which commercial and financial transactions are expressed. In terms of acquisitions, the main currency to which the company is exposed is USD (currency to which the cost of the main raw materials is linked): indeed, raw materials in the reference markets are quoted in USD and the cost is converted into euros by applying the USD/Euro exchange rate for the day to the price in dollars; thus, exchange rate risk is borne by the buyer.

Financially, the main currency to which the Company is exposed is the INR, the accounting currency of the CCD described previously in the introduction to these Notes.

Sensitivity analysis

With reference to financial assets and liabilities in foreign currency as at 31 December 2017, a theoretical and immediate revaluation of the euro by 10% compared to other currencies would have entailed a loss of €3,164 thousand.

Interest rate risk management

The Company makes use of external financial resources in the form of medium/long-term financial debt. Therefore, changes in interest rates may influence the cost of different forms of financing, impacting the level of the Company's net financial expense. The company's policy aims to limit the risk of interest rate fluctuations by means of fixed rate loans or derivatives used only for hedging purposes. These hedging activities have reference rates, maturities and amounts perfectly aligned with the underlying medium/long-term loans.

This hedging policy allows the Company to reduce its exposure to the risk of interest rate fluctuations.

Sensitivity analysis

With reference to the floating rate financial assets and liabilities as at 31 December 2017, a theoretical increase in interest rates by 100 basis points with respect to the exact interest rates in force at the same date, with all other variables remaining the same, would have entailed an increase in financial expense equal to €2,629 thousand, without taking into account transactions with derivative instruments which were considered for trading.

Raw material price risk management

The production costs of LU-VE are influenced by the prices of the main raw materials, such as copper and aluminium. The majority of raw materials are purchased in the European Union. Risks are related to fluctuations in the prices of these materials on the reference markets (on which they are quoted in USD) and the reliability and the policies of mining and/or transformation companies.

To manage these risks, LU-VE constantly monitors the availability of raw materials in the market as well as the relative price trends, in order to promptly identify any situations of unavailability of raw materials and take suitable actions to guarantee the required production autonomy, and also to keep its production activities competitive with regard to this aspect as well. In particular, as regards the major raw material purchased - copper - LU-VE has long-standing relations with the same suppliers, selected on the basis of trust. Furthermore, when it deems this necessary in relation to expected trends, the company enters into contracts to hedge the risk of fluctuations in the price of raw materials.

Liquidity risk management

The liquidity risk to which the Company may be exposed consists of the failure to locate the adequate financial means needed for its operations, as well as for the development of its industrial and commercial activities. The main factors that determine the Company's liquidity situation are, on one hand, the resources generated or absorbed by operating and investment activities, and on the other hand the maturity characteristics of medium and long-term financial debt. The Company has lines of credit granted by multiple leading Italian and international banking institutions which are adequate to meet its current needs. The guidelines adopted by the Company consist of:

- maintaining adequate medium/long-term loans in light of the level of non-current assets;
- maintaining an adequate level of short-term bank credit facilities (both in cash and for the assignment of domestic receivables and export credit).

In addition, as at 31 December 2017 the company has unused short-term credit lines totalling roughly €34 million. In addition, to minimise liquidity risk the Administration and Financial Department:

- constantly checks forecast financial requirements to promptly take any corrective actions;
- maintains the proper composition of net financial debt, financing investments with own funds and possibly with medium/long-term loans.

An analysis of financial liabilities as at 31 December 2017 is provided below by maturity:

As at 31 December 2017 (in thousands of Euro)	Carrying amount	Contractual cash flows	Within 1 year	From 1 to 5 years	More than 5 years
Bank loans	147,331	148,968	41,285	107,683	-
Advances on invoices	-	-	-	-	-
Finance lease	12	12	12	-	-
Financial Liabilities	147,343	148,980	41,297	107,683	-
Trade payables	28,581	28,581	28,581	-	-
Total	175,924	177,561	69,878	107,683	-

The various maturity ranges are based on the period between the reporting date and the contractual maturity of the obligations. The values specified in the table correspond to undiscounted cash flows. The cash flows include principal and interest; for floating rate liabilities, interest is calculated based on the value of the benchmark at the date of year-end close, plus the spread established for each contract.

Fair value hierarchy

In relation to the financial instruments recognised in the statement of financial position at fair value, IFRS 7 requires those values to be classified on the basis of a hierarchy with levels reflecting the significance of the inputs used to measure the fair value. The hierarchy includes the following levels:

- Level 1 - quoted prices in active markets for the assets or liabilities subject to assessment;
- Level 2 - inputs other than the quoted prices pursuant to the point above, which may be observed directly (prices) or indirectly (derived from prices) in the market;
- Level 3 - inputs which are not based on observable market data

The table below shows the assets and liabilities measured at fair value as at 31 December 2017, by fair value hierarchy level.

(in thousands of Euro)	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Other financial assets	-	123	-	123
Other financial liabilities	-	738	-	738
Total liabilities	-	615	-	615

34. RELATED PARTY TRANSACTIONS

The company carries out some trade and financial transactions with Related Parties, settled at market conditions from the economic as well as financial perspective, or at the same conditions that would have been applied to independent counterparties. In this regard, there is however no guarantee that, if such transactions were concluded between, or with, third parties, they would have negotiated and entered into the relative contracts, or carried out such transactions, under the same conditions and with the same methods.

In compliance with the provisions of IAS 24, Related Parties are considered to be: (a) companies which directly, or indirectly through one or more intermediary companies, control, or are controlled by or under joint control with, the company preparing the financial statements; (b) associates; (c) the natural persons who directly or indirectly have voting power in the company preparing the financial statements, which gives them dominant influence over the company, and their close family members; (d) key managers, i.e., those who have the power and responsibility to plan, manage and control the activities of the company preparing the financial statements, including directors and officers of the company and their close family members; (e) the businesses in which significant voting power is directly or indirectly held by any natural person described in point c) or d) or in which such natural person is capable of exercising significant influence. The case in point e) includes the businesses held by directors or by the major shareholders of the company preparing the financial statements and the businesses that have a key manager in common with the company preparing the financial statements.

LU-VE's transactions with Related Parties primarily relate to:

- financial transactions;
- transactions connected to service agreements;
- trade transactions;
- transactions entered into as part of the national tax consolidation of the LU-VE Group.

Balance sheet and income statement items relating to transactions between the Parent Company and related parties as a percentage of the total are shown below.

<i>Intercompany</i>	Trade receivables	Trade payables	Financial receivables	Financial payables	Revenues for goods and services	Costs for goods and services	Financial income	Financial costs
TECNAIR LV SPA	633	60	-	-	1,332	49	-	-
SEST SPA	814	619	175	-	449	322	-	3
SEST-LUVE-POLSKA	401	202	-	25,282	412	289	-	328
TGD	215	538	5,591	-	141	2	123	-
OOO SEST LUVE	696	-	-	-	1,249	2	-	-
HTS SRO	6,452	344	1,340	-	1,482	680	51	-
LUVE FRANCE	2,413	135	-	-	7,531	281	-	-
LUVE DEUTSCHLAND	1,470	13	-	-	1,907	335	-	-
LUVE IBERICA	3,630	110	1,556	-	4,357	60	5	-
LUVE PACIFIC	3,227	128	-	-	622	-	-	-
LUVE CHANGSHU	2,088	13	-	-	450	-	-	-
LUVE ASIA PACIFIC HK	1,228	153	6,775	-	1	-	236	-
LUVE SWEDEN AB	6,443	1,310	4,001	747	2,747	1,211	3	7
MANIFOLD SRL	73	467	918	-	69	1,335	11	-
LUVE INDIA	-	109	33,965	-	-	(93)	-	-
LUVE DIGITAL SRL	-	(11)	-	-	-	-	-	-
SPIROTECH LTD	230	-	-	-	22	-	-	-
LU-VE AUSTRIA	55	63	-	-	-	(63)	-	-
TOTAL	30,068	4,253	54,321	26,029	22,771	4,410	429	338

<i>Third-Party Companies</i>	Trade receivables	Trade payables	Financial receivables	Financial payables	Trade revenues	Trade costs	Financial revenues	Financial costs
MGPE	-	-	-	-	-	27	-	-
VITALE ZANE & CO SRL	-	-	-	-	-	20	-	-
VITALE-NOVELLO & CO SRL	-	-	-	-	-	20	-	-
TOTAL	-	-	-	-	-	67	-	-

Directors' and Statutory Auditors' fees

The table below shows the economic benefits of Directors of the Company and members of the Board of Statutory Auditors.

Nome e cognome	Carica	Periodo per cui è stata ricoperta la carica	Scadenza della carica	Compensi fissi (Euro)	Compensi per la partecipazione a comitati (Euro)	Compensi variabili non equity (Euro)	Benefici non monetari (Euro)	Totale (Euro)
						Bonus e altri incentivi		
Iginio Liberali	Presidente esecutivo	1/1/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				232.000		183.956		415.956
Pierluigi Faggioli	Vice Presidente	1/1/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				30.000				30.000
Matteo Liberali	Amministratore Delegato CEO	1/1/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				315.000		252.883	11.661	579.544
Michele Faggioli	Amministratore Delegato COO	1/1/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				155.000		113.942		268.942
Attilio Arietti	Consigliere	1/1/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				18.000				18.000
Giovanni Cavallini	Consigliere	1/1/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				18.000				18.000
Michele Garulli	Consigliere	1/1/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				40.000	4.068			44.068
Anna Gervasoni	Consigliere	10/03/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				14.647	8.137			22.784
Laura Oliva	Consigliere	10/03/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				14.647				14.647
Fabio Liberali	Consigliere	1/1/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				67.053 ⁽¹⁾			5.693	72.746
Stefano Paleari	Consigliere	1/1/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				18.000	11.392			29.392
Roberta Pierantoni	Consigliere	10/03/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				14.647	4.068			18.715
Marco Vitale	Consigliere	1/1/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				18.000				18.000
Paola Mignani	Presidente Collegio Sindacale	21/06/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				22.500				22.500
Stefano Beltrame	Sindaco Effettivo	1/1/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				26.000				26.000
Ivano Pelassa	Sindaco Effettivo	1/1/2017-31/12/2017	Approvazione bilancio 2019					
(I) Compensi nella società che redige il bilancio				26.000				26.000

(1) di cui Euro 18.000 come consigliere, ed Euro 49.052,70 in virtù del rapporto di lavoro dipendente in essere con LU-VE S.p.A.

35. SHARE-BASED PAYMENTS

As at 31 December 2017, there were no share-based incentive plans in favour of Company Directors or employees.

36. COMMITMENTS

As at 31 December 2017, there were sureties in favour of banks that granted credit lines to our subsidiaries totalling €1,146 thousand (€1,769 thousand as at 31 December 2016). There were also sureties in favour of banks that granted guarantees to certain customers of the Company (performance bond) totalling €218 thousand (€489 thousand as at 31 December 2016) and insurance sureties totalling €210 thousand.

As at 31 December 2017, third-party goods worth a total of €998 thousand were held temporarily in the Company warehouses (€1,155 thousand as at 31 December 2016).

37. LIST OF EQUITY INVESTMENTS IN SUBSIDIARIES (ART. 2427 NO. 5 ITALIAN CIVIL CODE)

Company name	Registered office	% stake	Share capital		Shareholders' equity as at 31/12/2017		Profit (loss) for the year 2017		Cost of the equity investment
Direct subsidiaries:									
SEST S.p.A.	Limana (BL)	100.00%	€1,000,000	€	22,730,573	€	4,961,766	€	44,894,885
Tecnair LV S.p.A.	Uboldo (VA)	79.90%	€200,000	€	2,699,289	€	160,069	€	1,043,108
Heat Transfer Systems s.r.o. (HTS)	Novosedly (Czech Rep.)	100.00%	CZK 133,300,000	CZK	343,510,350	CZK	16,858,647	€	9,539,657
LU-VE Sweden AB	Asarum (Sweden)	100.00%	SEK 50,000	SEK	(28,244,484)	SEK	(3,088,119)	€	390,448
LU-VE France S.a.r.l.	Lyon (France)	86.06%	€84,150	€	1,373,941	€	112,508	€	889,541
LU-VE Pacific pty Ltd	Thomastown (Australia)	75.50%	AUD 200,000	AUD	(3,169,062)	AUD	(460,688)	€	1
LU-VE Deutschland GmbH	Stuttgart (Germany)	100.00%	€230,000	€	(77,699)	€	(5,805)	€	173,001
LU-VE Iberica S.l.	Madrid (Spain)	85.00%	€180,063.23	€	(708,632)	€	(20,489)	€	145,285
LU-VE Asia Pacific Ltd.	Wan Chai (Hong Kong)	100.00%	HKD 10,000	HKD	(27,040,748)	HKD	(12,570,998)	€	13,175
LU-VE INDIA CORPORATION PRIVATE LTD	New Delhi (India)	99.98%	INR 100.000	INR	(622,378)	INR	905,922	€	1,565,910
LuveDigital S.r.l.	Uboldo (VA)	50.00%	€10,000	€	21,647	€	10,957	€	5,000
MANIFOLD S.r.l.	Uboldo (VA)	99.00%	€10,000	€	18,329	€	2,011	€	9,900
LU-VE AUSTRIA GmbH	Vienna (Austria)	100.00%	€17,500	€	11,504	€	(5,996)	€	17,500

Indirect subsidiaries:

SEST-LUVE- Polska SP.z.o.o. (95% owned by SEST S.p.A.)	Gliwice (Poland)	95.00%	PLN 16,000,000	PLN	191,884,921	PLN	33,743,934	€	4,134,121
"OOO" SEST LUVE (95% owned by SEST S.p.A.)	Lipetsk (Russia)	95.00%	RUB 136,000,000	RUB	656,229,976	RUB	118,318,560	€	3,770,723
LU-VE HEAT EXCHANGERS Ltd (wholly-owned by LU-VE Asia Pacific Limited)	Changshu (China)	100.00%	CNY 38,211,761	CNY	13,628,723	CNY	(3,972,215)	HKD	46,402,165
Thermo Glass Door S.p.A. (100% owned by SEST S.p.A.)	Travacò Siccomario (PV)	100.00%	€100,000	€	100,000	€	(1,498,727)	€	6,877,887
Spirotech Heat Exchangers Private Limited 95% owned by Lu-VE India Corporation Private Ltd	New Delhi (India)	95.00%	INR 25,448,050	INR	1,407,071,313	INR	250,316,808	INR	2,397,133,835

38. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

During 2017, no significant non-recurring transactions were carried out.

39. TRANSACTIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob communication of 28 July 2006, please note that in 2017 the Company did not carry out atypical and/or unusual transactions, i.e., transactions which in terms of their significance, the nature of the counterparties, the subject of the transaction, the pricing methods and the timing of occurrence may give rise to doubts with regard to the accuracy of the information in the financial statements, conflicts of interests, the safeguarding of the company assets or the protection of non-controlling shareholders.

41. EVENTS SUBSEQUENT TO 31 DECEMBER 2017

There were no significant events from 31 December 2017 to the date of these financial statements.

42. GENERAL INFORMATION ABOUT THE PARENT COMPANY

Registered office: Via Vittorio Veneto, 11
21100 Varese

Contact information: Tel: +39 02 - 96716.1
Fax: +39 02 – 96780560
Email: info@luvegroup.com
Website: www.luvegroup.com

Tax information: VARESE Economic and Administrative Index 191975
Tax Code 01570130128
VAT no. 01570130128

Certification of the financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 as amended

The undersigned Matteo Liberali, CEO, and Eligio Macchi, Manager in charge of financial reporting of LU-VE S.p.A., certify, also taking into account what is laid out in art. 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998:

1. the adequacy in relation to the characteristics of the business and
2. the effective application

of the administrative and accounting procedures for the formation of the financial statements in the period 1 January - 31 December 2017.

It is also certified that the financial statements as at 31 December 2017:

- have been prepared in compliance with the applicable international accounting standards recognised in the European Community pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to the results of the accounting books and entries;
- are suitable to provide a true and fair view of the financial position, profit and loss and cash flow situation of the issuer.

The directors' report includes a reliable analysis of the performance and results of operations, as well as the situation of the issuer, along with a description of the main risks and uncertainties to which it is exposed.

5 April 2018

Matteo Liberali
CEO

Eligio Macchi
Manager in charge
of financial reporting

LU-VE S.p.A.

Registered Office in Varese - Via Vittorio Veneto, 11 - Share Capital €62,704,488.80

Tax Code and VAT no. 01570130128, Varese Economic and Administrative Index 191975

* * * *

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

Dear Shareholders,

in this report prepared pursuant to art. 153 of Italian Legislative Decree 58/1998 ("Consolidated Law on Finance") and art. 2429 of the Italian Civil Code, taking into account the applicable Consob recommendations, the Board of Statutory Auditors of LU-VE S.p.A. (hereinafter, "LU-VE" or the "Company") reports on the supervisory activity carried out and on the relative results, as well as on the significant events that took place during the year.

1. Introduction

In the year ending on 31 December 2017, the Board of Statutory Auditors carried out the supervisory activity required by law, also taking into account the Consob recommendations on corporate controls and the activities of the Board of Statutory Auditors, the rules of conduct of the Board of Statutory Auditors of listed companies recommended by the National Board of Accountants and Accounting Experts and, lastly, the instructions contained in the Corporate Governance Code of listed companies, which LU-VE applies with a few exceptions, reported in the "Report on corporate governance and ownership structures". In its current composition, the Board of Statutory Auditors began its term of office on 21.06.2017 (two of the three members were already in office since the start of the year), the date corresponding to that on which the Company's shares were admitted to trading on the MTA and starting from which, therefore, the Company became a "public interest entity".

2. Compliance with the law and the articles of association

In its supervisory activity, during the year the Board held regular meetings, participated in the Shareholders' Meetings, the Board of Directors' meetings and the meetings of the Board Committees, i.e., the Committee for Control and Risks and Related Party Transactions and the Remuneration and Appointments Committee. In particular, in 2017 the Board of Statutory Auditors

- held 11 board meetings (of which 6 held in its new composition) in which as a rule all members in office participated;

- during the meeting held on 21.02.2017, it also met in its capacity as “Committee for Accounting Control and Auditing” pursuant to art. 19 of Italian Legislative Decree no. 39 of 27/01/2010, in order to make its justified proposal to the Shareholders' Meeting concerning the assignment of the nine-year auditing engagement;
- participated, typically in the form of the entire board, in the 13 meetings held by the Board of Directors;
- participated, typically in the form of the entire board, in the 6 meetings held by the “Committee for Control and Risks and Related Party Transactions” (hereinafter also the “Control and Risk Committee”). This Committee was also assigned the role and responsibilities which article 3 of the Consob “Related Party Transactions Regulation” assigns to a specially appointed committee, which LU-VE has not appointed (as described and justified in article 4 of the “Procedure for Transactions with Related Parties of the LU-VE S.p.A. Group”);
- participated in the form of the entire board in the meeting held by the Remuneration and Appointments Committee;
- participated in the form of the entire board (in its previous composition) in the Ordinary Shareholders' Meeting for the approval of the 2016 financial statements, held on 10 March 2017;
- maintained a continuous flow of information and held regular meetings with the Auditing Firm, in order to promptly exchange relevant data and information for the completion of their respective tasks as laid out in art. 150, paragraph 3 of the Consolidated Law on Finance;
- maintained a continuous flow of information and held regular meetings with the Supervisory Body;
- maintained a continuous flow of information and held regular meetings with the Head of Internal Audit;
- exchanged information, as laid out in art. 151, paragraph 2 of the Consolidated Law on Finance, with the Board of Statutory Auditors of the Italian Subsidiaries, without the emergence of any relevant aspects to be reported.

Through these activities, the Board verified the compliance of the organisational structure, the internal procedures, the corporate deeds and the resolutions of the corporate bodies with applicable legal standards, provisions of the articles of association and regulations, as well as the codes of conduct which the Company has declared it follows.

In general, the Board believes that the law and the articles of association have been respected and it did not identify violations of provisions of law or the articles of association or transactions carried out by the Directors that are clearly imprudent or risky, in potential conflict of interests, in conflict

with the resolutions passed by the Shareholders' Meeting or in any event such so as to compromise the integrity of the company's assets.

Please note that within the scope of the Board's activities, in 2017:

- no complaints pursuant to art. 2408 of the Italian Civil Code were received;
- no reports were received;
- the Board of Statutory Auditors provided its opinions when required by law during the meetings of the Board of Directors and the Committees in which the Board of Statutory Auditors participated.

3. Respect for the principles of proper management (and reference to the main transactions)

The Board of Statutory Auditors obtained information from the Directors, with the required frequency, on the activity carried out as well as on the transactions of greatest significance for the profit and loss, financial position or cash flows approved and carried out during the year, including through subsidiaries.

The transactions capable of significantly impacting the profit and loss, financial position and cash flows of the Company are reported in the Directors' Report and in the Notes to the financial statements where the Directors specify, inter alia:

- on 14 March 2017, LU-VE submitted an application to Borsa Italiana for the admission of its securities to trading on the MTA and, at the same time, a request to Consob to receive authorisation for the publication of the Prospectus. Once the respective preliminary investigations were completed, Borsa Italiana admitted the LU-VE ordinary shares to trading on the MTA with measure no. 8361 of 12.06.2017 and Consob authorised the publication of the prospectus with measure no. 79230/17 on 16.06.2017; trading began on 21.06.2017;
- on 31 March 2017, the remaining 50,000 special shares were converted into 350,000 ordinary shares. In January-May 2017, the exercise of a total of 7,106,910 warrants became effective, against which 2,038,248 shares were issued, with a share capital increase of €203,824.80 (the remaining 121,855 warrants not exercised were forfeited and rendered void). As a result of the conversion of the special shares and the exercise of the warrants, the share capital went from €62,496,372.60 at 1 January 2017, broken down into 19,803,206 ordinary shares and 50,000 special shares, to €62,704,488.80 at 30 June 2017, broken down into 22,234,368 shares, all ordinary;
- during the year, an investment was approved for the expansion of the production site of the subsidiary Sest-LUVE-Polska in Poland. The overall capex plan, which is expected to be

- completed by the end of 2021, has an estimated value of €36 million and calls for the construction of a production facility and the acquisition of plant and equipment. In 2017, total investments of roughly €3.6 million were made in the project (including the acquisition of land);
- the subsidiary Sest S.p.A. approved the organisation and management model pursuant to Italian Legislative Decree 231/2001 on 2 March 2017;
 - during the year, the integration of Spirotech (the Indian subsidiary acquired in 2016) within the Group continued according to plan;
 - on 21 October 2017 the company LU-VE Austria GmbH was established, with registered office in Vienna, which will carry out sales activities primarily in German language speaking countries;
 - during the year, the project was launched for the introduction throughout the Group of a single PLM (“Product Lifecycle Management”) system in order to best manage the entire product life cycle.

Specifically with respect to transactions with related parties, the Board of Statutory Auditors supervised the compliance of the procedures adopted by the Company with the principles specified by Consob, as well as their observance, also by participating in the meetings of the Control and Risk Committee. In this respect:

- the Company adopted a procedure intended to govern the Group’s transactions with related parties, in compliance with the principles established by the Supervisory Authority with Consob Regulation no. 17221 of 12 March 2010 as amended;
- the Directors adequately specified the ordinary intra-group transactions and transactions with related parties in their Directors’ Report and in the Notes to the financial statements, taking into account their size.

In line with what is laid out in the Corporate Governance Code (art. 8), control on the principles of proper administration was carried out by the Board through preventive supervision and not only the ex post supervision of processes. When necessary, the result of this supervision was brought to the attention of the Directors, so that they could adopt a plan of corrective measures.

4. Adequacy of the governance and organisational structure

Insofar as it is responsible, the Board of Statutory Auditors supervised the adequacy of the organisational structure of the Company and the Group, compliance with the principles of proper administration in terms of structure, procedures, roles and responsibilities, taking into account the size of the Company and the nature and methods for the pursuit of the corporate purpose, also with reference to the adequacy of the instructions provided by the Company to its subsidiaries, pursuant

to art. 114, paragraph 2 of the Consolidated Law on Finance. In this regard the Board, after acquiring information from the heads of the competent corporate functions, at meetings with the Auditing Firm within the context of the reciprocal exchange of significant information and during the examination of the annual reports to the financial statements of the main subsidiaries issued by the respective Boards of Statutory Auditors (if any), reports that no findings to be reported emerged. With respect to its composition, the Board verified that each of the three standing members and the two alternates provided the Company with a list of their current management and control positions, along with information about their personal and professional characteristics. The corporate governance system adopts point 8.C.1. of the Corporate Governance Code (regarding the requirement of independence of statutory auditors) to supplement the provisions of law pursuant to art. 148 of the Consolidated Law on Finance. Also, but not only, on these bases the Board recognised that all of its members meet the requirement of independence. Following a self-assessment process, the Board deemed that it had carried out its activities with no restrictions and with adequate support from the corporate structure.

With respect to the composition, size and functioning of the Board of Directors and the Committees, particularly with regard to the requirements established for Independent Directors and the determination of remuneration, as well as the comprehensiveness, roles and responsibilities connected to each corporate function, the Board of Statutory Auditors refers in general to the “Report on corporate governance and ownership structures” and in particular observes the following:

- all members of the current Board of Directors have been appointed by the Shareholders' Meeting by majority vote (as the shares of the Company had not yet been admitted to trading on the MTA at 10.03.2017 and, therefore, the “voting by list” procedure laid out in art. 147-ter of the Consolidated Law on Finance was not yet applicable). The Board of Directors decided not to adopt application criterion 1.C.3. of the Corporate Governance Code, which requires the Board of Directors to express its orientation with respect to the maximum number of Director positions may be deemed compatible with the effective performance of the duties of Company Director;
- the Board of Directors carries out its activities directly and as a group as well as through the Chairman, Vice Chairman and two CEOs;
- the rules of the articles of association state that the Corporate Bodies are appointed on the basis of lists, in compliance with regulations on independent directors and gender balance pursuant to art. 147-ter, paragraph 4 and art. 148, paragraph 3 of the Consolidated Law on Finance and the Corporate Governance Code;

- in compliance with Code criterion 1.C.5., the Company's Board of Directors has determined that two days prior to the meeting (except in cases of urgency) is consistent prior notice for sending documentation to directors. The Board of Statutory Auditors supervised to ensure that this provision is generally respected, so as to guarantee that directors and statutory auditors can obtain the necessary information to express a fully informed opinion in due time.

5. Adequacy of the internal control system

The Board of Statutory Auditors evaluated and supervised the adequacy of the internal control and risk management system, the activities of the Control and Risk Committee and, lastly, the activities of the Remuneration and Appointments Committee. In this regard, it reports that:

- in 2017, the process of improving the activities carried out by the Supervisory Body continued. In particular, also through meetings with the external advisor responsible pro tempore for carrying out the Internal Audit function (covered as of January 2018 by an internal manager) and updating the risk assessment, the categories of offence and the relative sensitive processes, also identified by means of dedicated interviews, were analysed in detail. For each sensitive process, the information flows provided to the Supervisory Body will be streamlined. To date, the phase of sharing the actions required to promote a process of improvement is under way, which should be followed by the preparation of a supplemented and updated draft of the 231 Models and, eventually, the Code of Ethics;
- in the course of 2017, the CEO responsible for the internal control and risk management system discussed the main risks existing for the Group with the Control and Risk Committee, sharing a process for updating the identification and management of risks, which is still currently in the gradual execution phase;
- the Board of Directors is responsible for governing the process underlying the internal control system. On the other hand, the organisational units are responsible for managing the process of identifying, measuring, managing and monitoring risks, as well as defining the relative countermeasures.

Overall, in defining and applying the internal control and risk management system, no significant critical issues emerged such so as to considerably compromise the achievement of a risk profile that is acceptable on the whole. At the same time, areas for improvement have been identified, particularly with respect to the integration of the risk measurement and management process with the company's strategies and performance, in line with the suggestions contained in the most recent edition of the COSO (Committee of Sponsoring Organizations) Report.

6. Adequacy of the accounting administrative system and the auditing activities

The Board of Statutory Auditors supervised the accounting-administrative system and, on the basis of the provisions of art. 19 of Italian Legislative Decree 39/2010: (i) the financial reporting process; (ii) the independent audit of the annual and consolidated accounts; (iii) the independence of the auditing firm, with reference to the non-audit services provided. More specifically, the Board observes the following:

- in 2017, the Administration Department launched a process of reviewing existing administrative and accounting procedures, also with the involvement of external advisors, taking into account the provisions connected to the transfer of the share listing to the MTA. The Administration Department also pursued a strategy of sharing and standardising documents (based on the SAP module) amongst the various strategic companies within the LU-VE Group. In this regard, more specifically, the SAP “Financial” module was installed for the management of general accounting at the Indian subsidiary Spirotech (and began being used in October 2017) and, in April 2017, the SAP operating system began being used at the subsidiary LU-VE Deutschland. Also during the year, a new “business intelligence” tool based on the Sap Hana operating system (in turn introduced in October 2016) was also implemented, which allows for better and quicker management of operating data, with the systematic processing of reports;
- the Company has provided adequate instructions to the subsidiaries pursuant to art. 114, paragraph 2 of Italian Legislative Decree no. 58/98, so that they may provide the necessary information to fulfil the communication obligations laid out by law, without identifying any exceptions;
- the main characteristics of the risk management and internal control system existing in relation to the financial reporting process are described by the Directors in the Directors’ Report;
- the Manager in charge of financial reporting conducted an assessment of the accounting-administrative internal control system. No critical issues emerged from the annual report, issued in accordance with art. 154-bis of the Consolidated Law on Finance and presented to the Board of Directors;
- the company responsible for auditing the accounts of LU-VE is Deloitte & Touche S.p.A. (also referred to as the “Auditing Firm”). This engagement was assigned by the LU-VE Ordinary Shareholders' Meeting by resolution of 10.03.2017 and will end with the approval of the financial statements as at 31 December 2025 (the recommendation to the Board of Directors, prepared by the Board of Statutory Auditors on the basis of the requirements of regulations in force and in line with the provisions of the above-mentioned Procedure, went in the same direction as the resolution that was later passed by the Shareholders' Meeting);

- aside from the audit and the limited audit of the half-yearly report, during 2017 LU-VE S.p.A. and its subsidiaries assigned Deloitte & Touche S.p.A. engagements relating to other services for total compensation of €372,000 (for the most part referring to services connected to the process of admission to the MTA). The Board of Statutory Auditors has not found that any additional engagements were assigned to Deloitte S.p.A., either by LU-VE S.p.A. or by its subsidiaries;
- during systematic meetings between the Board of Statutory Auditors and the Auditing Firm, no significant aspects to be reported emerged. In this respect, the Board:
 - analysed the auditing plan prepared by the auditing firm, verifying the adequacy of the audits and the validations planned with respect to the size and organisational and business complexity of the Company;
 - on 05.04.2018, received the audit reports from the auditing firm on the financial statements of the Company and the Group pursuant to arts. 14 of Italian Legislative Decree 39/10 and 10 of Regulation (EU) 537/2014, which were issued with no findings;
 - on 05.04.2018, received the additional report established by art. 11 of Regulation (EU) 537/2014 from the auditing firm. Aside from confirming the continuing fulfilment of the independence requirements by the Auditing Firm (referred to herein), this report does not indicate the presence of significant gaps in the internal control system, or cases of non-compliance, effective or presumed, with laws and regulations or provisions of the articles of association, or the identification of significant errors;
 - on 05.04.2018, received the report from the auditing firm pursuant to art. 3, paragraph 10 of Italian Legislative Decree 254/2016 and art. 5 of Consob Regulation no. 20267, concerning the limited assurance engagement, on the consolidated non-financial statement (NFS) of LU-VE S.p.A. and its subsidiaries;
 - did not identify any critical aspects with respect to the independence of the auditing firm and received a communication from it confirming its independence pursuant to article 17, paragraph 9, letter a) of Italian Legislative Decree no. 39/2010. In addition, it verified compliance with the provisions of Italian Legislative Decree 135/2016 and Regulation (EU) no. 537/2014 which, so as to guarantee the independence of the Auditing Firm, establish specific limits on the assignment of advisory projects to auditing firms which already perform audit activities.

7. Implementation of corporate governance rules

The Company has enacted the principles of corporate governance approved by the Italian Stock Exchange and contained in the relative Corporate Governance Code. The Directors have provided

analytical information in this regard, which is included in the Annual Report on corporate governance and ownership structures attached to the financial statement disclosure, to which reference is made. This report is adequate with respect to the provisions pursuant to art. 123-bis of the Consolidated Law on Finance.

8. Non-financial statement

In compliance with the provisions of Italian Legislative Decree no. 254/2016 implementing “Barnier” Directive 95/2014, the Company has published a Consolidated non-financial statement (NFS), which is required from large public interest entities starting from the 2017 financial year.

The reporting standard adopted for the preparation of the NFS followed the practice proposed within the GRI Sustainability Reporting Standards, published in 2016 by the Global Reporting Initiative (GRI), as also specified by the Auditing Firm (see herein). In particular, the main areas of interest were: general disclosure, management approach, anti-corruption, anti-competitive conduct, energy, emissions, corporate compliance, employment, occupational health and safety, diversity and equal opportunities, training and education, non-discrimination, assessment on human rights, supplier assessment on human rights, consumer health and safety, product quality and labelling, customer privacy and socio-economic compliance.

The definition of the content laid out in the 2017 NFS involved all relevant corporate functions responsible for the aspects dealt with in the sections described above. For clarifications on the methods for calculating and the results of the above-mentioned indicators, please refer to the methodological notes of the Non-financial statement as at 31 December 2017.

The Board observes that the examination carried out by the Auditing Firm on the NFS, as a “limited assurance engagement” as indicated in the report they issued (to which reference is made), entailed a more limited extent of work than that necessary for conducting a full review in accordance with the provisions of ISAE 3000 Revised, and as such did not enable the Auditing Firm to have the certainty that they had become aware of all significant facts and circumstances that could be identified with the performance of such a review. This being said, the Auditing Firm did not identify any elements that led it to believe that the NFS was not compliant, in all significant aspects, with the requirements of articles 3 and 4 of the above-mentioned Decree and the GRI Sustainability Reporting Standards.

9. Observations on the separate and consolidated financial statements, their approval and the matters under the responsibility of the board of statutory auditors

Within the limits of the function assigned to it, through direct checks and information obtained from the auditing firm and through the Manager in charge of financial reporting, the Board of Statutory Auditors evaluated the separate financial statements, the consolidated financial statements and the Directors' Report, placing particular attention on the promptness and accuracy of the formation of the documents that make up the financial statements and the procedure whereby they were prepared and presented to the Shareholders' Meeting. During the supervisory activity carried out, no objectionable events, omissions or irregularities emerged which would require reporting to the control bodies or mentioning in this report.

The auditing firm, in its reports issued pursuant to arts. 14 and 16 of Italian Legislative Decree no. 39 of 27 January 2010, expressed its opinion with no findings on the 2017 separate and consolidated financial statements. The certifications of the Manager in charge and the CEO required by art. 154-bis of the Consolidated Law on Finance are attached to the separate and consolidated financial statements.

The consolidated results as at 31 December 2017 show operating revenues and income of €270 million, EBITDA of €29.072 million, a net profit of €6.3 million (of which €5.6 million pertaining to the Group) and, lastly, a negative net financial position of €53.4 million (against a negative net financial position of €45.9 million as at 31 December 2016). With respect to the factors impacting the results for the year, please refer to what is described in the directors' report to the financial statements (as well as the notes).

On the basis of the activities carried out during the year, and insofar as it is responsible, the Board of Statutory Auditors finds no reason to object to the approval of the financial statements as at 31 December 2017 of LU-VE S.p.A. (which show a net profit of €3.5 million) and the relative resolution proposals put forward by the Board of Directors.

Uboldo, 5 April 2018

The Board of Statutory Auditors of LU-VE S.p.A.

Paola Mignani (Chairman)

Stefano Beltrame

Ivano Pelassa

**REPORT OF THE INDEPENDENT AUDITING FIRM
PURSUANT TO ART. 14 OF ITALIAN LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010 AND ART.
10 OF REGULATION (EU) NO. 537/2014**

**To the Shareholders of
LU-VE S.p.A.**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of the Company LU-VE S.p.A. (the "Company"), consisting of the statement of financial position as at 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year ending on that date and the notes to the financial statements, which also include a summary of the most significant accounting standards applied.

In our opinion, the financial statements provide a true and fair view of the statement of financial position of the Company as at 31 December 2017, the economic result and the cash flows for the year ending on that date in compliance with the International Financial Reporting Standards adopted by the European Union as well as the measures issued in implementation of art. 9 of Italian Legislative Decree no. 38/05.

Elements underlying the opinion

We conducted our audit in compliance with the international audit standards (ISA Italy). Our responsibilities pursuant to these principles are further described in the *Responsibility of the auditing firm for the audit of the financial statements* section of this report. We are independent with respect to the Company in compliance with the ethics and independence rules and principles applicable within the Italian legal system to the auditing of financial statements. We believe that we have acquired sufficient and appropriate proof on which to base our opinion.

Key aspects of the audit

The key aspects of the audit are those aspects which, in our professional opinion, have been most significant in the audit of the financial statements for the year in question. We dealt with these aspects during the audit and in preparing our opinion on the financial statements as a whole; therefore, we are not expressing any separate opinion on such aspects.

Impairment testing on goodwill, intangible assets and property, plant and equipment

Description of the key aspect of the audit

The Company recognised goodwill equal to €14.6 million (4% of the balance sheet assets in the financial statements as at 31 December 2017) in the single cash generating unit ("CGU"), defined in line with the view of the Management and in particular with the method of monitoring and forecasting the Company's performance, to which intangible assets with a finite useful life amounting to €7.7 million and property, plant and equipment of €40.9 million were also allocated.

As laid out in IAS 36, as the above-mentioned CGU includes goodwill, the Company's Management conducted an impairment test to determine whether the assets of the CGU are recognised in the financial statements at 31 December 2017 at a value no higher than the recoverable amount. As a result of this testing, the Company did not identify any impairment losses on assets.

The Management's process of assessing the recoverability of the values recognised in the financial statement assets, which is carried out by determining the value in use, is complex and based on assumptions regarding, inter alia, the forecast of expected cash flows from the CGU, making reference to the 2018-2021 plan, the determination of an appropriate discounting rate (WACC) and a long-term growth rate (g-rate). These assumptions are based on the Management's expectations of focusing on increasing the sales of certain higher-margin product families to improve the absorption of fixed costs, continuously improving the performance of existing products and developing innovative products.

Considering the relevance of the amount of the assets recognised in the financial statements, the subjectivity of the estimates concerning the determination of the cash flows of the CGU and the key variables described previously, and the results of the impairment test which demonstrated limited coverage emerging from the sensitivity analysis carried out by the Management, we considered the impairment test a key aspect of the audit of the LU-VE S.p.A. financial statements.

Note 1 "Intangible Assets" of the financial statements provides a disclosure on the impairment test, including a sensitivity analysis conducted by the Management which describes the effects that could arise when certain key assumptions change.

Audit procedures performed

To evaluate the recoverability of the assets of the CGU, we preliminarily examined the methods used by the Management to determine the value in use of the CGU, analysing the methods and assumptions used for the development of the impairment test.

As part of our audits we, inter alia, performed the following procedures, also relying on the support of experts within our Network:

- identification and understanding of the significant controls put into place by the Company on the process of conducting impairment testing;
- analysis of the reasonableness of the primarily assumptions adopted by the Management to develop cash flow forecasts and obtain information;
- analysis of variances in actual data with respect to original plans, so as to evaluate the nature of the variances and the reliability of the process of preparing the plans;
- evaluation of the methods for determining the discounting rate (WACC) by analysing its individual elements and their consistency with generally used valuation practices and analysis of the reasonableness of the long-term growth rate (g-rate);
- verification of the mathematical accuracy of the model used for the determination of the value in use of the CGU;
- verification of the proper determination of the carrying amount of the CGU and its consistency with the methods for determining values in use;
- verification of the sensitivity analysis prepared by the Management;
- verification of the adequacy and compliance of the disclosure provided by the Company on the impairment test with what is laid out in IAS 36.

Impairment test on equity investments

The equity investments in subsidiaries include the equity investments in the companies LU-VE Sweden AB, LU-VE Iberica s.l., LU-VE Deutschland GmbH, LU-VE Contardo Pacific Pty. Ltd. - Australia and LU-VE Asia Pacific Ltd. - Hong Kong, for a total of €0.7 million, which had significant losses for the year and/or previous years that led to the recognition of negative shareholders' equities with reference to all of the above-mentioned subsidiaries, amounting to €7.9 million.

As laid out in IAS 36, due to the presence of possible impairment indicators, the Company's Management conducted an impairment test to determine whether the equity investments are recognised in the financial statements at 31 December 2017 at a value no higher than the recoverable amount. After the impairment tests, approved by the Board of Directors on 26 March 2018, the Directors evaluated that the carrying amounts of the above-mentioned equity investments are lower than the recoverable amount and therefore no impairment losses were recognised.

The Management's assessment process is complex and based on assumptions regarding, inter alia, the forecast of expected cash flows from the subsidiaries and the determination of an appropriate discounting rate (WACC).

The plans underlying such flows were prepared by the local management in collaboration with the Company Management and subsequently included in the consolidation plan approved by the Company Management. The most significant key variables in determining cash flow forecasts are based on the Management's expectations of focusing on increasing the sales of certain higher-margin product families to improve the absorption of fixed costs, strengthening and expanding existing production capacity, continuously improving the performance of existing products and developing innovative products.

Such assumptions are influenced by future expectations regarding market conditions.

Considering the subjectivity of the estimates for the determination of the cash flows considered and the key variables of the impairment models used for testing the equity investments, as well as the differences between the carrying amounts of the subsidiaries recognised in the Company's financial statements and the relative amounts of shareholders' equity, and the economic/financial performance of such investees, both historical and with respect to the original plans, we considered the impairment test a key aspect of the audit of the Company's financial statements.

The "Equity investments" note of the financial statements provides a disclosure on the impairment test, including a sensitivity analysis conducted by the Management which describes the effects that could arise when certain key assumptions used in the impairment test on the recoverable amount of the equity investments change.

Audit procedures performed

We preliminarily examined the methods used by the Management to determine the recoverable amount of the equity investments, analysing the methods and assumptions used for the development of the impairment test.

As part of our audits we, inter alia, performed the following procedures, also relying on the support of experts within our Network:

- identification and understanding of the significant controls put into place by the Company on the process of conducting impairment testing on the equity investments in subsidiaries;

- analysis of the reasonableness of the primarily assumptions adopted by the Management to develop cash flow forecasts and obtain information;
- analysis of variances in actual data with respect to original plans, so as to evaluate the nature of the variances and the reliability of the process of preparing the plans;
- evaluation of the methods for determining the discounting rate (WACC) by analysing its individual elements and their consistency with generally used valuation practices and analysis of the reasonableness of the long-term growth rate (g-rate);
- verification of the sensitivity analysis prepared by the Management;
- verification of the adequacy and compliance of the disclosure provided by the Company on the impairment test with what is laid out in IAS 36.

Responsibility of the Directors and the Board of Statutory Auditors for the financial statements

The Directors are responsible for the preparation of financial statements that provide a true and fair view in compliance with the International Financial Reporting Standards adopted by the European Union as well as the measures issued in implementation of art. 9 of Italian Legislative Decree no. 38/05 and, within the terms laid out by law, for that part of internal control that they deem necessary to allow for the preparation of financial statements that do not contain material errors due to fraud or unintentional conduct or events.

The Directors are responsible for evaluating the Company's capacity to continue to operate as a going concern and, in the preparation of the financial statements, for the appropriateness of the use of the going concern assumption, as well as for an adequate disclosure on the matter. The Directors use the going concern assumption in the preparation of the financial statements unless they have evaluated that conditions are met for the liquidation of the Company or for the interruption of activities or they do not have realistic alternatives to such decisions.

The Board of Statutory Auditors is responsible for the supervision, within the terms laid out by law, of the process of preparing the Company's financial reporting.

Responsibility of the auditing firm for the audit of the financial statements

Our objectives are the acquisition of reasonable certainty that the financial statements as a whole do not contain material errors, due to fraud or unintentional conduct or events, and the issue of an audit report that includes our opinion. Reasonable certainty refers to a high level of certainty which, however, does not provide the guarantee that an audit conducted in compliance with the international audit standards (ISA Italy) will always identify any material errors. Errors may derive from fraud or from unintentional conduct or events and are deemed material if it can be reasonably expected that they, individually or as a whole, are able to influence the economic decisions made by users on the basis of the financial statements.

Within the scope of the audit conducted in compliance with the international audit standards (ISA Italy), we exercised our professional judgement and maintained professional scepticism for the entire duration of the audit. In addition:

- we have identified and evaluated the risks of material errors in the financial statements due to fraud or unintentional conduct or events; we have defined and carried out audit procedures in response to such risks; we have acquired sufficient and appropriate proof on which to base our opinion. The risk of not identifying a material error due to fraud is higher than the risk of not identifying a material error deriving from unintentional conduct or events, as fraud may imply the existence of collusion, falsification, intentional omissions, misleading representations or the avoidance of internal control;

- we have acquired understanding of the internal controls relevant for the purposes of the audit in order to define audit procedures appropriate to the circumstances and not to express an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of the accounting standards used as well as the reasonableness of the accounting estimates carried out by the Directors, including the relative disclosure;
- we have reached a conclusion on the appropriateness of the use by the Directors of the going concern assumption and, on the basis of the proof acquired, on any existence of significant uncertainties with respect to events or circumstances that could give rise to significant doubts as to the Company's capacity to continue to operate as a going concern. In the presence of significant uncertainty, in the audit report we are required to call the reader's attention to the relative financial statement disclosure or, if such disclosure is inadequate, to reflect such circumstance in the development of our opinion. Our conclusions are based on the proof acquired until the date of this report. However, subsequent events or circumstances may cause the Company to stop operating as a going concern;
- we have evaluated the presentation, structure and content of the financial statements as a whole, including the disclosure, and whether the financial statements represent the underlying transactions and events so as to provide an accurate representation.

We have notified those responsible for governance, identified at an appropriate level as required by the ISA Italy standards, amongst other aspects, of the extent and timing planned for the audit and the significant results which emerged, including any significant gaps in internal controls identified in the course of the audit.

We have also provided those responsible for governance activities with a statement on the fact that we have complied with the ethics and independence rules and principles applicable within the Italian legal system and we notified them of all situations which could reasonably have an effect on our independence and, when applicable, the relative safeguards.

Amongst the aspects reported to those responsible for governance activities, we have identified those which were most relevant within the scope of the audit of the financial statements for the year in question, which therefore constituted key aspects of the audit. We have described such aspects in the audit report.

Other information reported pursuant to art. 10 of Regulation (EU) 537/2014

The LU-VE S.p.A. shareholders' meeting assigned us the engagement to audit the separate and consolidated financial statements of the Company for the years from 31 December 2017 to 31 December 2025 on 10 March 2017.

We declare that no services aside from auditing were provided which are prohibited pursuant to art. 5, par. 1 of Regulation (EU) 537/2014 and that we remained independent with respect to the Company in performing the audit.

We confirm that the opinion on the financial statements expressed in this report is aligned with what is laid out in the additional report for the Board of Statutory Auditors, in its function as Committee for Internal Control and Auditing, prepared pursuant to art. 11 of the above-mentioned Regulation.

REPORT ON OTHER LEGAL AND REGULATORY PROVISIONS

Opinion pursuant to art. 14, paragraph 2, letter e), of Italian Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Italian Legislative Decree 58/98

The Directors of LU-VE S.p.A. are responsible for preparing the directors' report and the report on corporate governance and ownership structures of LU-VE S.p.A. as at 31 December 2017, including their consistency with the relative financial statements and compliance with legal standards.

We have carried out the procedures set forth in auditing standard (SA Italy) no. 720B in order to express an opinion on the consistency of the directors' report and some specific information contained in the report on corporate governance and ownership structures specified in art. 123-bis, par. 4 of Italian Legislative Decree 58/98 with the financial statements of LU-VE S.p.A. as at 31 December 2017 and on their compliance with legal standards, as well as to issue a statement on any material errors.

In our opinion, the directors' report and the specific information contained in the report on corporate governance and ownership structures referred to above are consistent with the financial statements of LU-VE S.p.A. as at 31 December 2017 and have been prepared in compliance with legal standards.

With reference to the statement pursuant to art. 14, par. 2, letter e) of Italian Legislative Decree 39/10, issued on the basis of the knowledge and understanding of the company and the relative context acquired in the course of the audit activities, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Andrea Restelli
Partner

Milan, 4 April 2018