LU-VE S.p.A.

Via Vittorio Veneto 11 – 21100 Varese

REA registration number: VA-191975

Tax Code: 01570130128

ANNUAL FINANCIAL REPORT

AS AT 31 DECEMBER 2019

CONTENTS

DIRECTORS' REPORT AS AT 31 DECEMBER 2019

CONTENT

1 DIRECTORS' REPORT AS AT 31 DECEMBER 2019

6 April 2020

Dear Shareholders,

2019 was characterised by a significant slowdown in global economic growth, which was the lowest achieved in the entire decade. Global GDP rose by 2.9% compared to 3.7% in the previous year due to the effect, among other things, of a rather lacklustre second half. The United States closed the year with a growth of 2.3% (the 11th consecutive year of growth with a strengthening dollar), China with 6.1% (the lowest figure since 1990) while India and the Eurozone achieved a modest 1.2% (the lowest value since 2013), with the Italian GDP essentially unchanged from the +1% achieved in 2018.

Forecasts for 2020 at the start of the year anticipated a lower growth only for China due to the impact of Coronavirus, with the forecast of a global GDP again above 3%. However, with the spread of the virus across the globe and the pandemic declaration by the World Health Organisation, forecasts have been drastically reviewed downwards, even though in different ways. It is difficult to predict realistic figures for an event that has brought the world's economy onto unprecedented territory. Trade tariffs and Brexit are now viewed as secondary aspect compared to the impact of the virus that originated in China. As of today, the situation is still rapidly evolving, without the possibility of making realistic forecasts, even though a significant portion of the revenues of the LU-VE Group (hereinafter the "Group") in Europe leads to envisage future slowdowns as this is the area most affected by Coronavirus at this time.

Monetary policies remain expansive, with the Eurozone confirming, also with the new ECB Presidency, the policies of the last few years and with the United States that, after the halting of growth rates in 2019, prepare for a new season of "generous" monetary policies. Furthermore, 2020 is a presidential election year for the United States. Interest rates will, therefore, remain stable on very low values, often lower than zero even on long term national bonds in the most advanced countries.

With regard to raw materials, after rising in the first half in 2019 to then retrace in any case within normal volatility terms, oil prices crashed in the first few months of 2020 due to the economic slowdown imposed by Coronavirus. A similar dynamic was recorded for copper and aluminium.

2020 really promises to be a year of great uncertainties at global economic level. This will probably accelerate the differences among various countries, in any case in a generally worsening landscape. For the enterprise system, geographical diversification, which the Group has strongly pursued in the last few years, also in the light of recent acquisitions of the last three years, will be a decisive factor in mitigating the effects of the anticipated slowdown.

Italy appears to be one of the weakest countries. No growth, high public debt and rather fragile political structures expose our country to a difficult year. Post-election euphoria, both after the political elections in 2018 and the European ones last year, was right away confronted with a wake-up call to reality dictated by events. There are no isolated or isolable countries, only countries able to confront in different ways the commitments that globalisation brings, regardless of the convictions of individuals.

Thanks to an active demand and a commercial and productive presence increasingly expanding both in terms of geographical areas and application markets, 2019 experienced a positive performance in sales and represented a significant turning point in the history of the Group with the acquisition of the air heat exchanger division ("AL Air") of the Alfa Laval multinational group at the end of April last year.

The consolidated product turnover as at 31 December 2019, which includes the contribution to sales for “AL Air” for only 8 months, in fact reached just under €400 million, with an increase of over 29% compared with the previous year, while sales within the same scope (excluding “Al Air”) grew by 8.8% to a value of over €328 million. Taking into account the additional contribution from “AL Air” on the 12-months financial year, the Group's estimated "pro forma" turnover would be of around €416 million (amount not subject to audit), which essentially represents the doubling in four years (that is, from the first listing on the AIM) of the size of the Group and the expansion during that period into three new countries (in chronological order, India, United States and Finland).

In line with the last few years, the main driver of development in reference markets as well as in the Group's increase in sales is constituted by a growing attention to environmental sustainability issues. This translates into an increasingly growing thrust to the greater use of natural fluids with a low environmental impact, the replacement or modernisation of existing plant in the search for ever more efficient solutions from an energy and noise pollution point of view, and the start, in some particularly sensitive countries, to projects for progressive "decarbonisation" within a stringent and ambitious timetable. In this scenario the Group, always a pioneer and promoter of more efficient, sustainable and innovative solutions, has further intensified research and investment activities to remain at the forefront in the sector, and to place itself in the market as the reference partner for the development and realisation of solutions in line, if not ahead, of project specifications or increasingly stringent regulations.

EBITDA for the 2019 financial year was €46.8 million, a growth of 27.7% (+19.5% within the same scope). Net of non-recurring charges (mainly linked to the acquisition of “AL Air” and to a lesser extent to the start of production in the new Polish plant and the transfer of the Chinese plant), adjusted EBITDA was of €51.7 million, with an increase of more than 34% compared to the previous year (+26% without taking the impact of the first adoption of IFRS 16 into account). For more details with regard to the adjusted EBITDA please refer to paragraph 1.7 – Alternative performance indicators below.

The net profit was of around €18.4 million, €22.8 million when taking into account non-recurring charges (+38.2% compared to the same period in 2018). For further details on the adjusted net profit please refer to paragraph 1.7 – Alternative performance indicators below.

At Business Unit level, the "Components” SBU reached a turnover of €214.9 million, with a growth of 9.7% (+9.4% within the same scope).

With a rather lacklustre refrigerated counters market, once again the main contribution to growth came from “home appliances” (+22.1%) and the wider penetration in the conditioning sector (+22.1% within the same scope) thanks to the acquisition of new customers and policy more targeted to the needs of this type of market.

The “Cooling Systems” SBU benefited in a practical way from the entire additional contribution of the newly acquired “AL Air” (almost €61 million mainly destined to the refrigerated and industrial processes market) reaching a value of €174.4 million with a jump in growth of 65%. Growth within the same scope was also very good (+7.6%) thanks to the ever increasing presence in the "green" industrial refrigeration sector (with natural fluids and highly energy-efficient solutions) and the acquisition of significant projects in the "power gen" sector“.

The breakdown of turnover by SBU is given below:

Revenue by SBU *(in € thousand)*	**2019**	**%**	**2018**	**%**	**Change**	**% Change**
Air Cooled Equipment	163,147	41.9%	95,578	31.7%	67,569	70.7%
Close Control	11,284	2.9%	10,165	3.4%	1,119	11.0%
SBU COOLING SYSTEMS	**174,431**	**44.8%**	**105,743**	**35.1%**	**68,688**	**65.0%**
Heat exchangers	203,935	52.4%	185,908	61.6%	18,027	9.7%
Doors	10,951	2.8%	10,027	3.3%	924	9.2%
SBU COMPONENTS	**214,886**	**55.2%**	**195,935**	**64.9%**	**18,951**	**9.7%**
TOTAL NET TURNOVER BY SBU	**389,317**	**100%**	**301,678**	**100%**	**87,639**	**29.1%**

From the point of view of application markets, Refrigeration, which historically represent the first segment with incidence of over 75% on the total product revenues of the Group, has recorded an increase of 24.9% equal to €231 million (+5.9% within the same scope), recording a further decrease in incidence, which for the first time drops to under 60%.

The segment "Special Applications", with a turnover of €60.8 million, showed a growth of 11.1% in spite of a slight drop in "mobile" applications (refrigerated transport, air-conditioning for rail stock, etc.) which was however more than offset by the continuous development of energy-efficient "domestic appliances" (energy class A+++).

There was a good growth in the Conditioning market both at overall level (+17.7%) and at organic level (+10.9%), with a turnover of €60.3 million and an incidence on the total product turnover of 15.5%.

The combined effect of the “AL Air” acquisition (which was one of the strategic reasons for the acquisition itself) and of the very strong organic growth (+40.3%) took the “power gen” sector to a turnover of over €37 million in spite of a significant slowdown of the main customer derived from “AL Air”. The incidence of this application, therefore, rose from 3.6% to 9.6%.

There were many new initiatives and special projects in 2019.

Of great strategic significance was the start of production at the new Polish site in the special industrial zone of Gliwice (where the Group already had a plant) in February, perfectly in line with the anticipated timetable. The production of heat exchangers and ventilated equipment progressively grew during the year, also thanks to new investments made in the second half of the year; Residual investments in the 2020/2021 two-year period will amount to a further €5 million.

in April, the transfer was successfully completed of the new production site to Tianmen, in the Hubei province in China, built for the Group by the local authorities of the special economic area and rented to the Group. The new location had, and still has, the objective of allowing the increase of production volumes, the rationalisation of production processes as well as the creation of the conditions for a further expansion of the range of products produced in loco. In spite of the fact that production was affected for two months by the transfer of activities to the new plant, the Chinese company achieved a turnover of €7.8 million (approximately +10% compared to 2018). As already known, unfortunately the new site found itself in the area put into lockdown by the Chinese authorities following the spreading of the "Coronavirus" epidemic that led to the suspension of activity at the plant in the last few days of January 2020; the plant reopened on 13 March 2020;

in India, in April, works were started for the approximately 12,000 square metre expansion of the Spirotech plant. Work completion is anticipated for the end of April 2020, with an overall investment of around €4.8 million (around €2 million of which in the 2020/2021 two-year period). Again in India, last autumn the laborious merger between LU-VE India (the Group company through which the acquisition of Spirotech in October 2016 was completed) and the same Spirotech was completed;

On 30 September, the implementation of the SAP management programme used by the Group in the American subsidiary Zyklus located in Jacksonville, Texas, was successfully carried out with the objective of improving integration, control and exploitation of synergies. During 2019 the same Zyklus signed an agreement with the authorities of an industrial park of the town for the construction of a new production plant. Among other things, this agreement required the free transfer by the same authorities of approximately 80,000 sqm of land. However, some problems arose subsequently relative to the characteristics of the land itself which would have involved a significant increase in the cost of the new plant. This led to postponement of the project and the negotiation of a new agreement in line with the previous one with the only difference that the new land will be purchased directly by Zyklus against a reimbursement by the authorities of a portion of price.

The main event of 2019 was certainly represented by the finalisation, on 30 April of last year, of the agreement for the acquisition of the air heat exchanger (“AL Air”) division of the Alfa Laval group (included in the “cooling system” SBU).

“AL Air” represented one of the Group's major competitors among manufacturers of ventilated equipment mainly destined to the industrial processes refrigeration market or “power gen” and industrial refrigeration. From a strategic point of view, the objective of this acquisition is a significant increase in the sales of the “Cooling System” SBU, making the Group the third largest global player in the ventilated equipment market and the second in Europe, with a significant advantage when compared to the group which currently occupies third place in Europe. The operation fits perfectly into the Group's strategy to focus on the (ventilated and non) air-exchangers market and allows at the same time a further expansion of the range of applications (with a significant strengthening of the "power gen" products) and an expansion of the Group's international presence. The operation does not highlight significant overlaps from a commercial point of view and should allow the achievement of synergies in terms of rationalisation of the product range, production plant and fixed costs.

The newly acquired “AL Air” (with headquarters in Alonte, Vicenza, Italy) includes production plants (in Italy, Finland and India) and a sound commercial and design organisation. Following the acquisition of “AL Air”, a total of around 400 collaborators were transferred to the Group, mainly working in the above mentioned production plants.

In 2018, “AL Air” achieved revenues of around €100 million, with EBITDA of around 8% (amounts not subject to audit).

The purchase price of “AL Air” preliminary determined at the time of the finalisation of the agreement was of €67.1 million “debt & cash free”, calculated applying a multiplier of 6.5x to the preliminary EBITDA for 2018. After the audit carried out in the second half of 2019, on 4 February 2020 the parties to the contract agreed a revised price of €51 million, again on the basis of a multiplier of 6.5x applied to the EBITDA Al the closing, on 30 April 2019, the amount of €35.2 million (€43.6 million gross of the net financial position taken over by the Group and the adjustments to the net working capital) while €9.5 million (included in the net financial position as at 31 December 2019) will be paid by 30 April 2020.

After the initial phase - during which priority was given to the management of customers, the maintenance of a high level of service and the implementation of a series of complex bureaucratic and legal requirements - during the second half of 2019 the process of integration kicked off with teams dedicated to sales and marketing (with the definition of the strategy for the use of the Groups' various trademarks), production (rationalisation of plants), research and development (analysis of product ranges and of configuration and budgeting systems) accounting, wages management and management control systems. To accelerate the integration process and optimise the exploitation of synergies, the implementation of the SAP management programme used by the Group in Finland (30 April) and in Italy (30 September) is planned during 2020.

At the same time of the signing of the agreements for the acquisition of the Indian business unit belonging to the “AL Air” division, the Indian subsidiary Spirotech had signed with Alfa Laval India Pvt Ltd an option for the purchase of the plant where the business unit's activity is carried out (considered to be a separate transaction than the acquisition of “AL Air”, based on market prices) currently with two other productions of the Alfa Laval group, whose transfer is planned for the first half of 2020. Subsequently to the uncertainties arisen during due diligence, the option was not exercised within the stipulated deadline and negotiations were started with the counterparty to overcome these uncertainties and renegotiate the initially agreed purchased price.

During the financial year an interest of 13.94% of the subsidiary LU-VE France S.a.r.l. was purchased (bringing the Group's ownership share to 100%) for an amount of €0.4 million.

The following loans were set up during 2019:

- In January, an unsecured loan agreement was set up with Banco BPM for €30 million with a duration of 75 months (of which three in the grace period) repayable in quarterly instalments at constant capital;
- in June, an unsecured loan agreement was set up with Banco BPM for €10 million and a duration of 60 months, repayable with an increasing principal-payment schedule and in quarterly instalments;
- in July, an unsecured loan agreement was set up with UNICREDIT for €12 million and a duration of 60 months repayable with an even principal-payment schedule and six-monthly instalments;

- in July, an unsecured loan agreement was set up with UBI Banca for €25 million and a duration of 84 months repayable with an increasing principal-payment schedule and six-monthly instalments;

In February a €15 million mortgage was repaid in advance in order to ensure that the entire debt of the Parent Company LU-VE S.p.A. is not backed by collateral.

1.1 CONSOLIDATED NON-FINANCIAL STATEMENT

In compliance with the provisions of article 5, paragraph 3, letter b of Italian Legislative Decree 254/2016 ("Decree"), the Parent Company prepared the Consolidated non-financial statement relating to the year 2019 (hereinafter "Statement") The Decree implements into Italian law Directive 2014/95/EU (Barnier Directive) adopted on 22 October 2014 by the European Parliament and by the Council of the European Union, aimed at improving the uniformity and comparability of non-financial information and help investors access non-financial information.

The scope of the Statements includes all the companies of the Group. With regard only to the treatment of environmental data and to aspects linked to product safety, during the three-year period only manufacturing companies were taken into account, excluding LUVEDIGITAL S.r.l., as the environmental impact of trading companies and to LUVEDIGITAL S.r.l. have not been considered to be significant. Furthermore, it is noted that for 2019 these aspects also exclude the companies AIR HEX ALONTE S.R.L. and FINCOIL LU-VE OY as they were acquired during the Statement's reference year. Lastly, 2019 data also include the company Zyklus Heat Transfer Inc. – acquired in 2018 – as its integration process had been completed.

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 Sustainability Reporting Standards, defined in 2016 by the GRI – Global Reporting Initiative (hereinafter, "GRI Standards").

The Statement will be published in the 2019 Sustainability Report and is available on the Group's website (www.luvegroup.com – "Investor Relations" section - Sustainability).

In accordance with the materiality principle of the GRI Standards, the Statement reports on the Group's performance in relation to topics - reported in the table below - 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.

I ISSUES IDENTIFIED AS RELEVANT TO THE LU-VE GROUP

	The topic	What does it mean for the LU-VE Group?
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.

I ISSUES IDENTIFIED AS RELEVANT TO THE LU-VE GROUP		
	The topic	What does it mean for the LU-VE Group?
	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 combating 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 Group's long-term economic results in the long term, 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.

1.2 CONSIDERATIONS ON THE SECURITY'S MARKET VALUE

The LU-VE security performed essentially in line with the FTSE Italia All-Share index until the end of November. In the last month of the year the performance of the security was better than that of the index by about 10 percentage points.

The main figures and share price trends are shown below:

Price at 2 January 2019: €9.30
Price at 30 December 2019: €12.80
Change over the period: +37.6%

Maximum Price: €13.50 (16 December 2019)
Minimum Price: €9.30 (2 January 2019)
Weighted Average Price: €11.20
Traded volumes: 4,182,776

Market capitalisation at 30 December 2019: €284,60 million

Due to the volatility of markets as a consequence of the global spread of Coronavirus, the security has suffered, from the beginning of March 2020, from a significant depreciation. On 3 April 2020 (at the closure of the last trading day before the approval of the draft financial statements) the price was €10,10, corresponding to a capitalisation of €224.6 million, in any case higher than the net equity recognised in the Group's financial statements (€159.0 million).

1.3 SUBSIDIARIES AND ASSOCIATES

As at 31 December 2019, the Group comprises the following:

Industrial subsidiaries:

- SEST S.p.A. in Limana, Belluno (Italy), wholly-owned: manufactures and markets heat exchangers for refrigerated counters, display cabinets and for other applications;
- SEST-LUVE-POLSKA Sp.z.o.o. in Gliwice (Poland), 95% owned by SEST S.p.A.: manufactures and markets heat exchangers for refrigerated counters and display cabinets;
- “OOO” SEST-LUVE in Lipetsk (Russia), 95% owned 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, Varese (Italy), 79.9% owned: manufactures close control air conditioners and air super-filtration equipment for applications in surgery rooms, data centres and telephony;
- LUVE TIANMEN wholly owned by the LU-VE Group (62.62% by LU-VE HK and 37.38% by LU-VE S.p.A.). The company, constituted in the last few months of 2018, became operational in the first few months of 2019 with the transfer of the production plant from the town of

Changshu (in the Jiangsu province) to the town of Tianmen (in the Hubei province) and it is active in the production and marketing of ventilated 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, Pavia (Italy), 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), 95,00% directly owned following the merger of the parent company LU-VE India Corporation Private Ltd in Spirotech Heat Exchangers P. Ltd: manufactures and markets heat exchangers for domestic applications, refrigeration and air conditioning;
- ZYKLUS HEAT TRANSFER INC in Jacksonville (USA), wholly-owned: manufactures and markets heat exchangers for the air conditioning and refrigeration sectors and for special applications for the US market;
- MANIFOLD S.r.l. in Uboldo, Varese (Italy), 99% owned: manufactures copper components (collectors and distributor units) for Group companies;
- LUVEDIGITAL S.r.l. in Uboldo, Varese (Italy), 50% owned: develops software and IT solutions dedicated to generating estimates and promoting Group products.
- Air Hex Alonte S.r.l. in Alonte, Vicenza (Italy), wholly owned Italian registered company with registered office in Uboldo, Varese (Italy), produces ventilated products mainly destined to the industrial process refrigeration ("power gen") and to the refrigeration markets;
- FINCOIL LU-VE Oy, Finnish registered company with registered office in Vantaa, 01740, Ansatie n. 3 (Finland), wholly owned: produces ventilated products mainly destined to the industrial process refrigeration ("power gen") and to the refrigeration markets.

Commercial subsidiaries:

- LU-VE France S.a.r.l. in Lyon (France), wholly-owned: company operating in the French and North American markets with direct sales activities and commercial and technical support services to distributors of air cooled equipment, heat exchangers and close control air conditioners;
- 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% owned: 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% owned: 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 Asia Pacific Ltd. in Hong Kong, wholly-owned: sells air cooled equipment and heat exchangers directly in the Far East markets (excluding China). The company is no longer operative but retains a 62.62% interest in LUVE TIEANMEN.
- 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.
- LU-VE Netherlands B.V., Dutch registered company newly constituted in 2019 with registered office in Breda, 4822NK, Lage Mosten 49 (The Netherlands), wholly owned by the parent company LU-VE S.p.A. for the sale of ventilated equipment mainly destined to the industrial processes refrigeration ("power gen") and to refrigeration markets;

- **«OOO» LU-VE Moscow**, Russian registered company newly constituted in 2019 with registered office in Moscow, 127422, Timiryazevskaya Street, Building 1, Office no. 2, wholly owned by the parent company LUVE S.p.A. for the sale of ventilated equipment mainly destined to the industrial processes refrigeration ("power gen") and to the refrigeration markets;
- **LU VE Middle East DMCC** UAE registered company newly constituted in 2019 with registered office in Dubai, Office no. 3401 – Jumeirah Bay Tower X3, Jumeirah Lake Towers, Plot N. JLT-PH2-X3A, Jumeirah Lakes Towers (United Arab Emirates), wholly owned by the parent company LU-VE S.p.A.

1.4 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) special glass doors for refrigerated counters and display cabinets.

With reference to the figures provided below, please recall that in 2019 the Group earned other revenue of €2.5 million (€5.2 million in 2018), which brings revenues and operating income to a total of €391.6 million (€306.9 million in 2018).

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 of heat exchangers represented:

- in 2019: approx. 52% of the Group's consolidated revenues;
- in 2018: approx. 61% of the Group's consolidated 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, inside refrigerated rooms or outside in proximity of refrigerated and/or air conditioned rooms (usually on roofs or in dedicated "technical" rooms) or industrial processing or energy generation plants.

Revenues from sales of air cooled equipment represented:

- in 2019: approx. 42% of the Group's consolidated revenues;
- in 2018: approx. 31% of the Group's consolidated revenues;

CLOSE CONTROL AIR CONDITIONERS

Close control air conditioners are 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, must allow remote monitoring of the main operating parameters as well as also signal 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 of close control air conditioners represented around 3% of the Group's total revenues in 2019, essentially in line with the previous year.

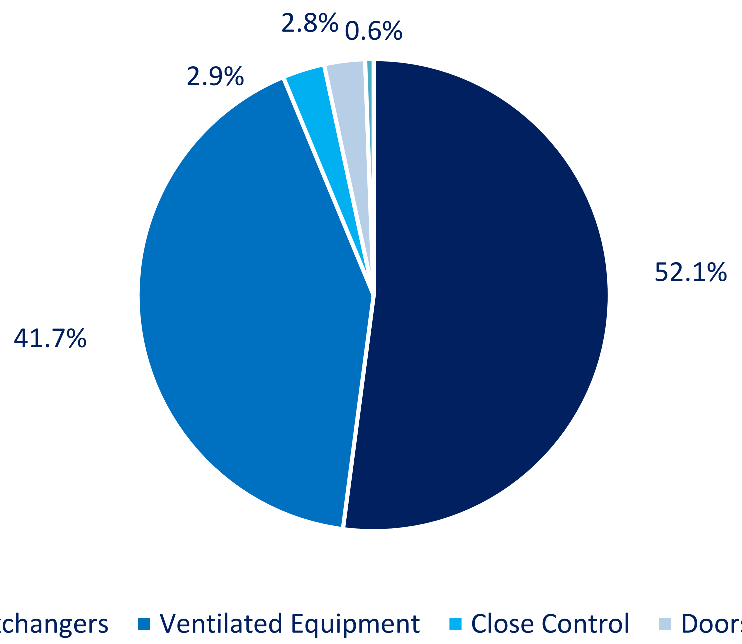
GLASS DOORS FOR REFRIGERATED COUNTERS AND DISPLAY CABINETS "INSULATED GLAZING"

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, *(ii)* the maximum 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 of glass doors represented around 3% of the Group's total revenues in 2019, in line with 2018.

The chart below shows the breakdown of turnover by product type in 2019:



The table below shows turnover trends by product type in the two years subject to comparison:

PRODUCTS	€ /000 2019	%	€ /000 2018	%	Delta %
Heat exchangers	203,935	52.1%	185,908	60.6%	+9.7%
Air Cooled Equipment	163,147	41.7%	95,578	31.1%	+70.7%
Close Control	11,284	2.9%	10,165	3.3%	+11.0%
Doors	10,951	2.8%	10,028	3.3%	+9.2%
TOTAL PRODUCTS	**389,317**	**99.4%**	**301,679**	**98.3%**	**+29.1%**
Other (*)	2,264	0.6%	5,190	1.7%	-56.4%
TOTAL	**391,581**	**100.0**	**306,869**	**100.0**	**+27.6%**

(*) .

In terms of product application, the Group's operations relate primarily to four different market segment:

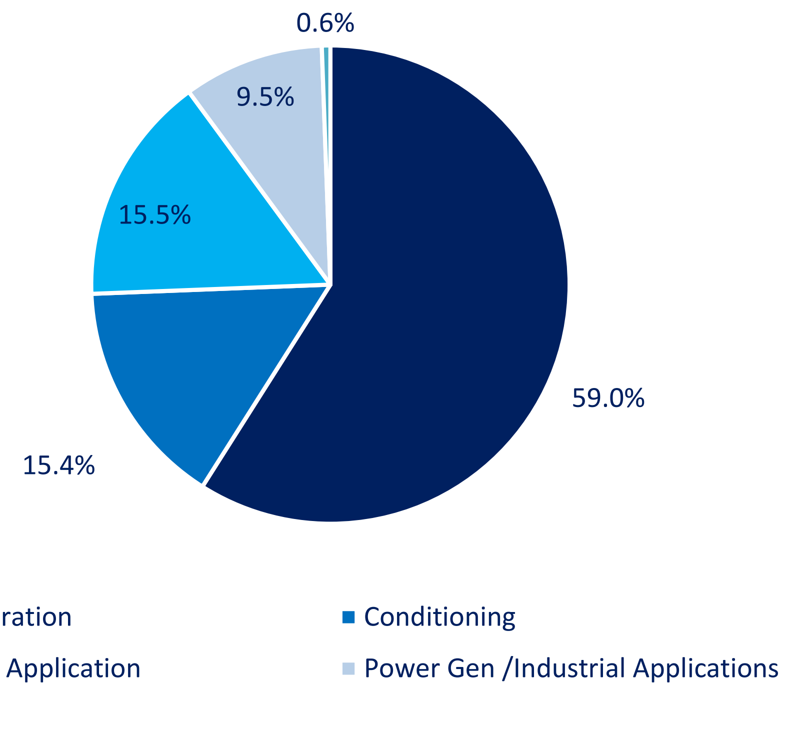
(i) the refrigeration sector, which includes activities relating to the supply chain for food products (the "**Refrigeration Sector**");

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

(iii) the "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"**);

(iv) the “power gen” sector, which includes high power ventilated products used for the refrigeration of engines for the generation of power and general industrial processes. Following the acquisition of “AL Air”, this segment is destined to account for a higher proportion of the Group's sales than in the past (the **”Power Gen Segment"**).

The chart shows the breakdown of turnover by segment as at 31 December 2019:



The table below shows turnover trends by application type in the financial years subject to comparison:

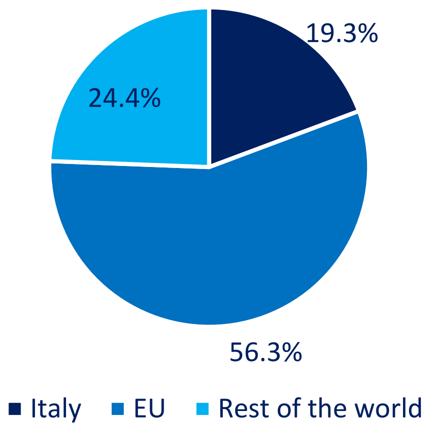
APPLICATIONS	€ /000 2019	%	€ /000 2018	%	Delta %
Refrigeration	230,994	59.0%	185,001	60.3%	+24.9%
Special Applications	60,838	15.5%	54,741	17.8%	+11.1%
Air Conditioning	60,282	15.4%	51,208	16.7%	+17.7%
Power Gen	37,203	9.5%	10,729	3.5%	+246.8%
TOTAL APPLICATIONS	**389,317**	**99.4%**	**301,679**	**98.3%**	**+29.1%**
Other (*)	2,264	0.6%	5,190	1.7%	-56.4%
TOTAL	**391,581**	**100.0%**	**306,869**	**100.0%**	**+27.6%**

(*) In 2019 the item Other would have been €6,106/000 before the adjustment of €3,842/000 necessary to recognise the sales revenues in the financial statements in compliance with the IFRS15 standard.

At geographical level, the European Union is the most important area for the group with €294.5 million and a percentage of 75.6% of total sales. The percentage of exports is around 81%, while Italy with sales for almost €75 million grew by 16.9% (+7.1% within the same scope).

Again within the same scope, there was a very strong growth in the Czech Republic (+51%), which overtakes France to become the fourth greatest export market for the Group after Poland, Russia and Germany. Also excellent the developments achieved in Spain and in The Netherlands and, outside Europe, in Hong Kong, in Saudi Arabia and in Chile. The only countries experiencing a decrease were Iran, due to the new block on exports, and Turkey. Following the acquisition of "Al Air" the Finnish and Dutch market acquire a significant relevance.

The chart below shows the geographical breakdown of turnover in 2019:



The Group's turnover does not depend to a significant extent on individual commercial or industrial contracts. At the end of 2019, sales revenues from the Group's top 10 customers together represent a percentage of turnover of nearly 30%, while the turnover generated by the main customer, represented by an international group served in several countries, represents 4.7%.

1.5 ECONOMIC AND FINANCIAL DATA

With reference to the income statement, it is noted that “AL Air” was consolidated from 1 May 2019 and that the subsidiary Zyklus Heat Transfer Inc. was consolidated in 2018 from 1 July 2018 (therefore the comparative income statement for the 2018 financial statement only includes the American subsidiary for 6 months).

The reclassified Income Statement and Balance Sheet are provided below:

Reclassified Income *Statement (in thousands of Euro)*	**31/12/2019**	**% Revenues**	**31/12/2018**	**% Revenues**	**% Change 2019 vs 2018**
Revenues and operating income	391,581	100.0%	306,869	100.0%	27.6%
Purchases of materials	(204,035)	52.1%	(167,429)	54.6%	
Changes in inventories	489	-0.1%	5,643	-1.8%	
Costs for services	(54,255)	13.9%	(42,951)	14.0%	
Personnel costs	(83,361)	21.3%	(62,823)	20.5%	
Other operating costs	(3,660)	0.9%	(2,707)	0.9%	
Total operating costs	**(344,822)**	**88.1%**	**(270,267)**	**88.1%**	**27.6%**
EBITDA	**46,759**	**11.9%**	**36,602**	**11.9%**	**27.7%**
Change in fair value of derivatives	(597)	0.2%	(663)	0.2%	
Depreciation and amortisation	(24,211)	6.2%	(16,422)	5.4%	
Gains on non-current assets	164	0.0%	213	-0.1%	
EBIT	**22,115**	**5.6%**	**19,730**	**6.4%**	**12.1%**
Net financial expense	(1,323)	0.3%	(2,368)	0.8%	
EBT	**20,792**	**5.3%**	**17,362**	**5.7%**	**19.8%**
Income taxes for the year	(2,442)	0.6%	(1,269)	0.4%	
Net profit for the period	18,350	4.7%	16,093	5.2%	14.0%
Profit attributable to non-controlling interests	779		686		
Profit attributable to the group	17,571	4.5%	15,407	5.0%	14.0%

“Revenues and operating income” rose by 27.6% (+€84.7 million). Within the same scope (without taking into account the contribution of “AL Air") the increase would have been of 7.7%. With stable exchange rates (same scope) the increase in revenue would have been of 7.5%. The increase (same scope) is due for 8,4% to higher volumes net of a slight drop in sales prices (-0.7%).

Total operating costs rose from €270.3 million (88.1% as a percentage of revenues) to €344.8 million (88.1% as a percentage of revenues). Within the same scope they would have been €286.6 million (incidence of 86.7%). The total increase of 27.6% (€74.6 million) was substantially caused by the following factors:

- consumption of materials grew by €41.7 million, from 52.8% as a percentage of revenues in 2017 to 52.7%. This increase is due for €51.4 million to the change in scope of consolidation, to the increase in volume and the change in the sales mix, and for €1.8 million to the recognition in the income statement of non-recurring costs linked to the adjustment in the fair value of the “Al Air” stock at the date of acquisition of control (in compliance with the IFRS3 accounting standard) net of €11.5 million decrease linked to the price trends in the main raw materials;

- the increase in costs for services of €11.3 million is linked for €9.6 million to the change in the scope of consolidation and for €5.0 million to higher costs for transport, fees, consultancies and energy net of the reduction in the rent/lease costs (€3.3 million) linked to the first application of IFRS16. The costs for services include €2.4 million of non-recurring cost linked to the acquisition of “AL Air”;

- the increase in personnel costs by €20.5 million was linked to the impact of volumes on the direct workforce and the increase in the structure and salary trends. It is linked for €13.7 million to the change in the scope of consolidation. The percentage of personnel costs compared to revenues dropped from 20.5% to 21.3%.

“EBITDA” amounted to €46.8 million (11.9% of revenues) compared to €36.6 million (11.9% of revenues) in 2018. Net of the impact of extraordinary costs, EBITDA would have been €51.7 million (13.2% of sales). Adjustments (€4.9 million) have already been commented on for €4.2 million. The remaining amount (€0.7 million) refers to fixed costs incurred before the start of production in the new Polish and Chinese plants. As at 31 December 2018, adjusted EBITDA amounted to €38.4 million. The change with respect to 2018 (+€13.3 million, +34.5%) is generated by the increase in prices and volumes (+€4.5 million), the contribution of “AL Air” (+€5.5 million) and the first application of IFRS16 (€3.3 million).

Amortisation and depreciation show an increase of €8.2 million, linked to the change in the scope of consolidation for €2.2 million and to the first application of IFRS16 for €3.5 million.

“EBIT” amounted to €22.1 million (5.6% of revenues) compared to €19.7 million (6.4% of revenues) in 2018. Net of non-recurring costs (adjusted EBIT), it would have been €27.0 million (6.9% of revenues).

The balance of financial income and expense was negative, at €1.3 million, compared to a negative value of €2.4 million in 2018.

The “EBT” was equal to €20.8 million (5.3% of revenues) against a value of €17.4 million as at 31 December 2018 (5.7% of revenues). The 2019 EBT normalised for non-recurring costs would have been €25.7 million (6.6% of revenues).

The “Net profit for the year” was €18.4 million (4.7% of revenues) compared to €16.1 million (5.2% of revenues) as at 31 December 2018. The net profit for 2019 after non-recurring costs would have been €22.8 million (5.8% of revenues).

Reclassified Consolidated Balance Sheet *(in thousands of Euro)*	31/12/2019	% of net invested capital	31/12/2018	% of net invested capital	Change 2019 vs 2018
Net intangible assets	96,570		70,170		
Net property, plant and equipment	163,269		125,061		
Deferred tax assets	6,603		4,722		
Other non-current assets	220		2,196		
Non-current assets (A)	**266,662**	**100.2%**	**202,149**	**96.7%**	**64,513**
Inventories	61,812		44,667		17,145
Trade receivables	61,728		50,854		10,874
Other receivables and current assets	16,513		9,472		7,041
Current assets (B)	**140,053**		**104,993**		**35,060**
Trade payables	86,230		57,800		28,430
Other payables and current liabilities	27,784		20,585		7,199
Current liabilities (C)	**114,014**		**78,385**		**35,629**
Net working capital (D=B-C)	**26,039**	**9.8%**	**26,608**	**12.7%**	**(569)**
Provisions for employee benefits	5,491		4,057		1,434
Deferred tax liabilities	16,768		13,173		3,595
Provisions for risks and charges	4,231		2,581		1,650
Medium/long-term liabilities (E)	**26,490**	**10.0%**	**19,811**	**9.5%**	**6,679**
Net Invested Capital (A+D-E)	266,211	100.0%	208,946	100.0%	57,265
Shareholders' equity attributable to the group	155,586		142,216		13,370
Non-controlling interests	3,422		3,170		252
Total Consolidated Shareholders' Equity	**159,008**	**59.7%**	**145,386**	**69.6%**	**13,622**
Medium- Medium/Long Term Net Financial Position	155,499		156,303		(804)
Medium- Term Net Financial Position	(48,296)		(92,743)		44,447
Total Net Financial Position	**107,203**	**40.3%**	**63,560**	**30.4%**	**43,643**
Own funds and net financial Debt	266,211	100.0%	208,946	100.0%	57,265

The increase in the item Non-current assets (of €64.5 million) is mainly linked to the first consolidation of “AL Air” (provisional allocation pursuant to IFRS 3: goodwill for €10.6 million, trademarks for €10.1, customer list for €7.4 million and net assets for €8.5 million) and the first application of IFRS 16 (€18.3 million). Investments for the period amount to around €30 million of which around €12 million are considered to be non-recurring (relating mainly to the expansion of the Polish and Indian plants).

The Group operating working capital (the result of the sum of inventories and trading receivables net of trade payables) as at 31 December 2019 amounted to €37.3 million, equal to around 9% (data not subject to audit) of 2019 pro forma sales which include “AL Air” up to 1 January 2019 (was of €37.7 million as at 31 December 2018, 12.3% of sales).

Consolidated shareholders' equity amounted to €159.0 million compared to €145.4 million as at 31 December 2018. The increase (of €13.6 million) was essentially due to the profit for the year (€18.4 million), to the zeroing of the treasury shares reserve for €1.7 million, adjusted by the distribution of dividends for €5.5 million by the Parent Company.

The net financial loss amounted to €107.2 million (loss of €63.6 million as at 31 December 2018), with a difference of €43.6 million, primarily due for €45 million to the acquisition of "AL Air", for €17 million to the effect deriving from the first application of IFRS16, for €5.5 million to the distribution of dividends, for €30 million to investments net of around €56 million in positive cash flows from operations. In 2019 the cash flow from operations adjusted by non-recurring items totalled roughly €38 million. The debt is all medium and long-term, and liquidity as at 31 December 2019 totalled around €141 million.

1.6 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 S.p.A. Reclassified Income Statement (in thousands of Euro)	31/12/2019	% Revenues	31/12/2018	% Revenues	Change % 2019 vs. 2018
Revenues and operating income	**89,695**	**100%**	**86,653**	**100.0%**	**3.5%**
Purchases of materials	(48,893)	54.5%	(44,419)	51.3%	
Changes in inventories	4,482	-5.0%	333	-0.4%	
Costs for services	(20,377)	22.7%	(18,014)	20.8%	
Personnel costs	(17,809)	19.9%	(17,066)	19.7%	
Other operating costs	(1,526)	1.7%	(2,430)	2.8%	
Total operating costs	**(84,123)**	**93.8%**	**(81,596)**	**94.2%**	**3.1%**
EBITDA	**5,572**	**6.2%**	**5,057**	**5.8%**	**10.2%**
Change in fair value of derivatives	(693)	0.8%	(632)	0.7%	
Depreciation and amortisation	(6,893)	7.7%	(5,864)	6.8%	
Losses on non-current assets	(64)	0.1%	(31)	0.0%	
EBIT	**(2,078)**	**-2.3%**	**(1,470)**	**-1.7%**	**41.4%**
Net financial income	8,108	-9.0%	4,062	-4.7%	
EBT	**6,030**	**6.7%**	**2,592**	**3.0%**	**132.6%**
Income taxes for the year	473	-0.5%	507	-0.6%	
Net profit for the period	**6,503**	**7.3%**	**3,099**	**3.6%**	**109.8%**

As at 31 December 2019 “Operating revenue and income” recorded an increase of 3.5% mainly attributable to sales volumes.

Total operating costs rose from €81.6 million (94.2% as a percentage of revenues) to €84.1 million (93.8% as a percentage of revenues). The overall increase is of 3.1% (€2.5 million), less than proportional to the increase in turnover, and is mainly attributable to:

- a slight increase in the consumption of materials with a total impact of €0.3 million. The incidence on turnover decreased from 50.9% to 49.5% thanks to the reduction in the prices of main raw materials.
- An increase in costs for services of around €2.4 million (with an incidence on turnover up by 1.9%) mainly attributable to the increase in costs for consultancies, trade fairs, conferences and travel, outsourced transport and processing, commission to agents and maintenance costs and utilities, offset by an increase of around €0.4 million in rent/lease costs, due to the first application of the IFRS16 accounting standard;
- An increase in the cost of personnel of around €0.7 million (linked to the growth in production volumes and ordinary wage dynamics), with an incidence on turnover up from 19.7% to 19.9%);

- a reduction of €0.9 million in other operating costs, attributable to the lower impact of allocations to provisions.

“EBITDA” for 2019 amounted to €5.6 million (6.2% of revenues), compared to €5.1 million (5.8% of revenues) in 2018.

"EBIT" is negative for €2.1 million (-2.3% of revenues) compared to €1.5 million (-1.7% of revenues) in 2018. The negative impact is essentially attributable to the increase in amortisation and depreciation that, compared to the previous year, record an increase of around €1 million due both to the increase in operating amortisation and depreciation (€0.6 million) resulting from the investments in the last few years and the impact of the application of IFRS16 (€0.4 million).

Financial income for the year ending 31 December 2019 totalled €8.1 million, compared to €4.1 million for 2018. The difference (positive for €4.0 million) essentially derives from the increase in dividends received by subsidiaries for €3.2 million and the increase in (realised and unrealised) exchange differences for €0.8 million.

The “EBT” in the year ending on 31 December 2019 was equal to €6.0 million (6.7% of revenues) against a value of €2.6 million as at 31 December 2018 (3.0% of revenues).

The “Net profit for the year” for 2019 was €6.5 million (7.3% of revenues) compared to €3.1 million (3.6% of revenues) for the year 2018.

LU-VE S.p.A. Reclassified *Balance Sheet (in thousands of Euro)*	31/12/2019	% of net invested capital	31/12/2018	% of net invested capital	Change 2019 vs 2018
Net intangible assets	22,672		22,669		
Net property, plant and equipment	41,320		39,690		
Deferred tax assets	3,545		3,430		
Equity investments	151,781		102,562		
Other non-current assets	4		25		
Non-current assets (A)	**219,322**	**102.8%**	**168,376**	**99.2%**	**50,946**
Inventories	12,605		8,123		4,482
Trade receivables	26,902		31,921		(5,019)
Other receivables and current assets	4,150		4,811		(661)
Current assets (B)	**43,657**		**44,855**		**(1,198)**
Trade payables	31,291		25,243		6,048
Other payables and current liabilities	8,596		7,961		635
Current liabilities (C)	**39,887**		**33,204**		**6,683**
Net working capital (D=B-C)	3,770	1.8%	11,651	6.9%	(7,881)
Provisions for employee benefits	884		909		(25)
Deferred tax liabilities	7,682		8,036		(354)
Provisions for risks and charges	1,271		1,271		-
Medium/long-term liabilities (E)	**9,837**	**4.6%**	**10,216**	**6.0%**	**(379)**

Net Invested Capital (A+D-E)	213,255	100.0%	169,811	100.0%	43,444
Share capital	62,704		62,704		-
Reserves and retained earnings	37,711		38,560		(849)
Profit for the year	6,503		3,099		3,404
Total shareholders' equity	**106,918**	**50.1%**	**104,363**	**61.5%**	**2,555**
Medium- Medium/Long Term Net Financial Position	113,280		128,571		(15,291)
Medium- Term Net Financial Position	(6,943)		(63,123)		56,180
Total Net Financial Position	**106,337**	**49.9%**	**65,448**	**38.5%**	**40,889**
Own funds and net financial debt	213,255	100.0%	169,811	100.0%	43,444

The significant increase in non-current assets (+€50.9 million compared to the previous year) essentially derives from the acquisition of the “Air” division of the Alfa Laval group.

Working capital (equal to the sum of inventories and trade receivables net of trade payables) decreased by €6.6 million (going down from 17.1% to 9.2% of sales).

Shareholders' equity amounted to €106.9 million compared to €104.4 million as at 31 December 2018. The increase (of €2.5 million) was essentially due to the profit for the year (+€6.6 million), to the zeroing of the treasury shares reserve (+€1.7 million) net of the distribution of dividends for €5.5 million.

The net financial position was negative by €106.3 million (negative by €65.4 million as at 31 December 2018), with a deterioration of €40.9 million mainly due to the acquisition of "AL Air". The debt is all medium and long-term, and liquidity as at 31 December 2019 totalled around €103 million.

As at 31 December 2019 the net invested capital recorded a balance in the sources of financing: in fact, 50.1% was financed by equity and 49.9% by financial debt. As at 31 December 2018 the items represented 61.5% and 38.5% respectively. The change in composition is essentially attributable to the reduction in liquidity due to the acquisition of the “AL Air” division from the Alfa Laval group and the repayment of some medium term loans made during the year.

1.7 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:

Monetary amounts in thousands of Euro	2019	2018
Average days in inventory (1)	57	52
Inventory turnover ratio (2)	6.34	6.87
Receivables turnover ratio (3)	6.34	6.03
Average days sales outstanding (4)	57	60
Payables turnover ratio (5)	3.03	3.59
Average days payable outstanding (6)	119	100
Net Invested Capital	266,211	208,946
EBITDA	46,759	36,602
Adjusted EBITDA (7)	51,659	38,402
EBITDA/Financial expense	14.58	9.70
Adjusted EBIT (8)	27,015	21,530
Adjusted EBT (9)	25,692	19,162
Adjust net profit for the year (10)	22,750	16,593
Basic earnings per share (11)	0.80	0.70
Diluted earnings per share (12)	0.80	0.70
Dividends per share (13)	0.25	0.22
Net financial debt	(107,203)	(63,560)
Net financial debt/EBITDA	2.29	1.74
Debt ratio (14)	0.67	0.44
Operating working capital (15)	37,310	37,721
Net working capital (16)	26,039	26,608
Goodwill and Other Intangible assets/Total assets	0.18	0.16
Goodwill and Other Intangible assets/Shareholders' equity	0.61	0.48

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 purchases 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) EBITDA adjusted for non-recurring costs:

	2019	2018
EBITDA	46,759	36,602
Expenses for business combinations	2,400	1,000
Reversal of fair value of inventory step-up in income statement	1,800	-
Restructuring costs	-	300
Application of IAS/IFRS accounting standards	-	500
Charges for transfers/start of Poland and China production plants	700	-
Adjusted EBITDA	**51,659**	**38,402**

(8) EBIT adjusted for non-recurring charges (adjusted EBITDA "base" - see previous table);
(9) EBT adjusted for non-recurring charges (adjusted EBITDA "base" - see previous table)
(10) Net profit for the year adjusted for non-recurring costs (adjusted EBITDA "base" - see previous table - net of taxes of €0.5 million for 2019 and €0.5 million for 2018);
(11) Profit (loss) for the period/Weighted average number of ordinary shares;
(12) Profit (loss) for the period/(Weighted average number of ordinary shares + potential number of additional ordinary shares);
(13) Nominal value of the dividend per share approved in each year.
(14) Net financial debt/Shareholders' equity.
(15) Total of inventories and trade receivables net of trade payables;
(16) Current assets net of current liabilities

1.8 INDUSTRIAL COMPANIES

A description follows of how the following data reflect the effects of the first application of the IFRS16 accounting standard for the individual companies.

Revenues for SEST S.p.A. amounted to €35.9 million (€35.7 million in 2018). Net profit, with around €8.1 million coming from dividends of the Polish and Russian subsidiaries and penalised by around €1.8 million by the write-down of the equity investment in the TGD subsidiary, came to 7.3 million (€2.2 million in 2018) after depreciation and amortisation of €2.2 million and taxes of €0.6 million.

Sest LU-VE Polska S.p.zoo reached turnover of €64.2 million, an increase of around 13% compared to last year. Net profit came to €10.9 million (€13.2 million in 2018) after depreciation and amortisation of €2.5 million and a positive tax effect of €1.3 million.

"OOO" Sest LU-VE recorded a turnover of €22.6 million (€18.9 million in 2018). Net profit came to roughly €4.2 million (€1.7 million in 2018) after depreciation and amortisation of €1.1 million and taxes of €0.3 million.

HTS S.r.o. reached turnover of €37 million, a decrease of around 5%. Net profit came to €2.2 million (€1 million in 2018) after depreciation and amortisation of €2.1 million and taxes of €0.4 million.

LU-VE Sweden AB recorded a turnover of €11.8 million (a decrease of 2% on the previous year), with a net profit of €0.2 million (loss of €1.1 million in 2018) after depreciation and amortisation of €0.4 million and taxes of €0.4 million.

LU-VE Tianmen LTD recorded a turnover of €8 million (€7.6 million in 2018), with a net loss of €0.3 million (loss of €0.2 million in 2018) after depreciation and amortisation of €0.5 million and taxes of €20 thousand.

Tecnair LV S.p.A. recorded a turnover of €11.9 million (€12.2 million in 2018), with a net profit profit of €0.4 million (€0.1 million in 2018), after depreciation and amortisation of €0.6 million and taxes of €0.2 million.

Thermo Glass Door S.p.A. achieved a turnover of €11.6 million (around +10% compared to 2018) and a net loss of €1.2 million (loss of €2 million in 2018) after depreciation and amortisation of €1.2 million and a positive tax effect of €0.2 million.

Manifold S.r.l. recorded a turnover of €1.4 million, in line with the previous year, with a net profit of €12 thousand after depreciation, amortisation and taxes for a total of €10 thousand.

Spirotech Heat Exchangers Private Limited recorded total revenues of €42.1 million (€35.4 million in 2018, with an increase of around 19%), with a net profit of €5.5 million (€5.4 million in 2018) after depreciation and amortisation of €1.0 million and taxes of €1.9 million.

Zyklus Heat Transfer Inc. recorded a turnover of €12.9 million, with a net profit of €0.5 million, after depreciation and amortisation of €0.7 million and taxes of €0.1 million.

Air Hex Alonte S.r.l., in the first year of consolidation, recorded a 8-month turnover of €43.4 million, with a net profit of €3.8 million, after depreciation and amortisation of €0.9 million and taxes of €1.5 million.

Fincoil LU-VE OY, in its first year of consolidation, recorded an 8-month turnover of €25.1 million, with a net profit of €1.2 million, after depreciation and amortisation of €1.1 million and taxes of €0.3 million.

1.9 SALES COMPANIES

The situation of each company is summarised below:

LU-VE France S.a.r.l. recorded turnover of €13.6 million (31% compared to 2018), with a net profit of €0.1 million after depreciation and amortisation and taxes of €0.1 million.

LU-VE Deutschland GmbH recorded a turnover of €1.7 million (3.1% in 2018), with a net loss of €0.4 million, after depreciation, amortisation and taxes of €19 thousand.

LU-VE Iberica SL recorded turnover of €11.3 million (+36% compared to 2018), with a net profit of €0.3 million after depreciation and amortisation and taxes of €0.2 million.

LU-VE Contardo Pacific pty. Ltd. recorded turnover of €1.6 million (in line with the previous year), with a net loss of €0.4 million after depreciation and amortisation of €0.1 million.

LU-VE Asia Pacific Ltd. closed the year with a net loss of €0.1 million.

LUVEDIGITAL S.r.l. recorded turnover of €0.4 million, with a net profit of roughly €5 thousand after depreciation and amortisation and taxes of roughly €10 thousand.

LU-VE Austria GmbH recorded a turnover of €0.4 million (in line with the previous year), with a net profit of €34 thousand, after depreciation, amortisation and taxes of €13 thousand.

LU-VE Netherlands B.V., in its first year of consolidation, recorded a turnover of €0.9 million, with a net loss of €0.1 million, after a positive tax effect of €13 thousand.

LU-VE Middle East DMCC, in its first year of consolidation, recorded a turnover of €0.4 million, with a net profit of €40 thousand, after depreciation, amortisation and taxes of €16 thousand.

"OOO" LU-VE Moscow, in its first year of consolidation, recorded a turnover of €4.4 million, with a net loss of €0.1 million, after depreciation, amortisation and taxes of €48 thousand.

1.10 INVESTMENTS

The investments of the Group amounted to €90.2 million in 2019 (€41.8 million in 2017), against amortisation and depreciation of €24.2 million. The investments by company are summarised below:

In thousands of Euro	INVESTMENTS										
Category	LU-VE	SEST	SEST LUVE POLSKA	"OOO" SEST LUVE	HTS	SPIROTECH	TGD	ZYKLUS	AL AIR	OTHER	Total
Al Air first contribution	-	-	-	-	-	-	-	-	9,322	-	9,322
Trademarks and customer list	-	-	-	-	-	-	-	-	18,813	-	18,813
Goodwill	-	-	-	-	-	-	-	-	10,606	-	10,606
Al Air sub total	-	-	-	-	-	-	-	-	38,741	-	38,741
IFRS 16	1,156	898	298	37	-	1,657	1,142	738	13,493	2,349	21,768
Land and buildings	230	123	429	6	33	4	7	2	-	-	834
Plant and equipment	1,480	1,047	3,610	72	256	1,201	520	-	-	409	8,595
Other	2,946	407	682	682	163	66	243	219	-	576	5,984
Work in progress	3,453	68	7,715	68	345	1,657	227	360	-	427	14,320
Group SUBTOTAL	8,109	1,645	12,436	828	797	2,928	997	581	-	1,412	29,733
TOTAL	9,265	2,543	12,734	865	797	4,585	2,139	1,319	52,234	3,761	90,242

In 2019, the investment programme continued for the expansion and streamlining of certain manufacturing sites and for the strengthening of installed production capacity (particularly with reference to the Polish and Indian plants). The main investments for the year regarded:

- the first consolidation of “AL Air” for €38.7 million;
- the first application of IFRS16 for €21.8 million;
- the expansion of existing production capacity (for €4,3 million) by the parent company;
- the expansion of the manufacturing site, the enhancement of the existing production capacity and the adaptation to safety and environmental regulations (for €12,4 million) by the subsidiary SEST-LUVE Polska;
- the expansion of the manufacturing site and the enhancement of the existing production capacity (for €2.9 million) by the subsidiary SPIROTECH;
- software expenses for around €2.0 million;
- the capitalisation of development expenses (as commented on below) at Group level for roughly €2,6 million.

1.11 PERSONNEL

2019 was a particular year for the Group with regard to the number of active resources. Following the significant acquisition carried out and the strong increase in resources, in particular in Poland, 500 additional resources were recruited, around 400 employees were hired following the acquisition of “AL Air”, and 358 employees resigned.

The total number of Group's employees, as at 31 December 2019, was 3,169 (2,609 as 31 December 2018) of which:

- 2,328 blue-collar workers;
- 805 white-collar workers and middle managers;
- 36 executives.

Please note that the number of contract workers (included in the above mentioned figures) is of 557 units.

This significant increase in employees has led to the analysis and assessment of the company's organisation and, in particular, in the sales sector, to make some changes and better focus on the business and the attention to customers' requirements.

Research activity was intensive throughout the year, both in terms of the employment of new personnel and in terms of strengthening the organisational structures. The employer branding activity, promoted both through the company website and through specialist partners, has allowed to attract resources who are more in line with the Group's values, mission and requirements.

The company's areas more affected by the addition of new resources were sales and marketing, research and development, and operations.

With regard to training, the year was characterised by multiple and diversified training courses, which have involved all categories and areas in the company.

In particular, a very rich programme was delivered in the context of safety and the environment, of language learning and on the use of specific instruments in every area (design software, PLM, production techniques, Office package).

To continue to strongly focus on issues relating to safety and the environment, internal activities took place alongside collaborations with external professionals, in order to promote with greater determination, the involvement and awareness of management and their attention to these issues. The results for the year in relation to accident levels, have demonstrated the effectiveness of the programmes carried out.

A special comment with regard to the development and implementation of the SAP Success Factor software in human resources: the programme continued during the year to disseminate this instrument to all production sites and sales branch offices, in particular for the new companies acquired during the year. Some significant changes (the Performance module for the evaluation of individual performance) were introduced which will find a definitive application during 2020.

This software makes it possible to access all key information relative to the Group's employees in real time, to monitor more closely any organisational changes and guarantee the immediate control of all changes taking place in the various companies of the Group. It also allows to certify data required by various internal and external bodies to meet legal and contractual requirements.

1.12 OCCUPATIONAL HEALTH AND SAFETY

In 2019, with a view to continuous improvement, the Group companies continued carrying out activities intended to guarantee occupational health and safety and environmental protection in the context of each company.
The company's objective is to control all direct and indirect processes that represent the production system and to reduce environmental impacts and increase work comfort for employees, continuing to guarantee product quality.
For this reason, in 2019 a project was initiated for the integration and homogenisation of the Group's management of the processes linked to HSE, with the objective to further improve the monitoring of performance indicators, working comfort in all plants and therefore a greater production efficiency, with the consequent increase in productivity.

Specifically, the following took place in 2019:

- An HSE assessment was carried out in the Italian sites resulting in an organisational and technical improvement plan, starting from the Uboldo site, for the formulation of Group guidelines and strategies for HSE management;
- Personnel health check-ups were carried out in all companies in accordance with the applicable regulations and their own internal procedures, and health protocols were activated that include specific tests to monitor the health of all workers, also in sites in countries where this is not mandatory. Some of the Group companies also implemented a welfare protocol which requires checks on health aspects that are do not directly refer to the working environment;
- A Group methodology was initiated for the risk assessment of health and safety at work, so as to be able to develop activities in every plant, also where this is not mandatory, and to allow easily to compare homogeneous risk levels in the various plants. The Group risk assessment protocol will be operating from the first quarter of 2020. Therefore, it is expected that this process will allow a greater control of compliance with HSE legal regulations and the homogenisation of management in all sites;
- Achievement for some of the Group's companies of the OHSAS 18001 certification (Safety at Work) and maintenance of other ISO 14001 (Environment) and ISO 50001 (Energy) certifications in others. Sest S.p.A. recently achieved ISO 45001 certification which replaced the OHSAS 18001 certification;
- Implementation of actions aimed at the maximum reduction of noise within some plants, guaranteeing also compliance with regulations relative to external noise pollution; the implementation of improvement plans will take place in every plant on the basis of risk assessment carried out in accordance with the Group's new methodology;
- Search for more effective solutions to eliminate the risk of repeated and onerous movement of loads; Where possible, manipulators and anti-gravity devices have been introduced and in other situations a turnover has been activated to reduce exposure;
- Personnel's awareness of and sensitivity to HSE issues is maintained at high level through continuous classroom training and with the implementation of on site training breaks. This training approach, designed and implemented by the Parent Company, has been adopted by the metalworkers' national collective labour agreement as it is deemed to be state-of-the-art and very effective. Every action

identified as “best practice” is implemented across all companies in order to improve prevention and workers' protection through the adoption of Group guidelines;

- With regard to the risk assessment of chemicals and of their relative environmental impact, the Group companies have assessed the use of chemicals considering their replacement with substances with a lower environmental impact and lower risk for workers' health, as well as the introduction of new technologies to further improve work environments;
- For Group companies using an ISO 14001-compliant management system, an assessment has been carried out of Environmental Impacts and a Context Analysis in order to better assess consequences from the point of view of the environment, the territory and all *stakeholders*;
- A periodical internal audit of HSE aspects has been started for Group companies, carried out through external experts for the time being, but with the objective of creating a group of internal auditors for the standardisation of audit processes related to safety, health and environment in all of the Group's plants.

With respect to accidents, in the course of 2019 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;

For more information, please refer to the “*The well-being of our people*” and “*Respect for the environment*” chapters of the 2019 consolidated non-financial statement.

2 OBSERVATIONS ON THE FINANCIAL PROFILE AND ON BUSINESS CONTINUITY

At 31 December 2019, the Group and the Parent Company had a solid and balanced financial structure with a Net financial debt/Shareholders’ equity ratio (Debt ratio) of 0.67 and 1.00 respectively and a positive short-term net financial position of €48.3 million and €6.9 million, respectively; therefore, the repayment of medium/long-term debt maturing in 2020 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.

It is also reported that the assessment of compliance with asset and economic requirements (covenants), required by the financial debt of LU-VE, as at 31 December 2019 did not highlight any critical issues. Furthermore, it is highlighted that the estimates of the 2020 Budget lead to the expectation that no critical issues with regard to these requirements will arise also for next year.

In spite of the current high degree of uncertainty, a preliminary assessment has been carried out of the possible impacts of the spread at global level of Coronavirus and it is considered to be reasonable that it will not compromise the company's continuity.

In light of what is laid out above, the consolidated Financial Statements of the Group and the Financial Statements of the Parent Company as at 31 December 2019 were prepared on the basis of the going concern assumption.

2.1 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. 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 and impacts of climate change on extractive activities).

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. Analyses are constantly carried out to identify alternatives to strategic suppliers to reduce the relative dependence on them and also of geographical diversification activities both with the aim to reduce purchase costs with comparable quality and to avoid excessive geographical dependence on some areas in the world. In particular, with regard to the main purchased raw material – copper – the Group has dealt for several years, for the most part in terms of volumes, with the same suppliers, selected and periodically assessed on the basis of trading reliability criteria and with whom a relationship based on reciprocal trust has been built. 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, negative pledge clauses and *pari passu* clauses. In the future, if the above-mentioned financial covenants or other commitments laid out in existing loan agreements are not respected, 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.

Please note that capitalisation policies require the guarantee of capital and the capitalisation of yields (in such a way as they too are guaranteed) every 12 months and some penalties in case of early redemption (almost all expired by now).

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

- specific risk 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 Group 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 and US dollar and UAE dirham). 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 group considers the subscription of derivative financial instruments 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 the requirements as laid out under IFRS 9 (formerly IAS 39) and cannot be defined as hedge accounting; therefore, the Group has decided to consider these instruments as for trading and not hedges and as a result such instruments were measured at fair value with changes reported on the income statement.

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).

RISKS INHERENT TO THE GROWTH STRATEGY THROUGH EXTERNAL LINES

The Group's strategy, focussed on the expansion on new markets and the development and diversification of its product portfolio, is based on a growth also through external lines, through acquisitions and development of joint ventures. Therefore, the Group is exposed to the typical risks inherent to growth initiatives through external lines.

Even though the Group carries out an activity of due financial, accounting, fiscal and legal diligence before completing acquisitions, joint ventures or investments, nevertheless the case might occur where this activity does not in any case allow the identification of all significant potential or actual liabilities of the acquired subject, nor lead to the adequate determination of the purchase price.

Integration of new acquired companies is also an organisationally complex process, which may not occur according to timetables initially set and may involve unforeseen costs and, therefore, may compromise or delay the benefits expected from the acquisition.

All the above is particularly valid for an acquisition such as “AL Air”, he largest and potentially the most complex carried out by the Group.

In order to mitigate these risks, the Group carries out a careful due diligence activity (in business, accounting, financial, fiscal, legal and environmental terms) with respect to the companies object of possible acquisition, with the support of very well-qualified and very reputable consultants. Furthermore, it activates structured integration processes employing dedicated cross-functional teams to best comply with timetables and exploit possible synergies to the maximum.

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 ability of its companies to propose technologically innovative products in line with market trends, in particular with reference to the use of natural refrigerants (also with reference to regulations applicable or soon to be applied in many areas of the world).

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 4.7% of consolidated turnover and although the Group's top 10 customers together represent 29.9% of consolidated turnover, the sectors of static evaporators (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 19.4% of its turnover in the year 2019), that of the "domestic appliances" destined to energy-efficient washer-dryers (in which the Group supplies all the most important European manufacturers and has realised 8.2% of its turnover in 2019) and that of glass doors for refrigerated counters (in which the Group realised 2.8% of its turnover in 2019) are characterised by strong commercial leadership by the main manufacturers. The same process applies to sales for the application of power generation (9.6% of turnover in 2019) which will acquire more importance when the Group will have consolidated the "AL Air" for a 12-month period.

As a result, if the supply to one of the Group's customers in the above-mentioned sectors is discontinued, the Group companies that operate in that sector would have difficulty recovering the lost turnover with other customers 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 facilities 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 (but not against indirect damages caused by force majeure), 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 and not included in insurance policies, 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 above mentioned 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, mainly, 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.

However, from a merely accounting perspective, although such instruments substantially hedge the risks mentioned, they do not meet all the requirements as laid out under IFRS 9 to be defined as hedge accounting and therefore changes in their fair value are reported on the Income Statement.

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 receivables 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 guaranteed payment forms or 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 2019, 2018 and 2017, Group revenues from sales made abroad represented 80.7%, 78.7% and 77.8% of total 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, Finland, the Czech Republic and India, USA).

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.

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 economic performance and financial position of the Group, which operates at international level in various 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.

In 2019 growth slowed down significantly in the global economy, the lowest recorded for the entire decade. Global GDP rose by 2.9% compared to 3.7% in the previous year due to the effect, among other things, of a rather lacklustre second half. The United States closed the year with a growth of 2.3% (the 11th consecutive year of growth with the strengthening dollar), China with a growth of 6.1% (the minimum since 1990) like India, and the Eurozone with a modest growth of 1.2% (the lowest since 2013), with the Italian GDP unchanged after the +1 growth in 2018.

Forecasts for 2020 at the start of the year anticipated a lower growth only for China due to the impact of Coronavirus, with the forecast of global GDP again above 3%. However, with the spread of the virus across the globe and the pandemic declaration by the World Health Organisation (even though to varying degrees from country to country), forecasts have been drastically reviewed downwards. It is difficult to predict realistic figures for an event that has brought the world's economy onto an unprecedented territory. Trade tariffs and Brexit are now viewed as secondary aspect compared to the impact of the virus that originated in China.

Monetary policies remain expansive, with the Eurozone confirming the policies of the last few years also with the new Presidency of the ECB and with the United States, after the halt in the growth of rates in 2019, preparing for a new season of “generous” monetary policy. Furthermore, 2020 is a presidential election year for the United States. Interest rates will, therefore, remain stable on very low values, often lower than zero even on long term national bonds in the most advanced countries.

With regard to raw materials, after rising in the first half in 2019 to then retrace in any case within normal volatility terms, oil prices crashed in the first few months of 2020 due to the economic slowdown imposed by Coronavirus. A similar dynamic was recorded for copper and aluminium.

2020 really promises to be a year of great uncertainties at global economic level. This will probably accelerate the differences among various countries, in a nevertheless generally worsening landscape. For the enterprise system, geographical diversification will be a decisive factor to mitigate the effects of the expected slowdown. Italy appears to be one of the weakest countries. No growth, high public debt and rather fragile political structures expose our country to a difficult year.

Considering the extreme complexity of the current environment and the unpredictability of its future evolution, the risk remains nevertheless 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 accordingly, while seeking to maintain the highest possible level of flexibility.

CYBER RISK

The Group is exposed to the risk of a cyber-attack causing a significant interruption to operations, the loss, the theft or unlawful appropriation of sensitive information, the breach or forgery of company emails and/or the breach of current regulations relating to privacy issues, with consequent negative effects both in terms economic and reputational impact.

The Group IT infrastructure is kept constantly up to date on the basis of the needs arising from the fast technological evolution. Therefore, considering that good IT performance is a critical issue for business continuity, the Group started a progressive process on the various company systems, to assess threats and the degree of resistance of current protection systems against cyber-attacks, also through the execution of vulnerability assessments. The infrastructures and platforms used by the Group are largely managed by external companies that carry out the vulnerability assessments, confirming the results obtained and placing actions in place to mitigate the potential shortcomings identified.

Even though the Group has adopted rigid protocols for the protection of the data acquired in the course of its operations and in relation to the protection of information and privacy, it cannot be excluded that one or more of the risks highlighted above may cause significant negative consequences on the Group's operations and its economic, financial and asset situation, on its economic results and its future prospects. As at the date of these Annual Report, no breaches to the Group's IT systems by third parties have been recorded.

2.2 DEVELOPMENT ACTIVITIES

In the course of 2019, the Group carried out intense development activities, as usual, to offer the market increasingly advanced products with a lower environmental impact (a key distinctive element of its competitive strategy), broken down over in several 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 €2.8 million during the year (including €2.6 million capitalised under Intangible assets with the consent of the Board of Statutory Auditors).

The main projects regarded the development of new product ranges (mainly the use of natural refrigerants, such as carbon dioxide and ammonia), the miniaturisation and specialisation of tube surfaces and matrices for the improvement of heat exchange efficiencies, the introduction of electronic control systems optimised for unit coolers and air coolers as well as components and accessories in the heat exchangers and glass doors segments.

2.3 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.

2.4 PERFORMANCE IN THE FIRST MONTHS OF 2020: significant events and business outlook

The first two months of 2020 show very comforting signals. The consolidated turnover of only products reached almost €67 million, with growth of over 31% compared to the same period of the previous year (+8.6% on a like-for-like basis, in line with performance in 2019). The levels of acquisition of orders have also been very positive compared to the same period of last year, both overall (+49.5%) and within the same scope (+14.6%) as was the order portfolio, which recorded a consolidated value of over €84 million (respectively +85% overall and +13.4% within the same scope). The order portfolio at the end of February included over €32 million relative to the former "AL Air" companies which, by virtue of the greater incidence of large projects linked to the "Power Gen" sector, have historically had a more visible portfolio.

The Group closely monitors the developments relating to the spread of Coronavirus (defined as global pandemic at the beginning of March by the World Health Organisation) and has adopted all the necessary control and prevention measures, in concert with the local authorities and trade unions, in all the involved sites.

Operational continuity profiles

As of today, by virtue of the legal provisions applicable in the various countries, production has been suspended until 13 April in India and in Italy (excluding a production line dedicated to hospital equipment and despatch of inventory products and spare parts). However, it is not possible to exclude for now that these restrictive measures will not be applied for a longer period.
In Russia, after six working days of lockdown, production will restart on 7 April as the refrigeration section has been included under those strategic areas that cannot be stopped.
As of today, the Group's current production capacity during lockdown is estimated at between 50% and 55% of normal capacity. This situation is mitigated by the fact that some significant customers (Italian and abroad) have also suspended production so allowing to delay the delivery of orders in portfolio (as of today, the Group has experienced almost no cancellations of orders). The independence of the Group plants from each other also allows the transfer of some production lines from plants that have been closed to those who are operating.

In Italy, the Group, following the requests of some of our active customers (both Italian and abroad) in production lines considered to be of strategic importance, has made an application to the Prefects of the relevant areas to partially reopen other production lines in all plants, starting as of today.
The Group's other plants abroad are currently operational. However, it cannot be excluded that, local authorities in the countries where production sites are located may adopt increasingly restrictive measures to fight the expansion of the Covid-19 epidemic.

At all sites smart working was promoted for white-collar workers, for all the employees that can carry out their activities in this way, so allowing a significant reduction in the presence of personnel in offices even before this was required by recent decrees.

Critical issues linked to possible supply difficulties due to the closure of some supplier's production sites (mainly Italian but also abroad) as well as the difficulties linked to the circulation of goods are very closely and promptly monitored. Thanks to a widespread geographical presence, alternative supply sources have been activated which are allowing us to almost regularly supply the plants still operating.

The Chinese subsidiary (in Tianmen, in the Hubei province, the main location of the outbreak in China), after the closure for an additional month after the planned closure for the Chinese New Year, has gradually recovered production from 13 March 2020. The restart of production in China, even though it accounts for only 2% of the Group's turnover, represents a significant experience in the successful management of a complex situation linked to the Coronavirus problem. The acquisition of orders, after reopening, was encouraging.

Due to the possible economic impact of Coronavirus, the macroeconomic scenario remains characterised by strong uncertainty and a rather limited visibility and, therefore, it is very difficult to make any sort of forecast with regard to the performance of the business, economic and financial results. These circumstances, extraordinary in their nature and extent, have direct and indirect repercussions on the economic activity and have created a context of general uncertainty, whose evolution and relative effects cannot be predicted. The potential effects of this phenomenon on the budget cannot be determined at present and will be constantly monitored during the rest of the financial year.
In this context, the Group will be constantly committed in improving its strategic position in all the markets in which it operates. At this stage it will be vital to manage the contingent situation in the

short term, while, however, never letting this distract us from our focus on medium and long term objectives of volumes and profitability growth.

__Financial information outlines__

The Group Management continues to monitor the possible impacts of the phenomenon in question on the most significant hypotheses and assumptions on the basis of the main estimates reflected in the financial statements, with particular reference to revenue recognition, the identification of impairment indicators on goodwill and investments, as well as the development of the liquidity situation, taking into account the uncertainty with regard to the incidence and the duration of the effects due to the pandemic in question on the performance of the sectors in which the Group operates.

With regard to this it is highlighted that, as confirmed by specific recommendations issued on 11 and 12 March 2020 respectively by the ESMA and CONSOB, relevant events in question relating to the pandemic do not impact on the determination of the results and on the net equity of the consolidated and separate financial statements as at 31 December 2019, as they are "non adjusting events", in accordance with IAS10, because the WHO declared the existence of an international emergency not earlier than on 30 January 2020 (even though the first indications of the infection in China date back to the end of 2019).

It is reminded that IAS10 requires that an indication is given of the nature of the event which occurred after the end of the financial year with an estimate of the relevant impacts on the financial statements; in particular circumstances, due to the unpredictability of the outcomes of the phenomenon, the estimated impact is not reliably quantifiable, or even impossible, the explanatory notes should provide adequate illustration, taking into account the situation of general uncertainty determined by the phenomenon.

In this context it is necessary to restate the deep uncertainty linked to the spread and duration of the pandemic in question and, in consideration of the continuous evolving of the phenomenon, that it appears to be particularly complex to predict its effects also on economic activities, both at macro and micro levels. This involves a high degree of complexity and risk in the estimates made by the Management, whose basic assumptions and hypotheses could be of necessity reviewed and updated over the next few months, also in very significant terms, following the evolution of facts which are not under our control.

In the context of the evaluation of the potential effects deriving from the spread of the Coronavirus pandemic, the level of complexity and uncertainty in our estimates is unprecedented in its nature, relating potentially numerous aspects such as:

- the possibility of different level of persistence and extent of contagion in different parts of Italy;
- the different timescales of propagation and extent of contagion in the various European countries and in the world (in particular in the USA and in India);
- the absence of predictability with regard to the overall duration of the contagion and, in particular, of the associated containment measures, or of how and when these may be lifted;
- the particular difficulty in forecasting timelines and extent of recovery of national and global economic activities, both at macro and at micro level, once the emergency is over.

In view of the above, the Group Management has carried out an analysis in order to identify the contexts of potentially greater impact in terms of the Group's financial information and, consequently, has processed various economic and financial scenarios on the basis of the available information and the reasonably predictable forecasts at present, even though in the outlined context of significant uncertainty.

The analysis carried out, in particular, related to:

- The updating of the forecasts included in the 2020 financial statements with reference to expected revenues, for example hypothesising a sensitivity based on a 20% reduction of revenues compared to the original 2020 plan, with substantial consistency in terms of fixed costs and planned investments, as well as a 30% worsening of the net working capital; financial years after 2020 could reasonably be affected by the updating of the 2020 forecasts and the potential residual correlated knock-on effects although it is not possible to formulate reasonable impact estimates because of the significant uncertainties both in terms of duration and intensity of the phenomenon, particularly with reference to timescales beyond 12 months and therefore they have not been subject to review (this update was included in the 2020-2023 business plan reviewed and subject to the approval of the Board of Directors on 6 April 2020). Even in the scenario reported above there would not be a loss in goodwill and investments recognised as at 31 December 2019;

- With reference to liquidity situation, as at 31 December 2019 the ratio between the net financial position and adjusted EBITDA was (net of the first application of IFRS16) less than two, giving the Group a significant financial stability. Since the start of the COVID 19 emergency, the Group liquidity situation is updated every two days so as to best monitor all needs and anticipate reaction times as much as possible. The analysis of customers' settlement dates is also carried out every two days to promptly identify delays in payment and issue reminders.

  In the light of the best information available as of today, the following elements are highlighted to hedge the liquidity risk:

  - Current account cash balances, together with invested liquidity (convertible into cash in the very short term) amount to €122 million;
  - unused short-term credit lines are available for €22.5 million;
  - on 23 March 2020 an unsecured loan agreement was set up with Intesa Sanpaolo for €25 million with a duration of 66 months (of which 12 in the grace period) repayable in quarterly instalments at constant capital (average duration 3.1 years);
  - on 2 April 2020 an unsecured loan was set up with UBI Banca for €30 million with a duration of 36 months (of which 12 in the grace period) repayable in quarterly instalments at constant capital (average duration 1.9 years); the stipulation will take place by mid-April 2020;
  - further unsecured loans for a total amount of €70 million and the expansion of short-term credit lines for €3.5 million are in the process of being finalised,
  - a credit institute has proposed the Group a voluntary moratorium which has reduced capital repayments for 2020 by around €2.6 million.

Therefore, taking the above into consideration (and what is reported in paragraph "4.16 Information on financial risks - Liquidity risk management” with reference to the analysis of deadlines for financial liabilities recognised as at 31 December 2019), considering the best information currently available, it is deemed to be reasonable that, at least for the next 12 months, there are no liquidity risks for the Group, or risks related to the ability to repay debt. With regard to this, the Parent Company carefully monitors compliance with financial covenants that, in line with the best market practices, express the legal limits linked to the relationship between the EBITDA variables and the Group's net financial position. On the basis of the updating of the forecasts for the economic performance for 2020 described above (and subject to the reported uncertainties), as of today Directors expect that the financial covenants will be respected with reference to 2020;

As previously stated, a final agreement was reached in February with Alfa Laval with regard to the redetermination of the acquisition price of “Al Air”, which was reduced to a value of €51 million with a residual payment of €9.5 million, of which €2 million already paid at the signing of the contract and €7.5 million to be paid on 30 April 2020.

To accelerate the integration process and to expand the exploitation of the synergies relative to the acquisition of “AL Air”, it is planned that in 2020 the SAP information system will be implemented for the companies Fincoil LU-VE OY (whose launch is planned for 30 April) and Air Hex Alonte S.r.l. (planned for 30 September). The relative projects are already underway and continue essentially in line with the scheduled timetables in spite of the particular situation caused by the spread of Coronavirus.

A new Memorandum of Understanding was signed at the beginning of March with JEDCO, the authority managing the industrial park in Jacksonville, Texas, which outlines the obligations and incentives relative to the reviewed project which requires the purchase of building site for the construction within the next 30 months of a new production plant by the subsidiary Zyklus.

In March 2020 the Parent Company and the subsidiary Sest S.p.A. approved the review of the Organisation, Management and Control Model pursuant to Italian Legislative Decree 231/2001 and the subsidiary Tecnair LV S.p.A. has in turn adopted this model.

Furthermore, the task to revise the Organisational, Management and Control model pursuant to Italian Legislative Decree no. 231/2001 has been assigned also for the subsidiary Air Hex Alonte S.r.l..

Due to the volatility of markets as a consequence of the global spread of Coronavirus, the security has suffered, from the beginning of March 2020, from a significant depreciation. On 3 April 2020 (at the closure of the last trading day before the approval of the draft financial statements) the price was €10,10, corresponding to a capitalisation of €224.6 million, in any case higher than the net equity recognised in the Group's financial statements (€159.0 million).

2.5 MANAGEMENT AND COORDINATION ACTIVITIES

The parent company LU-VE S.p.A. is not subject to the management and coordination by Finami S.p.A., nor of any other subject, pursuant to articles 2497 et seq. of the Italian Civil Code..

The parent company LU-VE S.p.A. manages and coordinates activities on all subsidiaries pursuant to articles 2497 et seq. of the Italian Civil Code.

2.6 RELATED PARTY TRANSACTIONS

For information on related party transactions, please refer to the detailed tables provided in the Explanatory 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.

2.7 TREASURY SHARES

As at 31 December 2019 the Group did not hold any treasury shares. All the no. 157,716 treasury shares held as at 30 June 2019 were sold in the second half of the year for an amount of €1.7 million.

2.8 ATTESTATION 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.

2.9 ORGANISATION, MANAGEMENT AND CONTROL MODEL PURSUANT TO ITALIAN LEGISLATIVE DECREE N. 231/2001

With reference to the Organisation, Management and Control Model of both the Parent Company and Sest S.p.A. pursuant to Italian Legislative Decree no. 231/2001, during the year arrangements were made, with the support of qualified external consultants, to have it updated to respect the most recent legislative changes and to adapt it to some organisational amendments to their corporate structures.

Furthermore, the Organisational, Management and Control model pursuant to Italian Legislative Decree no. 231/2001 was also prepared for the subsidiary Tecnair LV S.p.A.

2.10 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 2019 corresponds to the results of the accounting documents, books and entries.

2.11 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.

2.12 PROPOSED RESOLUTIONS TO THE SHAREHOLDERS' MEETING

Dear Shareholders,

We propose to take the following resolutions.

● Proposed resolution in relation to sub point 1.1 of the agenda of the Shareholders' Meeting convened for 29 April 2020 ("Annual Financial Report as at 31 December 2019: presentation of the Financial Statements as at 31 December 2019 comprised of the Directors' Report on Operations, the Report of the Board of Statutory Auditors, the Report of the Auditing Firm and the Attestation of the Financial Reporting Officer. Related and contingent resolutions").

"The ordinary Shareholders' Meeting of LU-VE S.p.A., having examined the Directors' Report and the data in the financial statements of LU-VE S.p.A. at 31 December 2019, the Board of Statutory Auditors' Report and the Independent Auditors' Report

resolves

1) to approve the financial statements of LU-VE S.p.A. at 31 December 2019, which show a net profit of €6,502,718.00 (six million five hundred and two thousand seven hundred and eighteen/00) as well as the Directors' Report on Operations;

2) to confer to the Board of Directors – via that to the Chairman Mr. Iginio Liberali and the Chief Executive Officer Mr. Matteo Liberali, jointly or separately - all due power to enforce this resolution, with the option of sub-delegating, and file it with the relevant Register of Companies, making any necessary formal amendments, additions or suppressions as appropriate."

● Proposed resolution in relation to sub point 1.2 of the agenda of the Shareholders' Meeting convened for 29 April 2020 ("Annual Financial Report as at 31 December 2019: proposal to allocate the profit for the year and to distribute a dividend. Related and contingent resolutions").

"The ordinary Shareholders' Meeting of LU-VE S.p.A., having approved the financial statements as at 31 December 2019, which highlights a net profit of €6,502,718.00 (six million, five hundred and two thousand, seven hundred and eighteen/00),

resolves

- *to allocate a portion of the profit for the year of €6,502,718.00 (six million five hundred and two thousand seven hundred and eighteen/00) to the legal reserve for €325,135.90 (three hundred twenty-five thousand one hundred thirty-five/90;*
- *to distribute an ordinary dividend of €0.27 on each outstanding ordinary share (net of any treasury shares held by the Company on the date of the detachment of the coupon);*
- *to allocate the residual portion of profit for the year to an extraordinary reserve;*

- *to establish that the payment will take place, for each share with the right to payment, on 6 May 2020, with date of detachment of the coupon no. 5 on 4 May 2020, in accordance with the Italian Stock Exchange calendar, with record date on 5 May 2020".*

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

Chief Executive Officer
Matteo Liberali

2.13 CORPORATE BODIES AND COMPANY INFORMATION

BOARD OF DIRECTORS

Chairman	Iginio Liberali
Vice Chairman	Pierluigi Faggioli
Directors	Matteo Liberali
	Michele Faggioli
	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.

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

CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES AS AT 31 DECEMBER 2019

CONTENT

1 FINANCIAL STATEMENTS

1.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated Statement of Financial Position *(in thousands of Euro)*	**Notes**	**31/12/2019**	**31/12/2018**
ASSETS			
Goodwill	3.1	56,780	47,708
Other intangible assets	3.1	39,790	22,462
Property, plant and equipment	3.2	124,038	112,808
Rights of use	3.2	18,338	-
Other property, plant and equipment	3.2	20,893	12,253
Deferred tax assets	3.19	6,603	4,722
Equity investments	3.3	8	6
Other non-current assets	3.4	211	2,190
Non-current assets		266,661	202,149
Inventories	3.5	61,812	44,667
Trade receivables	3.6	61,728	50,854
Due from the tax authorities for current taxes	3.7	13,916	7,215
Current financial assets	3.8	59,047	57,634
Other current assets	3.9	2,597	2,257
Cash and cash equivalents	3.10	81,851	85,905
Current assets		280,951	248,532
Assets held for sale		-	-
Assets held for sale		-	-
TOTAL ASSETS		547,612	450,681

Consolidated Statement of Financial Position *(in thousands of Euro)*	**Notes**	**31/12/2019**	**31/12/2018**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital	3.11	62,704	62,704
Reserves and retained earnings	3.11	75,308	64,105
Profit for the year	3.11	17,573	15,407
Total shareholders' equity attributable to the Parent Company		155,585	142,216
Shareholders' equity attributable to non-controlling interests		3,422	3,170
SHAREHOLDERS' EQUITY		159,007	145,386
Loans	3.12	137,801	152,196
Provisions	3.13	4,231	2,581
Employee benefits	3.14	5,491	4,057
Deferred tax liabilities	3.19	16,768	13,173
Other financial liabilities	3.2 - 3.15	17,698	4,107
Non-current liabilities		181,989	176,114
Trade payables	3.16	86,231	57,800
Loans	3.12	77,671	49,662
Provisions	3.13	-	-
Tax payables	3.17	4,691	2,331
Other financial liabilities	3.2 - 3.15	14,931	1,134
Other current liabilities	3.18	23,092	18,254
Current liabilities		206,616	129,181
Liabilities held for sale		-	-
Liabilities held for sale		-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		547,612	450,681

1.2 CONSOLIDATED INCOME STATEMENT

Consolidated Reclassified Income Statements *(in thousands of Euro)*	**Notes**	**31/12/2019**	**31/12/2018**
REVENUES AND OPERATING INCOME			
Revenues	4.1	390,356	305,936
Other revenues	4.2	1,228	933
Total revenues and operating income		391,584	306,869
OPERATING COSTS			
Purchases of materials	4.3	(204,035)	(167,429)
Changes in inventories	3.5	489	5,643
Services	4.4	(54,255)	(42,951)
Personnel costs	4.5	(83,361)	(62,823)
Write-downs on current assets	4.6	(873)	(427)
Other operating costs	4.7	(2,787)	(2,280)
Total operating costs		(344,822)	(270,267)
Net change in fair value of derivatives	3.8-3.15	(597)	(663)
Depreciation and amortisation	3.1 - 3.2	(24,211)	(16,422)
Capital gains on the sale of non-current assets	3.1 - 3.2	366	404
Write-downs on non-current assets	3.1 - 3.2	(202)	(191)
EBIT		22,118	19,730
Financial income	4.8	2,062	1,241
Financial expense	4.9	(3,206)	(3,775)
Exchange losses	4.10	(180)	(250)
Gains and losses from equity investments	4.11	-	416
EBT		20,794	17,362
Income taxes	4.12	(2,442)	(1,269)
NET PROFIT		18,352	16,093
Attributable to non-controlling interests	3.11	(779)	(686)
Profit for the year		17,573	15,407

1.3 EARNINGS PER SHARE AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Earnings per share

Earnings per share *(in Euro)*	**Notes**	**31/12/2019**	**31/12/2018**
EARNINGS PER SHARE	4.13		
Basic		0.80	0.70
Diluted		0.80	0.70

Consolidated statement of comprehensive income

Consolidated Statement of comprehensive income *(in thousands of Euro)*	**Notes**	**31/12/2019**	**31/12/2018**
NET PROFIT		18,352	16,093
Components that will not subsequently be reclassified to the Income Statement			
Actuarial valuation of post-employment benefits	3.14	(371)	125
Tax effect		89	(30)
		(282)	95
Components that will subsequently be reclassified to the Income Statement:			
Exchange differences from translation of Financial Statements in foreign currency	1.4	(1,632)	(2,616)
TOTAL COMPREHENSIVE INCOME		16,438	13,572
of which:			
Attributable to non-controlling interests	3.11	(779)	(686)
ATTRIBUTABLE TO THE GROUP		15,659	12,886

1.4 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Consolidated Statement of changes in shareholders' equity *(in thousands of Euro)* **Note 3.11**	**Share capital**	**Share premium reserve**	**Legal reserve**	**Treasury shares**	**Translation reserve**	**TFR Reserve**	**Other reserves**	**Profit (loss) for the period**	**Total shareholders' equity of the Group**	**Shareholders' equity attributable to non-controlling interests**	**Total shareholders' equity**
BALANCE AS AT 31/12/17	62,704	24,762	2,366	(1,420)	(463)	(345)	44,596	5,642	137,842	2,124	139,966
Adoption of accounting standard IFRS 9	-	-	-	-	-	-	(1,361)	-	(1,361)	-	(1,361)
BALANCE AS AT 01/01/18	62,704	24,762	2,366	(1,420)	(463)	(345)	43,235	5,642	136,481	2,124	138,605
Allocation of profit 2017											
Dividends paid	-	-	-	-	-	-	(4,860)	-	(4,860)	(405)	(5,265)
Retained	-	-	351	-	-	-	5,291	(5,642)	-	-	-
Increases (decreases)	-	-	-	(198)	-	-	-	-	(198)	-	(198)
Reversal of deferred taxes on costs relative to capital transactions	-	-	-	-	-	-	(61)	-	(61)	-	(61)
Other	-	-	-	-	-	-	(2,032)	-	(2,032)	765	(1,267)
Statement of comprehensive income as at 31/12/2018	-	-	-	-	(2,616)	95	-	15,407	12,886	686	13,572
BALANCE AS AT 31/12/2018	62,704	24,762	2,717	(1,618)	(3,079)	(250)	41,573	15,407	142,216	3,170	145,386
Allocation of profit 2018											
Dividends paid	-	-	-	-	-	-	(5,519)	-	(5,519)	(425)	(5,944)
Retained	-	-	155	-	-	-	15,252	(15,407)	-	-	-
Increases (decreases)**	-	-	-	1,618	-	-	45	-	1,663	-	1,663
Reversal of deferred taxes on costs relative to capital transactions	-	-	-	-	-	-	(61)	-	(61)	-	(61)
Other*	-	-	-	-	-	-	1,627	-	1,627	(102)	1,525
Statement of comprehensive income as at 31/12/2019	-	-	-	-	(1,632)	(282)	-	17,573	15,659	779	16,438
BALANCE AS AT 31/12/2019	62,704	24,762	2,872	-	(4,711)	(532)	52,917	17,573	155,585	3,422	159,007

* The change in the item "Other" mainly refers for around €1.8 million to the reclassification of the Translation Reserve following the Merger of LUVE India in SPIROTECH Ltd (the impact of the merger in the consolidated financial statements is equal to zero) and of the decrease of around €0.2 million to purchase the remaining 13.94% interest in LU-VE France S.a.r.l. (Purchase for around €0.4 million against a book value for the minority interests of €0.2 million).

*The change within the item "Increases (decreases)" refers to the sale of some treasury shares in 2019 for an amount of €1,663 thousand, generating a capital gain of €45 thousand recognised to the item “Extraordinary Reserve”.

1.5 CONSOLIDATED STATEMENT OF CASH FLOWS

Consolidated Statement of Cash Flows *(in thousands of Euro)*	**Notes**	**31/12/2019**		**31/12/2018**	
A. Cash and cash equivalents at the beginning of the period		**85,905**		**50,762**	
Profit for the period		17,573		15,407	
Adjustments for:					
- Depreciation and amortisation	3.1 - 3.2	24,211		16,422	
- Realised gains on non-current assets		(164)		(404)	
- Net financial income and expense	4.8 - 4.9	2,800		2,534	
- Income taxes	4.12	2,442		1,269	
- Change in *fair value*		(1,059)		663	
Changes in post-employment benefits		(22)		82	
Changes in provisions	3.13	250		109	
Changes in trade receivables		(1,615)		(2,067)	
Changes in inventories		(955)		(4,949)	
Changes in trade payables		20,341		(6,550)	
Changes in net working capital		**17,771**		**(13,566)**	
Changes in other receivables and payables, deferred taxes		(5,302)		4,589	
Tax payment		(4,543)		(3,786)	
Net financial revenues/expenses received/paid		(2,591)		(2,289)	
B. Cash flows generated by operating activities		**51,366**		**21,030**	
Investments in non-current assets:					
- intangible assets	3.1	(5,459)		(4,026)	
- property, plant and equipment	3.2	(23,480)		(23,569)	
- financial assets		-		-	
Net acquisition price *Business combination*	2.1	(29,689)	**	(8,930)	*
C. Cash flows generated/absorbed by investing activities		**(58,628)**		**(36,525)**	
Repayment of loans	3.12	(82,257)		(55,269)	
New loans		95,500		97,848	
Changes in other financial liabilities		(7,109)		(195)	
Changes in short-term financial assets		355		14,207	
Sale/(Purchase) of treasury shares	3.11	1,618		(198)	
Payment of dividends	4.14	(5,944)		(5,265)	
Other changes		(413)		1,451	
D. Cash flows generated by financing activities		**1,750**		**52,579**	
Exchange differences		(1,533)		(2,616)	
Other non-monetary changes		2,991		675	
E. Other changes		**1,458**		**(1,941)**	
F. Net cash flows in the period (B+C+D+E)		**(4,054)**		**35,143**	
Cash and cash equivalents at the end of the period (A+F)		**81,851**		**85,905**	
Current financial debt		33,555		(6,838)	
Non-current financial debt		155,499		156,303	
Net financial debt (Note 3.20)	=3.20	**107,203**		**63,560**	

* The amount includes €8,675 thousand relating to the price paid at the date of acquisition of the company Zyklus Transfer Inc. and to the estimated earn-out for €397 thousands
The amount represents the cash flow relative to the acquisition of the Air Division from the Alfa Laval Group.

2 EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 INTRODUCTION

Acquisition Air division Alfa Laval

On 30 April 2019 the parent group LU-VE S.p.A. acquired 100% of the air heat exchanger division (hereinafter "Air division" or "division") from the Alfa Laval group, active in the heat exchanger production and marketing sector. The division is composed of the following companies:

- Air Hex Alonte S.r.l., an Italian manufacturing company located at Alonte (Vicenza), specialised in commercial and industrial refrigeration, in which the Italian Alfa Laval business was merged on 1 April 2019, net of trade receivables and payable at that date.

- Fincoil OY, Finnish manufacturing company located in Vantaa (Helsinki), specialised in industrial refrigeration;

The finished products located in Russia and a branch of the company in India are also part of the acquired division.

Furthermore, to support the Air division business, the following commercial companies were set up:

- LU-VE Netherlands B.V., commercial company, located in Breda, Lage Mosten (The Netherlands);

- «OOO» LU-VE Moscow, commercial company located in Moscow (Russia).

The acquisition was carried out directly by the parent company LU-VE S.p.A. at a price contractually defined of €67.1 million, reduced by around €8.4 million following the first price adjustments contractually envisaged based on the financial situation as at 30 April 2019 and reduced by €13,969 thousand following further negotiations concluded in February 2020, the agreement between the parties has led to a reviewed price of €51 million, always on the basis of a revised EBITDA multiplier of 6.5 times. Al the closing, on 30 April 2019, the amount of €35.2 million (€43.6 million gross of the net financial position taken over by the Group and the adjustments to the net working capital) was paid, while €9.5 million (included in the net financial position as at 31 December 2019) will be paid by 30 April 2020.

The price also includes the purchase of finished products in Russia for €435 thousand (included in the amount already paid during 2019) and the business branch of the Air division in India for €800 thousand (amount included in the payment in 2020).

An amount of €2 million related to a service contract (mainly IT / Accounting / Payroll / Leases / Maintenance) that the selling party has committed to provide for 12 months to Air Hex Alonte was also included in the overall payment that the Group will recognise to the counterparty

There are several strategic objectives for the acquisition of “AL Air”:

- generate a significant increase in the sales of the cooling System SBU, which makes the Group the third largest global player in the ventilated equipment market and the second in Europe, with a significant advantage when compared to the group which currently occupies third place in Europe.
- increase the concentration in the sector (“AL Air” represented one of the Group's major competitors among manufacturers of ventilated equipment mainly destined to the industrial processes refrigeration market or power gen and industrial refrigeration);
- focus on the ventilated and non air-exchangers market and allow at the same time a further expansion of the range of applications, with a significant strengthening of the power gen products and for the cooling of industrial processes;
- further expand the Group's international presence without highlighting significant overlaps in commercial terms, but rather reducing the already low concentration of sales per customer;
- allow the achievement of synergies in terms of rationalisation of the product range, production plant and fixed costs.

The reasons for the goodwill generated with the acquisition are:

- acquisition of some trademarks and reference product names in the sector;
- acquisition of some very significant customers (one in particular in Finland);
- realisation of synergies thanks to the specialisation of production plants (creating excellence plants for the various ranges of product);
- realisation of synergies on fixed costs using structures already present in the Group to replace services purchased from third parties.

The acquired division was included in the consolidated financial statements from 1 May 2019, therefore consolidating eight months of income statements as at 31 December 2019. With reference to the acquisition, please recall that, on the basis of the revised IFRS 3, the cost of the business combination must be allocated to the assets, liabilities and property, plants and equipment not recognised in the Financial Statements of the acquired division, up to the limits of their fair value. Any amount remaining following this allocation should be recognised as goodwill.

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 division, international accounting standards (IFRS 3) allow the acquisition cost to be definitively allocated within twelve months of the acquisition date. The LU-VE group has availed itself of this option and the areas on which the analyses have been focused for the determination of the definitive fair value of the acquired assets are the trademarks and the customer list.

The currently allocated market values which will not reasonably be affected by significant changes in the time available to the Group (30 April 2020) are as follows:

- Inventory, definitive allocation, whose fair value at the closing date is higher than its book value by €1,765 thousand, generating deferred tax liabilities of €483 thousand.

- Plant and machinery, definitive allocation, whose fair value at the closing date is higher than its book value by €4,333 thousand, generating deferred tax liabilities of €1,107 thousand. This was supported by a valuation report issued by an independent expert appointed by the LU-VE group;

On the other hand, the value currently allocated and which may be subject to change in the period available to the Group (30 April 2020), because subject to a provisional allocation, are:

- Trademarks, whose fair value as at 1 May 2019 was higher than its book value by €10,865 thousand, generating deferred tax liabilities of €1,996 thousand. This valuation was supported by the preliminary results of a valuation report issued by an independent expert appointed by the LU-VE group, a valuation which is currently not yet definitive;

- The customer list, whose fair value as at 1 May 2019 was higher than its book value by €7,948 thousand, generating deferred tax liabilities of €1,590 thousand.

Subsequently to what is reported above, the residual difference of around €10.6 million was provisionally allocated to goodwill.

Lastly, please note that the acquisition of the Air division entailed accessory costs of roughly €2,354 thousand, which were recognised in the Income Statement for the year under the item "Operating costs - Services".

The following chart shows details of Air division's assets and liabilities included in the Group's consolidated financial statements as at 30 April 2019 and the breakdown of goodwill (provisional allocation) calculated on this date:

***Fair Value* Assets and Liabilities Air division** *(in thousands of Euros)*	**30/04/2019**
Property, plant and equipment and intangible assets	27,421
*of which Customer List***	*7,948*
*of which Trademarks***	*10,865*
Other non-current assets	545
Current assets	26,175
Cash and banks	5,465
Total assets - A	**59,606**
Other non-current liabilities	2,493
Current liabilities	12,918
Current financial liabilities	7,000
Deferred tax liabilities	5,146
Total liabilities and shareholders' equity - B	**27,557**

Provisional consideration at the date of acquisition	44,655
Consideration for related transactions*	(2,000)
Consideration for acquisition - C	**42,655**
Net assets acquired - D = A-B	32,049
Goodwill C - D	**10,606**

Consideration paid at the date of acquisition - E	35,154
Cash held by the subsidiary - F	(5,465)
Cash flow for acquisition E + F	**29,689**

* The amount for the related transaction refers to a service contract (mainly IT/Accounting/Payroll/Leases/Maintenance) which the selling part has committed to provide for 12 months.

** Provisional allocation

Transfer of the Chinese plant from Changshu to Tianmen

In the first few months of 2019 the transfer of the Chinese production plant was transferred from the town of Changshu (in the Jiangsu province) to the town of Tianmen (in the Hubei province). The transfer led to the closure of LU-VE Changshu and the start of operations of the new company LU-VE Heat exchangers Tianmen Ltd., 100% owned by the LU-VE Group (62.62% by LU-VE HK and 37.38% by LU-VE S.p.A.). The new plant in Tianmen was made operational minimizing the relocation times and therefore guaranteeing production continuity. Against the investments made, the Chinese government recognised incentives including the rental of the production site at controlled price for the next 5 years.

Acquisition of all the shares of LU-VE France S.a.r.l.

During the financial year a 13.94%interest in the subsidiary LU-VE France S.a.r.l. was purchased (bringing the Group's ownership share to 100%) for an amount of around €0.4 million.

Merger between the companies LU-VE India and Spirotech Heat Exchangers Private Limited

In India, last autumn the laborious merger between LU-VE India (the Group company through which the acquisition of Spirotech in October 2016 was completed) and the same Spirotech was completed; this transaction did not have any impact on the Group's consolidated financial statements.

2.2 ACCOUNTING STANDARDS

Declaration of compliance and accounting policies

The consolidated Financial Statements for 2019 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 functional currency by LU-VE S.p.A. and the subsidiaries 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. The figures in the Explanatory Notes are shown in thousands of Euro. 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 Explanatory Notes.

The Financial Statements have been drawn up on the basis of the historical cost principle, except for the fair value evaluation of some financial instruments, pursuant to IFRS 9 and IFRS 13, as described below. Furthermore, the financial statements have been prepared on the basis of business continuity, as the Directors have verified the non-existence of indicators of a financial, management or any other nature that might indicate critical issues relating to the ability of the Group of meeting its commitments in the foreseeable future. The risks and uncertainties related to the business are described in the sections dedicated to the Director's Report.

In particular, with reference to this last assumption, as at 31 December 2019, the LU-VE group has a solid and balanced financial structure with a Net financial debt/Shareholders' equity ratio (Debt ratio) of 0.67 and a positive short-term net financial position of €48.3 million, therefore the repayment of medium/long-term debt maturing in 2020 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.

It is also reported that the assessment of compliance with asset and economic requirements (covenants) on a consolidated basis, required on the financial debt of LU-VE, as at 31 December 2019 did not highlight any critical issues. Furthermore, the estimates for the 2020 Budget, even though subject to significant sensitivity issues of the same linked to the high level of uncertainty with reference to the current emergency linked to the COVID-19 pandemic, give reason to expect that also for the next financial year there will not be any critical issues with respect to these requirements. See paragraph "Events subsequent to 31 December 2019" for a more detailed analysis of the potential economic/financial impacts deriving from the pandemic.

As outlined in the Director's Report, therefore, a preliminary evaluation of the possible impacts on the LU-VE Group due to the current emergency was carried out, and it is reasonably considered that it will not compromise the business continuity.

In light of what is laid out above, the consolidated Financial Statements of the LU-VE Group as at 31 December 2019 were prepared on the basis of the going concern assumption, pursuant to paragraphs 25 and 26 of IAS 1.

The Consolidated Financial Statements as at 31 December 2019 were approved by the Board of Directors of the parent company LU-VE S.p.A. on 6 April 2020.

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 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 result and financial position.

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 already approved or in the process of being 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	% investment	Currency	Share capital
Direct subsidiaries:				
SEST S.p.A.	Limana (BL)	100.00%	EUR	1,000,000
Tecnair LV S.p.A.	Uboldo (VA)	79.90%	EUR	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)	100.00%	EUR	84,150
LU-VE Pacific Pty Ltd	Thomastown (Australia)	75.50%	AUD	200,000
LU-VE Deutschland GmbH	Stuttgart (Germany)	100.00%	EUR	230,000
LU-VE Iberica S.L.	Madrid (Spain)	85.00%	EUR	180,063
LU-VE Asia Pacific Limited	Wan Chai (Hong Kong)	100.00%	HKD	10,000
LuveDigital S.r.l.	Uboldo (VA)	50.00%	EUR	10,000
MANIFOLD S.r.l.	Uboldo (VA)	99.00%	EUR	10,000
SPIROTECH Ltd (95% owned by LU-VE S.p.A.)	New Delhi (India)	95.00%	INR	25,729,600
LU-VE AUSTRIA GmbH	Vienna (Austria)	100.00%	EUR	17,500
Zyklus Heat Transfer Inc.	Jacksonville (USA, Texas)	100.00%	USD	1,000
Air Hex Alonte S.r.l.	Uboldo (VA)	100.00%	EUR	2,010,000
Fincoil LU-VE OY	Vantaa (Finland)	100.00%	EUR	1,190,000
LU-VE Netherlands B.V.	Breda (Netherlands)	100.00%	EUR	10,000
«OOO» LU-VE Moscow	Moscow (Russia)	100.00%	RUB	100,000
LU VE MIDDLE EAST DMCC	Dubai (UAE)	100.00%	AED	50,000
Indirect subsidiaries:				
SEST-LUVE-Polska SP.z.o.o. (95% owned by SEST S.p.A.)	Gliwice (Poland)	95.00%	PLN	16,000,000
«OOO» SEST LU-VE (95% owned by SEST S.p.A.)	Lipetsk (Russia)	95.00%	RUB	136,000,000
LU-VE HEAT EXCHANGERS (Tianmen) Co, Ltd (posseduta al 62.62% da LU-VE Asia Pacific Limited e al 37.38% da LU-VE SpA)	Tianmen (China)	100.00%	CNY	61,025,411
Thermo Glass Door S.p.A. (100% owned by SEST S.p.A.)	Travacò Siccomario (PV)	100.00%	EUR	100,000

Pursuant to IFRS 10, 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. The subsidiaries are consolidated from when control begins until the date on which it ends.

Profits or losses and all the components of the statement of comprehensive income are attributable to the Group and to minority interests. The overall revenue of subsidiaries is attributable to the Group and to minority interests, even if this leads to a negative balance for minority interests.

In the case of the initial measurement of a financial liability deriving from put/forward options granted to subsidiaries' minority interests, the Group has selected the accounting policy of reducing shareholders' equity of minority interests and only in the alternative, for the excess amount, the Shareholders' equity attributable to the group. The subsequent changes in the valuation of these financial liabilities are recognised in the income statement.

The following changes took place in the consolidation area during 2019 compared to the previous financial year:

- on 30 April 2019 the parent company LU-VE S.p.A. purchased a 100% interest in the share capital of the production company Air Hex Alonte S.r.l. (Alonte (VI), Italy), an Italian company with registered officer in Uboldo (VA), 21040, Via Caduti della Liberazione n. 53, as reported in the "Introduction" paragraph in the Notes;

- on 30 April 2019 the parent company LU-VE S.p.A. purchased a 100% interest in the share capital of the manufacturing company FINCOIL LU-VE Oy, a Finnish company with registered office in Vantaa, 01740, Ansatie n. 3 (Finland), as reported in the "Introduction" paragraph in the Notes;

- on 5 February 2019 LU-VE Netherlands B.V. was set up, a Dutch commercial company with registered office in Breda, 4822NK, Lage Mosten 49 (The Netherlands), 100% owned by the parent company LU-VE S.p.A.;

- on 22 March 2019 «OOO» LU-VE Moscow was constituted, a Russian commercial company with registered office in Moscow, 127422, Timiryazevskaya street., Building 1, Office n. 2, 100% owned by the parent company LU-VE S.p.A.;

(the four above mentioned companies are part of the transaction for the acquisition of the Air division from the Alfa Laval group described in the "Introduction" paragraph in the Notes)

- on 10 April 2019 LU-VE Middle East DMCC UAE was set up, a commercial company registered in the UAE with registered office in Dubai, Office no. 3401 – Jumeirah Bay Tower X3, Jumeirah Lake Towers, Plot N. JLT-PH2-X3A, Jumeirah Lakes Towers (United Arab Emirates), wholly owned by the parent company LU-VE S.p.A.

- in May 2019 the parent company LU-VE S.p.A. purchased the remaining 13.94% interest in the share capital of LU-VE FRANCE, as reported in the "Introduction" paragraph in the Notes, for an amount of €414 thousand, bring the interest held by LU-VE S.p.A. to 100% of the share capital of the French company, generating a negative impact of €221 thousand in the Group's shareholders' equity.

- in December 2019 direct control of the company of the SPIROTECH HEAT EXCHANGERS PRIVATE LIMITED Group was acquired following the reverse takeover of its parent company LU-VE India Corporation Private Ltd, as reported in the "Introduction" paragraph in the Notes.

- Furthermore, as already described in the "Introduction" paragraph in the Notes, in the first few months of 2019 the transfer of the Chinese production plant was transferred from the town of Changshu (in the Jiangsu province) to the town of Tianmen (in the Hubei province). The transfer involved the closure of LU-VE Changshu and the start of operations of the new company LU-VE Heat exchangers Tianmen Ltd., 100% owned by the LU-VE group (62.62% by LU-VE HK and 37.38% by LU-VE S.p.A.).

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;

b) 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;

c) 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;

d) 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.

f) the gains realised from intragroup sales relative to tangible and intangible fixed assets are eliminated by the accounting depreciation and amortisation of the gains themselves.

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 Parent Company 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 final 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 “Translation reserve”.

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:

Currency	Exchange as at 31/12/19	Average exchange rate 2019	Exchange as at 31/12/18	Average exchange rate 2018
AUD	1.5995	1.6109	1.6220	1.5797
PLN	4.2568	4.2976	4.3014	4.2615
CZK	25.408	25.67	25.7240	25.6470
RUB*	69.9563	72.4553	79.7153	74.0416
SEK	10.4468	10.5891	10.2548	10.2583
HKD	8.7473	8.7715	8.9675	9.2559
CNY	7.8205	7.7355	7.8751	7.8081
INR	80.187	78.8361	79.7298	80.7332
USD	1.1234	1.1195	1.1450	1.1522
AED**	4.1257	4.1113	4.2050	4.3371

*for OOO LU-VE Moscow, constituted in May 2019, the average Rouble exchange rate from May to December of 71.5330 was used

**for LU-VE MIDDLE EAST DMCC, constituted in April 2019, the average AED exchange rate from April to December of 4.0903 was used

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

SE RECONCILIATION STATEMENT *(in thousands of Euros)*	**2019**		**2018**	
	Net profit for the period	**Shareholders’ Equity**	**Net profit for the period**	**Shareholders’ Equity**
Amounts from LU-VE S.p.A. Financial Statements	6,503	106,919	3,099	104,363
Difference between carrying amount of consolidated equity investments and pro rata value of shareholders' equity and profit (loss) of consolidated subsidiaries	11,256	50,139	12,936	39,159
Elimination of unrealised intra-group profits (losses)	(122)	(798)	(409)	(676)
Other	(64)	(675)	(219)	(630)
Profit and shareholders' equity attributable to the Group	17,573	155,585	15,407	142,216

Measurement criteria

The accounting standards and measurement criteria adopted to prepare the consolidated Financial Statements as at 31 December 2019, which did not change compared to the previous year, are described below:

INTANGIBLE ASSETS

Goodwill and business combinations

Business applications are recorded on the basis of the acquisition method. In accordance with this method, the consideration transferred to a business combination is assessed at fair value, calculated as the sum of fair values of the assets transferred and liabilities assumed by the Group on the date of acquisition and of capital instrument issued in exchange of control of the acquired business. At the date of the acquisition, the identifiable acquired assets and liabilities assumed are recorded a fair value at the date of acquisition.

Goodwill is determined as the difference between the sum of the considerations paid to the business combination, of the value of shareholders' equity relating to minority interests and the fair value of any equity investment held by the acquired company compared to the fair value of net acquired assets and liabilities assumed at the date of acquisition. If the value of net acquired assets and liabilities assumed at the date of acquisition exceeds the sum of considerations paid, of the value of shareholders' equity relating to minority interests and the fair value of any equity investment held by the acquired company, this excess is immediately recorded in the Income Statement as income deriving from a concluded transaction.
The portion of the shareholders' equity of minority interests at the date of the acquisition can be measured at fair value or as the pro-quota of the fair value of the net assets recognised for the acquired company. The choice of the measurement method is made by transaction.

With respect to acquisitions prior to the date of adoption of IFRS (1 January 2014), 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.

For further information please refer to the next paragraph "Impairment of assets".

It is also reported that Management did not consider the acquisition of the subsidiary Brener a.s. as a business combination in accordance to IFRS 3. The subsidiary, mainly holder of lands and industrial buildings rented to another Group's company, has therefore been included in the Group's consolidation as an "acquisition of assets".

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.

The LU-VE group has identified, among others, the item Trademarks as Primary Income Generating Asset (“PIGA”) in the purchase price allocation exercise of the Air division. As described in the introduction, this allocation is currently provisional, as the assessment report of the independent expert appointed by the Group is still in the process of being defined. The amortisation of the provisional allocation relating to the Air division is currently provisionally estimated at 10 years.

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 Group 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 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.

For further information please refer to the next paragraph “Impairment of assets".

Customer List ("Customer relationship")

The LU-VE group identified the Customer Relationship as the Primary Income Generating Asset (“PIGA”) from the purchase price allocation of the US company Zyklus (in 2018) and the Indian company Spirotech (concluded in 2016/17). As indicated in the introduction, the Customer Relationship was also provisionally identified in the purchase of the Air division.

The Customer Relationship of the American company is amortised over 20 years, that of the Indian company over 23 years. The amortisation of the provisional allocation relating to the Air division is currently provisionally estimated over 10 years.

An intangible asset is eliminated from the Financial Statements at the time of disposal or when no future economic benefits are expected from its use or disposal. The profits or losses deriving from the cancellation of an intangible asset, measured as the difference between net revenue from the sale and the accounting value of the asset, are recognised in the Income Statement when the asset is cancelled.

For further information please refer to the next paragraph "Impairment of assets".

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. 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:

Asset	Years
Buildings	33
Light constructions	10
Plant and equipment	6 – 10
Industrial and commercial 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.

For further information on the purchase price allocation process relative to the fair value of fixed property, plant and equipment acquired through the acquisition transaction of the Air division, please refer to the "Introduction" paragraph to these notes.

Land is not depreciated.

For further information please refer to the next paragraph "Impairment of assets".

Lease contracts

The Group must evaluate if a contract is, or contains a lease, at the time of signature of the same. The Group recognises the Right of use and the relative lease Liability for all lease contracts in which it has the role of lessee, with the exception of short-term contracts (lease contracts of duration of 12 months or less) and of leases relative to low value assets (that is to say, assets with a value of less than €5,000 when new). Contracts to which this exemption has been applied mainly fall within the following categories:

- o Computers, telephones and tablets;
- o Printers;
- o Other electronic devices;
- o Furniture and equipment.

In relation to these exemptions, the Group recognises the relative payments as operating costs recognised on a straight-line basis throughout the duration of the contract.
The lease liability is initially recognised at the actual value of future payments at the time of effect of the contract. As most rental contracts stipulated by the Group are not at an implicit interest rate, the discounting rate to be applied to future payments of rentals has been determined as the risk-free rate of each country in which the contracts were stipulated, with due dates commensurate to the duration of the specific rental contract, increased by the credit spread specific to the parent company/Group.

I lease payments included in the value of the lease Liability include:

- o The fixed component of the lease payments, net of any incentive received;
- o The lease payments variable on the basis of a rate, initially valued using the index or rate at the date of effect of the contract;
- o The amount of the guarantees for the residual value that the lessee expects to have to pay;
- o The price to exercise the option to buy, which must be included only when the exercise of such option is considered to be reasonably certain;
- o The penalties for the early redemption of the contact, if the lease term includes an option for the settlement of the lease and the exercise of the same is estimated to be reasonably certain.

Subsequent to the initial recognition, the value of the lease Liability is increased by the effect of interests accrued (using the effective interest method) and it is reduced to take into account the payments made on the basis of the lease contract.
The Group redetermines the value of the lease Liabilities (and adjusts the value of the corresponding Right of use) if:

- o The duration of the lease changes or there is a change in the valuation of the exercise of the right of option; in this case the lease liability is redetermined discounting the new lease payments at the revised discounting rate.

- The value of the lease payments changes following amendments of the indices or rates, in which case the lease Liability is redetermined by discounting the new lease payments at the initial discounting rate (unless the payments due on the basis of the lease contract change following the fluctuation of the interest rate, in which case the revised discounting rate must be used).
- A lease contract has been modified and the amendment is not included in the cases for the separate recognition of the lease contract. In these cases, the lease liability is redetermined by discounting the new lease payments at the revised interest rate.

The Group has not recognised any of the above-mentioned changes during the year.

The Right of use includes the initial recognition of the lease liability, the lease payments made before or at the date of effect of the contact and any other initial cost. The Right of use is recognised in the financial statements net of the amortisation and depreciation expense and any value impairments.
The incentives linked to the lease (for example free leasing periods) are recognised as part of the initial value of the right of use and of the lease liability throughout the contractual period.

The Right of use is depreciated on a straight-line basis at the lower of the lease term or residual useful of life of the underlying asset. If the lease contract transfers the ownership of the relative assets or the cost of the right of use reflects the willingness of the Group to exercise the option to buy, the relative right of use is depreciated on the basis of the useful life of the assets in consideration. Depreciation starts at the start of the lease.
The Right of use is included as a separate item in the consolidated statement of financial position.
The Group applies IAS 36 “Impairment of Assets” in order to identify the presence of any value impairment.
Variable lease payments that do not depend on an index or a rate are not included in the value of lease liabilities and in the Right of use. The relative payments are recognised on an accrual basis and are included in the item "other expenses" in the income statement.
In the consolidated cash flow forecast the Group divides the amount paid overall into the capital portion (recognised in the cash flow deriving from the financial asset) and the interest portion (recognised in the cash flow deriving from operational management).
For further information on the application of the standard, please refer to the paragraph “IFRS accounting standards, amendments and interpretations applicable from 1 January 2019" below.

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. 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 subscribed primarily for hedging, in order to reduce the risk of fluctuating exchange rates, interest rates and raw material costs. In line with IFRS 9, 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 IFRS 9.

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.

However, at the date of presentation of these Financial Statements, not all requirements of IFRS 9 for the application of hedge accounting 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.

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.

In accordance with IFRS 9 trade receivables are classified as Held to collect or Held to collect and sell. Their value is adjusted at the end of the financial year to the expected realisable value and written down in case of impairment measuring the expected credit loss along the duration of the receivable, together with the level of solvency of the individual debtors, also in function of the specific characteristic of the underlying credit risk, taking into account available information.

FACTORING 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.

LOANS

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

After this initial valuation, loans are recognised the amortised cost principle calculated through the application of the effective interest rate.

The effective interest method is the method to calculate the amortised cost of a financial liability and the allocation of passive interests during the relevant period. The effective interest rate is the rate that discounts future payments (including all commissions, transaction costs and other premiums or discounts) over a duration of a financial ability or, if more appropriate, over a shorter period.

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 financial year 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. 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.

For employees of Italian companies with more than 50 employees, only employee severance indemnities 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.

For employees of Italian companies with less than 50 employees (Tecnair and Manifold) employee severance indemnities accrued as at 31 December 2019 take the form of a defined benefit plan. The Group's obligation in relation to defined benefit plans and the annual cost recognised in the Income Statement is determined on the basis of actuarial valuations using the projected unit credit method.

TRADE PAYABLES AND OTHER 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 FOREIGN CURRENCY TRANSLATION

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 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 RECOGNITION

Revenues are recognised at the time of transfer of the control on the goods or services promised to the customer. Revenues are recognised net of returns, discounts, allowances and premiums, as well as directly related taxes.

Contracts with customers generally include a single performance obligation, the delivery of the goods, generally met upon delivery of the goods to the customer.

COST RECOGNITION

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, using the effective yield method.

FINANCIAL EXPENSE

Financial expense includes interest expense on financial payables calculated using the effective interest rate method, bank fees and expenses deriving from financial instruments.

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 is it 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. The temporary differences in taxable incomes do not give rise to deferred liabilities for equity investments in subsidiaries, associates and joint ventures when the Group is able to control the timing of cancellation of the temporary differences in taxable income and it is probably that these differences will not be cancelled in the foreseeable future.

As described in the next paragraph relative to the tax consolidation, the parent company LU-VE S.p.A., is the consolidating company for the company within this scope.

DIVIDENDS

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

EXCHANGE GAINS AND LOSSES

The amount of any net gain arising from the adjustment to year-end exchange rates of items in foreign currency, is allocated when the financial statements are approved and as a result the profit (loss) for the portion not absorbed by any loss for the year, is recognised in a non-distributable reserve until subsequently realised.

At the end of the financial year the overall amount of unrealised gains and losses on exchange rates is redetermined. When the overall net profit on exchange rates is higher than the amount of the equity reserve, the latter is integrated. If, however, a loss or a net profit lower than the reserve is recognised, the entire reserve or the excess respectively is reclassified in a freely distributable reserve in the preparation of the financial statements.

TREASURY SHARES

Treasury shares are recognised as a deduction from shareholders' equity. The carrying amount of treasury shares and gains 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.

TAX CONSOLIDATION CONTRACT

National tax consolidation applies (pursuant to art. 117 et seq. of Italian Presidential Decree 917/86 – TUIR (Consolidation Act on Income Taxes)), and its scope includes, in addition to the consolidating company LU-VE S.p.A., two other Italian subsidiaries: SEST S.p.A. (for the 2019-2021 period) and Thermo Glass Door S.p.A. (TDG) (for the 2017-2019 period, and renewal for the following three-year period is ongoing).

National tax consolidation allows the determination of current IRES tax on a taxable basis corresponding to the algebraic sum of positive and negative taxable components of the participating companies. Economic relationships, in addition to reciprocal responsibilities and obligations, are regulated by specific agreements between the parties according to which, in case of positive taxable income, subsidiaries transfer to the parent company the financial resources corresponding to the greater tax due by them for the effect of participating to the national tax consolidation, and in case of negative taxable income, they receive a compensation equivalent to the relative tax saving made by the parent company, if and in the measure in which there are prospects of profitability that allow the Group to effectively reduce current taxes or the recognition of deferred tax assets.

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.

In the preparation of the consolidated financial statements, no significant judgements were defined during the process of application of the Group accounting standards, with the exception of those relating to estimates that have a significant impact on amounts recognised in the financial statements.

The main assumptions relating to the future and the main causes for uncertainty in the estimates at the date of closure of the financial year which represent a significant risk of giving rise to significant adjustments in the accounting values of the assets and liabilities in the following financial year are reported below.

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 2020-2023 plan, approved by the Board of Directors on 28 February 2020, 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, specialising and expanding existing production capacity, to expand production capacity in already important markets where the Group is less present and in markets where the cold chain is rapidly expanding, continuously improving the performance of existing products and developing innovative products, in particular with the use of natural refrigerating liquids, so being able to erode the market share of smaller competitors that are less able to commit to the required investments. These assumptions could be affected by the impacts deriving from the Covid-19 pandemic.

As provided for by 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 as at 31 December 2019 at a value no higher than the recoverable amount. In particular, the Group has recognised goodwill totalling €56.8 million in the consolidated Financial Statements as at 31 December 2019. 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.

Purchase price allocation process relative to the acquisition of the Air division of Alfa Laval

With reference to the Air division acquired during the financial year, it is again recalled how the goodwill could be subject to further adjustments as the purchase price allocation ("PPA") process has only provisionally been carried out, with the exception of some allocations, as described in the "Introduction" paragraph to the Notes, which will reasonably not be subject to significant amendments. In particular, for the financial year of the Purchase Price Allocation, the analysis has been carried out through the following phases:

- identification of the assets that are possibly affected by the price differential allocation;
- analysis of the characteristics of the intangible assets selected and of the competitive reference environment;
- choice of the valuation method;
- identification of the valuation parameters;
- development of the estimate and results.

Payable deriving from the exercise price of the Put & Call Option for the purchase of Spirotech minority interests

The determination of the fair value of the exercise price of the put option relative to the agreement with the minority shareholder for the purchase of the residual 5% interest in Spirotech recognised for €4,087 thousand as at 31 December 2019 and €3,656 thousand as at 31 December 2018. These liabilities refer to a put & call agreement that can be exercised 3 years after the option agreement was entered into (30 September 2019), 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 S.p.A.). It is reported that negotiations are still ongoing for the extension of the agreement or the exercise of the option, and it is considered to be reasonable that the valuation parameters used by Management at the end of the reporting date are in line with those used until 30 September 2019.

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.

The impact of the Covid-9 pandemic could have an impact on the worsening of customers' credit rating and on their ability to meet their obligations.

Income taxes and deferred tax assets

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 of the Group companies 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.

In the taxable results deriving from the 2020-2023 plans of the individual Group companies used for the impairment test for the explicit period, and through the extrapolation of these, the taxable income expected for the following years were taken into account in the verification recognition and recoverability of deferred tax assets recognised in the financial statements as at 31 December 2019. The effects deriving from the temporary differences on which deferred tax liabilities were recognised, were also used in the verification of recognition.

2.3 NEW ACCOUNTING STANDARDS

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS AT 1 JANUARY 2019

The following IFRS accounting standards, amendments and interpretations have been applied by the Group for the first time as of 1 January 2019:

- On 13 January 2016, the IASB published IFRS 16 – Leases 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, lastly, 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. On the contrary, the standard does not introduce significant amendments for lessors.

  The standard applies as of 1 January 2019.

  The Group has chosen to apply the standard retrospectively ("adjusted retrospective method") in accordance with paragraphs IFRS 16: C7-C13. In particular, the Group has recognised, in relation to lease contracts previously classified as operating leases:

  a) a financial liability equal to the actual value of future residual payments at the transition date, discounted by using the incremental borrowing rate applicable at the transition date for each contract;
  b) a right of use equal to the value of the financial liability at the transition date, net of any accrued income and prepayments relating to the lease and recognised in the statement of net assets at the closing date of transition.

  The value of non-current assets relative to operating lease contracts was increased by the balance of deferred charges of €1,970 thousand.

  Renewal periods in the case of an enforceable renew option were taken into account in the determination of the lease term when the exercise of this option is considered to be reasonably certain.

Due to the effect of the introduction of the new standard on the income statement, from 1 January 2019 the portion of depreciation on the rights of use determined on the basis of the defined lease term are recognised, on the basis of valuations carried out with regard to the probability of renewal and the portions pertaining to the financial charges pertaining to the liability.

The economic data for the comparative financial year used for comparison, which for these contracts included the recognition of lease payments for the relevant financial year under the item "Services", have not been restated. The different accounting treatment does not in any case determine significant impacts in terms of comparability between the two financial years of the economic results presented.

The Group has not made use of the derogations included in the standard on lease contracts which at the date of transition had a duration of 12 months or less (short term leases - IFRS 16:5 (a)); however, it has made use of the derogations included by the standard on lease contracts whose underlying asset is of low value (low value asset – IFRS 16:5 (b)). For these latter contracts the introduction of IFRS 16 did not involve the recognition of the financial liability and of the relative right of use and payments continue to be recognised in the income statement on a straight-line basis for the duration of the contract.

Contracts to which the exemption has been applied mainly fall within the following categories:

- Computers, telephones and tablets;
- Printers;
- Other electronic devices;
- Furniture and equipment.

The table below reports the impacts on the economic and financial position deriving from the adoption of IFRS 16 on the date of transition (1 January 2019):

Impacts at transition date 01/01/2019 *(in thousands of Euro)*	Amount
ASSETS	
Non-current assets	
Right to use Buildings	3,896
Right to use Vehicles	748
Right to use Internal transport vehicles	989
Right to use Data Centre	144
Miscellaneous rights to use	195
Other non-current assets	(1,970)
Total	**4,002**
LIABILITIES AND SHAREHOLDERS' EQUITY	
Non-current liabilities	
Financial liabilities for non-current leases	2,693
Current liabilities	
Financial liabilities for current leases	1,309
Total	**4,002**

* The amount refers to the surface right of the company Spirotech LTD and the rent of the warehouse of Zyklus Heat Transfer Inc. paid in advance

The transition to IFRS 16 introduces some elements of professional judgement which involve the definition of some accounting policies and the use of assumptions and estimates in relation to the lease term and the definition of the incremental borrowing rate. The main ones are summarised below:

- The Group has decided not to apply IFRS 16 for lease contracts with an intangible underlying asset;
- *Lease term*

  The Group has analysed all lease contracts, defining the lease term for each one, given by the "non-cancellable" period together with the effects of any extension or early termination clauses the exercise of which is deemed to be reasonably certain.

  Specifically, for property assets this assessment has considered the facts and circumstances specific of each asset. For contracts with automatic renewals for a period of one year (or less), the Group has defined as accounting policy the estimation of the lease term to be an average duration of three years, based on historical evidence and the assessment of the renewal period considered to be "reasonably certain", in the presence of, in a broad sense, insignificant penalties for the lessor for terminating the contract. In the case of property rental agreements with multi annual renewals depending on the willingness of both parties, the Group has assessed the specific facts and circumstances, in addition to the penalty, considered in a broad sense, deriving from a potential conclusion of the contract in order to determine the lease plan. With regard to the lease contract for the Chinese building, it currently is not considered to be reasonably certain that the purchase option in eight years will be exercised.

With regard to other categories of assets, mainly company cars, forklift trucks and equipment, the Group is generally deemed the exercise of any extension or early termination clauses improbable in consideration of current practices.

- Definition of the incremental borrowing rate;

  As most rental contracts stipulated by the Group are not at an implicit interest rate, the discounting rate to be applied to future payments of rentals has been determined as the risk-free rate applicable to the company that stipulated the contract, with due dates commensurate to the duration of the specific rental contract, increased by the specific credit spread linked to the Group.

Reconciliation with commitments for leases

In order to facilitate the understanding of impacts deriving from the first application of the standard, the following table supplies the reconciliation between future commitments relating to lease contracts, for which information is provided in the same paragraph of the 2018 Financial Report, and the impact deriving from the adoption of IFRS 16 as at 1 January 2019.

Lease commitments reconciliation as at 01/01/2019 (in thousands of Euro)	Amount
Commitments for operating leases as at 31 December 2018	**4,469**
Minimum payments for finance leases liabilities as at 31 December 2018	107
Short-term lease fees (exemption)	
Low-value lease fees (exemption)	
Amount of non-lease components included in liabilities *	(335)
Other changes	
Non-discounted financial liability for leases as at 1 January 2019	**4,241**
Effect of discounting	132
Financial liability for leases as at 1 January 2019	**4,109**
Current value of liabilities for financial leases as at 31 December 2018	**107**
Additional financial liability for leases due to the transition to IFRS 16 as at 1 January 2019	**4,002**

* They refer mainly to the service part of motor vehicles operating leases

In relation to the consolidated income statement for 2019, the adoption of the new accounting standard has involved:

i) a reduction in “Services” of around €3,325 thousand;

ii) a decrease in the “Operating Profit” of €222 thousand;

iii) a decrease in the "Net Profit" of €322.

Lastly, it is noted that the consolidated financial statements as at 31 December 2019 include “Rights of use”, gross of amortisation and depreciation for the financial year for €22,039 thousand (around €12.9 million related to the contribution of the Air division) and “Financial lease liabilities" for €16,857 thousand (around €11.5 million relating to the contribution of the Air division as at 31 December 2019), of which €13,214 thousand recognised in the item “Other non-current financial liabilities” and €3,643 thousand in the item “Other current financial liabilities".

- On 7 June 2017, the IASB published the interpretation "Uncertainty over Income Tax Treatments (IFRIC 23 interpretation)". The interpretation deals with the matter of uncertainties over the income tax treatment to be adopted. In particular, the interpretation requires an entity to analyse uncertain tax treatments (individually or together, depending on the characteristics) always assuming that the tax authorities examine the tax positions in question, with full knowledge of all relevant information. In case the entity does not retain it probable that the tax authority will accept the accounting treatment used, the entity must reflect the effect of the uncertainty in the assessment of its own current and deferred income taxes. 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 was applied from 1 January 2019. The introduction of the new amendment had no effects on the Group’s consolidated financial statements.

- On 12 December 2017 the IASB published “Annual Improvements to IFRSs 2015 to 2017 Cycle", which implements amendments to some standards in the context of the annual process for the improvement of the same. The main amendments regard:

  - *IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that at the time an entity obtains control of a business that represents a joint operation, it must reassess its interest in this business.* This process is not, however, required in the case of obtaining joint control.
  - IAS 12 Income Taxes: the amendment clarifies that all the tax effects linked to dividends (including payments on financial instruments classified under net equity) must be recognised in a manner consistent with the transaction that generated such profits (income statement, OCI or net equity).
  - IAS 23 Borrowing costs: the amendment clarifies that in case of borrowing that remains in place even after the reference qualifying asset is ready for use or for sale, the same become part of the borrowing used for the calculation of the cost of borrowing.

The adoption of this amendment had no effects on the Group’s consolidated financial statements.

- On 7 February 2018 IASB published the document “Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)". The document explains how an entity must record a change (i.e. a curtailment or a settlement) in a defined-benefit plan. The changes require the entity to update its assumptions and remeasure the net liabilities or assets deriving from the plan. The amendments clarify that after such an event has taken place, an entity should use updated assumptions to measure the current service cost and the interest for the rest of the reference period following the event.

The adoption of this amendment had no effects on the Group’s consolidated financial statements.

- On 12 October 2017 the IASB published the document “Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)”. 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 adoption of this amendment had no effects on the Group’s consolidated financial statements.

- On 12 October 2017 the IASB published an amendment to IFRS 9 “Prepayment Features with Negative Compensation”. This document specifies that instruments requiring prepayment could respect the Solely Payments of Principal and interests (“SPPI”) test even if the reasonable additional compensation to be paid in the case of prepayment is negative compensation for the lender.

The adoption of this amendment 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 2019

- On 31 October 2018, the IASB published "Definition of Material (Amendments to IAS 1 and IAS 8)". The document introduced an amendment to the definition of "relevant" in IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. This amendment has the objective of making the definition of "relevant" more specific and introduced the concept of "obscured information" alongside the concepts of omitted or incorrect information already present in the two standards subject to amendment. The amendment clarifies that information is "obscured" when it has been described in such a way as to produce for primary readers of Financial Statements an effect similar to that which would have been produced had such information been omitted or incorrect.

  The amendments introduced were approved on 29 November 2019 and apply to all transactions from 1 January 2020.

The Directors do not expect the adoption of this standard to have a significant effect in the Group's consolidated financial statements.

- On 29 March 2018, IASB published an amendment "References to the Conceptual Framework in IFRS Standards". The amendment is effective for financial years starting on 1 January 2020 or later, but early application is allowed.

  The Conceptual Framework defines the fundamental concepts for financial information and guides the Council in the development of IFRS standards. The document helps to guarantee that the Standard are conceptually coherent and that similar transactions are treated in the same way, so as to provide useful information to investors, lenders and other creditors.

  The Conceptual Framework supports companies in the development of accounting standards when no IFRS standard is applicable to a particular transaction and, more generally, helps the interested parties in understanding and interpret the Standards.

  The Group has decided not to adopt this amendment in advance.

The Directors do not expect the adoption of this standard to have a significant effect in the Group's consolidated financial statements.

- On 26 September 2019, IASB published the "Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform". The same amends IFRS 9 - Financial Instruments and IAS 39 - Financial Instruments: Recognition and Measurement as well as IFRS 7 - Financial Instruments: Disclosures. In particular, the amendment changes some of the requirements for the application of hedge accounting, including temporary derogations to the same, in order to mitigate the effect of the impact deriving from the uncertainty of the IBOR reform (still pending) on future cash flows in the period prior to its completion. The amendment also requires companies to provide further information in financial statements with regard to their hedging transactions which are directly affected by the uncertainties generated by the review and to which the above-mentioned derogations apply.

The amendments come into effect on 1 January 2020, but companies may choose to apply them early.

The Directors do not expect the adoption of this standard to have a significant effect in the Group's consolidated financial statements.

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.

- On 22 October 2018, IASB published "Definition of Material (Amendments to IFRS 3)". The document provides some clarifications on the definition of business for the correct application of the IFRS 3. In particular, the amendment clarifies that while a business normally produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an integrated set of activities/processes and goods. However, to meet the definition of business, an integrated set of activities/processes and goods must include, as a minimum, an input and a substantial process that together significantly contribute to the capacity to create an output. To this end, IASB has replaced the term "capacity to create an output" with "capacity to contribute to the creation of an output" to clarify that a business may exist also without the presence of all the inputs and processes necessary to create an output.

  The amendment also introduced a test ("concentration test"), optional for the entity, to determine if a set of activities/processes and purchased goods is not a business. If the test gives a positive outcome, the set of activities/processes and purchased goods does not represent a business and the standard requires no additional verifications. In case the test gives a negative result, the entity must carry out further analyses on the activities/processes and purchased goods to identify the presence of a business. To this end, the amendment has added several illustrative examples to the IFRS 3 in order to help understand the practical application of the definition of business in specific cases. The amendments are applied to all business combinations and acquisitions of activities after 1 January 2020, but early application is permitted.

The Directors do not expect the adoption of this standard to have a significant effect in the Group's consolidated financial statements.

- On 18 May 2017 IASB published standard IFRS 17 – Insurance Contracts, which is destined to replace standard IFRS 4 – Insurance Contracts.

  The objective of the new standard is that of guaranteeing that entities provide pertinent information that faithfully represent the rights and obligations deriving from insurance contracts issued. IASB developed the standard to eliminate inconsistencies and weaknesses in the current accounting policies, providing a single principle-based framework to take into account of all type of insurance contracts held by an insurer, including reinsurance contracts.

  The new standard also provides for the presentation and information requirements to improve the comparability between entities belonging to this sector.

  The new standard measures an insurance contract on the basis of a General Model or a simplified version thereof, called Premium Allocation Approach ("PAA").

  The main characteristics of the General Model are:

  - estimates and hypotheses of future cash flows are always current ones;
  - the measurement reflects the temporal value of money;
  - estimates indicate an extensive use of information that are observable on the market;
  - there is a current and explicit measurement of risk;
  - the expected profit is deferred and aggregated in groups of insurance contracts at the time of initial recognition; and
  - the expected profit is recognised in the period of contractual coverage taking into account the adjustments deriving from hypotheses of financial flows relative to each type of contract.

  The PAA approach requires the measurement of the liability for the residual coverage of a group of insurance contracts on condition that, at the time of initial recognition, the entity expects that this liability reasonably represents an approximation of the General Model. Contracts with a cover period of one year or less are automatically suitable for the PAA approach. The simplifications deriving from the application of the PPA method are not applied to the valuation of liabilities for the current claims, which are measured with the General Model. However, it is not necessary to discount those cash flows if it is expected that the balance to be paid or receive will occur within one year of the data in which the claim occurred.

The entity must apply the new standard to insurance contracts issued, including reassurance contracts issued, reinsurance contracts held and also to investment contracts with a discretionary participation feature (DPF).

The standard applies as of 1 January 2021, but early application is permitted, only for entities that apply IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers.

The Directors do not expect the adoption of this standard to have a significant effect in the Group's consolidated financial statements.

- On 11 September 2014, IASB published an amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The document was published in order to resolve the current conflict between IAS 28 and IFRS 10.
  In accordance with the provisions of IAS 28, the profit or loss deriving from the transfer or sale of a non-monetary asset to a joint venture or associate in exchange of a portion of share capital in the latter is limited to the portion held in the joint venture or associate by other investors extraneous to the transaction. On the contrary, standard IFRS 10 requires the recognition of the entire profit or loss in the case of loss of control of a subsidiary, even if the entity continues to hold a non-controlling interest in the same, including in this example also the sale of transfer of a subsidiary to a joint venture or related party. The amendments introduced require that in case of a transfer/sale of an asset or of a subsidiary to a joint venture or associate, the measurement of the profit or loss to be recognised in the financial statements of the transferring/selling party depends on the fact that the assets or subsidiary transferred/sold represent a business or not, in the case of the exception provided by the IFRS 3 standard. In the case where the assets or subsidiary transferred/sold represent a business, the entity must recognise the profit or loss on the entire portion previously held; on the contrary, the portion of profit or loss relative to the portion still held by the entity must be eliminated. The IASB has currently indefinitely deferred the application of this amendment.

The Directors do not expect the adoption of this standard to have a significant effect in the Group's consolidated financial statements.

3 COMMENT ON THE MAIN ITEMS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

3.1 GOODWILL AND OTHER INTANGIBLE ASSETS

Other intangible assets *(in thousands of Euro)*	**Goodwill**	**Other intangible assets**	**Total**
Historical			
As at 01 January 2018	**55,418**	**45,879**	**101,297**
Increases	5,205	6,919	12,124
Decreases	-	(201)	(201)
Reclassifications	-	-	-
Exchange differences	-	(127)	(127)
As at 31 December 2018:	**60,623**	**52,470**	**113,093**
Increases	10,606	23,968	34,574
Decreases		(304)	(304)
Reclassifications		-	-
Exchange differences	(1,534)	56	(1,478)
As at 31 December 2019	**69,695**	**76,190**	**145,885**
Provision			
As at 01 January 2018	**12,915**	**25,664**	**38,579**
Increases	-	4,423	4,423
Decreases	-	-	-
Reclassifications	-	-	-
Exchange differences	-	(79)	(79)
As at 31 December 2018:	**12,915**	**30,008**	**42,923**
Increases	-	6,461	6,461
Decreases	-	(105)	(105)
Reclassifications	-	-	-
Exchange differences	-	37	37
As at 31 December 2019	**12,915**	**36,401**	**49,316**
Net carrying amount			
As at 31 December 2018:	**47,708**	**22,462**	**70,170**
As at 31 December 2019	**56,780**	**39,789**	**96,569**

Goodwill

Goodwill rose by €10,606 thousand due to the change in the consolidation area following on from the operation of the acquisition of the Air division of the Alfa Laval group, as indicated in the "Introduction" paragraph to these Notes.

With reference to the acquisition, please recall that, on the basis of the revised IFRS 3, the cost of the business combination must be allocated to the assets, liabilities and intangible assets not recognised in the Financial Statements of the acquired company, up to the limits of their fair value. Any amount still remaining after this allocation should be recognised as goodwill.

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 division, international accounting standards (IFRS 3) allow the acquisition cost to be definitively allocated within twelve months of the acquisition date.

The LU-VE group has availed itself of this option and the areas on which the analyses are still focusing for the determination of the fair value of the acquired assets are the trademarks and the customer list.

Following what indicated above, the residual goodwill at present from the purchase price allocation process currently in progress is estimated to be €10. 6 million.

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 2019. Net invested capital is inclusive of the value of goodwill and other intangible assets 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. Management has not identified other lower level cash generating units with largely independent cash flows to be considered in the allocation of the goodwill.

The Group tested the recoverability of the carrying amount of Net Invested Capital (NIC) of these CGUs as at 31 December 2019. Net invested capital is inclusive of the value of goodwill and other intangible assets with a finite useful life.

In particular, the Group has recognised goodwill totalling €56.8 million in the consolidated Financial Statements as at 31 December 2019, attributed to the "Components CGU" of €28.7 million (decreasing in the year due to the exchange difference in Spirotech and Zyklus) and the "Cooling Systems CGU" of €28.1 thousand (increased due to the acquisition of the Air division), to which intangible assets with a finite useful life amounting to €39.8 million, rights of use of €18.3 million and property, plant and equipment of €144.9 million were also allocated (value included in the item Righs of use).

In determining the recoverable value of these CGUs, identified in the value of use as the sum of the discounted cash flows generated in the future and on a straight line of the CIN (Discounted Cash Flow Unlevered method), Management made reference to the 2020-2023 plan approved by the

Board of Directors on 28 February 2020. This included the assumptions of the Management's expectations of focusing on new geographical markets deemed most attractive in terms of size, stability, growth and profit margins, strengthening, specialising and expanding existing production capacity, to expand production capacity in already important markets where the Group is less present and in markets where the cold chain is rapidly expanding, continuously improving the performance of existing products and developing innovative products, in particular with the use of natural refrigerating liquids, so being able to erode the market share of smaller competitors that are less able to commit to the required investments.

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.

The values used for the calculation of the average cost of capital (extrapolated from the main financial sources) are as follows:

- sector financial structure: 14.17% (third party capital) and 85.83% (own capital);
- *sector beta levered: 1,060;*
- risk free rate: 2.52% for the "Components CGU" and 1.58% for the "Cooling Systems CGU" - determined considering the average yield of government bonds with a 10-year maturity in the countries where each CGU operates;
- risk premium: 5.20% (attributable to countries with an AAA rating – source: Prof. A. Damodaran, January 2020) for both CGUs;
- cost of debt: 0.26% and determined considering the 10-year rate IRS increased by a spread of 1.25%;

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 2.20% and 1.77% respectively for the "Components CGU" and for the "Cooling Systems CGU". In the terminal value, an operating cash flow equal to the last year of the plan (2023), 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.

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 7.08% for the Components CGU and 6.26% for the Cooling Systems CGU.

From the impairment test carried out, approved by the Board of Directors' meeting held on 18 March 2020, no losses emerged based on the testing carried out, as the value in use was found to be higher than the carrying amount.

Management has provided to determine the break-even WACC, the reduction of EBITDA and the break-even g-rate (which equate to the Value in Use and Carrying Amount), obtaining the results reported below:

- Break-even WACC (maintaining all other plan assumptions unchanged) of 18.86% for the Components CGU and 8.90% for the Cooling Systems CGU;

- lowering of the EBITDA in the Plan's explicit period and in Terminal Value (maintaining all other plan assumptions unchanged) of -53.9% for the Components CGU and 23.1% for the Cooling Systems CGU;

- *g-rate break-even of -17.1% for the Components CGU and -1.5% for the Cooling Systems CGU (maintaining all other plan assumptions unchanged).*

Furthermore, in consideration of the Covid-19 emergency, it has been decided to expand the sensitivity analyses with one of the most aggressive inputs, hypothesising the following scenario:

a reduction in revenues of around 20% in 2020 and a less significant reduction of 5% for the 2021 financial year (hypothesising mainly unchanged estimated fixed costs and investments planned for the financial year), for both CGUs, with the same discounting rate (WACC) and growth rate (g) in the terminal value (for the values reported above).

From these additional sensitivity analyses, as discussed by the Board of Directors on 6 April 2020, no losses were identified, as the value of use of the CGUs obtained is still higher than the accounting value.

Other intangible assets

The item other intangible assets rose by €17.328 thousand compared to the previous year mainly due to the change in the consolidation area following on from the acquisition of the Air division of the Alfa Laval group.

Detail of other intangible assets *(in thousands of Euro)*	**Trade receivables**	**Trademarks**	**Development costs**	**Development costs in progress**	**Software**	**Other**	**Total**
Historical							
As at 01 January 2018	**9,544**	**11,084**	**10,848**	**2,532**	**11,199**	**672**	**45,879**
Increases	2,893	-	490	1,591	1,800	145	6,919
Decreases	-	-	-	(191)	-	(10)	(201)
Reclassifications	-	-	1,293	(1,293)	450	(450)	-
Exchange differences	-	(7)	(8)	-	(87)	(25)	(127)
As at 31 December 2018:	**12,437**	**11,077**	**12,623**	**2,639**	**13,362**	**332**	**52,470**
Increases	7,948	10,865	1,291	1,324	1,947	593	23,968
Decreases	-	-	(192)	(106)	(6)	-	(304)
Reclassifications	-	-	2,262	(2,262)	136	(136)	-
Exchange differences	-	(4)	(3)	-	63	-	56
As at 31 December 2019	**20,385**	**21,938**	**15,981**	**1,595**	**15,502**	**789**	**76,190**
Provision							
As at 01 January 2018	**519**	**6,882**	**9,161**	**-**	**8,988**	**114**	**25,664**
Increases	487	738	1,458	-	1,738	2	4,423
Decreases	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-
Exchange differences	-	(4)	(8)	-	(67)	-	(79)
As at 31 December 2018:	**1,006**	**7,616**	**10,611**	**-**	**10,659**	**116**	**30,008**
Increases	1,090	1,461	1,702	-	2,208	-	6,461
Decreases	-	-	(96)	-	(9)	-	(105)
Reclassifications	-	-	-	-	-	-	-
Exchange differences	-	(2)	(3)	-	42	-	37
As at 31 December 2019	**2,096**	**9,075**	**12,214**	**-**	**12,900**	**116**	**36,401**
Net carrying amount							
As at 31 December 2018:	**11,431**	**3,461**	**2,012**	**2,639**	**2,703**	**216**	**22,462**
As at 31 December 2019	**18,289**	**12,863**	**3,767**	**1,595**	**2,602**	**673**	**39,789**

Customer list

The customer list increased by €7,948 thousand following the provisional Purchase Price Allocation process of the Air division of the Alfa Laval group, as explained in more detailed in the "introduction" paragraph of these notes.

The fair value of the Customer Relationship identified as the Primary Income Generating Assets ("PIGA") was estimated at €7,948 thousand) while the relative deferred tax effect was estimated by applying the theoretical rate of 20% for around €1,590 thousand). The main assumptions underlying the provisional valuation of the Customer Relationship (applying the income approach method) include the turnover growth rate after 2019, the Churn Rate, the discounting rate, adjusted in order to take into account the greater intrinsic riskiness of a stand-alone asset compared with the entire company (it is therefore a level 3 fair value in accordance with IFRS 13);

Trademarks

The item trademarks increased by €10.865 thousand following the provisional exercise of the Purchase Price Allocation process following the provisional acquisition of the Air division of the Alfa Laval group, as explained in more detailed in the "introduction" paragraph to these notes. This provisional valuation was supported by the preliminary results resulting from an assessment prepared by an independent expert appointed by the LU-VE group, a valuation which is currently not definitive.

The methodology considered to be appropriate for the characteristics of the evaluated trademarks and of the market context is the "relief from royalty method”. On the basis of this royalty method, the value of a trademark derives from the sum of discounted cash flows deriving from potential royalties on the turnover deriving from the trademark, given the strength currently expressed by the brand and its potential at parity of investment.

Development costs and development costs in progress

The total Development costs for the year 2019 were €2,615 thousand (of which €1,291 thousand capitalised and €1,324 thousand in projects under way), referring to new product development. Furthermore, during the year €2.262 thousand was reclassified from development costs in progress to projects concluded during the year.

Software

Software increased by €1,947 thousand, the main project developed in 2019 was PLM (Product Lifecycle Management), for roughly €483 thousand, which will be used in all of the Group’s production facilities.

Other intangible assets

The other intangible assets rose by €593 thousand compared to the previous year. These increases mainly refer to software in the process of being completed.

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

3.2 PROPERTY, PLANT AND EQUIPMENT

Other property, plant and equipment *(in thousands of Euro)*	Property	Plant and equipment	Rights of use	Other intangible assets	Work in progress	Total
Historical						
As at 01 January 2018	85,049	122,457	-	31,831	4,138	243,475
Increases	14,597	7,255	-	1,876	5,945	29,673
Decreases	(900)	(2,180)	-	(467)	(451)	(3,998)
Reclassifications	1,190	1,888	-	208	(3,286)	-
Exchange rate difference	(1,348)	(1,764)	-	(182)	(133)	(3,427)
As at 31 December 2018:	98,588	127,656	-	33,266	6,213	265,723
Alfa LAVAL contribution	44	7,522	12,893	866	176	21,501
Increases	834	8,987	8,873	2,900	12,573	34,167
Decreases	-	(3,094)	-	(493)	(375)	(3,962)
Reclassifications	473	4,559	300	362	(5,694)	-
Exchange differences	1,134	1,292	(27)	99	95	2,593
As at 31 December 2019	101,073	146,922	22,039	37,000	12,988	320,022
Provision						
As at 01 January 2018	20,638	86,250	-	25,396	-	132,284
Increases	2,029	7,893	-	2,077	-	11,999
Decreases	-	(2,101)	-	(145)	-	(2,246)
Reclassifications	-	(14)	-	2014	-	-
Exchange rate difference	(282)	(977)	-	(116)	-	(1,375)
As at 31 December 2018:	22,385	91,051	-	27,226	-	140,662
Increases	2,441	9,493	3,547	2,270	-	17,751
Decreases	-	(2,451)	158	(468)	-	(2,761)
Reclassifications	-	-	-	-	-	-
Exchange differences	249	791	-	58	-	1,098
As at 31 December 2019	25,075	98,884	3,705	29,086	-	156,750
Net carrying amount						
As at 31 December 2018:	76,203	36,605	-	6,040	6,213	125,061
As at 31 December 2019	75,998	48,038	18,334	7,914	12,988	163,272

* The positive change in the column Right of use mainly refers to the portions of amortisation in previous years of the surface rights of the company Spirotech Ltd following the reclassification under fixed assets following the application of IFRS 16.

As at 31 December 2019, the historical cost of property, plant and equipment rose by €55,668 thousand due to:

- €8,608 thousand relative to the fair value of assets deriving from the transaction for the acquisition of the Air division of the Alfa Laval group as at 30 April 2019, in accordance with the results of the estimate provided by an independent expert appointed by the Group, as reported in the "introduction" paragraph to these notes. The estimate relative to the assets of the Air division was carried out to determine the most reliable Current Market Value (fair value).

Fair value is intended as the price that would be received from the sale of the asset, or that would be paid for the transfer of a property in a regular transaction between market operators at the date of the valuation (exit price). The value assigned to estimated assets takes account of the conditions of use, the location and the possible limitations of a possible sale.

The estimation of the Fair Value was carried out in accordance with the following methods:

- Cost Approach Method - This method expresses the cost that would be incurred, at the estimate reference date, to replace the property with a new one with the same structural and use characteristics. Deterioration coefficients were applied to the new construction values to take into account the physical state of the assets (age, wear and level of maintenance) and their use conditions, in relation to the residual economic life of the same. This method was used for all technical assets, considering the specificity of the individual assets.
- Market approach method - As a process to control the values referred to in the previous point, or in alternative to it, for equivalent assets available on the market (where applicable). The "Current Market Value" was determined in the estimation process, or the value of the asset in question, comparing it to other with similar characteristics and currently available on the market. This method was used in the case of assets currently to be found on the reference market.

- €21,766 thousand related to the first recognition of the effects of IFRS 16 (of which €12,893 thousand contributed by the transaction for the acquisition of the Air division from the Alfa Laval group as at 30 April 2019 and mainly referred to the rental of buildings of the plants of Air Hex and Fincoil) and €2,901 thousand to the increase for the year. In particular, with reference to the right of use relative to the rental contract for the Air Hex Alonte plant (of €4,756 thousand), agreed in May 2019, of the duration of six years with automatic renewal unless notice is given by one of the two parties, on the basis of currently available information for the application of IFRS 16 it is not considered that a longer duration than that which is contractually agreed can be used;

- €25.294 thousand for the technological-investment plan in Italy and abroad aimed at extending and streamlining some production sites and at upgrading the installed production capacity (for further details please refer to the Director's Report). These items in property, plant and equipment were included in the considerations of the impairment test reported above as it was allocated to the two CGUs identified by the Management.

The main investments for the year regarded:

- the first consolidation of "AL Air" for €38.7 million;
- the first application of IFRS16 for €21.8 million;
- the expansion of existing production capacity (for €4,3 million) by the parent company;
- the expansion of the manufacturing site, the enhancement of the existing production capacity and the adaptation to safety and environmental regulations (for €12,4 million) by the subsidiary SEST-LUVE Polska;
- the expansion of the manufacturing site and the enhancement of the existing production capacity (for €2.9 million) by the subsidiary SPIROTECH;
- software expenses for around €2.0 million;
- the capitalisation of development expenses (as commented on below) at Group level for

roughly €2,6 million.

These items in property, plant and equipment were included in the impairment test described above as they were allocated to the two CGUs identified by the Management.

3.3 EQUITY INVESTMENTS

The Group holds the following equity investments:

Equity investments *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Industria e Università S.r.l.	8	6	2
Total	8	6	2

3.4 OTHER NON-CURRENT ASSETS

They amounted to €211 thousand, an increase of around €2,190 thousand compared to €1,979 thousand in the previous year. The item includes:

- €211 thousand, mainly referring to security deposits provided for the provision of services (€199 thousand in the previous financial year).

The decrease of €1,979 thousand is due to the effect of the first application of IFRS 16, which has required the reclassification to the item "Rights of use" of the following amounts:

- the effect of the first application of IFRS 16, including: €1,321 thousand referred 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;
- €658 thousand related to the advance rental payment for the Zyklus' warehouse.

Other non-current assets (in thousands of Euro)	**31/12/2019**	**31/12/2018**	**Change**
Other non-current assets	211	2,190	(1,979)
Total	**211**	**2,190**	**(1,979)**

3.5 INVENTORIES

This item in question was broken down as follows as at 31 December 2019:

Inventories *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Raw materials and consumables	41,339	32,051	9,288
Work in progress and semi-finished products	4,481	4,222	259
Finished products and goods for resale	20,375	12,599	7,776
Provision for inventory losses	(4,383)	(4,205)	(178)
Total	**61,812**	**44,667**	**17,145**

The change amounting to €17.145 thousand was mainly due to:

- €13,091 thousand to inventories of the companies included in the transaction for the acquisition of the Air division of the Alfa Laval group (€16,190 thousand as at 30 April 2019);
- €4,322 thousand to the inventory changes of the other Group companies;
- for €178 thousand (negative) to the decrease in the provision for inventory losses.

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 increase in provision for inventory losses for €178 thousand is broken down as follows:

- for €851 thousand for greater provisions;
- for €249 thousand for releases;
- for €438 thousand for use of the Provision;
- for €13 thousand for positive exchange differences.

3.6 TRADE RECEIVABLES

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

Trade Receivables *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Trade receivables	67,338	55,631	11,707
Provision for bad debts	(5,610)	(4,777)	(833)
Total	**61,728**	**50,854**	**10,874**

The increase in trade receivables amounting to €10.874 thousand was due to:

- €13,983 thousand to the contribution of the companies linked to the transaction for the acquisition of the Air division of the Alfa Laval group (€9,209 thousand as at 30 April 2019);

- €2,276 thousand to the general decrease in sales of the other Group companies;

- The Provision for bad debts increased by €833 thousand (negative effect), and is broken down as follows:

  - for €996 thousand for greater provisions;
  - for €62 thousand for use of the Provision;
  - for €124 thousand for releases;
  - for €23 thousand for positive exchange differences.

In addition, in December 2019 receivables of roughly €21,302 thousand were transferred to the Factor, compared to €18,990 thousand in the same period of the previous year. These factorings were without recourse. Factored receivables as a percentage of turnover came to 5.5% in 2019 and 6.2% in 2018.

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

Trade receivables include contract assets (invoices to be issued relative to services already performed

by the Group) for an amount of €101 thousand and a reduction in trade receivables for variable compensations (credit notes to be issued for bonuses granted to customers) for €1,348 thousand.

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

Breakdown of trade receivables by geographical area *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Italy	11,077	10,949	128
EU Countries	38,823	30,017	8,806
Non-EU Countries	17,438	14,665	2,773
Bad debt provision	(5,610)	(4,777)	(833)
Total	**61,728**	**50,854**	**10,874**

The ageing of trade receivables is shown below:

Breakdown of trade receivables by maturity *(in thousands of Euro*	**31/12/2019**	**31/12/2018**	**Change**
Current receivables (not past due)	53,283	41,058	12,225
Past due up to 30 days	6,187	4,946	1,241
Past due from 30 to 60 days	1,996	2,539	(543)
Past due from 60 to 90 days	568	726	(158)
Past due for more than 90 days	5,304	6,362	(1,058)
Total	**67,338**	**55,631**	**11,707**

The Group values the provisions for impairment to trade receivables at an amount equivalent to the losses expected throughout the life of the credit. The expected losses on trade receivables are estimated using an allocation matrix by bands of overdue accounts, making reference to its own historical experience in relation to losses on receivables, and an analysis of creditors' financial position, adjusted to include factors specific to the creditor, general economic conditions of the industry in which the creditor operates and an assessment of the current and anticipated evolution of these conditions at the reference date for the Financial Statements.

The following table details the risk profile of trade receivables on the basis of the allocation matrix defined by the Group, on the basis of IFRS 9. As the Group's historical experience does not indicate significantly different loss profiles on receivables by customer segment, the bad debt provision based on the level of overdue accounts has not been further subdivided on the basis of groupings of its own customer base.

31 December 2019 *(in thousands of Euro)*	**Not past due**	**<30**	**31 - 60**	**61 - 90**	**>90**	**Total**
Expected default rate	1.42%	1.24%	6.5%	28.0%	88.6%	
Estimate of gross accounting value at the time of default	52,201	7,744	1,656	693	5,044	67,338
Expected losses throughout the life of the credit	743	96	107	194	4,470	5,610

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

3.7 TAX RECEIVABLES FOR CURRENT TAXES

This item was broken down as follows:

Tax receivables for current taxes *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Tax receivables for VAT	12,292	5,686	6,606
Tax receivables for payments on account of direct taxes	1,556	1,453	103
Others	68	76	(8)
Total	**13,916**	**7,215**	**6,701**

Tax receivables increased by €6,701 thousand. This increase is due to the increase in Tax receivables for VAT for €6,606 thousand, referring for €4,423 thousand to the contribution of the acquisition of the Air division of the Alfa Laval group and for €2,183 thousand to the increase in tax receivables for the VAT of other Group subsidiaries.

Tax receivables for payments on account of current taxes payable within the subsequent year refer to the excess of taxes prepaid for the year 2019 with respect to the effective tax burden.

3.8 CURRENT FINANCIAL ASSETS

Current financial assets included in this item are part of the FVTPL category. These are financial instruments, whose contractual financial flows are not constituted solely by payment of capital and interest on the amount of capital to be repaid, and are held by the Company in the context of a pro tempore strategy whose objective, at equal risk, is the optimisation of the net cost of debt. This item was broken down as follows:

Current financial assets *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Capitalisation policies	58,632	51,330	7,302
Other securities	303	6,304	(6,001)
Fair value derivative instruments	112	-	112
Total	**59,047**	**57,634**	**1,413**

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). During the year a new policy was subscribed for a nominal value of €1,000 thousand, in addition to that already subscribed in the previous years for €40,192 thousand. The fair value measurement at the reporting date entailed the recognition of a positive amount of roughly €933 thousand, under the item “Financial income”.

During the year a new policy was also taken out, issued by BNP Paribas Cardif Vita Compagnia di assicurazioni e Riassicurazioni S.p.A., for a nominal value of €5,000, in addition to the one taken out the previous year for €10,000 thousand. The fair value measurement at the reporting date entailed the positive recognition of €369 thousand, under the item “Financial income”.

With reference to current events in relation to what has already been reported in the Report on Operations with regard to the effects that Coronavirus might have on the values in the financial statements as of today, it is reported that these policies are at "guaranteed return" and therefore not subject to significant fair value fluctuations. In the case of disinvestment of such policies, the negative impact would not be significant.

Other securities refer to investments, made in 2017 with Unicredit for around 300 thousand which involved the recognition as at 31 December 2019 of a positive fair value of €22 thousand.

Other investments subscribed through UBI Banca S.p.A. (where the securities account is held) in Italian government securities, corporate bonds, bond funds and mixed funds. In April 2019, these securities were entirely liquidated for an amount of €6,355 thousand. The disinvestment of securities has involved the recognition in the income statement of financial revenues for €413 thousand, and financial charges of €160 thousand.

The amounts of earnings and losses described above are recognised in the Income Statement in the items “financial income” or “financial expenses”. Changes in fair value in the item “financial income”

As at 31 December 2019 the options on currencies held by the Group represent a positive fair value of €112 thousand, while derivative financial instruments on IRS represent a negative fair value of 1,788 thousand.

The summary relating to outstanding derivative financial instruments as at 31 December 2019 broken down by type is provided below:

Derivative financial instruments as at 31/12/2019 *(in thousands of Euro)*		**31/12/2019**		**31/12/2018**		**31/12/2019**	**31/12/2018**
TYPE	**ORIGINAL NOTIONAL**	**NOT. Short**	**NOT. M/L**	**NOT. Short**	**NOT. M/L**	***FAIR VALUE***	***FAIR VALUE***
IRS on loans	265,936	41,841	127,902	41,462	111,703	(1,788)	(1,023)
Currency options	6,000	6,000	-	5,848	-	112	34
Commodity Swaps	-	-	-	600	-	-	(91)
Total	**271,936**	**47,841**	**127,902**	**47,910**	**111,703**	**(1,676)**	**(1,080)**
Total Notional		**175,743**		**159,613**			

The details relating to outstanding derivative financial instruments as at 31 December 2019 broken down by type are provided below:

IRS on loans (in thousands of Euro)

DEBTOR COMPANY	**COUNTERPARTY**	**TAKEN OUT**	**MATURITY**	**ORIGINAL NOTIONAL**	**31/12/2019 NOT. Short**	**NOT. M/L**	**31/12/2019 *FAIR VALUE***
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	11/08/2014	15/09/2020	2,321	357	-	(3)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	11/08/2014	16/10/2020	3,500	583	-	(3)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	21/07/2015	29/06/2020	4,818	611	-	(2)
LU-VE S.P.A.	Intesa San Paolo S.p.A.	04/02/2016	31/03/2020	10,000	1,250	-	(3)
LU-VE S.P.A.	Banca Nazionale del Lavoro	11/08/2014	16/10/2020	3,500	583	-	(4)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/07/2015	09/06/2020	17,778	2,222	-	(9)
LU-VE S.P.A.	Banca Nazionale del Lavoro	25/10/2016	21/09/2020	28,000	6,000	-	(7)
LU-VE S.P.A.	Unicredit S.p.A.	17/09/2015	31/12/2020	10,000	2,500	-	(15)
LU-VE S.P.A.	Deutsche Bank	27/03/2017	23/03/2021	5,500	1,375	344	(6)
LU-VE S.P.A.	Mediocredito italiano	21/06/2017	28/02/2022	25,000	5,882	7,353	(67)
LU-VE S.P.A.	Unicredit S.p.A.	20/09/2018	30/06/2024	12,000	2,400	8,400	(229)
LU-VE S.P.A.	Unicredit S.p.A.	20/09/2018	29/09/2023	15,000	-	15,000	(449)
LU-VE S.P.A.	Mediocredito italiano	28/11/2018	20/06/2024	12,500	2,500	8,750	(155)
LU-VE S.P.A.	Mediocredito italiano	28/11/2018	20/06/2024	12,500	2,500	8,750	(155)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/12/2018	24/09/2024	10,000	2,000	8,000	(123)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/12/2018	20/12/2023	10,000	1,111	7,778	(124)
LU-VE S.P.A.	Unicredit S.p.A.	30/01/2018	31/03/2023	18,750	3,750	9,375	6
LU-VE S.P.A.	Banco Popolare di Milano S.p.A.	25/01/2019	30/09/2024	25,000	3,750	21,250	(278)
LU-VE S.P.A.	Unione di Banche Italiane Società cooperativa per azioni	26/07/2019	30/07/2026	21,569	-	21,569	3
LU-VE S.P.A.	Unicredit S.p.A.	12/07/2019	30/06/2024	9,600	1,200	8,400	(89)
SEST S.P.A	Unicredit S.p.A.	02/10/2015	28/06/2024	5,100	600	2,100	(58)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	22/07/2015	08/11/2021	3,500	667	833	(18)
			Total	**265,936**	**41,841**	**127,902**	**(1,788)**

Currency options (in thousands of Euro)

DEBTOR COMPANY	COUNTERPARTY	TYPE	HEDGED ELEMENT	TAKEN OUT	MATURITY	NOT. ORIG.	31/12/2019 NOT. Short	NOT. M/L	31/12/2019 *FAIR VALUE*
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	18/01/2019	07/01/2020	500	500	-	12
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	07/02/2019	05/02/2020	500	500	-	2014
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	12/03/2019	05/03/2020	500	500	-	12
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	15/05/2019	05/05/2020	500	500	-	11
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	15/05/2019	06/04/2020	500	500	-	12
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	10/07/2019	06/07/2020	500	500	-	6
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	10/07/2019	05/06/2020	500	500	-	6
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	06/08/2019	05/08/2020	500	500	-	10
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	09/09/2019	08/09/2020	500	500	-	12
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	07/10/2019	06/10/2020	500	500	-	10
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	13/11/2019	05/11/2020	500	500	-	4
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	12/12/2019	11/12/2020	500	500	-	3
					Total	**6,000**	**6,000**	**-**	**112**

3.9 OTHER CURRENT ASSETS

The details of this item are shown below:

Other current assets *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
From employees	88	101	(13)
Advances and other receivables	2,509	2,156	353
Total	**2,597**	**2,257**	**340**

The increase of €340 thousand is due to:

- €722 thousand to the contribution of the companies linked to the transaction for the acquisition of the Air division of the Alfa Laval group (€725 thousand as at 30 April 2019);
- €382 thousand to the changes in the other Group companies;

3.10 CASH AND CASH EQUIVALENTS

The details of this item are shown below:

Cash and cash equivalents *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Cash and cash equivalents	81,851	85,905	(4,054)
Total	**81,851**	**85,905**	**(4,054)**

The decrease of €4.054 is mainly due to the acquisition of the Air division of the Alfa Laval group during the financial year. For further information, please refer to paragraph 1.5 – "Consolidated Cash Flow Statement".

The Group has no restrictions/constraints on the use of these amounts.

3.11 SHAREHOLDERS' EQUITY

The Parent Company's share capital amounted to €62,704 thousand (€62,704 thousand as at 31 December 2018).
In 2019, dividends of €5,519 thousand were distributed by the Parent Company from the reserves and retained earnings.

As at 31 December 2019 the Parent Company did not hold any treasury shares, having disposed during the financial year of no. 157,716 treasury shares for a value of €1,663 thousand (for further details, see the Single Report on Operations). The sale of these shares, recognised for a value of

€1,618 thousand as at 31 December 2018, generated an income of €45 thousand which was recognised directly in the Shareholders' Equity, under the item "Extraordinary Reserve".

Shareholders' equity attributable to non-controlling interests amounted to €3,422 thousand (€3,170 thousand as at 31 December 2018). The profit attributable to non-controlling interests in the year was €779 thousand (€686 thousand in the same period of 2018). The increase in minority interests was partially offset by the distribution of dividends for €425 thousand by the subsidiaries SEST LU-VE POLSKA Sp.z.o.o. and "OOO" Sest LU-VE.

3.12 LOANS

This item was broken down as follows:

	31/12/2019		31/12/2018	
Loans *(in thousands of Euro)*	**Current**	**Non-current**	**Current**	**Non-current**
Loans	75,628	137,801	48,775	152,196
Advances on export flows in Euro	2,000	-	-	-
Advances on invoices subject to clearance	43	-	887	-
Total	**77,671**	**137,801**	**49,662**	**152,196**

As at 31 December 2019, bank loans amounted to €213,429 thousand.

The breakdown of this item, recognised according to the amortised cost, 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	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	-	-	59	59
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	09/06/2015	09/06/2020	6M Euribor + Spread	20,000	2,220	2,220	6,563	4,358
LU-VE	UniCredit S.p.A.	Unsecured loan	17/09/2015	31/12/2020	6M Euribor + Spread	10,000	2,500	2,500	5,000	2,500
LU-VE	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	3M Euribor + Spread	30,000	-	-	14,942	4,992
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + Spread	10,000	2,501	2,501	4,984	2,494
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/09/2016	20/09/2020	3M Euribor floor 0% + Spread	30,000	6,000	6,000	14,000	8,000
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	30/09/2016	30/09/2021	3M Euribor + Spread	10,000	3,519	2,007	5,509	1,996
LU-VE	Banca Popolare di Sondrio Società Cooperativa per Azioni	Unsecured loan	15/12/2016	31/01/2020	Average prev quart 3M Euribor + Spread	10,000	837	837	4,176	3,339
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	28/11/2020	3M Euribor + Spread	1,500	400	400	798	399
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	23/03/2021	3M Euribor + Spread	5,500	1,718	1,374	3,088	1,372
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	31/03/2017	28/02/2022	3M Euribor + Spread	25,000	13,242	5,879	19,118	5,882
LU-VE	UniCredit S.p.A.	Unsecured loan	20/04/2017	31/12/2020	Fixed	10,000	2,856	2,856	5,708	2,854

Bank loans (in thousands of Euro)							AMORTISED COST 31/12/2019		31/12/2018	
DEBTOR COMPANY	COUNTERPARTY	LOAN TYPE	TAKEN OUT	MATURITY	RATE APPLIED	ORIGINAL AMOUNT	RESIDUAL AMOUNT	OF WHICH CURRENT	RESIDUAL AMOUNT	OF WHICH CURRENT
LU-VE	Unione di Banche Italiane Società cooperativa per azioni	Unsecured loan	20/12/2017	20/12/2020	3M Euribor + Spread	20,000	19,999	19,999	20,000	-
LU-VE	Unicredit S.p.A.	Unsecured loan	30/01/2018	31/03/2023	6M Euribor + Spread	25,000	17,500	4,993	22,479	5,014
LU-VE	Unicredit S.p.A.	Unsecured loan	20/09/2018	30/06/2024	6M Euribor + Spread	12,000	10,797	2,395	11,988	1,198
LU-VE	Unicredit S.p.A.	Unsecured loan	20/09/2018	30/09/2023	6M Euribor + Spread	15,000	15,033	147	14,987	-
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	12,500	11,239	2,492	12,482	1,247
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	12,500	11,239	2,492	12,482	1,247
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/12/2018	24/09/2024	6M Euribor + Spread	10,000	10,026	1,976	9,975	-
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/12/2018	20/12/2023	6M Euribor + Spread	10,000	8,876	1,104	9,975	1,102
LU-VE	Banca Popolare di Milano	Unsecured loan	16/06/2019	28/06/2024	3M 360 days Euribor + Spread	10,000	8,972	1,948	-	-
LU-VE	Banca Popolare di Milano	Unsecured loan	25/01/2019	31/03/2025	3M 360 days Euribor + Spread	30,000	26,195	4,982	-	-
LU-VE	Unicredit S.p.A.	Unsecured loan	12/07/2019	30/06/2024	6M 360 days Euribor + Spread	12,000	10,793	2,394	-	-
LU-VE	Unione di Banche Italiane Società cooperativa per azioni	Unsecured loan	30/07/2019	30/07/2026	6M 360 days Euribor + Spread	25,000	25,030	3,412	-	-
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	1,500	666	2,173	670
LU-VE FRANCE S.A R.L.	BNP PARIBAS S.A.	Mortgage Loan	08/11/2011	03/11/2026	Fixed	798	437	54	485	52
						Total	**213,429**	**75,628**	**200,971**	**48,775**

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 2019, the details of loans that require financial covenants to be met are provided below (in thousands of Euro):

COMPANY	COUNTERPARTY	LOAN TYPE	TAKEN OUT	MATURITY	RATE	FINANCIAL COVENANTS	INITIAL AMOUNT
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	09/06/2015	09/06/2020	6M Euribor + Spread	PFN/EBITDA <= 3; PFN/PN <= 1.25	20,000
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + Spread	NFP/EBITDA <= 3; 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 <= 3; NFP/SE <= 1.25	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; NFP/SE <1	10,000
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	28/11/2020	3M Euribor + Spread	NFP/EBITDA <= 3	1,500
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	23/03/2021	3M Euribor + Spread	NFP/EBITDA <= 3	5,500
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	31/03/2017	28/02/2022	3M Euribor + Spread	NFP/EBITDA <= 3; NFP/SE <1	25,000
LU-VE	Unicredit S.p.A.	Unsecured loan	20/04/2017	31/12/2020	Fixed Rate	PFN/EBITDA <=3.5; PFN/PN<=1	10,000
LU-VE	Unione di Banche Italiane Società cooperativa per azioni	Unsecured loan	20/12/2017	20/12/2020	3M Euribor + Spread	NFP/EBITDA <= 3; NFP/SE <1	20,000
LU-VE	Unicredit S.p.A.	Unsecured loan	30/01/2018	31/03/2023	6M Euribor + Spread	NFP/EBITDA <=3.5; NFP/OWN FUNDS <=1	25,000
LU-VE	Unicredit S.p.A.	Unsecured loan	20/09/2018	30/06/2024	6M Euribor + Spread	NFP/EBITDA <=3; NFP/OWN FUNDS <=1	12,000
LU-VE	Unicredit S.p.A.	Unsecured loan	20/09/2018	30/09/2023	6M Euribor + Spread	NFP/EBITDA <=3; NFP/OWN FUNDS <=1	15,000
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	NFP/EBITDA < 3; NFP/SE <=1	12,500
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	NFP/EBITDA < 3; NFP/SE <=1	12,500
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/12/2018	24/09/2024	6M Euribor + Spread	NFP/EBITDA <= 3; NFP/SE <= 1.25	10,000
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/12/2018	20/12/2023	6M Euribor + Spread	NFP/EBITDA <= 3; NFP/SE <= 1.25	10,000
LU-VE	Banca Popolare di Milano	Unsecured loan	25/01/2019	31/03/2025	3M Euribor floor 0% + Spread	NFP/EBITDA <= 3; NFP/SE <= 1.25	30,000
LU-VE	Banca Popolare di Milano	Unsecured loan	16/06/2019	28/06/2024	3M Euribor floor 0% + Spread	NO	10,000
LU-VE	Unicredit S.p.A.	Unsecured loan	12/07/2019	30/06/2024	6M Euribor + Spread	NFP/EBITDA <= 3; NFP/SE <1	12,000
LU-VE	Unione di Banche Italiane Società cooperativa per azioni	Unsecured loan	30/07/2019	30/07/2026	6M Euribor + Spread	NFP/EBITDA <= 3; NFP/SE <1	25,000
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

Notes:

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 financial year are shown below:

Financing: changes for the year *(in thousands of Euro)*	**Opening balance**	**New loans**	**Repayments**	**Closing balance**
Loans	200,971	77,371	(64,913)	213,429
Advances on export flows in Euro	-	18,500	(16,500)	2,000
Advances on bank invoices	887	31	(875)	43
Total	**201,858**	**95,902**	**(82,288)**	**215,472**

The following changes took place in loans in 2019:

- unsecured medium-term loan for a total of €30,000 thousand entered into with BPM, maturing on 31 March 2025, 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 entered into with UBI Banca, maturing on 30 July 2026, with repayment in equal half-yearly instalments and an interest rate equal to the 6-month Euribor plus a spread. The loan is subject to compliance with financial covenants;

- unsecured medium-term loan for a total of €12,000 thousand entered into with UNICREDIT, maturing on 30 June 2024, with repayment in equal half-yearly instalments and an interest rate equal to the 6-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 entered into with BPM, maturing on 28 June 2024, with repayment in variable quarterly instalments and an interest rate equal to the 3-month Euribor plus a spread.

- early repayment of the BPM loan for €15,000 thousand taken out on 25 September 2015 and maturing 31 December 2021

In addition to what reported above, during the year bank advances were subscribed on export cash flows for €18,650 thousand, partially reimbursed for €16,650 thousand during the year.

The overall reimbursements for the financial year (including loans, advances on invoices and advances on export flows) were of €82,257 thousand.

As previously reported, 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 mainly floating rate and pegged to the Euribor. Note 4.16 below provides the information relating to financial risks.

3.13 PROVISIONS

The details of this item are shown below:

Change in provisions *(in thousands of Euro)*	**31/12/2018**	**Prov./incr**	**Exchange delta**	**Uses**	**Release of excess portion**	**Other changes**	**31/12/2019**
Provision for agents' leaving indemnities	25	1	-	-	-	326	352
Product warranty provision	2,042	380	4	(150)	(30)	1,001	3,247
Other provisions for risks and charges	514	117	-	-	1	-	632
Total	**2,581**	**498**	**4**	**(150)**	**(29)**	**1,327**	**4,231**

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 increase in "other changes" of €326 thousand referred to the contribution of the companies included in the transaction for the acquisition of the Air division of the Alfa Laval group (amount unchanged compared to the contribution as at 30 April 2019).

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 increase in "other changes" of €1,001 thousand referred to the contribution of the companies included in the transaction for the acquisition of the Air division of the Alfa Laval group (amount essentially unchanged compared to the contribution as at 30 April 2019).

The increase of €117 thousand in Other provisions for risks and charges referred to provisions made by the Group companies during the financial year.

Provisions, which represent the estimated future outflows calculated partly based on historical experience, were subject to actuarial valuation as at 31 December 2019. As the effect was deemed negligible, it was not incorporated in the Group's consolidated Financial Statements as at 31 December 2019.

3.14 EMPLOYEE BENEFITS

Employee benefits amounted to €5,491 thousand, a net increase of €1,434 thousand compared to 31 December 2018. The entire amount referred to the provision for employee severance benefits.

The provision for employee severance 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.

It is noted that, following the amendments to the "Provision for employee severance benefits" introduced by Italian Law no. 296 of 27 December 2006, and subsequent Decrees and Regulations issued in the first few months of 2007, for companies with at least 50 employees (LU-VE S.p.A., SEST S.p.A., etc.), the amounts accrued from 1 January 2007 are destined, by choice of employees, either to the INPS Treasury Fund or to forms of complementary social security, with the nature of "defined benefits plans". Furthermore, these amounts are not subject to actuarial valuation and are no longer allocated to the "Provision for employee severance benefits". The "Provision for employee severance benefits" accrued as at 31 December 2006 remains a "defined benefits plan" with the consequent need to carry out the actuarial calculations, which will however no longer take into account the component relating to future salary increases. For companies with fewer than 50 employees (Tecnair LV S.r.l. and Manifold S.r.l.), in accordance with IAS 19 the fund as at 31 December 2019 is recognised entirely as "Defined benefits plan" and is therefore subject to actuarial valuation.

The breakdown and changes in the item as at 31 December 2019 are shown below:

Employee benefits *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**
Liabilities as at 1 January	4,057	4,047
Apporto Air Hex Alonte S.r.l.	1,042	-
Provisions	219	230
Financial expense	48	55
Payments made	(246)	(150)
Actuarial (gains)/losses	371	(125)
Liabilities at the end of the year	**5,491**	**4,057**

The equity adjustment for actuarial gains and losses includes a net actuarial loss of €371 thousand, calculated as follows:

- Actuarial profit deriving from the change in the main actuarial assumptions used as at 31 December 2019 compared to the previous evaluation and from effect of the variation that the collective object of the valuation suffered between one valuation and the other: €46 thousand;
- The actuarial loss deriving from the effect of the variation that the financial hypotheses have suffered between one valuation and the other: €417 thousand.

Actuarial gains and losses are recognised in shareholders' equity through the statement of comprehensive income.
The values recognised in the Income Statement are included in "Personnel costs" (Note 4.5).

The main financial and demographic assumptions used at the date of the last reference valuation of 31 December 2019 are shown below:

Financial assumptions	31/12/2019 %	31/12/2018 %
Discount rate (IBOXX Eurozone Corporate AA 10+ Index)	0.77	1.57
Inflation	1.20	1.50
Salary increase rate (Blue-collar workers, White-collar workers, Middle Managers)	1.00	1.00
Salary increase rate (Executives)	2.50	2.50
Post-employment benefits increase	2.40	2.63

Demographic assumptions	31/12/2019	31/12/2018
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

The sensitivity analysis for the provision for employee severance benefits is reported below. The following table reports the change in the provision with the variation of the most significant actuarial hypothesis, that is to say the discount rate:

Sensitivity of provision for employee severance benefits as at 31/12/2019 (in thousands of Euro)	0.25%	-0.25%
Discounting rate	(133)	139

3.15 OTHER FINANCIAL LIABILITIES

The item Other financial liabilities mainly refer to financial payables linked to IFRS 16, to financial payables for the transaction of the acquisition of the Air division of the Alfa Laval group, the recognition of the negative fair value of the derivatives, of the fair value of the financial liability resulting from the put option granted to the minority shareholders of Spirotech and of the earn-out relative to the acquisition of Zyklus. The details of this item are shown below:

Other non-current financial liabilities *(in thousands of Euro)*	31/12/2019	31/12/2018	Change
IFRS 16 Financial payables	13,214	53	13,161
Other financial liabilities	4,484	4,054	430
Total	**17,698**	**4,107**	**13,591**

The item "financial payables for IFRS16" includes the long-term financial payables of contracts referred to the IFRS 16 accounting standard, of which €2,693 thousand resulting from the balance as at 1 January 2019 and €10,666 thousand as at 30 April 2019 for the first consolidation of the Air division of the Alfa Laval group.

Other non-current financial liabilities refer to:

- €4,087 thousand for the fair value of the payable for the financial year resulting from the put option agreement with the non-controlling shareholder for the acquisition of the remaining 5% of Spirotech through a put & call option agreement that can be exercised from September 2019 at the value resulting from the application of a formula set forth in the agreement (there is also a call option in favour of LU-VE S.p.A.). The option represents a financial liability measured at fair value on the basis of a contractually established formula. Please refer to the Use of estimates note for further details;
- €397 thousand refer to the contractually required calculation of the earn-out relative to the acquisition of the US company Zyklus which took place in the financial year.

Other current financial liabilities *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Fair value of derivatives	1,788	1,080	708
IFRS 16 Financial payables	3,643	54	3,589
Other financial liabilities	9,500	-	9,500
Total	14,931	1,134	13,797

The item "fair value of derivative instruments" represents the negative fair value as at 31 December 2019 of derivatives subscribed by the Group companies. For further information, please refer to Note 3.8. - "Current financial assets"

The item "financial payables for IFRS16" includes the short-term financial payables of contracts referred to the IFRS 16 accounting standard, of which €1,309 thousand resulting from the balance as at 1 January 2019 and €1,629 thousand as at 30 April 2019 for the first consolidation of the Air division of the Alfa Laval group.

The item "other current financial liabilities" of €9,500 thousand refers to the amount not yet paid for the purchase of the Air Division of Alfa Laval, as reported in note "2.1 - Introduction".

3.16 TRADE PAYABLES

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

Trade Payables *(in thousands of Euro)*	31/12/2019	31/12/2018	Change
Italy	52,884	32,629	20,255
EU Countries	17,600	14,130	3,470
Non-EU Countries	15,747	11,041	4,706
Total	**86,231**	**57,800**	**28,431**

The average payment terms have not changed since the previous year. As at 31 December 2019, there were no past-due payables of significant amounts, and the Group has received no payment orders for past-due payables.

Contract liabilities (advances received from customers before rendering any service) for an amount of €2,925 thousand refer to the contribution of the Air division of the Alfa Laval Group.

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

The directors believe that the recognition amount of trade payables is similar to their fair value.

3.17 TAX PAYABLES

The details of this item are shown below:

Tax payables *(in thousands of Euro)*	31/12/2019	31/12/2018	Change
Tax payables for income taxes	1,963	499	1,464
Tax withholdings	1,794	1,233	561
Other tax payables	934	599	335
Total	**4,691**	**2,331**	**2,360**

The increase of €2,360 thousand is due to:

- an increase of €2,738 thousand due to the contribution of the companies linked to the transaction for the acquisition of the Air division of the Alfa Laval group;
- a general decrease of €378 thousand of the other Group companies;

3.18 OTHER CURRENT LIABILITIES

The details of this item are shown below:

Other current liabilities *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
To personnel	12,264	8,820	3,444
To social security institutions	5,954	4,290	1,664
To Directors and Statutory Auditors	1,967	1,530	437
Other current payables	2,907	3,614	(707)
Total	**23,092**	**18,254**	**4,838**

The increase of €3,444 thousand in payables to personnel is due to:

- €2,880 thousand to the contribution of the companies linked to the transaction for the acquisition of the Air division of the Alfa Laval group (€4,450 thousand as at 30 April 2019);
- €564 thousand for the new recruitment by the Group during the financial year.

In the beginning of 2019, payables to personnel and social security institutions were paid in accordance with the relative due dates.

The decrease in the item "Other current payables" was mainly due to the reduction of payables to suppliers for investments of the Polish subsidiary SEST-LUVE POLSKA recorded as at 31 December 2018. The item included €975 thousand as payables for investments.

3.19 DEFERRED TAX ASSETS AND LIABILITIES

The details of this item are shown below:

Deferred tax assets and liabilities *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Deferred tax assets	6,603	4,722	1,881
Deferred tax liabilities	(16,768)	(13,173)	(3,595)
Net position	**(10,165)**	**(8,451)**	**(1,714)**

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.

Deferred tax liabilities and assets: changes in the year ***(in thousands of Euro***	**TAX LOSSES**	**DEPRECIATION/AMORTISATION**	**FAIR VALUE OF DERIVATIVE INSTRUMENTS**	**MERGERS/ACQUISITIONS GROSS UP**	**ACTUARIAL VALUATION OF POST-EMPLOYMENT BENEFITS**	**PROVISIONS AND VALUE ADJUSTMENTS**	**OTHER DIFFERENCES**	**TOTAL**
01.01.2018	(1,071)	2,739	(45)	10,567	(98)	(1,600)	(634)	9,858
to Income Statement	572	(264)	21	(911)	(7)	(251)	(1,644)	(2,484)
to shareholders' equity	-	-	-	-	30	(38)	61	53
Currency translation differences	20	(23)	-	-	-	6	(36)	(33)
Zyklus contribution	-	534	-	608	-	(85)	-	1,057
Reclassification	-	-	-	-	-	-	-	-
31/12/2018	(479)	2,986	(24)	10,264	(75)	(1,968)	(2,253)	8,451
to Income Statement	287	(23)	7	(1,613)	(9)	(147)	(1,303)	(2,801)
to shareholders' equity	-	-	-	-	(89)	-	61	(28)
Currency translation differences	-	7	-	-	-	(2)	(70)	(65)
Contribution of Air division	-	-	-	5,146	-	(538)	-	4,608
Reclassification	-	-	-	-	-	-	-	-
31.12.2019	(192)	2,970	(17)	13,797	(173)	(2,655)	(3,565)	10,165

As at 31 December 2019, 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 two 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. It is specified that the increase is mainly due to a new investment in Poland.

As at 31 December 2019, deferred tax liabilities referred to:

- tax differences on amortisation and leases, regarding primarily the application of IFRS 16, with respect to Italian GAAP;

- to the allocation of taxes to the 2008 merger deficit allocated to trademarks, buildings, land and the tax effect deriving from the allocation of capital gains with respect to the book values for the acquisition of Spirotech (2016), Zyklus (2018) and, provisionally, of the Air division (2019).

This item does not include any amount relative to deferred tax liabilities relative to any future distribution of earnings or of reserves by Group’s subsidiaries, as it is not considered to be material.

As reported in the previous note "Use of estimates", the taxable results deriving from the 2020-2023 plans of the individual Group companies used for the impairment test for the explicit period, and through the extrapolation of these, the taxable income expected for the following years were taken into account in the verification recognition and recoverability of deferred tax assets recognised in the financial statements as at 31 December 2019. The effects deriving from the temporary differences on which deferred tax liabilities were recognised were also used in the verification of recognition.

It is also reported that this valuation of recoverability has not highlighted any critical issues also on the basis of the significant sensitivity tests carried out by the Management on the plans, linked to the very uncertain current situation, with reference to the emergency relating to the COVID-19 pandemic.

3.20 NET FINANCIAL POSITION

In accordance with the requirements of the Consob Communication of 28 July 2006, please note that the Group's financial position is shown below:

Net financial position *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
A. Cash (Note 3.10)	40	41	(1)
B. Unrestricted current account asset balances (Note 3.10)	81,811	85,864	(4,053)
C. Current financial assets (Note 3.8)	59,047	57,634	1,413
D. Liquidity (A+B+C)	**140,898**	**143,539**	**(2,641)**
E. Current bank payables (Note 3.12)	43	887	(844)
F. Current portion of non-current debt (Note 3.12)	77,628	48,775	28,853
G. Other current financial liabilities (Note 3.15)	14,931	1,134	13,797
H. Current financial debt (E+F+G)	**92,602**	**50,796**	**41,806**
I. Net current financial debt (H-D)	**(48,296)**	**(92,743)**	**44,447**
J. Non-current bank payables (Note 3.12)	137,801	152,196	(14,395)
K. Other non-current financial liabilities (Note 3.15)	17,698	4,107	13,591
L. Non-current financial debt (J+K+L)	**155,499**	**156,303**	**(804)**
M. Net financial debt (I+L)	**107,203**	**63,560**	**43,643**

Paragraph 1.5 - Consolidated statement of cash flows shows changes in cash and cash equivalents (letter A and B of this statement).

4 COMMENT ON THE MAIN ITEMS OF THE CONSOLIDATED INCOME STATEMENT

4.1 REVENUES

In 2019, revenues from sales amounted to €390,356 thousand, an increase of 28% compared to the previous year (€305,936 thousand as at 31 December 2018.

Revenues by product family

Revenue by product *(in € thousand)*	**2019**	**%**	**2018**	**%**	**Change**	**% Change**
Heat exchangers	203,935	52%	185,908	61%	18,027	10%
Air Cooled Equipment	163,147	42%	95,578	31%	67,569	71%
Doors	10,951	3%	10,027	3%	924	9%
Close Control	11,284	3%	10,165	3%	1,119	11%
Sub-total	**389,317**	**100%**	**301,678**	**99%**	**87,639**	**29%**
Other	1,039	0%	4,258	1%	(3,219)	(76%)
TOTAL	**390,356**	**100%**	**305,936**	**100%**	**84,420**	**28%**

Revenues by geographical area:

Revenues by geographical area *(in thousands of Euro):*	**2019**	**%**	**2018**	**%**	**Change**	**% Change**
Italy	74,983	19%	64,170	21%	10,813	17%
Poland	27,858	7%	28,564	9%	(706)	(2%)
Russia	27,635	7%	19,218	6%	8,417	44%
Germany	25,576	7%	24,173	8%	1,403	6%
Czech Republic	24,452	6%	15,757	5%	8,695	55%
France	19,621	5%	17,358	6%	2,263	13%
Sweden	15,714	4%	13,921	5%	1,793	13%
Austria	15,589	4%	15,227	5%	362	2%
Spain	14,230	4%	10,294	3%	3,936	38%
Other countries	144,698	37%	97,254	32%	47,444	49%
TOTAL	**390,356**	**100%**	**305,936**	**100%**	**84,420**	**28%**

Please refer to the Directors' Report for detailed comments on trends in the reference markets during the 2019 and to an analysis of revenue "within the same scope".

The value of compensation for transactions with unfulfilled (or not fully fulfilled by the Group) performance obligations at the end of the period amounts to €2,925 thousand, €1,976 thousand refer to the impact of the Air division of the Alfa Laval Group. The Directors estimate that they will be recognised as revenue in following half-year period.

The Group, working mainly on transactions with a single obligation performance, does not have relevant values relating to performance obligations not satisfied at the end of the year.

4.2 OTHER REVENUES

Other Revenue *(in thousands of Euro)*	2019	2018	Change
Other income	1,228	933	295
Total	**1,228**	**933**	**295**

"Other revenues" refers to €1,014 thousand for export incentives of the subsidiary Spirotech and to €214 thousand for other Group Companies' revenues.

4.3 PURCHASES OF MATERIALS

Purchases of materials *(in thousands of Euro)*	2019	2018	Change
Raw materials and purchased components	196,432	160,847	35,585
Consumables	7,603	6,582	1,021
Total	**204,035**	**167,429**	**36,606**

Please refer to the Directors' Report for detailed comments in relation to costs and consumptions for the financial year.

4.4 SERVICES

Services *(in thousands of Euro)*	2019	2018	Change
Expenses for energy, telephone and telex	5,677	4,499	1,178
General expenses and consultancies	17,664	13,505	4,159
Advertising and promotional expenses	1,188	1,026	162
Transport expenses	10,780	7,326	3,454
Maintenance expenses	3,967	3,179	788
External processing	3,722	3,129	593
Commissions	622	338	284
Remuneration to the corporate bodies	3,386	3,371	2015
Other costs for services	6,321	4,183	2,138
Costs for use of third-party assets	928	2,395	(1,467)
Total	**54,255**	**42,951**	**11,304**

The increase of the sub-item “general expenses and consultancies” for €4,159 thousand is due to:

- the increase for €2,354 thousand of costs for consultancies relative to the transactions for the acquisition of the Air division of the Alfa Laval group;
- - €1.805 thousand to other Group companies.

The increase in the item “Transport expenses” for €3,454 is due to:

- €2,154 thousand to the contribution of the companies relative to the transaction for the acquisition of the Air division of the Alfa Laval group for the months of May and December 2019;
- €543 thousand to the increase in the sales of SPIROTECH;
- €757 thousand to other Group companies.

The decrease in the item “costs for the use of third-party assets" for €1,467 thousand is mainly due to the application of IFRS 16 and therefore the reclassification in the section "amortisation/depreciation" and “financial charges”.

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 Group’s consolidated Financial Statements, is provided below.

Type of Services	Service provider	Recipient	Remunerations *(in thousands of Euro)*
Auditing	Deloitte & Touche	Parent Company	121
	Deloitte & Touche	Italian subsidiaries	147
	Deloitte & Touche Network	Foreign subsidiaries	198
Other Services	Deloitte & Touche	Parent Company	24
	Deloitte & Touche Network	Parent Company	342
	Deloitte & Touche Network	Foreign subsidiaries	3

4.5 PERSONNEL COSTS

Personnel costs *(in thousands of Euro)*	**2019**	**2018**	**Change**
Wages and salaries	64,262	47,653	16,609
Social security costs	16,909	13,199	3,710
Post-employment benefits	2,038	1,674	364
Other personnel costs	152	297	(145)
Total	**83,361**	**62,823**	**20,538**

The average number of Group employees was 3,156 in 2019. As at 31 December 2019, the number of Group employees came to 3,169 (2,328 blue-collar, 805 white-collar and middle managers, 36 executives), against 2,609 in 2018 (1,997 blue-collar workers, 582 white-collar and middle managers, 30 executives).

The average increase in the financial year due to the effect of the acquisition of the Air division of the Alfa Laval Group is of 368 units. As at 31 December 2019 the number of employees of the Air division of the Alfa Laval Group is of 368 units.

As at 31 December 2019 the number of temporary employees was of 557 units, (447 units in 2018) of which 23 refer to the Air division of the Alfa Laval Group.

4.6 IMPAIRMENTS

Impairments *(in thousands of Euro)*	**2019**	**2018**	**Change**
Provisions for impairment to trade receivables	873	427	446
Total	**873**	**427**	**446**

The item “Impairments” includes allocations made in 2019 in compliance with IFRS9.

4.7 OTHER OPERATING COSTS

Other operating costs *(in thousands of Euro)*	**2019**	**2018**	**Change**
Non-income taxes	553	488	65
Provisions for risks	470	371	99
Other operating costs	1,764	1,421	343
Total	**2,787**	**2,280**	**507**

Non-income taxes included mainly taxes on owned property.

4.8 FINANCIAL INCOME

Financial revenue *(in thousands of Euro)*	**2019**	**2018**	**Change**
Interest income	209	20	189
Other financial income	1,853	1,221	632
Total	**2,062**	**1,241**	**821**

The item "Other income" includes:

- €1,302 thousand, relative to the change in fair value of the capitalisation policies (Note 3.8);
- €413 thousand, relative to the profit from the securities management (Note 3.8);
- €112 thousand, relative to the change in the fair value of the options on currencies;
- €26 thousand, relative to the change in fair value on other securities (Note 3.8).

4.9 FINANCIAL EXPENSE

Financial expense *(in thousands of Euro)*	**2019**	**2018**	**Change**
Interest expense to banks	2,001	1,268	733
Interest expense to other lenders	586	215	371
Other financial expense	619	2,292	(1,673)
Total	**3,206**	**3,775**	**(569)**

Details of other financial expense are as follow:

- €451 thousand, relative to the change in fair value of the put option (Note 3.15);
- €160 thousand, relative to the losses from the securities management (Note 3.8)
- €8 thousand refer to other financial expenses.

4.10 EXCHANGE GAINS AND LOSSES

In 2019, the Group realised net exchange losses of roughly €180 thousand (net losses of €250 thousand in 2018, mainly due to the impact of INR, Zloty and Roubles). The realised part comes to a negative amount of €289 thousand, while the unrealised part amounts to a positive €109 thousand.

4.11 GAINS AND LOSSES FROM EQUITY INVESTMENTS

No profits or losses from equity investments were recognised during the financial year.

4.12 INCOME TAXES

Income taxes *(in thousands of Euro)*	**2019**	**2018**	**Change**
Current taxes	5,401	3,848	1,553
Deferred tax liabilities	(2,801)	(2,484)	(317)
Adjustment previous year	(158)	(95)	(63)
Total	**2,442**	**1,269**	**1,173**

The increase of €1.553 thousands was mainly due to the impact of the Air division of the Alfa Laval group.

For a detailed analysis of deferred tax liabilities please see the table on changes in deferred tax assets and liabilities reported in note 3.19.

Income taxes *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**
Theoretical income taxes	4,991	4,167
Tax effect of permanent differences	410	(319)
Income taxes recognised in the Financial Statements	5,401	3,848
Broken down as follows:		
IRES Italian subsidiaries	259	322
Of which IRES Parent Company:	(321)	333
IRAP	508	384
Taxes foreign companies	4,634	3,142
Total	**5,401**	**3,848**

Theoretical taxes were determined by applying the applicable tax rate in the countries in which the Group companies operate to the relative taxable incomes.

As at 31 December 2019 there were no significant tax disputes.

4.13 EARNINGS PER SHARE

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

Basic and diluted profit calculation *(in thousands of Euros)*	**2019**	**2018**
EARNINGS *(in thousands of Euro)*		
Net profit for the period	17,573	15,407
NUMBER OF SHARES		
Average weighted number of ordinary shares for the calculation of basic earnings per share	22,103,028	22,083,370
Dilution effect deriving from potential ordinary shares	-	-
Average weighted number of ordinary shares for the calculation of diluted earnings per share	22,103,028	22,083,370
EARNINGS PER SHARE *(in Euros)*	**2019**	**2018**
Basic earnings per share	0.80	0.70
Diluted earnings per share	0.80	0.70

4.14 DIVIDENDS

In May 2019, dividends totalling €5,519 thousand were distributed, corresponding to the distribution of a gross dividend of €0.25 (zero/25) for each of the 22,092,438 shares outstanding, net of treasury shares.

With respect to the year under way, the Directors proposed the payment of a €0,27 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 at 6 May 2020 (coupon no. 5 ex-dividend date 4 May 2020 and record date 5 May 2020).

In addition, €425 thousands was paid to minority shareholders of subsidiaries for a total of €5,944 thousands for the year.

4.15 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 includes the Air division of Alfa Laval, which includes air cooled equipment and close control air conditioners;

- Components SBU, 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:

Revenue by SBU *(in thousands of Euros)*	**2019**	**%**	**2018**	**%**	**Change**	**% Change**
Air Cooled Equipment	163,147	41.9%	95,578	31.7%	67,569	71%
Close Control	11,284	2.9%	10,165	3.4%	1,119	11%
SBU COOLING SYSTEMS	**174,431**	**44.8%**	**105,743**	**35.1%**	**68,688**	**65%**
Heat exchangers	203,935	52.4%	185,908	61.6%	18,027	10%
Doors	10,951	2.8%	10,027	3.3%	924	9%
SBU COMPONENTS	**214,886**	**55.2%**	**195,935**	**64.9%**	**18,951**	**10%**
TOTAL PRODUCT TURNOVER	**389,317**	**100%**	**301,678**	**100%**	**87,639**	**29%**

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 assess performance.

Information is provided below by SBU as at 31 December 2019 and 31 December 2018:

Segment *(in thousands of Euros)*	**2019**				**2018**			
	Components	**Cooling System**	**Unallocated costs**	**Total**	**Components**	**Cooling System**	**Unallocated costs**	**Total**
REVENUE	214,886	174,431	-	**389,317**	195,935	105,743	-	**301,678**
EBITDA	30,182	16,577	-	**46,759**	26,448	10,153	-	**36,601**
Investments	19,368	70,874	-	**90,242**	24,496	13,717	-	**38,213**
Property, plant and equipment	167,695	152,327	-	**320,022**	150,933	114,790	-	**265,723**

4.16 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 are 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.

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.

Please note that all derivative instruments were subscribed for the purposes of hedging the underlying risks. However, at the date of presentation of these Financial Statements, not all requirements of IFRS 9 for the application of hedge accounting were satisfied. Therefore, the Group management deemed it appropriate to treat those instruments as trading, not hedging, transactions.

Categories of financial instruments

The following tables group information relative to:

- Classes of financial instruments on the basis of their nature and characteristics;
- Book value of financial instruments;
- *Fair value of financial instruments (except financial instrument whose book value approximates their fair value); and*
- Hierarchy of fair value levels for financial assets and liabilities whose fair value is reported.

Levels from 1 to 3 of the fair value hierarchy are based on the degree of observability of information:

- Level 1 valuations are those derived from quoted (unmodified) prices on active markets for identical assets or liabilities;
- Level 2 valuations are those derived from inputs other than the prices referred to at Level 1 which are observable by assets and liabilities, both directly (e.g. prices) or indirectly (e.g. derived from prices); and

- Level 3 valuations are those derived from the application of valuation techniques which include inputs by assets or liabilities that are not based on observable market data (non-observable inputs).

Assets and Liabilities valued at fair value as at 31/12/2019*(in thousands of Euro)*	**Level 1**	**Level 2**	**Level 3**	**Total**
Other financial assets				
Current financial assets	-	59,047	-	59,047
Other financial liabilities:				
Derivatives	-	1,788	-	1,788
Payable for *Put Option*	-	-	4,087	4,087
Earn-Out	-	-	397	397
Total	**-**	**57,259**	**(4,484)**	**52,775**

Some of the Group's financial assets and liabilities are measured at fair value at the reference date of every set of Financial Statements.

More specifically, the fair value of option contracts on foreign currencies, interest rate swaps and commodity swaps is calculated using future cash flows on the basis of forward exchange rates, forward contractual rates and forward commodity prices, discounted at the date of the Financial Statements (level 2 fair value).

The fair value of the payables deriving from the put option granted to Spirotech's minority shareholders was measured using the Income Approach, based on the comparison between the calculation of the discounted future cash flows of the Indian subsidiary and a contractual calculation (level 3 fair value). The fair value of the variable payment relating to the acquisition of Zyklus was also measured using the Income Approach.

The fair value of Other financial assets derives from the counter-value of investments in quoted instruments, adjusted on the basis of the contractual return, and therefore falling under category 2 of fair value.

The categories of financial instruments are reported below:

Financial instruments by IFRS 9 categories *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**
Financial assets		
Amortised cost		
Cash and cash equivalents	81,851	85,905
Trade receivables	61,728	50,854
Non-current financial assets	-	-
Fair Value	-	-
Trading derivatives	112	-
Current financial assets	59,047	57,634
Financial liabilities		
Amortised cost		
Loans	215,472	201,858
Trade payables	86,231	57,800
IFRS 16 Financial payables	16,858	-
Fair Value	-	-
Trading derivatives	1,788	1,080
Payable for *put option* 5% Spirotech	4,087	3,260
Variable compensation for the acquisition of Zyklus	397	397

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 receivables 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 2019, a theoretical and immediate revaluation of the euro by 10% compared to other currencies would have entailed a loss of €1,666 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 2019, 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 €1,743 thousand as at 31 December 2020, and equal to 4.393 thousand on the entire residual contractual duration, 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 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 2019 the Group has unused short-term credit lines totalling roughly €39 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 at 31 December 2019 is provided below by maturity:

Analysis of financial liabilities as at 31 December 2019 *(in thousands of Euro)*	**Carrying amount**	**Contractual cash flows**	**Within 1 year**	**From 1 to 5 years**	**More than 5 years**
Bank loans	213,429	213,492	75,615	129,246	8,631
Advances on export flows in Euro	2,000	2,000	2,000	-	-
Advances on invoices	43	-	-	-	-
IFRS 16* Financial payables	16,858	16,858	3,643	9,858	3,357
Financial Liabilities	**232,330**	**232,784**	**81,258**	**139,104**	**11,988**
Trade payables	86,231	86,231	86,231	-	-
Total	**318,561**	**319,015**	**167,489**	**139,104**	**11,988**

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.

Capital risk management

The Group manages its own capital in order to ensure its business continuity, maximising at the same time return for shareholders, through the optimisation of the debt to equity ratio. The Group's overall strategy has remained unchanged since 2017.

The Group's capital structure consists of net debt (loans described in notes 3.12, net of relative balances of cash and cash equivalents) and the Shareholders' equity attributable to the group (which includes the fully paid capital, reserves, earnings carried forward and minority interests, as described in note 3.11).

=The Group is not subject to any externally imposed requirements in relation to its capital.

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) executives, 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 an executive in common with the company preparing the Financial Statements.

The table below shows the economic and financial transactions carried out by Group Companies with related parties in 2019:

Related Companies *(in thousands of Euro)*	**Trade receivables**	**Trade payables**	**Financial receivables**	**Financial payables**	**Trade revenues**	**Trade costs**	**Financial revenues**	**Financial costs**
MGPE	-	-	-	-	-	525	-	-
VITALE ZANE & CO SRL	-	-	-	-	-	40	-	-
Finami S.p.A.	-	23	-	-	-	226	-	-
Total	**-**	**23**	**-**	**-**	**-**	**791**	**-**	**-**

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; the assets underlying these contracts, in the context of the consolidated financial statements, were considered to be Rights of use in accordance with IFRS 16;
- 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 company 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.

4.17 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	Office	Period of office	End of office	Fixed remuneration (in Euro)		Remuneration for taking part in committees (in Euros)	Variable non-equity remuneration (in Euros)	Non-monetary benefits (in Euros)	Total (in Euro)
							Bonuses and other incentives		
Iginio Liberali	Executive chairman	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares the Financial Statements				232,000	(1)	-	199,041	-	431,041
(II) Remuneration from related companies and subsidiaries				18,000		-	-	-	18,000
(III) Total				**250,000**		**-**	**199,041**	**-**	**449,041**
Pierluigi Faggioli	Vice Chairman	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares the Financial Statements				30,000	(2)	-	-	-	30,000
(II) Remuneration from related companies and subsidiaries				185,000		-	234,429	3,724	423,153
(III) Total				**215,000**		**-**	**234,429**	**3,724**	**453,153**
Matteo Liberali	CEO	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares the Financial Statements				315,000	(3)	-	400,220	6,212	721,432
(II) Remuneration from related companies and subsidiaries				44,000		-	-	-	44,000
(III) Total				**359,000**		**-**	**400,220**	**6,212**	**765,432**
Michele Faggioli	COO	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares the Financial Statements				205,000	(4)	-	229,758	-	434,758
(II) Remuneration from related companies and subsidiaries				129,000		-	179,818	9,840	318,658
(III) Total				**334,000**		**-**	**409,576**	**9,840**	**753,416**
Giovanni Cavallini	Director	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares the Financial Statements				18,000		-	-	-	18,000
(II) Remuneration from related companies and subsidiaries				-		-	-	-	-
(III) Total				**18,000**		**-**	**-**	**-**	**18,000**
Michele Garulli	Director	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares the Financial Statements				40,000	(5)	5,000	-	-	45,000
(II) Remuneration from related companies and subsidiaries				-		-	-	-	-
(III) Total				**40,000**		**5,000**	**-**	**-**	**45,000**

Anna Gervasoni	Director	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares the Financial Statements				18,000		10,000	-	-	28,000
(II) Remuneration from related companies and subsidiaries				-		-	-	-	-
(III) Total				**18,000**		**10,000**	**-**	**-**	**28,000**
Laura Oliva	Director	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares the Financial Statements				18,000		-	-	-	18,000
(II) Remuneration from related companies and subsidiaries				-		-	-	-	-
(III) Total				**18,000**		**-**	**-**	**-**	**18,000**
Fabio Liberali	Director	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares the Financial Statements				126,512	(6)	-	-	5,080	131,592
(II) Remuneration from related companies and subsidiaries				-		-	-	-	-
(III) Total				**126,512**		**-**	**-**	**5,080**	**131,592**
Stefano Paleari	Director	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares the Financial Statements				18,000		14,000	-	-	32,000
(II) Remuneration from related companies and subsidiaries				-		-	-	-	-
(III) Total				**18,000**		**14,000**	**-**	**-**	**32,000**
Roberta Pierantoni	Director	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares the Financial Statements				18,000		5,000	-	-	23,000
(II) Remuneration from related companies and subsidiaries				-		-	-	-	-
(III) Total				**18,000**		**5,000**	**-**	**-**	**23,000**
Marco Vitale	Director	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares the Financial Statements				18,000		-	-	-	18,000
(II) Remuneration from related companies and subsidiaries				-		-	-	-	-
(III) Total				**18,000**		**-**	**-**	**-**	**18,000**
Paola Mignani	Chairman - Board of Statutory Auditors	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares the Financial Statements				45,000		-	-	-	45,000
(II) Remuneration from related companies and subsidiaries				-		-	-	-	-
(III) Total				**45,000**		**-**	**-**	**-**	**45,000**
Stefano Beltrame	Standing Auditor	1/1/2018-31/12/2018	Approval of Financial Statements 2019						

(I) Remunerations in the company that prepares the Financial Statements				30,000	-	-	-	30,000
(II) Remuneration from related companies and subsidiaries				44,333	-	-	-	44,333
(III) Total				74,333	-	-	-	74,333
Ivano Pelassa	Standing Auditor	1/1/2018-31/12/2018	Approval of Financial Statements 2019					
(I) Remunerations in the company that prepares the Financial Statements				30,000	-	-	-	30,000
(II) Remuneration from related companies and subsidiaries				-	-	-	-	-
(III) Total				30,000	-	-	-	30,000

(1) of which €18,000 for the position of director, and €214,000 for the position of Chairman of the Board of Directors

(2) of which €18,000 for the position of director, and €12,000 for the position of Vice-Chairman of the Board of Directors

(3) of which €18,000 for the position of director, and €297,000 for the position of CEO

(4) of which €18,000 for the position of director, and €187,000 for the position of COO

(5) of which €18,000 for the position of director, and €22,000 for the position of Investor Relator

(6) of which €18,000 for the position of director, and €108,512 for the current employment with LU-VE S.p.A.

4.18 SHARE-BASED PAYMENTS

As at 31 December 2019, there were no share-based incentive plans in favour of Group Directors or employees.

4.19 COMMITMENTS AND GUARANTEES

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

Commitments *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Mortgages	3,866	45,304	(41,438)
Sureties	2,810	973	1,837
Total	**6,676**	**47,076**	**(40,400)**

Mortgages refer to guarantees granted by Group companies to obtain medium/long-term bank loans. As at 31 December 2019, the details of the loans for which a mortgage was granted on properties owned by the Group were:

Debtor Company *(in thousands of Euro)*	**Counterparty**	**Loan type**	**Taken out**	**Maturity**	**Guarantees**	**Original amount of loan**
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 following table provides details on the commitments and sureties given by the Group:

Sureties as at 31 December 2019 *(in thousands of Euro)*	**2019**	**2018**	**Change**
Sureties to banks with respect to customers of our subsidiaries	1,438	-	1,438
Sureties to banks with respect to customers	1,147	763	384
Insurance sureties	225	210	2015
Total	**2,810**	**973**	**1,837**

Sureties to banks on customers of our subsidiaries refer to sureties issued in guarantee of customers of the Company of the Air division of the Alfa Laval Group.

The item “Third-party goods” relates to products owned by customers, temporarily in the inventory at the Group’s warehouses on 31 December 2019 and 2018.

5 CONSOLIDATION AREA AND SIGNIFICANT EQUITY INVESTMENTS

5.1 COMPANIES CONSOLIDATED LINE-BY-LINE

Company name	Registered office	% owned	Currency	Share capital	Shareholders' Equity as at 31/12/2019	Result as at 31/12/2019
Direct subsidiaries:						
SEST S.p.A.	Limana (BL)	100.00	EUR	1,000,000	22,752,084	7,261,693
Tecnair LV S.p.A.	Uboldo (VA)	79.90	EUR	200,000	3,310,386	358,496
Heat Transfer Systems s.r.o. (HTS)	Novosedly (Czech Rep.)	100.00	CZK	133,300,000	349,791,917	56,252,139
LU-VE Sweden AB	Asarum (Sweden)	100.00	SEK	50,000	(37,379,562)	2,152,010
LU-VE France S.a.r.l.	Lyon (France)	100.00	EUR	84,150	1,517,799	135,943
LU-VE Pacific Pty Ltd	Thomastown (Australia)	75.50	AUD	200,000	(4,262,784)	(615,929)
LU-VE Deutschland GmbH	Stuttgart (Germany)	100.00	EUR	230,000	(532,316)	(430,610)
LU-VE Iberica S.L.	Madrid (Spain)	85.00	EUR	180,063	(399,569)	314,198
LU-VE Asia Pacific Limited	Wan Chai (Hong Kong)	100.00	HKD	10,000	(26,847,665)	(484,322)
LuveDigital S.r.l.	Uboldo (VA)	50.00	EUR	10,000	28,960	5,320
MANIFOLD S.r.l.	Uboldo (VA)	99.00	EUR	10,000	35,351	12,456
Spirotech Ltd (95% directly owned by LU-VE S.p.A.	New Delhi (India)	95.00	INR	25,729,600	2,329,538,000	433,462,162
LU-VE AUSTRIA GmbH	Vienna (Austria)	100.00	EUR	17,500	58,429	33,556
Zyklus Heat Transfer Inc	Jacksonville (USA, Texas)	100.00	USD	1,000	1,603,860	551,289
Air Hex Alonte S.r.l.	Uboldo (VA)	100.0	EUR	2,010,000	11,653,381	3,770,065
Fincoil LU-VE OY	Vantaa (Finland)	100.0	EUR	1,190,000	5,151,606	1,185,887
LU-VE Netherlands B.V.	Breda (Netherlands)	100.0	EUR	10,000	(57,173)	(67,173)
«OOO» LU-VE Moscow	Moscow (Russia)	100.0	RUB	100,000	(8,044,114)	(8,144,114)
LU VE Middle East DMCC	Dubai (UAE)	100.0	AED	50,000	213,262	163,262
Indirect subsidiaries:						
SEST-LUVE-Polska SP.z.o.o. (95% owned by SEST S.p.A.)	Gliwice (Poland)	95.00	PLN	16,000,000	241,160,884	46,688,289
«OOO» SEST LU-VE (95% owned by SEST S.p.A.)	Lipetsk (Russia)	95.00	RUB	136,000,000	907,275,408	300,843,022
LU-VE HEAT EXCHANGERS (Tianmen) Co, Ltd (62.62% owned by LU-VE Asia Pacific Limited and 37.38% by LU-VE S.p.A)	Tianmen (China)	100.00	CNY	61,025,411	32,907,272	(2,116,846)
Thermo Glass Door S.p.A. (100% owned by SEST S.p.A.)	Travacò Siccomario (PV)	100.00	EUR	100,000	523,384	(1,200,389)

6 SIGNIFICANT NON-RECURRING TRANSACTIONS

During 2019, no significant non-recurring transactions were carried out.

7 TRANSACTIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob communication of 28 July 2006, please note that in 2019 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.

8 EVENTS SUBSEQUENT TO 31 DECEMBER 2019

The first two months of 2020 show very comforting signals. The consolidated turnover of only products reached almost €67 million, with growth of over 31% compared to the same period of the previous year (+8.6% on a like-for-like basis, in line with performance in 2019). The levels of acquisition of orders have also been very positive compared to the same period of last year, both overall (+49.5%) and within the same scope (+14.6%) as was the order portfolio, which recorded a consolidated value of over €84 million (respectively +85% overall and +13.4% within the same scope). The order portfolio at the end of February included over €32 million relative to the former “AL Air” companies which, by virtue of the greater incidence of large projects linked to the “Power Gen” sector, have historically had a more visible portfolio.

The Group closely monitors the developments relating to the spread of Coronavirus (defined as global pandemic at the beginning of March by the World Health Organisation) and has adopted all the necessary control and prevention measures, in concert with the local authorities and trade unions, in all the involved sites.

Operational continuity profiles

As of today, by virtue of the legal provisions applicable in the various countries, production has been suspended until 13 April in India and in Italy (excluding a production line dedicated to hospital equipment and despatch of inventory products and spare parts).
However, it is not possible to exclude for now that these restrictive measures will not be applied for a longer period.
In Russia, after six working days of lockdown, production will restart on 7 April as the refrigeration section has been included under those strategic areas that cannot be stopped.
As of today, the Group's current production capacity during lockdown is estimated at between 50% and 55% of normal capacity. This situation is mitigated by the fact that some significant customers (Italian and abroad) have also suspended production so allowing to delay the delivery of orders in portfolio (as of today, the Group has experienced almost no cancellations of orders). The

independence of the Group plants from each other also allows the transfer of some production lines from plants that have been closed to those who are operating.

In Italy, the Group, following the requests of some of our active customers (both Italian and abroad) in production lines considered to be of strategic importance, has made an application to the Prefects of the relevant areas to partially reopen other production lines in all plants, starting as of today.
The Group's other plants abroad are currently operational. However, it cannot be excluded that, local authorities in the countries where production sites are located may adopt increasingly restrictive measures to fight the expansion of the Covid-19 epidemic.

At all sites smart working was promoted for white-collar workers, for all the employees that can carry out their activities in this way, so allowing a significant reduction in the presence of personnel in offices even before this was required by recent decrees.

Critical issues linked to possible supply difficulties due to the closure of some supplier's production sites (mainly Italian but also abroad) as well as the difficulties linked to the circulation of goods are very closely and promptly monitored. Thanks to a widespread geographical presence, alternative supply sources have been activated which are allowing us to almost regularly supply the plants still operating.

The Chinese subsidiary (in Tianmen, in the Hubei province, the main location of the outbreak in China), after the closure for an additional month after the planned closure for the Chinese New Year, has gradually recovered production from 13 March 2020. The restart of production in China, even though it accounts for only 2% of the Group's turnover, represents a significant experience in the successful management of a complex situation linked to the Coronavirus problem. The acquisition of orders, after reopening, was encouraging.

Due to the possible economic impact of Coronavirus, the macroeconomic scenario remains characterised by strong uncertainty and a rather limited visibility and, therefore, it is very difficult to make any sort of forecast with regard to the performance of the business, economic and financial results. These circumstances, extraordinary in their nature and extent, have direct and indirect repercussions on the economic activity and have created a context of general uncertainty, whose evolution and relative effects cannot be predicted. The potential effects of this phenomenon on the budget cannot be determined at present and will be constantly monitored during the rest of the financial year.
In this context, LU-VE will be constantly committed in improving its strategic position in all the markets in which it operates. At this stage it will be vital to manage the contingent situation in the short term, while, however, never letting this distract us from our focus on medium and long term objectives of volumes and profitability growth.

Financial information outlines

The Group Management continues to monitor the possible impacts of the phenomenon in question on the most significant hypotheses and assumptions on the basis of the main estimates reflected in the financial statements, with particular reference to revenue recognition, the identification of impairment indicators on goodwill and investments, as well as the development of the liquidity situation, taking into account the uncertainty with regard to the incidence and the duration of the effects due to the pandemic in question on the performance of the sectors in which the Group operates.

With regard to this it is highlighted that, as confirmed by specific recommendations issued on 11 and 12 March 2020 respectively by the ESMA and CONSOB, relevant events in question relating to the pandemic do not impact on the determination of the results and on the net equity of the consolidated and separate financial statements as at 31 December 2019, as they are "non adjusting events", in accordance with IAS10, because the WHO declared the existence of an international emergency not earlier than on 30 January 2020 (even though the first indications of the infection in China date back to the end of 2019).

It is reminded that IAS10 requires that an indication is given of the nature of the event which occurred after the end of the financial year with an estimate of the relevant impacts on the financial statements; in particular circumstances, due to the unpredictability of the outcomes of the phenomenon, the estimated impact is not reliably quantifiable, or even impossible, the explanatory notes should provide adequate illustration, taking into account the situation of general uncertainty determined by the phenomenon.

In line with the provisions of the above mentioned IAS 10, the above mentioned ESMA recommendation reports what follows with specific reference to financial information:

"Financial Reporting – issuers should provide transparency on the actual and potential impacts of COVID-19, to the extent possible based on both a qualitative and quantitative assessment on their business activities, financial situation and economic performance in their 2019 year-end financial report if these have not yet been finalized or otherwise in their interim financial reporting disclosures".

In this context it is necessary to restate the deep uncertainty linked to the spread and duration of the pandemic in question and, in consideration of the continuous evolving of the phenomenon, that it appears to be particularly complex to predict its effects also on economic activities, both at macro and micro levels. This involves a high degree of complexity and risk in the estimates made by the Management, whose basic assumptions and hypotheses could be of necessity reviewed and updated over the next few months, also in very significant terms, following the evolution of facts which are not under our control.

In the context of the evaluation of the potential effects deriving from the spread of the Coronavirus pandemic, the level of complexity and uncertainty in our estimates is unprecedented in its nature, relating potentially numerous aspects such as:

- the possibility of different level of persistence and extent of contagion in different parts of Italy;
- the different timescales of propagation and extent of contagion in the various European countries and in the world (in particular in the USA and in India);
- the absence of predictability with regard to the overall duration of the contagion and, in particular, of the associated containment measures, or of how and when these may be lifted;
- the particular difficulty in forecasting timelines and extent of recovery of national and global economic activities, both at macro and at micro level, once the emergency is over.

In view of the above, the Group Management has carried out an analysis in order to identify the contexts of potentially greater impact in terms of the Group's financial information and, consequently, has processed various economic and financial scenarios on the basis of the available information and the reasonably predictable forecasts at present, even though in the outlined context of significant uncertainty.

The analysis carried out, in particular, related to:

- The updating of the forecasts included in the 2020 financial statements with reference to expected revenues, for example hypothesising a sensitivity based on a 20% reduction of revenues compared to the original 2020 plan, with substantial consistency in terms of fixed costs and planned investments, as well as a 30% worsening of the net working capital; financial years after 2020 could reasonably be affected by the updating of the 2020 forecasts and the potential residual correlated knock-on effects although it is not possible to formulate reasonable impact estimates because of the significant uncertainties both in terms of duration and intensity of the phenomenon, particularly with reference to timescales beyond 12 months and therefore they have not been subject to review (this update was included in the 2020-2023 business plan reviewed and subject to the approval of the Board of Directors on 6 April 2020; reference should be made to the explanatory note 3.1 to these consolidated financial statements on sensitivity analyses).

- With reference to liquidity situation, as at 31 December 2019 the ratio between the net financial position and adjusted EBITDA was (net of the first application of IFRS16) less than two, giving the Group a significant financial stability. Since the start of the COVID 19 emergency, the Group liquidity situation is updated every two days so as to best monitor all needs and anticipate reaction times as much as possible. The analysis of customers' settlement dates is also carried out every two days to promptly identify delays in payment and issue reminders.

  In the light of the best information available as of today, the following elements are highlighted to hedge the liquidity risk:

  - Current account cash balances, together with invested liquidity (convertible into cash in the very short term) amount to €122 million;
  - unused short-term credit lines are available for €22.5 million;
  - on 23 March 2020 an unsecured loan agreement was set up with Intesa Sanpaolo for €25 million with a duration of 66 months (of which 12 in the grace period) repayable in quarterly instalments at constant capital (average duration 3.1 years);
  - on 2 April 2020 an unsecured loan was set up with UBI Banca for €30 million with a duration of 36 months (of which 12 in the grace period) repayable in quarterly instalments at constant capital (average duration 1.9 years); the stipulation will take place by mid-April 2020;
  - further unsecured loans for a total amount of €70 million and the expansion of short-term credit lines for €3.5 million are in the process of being finalised,
  - a credit institute has proposed the Company a voluntary moratorium which has reduced capital repayments for 2020 by around €2.6 million.

Therefore, taking the above into consideration (and what is reported in paragraph "4.16 Information on financial risks - Liquidity risk management" with reference to the analysis of deadlines for financial liabilities recognised as at 31 December 2019), considering the best information currently available, it is deemed to be reasonable that, at least for the next 12 months, there are no liquidity risks for the Group, or risks related to the ability to repay debt. With regard to this, the Parent Company carefully monitors compliance with financial covenants that, in line with the best market practices, express the legal limits linked to the relationship between the EBITDA variables and the Group's net financial position. On the basis of the updating of the forecasts for the economic performance for 2020 described above (and subject to the reported uncertainties), as of today Directors expect that the financial covenants will be respected with reference to 2020;

As previously stated, a final agreement was reached in February with Alfa Laval with regard to the redetermination of the acquisition price of "Al Air", which was reduced to a value of €51 million with a residual payment of €9.5 million, of which €2 million already paid at the signing of the contract and €7.5 million to be paid on 30 April 2020.

To accelerate the integration process and to expand the exploitation of the synergies relative to the acquisition of "AL Air", it is planned that in 2020 the SAP information system will be implemented for the companies Fincoil LU-VE OY (whose launch is planned for 30 April) and Air Hex Alonte S.r.l. (planned for 30 September). The relative projects are already underway and continue essentially in line with the scheduled timetables in spite of the particular situation caused by the spread of Coronavirus.

A new Memorandum of Understanding was signed at the beginning of March with JEDCO, the authority managing the industrial park in Jacksonville, Texas, which outlines the obligations and incentives relative to the reviewed project which requires the purchase of building site for the construction within the next 30 months of a new production plant by the subsidiary Zyklus.

In March 2020 the Parent Company and the subsidiary Sest S.p.A. approved the review of the Organisation, Management and Control Model pursuant to Italian Legislative Decree 231/2001 and the subsidiary Tecnair LV S.p.A. has in turn adopted this model.

Furthermore, the task to revise the Organisational, Management and Control model pursuant to Italian Legislative Decree no. 231/2001 has been assigned also for the subsidiary Air Hex Alonte S.r.l..

Due to the volatility of markets as a consequence of the global spread of Coronavirus, the security has suffered, from the beginning of March 2020, from a significant depreciation. On 3 April 2020 (at the closure of the last trading day before the approval of the draft financial statements) the price was €10,10, corresponding to a capitalisation of €224.6 million, in any case higher than the net equity recognised in the Group's financial statements (€159.0 million).

CEO

Matteo Liberali

*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 set forth 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 2019.

It is also certified that the consolidated financial statements as at 31 December 2019:

- have been prepared in compliance with the applicable international accounting standards endorsed by 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.

6 April 2020

Matteo Liberali	Eligio Macchi
CEO	Manager in charge
	of financial reporting

INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ART. 14 OF ITALIAN LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010, AND ART. 10 OF EU REGULATION NO. 537/2014

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

Opinion

We have audited the consolidated financial statements of the LU-VE Group (the "Group"), which comprice the statement of financial position as at 31 December 2019, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year than ended and the explanatory notes, which also include a summary of the most significant accounting policies applied.

In our opinion, the consolidated financial statements give a true and fair view of the statement of financial position of the Group as at 31 December 2019, of its financial performance and its cash flows for the year than ended on that date in compliance with the International Financial Reporting Standards as adopted by the European Union as well as the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for opinion

We conducted our audit in compliance with the International Standards on Auditing (ISA Italy). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent with respect to LU-VE S.p.A. (the "Company") in accordance with the ethical and independence requirements and principles applicable within the Italian legal system to the audit of financial statements. We believe that the audit evidence we have obtained is sufficient to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon; therefore, we don't provide a separate opinion on these matters.

Impairment test on goodwill, intangible assets and property, plant and equipment	
Description of the key audit matter	The Group accounts for goodwill for €56.8 million in the consolidated financial statements at 31 December 2019 (10.4% of total assets). This goodwill has been allocated to two cash generating units ("CGUs") of LU-VE Group: "Components" for €28.7 million and "Cooling Systems" for €28.1 million, to which intangible assets with a finite useful life for €39.8 million, rights of use for €18.3 million and property, plant and equipment for €144.9 million have also been allocated. As required by IAS 36, as the above-mentioned CGUs include goodwill, the Group's Management performed an impairment test to determine whether the carrying amounts relating to the assets of the individual CGUs are recognised in the financial statements as at 31 December 2019 at a value no higher than their recoverable amount. After the conclusion of impairment tests, approved

by the Board of Directors on 18 March 2020, the Group has not recognised any impairment losses.

The impairment process carried out by management is based on the the value in use method, and is complex since it includes assumptions regarding, inter alia, the forecast of expected cash flows from the CGUs, making reference to the 2020-2023 plan, approved by the Board of Directors of LU-VE S.p.A., in its Meeting held on 28 February 2020, 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, specialising and expanding existing production capacity, increasing production capacity in markets where the Group is less present and in markets where the cold chain is rapidly expanding, continuously improving the performance of existing products and developing innovative products.

With regard to the escalation of the health emergency linked to the spread of the Covid-19 virus, the Directors have expanded the sensitivity analyses taking into account stress situations based on more negative inputs than those used in the impairment test, as reported in the 2020-2023 plan which was reviewed and approved by the Board of Directors on 6 April 2020, as described in the explanatory notes.

Considering the relevante value of the assets accounted for in the financial statements, the subjectivity of the estimates used to determine cash flows of the CGUs and the key variables described previously, we considered the impairment test as a key audit matter of the Group's consolidated financial statements.

Note 3.1 "Goodwill and other intangible assets" in the consolidated financial statements provides the disclosure on the impairment test, including the above mentioned sensitivity analyses carried out by the Directors.

Audit procedures performed

To evaluate the recoverability of the assets of the each CGU, 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 audit 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 in place by the Group on the process of performing impairment test;
- assessment of the reasonableness of the main assumptions adopted by the Management to develop cash flow forecasts and collection of other relevant information obtained by management;
- 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;
- assessment 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*);

	• check of the mathematical accuracy of the model used to determine the value in use of the Components and Cooling Systems CGUs; • check of the correct determination of the carrying amount of the Components and Cooling Systems CGUs and their consistency with the methods for determining values in use; • assessment of the sensitivity analysis prepared by the Management; • assessment of the adequacy of the disclosure provided by the Group on the impairment test with what is laid out in IAS 36.
Recognition of the acquisition and first consolidation of the Air division of the Alfa Laval group	
Description of the key audit matter	On 30 April 2019 LU-VE completed the acquisition of the entirety Air division from the Alfa Laval group, including the companies Air Hex Alonte S.r.l. and Fincoil LU-VE OY, finished products located in Russia and a business unit in India. The final price was defined in February 2020 for a total of €51 million after the conclusion of negotiations with the counterparty relating to the calculation of the division's economic result to be used in the definition of the contractually-based purchase price (€42.6 million net of the division's net financial position taken over by the Group and the adjustments to the net working capital at 30 April 2019). The accounting of the transaction was made in accordance with IFRS 3 and this required the allocation of the consideration to the fair value of acquired assets and taken over liabilities (with a provisional allocation of €18.8 million to intangible assets, customer list and trademarks), provisionally allocating the residual difference of € 10.6 million to goodwill. The values allocated were defined with the support of appraisals made by independent experts engaged by LU-VE group. Considering the relevant value, the complexity and the significance of the transaction for the acquisition of the Air division and its first consolidation, we have considered this transaction a key audit matter of the Group's consolidated financial statements. Note 2.1 "Introduction – Acquisition of the Air division of Alfa Laval" in the consolidated financial statements provides disclosures about the acquisition of the Air division and the relative accounting effects of the Purchase Price Allocation process.
Audit procedures performed	As part of our audit we, inter alia, performed the following procedures, also relying on the support of our experts in valuation issues: • analysis of the contacts related to the acquisition; • audit of the balance sheet of the Air division at 30 April 2019 aimed at the check of the accounts balance at the acquisition date; • identification of the main controls put in place in the process of accounting recognition of the business combination; • assessment of the valuations carried out in the context of the Purchase Price Allocation, by the Directors also with the support of independent experts; • reasonableness analysis of the main assumptions adopted for the determination of the fair value of assets and liabilities object of the acquisition, and collection of other relevant information obtained by management and by the external consultants engaged by the Group, and

of the main assumptions used for the provisional determination of the respective fair values;

- check of the accuracy of accounting entries;
- assessment of the adequacy of the disclosure provided by the Group with what is laid out in IFRS 3.

Responsibility of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/05, and, within the terms establisched by Law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Statutory Auditors is responsible for overseeing, within the terms established by Law, the LU-VE Group's financial reporting process.

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

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

A part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional skepticism throughout the audit. Moreover:

- we identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, we designed and performed audit procedures responsive to those risks,and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher that for one resulting from error, as fraud may involve collusion, forgery, intentional omissios, misrepresentations, or the override of internal control.

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

- we evaluated the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- we concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the LU-VE Goup's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audior's report. However, future events or conditions may cause the LU-VE Group to cease to continue as a going concern.

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

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

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

We also provided those changed with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and we informed them about any relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those changed with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements. Of the current period and are therefore the key audit matters. We described these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The shareholders' meeting of LU-VE S.p.A. has appointed us on March 10, 2017 as auditors of the LU-VE Group for the years from December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conductiong the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee,referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of LU-VE S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structures of the LU-VE Group as at December 31, 2019, including its consistency with the related consolidated financial statements and its compliance with the Law.

We have carried out the procedures set forth in the Auditing Standard (ISA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structures set forth in art. 123-bis, par. 4 of Legislative Decree 58/98 with the consolidated financial statements of LU-VE Group as at December 31, 2019 and on its compliance with the Law, as well as to make a statement about any eventual material misstatements.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structures are consistent with the consolidated financial statements of LU-VE Group as at December 31, 2019 and are prepared in accordance with the Law.

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

Statement in accordance with art. 4 of CONSOB regulation in application of Legislative Decree n. 254 of December 30, 2016

The Directors of LU-VE S.p.A. are responsible for the preparation of the non-financial statement in accordance to Legislative Decree n. 254 of December 30, 2016.

We verified the approval of the non-financial statements by the Board of Directors.

According to art. 3, paragraph 10, Legislative Decree n. 254 of December 30, 2016, we perform a separate audit analysis on such statement.

DELOITTE & TOUCHE S.p.A.

Massimiliano Semprini

Milan, 8 April 2020

SEPARATE FINANCIAL STATEMENTS AND EXPLANATORY NOTES AS AT 31 DECEMBER 2019

CONTENT

1 FINANCIAL STATEMENTS

1.1 STATEMENT OF FINANCIAL POSITION

Statement of Financial position *(in Euro)*	**Notes**	**31/12/2019**	**31/12/2018**
ASSETS			
Goodwill	3.1	14,629,431	14,629,431
Other intangible assets	3.1	8,042,267	8,039,820
Property, plant and equipment	3.2	36,993,708	37,971,206
Rights of use	3.2	791,096	-
Other intangible assets	3.2	3,535,128	1,719,455
Deferred tax assets	3.19	3,544,593	3,430,292
Equity investments	3.3	151,780,977	102,562,035
Other non-current financial assets	3.4	24,160,853	22,087,151
Other non-current assets	3.5	3,596	25,465
Non-current assets		243,481,649	190,464,855
Inventories	3.6	12,604,766	8,122,775
Trade receivables	3.7	26,902,347	31,920,661
Due from the tax authorities for current taxes	3.8	2,963,321	3,089,168
Current financial assets	3.9	64,541,590	67,600,031
Other current assets	3.10	1,186,641	1,721,025
Cash and cash equivalents	3.11	38,941,739	57,595,795
Current assets		147,140,404	170,049,455
Assets held for sale		-	-
Assets held for sale		-	-
TOTAL ASSETS		390,622,053	360,514,310

Statement of Financial position ***(in Euro)***	**Notes**	**31/12/2019**	**31/12/2018**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital	3.12	62,704,489	62,704,489
Reserves and retained earnings	3.12	37,711,339	38,560,116
Profit for the year	3.12	6,502,718	3,098,524
TOTAL SHAREHOLDERS' EQUITY		106,918,546	104,363,129
Loans	3.13	136,583,613	150,259,852
Provisions	3.14	1,270,668	1,270,668
Employee benefits	3.15	884,348	909,244
Deferred tax liabilities	3.19	7,682,296	8,036,101
Other financial liabilities	3.16	856,956	397,326
Non-current liabilities		147,277,881	160,873,191
Trade payables	3.17	31,291,281	25,243,041
Loans	3.13	76,949,605	48,064,111
Provisions	3.14	-	-
Tax payables	3.18	616,148	502,984
Other financial liabilities	3.16	19,589,209	14,009,261
Other current liabilities	3.20	7,979,383	7,458,593
Current liabilities		136,425,626	95,277,990
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		390,622,053	360,514,310

1.2 INCOME STATEMENT

Income Statement *(in Euro)*	Notes	31/12/2019	31/12/2018
REVENUES AND OPERATING INCOME			
Revenues	4.1	88,902,307	86,193,383
Other revenues	4.2	792,565	459,715
Total revenues and operating income		89,694,872	86,653,098
OPERATING COSTS			
Purchases of materials	4.3	(48,892,732)	(44,418,525)
Changes in inventories	3.6	4,481,991	332,938
Services	4.4	(20,376,593)	(18,014,012)
Personnel costs	4.5	(17,809,324)	(17,065,922)
Write-downs on current assets	4.6	(1,100,000)	(1,697,738)
Other operating costs	4.7	(426,458)	(732,065)
Total operating costs		(84,123,116)	(81,595,324)
Net change in fair value of derivatives	3.16	(692,558)	(631,896)
Depreciation and amortisation	3.1 - 3.2	(6,893,126)	(5,863,841)
Capital gains on the sale of non-current assets		32,531	159,518
Write-downs on non-current assets		(96,302)	(191,489)
EBIT		(2,077,699)	(1,469,934)
Financial income	4.8	10,451,446	7,321,110
Financial expense	4.9	(2,520,340)	(2,593,578)
Exchange gains (and losses)	4.10	176,806	(665,825)
Gains and losses from equity investments		-	-
EBT		6,030,213	2,591,773
Income taxes	4.11	472,505	506,751
NET PROFIT		6,502,718	3,098,524
Profit (loss) from assets/liabilities held for sale		-	-
NET PROFIT FOR THE YEAR		6,502,718	3,098,524

1.3 STATEMENT OF COMPREHENSIVE INCOME

Statement of comprehensive income *(in Euro)*	**Notes**	**31/12/2019**	**31/12/2018**
NET PROFIT FOR THE YEAR	1.2	6,502,718	3,098,524
Components that will not subsequently be reclassified to the Income Statement			
Actuarial valuation of post-employment benefits	3.15	(40,464)	19,793
Tax effect		9,711	(4,750)
		(30,753)	15,043
TOTAL COMPREHENSIVE INCOME	1.4	6,471,965	3,113,567

1.4 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Statement of changes in shareholders' equity *(in Euro)* **Note 3.12**	**Share capital**	**Share premium reserve**	**Legal reserve**	**Treasury shares**	**TFR Reserve**	**Other reserves**	**Profit for the period**	**Total shareholders' equity**
BALANCE AS AT 31/12/17	62,704,489	24,762,200	2,366,477	(1,420,267)	(55,553)	19,287,003	3,513,046	111,157,395
Adoption of accounting standard IFRS 9	-	-	-	-	-	(4,787,721)	-	(4,787,721)
BALANCE AS AT 01/01/18	**62,704,489**	**24,762,200**	**2,366,477**	**(1,420,267)**	**(55,542)**	**14,499,282**	**3,513,046**	**106,369,674**
Allocation of profit 2017								
Dividends paid	-	-	-	-	-	(4,860,336)	-	(4,860,336)
Retained	-	-	351,305	-	-	3,161,741	(3,513,046)	-
Increases (decreases)	-	-	-	(198,487)	-	-	-	(198,487)
Reversal of deferred taxes on costs relative to capital transactions	-	-	-	-	-	(61,289)	-	(61,289)
Other	-	-	-	-	-	-	-	-
Statement of comprehensive income as at 31/12/2018	-	-	-	-	15,043	-	3,098,524	3,113,567
BALANCE AS AT 31/12/18	**62,704,489**	**24,762,200**	**2,717,782**	**(1,618,754)**	**(40,499)**	**12,739,398**	**3,098,524**	**104,363,129**
Allocation of profit 2018								
Dividends paid	-	-	-	-	-	(5,519,164)	-	(5,519,164)
Retained	-	-	154,926	-	-	2,943,599	(3,098,525)	-
Increases (decreases)*	-	-	-	1,618,754	-	45,150	-	1,663,904
Reversal of deferred taxes on costs relative to capital transactions	-	-	-	-	-	(61,288)	-	(61,288)
Statement of comprehensive income as at 31/12/2019	-	-	-	-	(30,753)	-	6,502,718	6,471,965
BALANCE AS AT 31/12/19	**62,704,489**	**24,762,200**	**2,872,708**	**-**	**(71,252)**	**10,147,695**	**6,502,717**	**106,918,546**

*The change within the item "Increases (decreases)" refers to the sale of some treasury shares in 2019 for an amount of €1,663,905, generating a capital gain of €45,150 recognised to the item "Extraordinary Reserve".

1.5 STATEMENT OF CASH FLOWS

Statement of cash flows LU-VE S.p.A. *(in Euro)*		Notes	31/12/2019	31/12/2018
A.	Cash and cash equivalents at the beginning of the period		57,595,795	28,170,083
	Profit (loss) for the period		6,502,718	3,098,524
	Adjustments for:			
	- Depreciation and amortisation	3.1 - 3.2	6,893,126	5,863,841
	- Realised gains on non-current assets		63,771	(159,518)
	- Net financial income and expense	4.8 - 4.9	(6,278,019)	(4,727,532)
	- Income taxes	4.11	(472,505)	(506,751)
	- Change in *fair value*		(963,289)	631,896
	Changes in post-employment benefits		(75,811)	(50,605)
	Changes in provisions	3.14	-	280,000
	Changes in trade receivables		5,018,314	7,656,508
	Changes in inventories		(4,481,991)	(332,938)
	Changes in trade payables		6,048,240	(3,355,756)
	Changes in net working capital		6,584,563	3,967,814
	Changes in other receivables and payables, deferred taxes		1,971,925	1,139,753
	Tax payment		-	-
	Net financial revenues/expenses received/paid		6,681,500	4,220,420
B.	Cash flows generated/absorbed by operating activities		20,907,979	13,757,842
	Investments in non-current assets:			
	- intangible assets	3.1	(3,635,161)	(3,154,699)
	- property, plant and equipment	3.2	(4,435,932)	(2,204,041)
	- Equity investments	3.3	(40,518,942)	(10,052,273)
	Other non-current financial assets		(2,073,702)	(8,267,723)
C.	Cash flows generated/absorbed by investing activities		(50,663,737)	(23,678,736)
	Repayment of loans	3.13	(80,675,000)	(45,981,000)
	New loans	3.13	95,531,000	96,974,115
	Changes in other financial liabilities		(4,496,472)	(12,880,373)
	Changes in short-term financial assets		4,658,722	10,925,448
	Sale/(Purchase) of treasury shares		1,618,754	(198,487)
	Contributions/repayments of own capital		-	-
	Payment of dividends	4.13	(5,519,164)	(4,860,336)
	Other changes		45,150	(4,612,968)
D.	Cash flows generated/absorbed by financing activities		11,162,990	39,366,399
	Exchange differences		-	-
	Other non-monetary changes		(61,288)	(19,793)
E.	Other changes		(61,288)	(19,793)
F.	Net cash flows in the period (B+C+D+E)		(18,654,056)	29,425,712
	Cash and cash equivalents at the end of the period (A+F)		38,941,739	57,595,795
	Current financial debt		31,997,224	(5,526,659)
	Non-current financial debt		113,279,716	128,570,028
	Net financial position (Note 3.21)		106,335,201	65,447,574

2 EXPLANATORY NOTES

2.1 STRUCTURE AND CONTENT OF THE SEPARATE 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. The majority shareholder is Finami S.r.l.

Furthermore, it is noted that since 21 June 2017 LU-VE S.p.A. is a company listed on the Mercato Telematico Azionario ("MTA") market organised and managed by Borsa Italiana S.p.A. and that, in the capacity of Parent Company, it prepared the consolidated Financial statements of the LU-VE group as at 31 December 2019.

Declaration of compliance and accounting policies

The separate financial statements of LU-VE S.p.A. as at 31 December 2019 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 (IAS) 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 financial statements have been presented in Euro, which is the functional currency of the Company, and are compared with the separate financial statements for the previous year, prepared with the same criteria. The figures in the Explanatory Notes are shown in thousands of Euro.

The financial statements have been drawn up on the basis of the historical cost principle, except for the fair value evaluation of some financial instruments, pursuant to IFRS 9 and IFRS 13, as described below. Furthermore, the financial statements have been prepared on the basis of business continuity, as the Directors have verified the non-existence of indicators of a financial, management or other nature that might indicate critical issues relating to the ability of the Company of meeting its commitments in the foreseeable future. The risks and uncertainties relative to the business are described in the sections dedicated to the Report on Operations.

In particular, with reference to this last assumption, as at 31 December 2019, the Company has a solid and balanced financial structure with a Net financial debt/Shareholders' equity ratio (Debt ratio) of 0.1 and a positive short-term net financial position of €6.9 million, therefore the repayment of medium/long-term debt maturing in 2020 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.

It is also reported that the assessment of compliance with asset and economic requirements (covenants) on a consolidated basis, required by the financial debt of LU-VE, as at 31 December

2019 did not highlight any critical issues. Furthermore, it is highlighted that the estimates of the 2020 Budget, even though subject to significant sensitivity of the same linked to the high level of uncertainty of the times, with reference to the emergency linked to the COVID-19 pandemic, give reason to expect that also for the next financial year there will not be any critical issues with respect to these requirements. See paragraph "Events after 31 December 2019" for a more detailed analysis of the potential economic/financial impacts deriving from the pandemic.

As reported in the Report on Operations, therefore, an evaluation was carried out of the possible impacts on the LU-VE Company and Group due to the current emergency, taking into account today's conditions of uncertainty, and it is reasonably considered that it cannot compromise the business continuity.

In light of what is laid out above, the financial statements of LU-VE S.p.A. as at 31 December 2019 were prepared on the basis of the going concern assumption, pursuant to paragraphs 25 and 26 of IAS 1.

The financial statements of LU-VE S.p.A. as at 31 December 2019 were approved by the Board of Directors on 6 April 2020.

Financial Statements

The Company has adopted the following Financial statement:

- 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 2019, which did not change compared to the previous year, are described below:

INTANGIBLE ASSETS

Goodwill and business combinations

Business applications are recorded on the basis of the acquisition method. In accordance with this method, the consideration transferred to a business combination is assessed at fair value, calculated as the sum of fair values of the assets transferred and liabilities assumed by the Company at the date of acquisition and of capital instruments issued in exchange of control of the acquired business. At the date of the acquisition, the identifiable acquired assets and liabilities assumed are recorded a fair value at the date of acquisition.

Goodwill is determined as the difference between the sum of the considerations paid to the business combination compared to the fair value of net acquired assets and assumed liabilities at the date of acquisition. If the value of net acquired assets and assumed liabilities at the date of acquisition exceeds the sum of considerations paid, this excess is immediately recognised in the Income Statement as income deriving from a concluded transaction.

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.

For further information please refer to the next paragraph “Impairment of assets".

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.

For further information please refer to the next paragraph "Impairment of assets".

PROPERTY, PLANT AND EQUIPMENT

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

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:

Asset	Years
Buildings	33
Light constructions	10
Plant and equipment	8 – 10
Industrial and commercial 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.

For further information please refer to the next paragraph "Impairment of assets".

Lease contracts

The Company must evaluate if a contract is, or contains a lease, at the time of signature of the same. The Company recognises the Right of use and the relative lease Liability for all lease contracts in which it has the role of lessee, with the exception of short-term contracts (lease contracts of duration of 12 months or less) and of leases relative to low value assets (that is to say, assets with a value of less than €5,000 when new). Contracts to which this exemption has been applied mainly fall within the following categories:

- Computers, telephones and tablets;
- Printers;
- Other electronic devices;
- Furniture and equipment.

In relation to these exemptions, the Company recognises the relative payments as operating costs recognised on a straight-line basis throughout the duration of the contract.

The lease liability is initially recognised at the actual value of future payments at the time of effect of the contract. As most rental contracts stipulated by the Company are not at an implicit interest rate, the discounting rate to be applied to future payments of rentals has been determined as the risk-free rate of each country in which the contracts were stipulated, with due dates commensurate to the duration of the specific rental contract, increased by the credit spread specific to the Company.

I lease payments included in the value of the lease Liability include:

- The fixed component of the lease payments, net of any incentive received;
- The lease payments variable on the basis of a rate, initially valued using the index or rate at the date of effect of the contract;
- The amount of the guarantees for the residual value that the lessee expects to have to pay;
- The price to exercise the option to buy, which must be included only when the exercise of such option is considered to be reasonably certain;
- The penalties for the early redemption of the contact, if the lease term includes an option for the settlement of the lease and the exercise of the same is estimated to be reasonably certain.

Subsequent to the initial recognition, the value of the lease Liability is increased by the effect of interests accrued (using the effective interest method) and it is reduced to take into account the payments made on the basis of the lease contract.

The company redetermines the value of the lease liabilities (and adjusts the value of the corresponding Right of use) if:

- The duration of the lease changes or there is a change in the valuation of the exercise of the right of option; in this case the lease liability is redetermined discounting the new lease payments at the revised discounting rate.
- The value of the lease payments changes following amendments of the indices or rates, in which case the lease Liability is redetermined by discounting the new lease payments at the initial discounting rate (unless the payments due on the basis of the lease contract change following the fluctuation of the interest rate, in which case the revised discounting rate must be used).
- A lease contract has been modified and the amendment is not included in the cases for the separate recognition of the lease contract. In these cases the lease liability is redetermined by discounting the new lease payments at the revised interest rate.

The Company has not recognised any of the above mentioned changes during the year.

The Right of use includes the initial recognition of the lease liability, the lease payments made before or at the date of effect of the contact and any other initial cost. The Right of use is recognised in the financial statements net of the amortisation and depreciation expense and any value impairments.

The Right of use is depreciated on a straight-line basis at the lower of the lease term or residual useful of life of the underlying asset. If the lease contract transfers the ownership of the relative assets or the cost of the right of use reflects the willingness of the Company to exercise the option to buy, the relative right of use is depreciated on the basis of the useful life of the assets in consideration. Depreciation starts at the start of the lease.

The Right of use is included as a separate item in the statement of financial position.

The Company applies IAS 36 “Impairment of Assets” in order to identify the presence of any value impairment.

Variable lease payments that do not depend on an index or a rate are not included in the value of lease liabilities and in the Right of use. The relative payments are recognised on an accrual basis and are included in the item "other expenses" in the income statement.

In the consolidated cash flow forecast the Company divides the amount paid overall into the capital portion (recognised in the cash flow deriving from the financial asset) and the interest portion (recognised in the cash flow deriving from operational management).

For further information on the application of the standard , please refer to the paragraph “IFRS accounting standards, amendments and interpretations applicable from 1 January 2019" below.

Equity investments

Equity investments in subsidiaries are valued at cost, net of any impairment losses.

In the presence of specific impairment indicators (for example, for the purposes of the impairment test, book value greater than the subsidiary’s shareholders' equity value), the value of the equity investment in subsidiaries, determined on the basis of the cost criterion, is subject to impairment test. For the purposes of the impairment test, the book value of the equity investment is compared with its recoverable value, defined as value in use.

The value in use is determined by applying the discounted cash flows principle, which consists of the calculation of the actual value of future cash flows that are estimated will be generated by the subsidiary, including flows deriving from operating activities and the final value determined with the "perpetual income" method, net of the net financial position of the subsidiary at the date of the Financial statement.

If the prerequisites for any impairment loss previously recognised no longer apply, the accounting value of the equity investment is reversed with a charge to the Income Statement. The dividends received from subsidiaries and related companies are accounted as positive income components, under the item “Financial income – Dividends from subsidiary companies”, in the Company's Financial statement, independently of the time the retained earnings of the controlled company are formed.

The Company includes the costs related to the acquisition of the controlling equity investment in the cost of the same equity investment.

In case the acquisition of an equity investment includes a variable consideration, the variation in the consideration directly contributes to the increase/decrease of the cost of the equity investment.

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. The company represents a single CGU.

In particular, the recoverable amount of the cash-generating units is verified by determining 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.

FINANCIAL INSTRUMENTS

Derivative financial instruments

Derivative financial instruments are subscribed primarily for hedging, in order to reduce the risk of fluctuating exchange rates, interest rates and raw material costs. In line with IFRS 9, 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 IFRS 9.

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.

However, at the date of presentation of these Financial statement, not all requirements of IFRS 9 for the application of hedge accounting 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.

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.

In accordance with IFRS 9 trade receivables are classified into the categories Held to collect and Held to collect and sell. Their value is adjusted at the end of the period to the expected realisable value and written down in case of impairment measuring the expected credit loss along the duration of the receivable, together with the level of solvency of the individual debtors, also in function of the specific characteristic of the underlying credit risk, taking into account available information.

FACTORING 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.

LOANS

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

After this initial valuation, loans are recognised at the amortised cost principle calculated through the application of the effective interest rate.

The effective interest method is the method to calculate the amortised cost of a financial liability and the allocation of passive interests during the relevant period. The effective interest rate is the rate that discounts future payments (including all commissions, transaction costs and other premiums or discounts) over a duration of a financial ability or, if more appropriate, over a shorter period.

Loans are classified as current liabilities unless the Company 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 statement. 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. In particular, the new dispositions require the payment of new flows of post-employment benefits to pension funds chosen by the employee or, in case the same employee has opted to retain these flows within the company, to a treasury account set up at INPS. For employees of companies with more than 50 employees, 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.

TRADE PAYABLES AND OTHER 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 FOREIGN CURRENCY TRANSLATION

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 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 RECOGNITION

Revenues are recognised at the time of transfer of the control on the goods or services promised to the customer. Revenues are recognised net of returns, discounts, allowances and premiums, as well as directly related taxes.

Contracts with customers generally include a single performance obligation, the delivery of the goods, generally met upon the delivery of the goods to the customer.

COST RECOGNITION

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, using the effective yield method.

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 FOR THE YEAR

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 statement, with the exception of goodwill, which is not tax deductible. Deferred tax assets on tax losses and unused tax credits that may be carried forward are recognised to the extent to which is it 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.

As described in the next paragraph relative to the tax consolidation, LU-VE S.p.A., is the consolidating company for the company within this scope.

DIVIDENDS

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

EXCHANGE GAINS AND LOSSES

The amount of any net gain arising from the adjustment to year-end exchange rates of items in foreign currency, is allocated when the financial statements are approved and as a result the profit (loss) for the portion not absorbed by any loss for the year, is recognised in a non-distributable reserve until subsequently realised.

At the end of the financial year the overall amount of unrealised gains and losses on exchange rates is redetermined. When the overall net profit on exchange rates is higher than the amount of the equity reserve, the latter is integrated. If, however, a loss or a net profit lower than the reserve is recognised, the entire reserve or the excess respectively is reclassified in a freely distributable reserve in the preparation of the financial statement.

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.

TAX CONSOLIDATION CONTRACT

National Tax Consolidation applies (pursuant to art. 117 et seq. of Italian Presidential Decree 917/86 – TUIR (Consolidation Act on Income Taxes)), and its scope includes, in addition to the consolidating company LU-VE S.p.A., two other Italian subsidiaries: SEST S.p.A. (for the 2019-2021 period) and Thermo Glass Door S.p.A. (TDG) (for the 2017-2019 period, and is renewal is planned for the following three-year period).

National tax consolidation allows the determination of current IRES tax on a taxable basis corresponding to the algebraic sum of positive and negative taxable components of the participating companies. Economic relationships, in addition to reciprocal responsibilities and obligations, are regulated by specific agreements between the parties according to which, in case of positive taxable income, subsidiaries transfer to the parent company the financial resources corresponding to the greater tax due by them for the effect of participating to the national tax consolidation, and in case of negative taxable income, they receive a compensation equivalent to the relative tax saving made by the parent company, if and in the measure in which there are prospects of profitability that allow the Group to effectively reduce current taxes or the recognition of deferred tax assets.

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.

In the preparation of the financial statements, the Directors have made significant judgements on the allocation of the purchase price of the Air division of the Alfa Laval group as to the value of the carrying amount of the investments in Fincoil OY and Air Hex Alonte S.r.l., both directly held by the company (please refer to note 3.3. below "Investments" for further information with regard to this allocation).

The main assumptions relating to the future and the main causes for uncertainty in the estimates at the date of closure of the financial year which represent a significant risk of giving rise to significant adjustments in the accounting values of the assets and liabilities in the following financial year are reported below.

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 2020-2023 plan prepared by the Management and subsequently included in the LU-VE group consolidated plan approved by the Board of Directors of the Company held on 28 February 2020, 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 specialising the production with the objective to achieve an increase in the efficiency of plants, 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, especially with the use of natural refrigerating liquids, so managing to erode the market share of smaller competitors, less able to commit to the necessary investments. These assumptions could be affected by the impacts deriving from the Covid-19 pandemic.

As provided for by 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 as at 31 December 2019 at a value no higher than the recoverable amount. In particular, the Company has recognised goodwill totalling €14.6 million in the Financial statements as at 31 December 2019, in addition to intangible assets with a finite useful life, rights of use 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, among the equity investments in subsidiaries, the Management has carried out an impairment test on the investments of the companies LU-VE Sweden AB, LU-VE Iberica s.l., LU-VE

Deutschland GmbH, LU-VE Asia Pacific Ltd. – Hong Kong e LU-VE Heat Exchangers (Tianmen) Co, Ltd, which have recorded significant losses in the financial year and/or in previous financial years that, for some companies, have led to highlight negative equity.

Furthermore, among the investments in subsidiaries, the Management has subjected the investment in the company Zyklus Heat Transfer Inc. to an impairment test, which highlights a value recognised in the financial statements higher than that of its net equity for an amount of €8.6 million (generated following the acquisition in 2018).

The Management's assessment process is based on the principle of discounted cash flow – Equity side through the estimated expected cash flows inferable by the 2020-2023 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), net of its net financial position. In particular, the key variables of greater significance in the determination of the cash flow forecasts are based on the Management's expectations of focusing on the increase of sales with greater margins improving the absorption of fixed costs, focusing on new geographical markets deemed most attractive in terms of size, stability, growth and profit margins, strengthening, specialising and expanding existing production capacity particularly in already important markets where the LU-VE group is less present and in markets where the cold chain is rapidly expanding, continuously improving the performance of existing products and developing innovative products, in particular with the use of natural refrigerating liquids, so being able to erode the market share of smaller competitors that are less able to commit to the required investments. These assumptions could be affected by the impacts deriving from the Covid-19 pandemic.

Provisions for credit risks

Receivables are adjusted by the relative bad debt provision to take into account their recoverable amount. To determine the amount for 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.

Income taxes and deferred tax assets

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.

In the taxable results deriving from the 2020-2023 plan used for the impairment test for the explicit period, and through the extrapolation of these, the taxable income expected for the following years were taken into account in the verification recognition and recoverability of deferred tax assets recognised in the financial statements as at 31 December 2019. The effects deriving from the temporary differences on which deferred tax liabilities were recognised, were also used in the verification of recognition.

2.2 NEW ACCOUNTING STANDARDS

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS AT 1 JANUARY 2019

The following IFRS accounting standards, amendments and interpretations have been applied by the Company for the first time as at 1 January 2019:

- On 13 January 2016, the IASB published IFRS 16 – Leases 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, lastly, 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. On the contrary, the standard does not include significant amendments for lessors.

  The standard applies as of 1 January 2019.

  The Company has chosen to apply the standard retrospectively ("adjusted retrospective method") in accordance with paragraphs IFRS 16:C7-C13. In particular, the Company has recognised, in relation to lease contracts previously classified as operating leases:

  a) a financial liability equal to the actual value of future residual payments at the transition date, discounted by using the incremental borrowing rate applicable at the transition date for each contract;
  b) a right of use equal to the value of the financial liability at the transition date, net of any accrued income and prepayments relating to the lease and recognised in the statement of net assets at the closing date of transition.

  It is noted that the incremental borrowing rate applied to financial liabilities recognised in the financial statements as at 1 January 2019 was:

  - for contracts from 0 to 2 years: 0.00%
  - for contracts from 2 to 4 years: 0.14%
  - for contracts from 4 to 6 years: 0.38%

Renewal periods in the case of an enforceable renew option were taken into account in the determination of the lease term when the exercise of this option is considered to be reasonably certain.

Due to the effect of the introduction of the new standard on the income statement, from 1 January 2019 the portion of depreciation on the rights of use determined on the basis of the defined lease term are recognised, on the basis of valuations carried out with regard to the probability of renewal and the portions pertaining to the financial charges pertaining to the liability.

The economic data for the financial year used for comparison, which for these contracts included the recognition of lease payments for the relevant financial year under the item "Services", have not been restated. The different accounting treatment does not in any case determine significant impacts in terms of comparability between the two financial years of the economic results presented.

The Company has not made use of the derogations included in the standard on lease contracts which at the date of transition had a duration of 12 months or less (short term leases - IFRS 16:5 (a)); however, it has made use of the derogations included by the standard on lease contracts whose underlying asset is of low value (low value asset – IFRS 16:5 (b)). For these latter contracts the introduction of IFRS 16 did not involve the recognition of the financial liability and of the relative right of use and payments continue to be recognised in the income statement on a straight-line basis for the duration of the contract.

Contracts to which the exemption has been applied mainly fall within the following categories:

- Computers, telephones and tablets;
- Printers;
- Other electronic devices;
- Furniture and equipment.

The table below reports the impacts on the economic and financial position deriving from the adoption of IFRS 16 on the date of transition (1 January 2019):

Impacts at transition date 01/01/2019 (in thousands of Euro)	**Amount**
ASSETS	
Non-current assets	
Right to use Buildings	30,464
Right to use Vehicles	273,503
Right to use Internal transport vehicles	512,693
Rights to use Others	50,847
Total	**867,507**
LIABILITIES AND SHAREHOLDERS' EQUITY	
Non-current liabilities	541,781
Financial liabilities for non-current leases	
Current liabilities	325,726
Financial liabilities for current leases	
Total	**867,507**
Shareholders' Equity	
Retained earnings	

With reference to the transition rules, the Company intends to use the following practical expedient available in case of choice in the modified retrospective transition method:

- Use of information available at transition date for the determination of the lease term, with particular reference to the exercise of options of extension and early termination.

The transition to IFRS 16 introduces some elements of professional judgement which involve the definition of some accounting policies and the use of assumptions and estimates in relation to the lease term and the definition of the incremental borrowing rate. The main ones are summarised below:

- The Company has decided not to apply IFRS 16 for lease contracts with an intangible underlying asset;
- *Lease term*
  The Company has analysed all lease contracts, defining the lease term for each one, given by the "non-cancellable" period together with the effects of any extension or early termination clauses the exercise of which is deemed to be reasonably certain.
  Specifically, for property assets this assessment has considered the facts and circumstances specific of each asset. For contracts with automatic renewals for a period of one year (or less), the Company has defined as accounting policy the estimation of the lease term to be an average duration of three years, based on historical evidence and the assessment of the renewal period considered to be "reasonably certain", in the presence of, in a broad sense,

insignificant penalties for the lessor for terminating the contract. In the case of property rental agreements with multi-annual renewals depending on the willingness of both parties, the Company has assessed the specific facts and circumstances, in addition to the penalties, considered in a broad sense, deriving from a potential conclusion of the contract in order to determine the lease term.

With regard to other categories of assets, mainly company cars, forklift trucks and equipment, the Company is generally deemed the exercise of any extension or early termination clauses improbable in consideration of current practices.

- Definition of the incremental borrowing rate;

  As most rental contracts stipulated by the Company are not at an implicit interest rate, the discounting rate to be applied to future payments of rentals has been determined as the risk-free rate applicable to the company that stipulated the contract, with due dates commensurate to the duration of the specific rental contract, increased by the specific credit spread linked to the Company.

Reconciliation with commitments for leases

In order to facilitate the understanding of impacts deriving from the first application of the standard, the following table supplies the reconciliation between future commitments relating to lease contracts, for which information is provided in the same paragraph of the 2018 Financial Report, and the impact deriving from the adoption of IFRS 16 as at 1 January 2019.

Lease commitments reconciliation as at 01/01/2019 (in Euro)	Amount
Commitments for operating leases as at 31 December 2018	**1,037,815**
Minimum payments for finance leases liabilities as at 31 December 2018	-
Short-term lease fees (exemption)	-
Low-value lease fees (exemption)	-
Amount of non-lease components included in liabilities (*)	(165,624)
Other changes	-
Non-discounted financial liability for leases as at 1 January 2019	**872,191**
Effect of discounting	4,684
Financial liability for leases as at 1 January 2019	**867,507**
Current value of liabilities for financial leases as at 31 December 2018	**-**
Additional financial liability for leases due to the transition to IFRS 16 as at 1 January 2019	**867,507**

(*) They refer mainly to the service part of motor vehicles operating leases

In relation to 2019 income statement, the adoption of the new accounting standard has involved:

i) a reduction in "operating costs" of around €367,399;

ii) a decrease in the "Operating Profit" of €2,380;

iii) a decrease in the "Net Profit" of €380.

It is also noted that the financial statements of the Company as at 31 December 2019 includes "Rights of use", gross of depreciation and amortisation for the year of €1,156,114 and "Financial liabilities for leases" for €791,476, of which €459,629 recognised under the item "Other non-current liabilities" and €331,847 under the item "Other current liabilities".

- On 7 June 2017, the IASB published the interpretation "Uncertainty over Income Tax Treatments (IFRIC 23 interpretation)". The interpretation deals with the matter of uncertainties over the income tax treatment to be adopted. In particular, the interpretation requires an entity to analyse uncertain tax treatments (individually or together, depending on the characteristics) always assuming that the tax authorities examine the tax positions in question, with full knowledge of all relevant information. In case the entity does not retain it probable that the tax authority will accept the accounting treatment used, the entity must reflect the effect of the uncertainty in the assessment of its own current and deferred income taxes. 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 has been applied since 1 January 2019.

The introduction of the new amendment had no effects on the Company's financial statements.

- On 12 December 2017 the IASB published "Annual Improvements to IFRSs 2015 to 2017 Cycle", which implements amendments to some standards in the context of the annual process for the improvement of the same. The main amendments regard:

  - IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*: the amendment clarifies that at the time an entity obtains control of a business that represents a *joint operation, it must reassess its interest in this business.* This process is not, however, required in the case of obtaining joint control.
  - IAS 12 Income Taxes: the amendment clarifies that all the tax effects linked to dividends (including payments on financial instruments classified under net equity) must be recognised in a manner consistent with the transaction that generated such profits (income statement, OCI or net equity).
  - IAS 23 Borrowing costs: the amendment clarifies that in case of borrowing that remains in place even after the reference qualifying asset is ready for use or for sale, the same become part of the borrowing used for the calculation of the cost of borrowing.

  The adoption of this amendment had no effects on the Company's financial statements.

- On 7 February 2018 IASB published the document "Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)". The document explains how an entity must record a change (i.e. a curtailment or a settlement) in a defined-benefit plan. The changes require the entity to update its assumptions and remeasure the net liabilities or assets deriving from the plan. The amendments clarify that after such an event has taken place, an entity should use updated assumptions to measure the current service cost and the interest for the rest of the reference period following the event. The adoption of this amendment had no effects on the Company's separate financial statements.

- On 12 October 2017 the IASB published the document "Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)". 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 adoption of this amendment had no effects on the Company's financial statements.

- On 12 October 2017 the IASB published an amendment to IFRS 9 "Prepayment Features with Negative Compensation". This document specifies that instruments requiring prepayment could respect the Solely Payments of Principal and interests ("SPPI") test even if the reasonable additional compensation to be paid in the case of prepayment is negative compensation for the lender.

  The adoption of this amendment had no effects on the Company's financial statements.

IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, FOR WHICH APPLICATION IS NOT YET REQUIRED AND NOT ADOPTED EARLY BY THE COMPANY AS AT 31 DECEMBER 2019

- On 31 October 2018, the IASB published "Definition of Material (Amendments to IAS 1 and IAS 8)". The document introduced an amendment to the definition of "relevant" in IAS 1 – Presentation of Financial statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. This amendment has the objective of making the definition of "relevant" more specific and introduced the concept of "obscured information" alongside the concepts of omitted or incorrect information already present in the two standards subject to amendment. The amendment clarifies that information is "obscured" when it has been described in such a way as to produce for primary readers of Financial statements an effect similar to that which would have been produced had such information been omitted or incorrect.

  The amendments introduced were approved on 29 November 2019 and apply to all transactions from 1 January 2020.

The Directors do not expect the adoption of this standard to have a significant effect on the Company's Financial statements.

- On 29 March 2018, IASB published an amendment "References to the Conceptual Framework in IFRS Standards". The amendment is effective for financial years starting on 1 January 2020 or later, but early application is allowed.

  The Conceptual Framework defines the fundamental concepts for financial information and guides the Council in the development of IFRS standards. The document helps to guarantee that the Standard are conceptually coherent and that similar transactions are treated in the same way, so as to provide useful information to investors, lenders and other creditors.

  The Conceptual Framework supports companies in the development of accounting standards when no IFRS standard is applicable to a particular transaction and, more generally, helps the interested parties in understanding and interpret the Standards.

  The company has decided not to adopt this amendment in advance.

  The Directors do not expect the adoption of this standard to have a significant effect on the Company's Financial statements.

- On 26 September 2019, IASB published the "Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform". The same amends IFRS 9 - Financial Instruments and IAS 39 - Financial Instruments: Recognition and Measurement as well as IFRS 7 - Financial Instruments: Disclosures. In particular, the amendment changes some of the requirements for the application of hedge accounting, including temporary derogations to the same, in order to mitigate the effect of the impact deriving from the uncertainty of the IBOR reform (still pending) on future cash flows in the financial year prior to its completion. The amendment also requires companies to provide further information in financial statements with regard to their hedging transactions which are directly affected by the uncertainties generated by the review and to which the above mentioned derogations apply.

  The amendments come into effect on 1 January 2020, but companies may choose to apply them early.

  The Directors do not expect the adoption of this standard to have a significant effect on the Company's Financial statements.

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

At the date of these separate 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.

- On 22 October 2018, IASB published “Definition of Material (Amendments to IFRS 3)”. The document provides some clarifications on the definition of business for the correct application of the IFRS 3. In particular, the amendment clarifies that while a business normally produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an integrated set of activities/processes and goods. However, to meet the definition of business, an integrated set of activities/processes and goods must include, as a minimum, an input and a substantial process that together significantly contribute to the capacity to create an output. To this end, IASB has replaced the term "capacity to create an output" with "capacity to contribute to the creation of an output" to clarify that a business may exist also without the presence of all the inputs and processes necessary to create an output.

  The amendment also introduced a test (“concentration test”), optional for the entity, to determine if a set of activities/processes and purchased goods is not a business. If the test gives a positive outcome, the set of activities/processes and purchased goods does not represent a business and the standard requires no additional verifications. In case the test gives a negative result, the entity must carry out further analyses on the activities/processes and purchased goods to identify the presence of a business. To this end, the amendment has added several illustrative examples to the IFRS 3 in order to help understand the practical application of the definition of business in specific cases. The amendments are applied to all business combinations and acquisitions of activities after 1 January 2020, but early application is permitted.

  The Directors do not expect the adoption of this standard to have a significant effect on the Company’s Financial statements.

- On 11 September 2014, IASB published an amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The document was published in order to resolve the current conflict between IAS 28 and IFRS 10.
  In accordance with the provisions of IAS 28, the profit or loss deriving from the transfer or sale of a non-monetary asset to a joint venture or associate in exchange of a portion of share capital in the latter is limited to the portion held in the joint venture or associate by other investors extraneous to the transaction. On the contrary, standard IFRS 10 requires the recognition of the entire profit or loss in the case of loss of control of a subsidiary, even if the entity continues to hold a non-controlling interest in the same, including in this example also the sale of transfer of a subsidiary to a joint venture or related party. The amendments introduced require that in the case of a transfer/sale of an asset or of a subsidiary to a joint venture or associate, the measurement of the profit or loss to be recognised in the financial statements of the transferring/selling party depends on the fact that the assets or subsidiary transferred/sold represent a business or not, in the case of the exception provided by the IFRS 3 standard. In the case where the assets or subsidiary transferred/sold represent a business, the entity must recognise the profit or loss on the entire portion previously held; on the contrary, the portion of profit or loss relative to the portion still held by the entity

must be eliminated. The IASB has currently indefinitely deferred the application of this amendment.

The Directors do not expect the adoption of this standard to have a significant effect on the Company's Financial statements.

3 COMMENT ON THE MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

3.1 GOODWILL AND OTHER INTANGIBLE ASSETS

Other intangible assets *(in thousands of Euro)*	**Goodwill**		**Other intangible assets**	**Total**
Historical				
As at 01 January 2018	**21,078**		**23,858**	**44,936**
Increases	-		3,155	3,155
Decreases	-		(191)	(191)
Reclassifications	-		-	-
As at 31 December 2018:	**21,078**		**26,822**	**47,900**
Increases	-		3,636	3,636
Decreases	-		(496)	(496)
Reclassifications	-		-	-
As at 31 December 2019	**21,078**		**29,962**	**51,040**
Provision				
As at 01 January 2018	**6,449**	*	**16,130**	**22,579**
Increases	-		2,651	2,651
Decreases	-		-	-
Reclassifications	-		-	-
As at 31 December 2018:	**6,449**		**18,781**	**25,230**
Increases	-		3,233	3,233
Decreases	-		(95)	(95)
Reclassifications	-		-	-
As at 31 December 2019	**6,449**		**21,919**	**28,368**
Net carrying amount				
As at 31 December 2018:	**14,629**		**8,041**	**22,670**
As at 31 December 2019	**14,629**		**8,043**	**22,672**

* The goodwill amortisation provision refers to the amount recognised as at 1/01/2014 in accordance with previous accounting standards and unchanged since that date.

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 2019 (identified as the only cash generating unit). Net invested capital is inclusive of the value of goodwill and other intangible assets with a finite useful life for €8 million and property, plant and equipment for €39.7 million. In the determination of the recoverable value, identified in the value of use as the sum of discounted cash flows generated in the future and of the net invested capital on a continuous manner (Discounted Cash Flow Unlevered method), the management has made reference to the 2020-2023 plan drawn by Management and subsequently included in the consolidate LU-VE group plan approved by the Board of Directors of the Company held on 28 February 2020. These assumptions include the Management's expectations of specialising the production with the objective to achieve an increase in the efficiency of plants, 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, especially with the use of natural refrigerating liquids, so managing to erode the market share of smaller competitors, less able to commit to the necessary investments.

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 operating within the same business segment.

The values used for the calculation of the average cost of capital (extrapolated from the main financial sources) are as follows:

- sector financial structure: 14.17% (third party capital) and 85.83% (own capital);
- *sector beta levered: 1.061;*
- risk-free rate: 1.78% determined considering the average yield of government bonds with a 10-year maturity in the countries where Lu-Ve S.p.A. operates.
- risk premium: 5.20% (attributable to countries with an AAA rating – source: Prof. A. Damodaran, January 2020);
- cost of debt: 1.51% and determined considering the 10-year rate IRS increased by a spread of 1.25%.

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 2,10% (rate of expected inflation weighed on the basis of revenues of various jurisdictions). In the terminal value, an operating cash flow based on the last year of the plan (2023), 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.

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 6.43% (7.77% as at 31 December 2018).

From the impairment test carried out, approved by the Directors of the Company on 18 March 2020, no losses emerged based on the testing carried out, as the value in use was found to be higher than the carrying amount.

In terms of sensitivity, it is specified that:

- the impairment test reaches a breakeven level using a WACC (with the rate of growth of Terminal Value at 2.10% and all the plan's assumptions unchanged) of 7.32%;

- the impairment test reaches a break-even level with a reduction in the explicit EBITDA of the plan and in Terminal Value (with all the plan's assumptions unchanged) of 10,0%;

- the impairment test reaches a break-even level by using a g-rate of 1,05% (with all the plan's assumptions unchanged).

Furthermore, in consideration of the Covid-19 emergency, it has been decided to expand the sensitivity analyses with one of the most aggressive inputs, hypothesising the following scenario, that is to say a reduction in revenues of 20% in 2020 and an average reduction of 3% for the remaining years in the plan (hypothesising mainly unchanged estimated fixed costs and investments planned for the financial year), with the same discounting rate (WACC) and growth rate (g) in the terminal value (for the values reported above).

From these additional sensitivity analyses, as discussed by the Board of Directors on 6 April 2020, no losses were identified, as the value of use obtained is still higher than the accounting value.

The following table illustrates in more detail information relating to other intangible assets:

Detail of other intangible assets *(in thousands of Euro)*	**Trademarks**	**Development costs**	**Development costs in progress**	**Software**	**Other**	**Total**
Historical						
As at 01 January 2018	**10,799**	**6,047**	**1,759**	**5,241**	**12**	**23,858**
Increases	-	188	1,063	1,814	90	3,155
Decreases	-	-	(191)	-	-	(191)
Reclassifications	-	569	(569)	7	(7)	-
As at 31 December 2018:	**10,799**	**6,804**	**2,062**	**7,062**	**95**	**26,822**
Increases	-	671	631	1,770	564	3,636
Decreases	-	(192)	(304)	-	-	(496)
Reclassifications	-	1,445	(1,445)	95	(95)	-
As at 31 December 2019	**10,799**	**8,728**	**944**	**8,927**	**564**	**29,962**
Provision						
As at 01 January 2018	**6,679**	**5,164**	**-**	**4,287**	**-**	**16,130**
Increases	716	777	-	1,158	-	2,651
Decreases	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
As at 31 December 2018:	**7,395**	**5,941**	-	**5,445**	**-**	**18,781**
Increases	716	986	-	1,531	-	3,233
Decreases	-	(95)	-	-	-	(95)
Reclassifications	-	-	-	-	-	-
As at 31 December 2019	**8,111**	**6,832**	-	**6,976**	**-**	**21,919**
Net carrying amount						
As at 31 December 2018:	**3,404**	**863**	**2,062**	**1,617**	**95**	**8,041**
As at 31 December 2019	**2,688**	**1,896**	**944**	**1,951**	**564**	**8,043**

Development costs and development costs in progress

Development costs and development costs in progress for the year 2019 increased by €1,302 thousand (€1,251 thousand in 20187).

With the prior consent of the Board of Statutory Auditors, capitalised development costs for the year increased by €671 thousand: €1,445 thousand was reclassified because completed during the year.

The increase in development costs in progress for €631 thousand (€1,063 thousand in 2018) refers to product development projects in the process of being completed: the intense activities carried out have aimed to offer the market increasingly advanced products. The main projects regarded the development of new product ranges (mainly the use of natural refrigerants, such as carbon dioxide and ammonia), the miniaturisation and specialisation of tube surfaces and matrices for the improvement of heat exchange efficiencies, the introduction of electronic control systems optimised for unit coolers and air coolers.

Software

The Software development costs in 2019 increased by €1,770 thousand (€1,814 thousand in 2018). The software increase in 2019 was mainly due to the increase for the PLM (Product Lifecycle Management) project for around €458 thousand, and the purchase of other types of software for around €421 thousand.

Other intangible assets

The increase in Other intangible assets for €564 thousand (€90 thousand in 2018) refers to software projects currently being completed.

3.2 PROPERTY, PLANT AND EQUIPMENT

Other intangible assets *(in thousands of Euro)*	Property	Plant and equipment	Rights of use	Other intangible assets	Work in progress	Total
Historical						
As at 01 January 2018	39,779	49,028	-	16,876	69	105,752
Increases	331	1,234	-	470	188	2,223
Decreases	-	(1,131)	-	(38)	-	(1,169)
Reclassifications	19	35	-	-	(54)	-
As at 31 December 2018:	40,129	49,166	-	17,308	203	106,806
Increases	230	1,480	1,156	505	2,276	5,647
Decreases	-	-	-	-	(358)	(358)
Reclassifications	-	61	-	-	(61)	-
As at 31 December 2019	40,359	50,707	1,156	17,813	2,060	112,095
Provision						
As at 01 January 2018	9,244	40,447	-	15,145	-	64,836
Increases	690	1,840	-	685	-	3,215
Decreases	-	(897)	-	(38)	-	(935)
Reclassifications	-	-	-	-	-	-
As at 31 December 2018:	9,934	41,390	-	15,792	-	67,116
Increases	696	2,053	365	=546	-	3,660
Decreases	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
As at 31 December 2019	10,630	43,443	365	16,338	-	70,776
Net carrying amount						
As at 31 December 2018:	30,195	7,776	-	1,516	203	39,690
As at 31 December 2019	29,729	7,264	791	1,475	2,060	41,319

As at 31 December 2019, property, plant and equipment amounted to €5,647 thousand. This increase is mainly due to:

- €1,480 thousand refer to the expansion of the current production capacity.
- €868 thousand refer to the first recognition of the effects of IFRS 16 and €288 thousand to the increase in the financial year;

- €505 thousand mainly refer to the purchase of industrial equipment and moulds.
- €2,276 thousand mainly for the technological investment plan for the expansion and rationalisation of the current installed production capacity.

It is specified that €73 thousand of the €5,647 thousand increase in property, plant and equipment was recognised as payables under the item "other current payables" as not yet paid as at 31 December 2019.

During the year, machinery and vehicles were also disposed of, generating a net capital gain of €33 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:

	Item						
	Property		Plant and equipment		Other intangible assets		
Types of revaluations *(in thousands of Euro)*	**Gross amount**	**Net amount as at 31/12/2019**	**Gross amount**	**Net amount as at 31/12/2019**	**Gross amount**	**Net amount as at 31/12/2019**	**Net total as at 31/12/2019**
Law no. 413 of 30 December 1991	5	1	-	-	-	-	1
Law no. 342 of 21 December 2000	-	-	1,347	-	1,080	-	-
Law no. 350 of 24 December 2003	-	-	1,814	-	1,183	-	-
Law no. 266 of23 December 2005	-	-	847	-	296	-	-
TOTAL	5	1	4,008	-	2,559	-	1

3.3 EQUITY INVESTMENTS

The details of this item are shown below:

Equity investments *(in thousands of Euro)*	31/12/2019	31/12/2018	Change
Tecnair L.V. S.p.A.	1,043	1,043	-
SEST S.p.A.	44,895	44,895	-
Heat Transfer System s.r.o. (HTS)	9,540	9,539	1
LU-VE France S.à.r.l.	1,303	890	413
LU-VE Deutschland GmbH	173	173	-
LU-VE Iberica S.l.	145	145	-
LU-VE Contardo Pacific Pty Ltd (Australia)	-	-	-
LU-VE Asia Pacific Ltd. (Hong Kong)	13	13	-
LU-VE HEAT EXCHANGERS (Tianmen) Co, Ltd	3,000	-	3,000
LU-VE Sweden AB	390	390	-
MANIFOLD S.r.l.	10	10	-
LU-VE India Corporation Private Ltd	-	35,383	(35,383)
LUVEDIGITAL S.r.l.	5	5	-
Spirotech Heat Exchangers Private Ltd	35,383	-	35,383
LU-VE Austria GmbH	18	18	-
Zyklus Heat Transfer Inc.	10,052	10,052	-
Air Hex Alonte S.r.l.	15,125	-	15,125
Fincoil LU-VE OY	30,649	-	30,649
LU-VE Netherlands B.V.	10	-	10
«OOO» LU-VE Moscow	1	-	1
LU VE MIDDLE EAST DMCC	20	-	20
Total subsidiaries:	**151,775**	**102,556**	**49,219**
Industria e Università S.r.l.	6	6	-
Total	**151,781**	**102,562**	**49,219**

The change in equity investments is due to:

- For €45,774 thousand for the acquisition of equity investments in Fincoil OY and Air Hex Alonte S.r.l., active in the production and marketing of heat exchangers sector. This value is made up of:
    - €44,655 thousand, equivalent to the definitive payment due to the counterparty; that is to say €51,000 thousand net of the net financial position taken over by the company and adjustments to the net working capital;
    - €2,354 thousand, equivalent to accessory costs for the acquisition of the division;
    - Negative change of €1,235 thousand (included in the payment of €44,655 thousand), payment relating to the purchase of finished products located in Russia for €435 thousand and a business unit in India for €800 thousand.

The acquisition involved the following increases in equity investments:

- for €30,649 thousand relative to the 100% equity investment in the company Fincoil OY, Finnish production company located in Vantaa (Helsinki), specialised in industrial refrigeration;

- for €15,125 thousand relative to the 100% equity investment in the company Air Hex Alonte S.r.l., an Italian production company located at Alonte (Vicenza), specialised in commercial and industrial refrigeration, in which the Italian Alfa Laval business was merged on 1 April 2019, net of receivables from customers and payable to suppliers current at that date.

  The allocation of costs to the two equity investments reported above is different from the one agreed in the acquisition contract on 1 May 2019. This is because during the year (as reported in the introduction of the notes to the consolidated financial statements) changes to the price, also significant ones, intervened following negotiations concluded in December 2019 between the parties relative to the calculation of the division's profit to be used for the contractual definition of the purchase price. The final value of the acquisition of the two companies was set at €45,774 thousand as reported above and the allocation to the individual companies was made in proportion to the parameter used in the acquisition contract on the closing date to define the price for the entire Air division (EBITDA for a multiplier of 6.5);

- for €35,383 thousand relative to the reverse merger by incorporation of the company LU-VE India Corporation Private Ltd into the subsidiary Spirotech Heat Exchangers Private Ltd; therefore, the booking value of the latter company, now directly controlled by LU-VE S.p.A., corresponds to the previous booking value of the company LU-VE India Corporation Private Ltd (the merger has simply shortened the control chain; it is reminded that LU-VE India Corporation Private Ltd was the corporate vehicle used to acquire 95% of Spirotech Heat Exchanger Private Ltd in 2016);

- for €3,000 thousand relative to the payment of share capital in the newly constituted subsidiary LU-VE HEAT EXCHANGERS (Tianmen) Co. Ltd, bringing the total direct equity investment of LU-VE SPA to 37.38%;

- for €413 thousand relative to the acquisition of the remaining minority interest in the equity investment in the company LU-VE France S.à.r.l (previously held for 86.06%).

Furthermore, to support the Air division business, the following commercial companies were constituted which involved an increase in equity investments of:

- €20 thousand for the company LU VE Middle East DMCC, located in Dubai (UAE);

- €10 thousand for the company LU-VE Netherlands B.V., located in Breda, Lage Mosten (The Netherlands);

- €1 thousand for the company «OOO» LU-VE Moscow, located in Moscow (Russia).

Pursuant to IAS 36, the Company carried out an analysis in order to test for the presence of impairment indicators and/or impairment losses. 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 Management tested the recoverability of the carrying amount of the following equity investments as at 31 December 2019, identifying significant losses for the year and/or previous years that led to the recognition of negative shareholders' equities or significant differences between the booking value of equity investments in the financial statements and the relative value of the accounting net equity. The following companies were subjected to the impairment test:

- LU-VE Sweden AB;
- LU-VE Deutschland GmbH;
- LU-VE Iberica s.l.;
- LU-VE Asia Pacific Ltd. – Hong Kong/LU-VE Tianmen (China)
- Zyklus Heat Transfer Inc.

In determining the recoverable amount, identified in the value in use as the sum of discounted cash flows generated in the future and on an ongoing basis net of the financial position of the subsidiary (so called DCF Method - Discounted Cash Flow - Equity side), the Management made reference to the 2020-2023 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 on 28 February 2020. In particular, the key variables of greater significance in the determination of the cash flow forecasts are based on the Management's expectations of focusing on the increase of sales with greater margins improving the absorption of fixed costs, focusing on new geographical markets deemed most attractive in terms of size, stability, growth and profit margins, strengthening, specialising and expanding existing production capacity particularly in already important markets where the LU-VE group is less present and in markets where the cold chain is rapidly expanding, continuously improving the performance of existing products and developing innovative products, in particular with the use of natural refrigerating liquids, so being able to erode the market share of smaller competitors that are less able to commit to the required investments.

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, 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 (2023), 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:

Company	WACC	g rate
LU-VE Sweden AB	5.24%	1.93%
LU-VE Deutschland GmbH	4.82%	1.00%
LU-VE Iberica s.l.	6.16%	1.96%
Zyklus Heat Transfer Inc	6.68%	2.28%
LU-VE Tianmen (China)	8.00%	3.07%

The level of net financial debt as at 31 December 2019 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, approved by the Directors of the Company on 18 March 2020, 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 Management has developed sensitivity analyses.

Management has provided to determine the break-even WACC and g-rate, together with a reduction in the percentage of the EBITDA value in the period in question and of the Terminal Value for each equity investment subject to :

Company	EBITDA	WACC	g rate
LU-VE Sweden AB	-52.7%	11.4%	n.s.*
LU-VE Deutschland GmbH	n.s.*	n.s.*	n.s.*
LU-VE Iberica s.l.	n.s.*	n.s.*	n.s.*
Zyklus Heat Transfer Inc	-4.6%	7.01%	1.91%
LU-VE Asia Pacific Ltd. – Hong Kong /LU-VE Tianmen (China)	-47.6%	15.3%	n.s.*

* Not significant as stress test scenario whose values are difficult to realise.

Furthermore, in consideration of the Covid 19 emergency, it has been decided to expand the sensitivity analyses with one of the most aggressive inputs, hypothesising the following scenario, that is to say a reduction in revenues of around 20% for each subsidiary in 2020 and an average reduction of 6% for each subsidiary (hypothesising mainly unchanged estimated fixed costs and investments planned for the financial year), with the same discounting rate (WACC) and growth rate (g) in the terminal value (for the values reported above).

From these additional sensitivity analyses, as discussed by the Board of Directors on 6 April 2020, no losses were identified, as the value of use of the equity investments obtained is still higher than the accounting value.

A dedicated list indicating the information required for each subsidiary by art. 2427.5 of the Italian Civil Code, is provided in annex.

3.4 OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Other non-current assets	24,161	22,087	2,074
Total	**24,161**	**22,087**	**2,074**

The item “Other non-current financial assets” amounted to €24,161 thousand compared to €22,087 thousand in the previous year. This change depends substantially:

- on the increase of €5,800 thousand in receivables for loans to the following Group subsidiaries (please refer to the paragraph "Increases for the year” reported below);
- on the increase of €3.820 thousand relative to the repayment of the long-term loan granted to the subsidiary Heat Transfer System (HTS) s.r.o.

Financial receivables from subsidiaries include:

- for €1,556 thousand for a long-term loan granted to the subsidiary LU-VE Ibérica s.l.
- for €6,775 thousand for a long-term loan granted to the subsidiary LU-VE Asia Pacific Limited. 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.
- for €5.063 thousand for a long-term loan granted to the subsidiary LU-VE Sweden AB;.
- for €4.788 thousand for a long-term loan granted to the subsidiary Zyklus Heat Transfer Inc.

Increases in the year:

- for €3,000 thousand for the long-term loan granted to the subsidiary FINCOIL LU-VE Oy to guarantee the company's ordinary operations;
- for €1.000 thousand for the long-term loan granted to the newly constituted "OOO" LU-VE MOSCOW to guarantee the company's ordinary operations;
- for €800 thousand for the long-term loan granted to the newly constituted LU-VE Netherlands B.V. to guarantee the company's ordinary operations;
- for €750 thousand for the long-term loan granted to the company Air Hex Alonte S.r.l. to guarantee the company's ordinary operations;
- for €250 thousand for the long-term loan granted to the newly constituted LU-VE MIDDLE EAST DMCC to guarantee the company's ordinary operations;

Receivables for loans in foreign currency have also generated positive foreign exchange differences of €94 thousand.

3.5 OTHER NON-CURRENT ASSETS

Other non-current assets *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Other non-current assets	4	25	(21)
Total	**4**	**25**	**(21)**

"Other non-current assets" amounted to €4 thousand (€25 thousand in 2018). The change compared to the previous year refers to a decrease of €21 thousand in deposits:

3.6 INVENTORIES

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

Inventories *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Raw materials and consumables	6,463	5,943	520
Work in progress and semi-finished products	1,362	1,168	194
Finished products and goods for resale	5,848	2,157	3,691
Provision for inventory losses	(1,068)	(1,145)	77
Total	**12,605**	**8,123**	**4,482**

The increase in value compared to 2018 was mainly caused by the increase in sales volumes.

The provision for inventory losses, equal to €1,068 thousand as at 31 December 2019 (of €1,145 thousand in 2018) 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.

3.7 TRADE RECEIVABLES

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

Trade Receivables *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Trade receivables from third parties	10,035	10,718	(683)
Trade receivables from Group customers	27,713	30,951	(3,238)
Third party Provision for bad debts	(2,634)	(2,136)	(498)
Group Provision for bad debts	(8,212)	(7,612)	(600)
Total	**26,902**	**31,921**	**(5,019)**

As at 31 December 2019, trade receivables included receivables from some subsidiaries. For the details, refer to the Note on Related Parties (Note 4.14). 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.

Trade receivables include contract assets (invoices to be issued relative to services already rendered by the Company) for an amount of €33 thousand and a reduction in trade receivables for variable compensations (credit notes to be issued for bonuses granted to customers) for €941 thousand.

The Company's Provision for bad debts increased in the year by €600 thousand due to the effect of the Expected Credit Loss required by IFRS 9.

The breakdown of receivables from third parties by geographical area is shown below:

Breakdown of trade receivables from third parties by geographical area *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Italy	1,874	4,670	(2,796)
EU Countries	3,143	3,831	(688)
Non-EU Countries	5,018	2,217	2,801
Provision for bad debts	(2,634)	(2,136)	(498)
Total	**7,401**	**8,582**	**(1,181)**

The ageing of trade receivables from third parties is shown below:

Breakdown of trade receivables from third parties by maturity *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Current receivables (not past due)	6,786	6,904	(118)
Past due up to 30 days	839	547	292
Past due from 30 to 60 days	3	1,005	(1,002)
Past due from 60 to 90 days	2	31	(29)
Past due for more than 90 days	2,405	2,231	174
Total	**10,035**	**10,718**	**(683)**

The following table summarises the gross accounting value of receivables from third parties at the time of possible default (equivalent to the recognition value of receivables), and the estimate as at 31 December 2019 of expected losses throughout the credit life:

(in thousands of Euro)	Not past due	<30	31 - 60	61 - 90	>90	Total
Expected default rate	3.15%	1.91%	0.00%	0.00%	99.96%	
Estimate of gross accounting value at the time of default	6,786	839	3	2	2,405	10,035
Expected losses throughout credit life	214	16	-	-	2,404	2,634

The Management has calculated the ECL on the Company's net credit position towards controlled companies, in the assumption that in case of default of a subsidiary within the Group, the Parent Company would only suffer the loss of the net amount of reciprocal items, having the possibility of controlling cash flows between the parties. Therefore, for each directly or indirectly controlled company, the test has considered as its unit-of-account, the algebraic sum of trade receivables, other non-current financial assets, the balance of Cash Pooling included in "Current financial assets", net of the balance payable of "Cash Pooling" included in the item "Other current financial liabilities" and of "Trade payables" and "Tax consolidation liabilities/assets".

Management has then divided directly and indirectly controlled companies into three risk categories, on the basis of their historical economic performance and expectations of the same.

Subsequently, the Management has estimated the recovery times of return of expected future revenue. On the basis of recovery times, these revenue flows were discounted at the annual rate that includes a component of country risk/free risk and the specific risk of the three identified categories (0.5%, 2% and 4.5%).

The results of the analyses in thousands of Euro as at 31 December 2019 are reported below:

Risk Class	Trade receivables	Other non-current financial assets	Cash Pools Assets	Cash Pools Liabilities	Trade payables and receivables/ payables for tax consolidation	Net lending position	Impairment loss on accounts receivables	Impairment loss on cash pooling
Risk Class 1	13,408	19,098	775	8,151	4,166	20,964	2,637	-
Risk Class 2	2,464	-	-	-	10	2,454	136	-
Risk Class 3	11,642	5,063	6,102	695	2,277	19,835	5,439	1,270
Total as at 31/12/2019	**27,514**	**24,161**	**6,877**	**8,846**	**6,453**	**43,253**	**8,212**	**1,270**

The loss was mainly allocated to trade receivables, rather than financial receivables, which do not normally have a due date and are repayable to the Company on demand (except in cases where cash pooling represents most of its balance).

3.8 RECEIVABLES FROM THE TAX AUTHORITIES FOR CURRENT TAXES

This item was broken down as follows:

Receivables from the tax authorities for current taxes *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Receivables from the tax authorities for VAT	2,227	2,571	(344)
Receivables from the tax authorities for payments on account of direct taxes	684	465	219
Others	52	53	(1)
Total	2,963	3,089	(126)

The item "Due from the tax authorities" refers to advances paid in 2019 and in previous years.

3.9 CURRENT FINANCIAL ASSETS

Current financial assets included in this item are part of the FVTPL category. These are financial instruments, whose contractual financial flows are not constituted solely by payment of capital and interest on the amount of capital to be repaid, and are held by the Company in the context of a pro tempore strategy whose objective, at equal risk, is the optimisation of the net cost of debt. This item was broken down as follows:

Current financial assets *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Capitalisation policies	58,632	51,330	7,302
Other securities	303	6,304	(6,001)
Cash pooling	5,607	9,966	(4,359)
Total	64,542	67,600	(3,058)

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). During the year a new policy was subscribed for a nominal value of €1,000 thousand, in addition to that already subscribed in the previous years for €40,192 thousand. The fair value measurement at the reporting date entailed the recognition of a positive amount of roughly €933 thousand, under the item "Financial income".

During the year a new policy was also taken out, issued by BNP Paribas Cardif Vita Compagnia di assicurazioni e Riassicurazioni S.p.A., for a nominal value of €5,000 thousand, in addition to the one taken out the previous year for €10,000 thousand. The fair value measurement at the reporting date entailed the positive recognition of €369 thousand, under the item "Financial income".

With reference to current events in relation to what has already been reported in the Report on Operations with regard to the effects that Coronavirus might have on the values in the financial statements as of today, it is reported that these policies are at "guaranteed return" and therefore not subject to significant fair value fluctuations. In the case of disinvestment of such policies, the negative impact would not be significant.

Other securities refer to investments, made in 2017 with Unicredit for around 300 thousand which involved the recognition as at 31 December 2019 of a positive fair value of €22 thousand.

Other investments subscribed through UBI Banca S.p.A. (where the securities account is held) in Italian government securities, corporate bonds, bond funds and mixed funds. In April 2019, these securities were entirely liquidated for an amount of €6,355 thousand. The disinvestment of securities has involved the recognition in the income statement of financial revenues for €413 thousand, and financial charges of €160 thousand.

The amounts of earnings and losses described above are recognised in the Income Statement in the items "financial income" or "financial expenses". Changes in fair value in the item "financial income"

"Cash pooling" represents positive balances for the Company of the Group centralised treasury (net of the recognition of the provision for doubtful ECL accounts for €1,270 thousand, calculated with the same procedures reported in note 3.2) above.

As at 31 December 2019 the various categories of derivative financial instruments held by the Company do not present positive fair values: in particular derivative financial instruments on IRS, the only derivative instruments in place as at 31 December 2019, present a negative fair value of €1,711 thousand.

The summary relating to outstanding derivative financial instruments as at 31 December 2019 broken down by type is provided below:

Derivative financial instruments as at 31/12/2019 *(in thousands of Euro)*		**31/12/2019**		**31/12/2018**		**31/12/2019**	**31/12/2018**
TYPE	**ORIGINAL NOTIONAL**	**NOT. Short**	**NOT. M/L**	**NOT. Short**	**NOT. M/L**	***FAIR VALUE***	***FAIR VALUE***
IRS on loans	257,336	40,574	124,969	38,663	109,378	(1,711)	(927)
Commodity Swaps	-	-	-	600	-	-	(91)
Total	**257,336**	**40,574**	**124,969**	**39,263**	**109,378**	**(1,711)**	**(1,018)**
Total Notional		**165,543**		**148,641**			

The details relating to outstanding derivative financial instruments as at 31 December 2019 broken down by type are provided below:

IRS on loans*(in thousands of Euro)*

DEBTOR COMPANY	COUNTERPARTY	TAKEN OUT	MATURITY	ORIGINAL NOTIONAL	31/12/2019		31/12/2019
					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	-	(3)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	11/08/2014	16/10/2020	3,500	583	-	(3)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	21/07/2015	29/06/2020	4,818	611	-	(2)
LU-VE S.P.A.	Intesa San Paolo S.p.A.	04/02/2016	31/03/2020	10,000	1,250	-	(3)
LU-VE S.P.A.	Banca Nazionale del Lavoro	11/08/2014	16/10/2020	3,500	583	-	(4)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/07/2015	09/06/2020	17,778	2,222	-	(9)
LU-VE S.P.A.	Banca Nazionale del Lavoro	25/10/2016	21/09/2020	28,000	6,000	-	(7)
LU-VE S.P.A.	Unicredit S.p.A.	17/09/2015	31/12/2020	10,000	2,500	-	(15)
LU-VE S.P.A.	Deutsche Bank	27/03/2017	23/03/2021	5,500	1,375	344	(6)
LU-VE S.P.A.	Mediocredito italiano	21/06/2017	28/02/2022	25,000	5,882	7,353	(67)
LU-VE S.P.A.	Unicredit S.p.A.	20/09/2018	30/06/2024	12,000	2,400	8,400	(229)
LU-VE S.P.A.	Unicredit S.p.A.	20/09/2018	29/09/2023	15,000	-	15,000	(449)
LU-VE S.P.A.	Mediocredito italiano	28/11/2018	20/06/2024	12,500	2,500	8,750	(155)
LU-VE S.P.A.	Mediocredito italiano	28/11/2018	20/06/2024	12,500	2,500	8,750	(155)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/12/2018	24/09/2024	10,000	2,000	8,000	(123)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/12/2018	20/12/2023	10,000	1,111	7,778	(124)
LU-VE S.P.A.	Unicredit S.p.A.	30/01/2018	31/03/2023	18,750	3,750	9,375	6
LU-VE S.P.A.	Banco Popolare di Milano S.p.A.	25/01/2019	30/09/2024	25,000	3,750	21,250	(277)
LU-VE S.P.A.	Unione di Banche Italiane Società cooperativa per azioni	26/07/2019	30/07/2026	21,569	-	21,569	3
LU-VE S.P.A.	Unicredit S.p.A.	12/07/2019	30/06/2024	9,600	1,200	8,400	(89)
			Total	**257,336**	**40,574**	**124,969**	**(1,711)**

3.10 OTHER CURRENTASSETS

The details of this item are shown below:

Other current assets *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
From employees	36	39	(3)
Advances to suppliers	456	677	(221)
Receivables from the Group's Companies for tax consolidation	459	834	(375)
Other receivables	236	171	65
Total	1,187	1,721	(534)

3.11 CASH AND CASH EQUIVALENTS

The details of this item are shown below:

Cash and cash equivalents *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Cash and cash equivalents	38,942	57,596	(18,654)
Total	**38,942**	**57,596**	**(18,654)**

The decrease of €18,654 is mainly due to the acquisition of the Air division of the Alfa Laval group.

The Company has placed no restrictions/constraints on the use of these amounts.

For further information on cash flows dynamics, please refer to paragraph 1.5 – “Statement of Cash Flow”.

3.12 SHAREHOLDERS' EQUITY

Share capital amounted to €62,704 thousand (€62,704 thousand as at 31 December 2018).

In 2019, dividends of €5,519 thousand were distributed by the Company from the extraordinary reserve and retained earnings carried forward from the previous year.

As at 31 December 2019 LU-VE S.p.A. did not hold any treasury shares: during the year all the 157,608 treasury shares held were sold, recording a capital gain of €45,150 thousand recognised in net equity.

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:

				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	-			
Principal amount reserves:		-			
Share premium reserve	24,762	A,B,C	24,762		
Reserve for treasury shares	-	-			
Profit reserves:					
Legal reserve	2,873	B			
Extraordinary reserve	9,874	A,B,C	9,874		(14,796)
Revaluation reserve	273	A,B,C	273		
Post-employment benefits discounting reserve	(71)	-			
Total	**100,415**		**34,909**	-	
Non-distributable portion	65,779				
Residual distributable portion	34,636				

(*) The draft Financial statements call for a distribution of dividends totalling €0,27 per share.

Key:

A: for capital increases
B: to cover losses
C: for distribution to shareholders

3.13 LOANS

Loans *(in thousands of Euro)*	31/12/2019 Current	31/12/2019 Non-current	31/12/2018 Current	31/12/2018 Non-current
M/L term bank loans	74,908	136,584	48,053	150,260
Advances on export flows in Euro	2,000	-	-	-
Advances on invoices subject to collection	42	-	11	-
Total	**76,950**	**136,584**	**48,064**	**150,260**

As at 31 December 2019, bank loans amounted to €211,492 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 as follows:

Bank loans *(in thousands of Euro)*							AMORTISED COST 31/12/2019		AMORTISED COST 31/12/2018	
DEBTOR COMPANY	COUNTERPARTY	LOAN TYPE	TAKEN OUT	MATURITY	RATE APPLIED	ORIGINAL AMOUNT	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	-	-	59	59
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	09/06/2015	09/06/2020	6M Euribor + Spread	20,000	2,220	2,220	6,563	4,358
LU-VE	UniCredit S.p.A.	Unsecured loan	17/09/2015	31/12/2020	6M Euribor + Spread	10,000	2,500	2,500	5,000	2,500
LU-VE	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	3M Euribor + Spread	30,000	-	-	14,942	4,992
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + Spread	10,000	2,501	2,501	4,984	2,494
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/09/2016	20/09/2020	3M Euribor floor 0% + Spread	30,000	6,000	6,000	14,000	8,000
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	30/09/2016	30/09/2021	3M Euribor + Spread	10,000	3,519	2,007	5,509	1,996
LU-VE	Banca Popolare di Sondrio Società Cooperativa per Azioni	Unsecured loan	15/12/2016	31/01/2020	Average prev quart 3M Euribor + Spread	10,000	837	837	4,176	3,339
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	28/11/2020	3M Euribor + Spread	1,500	400	400	798	399
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	23/03/2021	3M Euribor + Spread	5,500	1,718	1,374	3,088	1,372
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	31/03/2017	28/02/2022	3M Euribor + Spread	25,000	13,242	5,879	19,118	5,882

LU-VE	UniCredit S.p.A.	Unsecured loan	20/04/2017	31/12/2020	Fixed	10,000	2,856	2,856	5,708	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	19,999	19,999	20,000	-
LU-VE	Unicredit S.p.A.	Unsecured loan	30/01/2018	31/03/2023	6M Euribor + Spread	25,000	17,500	4,993	22,479	5,014
LU-VE	Unicredit S.p.A.	Unsecured loan	20/09/2018	30/06/2024	6M Euribor + Spread	12,000	10,797	2,395	11,988	1,198
LU-VE	Unicredit S.p.A.	Unsecured loan	20/09/2018	30/09/2023	6M Euribor + Spread	15,000	15,033	147	14,987	-
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	12,500	11,239	2,492	12,482	1,247
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	12,500	11,239	2,492	12,482	1,247
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/12/2018	24/09/2024	6M Euribor + Spread	10,000	10,026	1,976	9,975	-
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/12/2018	20/12/2023	6M Euribor + Spread	10,000	8,876	1,104	9,975	1,102
LU-VE	Banca Popolare di Milano	Unsecured loan	16/06/2019	28/06/2024	3M 360 days Euribor + Spread	10,000	8,972	1,948	-	-
LU-VE	Banca Popolare di Milano	Unsecured loan	25/01/2019	31/03/2025	3M 360 days Euribor + Spread	30,000	26,195	4,982	-	-
LU-VE	Unicredit S.p.A.	Unsecured loan	12/07/2019	30/06/2024	6M 360 days Euribor + Spread	12,000	10,793	2,394	-	-
LU-VE	Unione di Banche Italiane Società cooperativa per azioni	Unsecured loan	30/07/2019	30/07/2026	6M 360 days Euribor + Spread	25,000	25,030	3,412	-	-
						Total	**211,492**	**74,908**	**198,313**	**48,053**

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 2019, the details of loans that require financial covenants to be met are provided below (in thousands of Euro):

COMPANY	COUNTERPARTY	LOAN TYPE	TAKEN OUT	MATURITY	RATE	FINANCIAL COVENANTS	INITIAL AMOUNT
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	09/06/2015	09/06/2020	6M Euribor + Spread	NFP/EBITDA <= 3; NFP/SE <= 1.25	20,000
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + Spread	NFP/EBITDA <= 3; 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 <= 3; NFP/SE <= 1.25	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; NFP/SE <1	10,000
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	28/11/2020	3M Euribor + Spread	NFP/EBITDA <= 3	1,500
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	23/03/2021	3M Euribor + Spread	NFP/EBITDA <= 3	5,500
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	31/03/2017	28/02/2022	3M Euribor + Spread	NFP/EBITDA <= 3; NFP/SE <1	25,000
LU-VE	Unicredit S.p.A.	Unsecured loan	20/04/2017	31/12/2020	Fixed Rate	NFP/EBITDA <=3.5; NFP/SE<=1	10,000
LU-VE	Unione di Banche Italiane Società cooperativa per azioni	Unsecured loan	20/12/2017	20/12/2020	3M Euribor + Spread	NFP/EBITDA <= 3; NFP/SE <1	20,000
LU-VE	Unicredit S.p.A.	Unsecured loan	30/01/2018	31/03/2023	6M Euribor + Spread	NFP/EBITDA <=3.5; NFP/OWN FUNDS <=1	25,000
LU-VE	Unicredit S.p.A.	Unsecured loan	20/09/2018	30/06/2024	6M Euribor + Spread	NFP/EBITDA <=3; NFP/OWN FUNDS <=1	12,000
LU-VE	Unicredit S.p.A.	Unsecured loan	20/09/2018	30/09/2023	6M Euribor + Spread	NFP/EBITDA <=3; NFP/OWN FUNDS <=1	15,000
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	NFP/EBITDA < 3; NFP/SE <=1	12,500
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	NFP/EBITDA < 3; NFP/SE <=1	12,500
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/12/2018	24/09/2024	6M Euribor + Spread	NFP/EBITDA <= 3; NFP/SE <= 1.25	10,000
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/12/2018	20/12/2023	6M Euribor + Spread	NFP/EBITDA <= 3; NFP/SE <= 1.25	10,000
LU-VE	Banca Popolare di Milano	Unsecured loan	25/01/2019	31/03/2025	3M Euribor floor 0% + Spread	NFP/EBITDA <= 3; NFP/SE <= 1.25	30,000
LU-VE	Banca Popolare di Milano	Unsecured loan	16/06/2019	28/06/2024	3M Euribor floor 0% + Spread	NO	10,000
LU-VE	Unicredit S.p.A.	Unsecured loan	12/07/2019	30/06/2024	6M Euribor + Spread	NFP/EBITDA <= 3; NFP/SE <1	12,000
LU-VE	Unione di Banche Italiane Società cooperativa per azioni	Unsecured loan	30/07/2019	30/07/2026	6M Euribor + Spread	NFP/EBITDA <= 3; NFP/SE <1	25,000

Notes:

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 financial year are shown below:

Financing: changes for the year *(in thousands of Euro)*	**Opening balance**	**New loans**	**Repayments**	**Closing balance**
Loans	198,313	77,353	(64,175)	211,491
Advances on export flows in Euro	-	18,500	(16,500)	2,000
Advances on invoices subject to collection	11	31	-	42
Total	**198,324**	**95,884**	**(80,675)**	**213,533**

The following changes took place in loans in 2019:

- unsecured medium-term loan for a total of €30,000 thousand entered into with BPM, maturing on 31 March 2025, 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 entered into with BPM, maturing on 28 June 2024, with repayment in variable quarterly instalments and an interest rate equal to the 3-month Euribor plus a spread.

- unsecured medium-term loan for a total of €12,000 thousand entered into with UNICREDIT, maturing on 30 June 2024, with repayment in equal half-yearly instalments and an interest rate equal to the 6-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 entered into with UBI Banca, maturing on 30 July 2026, with repayment in equal half-yearly instalments and an interest rate equal to the 6-month Euribor plus a spread. The loan is subject to compliance with financial covenants;

- early repayment of the BPM loan for €15,000 thousand taken out on 25 September 2015 and maturing 31 December 2021.

In addition to what reported above, during the year bank advances were subscribed on export cash flows for €18,650 thousand, partially reimbursed for €16,650 thousand during the year.

During the year, repayments amounted to a total of €80.675 thousand.

As previously reported, 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 4.13 below provides the information relating to financial risks.

As at 31 December 2019, no industrial properties and the attached land are used as collateral for payables recognised in the financial statements. During 2019 mortgages as guarantees to previous loans for a nominal value of €15,000 thousand were repaid.

3.14 PROVISIONS

Change in provisions *(in thousands of Euro)*	**31/12/2018**	**Prov./incr**	**Exchange delta**	**Uses**	**Release of excess portion**	**31/12/2019**
Provision for agents' leaving indemnities	25	-	-	-	-	25
Product warranty provision	1,246	-	-	-	-	1,246
Total	**1,271**	**-**	**-**	**-**	**-**	**1,271**

The provision for agents' leaving indemnities covers the 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 and identified as non-compliant. The provision is adjusted on the basis of analyses conducted and past experience.

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.

3.15 EMPLOYEE BENEFITS

Employee benefits amounted to €884 thousand, a net decrease of €25 thousand compared to 31 December 2018. The entire amount of this item referred to the provision for employee severance 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 Italian 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 plan".

In application of IAS 19, the provision for employee severance 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 2019.

The breakdown and changes in the item as at 31 December 2019 are shown below:

Employee benefits *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**
Liabilities as at 1 January	909	966

Provisions		-
Financial expense	10	13
Payments made	(76)	(50)
Transfers in/out	-	-
Actuarial (gains)/losses	41	(20)
Liabilities at the end of the year	**884**	**909**

The Provision for employee severance 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 loss of €41 thousand, calculated as follows:

- Actuarial loss deriving from the change in the main actuarial assumptions used as at 31 December 2019 with respect to the previous valuation as at 31 December 2018: €46 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: €5 thousand.

Actuarial gains and losses are recognised in shareholders' equity through the statement of comprehensive income.

The main financial and demographic assumptions used at the date of the last reference valuation of 31 December 2019 are shown below:

Financial assumptions	**31/12/2019 %**	**31/12/2018 %**
Discount rate (IBOXX Eurozone Corporate AA 10+ Index)	0.77	1.57
Inflation	1.20	1.50

Demographic assumptions	31/12/2019	31/12/2018
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

The sensitivity analysis for the provision for employee severance benefits is reported below. The following table reports the change in the provision with the variation of the most significant actuarial hypothesis, that is to say the discount rate:

Sensitivity of provision for employee severance benefits as at 31/12/2019 *(in thousands of Euro)*	**0.25%**	**-0.25%**
Discounting rate	(18)	19

3.16 OTHER FINANCIAL LIABILITIES

The details of this item are shown below:

Other non-current financial liabilities *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Payables for IFRS 16	460	-	460
Other financial liabilities	397	397	-
Total	**857**	**397**	**460**

The item Payables for leases of around €460 thousand refers to the medium and long-term payable for leases recognised in application of the IFRS 16 standard for which more details can be found in the introduction to the notes and in note 3.2.

The item "Other financial liabilities" for €397 thousand refers to the contractually required calculation of the earn-out described in the Introduction to the notes to the consolidated Financial statements of the US company Zyklus, which occurred in the previous financial year.

Other current financial liabilities *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Cash pooling	8,846	12,991	(4,145)
Payables for the purchase of equity investments	8,700	-	8,700
Fair value of derivatives	1,711	1,018	693
Payables for IFRS 16	332	-	332
Total	**19,589**	**14,009**	**5,580**

Cash pooling represented payable balances for the Company relating to the Group's centralised treasury. The decrease compared to the previous year is mainly due to the use by SEST-LUVE-Polska SP.z.o.o. of the Group's treasury, to finance the investments relative to the realisation of a new facility.

The item "Payables for the purchase of equity investments" refers to the amount not yet paid for the acquisition of the Air division of the Alfa Laval group, as described in the "Introduction" to the 2019 consolidated financial statements and in the Report on Operations

The item "Payables for leases" of around €332 thousand refers to the medium and long-term payable for leases recognised in application of the IFRS 16 standard for which more details can be found in the notes in the introduction to the notes and in note 3.2.

The "Fair value of derivative instruments" represented the fair value as at 31 December 2018 of derivatives subscribed by the Company. For further information, please refer to note 3.9. - "Current financial assets"

3.17 TRADE PAYABLES

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

Trade Payables *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Italy	26,294	22,359	3,935
EU Countries	4,271	1,575	2,696
Non-EU Countries	726	1,309	(583)
Total	**31,291**	**25,243**	**6,048**

The average payment terms have not changed since the previous year. As at 31 December 2019, there were no past-due payables of significant amounts or payables maturing in more than 5 years.

The Directors believe that the recognition amount of trade payables is similar to their fair value.

3.18 TAX PAYABLES

Tax payables *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Withholding taxes	616	503	113
Total	616	503	113

Withholding taxes mainly refer to withholding taxes on salaries and wages of employees and fees to professionals.

3.19 DEFERRED TAX ASSETS AND LIABILITIES

The details of this item are shown below:

Deferred tax assets and liabilities *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
Deferred tax assets	3,545	3,430	115
Deferred tax liabilities	(7,682)	(8,036)	354
Net position	**(4,137)**	**(4,606)**	**469**

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.

Deferred tax liabilities and assets: changes in the year *(in thousands of Euro*	**AMORT. AND LEASES**	**FAIR VALUE OF DERIVATIVE INSTRUMENTS**	**MERGER GROSS UP**	**ACTUARIAL VALUATION OF POST-EMPLOYMENT BENEFITS**	**PROVISIONS AND VALUE ADJUSTMENTS**	**OTHER DIFFERENCES**	**TOTAL**
01.01.2018	1,236	(25)	7,206	(16)	(830)	(590)	6,981
to Income Statement	(111)	18	(260)	-	(625)	49	(929)
to shareholders' equity	-	-	-	5	(1,512)	61	(1,446)
Reclassification	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
31/12/2018	1,125	(7)	6,946	(11)	(2,967)	(480)	4,606
to Income Statement	(85)	5	(260)	-	(243)	63	(520)
to shareholders' equity	-	-	-	(10)	-	61	51
Reclassification	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
31.12.2019	1,040	(2)	6,686	(21)	(3,210)	(356)	4,137

As at 31 December 2019, Deferred tax assets referred to:

- the fair value of derivative instruments on exchange rates and interest rates, subscribed by the Company before the adoption of the international accounting standards;

- the deferred tax impact of the actuarial valuation of post-employment benefits following the application of IAS 19;

- the tax differences on allocations to provisions, where the most significant impact refers to the provision for bad debts for €2,556 thousand, of which €1,512 thousand recognised on the first application of the IFRS 9 standard on 1 January 2018 with balancing entry in Shareholders' Equity;

- other tax differences, regarding net temporary recoveries such as unpaid remuneration, exchange differences and other.

There are no deferred tax assets earmarked for tax losses as there are none as at the end of the financial year.

As at 31 December 2019, deferred tax liabilities referred to:

- tax differences on amortisation and leases, regarding primarily the application of IFRS 16, with respect to Italian GAAP;

- the recognition of taxes on the 2008 merger deficit allocated to trademarks, buildings and land.

As reported in the previous note "Use of estimates", the taxable results deriving from the 2020-2023 plan used for the impairment test for the explicit period, and through the extrapolation of these, the taxable income expected for the following years were taken into account for the purposes of the verification recognition and recoverability of deferred tax assets recognised in the financial statements as at 31 December 2019. The effects deriving from the temporary differences on which deferred tax liabilities were recognised were also used in the verification of recognition.

It is also reported that this valuation of recoverability has not highlighted any critical issues also on the basis of the significant sensitivity tests carried out by the Management on the plan, linked to the very uncertain current situation, with reference to the emergency relating to the COVID-19 pandemic.

3.20 OTHER CURRENT LIABILITIES

The details of this item are shown below:

Other current liabilities *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
To personnel	3,183	3,046	137
To social security institutions	1,744	1,718	26
To Directors and Statutory Auditors	1,313	1,386	(73)
Other current payables	1,739	1,309	430
Total	**7,979**	**7,459**	**520**

In the beginning of 2019, payables to personnel and social security institutions were paid in accordance with the relative due dates.

3.21 NET FINANCIAL POSITION

In accordance with the requirements of the Consob Communication of 28 July 2006, the Company's financial position is shown below:

Net financial position *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**	**Change**
A. Cash (Note 3.11)	2014	18	(4)
B. Unrestricted current account asset balances (Note 3.11)	38,928	57,578	(18,650)
C. Current financial assets (Note 3.8)	64,542	67,600	(3,058)
D. Liquidity (A+B+C)	**103,484**	**125,196**	**(21,712)**
E. Current bank payables (Note 3.13)	42	11	31
F. Current portion of non-current debt (Note 3.13)	76,908	48,053	28,855
G. Other current financial liabilities (Note 3.16)	19,589	14,009	5,580
H. Current financial debt (E+F+G)	**96,539**	**62,073**	**34,466**
I. Net current financial debt (H-D)	**(6,945)**	**(63,123)**	**56,178**
J. Other non-current financial assets (Note 3.4)	(24,161)	(22,087)	(2,074)
K. Non-current bank payables (Note 3.13)	136,584	150,260	(13,676)
L. Other non-current financial liabilities (Note 3.16)	857	397	460
M. Non-current financial debt (J+K+L)	**113,280**	**128,570**	**(15,290)**
N. Net financial debt (I+M)	**106,335**	**65,447**	**40,888**

Please refer to the Statement of Cash Flow in Note 1.5 for details on changes.

4 COMMENT ON THE MAIN ITEMS OF THE INCOME STATEMENT

4.1 REVENUES

In 2019, revenues from sales amounted to €88,902 thousand, an increase of 3.14% compared to the previous year (€86,193 thousand as at 31 December 2018).

Revenues by product family

Revenue by product *(in € thousand)*	**2019**	**%**	**2018**	**%**	**Change**	**% Change**
Air Cooled Equipment	75,846	85.31%	73,564	83.79%	2,282	3.10%
Heat exchangers	13,056	14.69%	12,629	16.21%	427	3.38%
TOTAL	**88,902**	**100.00%**	**86,193**	**100.00%**	**2,709**	**3.14%**

Revenues by geographical area

Revenues by geographical area *(in thousands of Euro):*	**2019**	**%**	**2018**	**%**	**Change**	**% Change**
Italy	24,051	27.05%	23,324	27.06%	727	3.12%
France	13,266	14.92%	12,155	14.10%	1,111	9.14%
Germany	5,984	6.73%	7,079	8.21%	(1,095)	(15.47%)
Spain	5,952	6.70%	4,187	4.86%	1,765	42.15%
Poland	5,421	6.10%	3,549	4.12%	1,872	52.75%
Austria	2,851	3.21%	3,413	3.96%	(562)	(16.47%)
Russian Fed.	3,771	4.24%	3,257	3.78%	514	15.78%
Sweden	2,435	2.74%	3,167	3.67%	(732)	(23.11%)
Czech Rep.	2,116	2.38%	2,836	3.29%	(720)	(25.39%)
United Kingdom	2,280	2.56%	2,579	2.99%	(299)	(11.59%)
The Netherlands	2,506	2.82%	1,810	2.10%	696	38.45%
India	385	0.43%	1,284	1.49%	(899)	(70.02%)
Croatia	1,327	1.49%	1,141	1.32%	186	16.30%
Romania	842	0.95%	944	1.10%	(102)	(10.81%)
Ukraine	945	1.06%	773	0.90%	172	22.25%
Other countries	14,770	16.61%	14,695	17.05%	75	0.51%
TOTAL	**88,902**	**100.00%**	**86,193**	**100.00%**	**2,709**	**3.14%**

During 2019, sales increased by 3.14% thanks to the effect of the increase in sales volumes. For further details, please refer to the Directors' Report.

4.2 OTHER INCOME

The details of this item are shown below:

Other Revenue *(in thousands of Euro)*	**2019**	**2018**	**Change**
Rent income	85	84	1
Insurance	8	1	7
Other income	700	375	325
Total	793	460	333

4.3 PURCHASES OF MATERIALS

Purchases of materials *(in thousands of Euro)*	**2019**	**2018**	**Change**
Raw materials and purchased components	47,187	42,452	4,735
Consumables	1,706	1,967	(261)
Total	48,893	44,419	4,474

In 2019, the cost for the purchases of materials rose from €44,419 thousand to €48,893 thousand (increase of €4,474 thousand, equal to around 10.1%). The increase was largely due to sales volumes.

4.4 SERVICES

Services *(in thousands of Euro)*	**2019**	**2018**	**Change**
Expenses for energy, telephone and telex	1,767	1,597	170
General and advisory expenses	7,019	6,027	992
Advertising and promotional expenses	459	344	115
Transport expenses	1,677	1,483	194
Maintenance expenses	1,465	1,273	192
External processing	2,953	2,511	442
Commissions	832	474	358
Remuneration to the corporate bodies	2,046	2,120	(74)
Other costs for services	1,820	1,562	258
Costs for use of third-party assets	339	623	(284)
Total	20,377	18,014	2,363

Services expenses increased by €2,363 thousand compared to the previous year.

Remuneration to corporate bodies are provided below (for more details, please see Note 4.15 "Directors' and Statutory Auditors' Fees" below):

Remuneration to the corporate bodies *(in thousands of Euro)*	**2019**	**2018**	**Change**
Directors' fees	1,899	1,971	(72)
Board of Statutory Auditors fees	147	149	(2)
Total	**2,046**	**2,120**	**(74)**

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.

Type of Services	**Service provider**	**Recipient**	**Remunerations** *(in thousands of Euro)*
Auditing	Deloitte & Touche	LU-VE S.p.A.	121
Other Services	Deloitte & Touche	LU-VE S.p.A.	24
Other Services	Deloitte & Touche Network	LU-VE S.p.A.	342

4.5 PERSONNEL COSTS

Personnel costs *(in thousands of Euro)*	**2019**	**2018**	**Change**
Wages and salaries	12,607	11,935	672
Social security costs	4,309	4,245	64
Post-employment benefits	846	819	27
Other personnel costs	47	67	(20)
Total	**17,809**	**17,066**	**743**

The average number of LU-VE S.p.A. employees was 398 in 2019.

As at 31 December 2019, the number of Company employees came to 407 (252 blue-collar, 141 white-collar and middle managers, 14 executives), against 386 in 2018.

As at 31 December 2019, the number of temporary workers came to 38 (12 in 2018).

4.6 IMPAIRMENTS

Impairments *(in thousands of Euro)*	**2019**	**2018**	**Change**
Provisions for intragroup bad debt	600	1,669	(1,069)
Provisions for third party bad debt	500	-	500
Provisions for intragroup financial assets	-	29	(29)
Total	**1,100**	**1,698**	**(598)**

The item Impairments refers to ECL provisions in accordance with regulations in IFRS 9.

4.7 OTHER OPERATING COSTS

Other operating costs *(in thousands of Euro)*	**2019**	**2018**	**Change**
Losses and write-downs on trade receivables	-	280	(280)
Non-income taxes	297	272	25
Other operating costs	129	180	(51)
Total	**426**	**732**	**(306)**

Non-income taxes included mainly taxes on owned property.

4.8 FINANCIAL INCOME

Financial revenue *(in thousands of Euro)*	**2019**	**2018**	**Change**
Dividends from subsidiaries	8,000	4,820	3,180
Interest income	711	626	85
Other financial income	1,740	1,875	(135)
Total	**10,451**	**7,321**	**3,130**

Dividends distributed amounted to €5,000 thousand from SEST S.p.A. and to €3,000 thousand from the company Heat Transfer Systems s.r.o.A. (HTS)

Interest income refers mainly to interest income for intracompany loans and to cash pooling.

The item “Other financial income” mainly includes:

- €1,302 thousand relates to the change in fair value of the capitalisation policies (Note 3.8);

- €413 thousand, relative to the profit on the management of securities (Note 3.9);
- €22 thousand, relative to the change in fair value on other securities (Note 3.9).

4.9 FINANCIAL EXPENSE

Financial expense *(in thousands of Euro)*	**2019**	**2018**	**Change**
Interest expense to banks	1,385	650	735
Interest expense to other lenders	64	145	(81)
Other financial expense	1,071	1,799	(728)
Total	2,520	2,594	(74)

Details of other financial expense are as follow:

- €508 thousand refers to realised losses on derivative financial instruments;
- €389 thousand refer to other financial expenses.
- €160 thousand refer to the loss realised following the disposal of investments subscribed through UBI Banca (Note 3.9);
- €14 thousand refer to other bank charges.

4.10 EXCHANGE GAINS AND LOSSES

In 2019, LU-VE S.p.A. realised net exchange losses of €177 thousand (net losses of €666 thousand in 2018).

4.11 INCOME TAXES

Income taxes *(in thousands of Euro)*	**2019**	**2018**	**Change**
Current taxes	170	561	(391)
Deferred tax liabilities	(520)	(929)	409
Adjustment previous year	(123)	(139)	16
Total	(473)	(507)	34

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:

Reconciliation of IRES theoretical tax charge *(in thousands of Euro)*	**Pre-tax amounts**	**%**	**Tax effect**
Pre-tax profit (loss)	**6,030**	**24.00%**	**1,447**
+ Non-deductible amortisation and depreciation	81	0.32%	19
+ Costs for motor vehicles, telephony and food service	232	0.92%	56
+ Non-deductible local taxes	145	0.58%	35
+ Other permanent upward adjustments	54	0.21%	13
- Non-taxable dividends	(7,600)	(30.25%)	(1,824)
- Deductible IRAP	(153)	(0.61%)	(37)
- Other permanent downward adjustments	(417)	(1.66%)	(100)
Actual tax charge	**(1,628)**	**(30.48%)**	**(391)**
+ Temporary upward adjustments	2,438	9.70%	584
- Temporary downward adjustments	(692)	(2.75%)	(166)
Current tax charge	**118**	**(23.53%)**	**27**

Reconciliation of IRAP theoretical tax charge *(in thousands of Euro)*	**Pre-tax amounts**	**%**	**Tax effect**
Difference between values and costs of production	(1,385)	3.90%	(54)
+ Non-deductible amortisation and depreciation	73	(0.21%)	3
+ Non-deductible local taxes	237	(0.67%)	9
+ Non-deductible labour costs	1,740	(4.90%)	68
+ Other permanent upward adjustments	1,811	(5.10%)	71
- Permanent downward adjustments	-	0.00%	-
Actual tax charge	2,476	(6.97%)	97
+ Temporary upward adjustments	1,219	(3.43%)	49
- Temporary downward adjustments	(78)	0.22%	(3)
Current tax charge	**3,617**	**(10.19%)**	**143**

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

As at 31 December 2019, there were no tax disputes.

4.12 PUBLIC FUNDING

During 2019, the Company accounted on an accrual basis the following contributions falling under the examples included in Italian Law 124 of 4 August 2019. With regard to tax credits (already included by the Company in the specific declarations) and the general measures available to all companies, it has not been deemed necessary to indicate these in the Explanatory Notes to the Financial statements on the basis of authoritative interpretations of current regulations while waiting for a definitive interpretation by the relevant Ministries.

Granting authority	Nature of public funding	Public Funding relating to 2019	Public Funding relating to 2018	Classification in Financial statements
Gestore dei Servizi Energetici GSE S.p.A.	Subsidies in the year for photovoltaic installation	75,000	71,208	Expenses for energy, telephone and telex
Total		**75,000**	**71,208**	

4.13 DIVIDENDS

In April 2019, dividends totalling €5,519 thousand were distributed, corresponding to the distribution of a gross dividend of €0.25 (zero/25) for each of the 22,092,438 shares outstanding, net of treasury shares.

With respect to the year under way, the Directors proposed the payment of a €0,27 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 Company and therefore it was not included under liabilities in these Financial statements.

Any proposed dividend will be payable as at 6 May 2020 (coupon no. 5 ex-dividend date 4 May 2020 and record date 5 May 2020).

4.14 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 Company is exposed in the course of the year and at the reporting date, and how they are managed.

The Company 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 Company'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 Company operations.

The coordination and monitoring of the main financial risks are centralised in the Head Office. The Company carefully and specifically monitors each of the above-mentioned financial risks, intervening with the aim of minimising them promptly, also including using hedging derivatives.

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, options and interest rate swaps.

Please note that all derivative instruments were subscribed for the purposes of hedging the underlying risks. However, at the date of presentation of these Financial statements, not all requirements of IFRS 9 for the application of hedge accounting were satisfied. Therefore, the Company management deemed it appropriate to treat those instruments as trading, not hedging, transactions.

Categories of financial instruments

The following tables group information relative to:

- Classes of financial instruments on the basis of their nature and characteristics;
- Book value of financial instruments;
- *Fair value of financial instruments (except financial instrument whose book value approximates their fair value); and*
- Hierarchy of fair value levels for financial assets and liabilities whose fair value is reported.

Levels from 1 to 3 of the fair value hierarchy are based on the degree of observability of information:

- Level 1 valuations are those derived from quoted (unmodified) prices on active markets for identical assets or liabilities;
- Level 2 valuations are those derived from inputs other than the prices referred to at Level 1 which are observable by assets and liabilities, both directly (e.g. prices) or indirectly (e.g. derived from prices);

Level 3 valuations are those derived from the application of valuation techniques which include inputs by assets or liabilities that are not based on observable market data (non-observable inputs).

Assets and Liabilities valued at fair value as at 31/12/2019*(in thousands of Euro)*	**Level 1**	**Level 2**	**Level 3**	**Total**
Other financial assets				
Current financial assets	-	58,902	-	58,902

Other financial liabilities				
Derivatives	-	(1,711)	-	(1,711)
Total	**-**	**57,191**	**-**	**57,191**

Some of the Company's financial assets and liabilities are measured at fair value at the reference date of every set of Financial statements.

More specifically, the fair value of option contracts on foreign currencies, interest rate swaps and commodity swaps is calculated using future cash flows on the basis of forward exchange rates, forward contractual rates and forward commodity prices, discounted at the date of the Financial statements (level 2 fair value).

The fair value of Other financial assets derives from the fair value of investments in quoted instruments, adjusted on the basis of the contractual return, and therefore falling under category 2 of fair value.

The categories of financial instruments are reported below:

Financial instruments by IFRS 9 categories *(in thousands of Euro)*	**31/12/2019**	**31/12/2018**
Financial assets		
Amortised cost		
Cash and cash equivalents	38,942	57,596
Trade receivables	26,902	31,921
Current financial assets	64,542	67,600
Non-current financial assets	24,161	22,087
Inter-company loans	22,087	13,672
Financial liabilities		
Amortised cost		
Loans	213,534	198,324
Other financial liabilities	18,735	13,388
Trade payables	31,291	25,243
Fair Value	-	-
Trading derivatives	1,711	1,018

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 receivables 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.

Similarly, at financial level the main currency the Company is exposed to is the USD, the currency of the multiannual loan granted to the subsidiary Zyklus Heat Transfer Inc. after the acquisition on 26 June 2018 for around USD 5,580 thousand to repay existing previous loans from third parties.

Sensitivity analysis

With reference to financial assets and liabilities in foreign currency as at 31 December 2019, a theoretical and immediate revaluation of the euro by 10% compared to other currencies would have entailed a loss of €880 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 2019, 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 €1,727 thousand as at 31 December 2020, and equal to 4.347 thousand on the entire residual contractual duration, 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 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 2019 the Company has unused short-term credit lines totalling roughly €28 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 at 31 December 2019 is provided below by maturity:

Analysis of financial liabilities as at 31 December 2019 *(in thousands of Euro)*	**Carrying amount**	**Contractual cash flows**	**Within 1 year**	**From 1 to 5 years**	**More than 5 years**
Bank loans	211,491	211,555	74,895	128,029	8,631
Advances on export flows in Euro	2,000	2,000	2,000	-	-
Advances on invoices subject to collection	42	42	42	-	-
IFRS 16* Financial payables	792	792	332	460	-
Financial Liabilities	**213,533**	**213,597**	**76,937**	**128,029**	**8,631**
Trade payables	31,291	31,291	31,291	-	-
Total	**244,824**	**244,888**	108,228	**128,029**	**8,631**

* "IFRS 16 Financial Payables" include the discounting of repayments of portions of capital

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.

Capital risk management

The Company manages its own capital in order to ensure its business continuity, maximising at the same time return for shareholders, through the optimisation of the debt to equity ratio. The Company's overall strategy has remained unchanged since 2018.

The Company's capital structure consists of net debt (loans described in note 3.13, net of relative balances of cash and cash equivalents) and the Company's shareholders' equity (which includes the fully paid capital, reserves, earnings carried forward and minority interests, as described in note 3.12).

The Company is not subject to any externally imposed requirements in relation to its capital.

4.15 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) executives, 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 an executive in common with the company preparing the Financial statements.

The transactions of LU-VE S.p.A. 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.

The impact on Balance Sheet and Income Statement items of the transactions between the Company and its directly and indirectly controlled subsidiaries is shown below:

Inter-company *(in thousands of Euro)*	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	429	60	-	-	605	-	-	-
SEST SPA	1,117	749	-	2,440	125	219	68	-
SEST-LUVE-POLSKA	2,279	1,867	-	4,058	3,022	2,967	-	58
TGD	208	1,339	6,102	-	104	-	119	-
OOO SEST LUVE	1,072	33	-	-	1,812	193	-	-
HTS SRO	998	248	-	1,652	807	323	58	-
LUVE FRANCE	2,129	90	-	-	10,067	238	-	-
LUVE DEUTSCHLAND	1,566	9	-	-	631	(5)	-	-
LUVE IBERICA	2,820	16	1,556	-	5,988	-	4	-
LUVE PACIFIC	3,805	29	-	-	916	(10)	-	-
LUVE TIANMEN	907	4	-	-	608	-	-	-
LUVE ASIA PACIFIC HK	1,739	160	6,775	-	-	-	237	-
LUVE SWEDEN AB	7,317	1,058	5,063	696	2,355	905	-	-
MANIFOLD SRL	52	489	775	-	-	1,305	2014	-
LUVE DIGITAL SRL	-	(15)	-	-	-	-	-	-
SPIROTECH LTD	602	95	-	-	274	42	-	-
LU-VE AUSTRIA	132	102	-	-	-	159	-	-
ZYKLUS HEAT TRANSFER INC.	399	-	4,967	-	653	-	125	-
LU-VE Netherlands B.V.	19	-	800	-	-	-	5	-
LU VE MIDDLE EAST DMCC	176	276	250	-	-	221	4	-
«OOO» LU-VE Moscow	256	-	1,000	-	235	-	20	-
Air Hex Alonte S.r.l.	91	104	750	-	6	18	-	-
Fincoil LU-VE OY	93	37	3,000	-	47	(1)	-	-
TOTAL	28,205	6,749	31,037	8,846	28,254	6,576	654	58

The table below shows the economic and financial transactions carried out by the Company with related parties outside of the LU-VE GROUP:

Third Party Companies *(in thousands of Euro)*	Trade receivables	Trade payables	Financial receivables	Financial payables	Trade revenues	Trade costs	Financial revenues	Financial costs
MGPE	-	-	-	-	-	119	-	-
VITALE ZANE & CO SRL	-	-	-	-	-	40	-	-
TOTAL	-	-	-	-	-	159	-	-

Furthermore, it is reported that during 2019 MGPE received €500 thousand for services linked to the acquisition of the Air division; costs that have been recognised as an increase in the value of equity investments.

4.16 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.

Name and surname	Office	Period of office	End of office	Fixed remuneration (in Euro)		Remuneration for taking part in committees (in Euros)	Variable non-equity remuneration (in Euros) Bonuses and other incentives	Non-monetary benefits (in Euros)	Total (in Euro)
Iginio Liberali	Executive chairman	1/1/2018-31/12/2018	Approval of Financial statements 2019						
(I) Remunerations in the company that prepares the Financial statements				232,000	(1)	-	199,041	-	431,041
(II) Total				**232,000**		**-**	**199,041**	**-**	**431,041**
Pierluigi Faggioli	Vice Chairman	1/1/2018-31/12/2018	Approval of Financial statements 2019						
(I) Remunerations in the company that prepares the Financial statements				30,000	(2)	-	-	-	30,000
(II) Total				**30,000**		**-**	**-**	**-**	**30,000**
Matteo Liberali	CEO	1/1/2018-31/12/2018	Approval of Financial statements 2019						
(I) Remunerations in the company that prepares the Financial statements				315,000	(3)	-	400,220	6,212	721,432
(II) Total				**315,000**		**-**	**400,220**	**6,212**	**721,432**
Michele Faggioli	COO	1/1/2018-31/12/2018	Approval of Financial statements 2019						
(I) Remunerations in the company that prepares the Financial statements				205,000	(4)	-	229,758	-	434,758
(II) Total				**205,000**		**-**	**229,758**	**-**	**434,758**
Giovanni Cavallini	Director	1/1/2018-31/12/2018	Approval of Financial statements 2019						
(I) Remunerations in the company that prepares the Financial statements				18,000		-	-	-	18,000
(II) Total				**18,000**		**-**	**-**	**-**	**18,000**
Michele Garulli	Director	1/1/2018-31/12/2018	Approval of Financial statements 2019						
(I) Remunerations in the company that prepares the Financial statements				40,000	(5)	5,000	-	-	45,000
(II) Total				**40,000**		**5,000**	**-**	**-**	**45,000**
Anna Gervasoni	Director	1/1/2018-31/12/2018	Approval of Financial statements 2019						
(I) Remunerations in the company that prepares the Financial statements				18,000		10,000	-	-	28,000
(II) Total				**18,000**		**10,000**	**-**	**-**	**28,000**
Laura Oliva	Director	1/1/2018-31/12/2018	Approval of Financial statements 2019						
(I) Remunerations in the company that prepares the Financial statements				18,000		-	-	-	18,000

(II) Total				**18,000**	**-**	**-**	**-**	**18,000**
Fabio Liberali	**Director**	1/1/2018-31/12/2018	Approval of Financial statements 2019					
(I) Remunerations in the company that prepares the Financial statements				126,512 (6)	-	-	5,080	131,592
(II) Total				**126,512**	**-**	**-**	**5,080**	**131,592**
Stefano Paleari	**Director**	1/1/2018-31/12/2018	Approval of Financial statements 2019					
(I) Remunerations in the company that prepares the Financial statements				18,000	14,000	-	-	32,000
(II) Total				**18,000**	**14,000**	**-**	**-**	**32,000**
Roberta Pierantoni	**Director**	1/1/2018-31/12/2018	Approval of Financial statements 2019					
(I) Remunerations in the company that prepares the Financial statements				18,000	5,000	-	-	23,000
(II) Total				**18,000**	**5,000**	**-**	**-**	**23,000**
Marco Vitale	**Director**	1/1/2018-31/12/2018	Approval of Financial statements 2019					
(I) Remunerations in the company that prepares the Financial statements				18,000	-	-	-	18,000
(II) Total				**18,000**	**-**	**-**	**-**	**18,000**
Paola Mignani	**Chairman - Board of Statutory Auditors**	1/1/2018-31/12/2018	Approval of Financial statements 2019					
(I) Remunerations in the company that prepares the Financial statements				45,000	-	-	-	45,000
(II) Total				**45,000**	**-**	**-**	**-**	**45,000**
Stefano Beltrame	**Standing Auditor**	1/1/2018-31/12/2018	Approval of Financial statements 2019					
(I) Remunerations in the company that prepares the Financial statements				30,000	-	-	-	30,000
(II) Total				**30,000**	**-**	**-**	**-**	**30,000**
Ivano Pelassa	**Standing Auditor**	1/1/2018-31/12/2018	Approval of Financial statements 2019					
(I) Remunerations in the company that prepares the Financial statements				30,000	-	-	-	30,000
(II) Total				**30,000**	**-**	**-**	**-**	**30,000**

(1) of which €18,000 for the position of director, and €214,000 for the position of Chairman of the Board of Directors

(2) of which €18,000 for the position of director, and €12,000 for the position of Vice-Chairman of the Board of Directors

(3) of which €18,000 for the position of director, and €297,000 for the position of CEO

(4) of which €18,000 for the position of director, and €187,000 for the position of COO

(5) of which €18,000 for the position of director, and €22,000 for the position of Investor Relator

(6) of which €18,000 for the position of director, and €108,512 for the current employment with LU-VE S.p.A.

4.17 SHARE-BASED PAYMENTS

As at 31 December 2019, there were no share-based incentive plans in favour of Company Directors or employees.

4.18 COMMITMENTS

Details of existing sureties as at 31 December 2019 are reported below:

Commitments as at 31 December 2019 (in thousands of Euro)	2019	2018	Change
Sureties to banks with respect to customers of our subsidiaries	1,438	-	1,438
Sureties to banks with respect to customers	1,147	1,091	56
Sureties to our subsidiaries	433	763	(330)
Insurance sureties	225	210	2015
Total	**3,243**	**2,064**	**1,179**

As at 31 December 2019, third-party goods worth a total of €288 thousand were held temporarily in the Company warehouses (€1,297 thousand as at 31 December 2018).

5 LIST OF EQUITY INVESTMENTS IN SUBSIDIARIES (ART. 2427 N.5 CC)

Company name	Registered office	% owned	Foreign Currency	Share/quota capital	Foreign Currency	Shareholders' Equity as at 31/12/2019	Currency	Result for the 2019 financial year	Currency	Cost of the equity investment
Direct subsidiaries:										
SEST S.p.A.	Limana (BL)	100.00	EUR	1,000,000	EUR	22,752,084	EUR	7,261,693	EUR	44,894,885
Tecnair LV S.p.A.	Uboldo (VA)	79.90	EUR	200,000	EUR	3,310,386	EUR	358,496	EUR	1,043,108
Heat Transfer Systems s.r.o. (HTS)	Novosedly (Czech Rep.)	100.00	CZK	133,300,000	CZK	349,791,917	CZK	56,252,139	EUR	9,539,657
LU-VE Sweden AB	Asarum (Sweden)	100.00	SEK	50,000	SEK	(37,379,562)	SEK	2,152,010	EUR	390,448
LU-VE France S.a.r.l.	Lyon (France)	100.00	EUR	84,150	EUR	1,517,799	EUR	135,943	EUR	1,303,072
LU-VE Pacific Pty Ltd	Thomastown (Australia)	75.50	AUD	200,000	AUD	(4,262,784)	AUD	(615,929)	EUR	1
LU-VE Deutschland GmbH	Stuttgart (Germany)	100.00	EUR	230,000	EUR	(532,316)	EUR	(430,610)	EUR	173,001
LU-VE Iberica S.L.	Madrid (Spain)	85.00	EUR	180,063	EUR	(399,569)	EUR	314,198	EUR	145,285
LU-VE Asia Pacific Limited	Wan Chai (Hong Kong)	100.00	HKD	10,000	HKD	(26,847,665)	HKD	(484,322)	EUR	13,175
LuveDigital S.r.l.	Uboldo (VA)	50.00	EUR	10,000	EUR	28,960	EUR	5,320	EUR	5,000
MANIFOLD S.r.l.	Uboldo (VA)	99.00	EUR	10,000	EUR	35,351	EUR	12,456	EUR	9,900
Spirotech Ltd (95% owned by LU-VE S.p.A.)	New Delhi (India)	95.00	INR	25,729,600	INR	2,329,538,000	INR	433,462,162	INR	35,382,992
LU-VE AUSTRIA GmbH	Vienna (Austria)	100.00	EUR	17,500	EUR	58,429	EUR	33,556	EUR	17,500
Zyklus Heat Transfer Inc	Jacksonville (USA, Texas)	100.00	USD	1,000	USD	1,603,860	USD	551,289	USD	10,052,273
Air Hex Alonte S.r.l.	Uboldo (VA)	100.00	EUR	2,010,000	EUR	11,653,381	EUR	3,770,065	EUR	15,125,000
Fincoil LU-VE OY	Vantaa (Finland)	100.00	EUR	1,190,000	EUR	5,151,606	EUR	1,185,887	EUR	30,648,883
LU-VE Netherlands B.V.	Breda (Netherlands)	100.00	100	10,000	EUR	(57,173)	EUR	(67,173)	EUR	10,000
«OOO» LU-VE Moscow	Moscow (Russia)	100.00	100	100,000	RUB	(8,044,114)	RUB	(8,144,114)	RUB	1,382
LU VE MIDDLE EAST DMCC	Dubai (UAE)	100.00	500	50,000	AED	213,262	AED	163,262	AED	20,147
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	241,160,884	PLN	46,688,289	EUR	4,134,121
«OOO» SEST LU-VE (95% owned by SEST S.p.A.)	Lipetsk (Russia)	95.00	RUB	136,000,000	RUB	907,275,408	RUB	300,843,022	EUR	3,770,723
LU-VE HEAT EXCHANGERS (Tianmen) Co, Ltd (62.62% owned by LU-VE Asia Pacific Limited and 37.38% owned by LU-VE S.p.A.)	Tianmen (China)	100.00	CNY	61,025,411	CNY	32,907,272	CNY	(2,116,846)	EUR	3,000,000
Thermo Glass Door S.p.A. (100% owned by SEST S.p.A.)	Travacò Siccomario (PV)	100.00	EUR	100,000	EUR	523,384	EUR	(1,200,389)	EUR	3,635,590

6 SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

During 2019, no significant non-recurring transactions were carried out.

7 TRANSACTIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob communication of 28 July 2006, please note that in 2019 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.

8 EVENTS SUBSEQUENT TO 31 DECEMBER 2019

The first two months of 2020 show very comforting signals. Turnover of only products reached a value of over €16 million, with growth of more than 7.6% compared to the same period of the previous year. The value related to the acquisition of orders have also been very positive compared to the same period of the previous year (almost €18 million, +8.0%) as the order portfolio, which recorded a value of €21.1 million (+7.4% compared to the first two months of 2019).

The Company closely monitors the developments relating to the spread of Coronavirus (defined as global pandemic at the beginning of March by the World Health Organisation) and has adopted all the necessary control and prevention measures, in concert with the local authorities and trade unions.

Operational continuity profiles

As of today, by virtue of the legal provisions, production has been suspended until 13 April (with the exception of despatch of inventory products and spare parts). However, it is not possible to exclude for now that these restrictive measures will not be applied for a longer period.
Smart working was promoted for white-collar workers, for all the employees that can carry out their activities in this way, so allowing a significant reduction in the presence of personnel in offices even before this was required by recent decrees.

With reference to subsidiaries:

- currently all the Italian subsidiaries have suspended production (excluding a production line dedicated to hospital equipment and despatch of inventory products and spare parts);
- in India production was suspended on 13 April;
- In Russia, after six working days of lockdown, production will restart on 7 April as the refrigeration section has been included under those strategic areas that cannot be stopped.
- the Chinese subsidiary (located in Tianmen, in the Hubei province, the main location of the outbreak in China), after the closure for an additional month after the planned closure for the Chinese New Year, has gradually recovered production from 13 March 2020. The restart of production in China, even though it only represents 2% of the Group's turnover, represents a significant experience in the successful management of a complex situation linked to the Coronavirus problem. The acquisition of orders, after reopening, was encouraging;

- the US subsidiary, following the suspension of production at some customer sites, is working at slightly reduce rhythm (five days a week instead of six);
- the other subsidiaries abroad are currently working at full capacity even though with an absenteeism rate higher than the historical average. However, it cannot be excluded that, in the countries where production sites are located, local authorities may adopt increasingly restrictive measures to fight the expansion of the Covid-19 epidemic.

As of today, the overall current production capacity during lockdown is estimated at between 50% and 55% of normal capacity. This situation is mitigated by the fact that some significant customers (Italian and abroad) have also suspended production so allowing to delay the delivery of orders in portfolio (as of today, there have not been cancellations of orders).

In Italy, following the requests of some of our active customers (both Italian and abroad) in production lines considered to be of strategic importance, applications have been made to the Prefects of the relevant areas to partially reopen other production lines in all plants (including the one in Uboldo) starting as of today.

Critical issues linked to the possible supply difficulties due to the closure of some supplier's production sites (mainly Italian but also abroad) as well as the difficulties linked to the circulation of goods are very closely and promptly monitored. Thanks to a widespread geographical presence, alternative supply sources have been activated which are allowing us to almost regularly supply the plants still operating.

Due to the possible economic impact of Coronavirus, the macroeconomic scenario remains characterised by strong uncertainty and a rather limited visibility and, therefore, it is very difficult to make any sort of forecast with regard to the performance of the business, economic and financial results. These circumstances, extraordinary in their nature and extent, have direct and indirect repercussions on the economic activity and have created a context of general uncertainty, whose evolution and relative effects cannot be predicted. The potential effects of this phenomenon on the budget cannot be determined at present and will be subject to continuous monitoring during the rest of the financial year.

In this context, the Company will be constantly committed in improving its strategic position in all the markets in which it operates. At this stage it will be vital to manage the contingent situation in the short term, while, however, never letting this distract us from our focus on medium and long term objectives to grow volumes and profitability.

Financial information outlines

The Management continues to monitor the possible impacts of the phenomenon in question on the most significant hypotheses and assumptions on the basis of the main estimates reflected in the financial statements, with particular reference to revenue recognition, the identification of impairment indicators on goodwill and investments, as well as the development of the liquidity situation, taking into account the uncertainty with regard to the incidence and the duration of the effects due to the pandemic in question on the performance of the sectors in which the Company operates.

With regard to this, it is highlighted that, as confirmed by specific recommendations issued on 11 and 12 March 2020 respectively by the ESMA and CONSOB, relevant events in question relating to the pandemic do not impact on the determination of the result and on the net equity of the separate financial statements as at 31 December 2019, as they are "non adjusting events", in accordance with IAS10, because the WHO declared the existence of an international emergency not earlier than on 30 January 2020 (even though the first indications of the infection in China date back to the end of 2019).

It is reminded that IAS10 requires that an indication is given of the nature of the event which occurred after the end of the financial year with an estimate of the relevant impacts on the financial statements; in particular circumstances, due to the unpredictability of the outcomes of the phenomenon, the estimated impact is not reliably quantifiable, or even impossible, the explanatory notes should provide adequate illustration, taking into account the situation of general uncertainty determined by the phenomenon.

In line with the provisions of the above mentioned IAS 10, the above mentioned ESMA recommendation reports what follows with specific reference to financial information:

"Financial Reporting – issuers should provide transparency on the actual and potential impacts of COVID-19, to the extent possible based on both a qualitative and quantitative assessment on their business activities, financial situation and economic performance in their 2019 year-end financial report if these have not yet been finalized or otherwise in their interim financial reporting disclosures".

In this context it is necessary to restate the deep uncertainty linked to the spread and duration of the pandemic in question and, in consideration of the continuous evolving of the phenomenon, that it appears to be particularly complex to predict its effects also on economic activities, both at macro and micro levels. This involves a high degree of complexity and risk in the estimates made by the Management, whose basic assumptions and hypotheses could be of necessity reviewed and updated over the next few months, also in very significant terms, following the evolution of facts not under our control.

In the context of the evaluation of the potential effects deriving from the spread of the Coronavirus pandemic, the level of complexity and uncertainty in our estimates is unprecedented in its nature, relating potential to numerous aspects such as:

- the possibility of different level of persistence and extent of contagion in different parts of Italy;
- the different timescales of propagation and extent of contagion in the various European countries and in the world (in particular in the USA and in India);
- the absence of predictability with regard to the overall duration of the contagion and, in particular, of the associated containment measures, or of how and when these may be lifted;
- the particular difficulty in forecasting timelines and extent of recovery of national and global economic activities, both at macro and at micro level, once the emergency is over.

In view of the above, the Company Management has carried out an analysis in order to identify the contexts of potentially greater impact in terms of the Group's financial information and, consequently, has processed various economic and financial scenarios on the basis of the available information and the reasonably predictable forecasts at present, even though in the a the context of outlined significant uncertainty.

The analysis carried out, in particular, related to:

- The updating of the forecasts included in the 2020 financial statements for the Company and the subsidiaries with reference to expected revenues, for example hypothesising a sensitivity based on a 20% reduction of revenues compared to the original 2020 plan, with substantial consistency in terms of fixed costs and planned investments, as well as a 30% worsening of the net working capital; financial years after 2020 could reasonably be affected by the updating of the 2020 forecasts and the potential residual correlated knock-on effects although it is not possible to formulate reasonable impact estimates because of the significant uncertainties both in terms of duration and intensity of the phenomenon, particularly with reference to timescales beyond 12 months and therefore they have not been subject to review (this update was included in the 2020-2023 business plans reviewed and subsequently included in the LU-VE group consolidated plan approved by the Board of Directors on 6 April 2020; reference should be made to the explanatory notes 3.1 and 3.3 to these separate financial statements on sensitivity analyses).

- With reference to liquidity situation, as at 31 December 2019 the ratio between the net financial position and shareholders' equity was equal to one, giving the Group a significant financial stability. Since the start of the COVID 19 emergency, the liquidity situation is updated every two days so as to best monitor all needs and anticipate reaction times as much as possible. The analysis of customers' settlement dates is also carried out every two days to promptly identify delays in payment and issue reminders.

  In the light of the best information available as of today, the following elements are highlighted to hedge the liquidity risk:

  - Current account cash balances, together with invested liquidity (convertible into cash in the very short term) amount to €94 million;
  - unused short-term credit lines are available for €16,3 million;
  - on 23 March 2020 an unsecured loan agreement was set up with Intesa Sanpaolo for €25 million with a duration of 66 months (of which 12 in the grace period) repayable in quarterly instalments at constant capital (average duration 3.1 years);
  - on 2 April 2020 an unsecured loan was set up with UBI Banca for €30 million with a duration of 36 months (of which 12 in the grace period) repayable in quarterly instalments at constant capital (average duration 1.9 years); the stipulation will take place by mid-April 2020;
  - further unsecured loans for a total amount of €70 million and the expansion of short-term credit lines for €3.5 million are in the process of being finalised,
  - a credit institute has proposed the Company a voluntary moratorium which has reduced capital repayments for 2020 by around €2.6 million.

Therefore, taking the above into consideration (and what is reported in paragraph "4.14 Information on financial risks - Liquidity risk management" with reference to the analysis of deadlines for financial liabilities recognised as at 31 December 2019), considering the best information currently available, it is deemed to be reasonable that, at least for the next 12 months, there are no liquidity risks for the Group, or risks related to the ability to repay debt. With regard to this, the Company carefully monitors compliance with financial covenants that, in line with the best market practices, express the legal limits linked to the relationship between the EBITDA variables and the financial position at consolidated level. On the basis of the updating of the forecasts for the economic performance for 2020 described above (and subject to the reported uncertainties), as of today Directors expect that the financial covenants will be respected with reference to the 2020 financial year;

As previously stated, in February a final agreement was reached in February with Alfa Laval with regard to the redetermination of the acquisition price of “Al Air”, which was reduced to a value of €51 million with a residual payment of €9.5 million, of which €2 million already paid at the time of signature of the contract and €7.5 million to be paid on 30 April 2020.

To accelerate the integration process and to expand the exploitation of the synergies relative to the acquisition of “AL Air”, it is planned that in 2020 the SAP information system will be implemented for the companies Fincoil LU-VE OY (whose launch is planned for 30 April) and Air Hex Alonte S.r.l. (planned for 30 September). The relative projects are already underway and continue essentially in line with the scheduled timetables in spite of the particular situation caused by the spread of Coronavirus.

A new Memorandum of Understanding was signed at the beginning of March with JEDCO, the authority managing the industrial park in Jacksonville, Texas, which outlines the obligations and incentives relative to the reviewed project which requires the purchase of building site for the construction within the next 30 months of a new production plant by the subsidiary Zyklus.

In March 2020 the Company and the subsidiary Sest S.p.A. approved the review of the Organisation, Management and Control Model pursuant to Italian Legislative Decree 231/2001 and the subsidiary Tecnair LV S.p.A. has in turn adopted this model.

Furthermore, the task to revise the Organisational, Management and Control model pursuant to Italian Legislative Decree no. 231/2001 has been assigned also for the subsidiary Air Hex Alonte S.r.l.Tecnair LV S.p.A..

Due to the volatility of markets as a consequence of the global spread of Coronavirus, the security has suffered, from the beginning of March 2020, from a significant depreciation. On 3 April 2020 (at the closure of the last trading day before the approval of the draft financial statements) the price was €10,10, corresponding to a capitalisation of €224.6 million, in any case higher than the net equity recognised in the Group's financial statements (€159.0 million).

CEO

Matteo Liberali

9 GENERAL INFORMATION ABOUT THE COMPANY

Registered office:

Via Vittorio Veneto, 11

21100 Varese

Contact information:

Tel:	+39 02 - 96716.1
Fax:	+39 02 – 96780560
E-mail:	info@luvegroup.com
Website:	www.luvegroup.com

Tax information:

Economic and Administrative Index	VARESE 191975
P. IVA/C.F.	01570130128

Certification of the separate 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 set forth 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 separate financial statements in the period 1 January - 31 December 2019.

It is also certified that the separate financial statements as at 31 December 2019:

- 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 equity, profit and loss and financial 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.

6 April 2020

Matteo Liberali	Eligio Macchi
CEO	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,

With 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 2019, 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, describing in the "Report on corporate governance and ownership structures" the procedures for their application on the basis of the *comply or explain* principle.

***

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, to which have been assigned competences also with regard to the Non-Financial Statement ("NFS") and sustainability, and the Remuneration and Appointments Committee. In particular, in 2019 the Board of Statutory Auditors

- held 14 board meetings in which as a rule all members in office participated;
- participated, typically in the form of the entire board, in the 6 meetings held by the Board of Directors;
- participated, typically in the form of the entire board, in the 7 meetings held by the "Committee for Control and Risks and Related Party Transactions" (hereinafter also the "Control and Risk Committee"). As anticipated, 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"), as well as competences also with regard to sustainability (with resolution of the Board of Directors of 19 February 2019);

- participated, typically in the form of the entire board, in the 6 meetings held by the Remuneration and Appointments Committee;
- participated in the form of the entire board in the Ordinary Shareholders' Meeting for the approval of the 2018 financial statements, held on 29 April 2019;
- 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 2019:

- 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 from the economic, financial and cash flows point of view approved and carried out during the year, including through subsidiaries.

The transactions capable of significantly impacting the company's results, financial position and cash flows are reported in the Directors' Report and in the Explanatory Notes where the Directors specify, inter alia:

– the finalisation, on 30.04.2019, of the agreement for the acquisition of the air heat exchanger ("AL Air") division of the Alfa Laval group (included in the cooling system SBU). AL Air represented one of the Group's major competitors among manufacturers of ventilated equipment mainly destined to the industrial processes refrigeration market or power gen and industrial refrigeration. From a strategic point of view, the objective of this acquisition is a significant increase in the sales of the cooling System SBU, making the Group the third largest global player in the ventilated equipment market and the second in Europe. AL Air includes production plants (in Italy, Finland and India) and a sound commercial and design organisation. Following the acquisition of AL Air, a total of around 400 collaborators were transferred to the Group, mainly working in the above mentioned production plants. The definitive acquisition price of AL Air, following the contractually required accounting verification activity, was set at €51 million debt and cash free compared to the €67.1 million debt and cash free anticipated in the preliminary agreements. The process of integration was intensified during the second half of 2019, making use of dedicated teams to the different management areas. To accelerate the integration process and optimise the exploitation of synergies, the implementation of the SAP management programme (used by the Group) both in Finland and in Italy is planned in 2020 for AL Air. At the same time of the underwriting of the agreements for the acquisition of the Indian business unit belonging to the AL Air division, the Indian subsidiary Spirotech had signed with Alfa Laval India Pvt Ltd an option for the purchase of the plant where the business unit's activity is carried out (considered to be a separate transaction than the acquisition of AL Air based on market prices). The purchase was then finalised in March 2020;

- in February, the start of production at the new Polish plant in the special industrial zone of Gliwice (where the Group already had a plant). The production of heat exchangers and ventilated equipment progressively grew during the year, also thanks to new investments made in the second half of the year;
- in April, the transfer was successfully completed of the new production site to Tianmen, in the Hubei province in China, built for the Group by the local authorities of the special economic area and rented to the Group. The new location had, and still has, the objective of allowing the increase of production volumes, the rationalisation of production processes as well as the creation of the conditions for a further expansion of the range of products produced on site. As well-known right now, unfortunately the new site found itself in the area put into lockdown by the Chinese authorities following the spreading of the "Coronavirus" epidemic that led to the suspension of activity at the plant in the last few days of January 2020; the plant reopened on 13 March 2020;
- in India, in April, works were started for the approximately 12,000 square metre expansion of the Spirotech plant. The completion of the works will require an overall investment of around €4.8 million. Again in India, last autumn the merger between LU-VE India (the Group company through which the acquisition of Spirotech in October 2016 was carried out) and the same Spirotech was completed;
- at the end of September, the implementation of the SAP management programme used by the Group in the American subsidiary Zyklus located in Jacksonville, Texas, was successfully carried out with the objective of improving integration, control and exploitation of synergies. During 2019 Zyklus itself signed an agreement with the authorities of an industrial park of the town for the construction of a new production plant. Following the review of this agreement, the new land will be purchased directly by Zyklus against a reimbursement by the authorities of a portion of the price;

– during the financial year an interest of 13.94% of the subsidiary LU-VE France sarl was purchased (bringing the Group's ownership share to 100%) for an amount of €0.4 million.

The Group's forecasts, including those indicated above, are subject to review due to the spread of Covid-19 (the Group has activated the countermeasures deemed to be most appropriate to counteract such risks, in accordance with the regulations from time to time issued in this regard).

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 Explanatory Notes, 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:

- 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 criterion 1.C.5. of the Conduct Code, 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 has supervised the adequacy of the organisational structure of the Company and of the Group, in terms of structure, procedures, competences and responsibilities, taking into account the size of the Company, the nature of the business purpose and how it is achieved. In this respect it has interacted with the top management to verify the effectiveness of the organisational structiure, meeting the officers in charge of the various management areas (including, for example, those responsible for the legal, production, sales, purchases, logistics, HR, IT, health and safety in the workplace, finance and tax administration, quality, technical/planning areas) for updates with regard to the organisational chart of each area, the adequacy of the available resources and the main activities carried out. In particular, in the context of meetings with the Officer in charge of Corporate Affairs, periodical meetings were organised aimed at verifying the updating and application mode of the various company procedures (internal dealing, privileged information, etc.).

The Board has examined the effectiveness of its operations during 2019, in accordance with the "Code of conduct for the Board of Statutory Auditors of listed companies" issued by the Italian Board of Professional Accountants and Auditors in the updated version of April 2018, as well as article 8 of the Code of Conduct for

Corporate Governance of listed companies issued by the Italian Stock Exchange and, lastly, the applicable regulations. The Board has carried out its evaluation with regard to its individual members and the body in its entirety, according to the so-called comply or explain principle. In particular, the self-evaluation process was broken down into two parts. The first was dedicated to the design and compilation of an appropriate questionnaire. The second was, however, carried out through the discussion of the questionnaire's results. The Board did not use external consultants in this process of self-evaluation, nor for the design of the questionnaire or the processing of the relevant data and information. Following the analysis of the information collected through the questionnaire and the subsequent debate, the Board of Statutory Auditors has considered the exercise of its control functions to be adequate, having taken into account its supervisory role on the compliance with legal and statutory regulations, the correct administration, the adequacy of the Company's organisational and accounting structures, as well as the operations of its overall system of internal controls. Areas for improvement identified during the self-evaluation process will be subject to periodical monitoring and possible corrective actions.

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, the competencies and responsibilities for each corporate function, the Board of Statutory Auditors refers in general to the "Report on corporate governance and ownership structures" and observes the following:

- no observations on the application of the organisational model and on the procedures adopted by the company arose from the annual report issued by the Supervisory Organism pursuant to Italian Legislative Decree 231/2001. With regard to the introduction of new predicate offences in 2019, the Company, following a specific risk assessment activity, assigned external consultants the task to adapt the Model, which is still ongoing;
- in the course of 2019, 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;
- 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 remain, 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, on: (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 2019, 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) primarily amongst the various strategic companies within the LU-VE Group.
– 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. (hereinafter also 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;
– In addition to the statutory audit and the limited audit of the interim report, according to the Board of Statutory Auditors, during the 2019 financial year, (1) LU-VE S.p.A. conferred to Deloitte & Touche S.p.A. the mandate to proceed to the limited review of the Statement of Non-Financial Information, for a total fee of €24,000; (2) LU-VE S.p.A. and its subsidiaries conferred to companies of the "Deloitte & Touche network" further tasks, for fees amounting to a total of €345,000 (for the most part attributable to services linked to "Agreed upon Procedures" relative to the acquisition of the "air heat exchanger of Alfa Laval – a task assigned to Deloitte Financial Advisory S.r.l. – and to the extension of support in the so-called SAP Security process – task assigned to Deloitte Risk Advisory S.r.l.);
– 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 08.04.2020, received the audit reports from the auditing firm on the separate and consolidated 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 or requests for information;

- on 08.04.2020, received from the auditing firm the additional report on the internal control and audit committee established by art. 11 of Regulation (EU) 537/2014. 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 08.04.2020, 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 observe any critical aspect with respect to the independence of the auditing company and received by the same on 08.04.2020, a communication of annual confirmation of independence pursuant to article 6 paragraph 2) letter a) of the European Regulation 537/2014 and pursuant to paragraph 17 of ISA Italia 260 that, in order to ensure the independence of Auditors, also apply limits to the assignment of consultancy projects to auditing companies that already carry out audit activities of which adequate information is also provided by the information in the separate financial statements of LU-VE S.p.A. pursuant to art. 149-*duodecies* of the Issuers' Regulations.

***

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 2019 financial year.

The NFS was prepared to the extent necessary to ensure the understanding of the Group's activities, its performance, its results and the impact of the same product, covering issues considered to be relevant and required by articles 3 and 4 of Italian Legislative Decree 254/16.

The document was drafted in compliance with the fifth generation guidelines for sustainability reporting of the Global Reporting Initiative (GRI) and the 2016 Sustainability Reporting Standards GRIs, according to the Core option and in compliance with the required content and quality principles. A table with the list of contents

relative to the requirements of GRIs, both general ones and those linked to specific issues, is reported at the end of the document.
The definition of the content laid out in the 2019 NFS involved all relevant corporate functions responsible for the aspects dealt with in the sections described above. For more information 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 2019.
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, the relative explanatory notes and the Directors' report, placing 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. The draft separate and consolidated financial statements financial statements as at 31 December 2019 have been reviewed and approved in a new version, in the meeting of the Board of Directors of 06.04.2020, to include information relating to the (as expected) impact of the spread of Covid-19. The economic and financial results, as already approved on 18.03.2020, have been confirmed, as Covid-does represents a non-adjusting event pursuant to IAS10. Furthermore, also in the light of the recommendations issued by the ESMA, the directors have integrated the contents of the paragraph "Performance in the first months of 2020: significant events and business outlook" of the Director's Report and the paragraph "Events subsequent to 31 December 2019" in the Explanatory Notes of the consolidated financial statements and the separate financial statements, verifying the validity of the conditions that ensure business continuity and acknowledging that the Board of Directors is closely following the developments of the spread of Coronavirus and has adopted all the necessary control and prevention measures in all the affected sites.
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 2019 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 2019 show operating revenues and income of €391.6 million, EBIT of €22.1 million, a net profit of €18.4 million (of which €17.6 million pertaining to the Group) and, lastly, a negative net financial position of €107.2 million. 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 explanatory notes).

The Board of Statutory Auditors, on the basis of the activity carried out during the financial year and to the extent of its competence, does not see any impediment to the approval of the financial statements as at 31 December 2019 of LU-VE S.p.A. (which show a net profit of €6.5 million) and the relative proposals for deliberation formulated by the Board of Directors (including the distribution of a gross ordinary dividend of €0.27 per outstanding share, net of any treasury shares held by the Company at the date of the coupon detachment)Milan, 8 April 2020

The Board of Statutory Auditors of LU-VE S.p.A.

Paola Mignani (Chairman)

Stefano Beltrame

Ivano Pelassa

INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ART. 14 OF ITALIAN LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010, AND ART. 10 OF EU REGULATION NO. 537/2014

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

Opinion

We have audited the separate financial statements of the LU-VE S.p.A. Group (the "Group"), whitch comprice the statement of financial position as at 31 December 2019, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year than ended and the explanatory notes, which also include a summary of the most significant accounting policies applied.

In our opinion, the separate financial statements give a true and fair view of the statement of financial position of the Company as at 31 December 2019, of its financial performance and its cash flows for the year than ended in compliance with the International Financial Reporting Standards as adopted by the European Union as well as the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for opinion

We conducted our audit in compliance with the international Standards on Auditing (ISA Italy). Our responsibilities under those standards are further described in the Auditor's *Responsibility of the Audit of the Separate Financial Statements* section of this report. We are independent with respect to the Company in accordance with the ethical and independence requirements and principles applicable within the Italian legal system to the audit of financial statements. We believe that the audit evidence we have obtained is sufficient to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that in our professional judgment were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole and in forming our opinion thereon; therefore, we don't provide a separate opinion on these matters.

Impairment test on goodwill, intangible assets and property, plant and equipment	
Description of the key audit matter	The Company accounts for goodwill for to €14.6 million (3.8% of total assets in the financial statements as at 31 December 2019) allocated to a 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 for €8 million, right-of-use assets for €0.8 million and property, plant and equipment for €40.5 million were also allocated. As request by IAS 36, as the above-mentioned CGU includes goodwill, the Company's Management performed an impairment test to determine whether the assets of the CGU are recognised in the financial statements as at 31 December 2019 at a value no higher than the recoverable amount. After the

	conclusion of the impairment tests, approved by the Board of Directors on 18 March 2020, the Company has not recognised any impairment losses. The impairment process carried out by management is based on the determination of the value in use, and is complex since it includes assumptions regarding, inter alia, the forecast of expected cash flows from the CGUs, making reference to the 2020-2023 plan prepared by the Board of Directors and subsequently included in the consolidated plan of the LU-VE group approved by the Company's Board of Directors in its meeting held on 28 February 2020, 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 specialising the production to improve the efficiency of plants, 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. With regard to the escalation of the health emergency linked to the spread of the Covid-19 virus, the Directors have expanded the sensitivity analyses taking in considerations stress situations based on more negative inputs than those used in the impairment test, as described in the explanatory notes. Considering the relevante value of the assets accounted for within the financial statements, the subjectivity of the estimates used to determine cash flows of the CGU, 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 both on the expected cash flows and on the discounting rate and long-term growth, we considered the impairment test a key audit matter of the LU-VE S.p.A. financial statements. Note 3.1 "Goodwill and other intangible assets" within the separate financial statements provides a disclosure on the impairment test, including the above mentioned sensitivity analyses carried out by the Directors.
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 audit 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 performing the impairment test; • assessment of the reasonableness of the main assumptions adopted by the Management to develop cash flow forecasts and collection of other relevant information for us obtained by management; • 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; • assessment 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 to determine the value in use of the CGU;
- verification of the correct determination of the carrying amount of the CGU and its consistency with the methods for determining values in use;
- assessment of the sensitivity analysis prepared by the Management;
- assessment of the adequacy of the disclosure provided by the Company on the impairment test with what is laid out in IAS 36.

Impairment test on equity investments	
Description of the key audit matter	The balance of equity investments in subsidiaries includes the equity investments in LU-VE Sweden AB, LU-VE Iberica s.l., LU-VE Deutschland GmbH, LU-VE Asia Pacific Ltd. – Hong Kong and LU-VE Heat Exchangers (Tianmen) Co, Ltd, for a total amount of €3.7 million. These subsidiaries incurred significant losses in the current and/or in previous reporting periods that led to negative shareholder's equity for a total amount of €5.9 million. The equity investments in subsidiaries balance includes the investment in Zyklus Heat Transfer Inc., whose carryng amount recognised in the financial statements is higher than that of its net equity for an amount of €8.6 million (generated at its acquisition date in 2018). As provided for in IAS 36, due to the presence of possible impairment indicators, the Company's Management performed an impairment test to determine whether the equity investments are recognised in the financial statements at 31 December 2019 at a value no higher than their recoverable amount. After the conclusion of the impairment tests, approved by the Board of Directors on 18 March 2020, the Directors assessed that the carrying amounts of the above-mentioned equity investments are lower than their recoverable amount and therefore no impairment losses were recognised. The impairment process carried out by Management 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 cash flows were prepared by the local *management* in collaboration with the Company's Management and subsequently included in the consolidated plan approved by the Board of Directors meeting held on 28 February 2020. The most significant key assumptions in determining cash flow forecasts are based on the Management's expectations of focusing on the increase of sales with higher margins improving the absorption of fixed costs, focusing on new geographical markets deemed most attractive in terms of size, stability, growth and profit margins, strengthening, specialising and expanding existing production capacity particularly in markets where the LU-VE group is less present and in markets where the cold chain is rapidly expanding, continuously improving the performance of existing products and developing innovative products. Such assumptions are influenced by future expectations regarding market conditions. With regard to the escalation of the health emergency linked to the spread of the Covid-19 virus, also with regards to investments in subsidiaries, the

	Directors have expanded the sensitivity analyses taking into considerations stress situations based on more negative inputs than those used in the impairment test, as described in the explanatory notes. Considering the judgement of the estimates used to determine the cash flows and the key assumptions 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 their 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 audit matter of the Company's financial statements. Note 3.3 "Equity Investments" within the separate financial statements provides a disclosure on the impairment test, including the above mentioned sensitivity analyses carried out by the Directors.
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 performing of the impairment test. As part of our audit 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 in place by the Company on the process of performing the impairment test on the equity investments in subsidiaries; • assessment of the reasonableness of the main assumptions adopted by the Management to develop cash flow forecasts and collection of other relevant information obtained by management; • assessment 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*); • comparison of the recoverable value of such investments with both the carrying amount and the net credit position of such subsidiaries; • assessment of the sensitivity analysis prepared by the Management; • assessment of the adequacy of the disclosure provided by the Company on the impairment test with what is provided for 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 give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/05 and, within the terms established by Law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Statutory Auditors is responsible for overseeing, within the terms established by Law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit for the Financial Statements

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

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. Moreover:

- we identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, we designed and performed audit produres responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- we concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exsits, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such discosures are inadeguate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy and we informed them about any relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards .

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of LU-VE S.p.A. has appointed us on March 10, 2017 as auditors of the Company for the years from December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conductiong the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of LU-VE S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structures of LU-VE S.p.A. as at December 31, 2019, including its consistency with the related financial statements and its compliance with the Law.

We have carried out the procedures set forth in Auditing Standard (ISA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structures set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of LU-VE S.p.A. as at December 31, 2019 and on its compliance with the Law, as well as to make a statement about any eventual material isstatements.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structures are consistent with the financial statements of LU-VE S.p.A. as at December 31, 2019 and are prepared in accordance with the Law.

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

Milan, 8 April 2020