LU-VE S.p.A.

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ANNUAL FINANCIAL REPORT

AS AT 31 DECEMBER 2018

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Letter to shareholders

Dear Shareholders,

On 1 April 2015 we announced to the world of finance the incorporation and merger of ISI (Industrial Stars of Italy SpA) into LUVE SpA, leading to the listing of LU-VE SpA on the AIM market.

At the time, I defined the transaction as "an act of love" of the shareholders family towards the LU-VE Group because it contributed a capital of €50 million, totally focused on the company's development programmes, against a partial transfer of power to Shareholders.

Four years later, I can wittily say that it was not an "April's fool".

In July 2017, with a significant effort in terms of work and costs, we achieved a listing on the MTA. In these four years we have achieved a significant growth in turnover, both through internal lines (over €66 million) and external lines, with the acquisitions of Spirotech in India and Zyklus in the US (for over €25 million).

The consolidated turnover for 2018 was €306.9 million, against €215.5 million in 2014.

Net profit was €16.1 million, against €10.9 million in 2014.

The 2018 figures are listed in detail in the report published after the Board of Directors of 22 March of this year.

The first quarter of 2019 started positively, even though in the context of a less favourable general economic situation which will keep us busy in the next few months.

We are in the process of completing the acquisition of the "Air" division of the Swedish multinational Alfa Laval, which accounts for an annual turnover of around €100 million and which will lead LUVE SpA towards the top of the world league in the market of quality components for heat exchange equipment and plants in the commercial and industrial sectors. The operation involves the entire structure and will be concluded within the next quarter.

These results are the outcome of the initiative and commitment of the Chief Executive Officer, the Senior Management, and all workers, whom I wish to thank most profusely.

Our usual commitment in the development of innovative and "environment-friendly" products continues, together with a consistent increase in production capacity in Poland and in China, in the context of an organisation that dedicates great attention to the development of our "women, men and ideas" intellectual capital, which I continue to view as the LU-VE Group's main asset.

With my very best wishes,

Iginio Liberali

Chairman of the LU-VE Group

DIRECTORS' REPORT
AS AT 31 DECEMBER 2018

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1 DIRECTORS' REPORT AS AT 31 DECEMBER 2018

22 March 2019

Dear Shareholders,

2018 was a positive year for the global economy which registered a growth of 3.7%, essentially in line with the previous year. In the second half of last year, however, economy slowed down, starting with China which grew by 6.4% in the last quarter of 2018, the lowest value since 1990. This trend also affected Europe and Italy, whose GDP grew by 1% essentially thanks to the first half of the year only.

For 2019, in any case, forecasts for global growth are good, and expected to be 3.3%. For the US, with the withdrawal of fiscal stimulus, growth is expected to be 2.5%, while for the Eurozone it is expected to be 1.0%, with Italy stalled at around zero.

Monetary policies have been adjusted in consequence, with the Fed more cautious in raising interest rates, although they were already raised four times in 2018, and the ECB still anticipating very low rates for the current year even though quantitative easing has been withdrawn.

Last year, as in 2017, economic growth was accompanied by good stability in the values of raw materials, also in this case with a slowing down in the second half of the year, in particular for oil and copper.

2019 promises to be more dynamic on the political front: management of Brexit (with a recession risk in the United Kingdom in case of failure to reach an agreement) and European elections are expected to be a testing ground for the stability of historical institutional and political balance. In all European countries there are parties and movements demanding radical change in the current situation and social and economic implications are unpredictable. At global level, after the Brazilian election, leaderships declaring the protection of national interests to be a priority are becoming more widespread. The US-China relationship with regard to tariffs will be an indicator, more than other aspects, of possible consequences.

In Italy, lastly, the situation arising from the political elections of last March delivered a new government which enjoys extensive support, with a new approach to some issues, in particular the management of migratory flows and economic policies, with strong criticism towards European institutions with regard to both. In any case, from the start the new government has had to tackle the restrictions in Italian public finance, approving a more prudent financial policy with respect to the intentions declared at the time of its inauguration.

2018 was a very positive year for the LU-VE Group in terms of business performance and at the same time a significant year for the creation and planning of future development paths.

For the first time in its history, in fact, consolidated turnover exceeded the €300 million threshold (slightly higher than initial budget forecasts) reaching the value of almost €307 million with a growth of 13.6% compared to the previous year (+11.7% on a like-for-like basis, therefore not taking into account the contribution of the newly acquired US company Zyklus, commented on later) thanks to a lively demand and its continuously strong commercial and industrial presence both in terms of territorial coverage and penetration of different application sectors.

At Business Unit level, the SBU Components, which represent less than two thirds of product turnover, reached a turnover of over €194 million, with a growth of 15.4% (+12.4% on a like-for-like basis), mainly driven by the increase in sales volume in the home appliances sector (+78%), by the strong growth in all mobile applications and by the further strengthening of the Group's leadership position in the traditional supermarket cabinets sector.

On the other hand, the Cooling System SBU, whose scope of consolidation has remained unchanged, registered a growth of 11.7% reaching a turnover of €107.1 million thanks to the growth both in the refrigeration and in the power gen sector, which have more than offset a slight drop in the air conditioning market.

The breakdown of turnover by SBU is given below:

Revenues by SBU *(in thousands of Euro)*	**2018**	**%**	**2017**	**%**	**Change**	**% Change**
Air Cooled Equipment	97,189	32.2%	85,231	32.2%	11,958	14.0%
Close Control	9,953	3.3%	10,723	4.1%	(770)	(7%)
SBU COOLING SYSTEMS	**107,142**	**35.5%**	**95,954**	**36.3%**	**11,188**	**11.7%**
Heat exchangers	184,530	61.2%	159,301	60.2%	25,229	15.8%
Doors	10,029	3.3%	9,265	3.5%	764	8.2%
SBU COMPONENTS	**194,559**	**64.5%**	**168,566**	**63.7%**	**25,993**	**15.4%**
TOTAL NET TURNOVER BY SBU	**301,701**	**100%**	**264,520**	**100%**	**37,181**	**14.1%**

Refrigeration, with a turnover growing by 8.6%, equal to €186 million, was confirmed as the Group's primary application segment in spite of a drop in the percentage of total product revenue for the Group (which drops to just under 62%). With regard to this segment, in particular, the continuous growth of projects linked to new generation logistics centres and applications with natural fluids with lower environmental impact is to be noted.

Of absolute relevance in the historical evolution of the Group's sales is the fact that for the first time the Special Application segment, which ranges from domestic appliances to mobile applications (refrigerated transport, railway air-conditioning, etc.) has overtaken Air Conditioning, with turnover of €54.8 million thanks to a growth of 47.2% linked to the start of new projects with existing customers and the start of collaborations with new customers for energy-efficient product ranges.

With regard to the air-conditioning market, turnover for 2018 grew by 6.3% to €50.2 million, with a percentage of product total turnover (less than 17% in 2018) in decline compared to the previous year.

Lastly, the power gen and industrial processes markets have reached a turnover of close to €11 million with the growth of 23% concentrated primarily in the first half of the year.

2018 was also an important year from a strategic point of view in terms of preparing conditions for the Group's future developments.

First of all, the acquisition of the entire equity in the US company Zyklus Heat Transfer Inc. (located in Jacksonville, Texas), completed at the end of June 2018, has a dual purpose. On the one hand, it represents the crowning of a long-term project for the search of a company to acquire in what remains to date the largest global market in the field of refrigeration and air conditioning while, on the other, it represents the first essential step in a medium-term project of great potential for growth in the North American continent.

The newly acquired company, only consolidated as far as the Statement of Financial Position as at 30 June 2018 is concerned and which will be consolidated in terms of Income Statement as from 1 July, is active in the production of heat exchangers and copper components for the refrigeration and air-conditioning industry with a turnover for the year of USD 12.6 million and an EBITDA for the second half of the year of about USD 0.6 million.

The acquisition was carried out by LU-VE S.p.A. directly at a price of USD 10 million (€8,675 thousand, to which the earn-out of €397 thousand was added, estimated but not yet paid, which brings the price of the investment to €9,072 thousand), paid with financial assets available at the time of the acquisition. The purchase price is subject to adjustments based on the Statement of Financial Position as at 30 June 2018 and the EBITDA for the whole of 2018, calculated using contractual provisions. A part of the price was deposited on an escrow account and payment is reliant upon the achievement of a series of results in terms of profitability agreed for the year 2018. Furthermore, an earn-out scheme was worked in with a clause that arranges for a multiplying factor on the EBITDA for the business year 2021 only.

In parallel to the US acquisition, 2018 also saw the start of two important projects designed to significantly change the Group's production landscape:

- the doubling of the Polish manufacturing site intended for the first time also for the production of air cooled products. The construction of the new facility of around 21,000 m² was completed within the planned timetable, and so did investments, focused on the enhancing of the production capacity and the automation of some production lines, which were deployed within the set timetable and budget costs for a total value of around €16 million in 2018. The production of the first pre-series started in the first two months of 2019;

- the move of the Chinese manufacturing site, which does not require significant additional investments, to a special economic zone of Tianmen in the province of Hubei to new rented facility of 15,000 m^2 (twice as much space as before). This relocation should enable the Group to rationalise and streamline the production process, broaden its product range and achieve substantial savings as a result. In January 2019 the construction of the new facility was completed by the competent authority and the process of transfer of equipment, machinery and inventory is proceeding according to the timetable.

Lastly, on 12 December of last year, a preliminary agreement was signed for the acquisition of the Air division of the multinational Swedish company Alfa Laval.

From a strategic point of view this acquisition, which would be the largest in the history of the Group, should allow essentially a doubling of sales for the Cooling System SBU, making the LU-VE Group the third largest world player in the air cooled equipment market and the second in Europe, with a significant advantage with respect to the competitor in third position.

The completion of the transaction is anticipated in the first half of 2019 and the process of integration of the new company will require significant work from a cultural, commercial and industrial point of view, but at the same time should represent a great development opportunity for the "expanded" Group.

In the 12 months to June 2018, the Air division revenues were €97.8 million, with an EBITDA of €7.5 million and an EBIT of €6.4 million.

This division, whose headquarter is in Alonte (Vicenza), holds historical trademarks well-known in the sector, such as Fincoil and Helpman, it operates in three facilities in Italy, Finland and India, and has a worldwide commercial organisation. The acquisition requires the transfer of 400 employees, employed mainly in the production sites, who will continue to carry out their activity within the LU-VE Group from the deal's closing date.

The price of the acquisition, on a debt and cash free basis, will be paid in three tranches and is defined on the basis of the 2018 EBITDA: 65% will be paid at closing, a further 15% after 12 months and the remaining 20% two years after closing. The value of the last tranche will be subject to an adjustment on the basis of the average EBITDA in 2019 and 2020. On the basis of the data currently available and the estimates of the parties, the overall price anticipated for the acquisition should be between €66 and €67 million. The price will be paid using already available liquidity.

The Group's economic figures for the year 2018 show a significant improvement in profitability with a consolidated EBITDA of €36.6 million, an increase of almost 26% compared to 2017 (€29.1 million). This recovery in profitability is clearly attributable to the increase in sales volume combined with the careful management of sales prices and a general recovery in productive efficiency in almost all the facilities. This has allowed the absorption of the increase in the cost of direct labour in the facilities in East Europe and outside Europe.

Net of non-recurring costs, mainly attributable to expenses for the acquisition in the US, the consolidated adjusted EBIT is €38.4 million (€31.0 in 2017).

A more efficient financial management has also contributed to the improvement of the profit for the year, which has benefited, starting from June, from the end of the process whereby the "CCDs" (Compulsory Convertible Debentures), denominated in Indian rupees, issued by the subsidiary LU-VE India upon acquisition of Spirotech in 2016 and entirely underwritten by the parent company LU-VE S.p.A. were converted completely into shares. This conversion operation eliminates the risk of unrealised exchange gains/losses ensuing from fluctuations in the INR/Euro exchange rate (the negative impact on the first half of 2018 amounted to €855,000 and was of around €2.2 million in 2017).

Lastly, net profit for the year amounts to €16.1 million, with an increase of almost €10 million compared to the previous year.

2018 was characterised by a very marked volatility in the price of the main raw materials used by the Group. In particular, copper started the year on a continuing growing trend already highlighted in the last quarter of 2017, reaching its maximum value of the year in June. In the second half the year it

experienced a rapid drop, always with very marked fluctuations, closing the year with an average in line with the previous year.

Aluminium also experienced a wildly fluctuating trend, starting the year on values in line with the last quarter of 2017, alternating very rapid and marked rises and falls to end the year with an average value in line with 2017.

In spite of this trend, the Group was able to protect sales margins thanks to a good strategy of purchase price fixing and careful management of sales prices.

During the year, the integration of the newly acquired Indian subsidiary Spirotech within the Group continued according to plan. The Company again achieved a significant increase in turnover (+40%) compared with 2017, with an EBITDA of more than 20% of turnover.

During 2018, a project was initiated in India for the expansion of the facility over a portion of land within the current perimeter. The current industrial facility (around 11,200 m^2) is in fact by now completely utilised following a significant growth of production volumes and the development plans linked to important recently acquired customers. New construction will add around 12,000 m^2 of production surface, with an anticipated cost of around €4 million.

On 30 October 2018, the Shareholders' Meeting approved the proposal of the Board of Directors to introduce “Majority voting”, in accordance with the provisions of art. 127-quinquies of the Consolidated Law on Finance, with subsequent statutory amendments, becoming effective on 1 January 2019.

During 2018, loans were agreed for €97 million and are detailed as follows:

- in January, an unsecured loan agreement was set up with Unicredit for €25,000,000 and a duration of 62 months repayable with an even principal-payment schedule and instalments every six months;
- in September an unsecured loan agreement was stipulated with Unicredit for €27,000,000 in two tranches. The first, in the amount of €12,000,000 million based on EIB funds with a duration of six years (of which one in the grace period), with half yearly instalment with an even principal-payment schedule and the second, in the amount of €15,000,000 million with a duration of five years (of which two in the grace period), with half yearly instalments with an even-total scheme;
- in November, two unsecured loan agreements were set up with Mediocredito Italiano (INTESA Group), each for €12,500,000 based on EIB funds and a duration of 6 years (of which one in the grace period) repayable in half-yearly instalments at constant capital;
- in December an unsecured loan agreement was stipulated with BNL (BNP Paribas Group) for €20,000,000 in two tranches. The first, in the amount of €10,000,000 million based on EIB funds with a duration of five years (of which one in the grace period), with half yearly instalments with an even principal-payment schedule and the second, in the amount of €10,000,000, with a duration of five years, with half yearly instalments with an even principal-payment schedule;

1.1 CONSOLIDATED NON-FINANCIAL STATEMENT

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

The Directive was transposed into Italian law with Italian Legislative Decree no. 254 of 30 December 2016 (Italian Legislative Decree 254/2016). In compliance with the provisions of article 5, paragraph 3, letter b of Italian Legislative Decree no. 254/2016, the Parent Company therefore prepared the Consolidated Non-Financial Statement relating to the year 2018, the reporting scope of which includes all companies belonging to the LU-VE Group, excluding LU-VE India Corporation Private Ltd (India) for 2018 as its consolidation was not considered significant (3 employees in 2017). 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 is published in the 2018 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 Consolidated Non-Financial Statement reports on the Group's performance in relation to topics that influence its capacity to create value in the short, medium and long term, which reflect the significant impacts of the organisation and which are of interest for the Group's stakeholders.

The 2018 Sustainability Report relates on the Group's performance in relation to issues already identified as relevant in the previous reporting year. The nine significant topics - reported in the table below - are also connected to the three sides of the Group's strategy: distinctive positioning, responsible growth and shared value.

Issues subject to reporting in the 2018 Sustainability Report were confirmed after an analysis of trends and the Italian and global context – both in terms of macro trends and in terms of trends in non-financial reporting. In the same way, stakeholders and the main issues have not been amended compared to what already indicated in the 2017 Sustainability Report.

The nine material topics

THE TOPICS IDENTIFIED AS RELEVANT BY 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.
	3. The well-being of our people	Promoting the well-being of our people and offering them a workplace in which every individual can best express their potential, guaranteeing equal opportunities and investing in security and the creation of an inclusive environment which is capable of welcoming the many people who find themselves working side by side with their different cultures, ethnicities and religions.
Distinctive positioning	4. Customer orientation	Making our customers excited about our excellent products and services, that meet their needs and the quality requirements defined at Group level, as well as supporting them throughout the product life cycle.
	5. Cutting-edge solutions	Promoting sector technological progress by investing in research concerning solutions capable of minimising the environmental impact and the noise emissions of finished products, also in collaboration with highly qualified partners linked to the world of universities and research.
	6. Sales ethics	Managing relationships marked by transparency with all Group stakeholders, ensuring compliance with regulations in force in terms of combatting active and passive corruption and guaranteeing institutional communications and honest, truthful promotions based on factual information.
Creation of shared value	7. Economic and financial sustainability	Guaranteeing 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

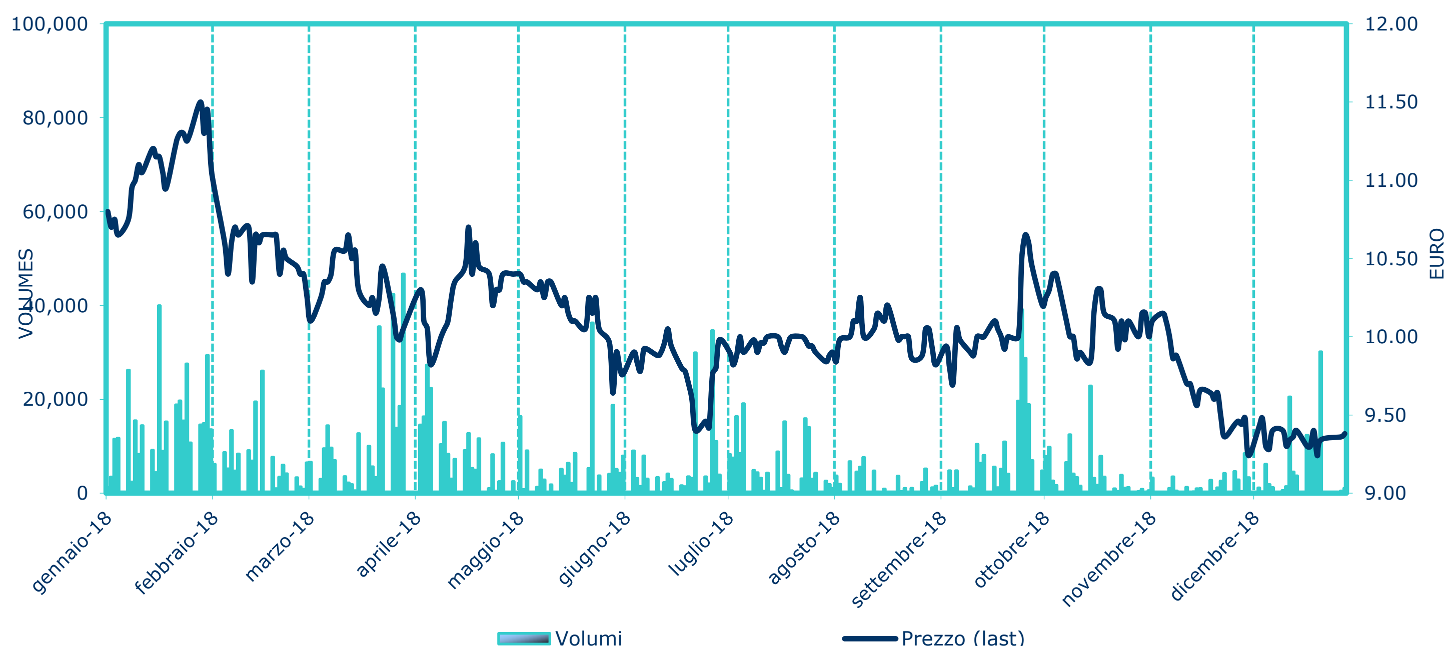
The LU-VE security performed less well than the FTSE Italia All-Share index until the end of September. In the last quarter, the performance of the security, however, was better than the index.

The main figures and share price trends are shown below:

Price as at 2 January 2018: €10.80
Price as at 28 December 2018: €9.38
Change during the period: -13.1%

Maximum Price: €11.50 (29 January 2018)
Minimum Price: €9.24 (30 November 2018)
Weighted Average Price: €10.26
Volumes traded: 1,869,515

Stock market capitalization as at 31 December 2018: €208.56 million



1.3 SUBSIDIARIES AND ASSOCIATES

As at 31 December 2018, the Group comprises the following:

Industrial subsidiaries:

- **SEST S.p.A.** in Limana (BL), 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% stake held by SEST S.p.A.: manufactures and markets heat exchangers for refrigerated counters and display cabinets;

- **"OOO" SEST-LUVE** in Lipetsk (Russia), 95% stake held by SEST S.p.A.: manufactures and markets heat exchangers and air cooled equipment under the LU-VE brand for the market comprising Russia and neighbouring countries;
- **HEAT TRANSFER SYSTEM (HTS) s.r.o.** in Novosedly (Czech Republic), wholly-owned: manufactures and markets heat exchangers for the air conditioning and refrigeration sectors and for special applications, as well as air cooled condensers under the LU-VE brand;
- **TECNAIR LV S.p.A.** in Uboldo (VA), 79.9% stake held: manufactures close control air conditioners and air super-filtration equipment for applications in operating rooms, data centres and telephony;
- **LU-VE HEAT EXCHANGERS (CHANGSHU) LTD** in Changshu (China), wholly-owned through LU-VE Asia Pacific Ltd: manufactures and markets air cooled products and heat exchangers;

- **LUVE TIANMEN** on 15 October 2018 LU-VE Heat Exchangers Co Ltd, with the registered office in Tianmen, was constituted. The Company was not consolidated in these Financial Statements as at 31 December 2018 it was not yet operational.
- **LU-VE SWEDEN AB** in Asarum (Sweden), wholly-owned: manufactures and markets air cooled products (mainly large condensers and dry coolers using the AIA brand) in the Scandinavian markets;
- **THERMO GLASS DOOR S.p.A.** in Travacò Siccomario (PV), wholly-owned by SEST S.p.A., manufactures and markets glass doors and frames for refrigerated counters and display cases;
- **SPIROTECH HEAT EXCHANGERS PRIVATE LIMITED** in New Delhi (India), 94.99% stake held through LU-VE India Corporation Private 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 (VA), 99% stake held: manufactures copper components (collectors and distributor units) for Group companies;
- **LUVEDIGITAL S.r.l.** in Uboldo (VA), 50% stake held: develops software and IT solutions dedicated to generating estimates and promoting Group products.

Commercial subsidiaries:

- **LU-VE France s.a.r.l.** in Lyon (France), 86.06% stake held: 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% stake held: sells air cooled equipment, heat exchangers and close control air conditioners directly or through distributors in the Iberian peninsula and the Central and South American markets;
- **LU-VE Contardo Pacific pty. Ltd.** in Thomastown (Australia), 75.5% stake held: markets air cooled equipment in the Oceania market. It also markets some other complementary brands of companies that are not part of the Group;
- **LU-VE India Corporation Private Ltd** in New Delhi (India), 99.99% stake held: sells and carries out agency activities for air cooled equipment in the markets of India and neighbouring countries. It holds a 94.99% investment in Spirotech;
- **LU-VE Asia Pacific Ltd.** in Hong Kong, wholly-owned: sells air cooled equipment and heat exchangers directly in the Far East markets (excluding China)._The company is no longer operative, but retains an interest in LU-VE Changshu.
- **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.

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 the course of the year the Group earned other revenue of €5.2 million (€5.5 million in 2017), which brings revenues and operating income to a total of €306.9 million (€270.0 million in 2017).

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 2018: approx. 60% of the Group's consolidated revenues;
- in 2017: approx. 59% 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, both inside refrigerated rooms, and outside refrigerated and/or air conditioned rooms (usually on roofs or in dedicated "technical" rooms).

Revenues from sales of air cooled equipment represented:

- in 2018: approx. 32% of the Group's consolidated revenues;
- in 2017: approx. 32% 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, as well as remotely reporting, using the latest communication protocols, any irregularities, malfunctioning or alarms.

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

Revenues from sales of close control air conditioners represented around 3% of the Group's total revenues in 2018 (around 4% in 2017).

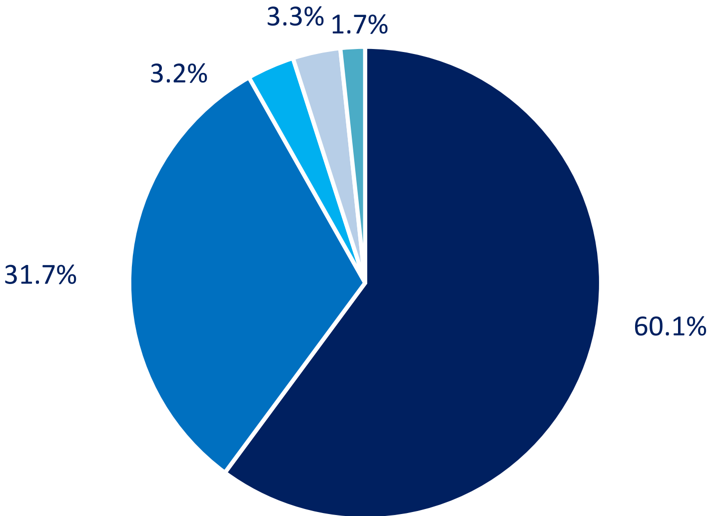
GLASS DOORS FOR REFRIGERATED COUNTERS AND DISPLAY CABINETS "INSULATED GLAZING"

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

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

Revenues from sales of glass doors represented around 3.3% of the Group's total revenues in 2018, in line with 2017.

The chart below shows the breakdown of turnover by product type in 2018:



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

PRODUCTS	€/000 2018	%	€/000 2017	%	Delta %
Heat exchangers	184,530	60.1%	159,301	59.0%	+15.8%
Air Cooled Equipment	97,189	31.7%	85,231	31.6%	+14.0%
Doors	10,029	3.3%	9,265	3.4%	+8.2%
Close Control	9,953	3.2%	10,723	4.0%	-7.2%
TOTAL PRODUCTS	**301,701**	**98.3%**	**264,520**	**98.0%**	**+14.1%**
Other	5,168	1.7%	5,512	2.0%	-6.2%
TOTAL	**306,869**	**100.0**	**270,032**	**100.0**	**+13.6%**

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

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

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

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

Furthermore, the LU-VE Group's high power air cooled products are also addressed to the "power gen" and industrial process applications sector, although their revenues are significantly lower than those earned in the three main sectors described above.

1.5 THE REFRIGERATION SECTOR

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

Revenues from sales in the Refrigeration Sector represented:

- in 2018: approx. 62% of the Group's consolidated revenues;
- in 2017: approx. 63% of the Group's consolidated revenues.

1.6 THE AIR CONDITIONING SECTOR

The Air Conditioning Sector includes the manufacture of products and components for air treatment in public and "technological" spaces (such as data centres), in order to guarantee control of temperature, humidity and air purity.

Revenues from sales of the Air Conditioning Sector represented around 17% of the Group's total revenues in 2018, a slight decrease with respect to the previous year (roughly 18%).

1.7 THE HEAT EXCHANGERS FOR SPECIAL APPLICATIONS SECTOR

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

With the acquisition of Spirotech in October 2016 and following its significant growth in the following two years, two applications in particular take on significance: heat pump exchangers used in clothes dryers with high energy efficiency (domestic appliance segment) and exchangers for refrigerated transport (particularly for lorries and vans).

Revenues from sales made by the LU-VE Group in this sector represented:

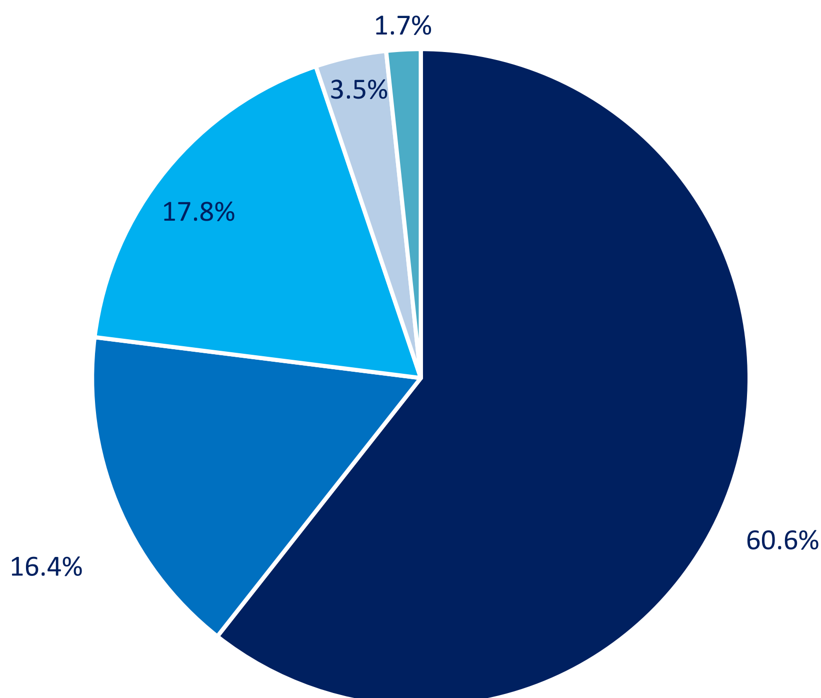
- in 2018: approx. 18% of the Group's consolidated revenues;
- in 2017: approx. 14% of the Group's consolidated revenues.

1.8 THE "POWER GEN" SECTOR

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

Revenues from sales in this sector represented around 3.5% of the Group's total revenues in 2018; in 2017 this sector represented 3.3% of the Group's total revenues.

The chart shows the breakdown of turnover by segment in 2018:

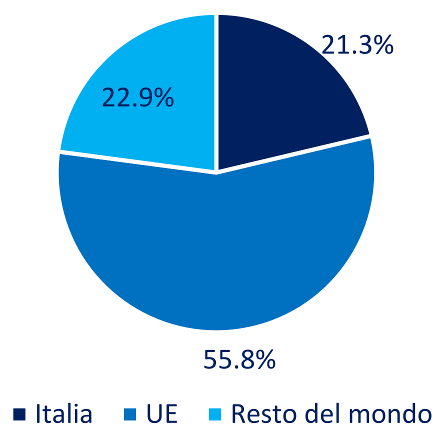


The table below shows turnover trends by application type in the two years subject to comparison:

APPLICATIONS	€/000 2018	%	€/000 2017	%	Delta %
Refrigeration	186,030	60.6%	171,372	63.5%	+8.6%
Air Conditioning	50,201	16.4%	47,223	17.5%	+6.3%
Special Applications	54,764	17.8%	37,211	13.8%	+47.2%
Power Gen/Industrial Applications	10,706	3.5%	8,714	3.2%	+22.9%
TOTAL APPLICATIONS	**301,701**	**98.3%**	**264,520**	**98.0%**	**+14.1%**
Other	5,168	1.7%	5,512	2.0%	-6.2%
TOTAL	**306,869**	**100.0%**	**270,032**	**100.0%**	**+13.6%**

The turnover of the LU-VE Group is earned primarily abroad (79%), in more than 100 countries: in particular, its main export markets were Poland (with a significant growth in the last two years, from around €12 million in 2016 and over €28.6 in 2018, mainly due to the effect of the acquisition of new international customers with manufacturing sites in the country), Germany, Russia, France and the Czech Republic.

The chart below shows the geographical breakdown of turnover in 2018:



The LU-VE Group’s turnover does not depend to a significant extent on individual commercial or industrial contracts. As at 31 December 2018, sales to the top 10 customers of the Group together represented a percentage of around 34% of the total. The turnover generated by the main customer, an international group with 14 different companies, represented around 5.6% of the Group’s total turnover.

1.9 ECONOMIC AND FINANCIAL DATA

With reference to the Income Statement, it should be remembered that the subsidiary Zyklus Heat Transfer Inc. was consolidated from 1 July 2018.

The reclassified Income Statement and Balance Sheet are provided below:

Consolidated Income Statement *(in thousands of Euro)*	**31/12/2018**	**% Revenues**	**31/12/2017**	**% Revenues**	**% Change 2018 compared to 2017**
Revenues and operating income	306,869	100.0%	270,032	100.0%	13.6%
Purchases of materials	(167,429)	54.6%	(150,006)	55.6%	
Changes in inventories	5,643	-1.8%	7,502	-2.8%	
Services	(42,951)	14.0%	(40,105)	14.9%	
Personnel costs	(62,823)	20.5%	(56,280)	20.8%	
Other operating costs	(2,707)	0.9%	(2,071)	0.8%	
Total operating costs	**(270,267)**	**88.1%**	**(240,960)**	**89.2%**	**12.2%**
EBITDA	**36,602**	**11.9%**	**29,072**	**10.8%**	**25.9%**
Change in fair value of derivatives	(663)	0.2%	170	-0.1%	
Depreciation and amortisation	(16,422)	5.4%	(15,143)	5.6%	
Gains/losses on non-current assets	213	-0.1%	24	0.0%	
EBIT	**19,730**	**6.4%**	**14,123**	**5.2%**	**39.7%**
Net financial income and expense	(2,368)	0.8%	(5,610)	2.1%	
EBT	**17,362**	**5.7%**	**8,513**	**3.2%**	**103.9%**
Income taxes for the year	(1,269)	0.4%	(2,234)	0.8%	
Net profit (loss) for the period	**16,093**	**5.2%**	**6,279**	**2.3%**	**156.3%**
Profit attributable to non-controlling interests	**686**		**637**		
Profit attributable to the group	**15,407**	**5.0%**	**5,642**	**2.1%**	**173.1%**

"Revenues and operating income" rose by 13.6% (+€36.8 million). On a like-for-like basis, the increase would have been 11.7%. At constant exchange rates, the increase in revenues would have been about 15.7% (+€42.4 million). Increase is due for 3.7% for the increase in sales prices and for 12.0% for the effect of greater volumes (including initial consolidation of Zyklus for around €5.3 million), net of the effect of exchange rates (-2.1%).

Total operating costs rose from €241 million (89.2% as a percentage of revenues) to €270.3 million (88.1% as a percentage of revenues). The total increase of 12.2% (€29.3 million) was substantially caused by the following factors:

- consumption of materials grew by €19.3 million, from 52.8% as a percentage of revenues in 2017 to 52.7% in 2018. This increase is due for €3.3 million to the increase in costs for the acquisition of the main raw materials (copper and aluminium) and for €12.8 million to the increase in volumes and the change in the sales mix, and for €3.2 million for the first consolidation of Zyklus;

- the increase in costs for services amounting to €2.8 million stems from higher transport, remuneration, energy and telephone expenses. The costs for services include €1.3 million for extraordinary costs (of which €1 million related to the acquisition of Zyklus and €0.3% for restructuring);

- the increase in personnel costs by €6.5 million was linked to the impact of volumes on the direct workforce and the increase in the structure and salary trends. €1.3 million is linked to the first consolidation of the newly acquired Zyklus Heat Transfer Inc. However, the percentage of personnel costs compared to revenues dropped from 20.8% to 20.5%;

- the increase in other operating costs for €0.6 million is mainly due (€0.5 million) to the impact of the first application of IFRS 9 on the item "Trade receivables".

The Added Value (consumption of materials, costs for services and other costs) moves from 68.5% of revenues to 67.6%, with an improvement of almost one percentage point.

"EBITDA" amounted to €36.6 million (11.9% of revenues) compared to €29.1 million (10.8% of revenues) in 2017. Net of the impact of extraordinary costs, EBITDA would have been €38.4 million (12.5% of sales). As at 31 December 2017, adjusted EBITDA amounted to €31 million. The change with respect to the previous year (+€7.4 million) was caused by the increase in prices and volumes (+€2.4 million), the improved absorption of the cost of services (+€1.8 million), savings on costs of raw materials (+€0.5 million), the improved profitability of Spirotech (+€2.8 million) and the initial consolidation of Zyklus (+€0.6 million) partially offset by the cost of labour (€-0.7 million).

Amortisation rose by €1.3 million, linked to the acceleration of investments (€1 million) and the initial consolidation of Zyklus (+€0.3 million).

"EBIT" amounted to €19.7 million (6.4% of revenues) compared to €14.1 million (5.2% of revenues) in 2017. Net of non-recurring costs (adjusted EBIT), it would have been €21.5 million (7.0% of revenues).

The balance of financial income and expense was negative, at €2.4 million, compared to a negative value of €5.6 million in 2017. The positive difference compared to 2017, of €3.2 million, derives from the substantial absence of negative exchange rate differences – mainly unrealised – that had penalised the Income Statement in 2017 for €5 million, net of the effect of returns on invested liquidity (-€1.2 million) and the adjustment of the option value for the purchase of the residual 5% interest in Spirotech (-€0.6 million).

The "EBT" in the year ending on 31 December 2018 was equal to €17.4 million (5.7% of revenues) against a value of €8.5 million as at 31 December 2017 (3.2% of revenues). The 2018 EBT normalised for non-recurring costs would have been €19.2 million (6.2% of revenues).

The impact of taxes fell by €0.9 million even though taxable revenues increased as a result of some non-recurring positive impacts. The impact on EBT went from 26.2% to 7.3%, substantially as a result of the non-deductibility of unrealised exchange losses in 2017, deferred tax assets recognised in Poland and the adjustment of deferred tax liabilities following the change of the Indian tax rate in 2018.

The “Net profit for the year” as at 31 December 2018 was €16.1 million (5.2% of revenues) compared to €6.3 million (2.3% of revenues) as at 31 December 2017.

Reclassified Consolidated Balance Sheet *(in thousands of Euro)*	31/12/2018	% of net invested capital	31/12/2017	% of net invested capital	Change 2018 compared to 2017
Net intangible assets	70,170		62,718		
Net property, plant and equipment	125,061		111,191		
Deferred tax assets	4,722		3,359		
Other non-current assets	2,196		1,941		
Non-current assets (A)	**202,149**	**96.7%**	**179,209**	**102.3%**	**22,940**
Inventories	44,667		37,988		6,679
Trade receivables	50,854		47,616		3,238
Other receivables and current assets	9,472		11,258		(1,786)
Current assets (B)	**104,993**		**96,862**		**8,131**
Trade payables	57,800		63,405		(5,605)
Other payables and current liabilities	20,585		17,677		2,908
Current liabilities (C)	**78,385**		**81,082**		**(2,697)**
Net working capital (D=B-C)	**26,608**	**12.7%**	**15,780**	**9.0%**	**10,828**
Provisions for employee benefits	4,057		4,047		10
Deferred tax liabilities	13,173		13,217		(44)
Provisions for risks and charges	2,581		2,472		109
Medium/long-term liabilities (E)	**19,811**	**9.5%**	**19,736**	**11.3%**	**75**
Net Invested Capital (A+D-E)	208,946	100.0%	175,253	100.0%	33,693
Shareholders' equity attributable to the group	142,216		137,842		4,374
Non-controlling interests	3,170		2,124		1,046
Total Consolidated Shareholders' Equity	**145,386**	**69.6%**	**139,966**	**79.9%**	**5,420**
Medium/Long Term Net Financial Position	156,303		115,074		41,229
Short-Term Net Financial Position	(92,743)		(79,787)		(12,956)
Total Net Financial Position	**63,560**	**30.4%**	**35,287**	**20.1%**	**28,273**
Own funds and net financial Debt	208,946	100.0%	175,253	100.0%	33,693

The increase in Non-current assets (amounting to €22.9 million) is due to the initial consolidation of Zyklus (goodwill for €8.1 million, of which €2.9 million allocated to trade receivables and net assets for €4.5 million) and to the continuance of the investment plan (in particular the doubling of the Polish facility). Investments for the period amounted to roughly €29 million of which around €19 million deemed non-recurring (around €16 million relating to the Polish facility).

The Group's working capital (equal to the sum of inventories and trade receivables net of trade payables) amounted to €37.7 million (12.3% of turnover), with an increase of €15.5 million compared to 2017 (€22.2 million, equal to 8.2% of turnover). The increase is due to the initial consolidation of Zyklus for €2.0 million, to an increase in volumes for €2.0 million, to the impact of Spirotech's working capital for €6.0 million whose effect went beyond expected proportions, and to the combined effect of purchases, production and sales for €5.5 million.

Consolidated shareholders' equity amounted to €145.4 million compared to €140 million as at 31 December 2017. This decrease (€5.4 million) derives from the outcome for the period for €16.1 million adjusted after dividends for €5.3 million were distributed, after the negative change in the translation reserve for €2.6 million, after the reserve set up for the first-time application of IFRS 9 for €1.4 million (gross of tax effect), after an adjustment of €1.2 million of the option value for the purchase of the remaining 5% of Spirotech and after the purchase of treasury shares for €0.2 million.

The net financial position was negative by €63.6 million (€35.3 million as at 31 December 2017), with a difference of €28.3 million, primarily due for €5.3 million to the distribution of dividends, for €12.6 million to the acquisition of Zyklus, for €29 million to investments, for €2.0 million to the adjustment of the put and call option on Spirotech net of roughly €33 million in positive flows from operations. The impact of the change in net working capital was negative by €13 million. The cash flow from operations adjusted by non-recurring items totalled roughly €11 million. The debt is all medium and long-term, and liquidity as at 31 December 2018 totalled around €144 million.

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

The reclassified Income Statement and Balance Sheet are provided below:

LU-VE Spa Reclassified Income Statement (in thousands of Euro)	31/12/2018	% Revenues	31/12/2017	% Revenues	% Change 2018 compared to 2017
Revenues and operating income	86,653	100.0%	77,754	100.0%	11.4%
Purchases of materials	(44,419)	51.3%	(41,536)	53.4%	
Changes in inventories	333	-0.4%	1,722	-2.2%	
Services	(18,014)	20.8%	(17,534)	22.6%	
Personnel costs	(17,066)	19.7%	(15,677)	20.2%	
Other operating costs	(2,430)	2.8%	(600)	0.8%	
Total operating costs	**(81,596)**	**94.2%**	**(73,625)**	**94.7%**	**10.8%**
EBITDA	**5,057**	**5.8%**	**4,129**	**5.3%**	**22.5%**
Change in fair value of derivatives	(632)	0.7%	2,203	-2.8%	
Depreciation and amortisation	(5,864)	6.8%	(5,299)	6.8%	
Gains/losses on Non-current assets	(31)	0.0%	109	-0.1%	
EBIT	**(1,470)**	**-1.7%**	**1,142**	**1.5%**	**-228.7%**
Net financial income and expense	4,062	-4.7%	2,238	-2.9%	
EBT	**2,592**	**3.0%**	**3,380**	**4.3%**	**-23.3%**
Income taxes for the year	507	-0.6%	133	-0.2%	
Net profit (loss) for the period	**3,099**	**3.6%**	**3,513**	**4.5%**	**-11.8%**

“Revenues and operating income” rose by 11.4% in 2018, primarily due to the effect of sales volumes.

Total operating costs rose from €73.6 million (94.7% as a percentage of revenues) to €81.6 million (94.2% as a percentage of revenues). The overall increase was 10.8% (€8 million) and was primarily due to the increase in the consumption of materials (total impact of €4.3 million, with a percentage of revenues falling from 51.2% to 50.9%), the increase in personnel costs of €1.4 million (linked to the growth in production volumes and ordinary salary increases, reducing from 20.2% 19.7% as a percentage of revenues) and the increase (€1.8 million) in other operating costs deriving from the non-recurring cost of the application of IFRS 9.

“EBITDA” amounted to €5.1 million (5.8% of revenues) as at 31 December 2018, compared to €4.1 million (5.3% of revenues) in 2017. The 2018 figure normalised for non-recurring costs would have been €6.9 million (8.0% of revenues).

“EBIT” amounted to a negative €1.5 million (-1.7% of revenues) compared to a positive €1.1 million (1.5% of revenues) in the year ending on 31 December 2017, with a negative difference of €2.6 million, mainly linked to the positive effect recognised in 2017 for the fair value of the bond issued by LU-VE India to fund the acquisition of Spirotech and subscribed by the Parent Company. In 2018

the bond was converted into capital so suspending all impacts on the Income Statement. Net of non-recurring costs, EBIT would have been €0.3 million (0.4% of revenues).

The balance of financial income and expense for the year ending 31 December 2018 was positive, at €4.1 million, compared to €2.2 million for 2017. The difference (positive for €1.9 million) derives essentially from reduced unrealised exchange rate differences in 2018.

The "EBT" in the year ending on 31 December 2018 was equal to €2.6 million (3.0% of revenues) against a value of €3.4 million as at 31 December 2017 (4.3% of revenues). Net of non-recurring costs, it would have been €4.4 million (5.1% of revenues).

The "Net profit for the year" as at 31 December 2018 was €3.1 million (3.6% of revenues) compared to €3.5 million (4.5% of revenues) as at 31 December 2017.

LU-VE Spa Reclassified Balance Sheet *(in thousands of Euro)*	31/12/2018	% of net invested capital	31/12/2017	% of net invested capital	% Change 2018 compared to 2017
Net intangible assets	22,669		22,357		
Net property, plant and equipment	39,690		40,916		
Deferred tax assets	3,430		1,437		
Equity investments	102,562		58,693		
Other non-current assets	25		34,379		
Non-current assets (A)	**168,376**	**99.2%**	**157,782**	**95.9%**	**10,594**
Inventories	8,123		7,790		333
Trade receivables	31,921		39,577		(7,656)
Other receivables and current assets	4,811		5,085		(274)
Current assets (B)	**44,855**		**52,452**		**(7,597)**
Trade payables	25,243		28,581		(3,338)
Other payables and current liabilities	7,961		6,722		1,239
Current liabilities (C)	**33,204**		**35,303**		**(2,099)**
Net working capital (D=B-C)	11,651	6.9%	17,149	10.4%	(5,498)
Provisions for employee benefits	909		967		(58)
Deferred tax liabilities	8,036		8,418		(382)
Provisions for risks and charges	1,271		991		280
Medium/long-term liabilities (E)	**10,216**	**6.0%**	**10,376**	**6.3%**	**(160)**

Net Invested Capital (A+D-E)	**169,811**	**100.0%**	**164,555**	**100.0%**	**5,256**
Share capital	62,704		62,704		0
Reserves and retained earnings (losses)	38,560		44,940		(6,380)
Profit (loss) for the year	3,099		3,513		(414)
Total shareholders' equity	**104,363**	**61.5%**	**111,157**	**67.6%**	**(6,794)**
Medium/Long Term Net Financial Position	128,571		93,151		35,420
Short-Term Net Financial Position	(63,123)		(39,753)		(23,370)
Total Net Financial Position	**65,448**	**38.5%**	**53,398**	**32.4%**	**12,050**
Own Funds and Net Financial Debt	**169,811**	**100.0%**	**164,555**	**100.0%**	**5,256**

Non-current assets rose by €10.6 million, substantially linked to the Zyklus acquisition. In 2018 the bond, issued by LU-VE India to finance the acquisition of Spirotech and subscribed by the Parent Company, was converted into capital, with the reclassification of €34 million from the item "Financial assets" to the item "Equity investments". Fixed assets investments for the year amounted to €5.1 million.

Working capital (equal to the sum of inventories and trade receivables net of trade payables) decreased by €4.0 million (going down from 24.2% to 17.1% of sales).

Shareholders' equity amounted to €104.4 million compared to €111.2 million as at 31 December 2017. The decrease (of €6.8 million) was due to the net profit for the year (€3.1 million), net of a distribution of dividends of €4.9 million, the first-time application of IFRS 9 for €4.8 million and other changes for €0.2 million.

The net financial position was negative by €65.4 million (negative by €53.4 million as at 31 December 2017), with a deterioration of €12.0 million. The debt is all medium and long-term, and liquidity as at 31 December 2018 totalled around €125 million.

1.11 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	2018 (*)	2017
Average days in inventory (1)	52	51
Inventory turnover ratio (2)	6.87	7.11
Receivables turnover ratio (3)	6.03	5.67
Average days sales outstanding (4)	60	63
Payables turnover ratio (5)	3.59	2.91
Average days payable outstanding (6)	100	124
Net Invested Capital	208,946	175,253
EBITDA	36,602	29,072
EBITDA/Financial expense	9.70	17.32
Basic earnings per share (7)	0.70	0.26
Diluted earnings per share (8)	0.70	0.26
Dividends per share (9)	0.22	0.22
Net financial debt	(63,560)	(35,287)
Net financial debt/EBITDA	1.74	1.21
Debt ratio (10)	0.44	0.26
Goodwill and Other Intangible assets/Total assets	0.16	0.16
Goodwill and Other Intangible assets/Shareholders' equity	0.48	0.45

(*) The economic data used to calculate the rates for the year 2018 include the contribution of Zyklus for the second half of the year.

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) Profit (loss) for the period/Weighted average number of ordinary shares;
(8) Profit (loss) for the period/(Weighted average number of ordinary shares + potential number of additional ordinary shares);
(9) Nominal value of the dividend per share approved in each year.
(10) Net financial debt/Shareholders' equity.

1.12 INDUSTRIAL COMPANIES

Revenues of SEST S.p.A. totalled €35.7 million, up by roughly 13% compared to the previous year. Net profit, with around €6.2 million coming from dividends of the Polish subsidiary and penalised by around €5.1 million by the write-down of the TGD equity investment, came to €2.2 million (€5 million in 2017) after depreciation and amortisation of €1.8 million and taxes of €660 thousand.

Sest-LUVE-Polska Sp.z.o.o. reached a turnover of €56.7 million, an increase of around 19% compared to the previous year. Net profit came to €13.2 million (€7.9 million in 2017) after depreciation and amortisation of €1.8 million and a positive tax effect of €1.6 million.

"OOO" Sest LU-VE recorded a turnover of €18.9 million (€19.8 million in 2017). Net profit came to roughly €1.7 million (€1.8 million in 2017) after depreciation and amortisation of €1.1 million and taxes of €152 thousand.

HTS S.r.o. reached a turnover of €39.1 million, an increase of roughly 6%. Net profit came to €1 million (€0.6 million in 2017) after depreciation and amortisation of €2.2 million and taxes of €0.4 million.

LU-VE Sweden AB recorded a turnover of €12 million (an increase of 15% on the previous year), with a net loss of €1.1 million (+€0.3 million in 2017) after depreciation and amortisation of €0.2 million and taxes of €0.5 million.

LU-VE Heat Exchangers (Changshu) LTD recorded a turnover of €7.6 million (€5.8 million in 2017), with a net loss of €0.2 million (loss of €0.5 million in 2017) after depreciation and amortisation of €0.3 million.

Tecnair LV S.p.A. recorded a turnover of €12.2 million, in line with the previous year, with a net profit of €101 thousand (€160 thousand in 2017) after depreciation and amortisation of €92 thousand and taxes of €69 thousand.

Thermo Glass Door S.p.A. achieved a turnover of €10.5 million (around +9% compared to 2017) and a net loss of €2 million (loss of €1.5 million in 2017) after depreciation and amortisation of €0.9 million and a positive tax effect of €0.4 million.

Manifold S.r.l. recorded a turnover of €1.4 million (€1.3 million in 2017), with a net profit of €5 thousand after depreciation, amortisation and taxes for a total of €9 thousand.

Spirotech Heat Exchangers Private Limited recorded total revenues of €35.4 million (€25.3 million in 2017, with an increase of around 40%), with a net profit of €5.4 million (€3.4 million in 2017) after depreciation and amortisation of €0.8 million and taxes of €2.2 million.

Zyklus Heat Transfer Inc., in the first year of consolidation, recorded a turnover of €5.3 million in the second half of the year, with a net profit of €133 thousand after depreciation and amortisation of €287 thousand and taxes of €90 thousand.

1.13 SALES COMPANIES

The situation of each company is summarised below:

LU-VE France s.a.r.l. recorded a turnover of €10.3 million (5% higher compared to 2017), with a net profit of €8 thousand after depreciation, amortisation and taxes of €0.1 million.

LU-VE Deutschland GmbH recorded a turnover of €3.1 million (3.9% in 2017), with a net loss of €24 thousand after depreciation, amortisation and taxes of €22 thousand.

LU-VE Iberica SL recorded a turnover of €8.3 million (-18% compared to 2017), with a net loss of €5 thousand after depreciation, amortisation and taxes of €4 thousand.

LU-VE Contardo Pacific pty. Ltd. recorded turnover of €1.6 million (-8% compared to 2017), with a net loss of €0.3 million after depreciation and amortisation of €10 thousand.

LU-VE Asia Pacific Ltd. closed the year with a net profit of €73 thousand.

LU-VE India Corporation Private Ltd recorded revenues of €104 thousand, with a net profit of €70 thousand.

LUVEDIGITAL S.r.l. recorded turnover of €0.4 million, with a net profit of roughly €2 thousand after depreciation and amortisation and taxes of roughly €9 thousand.

LU-VE Austria GmbH recorded a turnover of €390 thousand (€89 thousand in the previous year), with a net profit of roughly €13 thousand.

1.14 INVESTMENTS

The investments of the Group amounted to €41.8 million in 2018 (€24.3 million in 2017), against amortisation and depreciation of €16.4 million. The investments by company are summarised below:

In thousands of Euro	INVESTMENTS									
Category	LUVE	SEST	SEST LUVE POLSKA	"OOO" SEST LUVE	HTS	SPIROTECH	TGD	ZYKLUS	OTHER	Total
Land and buildings	331	462	13,705	30	9	34	3	-	23	14,597
Plant and equipment	1,233	389	437	187	336	1,047	372	2,989	115	7,105
Goodwill	-	-	-	-	-	-	-	5,205	-	5,205
Trade receivables	-	-	-	-	-	-	-	2,893	-	2,893
Other	2,265	402	300	58	153	133	210	406	395	4,322
Work in progress	1,340	159	2,239	214	1,627	447	398	1,056	195	7,675
TOTAL	**5,169**	**1,412**	**16,681**	**489**	**2,125**	**1,661**	**983**	**12,549**	**728**	**41,797**

In 2018, 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 facility, described previously). The main investments for the year regarded:

- the expansion of existing production capacity and adaptation to safety and environmental regulations (for €2.2 million) by the Parent Company;
- the expansion of the existing production capacity and its adaptation to new safety and environmental regulations (for €0.9 million) and the new offices (for €0.5 million) by the subsidiary SEST;
- the expansion of the manufacturing site, the increase of production capacity and the adaptation to safety and environmental regulations (for €16.7 million) by the subsidiary SEST-LUVE Polska;
- the increase of existing production capacity (for €0.7 million) by the subsidiary TGD;
- the increase of existing production capacity (for €0.5 million) by the subsidiary OOO LUVE Russia;
- the increase of existing production capacity and adaptation to safety and environmental regulations (for €2 million) by the Czech subsidiary HTS sro.
- the increase of existing production capacity (for €1.6 million) by the Indian subsidiary SPIROTECH;
- the increase of existing production capacity (for €0.9 million) by the US subsidiary Zyklus. The initial contribution on 30 June 2018 is of €3.6 million, of which €3 million relate to equipment and €0.6 million to other material assets.
- software expenses for around €1.8 million, the main project developed in 2018 was PLM (Product Lifecycle Management);
- the capitalisation of development expenses (as commented on below) at Group level for

roughly €2.1 million.

1.15 PERSONNEL

2018 was characterised by a significant growth in terms of economic and profit indicators. To adequately support this growth, investment continued in human resources in several areas:

- Search and selection: of junior figures, see "Talents" programme, and senior figures, to further strengthen some strategic areas such as Operations, Research and development and planning and commercial marketing;
- Training: several training courses were organised in almost all business areas. In particular, constant activity in the area of safety and environment has continued, to maintain a high level of awareness and attention in the workplace. Leadership courses have continued for the consolidation of the Manager's role, in particular for younger employees. Taking into account the ever more present globalisation, foreign language courses (English, French and German) have been regularly carried out and excellent results have been achieved on the basis of end of course tests. There have also been diverse refresher activities in various areas following the application of new regulations: administration, customs documentation and shipping and human resources;
- HR software: the new software for the management of all personal data and contractual information relative to all the Group's employees is now operational. Since July 2018 it has been possible at any time to monitor data and indicators in the context of resources employed, absenteeism, accident analysis and contractual economic data. During 2018 a further module was implemented, called SAP Performance, for the computing management of variable remuneration linked to objectives (MBO) for the automatic control and management of the assignment and verification of individual results achieved. The centralisation of payroll management in Italy has also allowed greater reporting clarity and a speed of dispatch of administration data closer to the needs of publicly listed Company.

In 2018 we have observed a significant growth in employee numbers in Polish and Indian plants: in Poland, to meet the increase in production capacity and, towards the last part of the year, for the recruitment of personnel for the start-up of the second plant, and in India, to meet the needs of production growth. These increases will continue for both plants also in 2019.

As at 31 December 2018, the number of Group employees came to 2,609 (including 1,997 blue-collar, 582 white-collar and middle managers, 30 executives), against 2,481 as at 31 December 2017.

1.16 OCCUPATIONAL HEALTH AND SAFETY

In 2018, with a view to continuous improvement, the Group continued carrying out activities intended to guarantee occupational health and safety and environmental protection.

Specifically, the following matters were dealt with:

- all the Group's companies have carried out health evaluations of personnel and have activated, in spite of the fact that this was not compulsory in some of the countries, health plans that include specific test to monitor the state of health of all workers. Some of the Group's companies have also carried out controls on aspects of dental health, diabetes and general health conditions not directly linked to the workplace;
- all the Group's companies assign personnel to their tasks only after having ascertained in advance their state of health and their complete compatibility with professional activity;
- all the Group's companies have systematically traced the risks linked to the workplace (health and safety) and have adjusted their assessments on the basis of a process of continuous improvement or by adding new activities;
- the companies have activated an internal management system to define an accident risk assessment process and have activated control and correction procedures;
- some of the Group's companies have obtained ISO 18001 certification (Occupational Health and Safety) and some have maintained their 14001 (Environment) and 50001 (Energy) certifications active;
- the Group's companies have introduced activities focused on the maximum possible reduction of noise within plants such as, for example, sound-absorbing booths on presses, so guaranteeing also the respect of regulation on noise impact towards the external environment;
- the Group's plants, in spite of the existence of different regulations and limits, from an ergonomic point of view, have been committed to seek more effective solutions, at technical level, to eliminate the risk derived from the repetitive movement of heavy loads. Where possible, manipulators and anti-gravity devices have been introduced and in other situations a turnover has been activated to reduce exposure;
- most of the Group's companies have mapped tasks at ergonomic level to define the most critical areas in which to intervene;
- in relation to mechanical risk, the Group's companies have developed a preventive maintenance system designed to eliminate potential risks of breakage or deterioration;
- machinery is in the process of being adjusted to current safety regulations and all residual risks are managed with operational instructions and continuous training;
- attention and training in the context of safety remain high through the implementation of training breaks in the field. 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.
- with regard to the assessment of chemical risk and its relative environmental impact, the Group's companies have assessed all the substances in use in order to consider the possible need to replace them to reduce risk to the minimum for the health of workers;
- an assessment of environmental risks is being carried out by some of the Group's companies. Before this assessment, a context analysis was carried out to classify them in terms of territory's legal obligations and guarantee the continuity of the process;
- all the Group's companies have activated, through audits carried out by expert consultants in the environmental field, a system for the analysis and assessment of all environmental issues.

With respect to accidents, in the course of 2018 please take note of the following for the Group:

- there were no fatalities at work;

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

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

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

For more information, please refer to the "The well-being of our people" and "Respect for the environment" chapters of the 2018 Consolidated Non-Financial Statement.

2 OBSERVATIONS ON THE FINANCIAL PROFILE AND ON BUSINESS CONTINUITY

At 31 December 2018, the Group and the Parent Company had a solid and balanced financial structure with a Net financial debt/Shareholders' equity ratio (Debt ratio) of 0.44 and 0.63 respectively and a positive short-term net financial position of €92.7 million and €63.1 million, respectively; therefore, the repayment of medium/long-term debt maturing in 2019 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 2018, also taking account the effects expected from the first application of the new accounting standard IFRS 16 on EBITDA and NFP, did not highlight any critical issues. Furthermore, it is highlighted that the estimates of the 2019 Budget, also integrated for the estimated effects of IFRS 16, lead to the expectation that no critical issues with regard to these requirements will arise also for next year.

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 2018 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. The majority of raw materials are purchased in the European Union. Risks are related to fluctuations in the prices of these materials on the reference markets (on which they are quoted in USD) and the fluctuation in the Euro/USD exchange rate (as the Group purchases in euro, while

listings are in USD), as well as the reliability and the policies of mining and/or transformation companies.

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

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

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

RISKS RELATED TO NET FINANCIAL DEBT

In relation to a significant part of existing loan agreements, the Group has committed to respecting specific financial parameters (covenants). In addition, a significant portion of the Group's loan agreements include cross-default - cross acceleration clauses, 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 and bond and monetary instruments, almost exclusively denominated in euro.

Please note that the capitalisation policies provide for a guarantee on the capital and a non-negative guaranteed minimum rate of return as well as several penalties in the case of early redemption.

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

- specific 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). 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 has subscribed derivative financial instruments (primarily range accrual forwards and plain vanilla forwards) which are used with the intent of hedging the underlying risks. However, from a merely accounting perspective, although such instruments substantially hedge the risks mentioned, they do not meet all 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.

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 capacity of its companies to propose innovative products in terms of technology and in line with market trends.

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

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

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

RISKS RELATED TO THE CONCENTRATION OF SALES

Although there is no Group customer which alone represents more than 5.6% of consolidated turnover and although the Group's top 10 customers together represent 34.1% of consolidated turnover, the sectors of static heat exchangers (in which the Group is on the list of the preferred

suppliers of all of the most important European manufacturers of refrigerated counters and realised 61.2% of its turnover in the year 2018) and of glass doors for refrigerated counters (in which the Group realised 3.3% of its turnover in 2018) are characterised by strong commercial leadership by the main manufacturers.

As a result, if the supply to one of the Group's customers in the above-mentioned sectors is 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, the limits and excesses of which are deemed consistent in consideration of the possible damages that could take place, any significant interruption in activities at its industrial facilities, due to the events mentioned above and other events outside the Group's control, could have negative effects on the activities and on the Income Statement, equity and/or financial situation, the economic results and on prospects.

RISKS RELATED TO PRODUCT QUALITY AND LIABILITY

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

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

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

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

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

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

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

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

RISKS RELATED TO INTEREST RATE TRENDS

The Group makes recourse to short as well as, 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 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 2018, 2017 and 2016, Group revenues from sales made abroad represented 78.7%, 77.8% and 73.7% of total revenues from sales, respectively);

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

2018 was a positive year for the global economy which registered a growth of 3.7%, essentially in line with the previous year. In the second half of last year, however, economy slowed down, starting with China which grew in the last quarter of 2018 by 6.4%, the lowest value since 1990. This trend also affected Europe and Italy, whose GDP grew by 1% essentially thanks to the first half of the year only. For 2019, in any case, forecasts for global growth are good, and expected to be 3.3%. For the US, with the withdrawal of fiscal stimulus, growth is expected to be 2.5%, while for the Eurozone it is expected to be 1.0%, with Italy stalled at around zero.

Monetary policies have been adjusted in consequence, with the Fed more cautious in raising interest rates, although they were already raised four times in 2018, and the ECB still anticipating very low rates for the current year even though quantitative easing has been withdrawn. Last year, as in 2017, economic growth was accompanied by good stability in the values of raw materials, also in this case with a slowing down in the second half of the year, in particular for oil and copper.

2019 promises to be more dynamic on the political front: management of Brexit and European elections are expected to be a testing ground for the maintenance of historical institutional and political balance. In all European countries there are parties and movements demanding radical change in the current situation and social and economic implications are unpredictable. At global level, after the Brazilian election, leaderships declaring the protection of national interests to be a priority are becoming more widespread. The US-China relationship with regard to tariffs will be an indicator, more than other aspects, of possible consequences.

In Italy, lastly, the situation arising from the political elections of last March delivered a new government which enjoys extensive support, with a new approach to some issues, in particular the management of migratory flows and economic policies, with strong criticism towards European institutions with regard to both. In any case, from the start the new government has had to tackle the restrictions in Italian public finance, approving a more prudent financial policy with respect to the intentions declared at the time of its inauguration.

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

2.2 DEVELOPMENT ACTIVITIES

In the course of 2018, the Group carried out intense development activities, as usual, to offer the market increasingly advanced products (a key distinctive element of its competitive strategy), broken down over some 36 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 €2.1 million during the year (including €1.6 million capitalised under Intangible assets with the consent of the Board of Statutory Auditors).

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

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 OPENING MONTHS OF 2019: significant events and business outlook

The consolidated turnover of only products in the first two months of 2019 reached roughly €50.9 million, with growth of almost 16% compared to the same period of the previous year (+10.4% on a like-for-like basis).

On a like-for-like basis, the values relative to the acquisition of orders (+17%) and the order portfolio (+18%) have also highlighted a particularly positive trend even though influenced by the acquisition of some one-off special projects.

In the context of a scenario that forecasts a strong increase in the cost of labour in 2019 in all countries excluding Italy, combined to the forecasts of increase in market value in the main materials starting from the second quarter, the Group has formalised a further increase in the price of catalogue equipment starting from February. According to the latest market news, its main competitors have also formalised similar interventions on their pricelists albeit with a slight delay compared to the Group's announcement. Also for products not in the catalogue, negotiations are underway to revise sales prices in cases in which they are not contractually linked to average prices

on the London Metal Exchange, but also in these latter cases the objective is to add indicators relative to the already quoted dynamics of change in the cost of work to parameters adopted in current calculation mechanisms.

In a sector landscape that remains very competitive, visibility of demand in traditional reference markets is usually quite short and, especially in Europe, after a good start to the year, 2019 could be affected in future months by the general uncertainty climate linked both to the feared slowing down of the international economy and to the next European elections (with the linked dragging effect of Brexit). The acquisition of new customers and the opening of new market opportunities in specific application fields and in some geographical areas is, in any case, reason for cautious optimism on the possibility of further growth in volumes.

In February the competent authority approved the expansion plans for the Spirotech's facility, which is expected to start at the beginning of April, once the negotiation of procurement and works contracts has been finalised.

During the first two months an agreement was reached with the Jacksonville Texas industrial park authorities on the particularly favourable conditions for the acquisition of around 80,000 m^2 of land for the construction of a new facility within two years of the signature of final contracts, anticipated for April.

In relation to the acquisition of the "Air" division of the Alfa Laval Group, the anticipated preparatory activities leading to the signature of the final contracts have continued during the year with a spirit of cooperation.

In January, an unsecured loan agreement was set up with Banco BPM Mediocredito Italiano for €30,000,000 with a duration of 75 months (of which three in the grace period) repayable in quarterly instalments at constant capital.

2.5 MANAGEMENT AND COORDINATION ACTIVITIES

There are no management and coordination relationships or activities.

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

Pursuant to law, please recall that as at 31 December 2018, the Group held 157,716 treasury shares, equal to 0.093% of the share capital, acquired at an average price of €10.2637 based on the authorisation resolutions approved by the Shareholders' Meeting on 28 April 2015, 29 April 2016, 12 April 2017 and 27 April 2018. In application of international accounting standards, these instruments are recognised as a deduction from the shareholders' equity attributable to the group.

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

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

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 LU-VE S.p.A. and Sest S.p.A. pursuant to Italian Legislative Decree no. 231/2001, it must be noted that official arrangements have been made 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 task to revise the Organisational, Management and Control model pursuant to Italian Legislative Decree no. 231/2001 also for the subsidiary Tecnair LV S.p.A. has been assigned.

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

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

2.11 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 2018 corresponds to the results of the accounting documents, books and entries.

2.12 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.

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

Dear Shareholders,

We propose that you approve the Financial Statements we have presented to you and

allocate the net profit for the period, equal to €3,098,524.00 (three million ninety-eight thousand five hundred twenty-four/00) as follows:

- €154,926.25 (one hundred and fifty-four thousand nine hundred and twenty-six/25) to the legal reserve;
- €2,943,598.75 (two million nine hundred and forty-three thousand five hundred and ninety-eight/75) to the shareholders in the form of a dividend.

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

On behalf of the Board of Directors

CEO
Matteo Liberali

2.14 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

2.15 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 2018

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1 FINANCIAL STATEMENTS

1.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated Statement of Financial Position *(Reclassified in thousands of Euro)*	**Notes**	**31/12/2018**	**31/12/2017**
ASSETS			
Goodwill	3.1	47,708	42,503
Other intangible assets	3.1	22,462	20,215
Property, plant and equipment	3.2	112,808	100,618
Other property, plant and equipment	3.2	12,253	10,573
Deferred tax assets	3.19	4,722	3,359
Equity investments	3.3	6	6
Other non-current assets	3.4	2,190	1,935
Non-current assets		202,149	179,209
Inventories	3.5	44,667	37,988
Trade receivables	3.6	50,854	47,616
Due from the tax authorities for current taxes	3.7	7,215	9,236
Current financial assets	3.8	57,634	72,308
Other current assets	3.9	2,257	2,022
Cash and cash equivalents	3.10	85,905	50,762
Current assets		248,532	219,932
Assets held for sale		-	-
Assets held for sale		-	-
TOTAL ASSETS		450,681	399,141

Consolidated Statement of Financial Position *(Reclassified in thousands of Euro)*	**Notes**	**31/12/2018**	**31/12/2017**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital	3.11	62,704	62,704
Reserves and retained earnings (losses)		64,105	69,496
Profit (loss) for the year		15,407	5,642
Total shareholders' equity attributable to the Parent Company		142,216	137,842
Shareholders' equity attributable to non-controlling interests		3,170	2,124
SHAREHOLDERS' EQUITY		145,386	139,966
Loans	3.12	152,196	112,973
Provisions	3.13	2,581	2,472
Employee benefits	3.14	4,057	4,047
Deferred tax liabilities	3.19	13,173	13,217
Other financial liabilities	3.15	4,107	2,101
Non-current liabilities		176,114	134,810
Trade payables	3.16	57,800	63,405
Loans	3.12	49,662	42,234
Provisions	3.13	-	-
Tax payables	3.17	2,331	2,273
Other financial liabilities	3.15	1,134	1,049
Other current liabilities	3.18	18,254	15,404
Current liabilities		129,181	124,365
Liabilities held for sale		-	-
Liabilities held for sale		-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		450,681	399,141

1.2 CONSOLIDATED INCOME STATEMENT

Consolidated Income Statement *(Reclassified in thousands of Euro)*	**Notes**	**31/12/2018**	**31/12/2017**
REVENUES AND OPERATING INCOME			
Revenues	4.1	305,936	269,195
Other revenues	4.2	933	837
Total revenues and operating income		306,869	270,032
OPERATING COSTS			
Purchases of materials	4.3	(167,429)	(150,006)
Changes in inventories	3.5	5,643	7,502
Services	4.4	(42,951)	(40,105)
Personnel costs	4.5	(62,823)	(56,280)
Net write-downs of financial assets	4.6	(427)	-
Other operating costs	4.7	(2,280)	(2,071)
Total operating costs		(270,267)	(240,960)
Net change in fair value of derivatives		(663)	170
Depreciation and amortisation	3.1 - 3.2	(16,422)	(15,143)
Capital gains on the sale of non-current assets		404	176
Write-downs on non-current assets		(191)	(152)
EBIT		19,730	14,123
Financial income	4.8	1,241	1,633
Financial expense	4.9	(3,775)	(1,679)
Exchange gains (and losses)	4.10	(250)	(5,564)
Gains and losses from equity investments	4.11	416	-
EBT		17,362	8,513
Income taxes	4.12	(1,269)	(2,234)
NET PROFIT (LOSS)		16,093	6,279
Attributable to non-controlling interests		(686)	(637)
PROFIT (LOSS) FOR THE YEAR		15,407	5,642

1.3 EARNINGS PER SHARE AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Earnings per share

Earnings per share *(Reclassified in Euro)*	**Notes**	**31/12/2018**	**31/12/2017**
EARNINGS PER SHARE	4.13		
Basic		0.70	0.26
Diluted		0.70	0.26

Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income *(Reclassified in thousands of Euro)*	**Notes**	**31/12/2018**	**31/12/2017**
NET PROFIT (LOSS)		16,093	6,279
Components that will not subsequently be reclassified to the Income Statement			
Actuarial valuation of post-employment benefits	3.14	125	18
Tax effect		(30)	(4)
		95	14
Components that will subsequently be reclassified to the Income Statement:			
Exchange differences from translation of Financial Statements in foreign currency	1.4	(2,616)	4,403
TOTAL COMPREHENSIVE INCOME (LOSS)		13,572	10,696
of which:			
Attributable to non-controlling interests	3.11	(686)	(637)
ATTRIBUTABLE TO THE GROUP		12,886	10,059

1.4 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Consolidated Statement of Changes in Shareholders' Equity *(in thousands of Euro)*	**Share capital**	**Share premium reserve**	**Legal reserve**	**Treasury shares**	**Translation reserve**	**Post-employment benefits discounting reserve**	**Other reserves**	**Profit (loss) for the year**	**Total Shareholders' equity attributable to the group**	**Shareholders' equity attributable to non-controlling interests**	**Total shareholders' equity**
BALANCE AS AT 01/01/17	62,496	24,762	2,004	(992)	(4,866)	(359)	33,681	15,778	132,504	1,823	134,327
Allocation of profit 2017											
Dividends paid	-	-	-	-	-	-	(4,416)	-	(4,416)	(325)	(4,741)
Retained	-	-	362	-	-	-	15,416	(15,778)	-	-	-
Increases (decreases)	-	-	-	(428)	-	-	-	-	(428)	-	(428)
Reversal of deferred taxes on costs relative to capital transactions	-	-	-	-	-	-	(61)	-	(61)	-	(61)
Other	208	-	-	-	-	-	(24)	-	184	(11)	173
Statement of Comprehensive Income as at 31/12/2017	-	-	-	-	4,403	14	-	5,642	10,059	637	10,696
BALANCE AS AT 31/12/2017	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 01/01/2018	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

1.5 STATEMENT OF CASH FLOWS

	Consolidated Statement of Cash Flows *(in thousands of Euro)*	Notes	31/12/2018		31/12/2017
A.	Cash and cash equivalents at the beginning of the period		50,762		46,455
	Contribution of change in consolidation area		142		-
	Profit (loss) for the year		15,407		5,642
	Adjustments for:				
	- Depreciation and amortisation	3.1 - 3.2	16,422		15,143
	- Realised gains on non-current assets		(404)		(176)
	- Net financial income and expense	4.8 - 4.9	2,534		47
	- Income taxes	4.12	1,269		2,234
	- Fair value changes booked in operating income		663		(170)
	Changes in post-employment benefits		82		71
	Changes in provisions	3.13	109		290
	Changes in trade receivables		(2,067)		(2,160)
	Changes in inventories		(4,949)		(7,074)
	Changes in trade payables		(6,550)		10,335
	Changes in net working capital		(13,566)		1,101
	Changes in other receivables and payables, deferred taxes		4,589		(2,525)
	Tax payment		(3,786)		(2,384)
	Net financial revenues/expenses received/paid		(2,289)		50
B.	Cash flows generated/absorbed by operating activities		21,030		19,323
	Investments in non-current assets:				
	- intangible assets	3.1	(4,026)		(4,968)
	- property, plant and equipment	3.2	(23,569)		(19,318)
	- financial assets		-		-
	Business combination net acquisition price	2.1	(9,072)	(*)	-
C.	Cash flows generated/absorbed by investing activities		(36,667)		(24,286)
	Repayment of loans	3.12	(55,269)		(53,917)
	New loans		97,848		62,000
	Changes in other financial liabilities		(195)		(530)
	Changes in short-term financial assets		14,207		2,624
	Purchase of treasury shares	3.11	(198)		(428)
	Contributions/repayments of own capital		-		208
	Payment of dividends	4.14	(5,265)		(4,416)
	Other changes		1,451		301
D.	Cash flows generated/absorbed by financing activities		52,579		5,842
	Exchange differences		(2,616)		4,403
	Other non-monetary changes		675		(975)
E.	Other changes		(1,941)		3,428
F.	Net cash flows in the period (B+C+D+E)		35,001		4,307
	Cash and cash equivalents at the end of the period (A+F)		85,905		50,762
	Current financial debt		(6,838)		(29,025)
	Non-current financial debt		156,303		115,074
	Net financial debt (Note 3.20)	3.20	63,560		35,287

(*) 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

2 EXPLANATORY NOTES

2.1 INTRODUCTION

Zyklus acquisition

On 26 June 2018 LU-VE S.p.A. bought 100% of the American company called Zyklus Heat Transfer Inc ("Zyklus"), active in the manufacture and sale of heat-exchangers. The acquisition has two objectives. On the one hand, it represents the crowning of a long-term project for the search of a company to acquire in what remains to date the largest global market in the field of refrigeration and air conditioning while, on the other, it represents the first essential step in a medium-term project of great potential for growth in the North American continent.

The buyout was carried out by LU-VE S.p.A. at a price of USD 10 million (€8,675 thousand), paid with financial assets available at the date of acquisition. The purchase price was not subject to contractually required adjustments, based on the Statement of Financial Position as at 30 June 2018 and the EBITDA for the whole of 2018, calculated on the basis of contractual provisions. A part of the price was deposited on an escrow account and payment is reliant upon the achievement of a series of results in terms of agreed profitability for 2018. Furthermore, an earn-out scheme was worked in with a clause that arranges for a multiplying factor on the EBITDA for the business year 2021 only.

The acquired company was included in the Consolidated Financial Statements as from 30 June 2018. However, only the Statement of Financial Position of the subsidiary was consolidated. 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.

The exercise of Purchase Price Allocation was concluded by the end of 2018 with the following effects with respect to the notes of the consolidated report of June 2018:

- the fair value of the Customer Relationship identified as the Primary Income Generating Assets ("PIGA") was estimated at around USD 3,335 thousand (equivalent to around €2,893 thousand) while the relative deferred tax effect was quantified by applying the theoretical rate of 21% for around USD 700 thousand (equivalent to around €607 thousand). At the end of the process of allocation, residual goodwill is of around USD 6,000 thousand (equivalent to around €5,205 thousand). The main assumptions underlying the valorisation of the Customer Relationship include the turnover growth rate beyond 2018;
- the customer Churn Rate and a discounting rate of 12.9%, which corresponds to a corporate level WACC adjusted by a 2.0% spread in order to take into account the greater risk inherent to a stand-alone asset compared to that of the entire company (it is therefore a level 3 fair value according to IFRS 13);

- The initial payment of USD 10 million was adjusted by the following amounts:

- an increase of USD 458 thousand (equivalent to €397 thousand), equivalent to the actual value of the earn-out anticipated in the sale contract. The potential non-discounted amount that LU-VE S.p.A. might have to pay to the seller does not anticipate contractual caps. The fair value of the Contingent Consideration as at 31 December 2018 was estimated using the Income Approach (based on the subsidiary's plan; this is therefore a level 3 fair value according to IFRS 13);

- a decrease of USD 936 thousand (equivalent to €812 thousand) in order to measure the fair value of the rental contract of a warehouse made available free of charge to Zyklus by the seller until June 2022. This amount was recognised in the item "Other non-current assets" and will be amortised until 2022 under the item "Services".

The following chart shows details of Zyklus' assets and liabilities included in the Group's Consolidated Financial Statements as at 30 June 2018 and the breakdown of goodwill calculated on this date.

At the end of the process of allocation, residual goodwill is of around USD 6,000 thousand (equivalent to around €5,205 thousand).

The residual goodwill is attributable to the synergies anticipated following the Zyklus acquisition and the expansion of the American market.

Lastly, please note that the acquisition of Zyklus entailed accessory costs of roughly €980 thousand, which were recognised in the Income Statement for the period under the item entitled "Operating costs - Services".

The subsidiary's Income Statement from 1 July 2018 to 31 December 2018 is reported below:

Zyklus assets and liabilities measured at fair value *(in thousands of Euro)*	**30/06/2018**
Property, plant and equipment and intangible assets	6,477
of which trade receivables	*2,893*
Other non-current assets	88
Current assets	2,901
Cash and banks	142
Total assets - A	**9,608**
Loans	4,072
Other non-current liabilities	534
Current liabilities	1,340
Deferred tax liabilities	607
Total liabilities and shareholders' equity - B	**6,553**

Consideration paid at the date of acquisition	8,675
Consideration for related transactions	(812)
Contingent consideration	397
Consideration for acquisition - C	**8,260**
Net assets acquired - D = A-B	3,055
Goodwill C - D	**5,205**

Amount paid (*) - E	9,072
Cash held by the subsidiary - F	(142)
Cash flow for acquisition E + F	**8,930**

(*) 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

If the acquisition had taken place on 1 January 2018, Zyklus would have contributed €10.7 million to consolidated earnings, without showing a significant impact on net profit (loss).

Complete conversion of CCDs

June marked the end of the process whereby the "CCDs" (Compulsory Convertible Debentures – financial instruments in Indian rupees that must necessarily be converted into equity), issued by the subsidiary LU-VE India when Spirotech was purchased in 2016 to obtain the necessary liquidity to complete the transaction and entirely underwritten by the Parent Company, were converted into LU-VE India shares. This conversion operation, whose aim was to prepare the ground for the reverse merger procedures of LU-VE India into Spirotech, allows for the elimination of the recognition of unrealised exchange gains/losses, even for significant amounts in the consolidated Financial Statements of the Group, ensuing from fluctuations in the INR/Euro exchange rate recorded in previous periods. However, exchange rate losses were realised in 2018 for around €854 thousand before conversion (recognised under the item "Exchange gains (and losses)").

Upon conversion of the CCDs, the shareholding stake held by LU-VE S.p.A. in its subsidiary LU-VE India rose to 99.99% (prior to the conversion it stood at 99.98%).

2.2 ACCOUNTING STANDARDS

Declaration of compliance and accounting policies

The consolidated Financial Statements for 2018 of the LU-VE Group have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union at that date. IFRS refers to all International Financial Reporting Standards and International Accounting Standards and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC), endorsed by the European Union and contained in the relative EU Regulations.

The consolidated Financial Statements have been prepared in Euro, which is the currency used in the economies in which the Group primarily carries on business, with amounts rounded to thousands, and are compared with the consolidated Financial Statements for the previous year, prepared with the same criteria. They consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flows and these 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, as described below. Furthermore, the Financial Statements have been drawn up on the basis of the going concern assumption.

With reference to this last assumption, as at 31 December 2018, the LU-VE Group has a solid and balanced financial structure with a Net financial debt/Shareholders’ equity ratio (Debt ratio) of 0.44 and a positive short-term net financial position of €92.7 million, therefore the repayment of medium/long-term debt maturing in 2019 is guaranteed by current liquidity. In addition, there are no substantial restrictions on the freeing up of invested liquidity, which therefore, if required, may be used to meet any payment commitments.

In light of what is laid out above, the consolidated Financial Statements of the LU-VE Group as at 31 December 2018 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 2018 was approved by the Board of Directors of the Parent Company LU-VE S.p.A. on 22 March 2019.

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 profit and loss, equity and financial situation.

Consolidation area

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

Company name	Registered office	% stake	Share capital
Direct subsidiaries:			
SEST S.p.A.	Limana (BL)	100.00%	€1,000,000
Tecnair LV S.p.A.	Uboldo (VA)	79.90%	€200,000
Heat Transfer Systems s.r.o. (HTS)	Novosedly (Czech Rep.)	100.00%	CZK 133,300,000
LU-VE Sweden AB	Asarum (Sweden)	100.00%	SEK 50,000
LU-VE France S.a.r.l.	Lyon (France)	86.06%	€84,150
LU-VE Pacific Pty Ltd	Thomastown (Australia)	75.50%	AUD 200,000
LU-VE Deutschland GmbH	Stuttgart (Germany)	100.00%	€230,000
LU-VE Iberica S.L.	Madrid (Spain)	85.00%	€180,063.23
LU-VE Asia Pacific Limited	Wan Chai (Hong Kong)	100.00%	HKD 10,000
LU-VE INDIA CORPORATION PRIVATE LTD	New Delhi (India)	99.99%	INR 5,555,570
LuveDigital S.r.l.	Uboldo (VA)	50.00%	€10,000
MANIFOLD S.r.l.	Uboldo (VA)	99.00%	€10,000
LU-VE AUSTRIA GmbH	Vienna (Austria)	100.00%	€17,500
Zyklus Heat Transfer Inc.	Jacksonville (USA, Texas)	100.00%	USD 1,000
Indirect subsidiaries:			
SEST-LUVE-Polska SP.z.o.o.	Gliwice (Poland)	95.00%	PLN 16,000,000
(95% owned by SEST S.p.A.)			
«OOO» SEST LU-VE	Lipetsk (Russia)	95.00%	RUB 136,000,000
(95% owned by SEST S.p.A.)			
LU-VE HEAT EXCHANGERS Ltd	Changshu (China)	100.00%	CNY 38,211,761
(wholly-owned by LU-VE Asia Pacific Limited)			
LU-VE HEAT EXCHANGERS (Tianmen) Co, Ltd	Tianmen (China)	100.00%	n.a.
Thermo Glass Door S.p.A. (100% owned by SEST S.p.A.)	Travacò Siccomario (PV)	100.00%	€100,000
Spirotech Ltd (95% owned by LU-VE INDIA CORPORATION PRIVATE LTD)	New Delhi (India)	95.00%	INR 25,549,700

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 Company and to minority interests. The overall revenue of subsidiaries is attributable to the Company 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 following changes compared to the previous period took place in the consolidation area during the period:

- on 6 June 2018 after the CCDs were converted, as indicated in the "Introduction", LU-VE S.p.A. shareholding stake in LU-VE India rose from 99.98% to 99.99%;
- on 26 June 2018, the Parent Company bought 100% of the company Zyklus Heat Transfer Inc. based in Texas (USA), as already mentioned in the "Introduction";
- it is also noted that on 15 October 2018 LU-VE Heat Exchangers Co Ltd, with the registered office in Tianmen, was constituted. The Company was not consolidated in these Financial Statements as at 31 December 2018 it was not yet operational.

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:

	2018		2017	
Currency	Exchange rate as at 31/12	Average exchange rate	Exchange rate as at 31/12	Average exchange rate
AUD	1.6220	1.5797	1.5346	1.4732
PLN	4.3014	4.2615	4.177	4.2570
CZK	25.7240	25.6470	25.535	26.326
RUB	79.7153	74.0416	69.392	65.9383
SEK	10.2548	10.2583	9.8438	9.6351
HKD	8.9675	9.2559	9.372	8.8045
CNY	7.8751	7.8081	7.8044	7.6290
INR	79.7298	80.7332	76.6055	73.5324
USD (*)	1.1450	1.1522	-	-

(*) In order to convert the Income Statement of the new subsidiary Zyklus, acquired at the end of June 2018, the average exchange rate from July 2018 to December 2018 was used as reported in the table.

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 STATEMENT OF RECONCILIATION *(in thousands of Euro)*	2018 Net profit for the period	 Shareholders’ Equity	2017 Net profit for the period	 Shareholders’ Equity
Amounts from LU-VE S.p.A. Financial Statements	3,099	104,363	3,513	111,157
Difference between carrying amount of consolidated equity investments and pro rata value of shareholders' equity and profit (loss) of consolidated subsidiaries	12,936	39,159	2,135	27,580
Elimination of unrealised intra-group profits (losses)	(409)	(676)	(10)	(267)
Other	(219)	(630)	4	(628)
Profit and shareholders' equity attributable to the Group	**15,407**	**142,216**	**5,642**	**137,842**

Measurement criteria

The accounting standards and measurement criteria adopted to prepare the consolidated Financial Statements as at 31 December 2018, 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 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.

The Management has not considered the acquisition of the subsidiary Brener a.s. as a business combination in accordance with 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.

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.

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). The Customer Relationship with the US company is amortised over 20 years, while the one with the Indian company is amortised over 23 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.

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
Fixtures and fittings, tools and other equipment	3 – 10
Other assets	4-8

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

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

Land is not depreciated.

Leased assets

Two types of leases are identified: finance and operating.
A lease is considered to be financial when it transfers a significant and substantial portion of risks and benefits linked with the ownership of the asset to the lessee. As indicated in IAS 17, a lease is considered to be financial when the following indicators are present, individually or together:

- the contract transfers the ownership of the asset to the lessee at the end of the lease contract;
- the lessee has the option to acquire the asset at the price that is expected to be sufficiently below fair value at the date on which this option can be exercised that, at the beginning of the lease, it is reasonably certain that it will be exercised;
- the duration of the lease covers most of the economic life of the asset even if the asset is not transferred;
- at the start of the lease the actual value of minimum payments due for the lease are equivalent to at least the fair value of the leased assets;
- the leased assets is so specific in nature that only the lessee can use them without the need to make significant adjustments.

Assets available to the Group's companies through contracts falling under the category of finance leases are accounted as tangible assets at their fair value at the purchase date or, if inferior, to the actual value of minimum payments due for the lease; the corresponding liability to the lessor is included in the Statement of Economic and Financial Position as short or medium-long-term "Other financing liabilities". They are amortised over their estimated useful life. Payments of leasing instalments are divided into a capital portion, which is registered as a reduction of financial liabilities, and an interest portion. Financial expenses are directly ascribed to the Income Statement of the year.
However, for operating leases, payments are recorded in the Income Statement on a linear basis throughout the duration of the contract.

Non-current receivables

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

Impairment of assets

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

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

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

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

FINANCIAL INSTRUMENTS

Derivative financial instruments

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

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

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

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

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

ASSIGNMENT OF RECEIVABLES

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

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 period in which the services are rendered.

Post-employment benefits

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

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 fewer than 50 employees (Tecnair and Manifold) employee severance indemnities accrued as at 31 December 2018 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.

PAYABLES

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

CRITERIA FOR THE TRANSLATION OF ITEMS IN FOREIGN CURRENCY

Receivables and payables originally expressed in foreign currencies are translated to euro at the exchange rates of the date on which the transactions giving rise to them take place. The exchange

differences realised upon collection of the receivables and payment of the payables in foreign currency are recognised in the Income Statement. Income and expenses relating to transactions in foreign currency are recognised at the current exchange rate on the date on which the relative transaction takes place.

At year end, assets and liabilities expressed in foreign currency 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.

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 companies included in the national tax consolidation of the parent company LU-VE S.p.A. are SEST S.p.A. and Thermo Glass Door S.p.A.

DIVIDENDS

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

TREASURY SHARES

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

USE OF ESTIMATES

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

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

The procedure for determining the impairment losses on goodwill, intangible assets and property, plant and equipment described in the accounting standard "Impairment of assets" implies - in estimating the value in use - assumptions regarding the forecast of expected cash flows from the cash generating units ("CGUs") identified, making reference to the 2019-2022 plan, the determination of an appropriate discounting rate (WACC) and a long-period growth rate (g-rate). These assumptions are based on the Management's expectations of focusing on new geographical markets deemed most attractive in terms of size, stability, growth and profit margins, strengthening and expanding existing production capacity, continuously improving the performance of existing products and developing innovative products.

As laid out in IAS 36, as the above-mentioned CGUs include goodwill, the Group's Management conducted an impairment test to determine whether the carrying amounts relating to the assets of the individual CGUs are recognised in the Financial Statements as at 31 December 2018 at a value no higher than the recoverable amount. In particular, the Group has recognised goodwill totalling €47.7 million in the consolidated Financial Statements as at 31 December 2018. This goodwill has been attributed to two cash generating units ("CGUs"): "Components" and "Cooling Systems", to

which the intangible assets with a finite useful life and property, plant and equipment have also been allocated.

Provisions for credit risks

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

Provisions for inventory obsolescence

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

Provisions for warranties

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

Employee benefits

The present value of liabilities for employee benefits depends on a series of factors determined with actuarial techniques using specific assumptions (note 3.14). The assumptions regard the discount rate, estimates of future wage increases, mortality rates and resignations. Every change in these assumptions may have significant effects on the liability for pension benefits.

Income taxes

The Group is subject to various income tax legislations. To determine the Group's tax liabilities, the management needs to make assessments with respect to transactions that have uncertain tax implications at the reporting date. In addition, deferred tax assets are measured on the basis of expected income in future years as laid out in the 2019-2022 plan; the assessment of this expected income depends on factors that could change over time and have significant effects on the measurement of deferred tax assets.

Other provisions

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

Estimates and assumptions are reviewed periodically and the effects of each change are immediately reflected in the Income Statement.

2.3 NEW ACCOUNTING STANDARDS

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS AT 1 JANUARY 2018

The following IFRS accounting standards, amendments and interpretations have been applied by the Company for the first time as at 1 January 2018:

- On 22 September 2016, with regulation no. 1905/2016, the European Commission endorsed the accounting standard **IFRS 15 – Revenue from Contracts with Customers**. This standard has replaced standards IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue-Barter Transactions Involving Advertising Services.
  This new revenue recognition model will apply to all contracts entered into with customers with the exception of those falling within the scope of application of other IAS/IFRSs such as insurance contracts and financial instruments. The fundamental steps for accounting for revenues in accordance with the new model are:

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

  The application of this standard has had no impact on the amounts of revenue recognised by the Company. Indeed, as far as the Company's business is concerned, this new "revenue recognition" concept envisaged under § 31 of IFRS 15, which is based on the acquisition of "control" over the asset by the customer (in the sense of an ability to decide on how the asset is used and enjoy all remaining benefits) basically overlaps with the provisions contained in standard IAS 18. The latter states that revenue from sale of goods must be recognised (particularly so when the entity has transferred the substantial risks and benefits ensuing from ownership of the asset to the purchaser); for its part, IFRS 15 establishes that, in order to determine whether acquisition of control has taken place at a given time, the following must be assessed: whether the customer holds an ownership deed for the assets, whether possession has been transferred, whether the customer is already obliged at the time to pay for the assets and, last but not least, whether the customer bears the meaningful risks and enjoys the meaningful benefits arising from ownership of the assets. In this case, whenever the Group makes sales, transferral of control over the asset (as mentioned above) coincides with transferral of the associated risks/benefits. Therefore, recognition of the ensuing revenue can occur upon shipment or when the goods are delivered to the customer according to Incoterms (International Commercial Terms) adopted by the Group companies in the various contracts stipulated with their customers. This applies to all sales for all product families. The Group does not sell to customers services related to sold goods and guarantees relating to sold goods cannot be purchased separately and do not act as guarantee that sold goods are compliant with the agreed specification.
  The main Group's Incoterm clause is "Ex-works".

This standard has been applied since 1 January 2018. As already described in the notes last year, the application of this standard has not had any impact on the amounts of revenues recognised in the Group's Financial Statements.
Revenues are recognised net of returns, discounts, allowances and premiums, as well as taxes directly connected to the sale of goods and the provision of services.

- On 22 September 2016, with Regulation no. 2067/2016, the European Commission endorsed the accounting standard **IFRS 9 – Financial Instruments**, which replaces IAS 39. The standard:

  - introduces new criteria for the classification and measurement of financial assets and liabilities;
  - introduces an impairment model for financial assets;
  - introduces a new hedge accounting model (increase in the type of transactions eligible for hedge accounting, change in the methods for accounting for forward contracts and options when included in a hedge accounting relationship, amendments to the effectiveness test).

This new standard has been applied since 1 January 2018, the date on which the Group valued its financial assets and liabilities on the basis of the IFRS 9 requirements. All current acquisitions and disposals of financial assets are recognised and eliminated from the accounts on the trading date.

All recognised financial assets that come under the scope of application of IFRS 9 must subsequently be recognised at amortised cost or fair value on the basis of the Company's business model for the management of financial assets and of the characteristics relative to contractual financial flows of financial assets. Specifically:

- Debt instruments held in the context of a business model whose objective is the ownership of financial assets finalised to the collection of contractual cash flows, and that have cash flows represented exclusively by payments of capital and interests on the amount of capital to be repaid, are subsequently valued at amortised cost;
- Debt instruments held in the context of a business model whose objective is both the collection of contractual cash flows and the sale of financial assets, and that have cash flows represented exclusively by payments of capital and interests on the amount of capital to be repaid, are subsequently valued at fair value with variations recognised in the other components of the Statement of Comprehensive Income (FVTOCI);
- All other debt instruments and investments in instruments represented by capital are subsequently valued at fair value, with variations recognised in the profit (loss) for the year (FVTPL).

In spite of what is reported above, the Group may make the following irrevocable choice/designation at the time of initial recognition of a financial asset:

- The Group may make the irrevocable choice to recognise subsequent variations of fair value of investment in instruments representative of capital that are not held for trading.
- The Group may irrevocably designate an investment in debt instruments that satisfied the criteria of the amortised cost or of FVTOCI as value at fair value, with variations recognised in the profit (loss) for the year (FVTPL) if, by doing so, eliminates or significantly reduces an accounting asymmetry.

  During the current financial year, the Group has not designated any investment in debt instruments that satisfies the criteria of the amortised cost or of FVTOCI as valued at fair value recognised in the profit (loss) for the year.

  When an investment in a debt instrument measured as FVTOCI has been eliminated, the accumulated profit (loss) previously recognised under the other components of the Statement of Comprehensive Income is reclassified from the shareholders' equity to the profit (loss) for the year through a reclassification adjustment. On the other hand, when an investment in a debt instrument representative of capital designated as valued as FVTOCI has been eliminated, the accumulated profit (loss) previously recognised under the other components of the Statement of Comprehensive Income is subsequently transferred under earnings carried forward without moving from the Income Statement.

  Debt instruments subsequently valued at amortised cost or FVTOCI are subject to impairment test.

  The Company's Directors have reviewed and evaluated the Group's financial assets as at 1 January 2018 on the basis of the facts and circumstances applicable at that date (and the Group's business model for the management of such assets) and have concluded that the initial application of IFRS 9 has had the following impacts on the Group's financial assets with regard to their classification and valuation:

- Debt instruments held as loans and credits on the basis of IAS 39 that had been valued at amortised cost continued to be valued at amortised cost on the basis of IFRS 9 as held in the context of a business model whose objective is the collection of contractual cash flows and because these cash flows are represented exclusively by payments of capital and interests on the amount of capital to be repaid.
- There are no changes to the valuation of the Group's investments in equity/bond instruments held with the objective of trading (e.g. management of liquidity), held through funds under management and investments in insurance policies; these instruments were and continue to be valued at fair value with variations recognised in the profit (loss) for the year;

  IFRS 9 has also introduced a significant change in the classification and valuation of financial liabilities with reference to the accounting of variations of fair values attributable to the issuer's credit risk, for financial liabilities designated by the Group as FVTPL. However, the Group does not hold any financial liabilities designated as FVTPL

  The application of this new standard has not had any impact on the classification and valuation criteria for financial assets and liabilities and on the hedge-accounting model (not used by the Company).

On the other hand, as far as impairment of financial assets is concerned, this new standard requires that an estimate of losses on receivables be carried out on the basis of the expected credit losses (ECL) model, using supportable, available information without unreasonable effort or expense which must include historic, current and forward-looking information. Unlike the incurred losses model envisaged under IAS 39, it is no longer necessary for an event to take place before losses on receivables are recorded. The standard establishes that this impairment model be applied to all financial instruments - that is to the financial assets valued at amortised cost, to those valued at fair value through other comprehensive income, to receivables ensuing from rental contracts and to trade receivables. In particular, IFRS 9 requires that the estimate of losses on receivables be carried out for an amount equal to lifetime ECL if the credit risk to the financial instrument has increased considerably since the initial recognition date. On the other hand, if the credit risk to the financial instrument has not increased significantly since the initial recognition date, the estimate of losses on receivables must be carried out for an amount equal to 12-month ECL. In addition, IFRS 9 takes a simplified approach which envisages recording losses on receivables for receivables ensuing from rental contracts and trade receivables for an amount equal to lifetime ECL. As regards the implementation of this new method of calculating impairment of financial assets, it should be noted that the Company has applied the "simplified retrospective" method which envisages the possibility of avoiding restatement of all the comparative information from the years before the new standard was introduced. Furthermore, the aforementioned "simplified approach" was also applied to trade receivables, creating a provision matrix based on past experience (i.e. on losses on receivables from previous periods), but suitably adjusted to take into account additional and forward-looking risk factors so as to gain insight into the likelihood of the debtor's future defaults when making the valuation. The additional risk factor was established by looking at the ageing of the receivables, on the one hand, and the geographical provenance of the debtor, on the other hand.

The chart below shows the effects (expressed in thousands of Euros) of the change in the accounting standard on the provisions for impairment to trade receivables, on deferred tax assets and on retained earnings for the Company as at 1 January 2018, the date of first-time application of the standard.

Effects of first application of standard IFRS 9 *(in thousands of Euro)*	**01/01/2018**
Trade receivables	(1,435)
Deferred tax assets	74
Retained earnings	**(1,361)**

The application of IFRS 9 has not had any impact on the Group's consolidated cash flows.

The impact of basic and diluted earnings per share deriving from the application of IFRS 9 is not material.

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 2018

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.

- Final version of Amendment to **IFRS 9 – Prepayment Features with Negative Compensation** (published on 12 October 2017). This document specifies that instruments requiring prepayment could respect the "SPPI" test even if the reasonable additional compensation to be paid in the case of prepayment is negative compensation for the lender. The amendment applies as at 1 January 2019, but early application is permitted.

- 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. The standard does not include significant amendments for lessors.

  The standard applies as at 1 January 2019, but early application is permitted.

  The Group has completed the preliminary assessment of the potential impact deriving from the application of the new standard at the transition date (1 January 2019). This process is broken down in different stages, including the complete mapping of contracts potentially suitable for a lease and the analysis of the same in order to understand the main relevant clauses for the purposes of IFRS 16.

  The accounting management of the standard will require an initial involvement of the service provider but the Group is assessing the need to acquire the computing infrastructure aimed at the in-house management of the same.

  The Group decided to adopt the standard by using the modified retrospective method. In particular, the Group will recognise, 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 for each contract the incremental borrowing rate applicable at the transition date;
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 the current Financial Statements.

The following table reports the estimated impacts of the adoption of IFRS 16 at the transition date:

Impacts at transition date 01/01/2019 *(in thousands of Euro)*	**Amount**
ASSETS	
Non-current assets	
Right to use Buildings	3,925
Right to use Vehicles	720
Right to use Internal transport vehicles	989
Right to use Data Centre	144
Miscellaneous rights to use	176
Other non-current assets (*)	(2,007)
Total	3,947
LIABILITIES AND SHAREHOLDERS' EQUITY	
Non-current liabilities	
Financial liabilities for non-current leases	2,665
Current liabilities	
Financial liabilities for current leases	1,282
Total	3,947
Shareholders' Equity	
Retained earnings	

(*) 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

With reference to the transition rules, the Group 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 involved 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 multiannual 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 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 pursuant to IAS 17 for the Financial Statements as at 31 December 2018, and the impact expected 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	**4,414**
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	**4,186**
Effect of discounting	132
Financial liability for leases as at 1 January 2019	**4,054**
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	**3,947**

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

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 7 June 2017, the IASB published the interpretation document IFRIC 23 – Uncertainty over Income Tax Treatments. The document deals with the matter of uncertainties over the income tax treatment to be adopted. The document establishes that uncertainties in determining tax liabilities or assets should be reflected in the Financial Statements only when it is likely that the entity will pay or recover the amount in question. In addition, the document does not contain any new disclosure requirement, but highlights that the entity will need to establish if it will be necessary to provide information on the considerations of the management and relating to the uncertainty inherent in accounting for taxes, in accordance with the provisions of IAS 1.
  The new interpretation applies as at 1 January 2019, but early application is permitted. The Directors are currently assessing the possible effects of the introduction of these amendments on the Group's consolidated Financial Statements.

- Amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures" (published on 12 October 2017). This document clarifies the need to apply IFRS 9, including impairment-related requirements, to other long-term interests in associates and joint ventures for which the equity method is not applied. The amendment applies as at 1 January 2019, but early application is permitted.

- Document "Annual Improvements to IFRSs 2015-2017 Cycle", published on 12 December 2017 (including IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Remeasurement of previously held interests in a joint operation, IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity, IAS 23 Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation) which incorporates amendments of several standards within the annual improvement process. The amendments apply as at 1 January 2019, but early application is permitted

- Amendment to IAS 19 "Plant Amendment, Curtailment or Settlement" (published on 7 February 2018). 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 amendments apply as at 1 January 2019, but early application is permitted

- Amendment to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (published on 11 September 2014). This document was published to resolve the current conflict between IAS 28 and IFRS 10 regarding the measurement of the profit or loss resulting from the disposal or contribution of a non-monetary asset to a joint venture or an associate in exchange for a stake in the latter. The IASB has currently indefinitely deferred the application of this amendment.

- 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 Directors do not expect the adoption of these amendments to have a significant effect on the Company's Financial Statements.

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

3.1 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets *(in thousands of Euro)*	Goodwill		Other intangible assets	Total
Historical				
As at 01 January 2017	**55,418**		**41,010**	**96,428**
Increases	-		4,968	4,968
Decreases	-		(65)	(65)
Reclassifications	-		(53)	(53)
Exchange differences	-		19	19
As at 31 December 2017	**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**
Provision				
As at 01 January 2017	**12,915**	**(*)**	**21,882**	**34,797**
Increases	-		3,814	3,814
Decreases	-		(65)	(65)
Reclassifications	-		-	-
Exchange differences	-		33	33
As at 31 December 2017	**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**
Net carrying amount				
As at 31 December 2017	**42,503**		**20,215**	**62,718**
As at 31 December 2018	**47,708**		**22,462**	**70,170**

* 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 rose by €5,205 thousand due to the change in the consolidation area following on from the acquisition of the American company Zyklus, as indicated in the "Introduction".

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

The Group tested the recoverability of the carrying amount of Net Invested Capital (NIC) as at 31 December 2018. Net invested capital is inclusive of the value of goodwill and other assets measured with a finite useful life. For the purpose of impairment testing, the value of goodwill was allocated to the two cash-generating units (CGUs) identified ("Components" and "Cooling Systems") in line with the operating segments identified in accordance with IFRS 8. The management has not identified other lower level cash-generating units with largely independent cash flows to be considered in the allocation of goodwill.

The Group tested the recoverability of the carrying amount of Net Invested Capital (NIC) of these CGUs as at 31 December 2018. Net invested capital is inclusive of the value of goodwill and other assets measured with a finite useful life.

In particular, the Group has recognised goodwill totalling €47.7 million in the consolidated Financial Statements as at 31 December 2018, attributed to the "Components CGU" of €30.2 million (increasing in the year following the acquisition of Zyklus) and the "Cooling Systems CGU" of €17.5 million, to which intangible assets with a finite useful life amounting to €22.5 million and property, plant and equipment of €125.1 million were also allocated.

In determining the recoverable amount, identified as the value in use as the sum of discounted cash flows generated in the future and on an ongoing basis from NIC (unlevered discounted cash flow method), the management made reference to the 2019-2022 Business Plan approved by the Board of Directors on 19 February 2019, the assumptions of which include the Management's expectations of focusing on new geographical markets deemed most attractive in terms of size, stability, growth and profit margins, strengthening and expanding existing production capacity, continuously improving the performance of existing products and developing innovative products.

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:

- business financial structure: 13.1% (third parties capital) and 86.9% (own capital)
- beta levered sector: 0.93
- risk free rate: 3.1% for the Components CGU and 2.3% for the Cooling Systems CGU - determined considering the average yield of government bonds with 10 year maturity in the countries where each CGU operates

- risk premium: 5.96% (attributable to countries with AAA rating – from professional source A. Damodaran, January 2019)
- cost of debt: 2.2% determined considering the IRS 10 year rate increases 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%. In the terminal value, an operating cash flow equal to the last year of the plan (2022), 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 8.32% for the Components CGU and 7.61% for the Cooling Systems CGU.

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

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

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

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

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 of 15.7% for the Components CGU and 8.5% for the Cooling Systems CGU;
- lowering of the EBITDA in the Plan's explicit period and in Terminal Value of -39.0% for the Components CGU and -7.7% for the Cooling Systems CGU;
- break-even g-rate of -9.1% for the Components CGU and 1.0% for the Cooling Systems CGU.

Other intangible assets

Other intangible assets rose by €2,247 thousand compared to the previous year due to the change in the consolidation area following on from the acquisition of the American company Zyklus, as indicated in the "Introduction".

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 2017	**9,544**	**11,088**	**10,161**	**922**	**8,904**	**391**	**41,010**
Increases	-	-	427	1,877	2,191	473	4,968
Decreases	-	-	-	-	(65)	-	(65)
Reclassifications	-	-	267	(267)	139	(192)	(53)
Exchange differences	-	(4)	(7)	-	30	-	19
As at 31 December 2017	**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**
Provision							
As at 01 January 2017	**103**	**6,146**	**7,799**	**-**	**7,722**	**112**	**21,882**
Increases	416	739	1,369	-	1,288	2	3,814
Decreases	-	-	-	-	(65)	-	(65)
Reclassifications	-	-	-	-	-	-	-
Exchange differences	-	(3)	(7)	-	43	-	33
As at 31 December 2017	**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**
Net carrying amount							
As at 31 December 2017	**9,025**	**4,202**	**1,687**	**2,532**	**2,211**	**558**	**20,215**
As at 31 December 2018	**11,431**	**3,461**	**2,012**	**2,639**	**2,703**	**216**	**22,462**

Trade receivables

Trade receivables rose by €2,893 thousand due to the change in the consolidation area following on from the acquisition of the American company Zyklus, as indicated in the Introduction.

Trademarks

Trademarks have not been subject to amendments compared to the previous year.

Development costs and development costs in progress

The total Development costs for the year 2018 were €2,081 thousand (of which €490 thousand capitalised and €1,591 thousand in projects under way), referring to new product development. Furthermore, during the year €1,302 thousand was reclassified from development costs in progress to projects concluded during the year.

Software

Software increased by €1,800 thousand, the main project developed in 2018 was PLM (Product Lifecycle Management), for roughly €1,046 thousand, which will be used in all of the Group's production facilities.

Other intangible assets

The other intangible assets rose by €145 thousand compared to the previous year.

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	Other property, plant and equipment	Work in progress	Total
Historical					
As at 1 January 2017	81,319	109,742	29,314	3,878	224,253
Increases	3,196	9,980	2,467	3,675	19,318
Decreases	-	(689)	(163)	(29)	(881)
Reclassifications	191	3,130	151	(3,419)	53
Exchange rate difference	343	294	62	33	732
As at 31 December 2017	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)	0
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
Provision					0
As at 1 January 2017	18,559	79,472	23,095	-	121,126
Increases	1,982	6,970	2,377	-	11,329
Decreases	-	(506)	(97)	-	(603)
Reclassifications	12	0	(12)	-	0
Exchange rate difference	85	314	33	-	432
As at 31 December 2017	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)	14	-	0
Exchange rate difference	(282)	(977)	(116)	-	(1,375)
As at 31 December 2018	22,385	91,051	27,226	-	140,662
Net carrying amount					
As at 31 December 2017	64,411	36,207	6,435	4,138	111,191
As at 31 December 2018	76,203	36,605	6,040	6,213	125,061

As at 31 December 2018, the historical cost of property, plant and equipment rose by €29,673 thousand due to:

- €3,584 thousand for the *fair value* of the acquired assets of the American company Zyklus;
- €26,089 thousand for the continuation of the technological-investment plan in Italy and abroad aimed at extending and streamlining some manufacturing sites and at upgrading the installed production capacity. These investments were meant to the new manufacturing site

in Poland, in part to new application segments and in part linked to technological evolutions under way due to the introduction of new regulations regarding refrigerant fluids with a low environmental impact. It is specified that €23,569 thousands had already been paid to suppliers as at 31 December 2018, while €2,520 thousand was recognised as payables under the item "other current payables" (Note 3.18).

The main investments for the year regarded:

- the expansion of existing production capacity and adaptation to safety and environmental regulations (for €2.2 million) by the Parent Company;
- the expansion of the existing production capacity and its adaptation to new safety and environmental regulations (for €0.9 million) and the new offices (for €0.5 million) by the subsidiary SEST;
- the expansion of the manufacturing site, the increase of production capacity and the adaptation to safety and environmental regulations (for €16.7 million) by the subsidiary SEST-LUVE Polska;
- the increase of existing production capacity (for €0.7 million) by the subsidiary TGD;
- the increase of existing production capacity (for €0.5 million) by the subsidiary OOO LUVE Russia;
- the increase of existing production capacity and adaptation to safety and environmental regulations (for €2 million) by the Czech subsidiary HTS sro.
- the increase of existing production capacity (for €1.6 million) by the Indian subsidiary SPIROTECH;
- the increase of existing production capacity (for €0.9 million) by the US subsidiary Zyklus. The initial contribution of Zyklus on 30 June 2018 is of €3.6 million, of which €3 million relate to equipment and €0.6 million to other material assets.

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

3.3 EQUITY INVESTMENTS

The Group holds the following equity investments:

Equity investments *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Industria e Università S.r.l.	6	6	-
Total	6	6	-

3.4 OTHER NON-CURRENT ASSETS

They amounted to €2,190 thousand, an increase of around €255 thousand compared to €1,935 thousand in the previous year. The item includes:

- €1,281 thousand relating to the residual value of the prepayment by the subsidiary SPIROTECH to the Indian government to acquire the right to occupy the land on which the

production facility is located for a period of 99 years (€1,348 thousand in the previous period);

- €710 thousand relative to the advance rental payment for the Zyklus' warehouse. For further details, please refer to note "Introduction";
- €199 thousand referring to security deposits provided for the provision of services (€179 thousand in the previous period).

It is noted that during the year €408 thousand was reimbursed by the tax authorities with reference to deductibility of IRES from IRAP for the period 2007-2011 for Italian companies.

Other non-current assets *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Other non-current assets	2,190	1,935	255
Total	**2,190**	**1,935**	**255**

3.5 INVENTORIES

This item in question was broken down as follows as at 31 December 2018:

Inventories *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Raw materials and consumables	32,051	26,574	5,477
Work in progress and semi-finished products	4,222	3,311	911
Finished products and goods for resale	12,599	10,825	1,774
Provision for inventory losses	(4,205)	(2,722)	(1,483)
Total	**44,667**	**37,988**	**6,679**

The change amounting to €6,679 thousand was mainly due to:

- for €1,616 thousand to the purchase of the US company Zyklus;
- for €2,625 thousand to the increase in stock of the company Spirotech to meet the expected strong growth in orders;
- for €3,921 thousand to all other Group's companies to meet the increase in orders in the first few months of 2019;
- for €1,483 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 €1,483 thousand is broken down as follows:

- for €1,548 thousand for greater provisions;
- for €29 thousand for releases
- for €36 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)*	**31/12/2018**	**31/12/2017**	**Change**
Trade receivables	55,631	50,610	5,021
Bad debt provision	(4,777)	(2,994)	(1,783)
Total	**50,854**	**47,616**	**3,238**

Trade receivables rose due primarily to the increase in sales.

In addition, in December 2018 receivables of roughly €18,990 thousand were transferred to the Factor, compared to €16,264 thousand in the same period of the previous year. These assignments were without recourse. Assigned receivables as a percentage of turnover came to 6.2% in 2018 and 6% in 2017.

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 rendered by the Group) for an amount of €230 thousand and a reduction in trade receivables for variable compensations (credit notes to be issued for bonuses granted to customers) for €882 thousand.

During the year the bad debt provision was increased by €1,781 thousand, of which €1,435 thousand due to the effect of the first application of IFRS 9 as at 1 January 2018 and the residual amount due to its effect during the year.

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

Trade receivables by geographical area *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Italy	10,949	11,899	(950)
EU Countries	30,017	24,618	5,399
Non-EU Countries	14,665	14,095	570
Bad debt provision	(4,777)	(2,996)	(1,781)
Total	**50,854**	**47,616**	**3,238**

The ageing of trade receivables is shown below:

Trade receivables by maturity *(in thousands of Euro)*	31/12/2018	31/12/2017	Change
Current receivables (not past due)	41,058	36,156	4,902
Past due up to 30 days	4,946	6,389	(1,443)
Past due from 30 to 60 days	2,539	1,532	1,007
Past due from 60 to 90 days	726	1,177	(451)
Past due for more than 90 days	6,362	5,356	1,006
Total	55,631	50,610	5,021

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. 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.

31/12/2018 *(in thousands of Euro)*	Not past due	<30	31 - 60	61 - 90	>90	Total
Expected default rate	0.27%	1.05%	7.3%	14.4%	68.0%	
Estimate of gross accounting value at the time of default	41,058	4,946	2,539	726	6,362	55,631
Expected losses throughout the life of the credit	109	52	184	104	4,326	4,777

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

3.7 DUE FROM THE TAX AUTHORITIES FOR CURRENT TAXES

This item was broken down as follows:

Due from the tax authorities for current taxes *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Due from the tax authorities for VAT	5,686	6,207	(521)
Due from the tax authorities for payments on account of direct taxes	1,453	2,943	(1,490)
Others	76	86	(10)
Total	7,215	9,236	(2,021)

Tax receivables decreased by €1,490 thousand. This decrease is due to the use, mainly by LU-VE SPA and SEST LUVE POLSKA, of tax credits to reduce tax payables for the year.

Tax receivables for payments on account of current taxes payable within the subsequent year refer to the excess of taxes prepaid for the year 2018 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)*	**31/12/2018**	**31/12/2017**	**Change**
Asset management	-	19,154	(19,154)
Capitalisation policies	51,330	40,192	11,138
Other securities	6,304	12,716	(6,412)
Fair value of derivative instruments	-	246	(246)
Total	57,634	72,308	(14,674)

The Asset management agreement was entered into with Bnp Paribas Investment Partners SGR S.p.A. and the assets were completely disinvested during 2018. The asset management had a negative overall impact of around €1,053 thousand in the Income Statement for the year (€1,246 thousand for losses and €193 thousand for gains).

The Capitalisation policies taken out were issued by Aviva Vita S.p.A. and are the type of policies which allow, after the payment of a lump-sum premium, for an annual capital revaluation based on the return obtained from management (almost exclusively invested in government securities and very highly rated bonds). The fair value measurement at the reporting date entailed the recognition of a positive amount of roughly €963 thousand.
During the year any policy was taken out, issued by BNP Paribas Cardif Vita Compagnia di assicurazioni e Riassicurazioni S.p.A., €10,000 thousand. The positive change in fair value measurement at the reporting date was of €175 thousand.

Other securities referred to investments made through UBI Banca S.p.A. (where the securities account is held) in Italian government securities, corporate bonds, bond funds and mixed funds whose fair value measurement at the reporting date entailed the recognition of a negative amount of €332 thousand. During the year, around €7,356 thousand of these securities was partially liquidated and there was an increase of €1,287 thousand. The net effect of disposals and acquisitions entailed the recognition in the 2018 Income Statement of a net negative effect of around €84 thousand in addition to the negative fair value of €332 thousand.

In May 2017, a new agreement was entered into with Unicredit for €300 thousand, which entailed the recognition of a negative fair value equal to €9 thousand as at 31 December 2018.

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 2018 the various categories of financial derivatives held by the Group did not present positive fair values.

The summary relating to outstanding derivative financial instruments as at 31 December 2018 broken down by type is provided below:

Derivative financial instruments as at 31/12/2018 *(in thousands of Euro)*		**31/12/2018**		**31/12/2017**		**31/12/2018**	**31/12/2017**
TYPE	**ORIGINAL NOTIONAL**	**NOT. Short**	**NOT. M/L**	**NOT. Short**	**NOT. M/L**	**FAIR VALUE**	**FAIR VALUE**
IRS on loans	225,267	41,462	111,703	29,556	66,165	(1,023)	(522)
Currency options	5,848	5,848	-	7,315	-	34	(245)
Commodity Swaps	600	600	-	2,250	-	(91)	123
Total	**231,715**	**47,910**	**111,703**	**39,121**	**66,165**	**(1,080)**	**(644)**
Total Notional		**159,613**		**105,286**			

The details relating to outstanding derivative financial instruments as at 31 December 2018 broken down by type are provided below:

IRS on loans (in thousands of Euro)

DEBTOR COMPANY	COUNTERPARTY	TAKEN OUT	MATURITY	ORIGINAL NOTIONAL	31/12/2018		31/12/2018
					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	357	(8)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	11/08/2014	16/10/2020	3,500	583	584	(11)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	21/07/2015	29/06/2020	4,818	1,214	611	(11)
LU-VE S.P.A.	Intesa San Paolo S.p.A.	04/02/2016	31/03/2020	10,000	2,500	1,250	(11)
LU-VE S.P.A.	Cassa di Risparmio di Parma e Piacenza Spa	21/11/2012	22/11/2017	1,000	-	-	-
LU-VE S.P.A.	Cassa di Risparmio di Parma e Piacenza Spa	16/06/2015	31/12/2019	8,000	2,664	-	(12)
LU-VE S.P.A.	Deutsche Bank	29/10/2013	31/12/2018	1,000	-	-	-
LU-VE S.P.A.	Banca Nazionale del Lavoro	11/08/2014	16/10/2020	3,500	583	584	(13)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/07/2015	09/06/2020	17,778	4,444	2,223	(49)
LU-VE S.P.A.	Banca Nazionale del Lavoro	25/10/2016	21/09/2020	28,000	8,000	6,000	(17)
LU-VE S.P.A.	Unicredit S.p.A.	17/09/2015	31/12/2020	10,000	2,500	2,500	(45)
LU-VE S.P.A.	Deutsche Bank	27/03/2017	23/03/2021	5,500	1,375	1,719	(12)
LU-VE S.P.A.	Mediocredito italiano	21/06/2017	28/02/2022	25,000	5,882	13,236	(81)
LU-VE S.P.A.	Unicredit S.p.A.	20/09/2018	30/06/2024	12,000	1,200	10,800	(145)
LU-VE S.P.A.	Unicredit S.p.A.	20/09/2018	29/09/2023	15,000	-	15,000	(247)
LU-VE S.P.A.	Mediocredito italiano	28/11/2018	20/06/2024	12,500	1,250	11,250	(110)
LU-VE S.P.A.	Mediocredito italiano	28/11/2018	20/06/2024	12,500	1,250	11,250	(110)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/12/2018	24/09/2024	10,000	-	10,000	(49)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/12/2018	20/12/2023	10,000	1,111	8,889	(48)
LU-VE S.P.A.	Unicredit S.p.A.	30/01/2018	31/03/2023	18,750	3,750	11,250	52
SEST S.P.A	Cassa di Risparmio di Parma e Piacenza Spa	24/06/2015	31/12/2019	4,000	1,332	-	(6)
SEST S.P.A	Unicredit S.p.A.	02/10/2015	28/06/2019	1,500	200	-	-
SEST S.P.A	Unicredit S.p.A.	02/10/2015	28/06/2024	5,100	600	2,700	(58)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas Spolka Akcyjna	22/07/2015	08/11/2021	3,500	667	1,500	(32)
			Total	**225,267**	**41,462**	**111,703**	(1,023)

Currency options (in thousands of Euro)

DEBTOR COMPANY	COUNTERPARTY	TYPE	HEDGED ELEMENT	TAKEN OUT	MATURITY	NOT. ORIG.	31/12/2018 NOT. Short	NOT. M/L	31/12/2018 FAIR VALUE
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	08/03/2018	18/01/2019	125	125	-	(2)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	12/03/2018	05/03/2019	400	400	-	(5)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	12/03/2018	05/02/2019	400	400	-	(5)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	12/03/2018	04/01/2019	400	400	-	(4)
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	15/05/2018	06/05/2019	400	400	-	3
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	15/05/2018	05/04/2019	400	400	-	4
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	15/05/2018	14/02/2019	150	150	-	2
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	15/05/2018	14/03/2019	150	150	-	1
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	15/05/2018	14/05/2019	150	150	-	1
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	15/05/2018	15/04/2019	150	150	-	1
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	08/06/2018	02/01/2019	848	848	-	2
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	02/07/2018	18/01/2019	25	25	-	1
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	02/07/2018	14/06/2019	150	150	-	4
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	02/07/2018	01/07/2019	400	400	-	12
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	02/07/2018	03/06/2019	400	400	-	12
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	07/09/2018	01/08/2019	400	400	-	3
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	07/09/2018	02/09/2019	400	400	-	2
SEST LUVE POLSKA SP. Z O.O.	Bank BGZ BNP Paribas S.A.	FX Option	€/PLN Exchange Rate	29/10/2018	04/10/2019	500	500	-	2
					Total	**5,848**	**5,848**	-	34

Commodities (in thousands of Euro)

DEBTOR COMPANY	COUNTERPARTY	NUMBER	TYPE	HEDGED ELEMENT	TAKEN OUT	MATURITY	NOT. ORIG.	31/12/2018 NOT. Short	31/12/2018 NOT. M/L	31/12/2018 FAIR VALUE
LU-VE S.P.A.	Unicredit S.p.A.	415774239	Swap hedging on merchandise	Commodity Swaps	28/03/2018	31/03/2019	200	200	-	(31)
LU-VE S.P.A.	Unicredit S.p.A.	421302762	Swap hedging on merchandise	Commodity Swaps	05/07/2018	31/03/2019	50	50	-	(9)
LU-VE S.P.A.	Unicredit S.p.A.	421341879	Swap hedging on merchandise	Commodity Swaps	06/07/2018	31/03/2019	50	50	-	(7)
LU-VE S.P.A.	Unicredit S.p.A.	421341868	Swap hedging on merchandise	Commodity Swaps	06/07/2018	28/02/2019	50	50	-	(7)
LU-VE S.P.A.	Unicredit S.p.A.	415774229	Swap hedging on merchandise	Commodity Swaps	28/03/2018	28/02/2019	200	200	-	(29)
LU-VE S.P.A.	Unicredit S.p.A.	421302750	Swap hedging on merchandise	Commodity Swaps	05/07/2018	28/02/2019	50	50	-	(8)
						Total	600	600	-	(91)

3.9 OTHER CURRENT ASSETS

The details of this item are shown below:

Other current assets *(in thousands of Euro)*	31/12/2018	31/12/2017	Change
From employees	101	104	(3)
Advances and other receivables	2,156	1,918	238
Total	2,257	2,022	235

3.10 CASH AND CASH EQUIVALENTS

The details of this item are shown below:

Cash and cash equivalents *(in thousands of Euro)*	31/12/2018	31/12/2017	Change
Cash and cash equivalents	85,905	50,762	35,143
Total	85,905	50,762	35,143

The increase of €35,143 thousands was mainly due to the new loans being taken out during the year.

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 2017).
In 2018, dividends of €4,860 thousand were distributed by the Parent Company from the reserves and retained earnings.

As at 31 December 2018, the Parent Company held 157,608 treasury shares (0.71% of the share capital), recognised in the Financial Statements as an adjustment of shareholders' equity for a total value of roughly €1,420 thousand (for further details, see the Directors' Report). During the period, 19,803 treasury shares were acquired for a value of €198 thousand.

Shareholders' equity attributable to non-controlling interests amounted to €3,170 thousand (€2,124 thousand as at 31 December 2017). The profit attributable to non-controlling interests in the year was €686 thousand (€637 thousand in the same period of 2017).

3.12 LOANS

This item was broken down as follows:

Loans *(in thousands of Euro)*	31/12/2018		31/12/2017	
	Current	Non-current	Current	Non-current
Loans	48,775	152,196	42,234	112,973
Advances on invoices subject to clearance	887	-	-	-
Total	**49,662**	**152,196**	**42,234**	**112,973**

As at 31 December 2018, bank loans amounted to €201,858 thousand.

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

Bank loans *(in thousands of Euro)*							31/12/2018		31/12/2017	
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	157	113
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	28/11/2014	28/11/2019	3M Euribor + Spread	5,000	-	-	2,037	1,014
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	09/06/2015	09/06/2020	6M Euribor + Spread	20,000	6,563	4,358	10,919	4,356
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	29/06/2015	29/06/2020	3M Euribor + Spread	6,000	-	-	3,016	1,201
LU-VE	UniCredit S.p.A.	Unsecured loan	17/09/2015	31/12/2020	6M Euribor + Spread	10,000	5,000	2,500	7,500	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	19,952	4,988
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + Spread	10,000	4,984	2,494	7,500	2,500
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/09/2016	20/09/2020	3M Euribor floor 0% + Spread	30,000	14,000	8,000	22,000	8,000
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	30/09/2016	30/09/2021	3M Euribor + Spread	10,000	5,509	1,996	7,519	1,994
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	4,176	3,339	7,508	3,331
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	23/03/2021	3M Euribor + Spread	1,500	798	399	1,198	399
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	28/11/2020	3M Euribor + Spread	5,500	3,088	1,372	4,460	1,373
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	31/03/2017	28/02/2022	3M Euribor + Spread	25,000	19,118	5,882	25,000	5,885
LU-VE	UniCredit S.p.A.	Unsecured loan	20/04/2017	31/12/2020	Fixed	10,000	5,708	2,854	8,562	2,854
LU-VE	Unione di Banche Italiane Società cooperativa per azioni	Unsecured loan	20/12/2017	20/12/2020	3M Euribor + Spread	20,000	20,000	-	20,000	-
LU-VE	Unicredit S.p.A.	Unsecured loan	30/01/2018	31/03/2023	6M Euribor + Spread	25,000	22,479	5,014	-	-
LU-VE	Unicredit S.p.A.	Unsecured loan	20/09/2018	30/06/2024	6M Euribor + Spread	12,000	11,988	1,198	-	-
LU-VE	Unicredit S.p.A.	Unsecured loan	20/09/2018	30/09/2023	6M Euribor + Spread	15,000	14,987	-	-	-
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	12,500	12,482	1,247	-	-
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	12,500	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	9,975	-	-	-
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/12/2018	20/12/2023	6M Euribor + Spread	10,000	9,975	1,102	-	-
SEST	UniCredit S.p.A.	EIB Mortgage Loan	14/04/2014	30/06/2024	6M Euribor + Spread	6,000	-	-	3,900	600
SEST	UniCredit S.p.A.	Unsecured loan	14/04/2014	30/06/2019	3M Euribor + Spread	2,000	-	-	600	400
SEST LU-VE POLSKA SP. Z O.O.	BNP Paribas bank Polska SA	EIB Mortgage Loan	08/11/2011	08/11/2021	3M Euribor + Spread	5,000	2,173	670	2,843	679
LU-VE FRANCE S.A R.L.	BNP PARIBAS S.A.	Mortgage Loan	08/11/2011	03/11/2026	Fixed	798	485	52	536	50
						Total	**200,971**	**48,775**	**155,207**	**42,237**

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 2018, 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 <= 2.5; NFP/SE <= 1.5	20,000
LU-VE	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	3M Euribor + Spread	NFP/EBITDA as at 30/06 <= 3; NFP/EBITDA as at 31/12 <= 2.5	30,000
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + Spread	NFP/EBITDA <= 2.5; NFP/SE <1	10,000
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/09/2016	20/09/2020	3M Euribor + Spread	NFP/EBITDA <= 2.5; NFP/SE <= 1.5	30,000
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	30/09/2016	30/09/2021	3M Euribor + Spread	NFP/EBITDA <= 3.5; NFP/SE <= 1.5	10,000
LU-VE	Deutsche Bank	Unsecured loan	23/03/2017	28/11/2020	3M Euribor + Spread	NFP/EBITDA <= 3	1,500
LU-VE	Deutsche Bank	Unsecured loan	23/03/2017	28/02/2022	3M Euribor + Spread	NFP/EBITDA <= 3	5,500
LU-VE	Mediocredito italiano	Unsecured loan	31/03/2017	28/02/2022	3M Euribor + Spread	NFP/EBITDA <=2.5; NFP/SE<=1	25,000
LU-VE	Unicredit S.p.A.	Unsecured loan	20/04/2017	31/12/2020	Fixed Rate	NFP/EBITDA <=2.5; NFP/SE<=1.5	10,000
LU-VE	Unione di Banche Italiane SpA	Unsecured loan	13/12/2017	20/12/2020	3M Euribor + Spread	NFP/EBITDA <= 3.5; NFP/SE <= 1.5	20,000
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	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	NFP/EBITDA <2.5; NFP/SE<=1	12,500
LU-VE	Mediocredito italiano	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	NFP/EBITDA <2.5; 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

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 period are shown below:

Financing: changes for the period *(in thousands of Euro)*	**Opening balance**	**New loans**	**Repayments**	**Closing balance**
Loans	155,207	96,961	(51,197)	200,971
Advances on bank invoices	-	887	-	887
Total	**155,207**	**97,848**	**(51,197)**	**201,858**

The following changes took place in loans in 2018 (all loans were taken out by LU-VE S.p.A.):

- unsecured medium-term loan for a total of €25,000 thousand entered into with Unicredit, maturing on 31 March 2023, 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 €15,000 thousand entered into with Unicredit, maturing on 30 September 2023, 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 €12,500 thousand entered into with Mediocredito, 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 €12,500 thousand entered into with Mediocredito, 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 €20,000 thousand entered into with Banca Nazionale del Lavoro S.p.A. in two tranches of €10,000 each: maturing on 20 December 2023, with repayment in variable half-yearly instalments and an interest rate equal to the 6-month Euribor plus a spread, and maturing on 24 September 2024, at 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 UBI Banca loan for €3,030 thousand taken out by LU-VE S.p.A. on 29 June 2015 and maturing on 29 June 2020

- early repayment of the UBI Banca loan for €2,050 thousand taken out by LU-VE S.p.A. on 28 November 2014 and maturing 28 November 2019

- early repayment of the Unicredit loan for €3,900 thousand taken out by SEST S.p.A. on 14 April 2014 and maturing 30 June 2024

- early repayment of the Unicredit loan for €600 thousand taken out by SEST S.p.A. on 14 April 2014 and maturing 30 June 2019

During the year, repayments amounted to €51,197 thousand, in addition to €4,072 relative to the repayment of financial debts of the subsidiary Zyklus (after acquisition), for a repayments total of €55,269 thousands.

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 4.15 below provides the information relating to financial risks.

3.13 PROVISIONS

The details of this item are shown below:

Changes in provisions *(in thousands of Euro)*	**31/12/2017**	**Prov./incr.**	**Exchange delta**	**Uses**	**Release of excess portion**	**31/12/2018**
Provision for agents' leaving indemnities	25	-	-	-	-	25
Product warranty provision	1,582	532	(8)	-	(64)	2,042
Other provisions for risks and charges	865	-	(1)	(255)	(95)	514
Total	**2,472**	**532**	**(9)**	**(255)**	**(159)**	**2,581**

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

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

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

3.14 EMPLOYEE BENEFITS

Employee benefits amounted to €4,057 thousand, a net increase of €10 thousand compared to 31 December 2017. 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, 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 S.r.l. and Manifold S.r.l.), in accordance with IAS 19 the fund as at 31 December 2018 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 2018 are shown below:

Employee benefits *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**
Liabilities as at 1 January	4,047	3,936
Provisions	230	226
Financial expense	55	56
Payments made	(150)	(153)
Actuarial (gains)/losses	(125)	(18)
Liabilities at the end of the period	**4,057**	**4,047**

The equity adjustment for actuarial gains and losses includes a net actuarial gain of €125 thousand, calculated as follows:

- Actuarial gain deriving from the change in the main actuarial assumptions used as at 31 December 2018 with respect to the previous valuation as at 31 December 2017: €115 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: €10 thousand.

Actuarial gains and losses are posted to 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 2018 are shown below:

Financial assumptions	**31/12/2018 %**	**31/12/2017 %**
Discount rate (IBOXX EUR Corporate AA 10+ Index)	1.57	1.30
Inflation	1.50	1.50
Salary increase rate	1.00	1.00
Post-employment benefits increase	2.63	2.63

Demographic assumptions	**31/12/2018**	**31/12/2017**
Mortality rate	State General Accountancy Table RG48	State General Accountancy Table RG48
Disability	INPS Tables	INPS Tables
Personnel turnover	1.3%-5.5%	1.3%-5.5%
Advances	0.5%-5%	0.5% - 5%
Retirement age	100% upon satisfaction of general compulsory insurance requirements	100% upon satisfaction of general compulsory insurance requirements

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 31/12/2018 *(in thousands of Euro)*	**0.25%**	**-0.25%**
Discounting rate	(99)	104

3.15 OTHER FINANCIAL LIABILITIES

The item "Other financial liabilities" referred primarily to the recognition of the negative fair value of derivatives, financial payables relating to the put option granted to Spirotech's minority shareholders and the earn-out relating to the acquisition of Zyklus. The details of this item are shown below:

Other non-current financial liabilities *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Financial lease payables	53	313	(260)
Other financial liabilities	4,054	1,788	2,266
Total	**4,107**	**2,101**	**2,006**

Other long-term financial liabilities refer to:

- €3,657 thousand for the fair value of the put option agreement with the non-controlling shareholder for the acquisition of the remaining 5% of SPIROTECH through a put 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 India). The option represents a financial liability measured at fair value on the basis of a contractually established formula.
- €397 thousand refers to the contractually required calculation of the earn-out in the "Introduction" note relating to the acquisition of the US company Zyklus.

Other current financial liabilities *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Fair value of derivatives	1,080	891	189
Lease payables	54	158	(104)
Total	**1,134**	**1,049**	**85**

The item "fair value of derivative instruments" represents the negative fair value as at 31 December 2018 of derivatives subscribed by the Group companies. For further information, please refer to note 3.8.

3.16 TRADE PAYABLES

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

Trade Payables *(in thousands of Euro)*	31/12/2018	31/12/2017	Change
Italy	32,629	37,455	(4,826)
EU Countries	14,130	17,183	(3,053)
Non-EU Countries	11,041	8,767	2,274
Total	57,800	63,405	(5,605)

The average payment terms have not changed since the previous year. As at 31 December 2018, 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 €330 thousand are recognised under trade payables

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)*	31/12/2018	31/12/2017	Change
Due to the tax authorities for income taxes	499	595	(96)
Tax withholdings	1,233	1,297	(64)
Other tax payables	599	381	218
Total	2,331	2,273	58

3.18 OTHER CURRENT LIABILITIES

The details of this item are shown below:

Other current liabilities *(in thousands of Euro)*	31/12/2018	31/12/2017	Change
To personnel	8,820	7,724	1,096
To social security institutions	4,290	3,596	694
To Directors and Statutory Auditors	1,530	1,790	(260)
Other current payables	3,614	2,294	1,320
Total	18,254	15,404	2,850

As at 31 December 2018, amounts due to personnel rose due to new hirings during the year.

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

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

3.19 DEFERRED TAX ASSETS AND LIABILITIES

The details of this item are shown below:

Deferred tax assets and liabilities *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Deferred tax assets	4,722	3,359	1,363
Deferred tax liabilities	(13,173)	(13,217)	44
Net position	**(8,451)**	**(9,858)**	**1,407**

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**	**AMORT. AND LEASES**	**FAIR VALUE OF DERIVATIVE INSTRUMENTS**	**MERGER/TRADE RECEIVABLES GROSS UP**	**ACTUARIAL VALUATION OF POST-EMPLOYMENT BENEFITS**	**PROVISIONS AND VALUE ADJUSTMENTS**	**OTHER DIFFERENCES**	**TOTAL**
01/01/2017	(1,090)	2,765	(67)	10,992	(90)	(1,455)	(518)	10,537
In Income Statement	4	11	22	(424)	(4)	(131)	(187)	(709)
In shareholders' equity	-	-	-	-	4	-	61	65
Currency translation differences	15	(37)	-	-	-	(13)	-	(35)
Other	-	-	-	-	-	-	-	-
Reclassification	-	-	-	(1)	(8)	(1)	10	-
31/12/2017	(1,071)	2,739	(45)	10,567	(98)	(1,600)	(634)	9,858
In Income Statement	572	(264)	21	(911)	(7)	(251)	(1,644)	(2,484)
In shareholders' equity	-	-	-	-	30	(38)	61	53
Currency translation differences	20	(23)	-	-	-	6	(36)	(33)
Other	-	534	-	608	-	(85)	-	1,057
Reclassification	-	-	-	-	-	-	-	-
31/12/2018	(479)	2,986	(24)	10,264	(75)	(1,968)	(2,253)	8,451

As at 31 December 2018, 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 main increase of €1,664 thousand is mainly due to a new investment in Poland.

As at 31 December 2018, deferred tax liabilities referred to:

- tax differences on amortisation and leases, regarding primarily the application of IAS 17, with respect to Italian GAAP;

- the recognition of taxes on the 2008 merger deficit allocated to trademarks, buildings, land, plant and equipment and the tax effect deriving from the allocation of part of the goodwill to "Customer Relationships" of Gains of purchase price allocations.

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.

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)*	**31/12/2018**	**31/12/2017**	**Change**
A. Cash (Note 3.10)	41	31	10
B. Unrestricted current account asset balances (Note 3.10)	85,864	50,731	35,133
C. Current financial assets (Note 3.8)	57,634	72,308	(14,674)
D. Liquidity (A+B+C)	**143,539**	**123,070**	**20,469**
E. Current bank payables (Note 3.12)	887	-	887
F. Current portion of non-current debt (Note 3.12)	48,775	42,234	6,541
G. Other current financial liabilities (Note 3.15)	1,134	1,049	85
H. Current financial debt (E+F+G)	**50,796**	**43,283**	**7,513**
I. Net current financial debt (H-D)	**(92,743)**	**(79,787)**	**(12,956)**
J. Non-current bank payables (Note 3.12)	152,196	112,973	39,223
K. Other non-current financial liabilities (Note 3.15)	4,107	2,101	2,006
L. Non-current financial debt (J+K+L)	**156,303**	**115,074**	**41,229**
M. Net financial debt (I+L)	**63,560**	**35,287**	**28,273**

The 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 2018, revenues from sales amounted to €305,936 thousand, an increase of 14% compared to the previous year (€269,195 thousand as at 31 December 2017).

Revenues by product family

Revenues by product *(in thousands of Euro)*	**2018**	**%**	**2017**	**%**	**Change**	**% Change**
Heat exchangers	184,530	60%	158,918	59%	25,612	16%
Air Cooled Equipment	97,189	32%	85,602	32%	11,587	14%
Doors	10,029	3%	9,264	3%	765	8%
Close Control	9,953	3%	10,736	4%	(783)	-7%
Sub-total	**301,701**	**99%**	**264,520**	**98%**	**37,181**	**14%**
Other	4,235	1%	4,675	2%	(440)	-9%
TOTAL	**305,936**	**100%**	**269,195**	**100%**	**36,741**	**14%**

Revenues by geographical area:

Revenues by geographical area *(in thousands of Euro)*	**2018**	**%**	**2017**	**%**	**Change**	**% Change**
Italy	64,170	21%	58,221	22%	5,949	10%
Poland	28,564	9%	18,968	7%	9,596	51%
Germany	24,173	8%	21,782	8%	2,391	11%
Russia	19,218	6%	21,145	8%	(1,927)	(9%)
France	17,358	6%	15,742	6%	1,616	10%
Czech Republic	15,757	5%	13,713	5%	2,044	15%
Austria	15,227	5%	12,683	5%	2,544	20%
Sweden	13,921	5%	11,009	4%	2,912	26%
Spain	10,294	3%	9,584	4%	710	7%
Other countries	97,254	32%	86,348	32%	10,906	13%
TOTAL	**305,936**	**100%**	**269,195**	**100%**	**36,741**	**14%**

In 2018, revenues from sales amounted to €305,936 thousand, an increase of 14% compared to the previous year (€269,195 thousand as at 31 December 2017).

Please refer to the Directors' Report for detailed comments on trends in the reference markets during the year and an analysis of revenue "on a like-for-like basis", i.e., considering the revenue of ZYKLUS for the entire year 2018 (and not only the revenue accounted for as at the acquisition date, i.e., for the second half of 2018).

The value of compensation for transactions with unfulfilled (or not fully fulfilled by the Group) performance obligations at the end of the year amounts to €330 thousand. The Directors estimate that they will be recognised as revenue in following year.

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 income *(in thousands of Euro)*	**2018**	**2017**	**Change**
Other income	933	837	96
Total	**933**	**837**	**96**

"Other revenues" refers to €827 thousand for export incentives of the subsidiary SPIROTECH and to €106 thousand for other Group Companies' revenues.

4.3 PURCHASES OF MATERIALS

Purchases of materials *(in thousands of Euro)*	**2018**	**2017**	**Change**
Raw materials and purchased components	160,847	144,080	16,767
Consumables	6,582	5,926	656
Total	**167,429**	**150,006**	**17,423**

In 2018, the cost for the purchase of materials rose significantly, due in particular to the increase in turnover. Please refer to the Directors' Report for detailed comments.

4.4 SERVICES

Services *(in thousands of Euro)*	**2018**	**2017**	**Change**
Expenses for energy, telephone and telex	4,499	3,602	897
General and advisory expenses	13,505	13,134	371
Advertising and promotional expenses	1,026	898	128
Transport expenses	7,326	6,437	889
Maintenance expenses	3,179	3,101	78
External processing	3,129	3,185	(56)
Commissions	338	1,010	(672)
Remuneration to the corporate bodies	3,371	2,917	454
Other costs for services	4,183	3,513	670
Costs for use of third-party assets	2,395	2,308	87
Total	**42,951**	**40,105**	**2,846**

During the year, the cost of services rose by €2,846 thousand and this increase generally affected all services items due to higher turnover.

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	Fees *(in thousands of Euro)*
Auditing	- Deloitte & Touche - Deloitte & Touche Network	Parent Company	123
		Italian subsidiaries	76
		Foreign subsidiaries	146
Other Services	- Deloitte & Touche - Deloitte & Touche Network	Parent Company	112
		Italian subsidiaries	3
		Foreign subsidiaries	3

4.5 PERSONNEL COSTS

Personnel costs *(in thousands of Euro)*	2018	2017	Change
Wages and salaries	47,653	42,970	4,683
Social security costs	13,199	11,698	1,501
Post-employment benefits	1,674	1,584	90
Other personnel costs	297	28	269
Total	**62,823**	**56,280**	**6,543**

The average number of Group employees was 2,661 in 2018. As at 31 December 2018, the number of Group employees came to 2,609 (1,997 blue-collar, 582 white-collar and middle managers, 30 executives), against 2,481 in 2017 (1,914 blue-collar workers, 536 white-collar and middle managers, 31 executives).

As at 31 December 2018, the number of temporary workers came to 447, against 516 in 2017.

4.6 IMPAIRMENTS

Impairments *(in thousands of Euro)*	2018	2017	Change
Provisions for impairment to trade receivables	427	-	427
Total	**427**	**-**	**427**

The item "Impairments" includes allocations made in 2018 in compliance with IFRS 9.

4.7 OTHER OPERATING COSTS

Other operating costs *(in thousands of Euro)*	**2018**	**2017**	**Change**
Non-income taxes	488	572	(84)
Provisions for risks	371	414	(43)
Other operating costs	1,421	1,085	336
Total	2,280	2,071	209

Non-income taxes included mainly taxes on owned property.

4.8 FINANCIAL INCOME

Financial income *(in thousands of Euro)*	**2018**	**2017**	**Change**
Interest income	20	137	(117)
Other financial income	1,221	1,496	(275)
Total	1,241	1,633	(392)

Details of other financial income are as follow:

- €796 thousand is the fair value of investments (Note 3.8);
- €193 thousands refers to the profit of the asset management (Note 3.8);
- €69 thousand is for other financial income.

4.9 FINANCIAL EXPENSE

Financial expense *(in thousands of Euro)*	**2018**	**2017**	**Change**
Interest expense to banks	1,268	1,302	(34)
Interest expense to other lenders	215	160	55
Other financial expense	2,292	217	2,075
Total	3,775	1,679	2,096

Details of other financial expense are as follow:

- €906 thousand is the fair value of the put option (Note 3.15);
- €1,246 thousands refers to losses on the asset management (Note 3.8);
- €140 thousand refer to other financial expenses.

4.10 EXCHANGE GAINS AND LOSSES

In 2018, the Group realised net exchange losses of roughly €250 thousand (net losses of €5,564 thousand in 2017, mainly due to the impact of INR, Zloty and Roubles). The realised part comes to a negative amount of €394 thousand, while the unrealised part amounts to a positive €144 thousand.

It is noted that the item includes €854 thousand for realised losses on exchange rates of the CCD financial instrument ("Introduction"). The instrument was liquidated in June 2018, therefore it will have no further impacts on the Income Statement.

4.11 GAINS AND LOSSES FROM EQUITY INVESTMENTS

The contract for the acquisition of Spirotech required a payment into an escrow account based on possible initial (positive or negative) adjustments in the Indian Financial Statements as at 31 March 2017. Following the necessary verifications, also with the selling parties, the amount for €416 thousand in the escrow account (this estimate adjustment had not been included in the valuation of payments for the acquisition of the company as at 31 December 2016) was fully released in July 2018 to the LU-VE Group, generating a positive component in the Income Statement.

4.12 INCOME TAXES

Income taxes *(in thousands of Euro)*	**2018**	**2017**	**Change**
Current taxes	3,848	2,658	1,190
Deferred tax liabilities	(2,484)	(709)	(1,775)
Adjustment previous year	(95)	285	(380)
Total	**1,269**	**2,234**	**(965)**

The increase of €1,687 thousands was mainly due to the increase in turnover.
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)*	**31/12/2018**	**31/12/2017**
Theoretical income taxes	4,167	2,043
Tax effect of permanent differences	(319)	615
Income taxes recognised in the Financial Statements	**3,848**	**2,658**
Broken down as follows:		
IRES Italian subsidiaries	322	187
Of which IRES Parent Company:	333	196
IRAP	384	288
Taxes foreign companies	3,142	2,183
Total	**3,848**	**2,658**

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

As at 31 December 2018, 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 Euro)*	**2018**	**2017**
PROFIT *(in thousands of Euro)*		
Net profit for the period	15,407	5,642
NUMBER OF SHARES		
Average weighted number of ordinary shares for the calculation of basic earnings per share	22,083,370	21,380,521
Dilution effect deriving from potential ordinary shares	-	737,090
Average weighted number of ordinary shares for the calculation of diluted earnings per share	22,083,370	22,117,611

EARNINGS PER SHARE *(Figures in Euro)*	**2018**	**2017**
Basic earnings per share	0.70	0.26
Diluted earnings per share	0.70	0.26

4.14 DIVIDENDS

In April 2018, dividends totalling €4,860 thousand were distributed, corresponding to the distribution of a gross dividend of €0.22 (zero/22) 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 €0.25 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 8 May 2019 (coupon no. 4 ex-dividend date 6 May 2019 and record date 7 May 2019).

In addition, €765 thousands was paid to minority shareholders of subsidiaries for a total of €5,265 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 (named "Air Cooled" until 2016), which includes air cooled equipment and close control air conditioners;
- Components SBU (named "OEM" until 2016), which includes heat exchangers and special glass doors for refrigerated counters and display cabinets.

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

Revenues by SBU *(in thousands of Euro)*	**2018**	**%**	**2017**	**%**	**Change**	**% Change**
Air Cooled Equipment	97,189	32.2%	85,231	32.2%	11,958	14.0%
Close Control	9,953	3.3%	10,723	4.1%	(770)	(7%)
SBU COOLING SYSTEMS	**107,142**	**35.5%**	**95,954**	**36.3%**	**11,188**	**11.7%**
Heat exchangers	184,530	61.2%	159,301	60.2%	25,229	15.8%
Doors	10,029	3.3%	9,265	3.5%	764	8.2%
SBU COMPONENTS	**194,559**	**64.5%**	**168,566**	**63.7%**	**25,993**	**15.4%**
TOTAL PRODUCT TURNOVER	**301,701**	**100%**	**264,520**	**100%**	**37,181**	**14.1%**

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 2018 and 31 December 2017:

Segment *(in thousands of Euro)*	**2018**				**2017**			
	Components	**Cooling System**	**Unallocated costs**	**Total**	**Components**	**Cooling System**	**Unallocated costs**	**Total**
REVENUES	194,559	107,142	-	**301,701**	168,182	96,338	-	**264,520**
EBITDA	26,448	10,153	-	**36,601**	21,718	7,354	-	**29,072**
Investments	24,496	13,717	-	**38,213**	16,170	8,116	-	**24,286**
Property, plant and equipment	150,933	114,790	-	**265,723**	126,669	116,947	-	**243,616**

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. Generally, the maximum term of these hedges is no longer than 18 months.

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 31/12/2018 *(in thousands of Euro)*	**Level 1**	**Level 2**	**Level 3**	**Total**
Other financial assets				
Current financial assets	-	57,634	-	57,634
Other financial liabilities:			-	-
Derivatives	-	1,080	-	1,080
Put Option	-	-	3,657	3,657
Earn-Out	-	-	397	397
Total	-	56,554	(4,054)	52,500

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 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)*	**31/12/2018**	**31/12/2017**
Financial assets		
Amortised cost		
Cash and cash equivalents	85,905	50,762
Trade receivables	50,854	47,616
Non-current financial assets		
Fair Value	-	-
Trading derivatives	-	246
Current financial assets	57,634	72,062
Financial liabilities		
Amortised cost		
Loans	201,858	155,207
Trade payables	57,800	63,405
Fair Value	-	-
Trading derivatives	1,080	891
Payable for 5% Spirotech put option	3,260	1,788
Variable compensation for the acquisition of Zyklus	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 2018, a theoretical and immediate revaluation of the euro by 10% compared to other currencies would have entailed a loss of €661 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 2018, 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 €991 thousand, without taking into account transactions with derivative instruments which were considered for trading.

Raw material price risk management

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

To manage these risks, the LU-VE Group constantly monitors the availability of raw materials in the market as well as the relative price trends, in order to promptly identify any situations of unavailability of raw materials and take suitable actions to guarantee the required production autonomy, and also to keep its production activities competitive with regard to this aspect as well. In particular, as regards the major raw material purchased - copper - the LU-VE Group has long-standing relations 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 2018 the Group has unused short-term credit lines totalling roughly €45 million. In addition, to minimise liquidity risk the Administration and Financial Department:

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

An analysis of financial liabilities as at 31 December 2018 is provided below by maturity:

Analysis of financial liabilities as at 31 December 2018 *(in thousands of Euro)*	**Carrying amount**	**Contractual cash flows**	**Within 1 year**	**From 1 to 5 years**	**More than 5 years**
Bank loans	200,971	204,649	50,099	148,621	5,929
Advances on invoices	887	-	-	-	-
Finance leases	139	139	119	20	-
Financial Liabilities	**201,997**	**204,788**	**50,218**	**148,641**	**5,929**
Trade payables	57,800	57,800	57,800		
Total	259,797	262,588	108,018	**148,641**	**5,929**

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 2018:

Related 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	-	-
Finami SRL	-	50	-	-	-	251	-	-
Total	**-**	**50**	**-**	**-**	**-**	**410**	**-**	**-**

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

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

- TGD has a sub-lease agreement in place with Finami for the facility and offices located in Travacò Siccomario (PV), of which Finami is in turn user by virtue of two lease agreements with Selmabipiemme Leasing S.p.A.; the agreement was entered into on 16 December 2010 for a period of six years (i.e., until 15 December 2016), renewable for an equal period of time, without prejudice to cancellation to be sent via registered letter with advice of receipt with advance notice of at least six months.
- In 2015, the agreement was extended for another part of the property. In 2016, aside from the expiring contract having been renewed, an additional lease agreement was entered into for an industrial property adjacent to that already used by the subsidiary. The annual consideration paid to Finami under the contracts mentioned above was €251 thousand;
- since July 2015, LU-VE has had a strategic advisory agreement in place with the company MGPE S.r.l., in which Michele Garulli (LU-VE director) holds an equity investment. The agreement is valid for twelve months and is subject to automatic renewal if not cancelled by one of the parties. The remuneration for this role includes annual fixed compensation of €25 thousand and variable compensation upon occurrence of the acquisition transactions (success fees) for which the strategic advice was provided.
- the 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 Euro)	Variable non-equity remuneration (in Euro)		Non-monetary benefits (in Euro)	Total (in Euro
						Bonuses and other incentives	Profit sharing		
Iginio Liberali	Executive chairman	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares Financial Statements				232,000 [1]	-	269,675	-	-	501,675
(II) Remuneration from related companies and subsidiaries				18,000	-	-	-	-	18,000
(III) Total				**250,000**	**-**	**269,675**	**-**	**-**	**519,675**
Pierluigi Faggioli	Vice Chairman	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares Financial Statements				30,000 [2]	-	-	-	-	30,000
(II) Remuneration from related companies and subsidiaries				185,000	-	269,675	-	3,693	458,368
(III) Total				**215,000**	**-**	**269,675**	**-**	**3,693**	**488,368**
Matteo Liberali	CEO	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares Financial Statements				315,000 [3]	-	402,500	-	6,103	723,603
(II) Remuneration from related companies and subsidiaries				44,000	-	-	-	-	44,000
(III) Total				**359,000**	**-**	**402,500**	**-**	**6,103**	**767,603**
Michele Faggioli	COO	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares Financial Statements				205,000 [4]	-	230,000	-	-	435,000
(II) Remuneration from related companies and subsidiaries				115,000	-	172,500	-	9,826	297,326
(III) Total				**320,000**	**-**	**402,500**	**-**	**9,826**	**732,326**
Attilio Arietti	Director	1/1/2018-14/05/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares Financial Statements				5,769	-	-	-	-	5,769
(II) Remuneration from related companies and subsidiaries				-	-	-	-	-	-
(III) Total				**5,769**	**-**	**-**	**-**	**-**	**5,769**
Giovanni Cavallini	Director	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares 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 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 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 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 Financial Statements				129,894	(6)	-	-	-	4,851	134,745
(II) Remuneration from related companies and subsidiaries				-		-	-	-	-	-
(III) Total				**129,894**		**-**	**-**	**-**	**4,851**	**134,745**
Stefano Paleari	**Director**	1/1/2018-31/12/2018	Approval of Financial Statements 2019							
(I) Remunerations in the company that prepares 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 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 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 Financial Statements				45,000	-	-	-	-	45,000
(II) Remuneration from related companies and subsidiaries				-	-	-	-	-	-
(III) Total				**45,000**	**-**	**-**	**-**	**-**	**45,000**
Stefano Beltrame	**Standing Auditor**	1/1/2017-31/12/2017	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares Financial Statements				30,000	-	-	-	-	30,000
(II) Remuneration from related companies and subsidiaries				25,833	-	-	-	-	25,833
(III) Total				**55,833**	**-**	**-**	**-**	**-**	**55,833**
Ivano Pelassa	**Standing Auditor**	1/1/2017-31/12/2017	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares 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 €111,893.86 for the current employment with LU-VE S.p.A.

4.18 SHARE-BASED PAYMENTS

As at 31 December 2018, 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)*	**31/12/2018**	**31/12/2017**	**Change**
Mortgages	45,304	58,738	(13,434)
Third-party goods	1,772	804	968
Total	**47,076**	**59,542**	**(12,466)**

Mortgages refer to guarantees granted by Group companies to obtain medium/long-term bank loans. As at 31 December 2018, 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**
LU-VE	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	Mortgage	30,000
SEST LU-VE POLSKA SP. Z O.O.	BNP Paribas bank Polska SA	EIB Mortgage Loan	08/11/2011	08/11/2021	Mortgage	5,000
LU-VE FRANCE S.A R.L.	BNP PARIBAS S.A.	Mortgage Loan	08/11/2011	03/11/2026	Mortgage	798

The item “Third-party goods” relates to products owned by customers, temporarily in the inventory at the Group’s warehouses on 31 December 2018 and 2017.

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 31/12/2018	Profit (loss) for the year 2018
Direct subsidiaries:						
SEST S.p.A.	Limana (BL)	100.00	EUR	1,000,000	20,540,290	2,237,695
Tecnair LV S.p.A.	Uboldo (VA)	79.90	EUR	200,000	2,399,989	100,701
Heat Transfer Systems s.r.o. (HTS)	Novosedly (Czech Rep.)	100.00	CZK	133,300,000	369,994,779	26,484,428
LU-VE Sweden AB	Asarum (Sweden)	100.00	SEK	50,000	(39,531,572)	(11,287,088)
LU-VE France S.a.r.l.	Lyon (France)	86.06	EUR	84,150	1,381,856	7,916
LU-VE Pacific Pty Ltd	Thomastown (Australia)	75.50	AUD	200,000	(3,646,855)	(477,792)
LU-VE Deutschland GmbH	Stuttgart (Germany)	100.00	EUR	230,000	(101,706)	(24,007)
LU-VE Iberica S.L.	Madrid (Spain)	85.00	EUR	180,063	(713,767)	(5,135)
LU-VE Asia Pacific Limited	Wan Chai (Hong Kong)	100.00	HKD	10,000	(26,363,343)	677,405
LU-VE INDIA CORPORATION PRIVATE LTD	New Delhi (India)	99.99	INR	5,555,568	2,448,741,334	24,363,714
LuveDigital S.r.l.	Uboldo (VA)	50.00	EUR	10,000	23,640	1,993
MANIFOLD S.r.l.	Uboldo (VA)	99.00	EUR	10,000	22,895	4,566
LU-VE AUSTRIA GmbH	Vienna (Austria)	100.00	EUR	17,500	24,873	13,369
Zyklus Heat Transfer Inc	Jacksonville (USA, Texas)	100.00	USD	1,000	1,052,571	153,247
Indirect subsidiaries:						
SEST-LUVE-Polska SP.z.o.o. (95% owned by SEST S.p.A.)	Gliwice (Poland)	95.00	PLN	16,000,000	220,271,995	56,326,673
«OOO» SEST LU-VE (95% owned by SEST S.p.A.)	Lipetsk (Russia)	95.00	RUB	136,000,000	782,402,635	126,172,660
LU-VE HEAT EXCHANGERS Ltd (100% owned by LU-VE Asia Pacific Limited)	Changshu (China)	100.00	CNY	38,211,761	11,929,479	(1,699,245)
LU-VE HEAT EXCHANGERS (Tianmen) Co, Ltd	Tianmen (China)	100.00	CNY	n.a.	n.a.	n.a.
Thermo Glass Door S.p.A. (100% owned by SEST S.p.A.)	Travacò Siccomario (PV)	100.00	EUR	100,000	100,000	(2,016,931)
Spirotech Ltd (95% owned by LU-VE INDIA CORPORATION PRIVATE LTD)	New Delhi (India)	95.00	INR	25,549,700	1,854,524,451	437,155,994

6 SIGNIFICANT NON-RECURRING TRANSACTIONS

During 2018, 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 2018 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 2018

In February the competent authority approved the expansion plans for the Spirotech's facility, which is expected to start at the beginning of April, once the negotiation of procurement and works contracts has been finalised.

During the first two months an agreement was reached with the Jacksonville Texas industrial park authorities on the particularly favourable conditions for the acquisition of around 80,000 m^2 of land for the construction of a new facility within two years of the signature of final contracts, anticipated for April.

In relation to the acquisition of the "Air" division of the Alfa Laval Group, the anticipated preparatory activities leading to the signature of the final contracts have continued during the year with a spirit of cooperation.

In January, an unsecured loan agreement was set up with Banco BPM Mediocredito Italiano for €30,000,000 with a duration of 75 months (of which three in the grace period) repayable in quarterly instalments at constant capital.

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 2018.

It is also certified that the consolidated financial statements as at 31 December 2018:

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

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

5 April 2019

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.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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 2018, 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 2018, 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 testing on goodwill, intangible assets and property, plant and equipment	
Description of the key audit matter	The Group accounts for goodwill for €47.7 million in the consolidated financial statements at 31 December 2018 (11% of total assets). This goodwill has been allocated to two cash generating units ("CGUs") of LU-VE Group: "Components" (for €30.2 million) and "Cooling Systems" (for €17.5 million), to which intangible assets with a finite useful life (for €22.5 million) and property, plant and equipment (for €125.1 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 at 31 December 2018 at a value no higher than their recoverable amount. After the conclusion of the impairment tests,

approved by the Board of Directors on 22 March 2019, the Group has not recognised any impairment loss.

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 2019-2022 plan, the determination of an appropriate discounting rate (WACC) and a long-term growth rate (g-rate). These assumptions are based on the Management's expectations of focusing on new geographical markets deemed most attractive in terms of size, stability, growth and profit margins, strengthening and expanding existing production capacity, continuously improving the performance of existing products and developing innovative products.

Considering the relevante value of assets accounted for within 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 a key audit matter of the Group's consolidated financial statements.

Note 3.1 "Goodwill and Other intangible Assets" within the consolidated financial statements provides a disclosure on the impairment test, including a sensitivity analysis conducted by the Management which describes the effects that could arise when certain key assumptions change.

Audit procedures performed

To evaluate the recoverability of the assets of 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 into place by the Group on the process of performing the impairment testing;
- 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 Components and Cooling Systems CGUs;
- verification 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.

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

The Directors are responsible for the preparation of consolidated financial statements that 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, 2018, 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, 2018 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, 2018 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.

Milan, 4 April 2019

SEPARATE FINANCIAL STATEMENTS AND EXPLANATORY NOTES AS AT 31 DECEMBER 2018

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1 FINANCIAL STATEMENTS

1.1 STATEMENT OF FINANCIAL POSITION

Statement of Financial Position (restated in Euro)	Notes	31/12/2018	31/12/2017
ASSETS			
Goodwill	3.1	14,629,431	14,629,431
Other intangible assets	3.1	8,039,820	7,728,136
Property, plant and equipment	3.2	37,971,206	39,115,562
Other property, plant and equipment	3.2	1,719,455	1,799,655
Deferred tax assets	3.19	3,430,292	1,436,711
Equity investments	3.3	102,562,035	58,692,680
Other non-current financial assets	3.4	22,087,151	47,636,510
Other non-current assets	3.5	25,465	414,408
Non-current assets		190,464,855	171,453,093
Inventories	3.6	8,122,775	7,789,837
Trade receivables	3.7	31,920,661	39,577,169
Due from the tax authorities for current taxes	3.8	3,089,168	3,910,775
Current financial assets	3.9	67,600,031	78,869,917
Other current assets	3.10	1,721,025	1,173,977
Cash and cash equivalents	3.11	57,595,795	28,170,084
Current assets		170,049,455	159,491,759
Assets held for sale		-	-
Assets held for sale		-	-
TOTAL ASSETS		360,514,310	330,944,852

Statement of Financial Position (restated in Euro)	Notes	31/12/2018	31/12/2017
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital	3.12	62,704,489	62,704,489
Reserves and retained earnings (losses)		38,560,116	44,939,860
Profit (loss) for the year		3,098,524	3,513,046
TOTAL SHAREHOLDERS' EQUITY		104,363,129	111,157,395
Loans	3.13	150,259,852	106,822,761
Provisions	3.14	1,270,668	990,668
Employee benefits	3.15	909,244	966,611
Deferred tax liabilities	3.19	8,036,101	8,417,626
Other financial liabilities	3.16	397,326	-
Non-current liabilities		160,873,191	117,197,666
Trade payables	3.17	25,243,041	28,580,897
Loans	3.13	48,064,111	40,508,087
Provisions	3.14	-	-
Tax payables	3.18	502,984	505,730
Other financial liabilities	3.16	14,009,261	26,778,502
Other current liabilities	3.20	7,458,593	6,216,575
Current liabilities		95,277,990	102,589,791
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		360,514,310	330,944,852

1.2 INCOME STATEMENT

Income Statement (restated in Euro)	Notes	31/12/2018	31/12/2017
REVENUES AND OPERATING INCOME			
Revenues	4.1	86,193,383	77,650,310
Other revenues	4.2	459,715	104,076
Total revenues and operating income		86,653,098	77,754,386
OPERATING COSTS			
Purchases of materials	4.3	(44,418,525)	(41,536,046)
Changes in inventories	3.6	332,938	1,721,531
Services	4.4	(18,014,012)	(17,534,473)
Personnel costs	4.5	(17,065,922)	(15,677,336)
Net write-downs of financial assets	4.6	(1,697,738)	-
Other operating costs	4.7	(732,065)	(599,375)
Total operating costs		(81,595,324)	(73,625,699)
Net change in fair value of derivatives		(631,896)	2,203,326
Depreciation and amortisation	3.1 - 3.2	(5,863,841)	(5,299,265)
Capital gains on the sale of non-current assets		159,518	108,822
Write-downs on non-current assets		(191,489)	-
EBIT		(1,469,934)	1,141,570
Financial income	4.8	7,321,110	6,518,814
Financial expense	4.9	(2,593,578)	(1,625,305)
Exchange gains (and losses)	4.10	(665,825)	(2,655,205)
Gains and losses from equity investments		-	-
EBT		2,591,773	3,379,874
Income taxes	4.11	506,751	133,172
NET PROFIT (LOSS)		3,098,524	3,513,046
Profit (loss) from assets/liabilities held for sale		-	-
NET PROFIT (LOSS) FOR THE YEAR		3,098,524	3,513,046

1.3 STATEMENT OF COMPREHENSIVE INCOME

Statement of Comprehensive Income

Statement of Comprehensive Income (restated in Euro)	Notes	31/12/2018	31/12/2017
NET PROFIT (LOSS) FOR THE YEAR	1.2	3,098,524	3,513,046
Components that will not subsequently be reclassified to the Income Statement			
Actuarial valuation of post-employment benefits	3.15	19,793	4,772
Tax effect		(4,750)	(1,312)
		15,043	3,460
TOTAL COMPREHENSIVE INCOME (LOSS)	1.4	3,113,567	3,516,506

1.4 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Statement of Changes in Shareholders' Equity *(in Euro)*	**Share capital**	**Share premium reserve**	**Legal reserve**	**Treasury shares**	**Post-employment benefits discounting reserve**	**Other reserves**	**Profit (loss) for the year**	**Total shareholders' equity**
BALANCE AS AT 01/01/17	62,496,373	24,762,200	2,004,309	(991,562)	(59,013)	16,883,599	7,243,353	112,339,259
Allocation of profit 2016								
Dividends paid	-	-	-	-	-	(4,416,492)	-	(4,416,492)
Retained			362,168	-	-	6,881,185	(7,243,353)	-
Increases (decreases)	-	-	-	(428,705)	-	-	-	(428,705)
Reversal of deferred taxes on costs relative to capital transactions	-	-	-	-	-	(61,289)	-	(61,289)
Other	208,116	-	-	-	-	-	-	208,116
Statement of comprehensive income as at 31/12/2017	-	-	-	-	3,460	-	3,513,046	3,516,506
BALANCE AS AT 31/12/2017	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 01/01/2018	62,704,489	24,762,200	2,366,477	(1,420,267)	(55,553)	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)
Statement of comprehensive income as at 31/12/2018	-	-	-	-	15,043	-	3,098,524	3,113,567
BALANCE AS AT 31/12/2018	62,704,489	24,762,200	2,717,782	(1,618,754)	(40,510)	12,739,398	3,098,524	104,363,129

1.5 STATEMENT OF CASH FLOWS

	LU-VE S.p.A. Statement of Cash Flows *(in Euro)*	Notes	31/12/2018	31/12/2017
A.	Cash and cash equivalents at the beginning of the period		28,170,083	24,627,254
	Profit (loss) for the year		3,098,524	3,513,046
	Adjustments for:			
	- Depreciation and amortisation	3.1 - 3.2	5,863,841	5,299,265
	- Realised gains on non-current assets		(159,518)	(108,822)
	- Net financial income and expense	4.8 - 4.9	(4,727,532)	(4,893,509)
	- Income taxes	4.11	(506,751)	(133,172)
	- Fair value changes booked in operating income		631,896	(2,203,326)
	Changes in post-employment benefits		(50,605)	(34,759)
	Changes in provisions	3.14	280,000	40,000
	Changes in trade receivables		7,656,508	(9,452,130)
	Changes in inventories		(332,938)	(1,721,531)
	Changes in trade payables		(3,355,756)	7,835,352
	Changes in net working capital		3,967,814	(3,338,309)
	Changes in other receivables and payables, deferred taxes		1,139,753	1,796,129
	Tax payment		-	(150,587)
	Net financial revenues/expenses received/paid		4,220,420	4,649,949
B.	Cash flows generated/absorbed by operating activities		13,757,842	4,435,905
	Investments in non-current assets:			
	- intangible assets	3.1	(3,154,699)	(2,572,108)
	- property, plant and equipment	3.2	(2,204,041)	(4,442,854)
	- Equity investments	3.3	(10,052,273)	769,599
	Other non-current financial assets		(8,267,723)	-
C.	Cash flows generated/absorbed by investing activities		(23,678,736)	(6,245,363)
	Repayment of loans	3.13	(45,981,000)	(45,639,266)
	New loans	3.13	96,974,115	62,000,000
	Changes in other financial liabilities		(12,880,373)	(7,674,830)
	Changes in short-term financial assets		10,925,448	2,022,925
	Purchase of treasury shares		(198,487)	(428,705)
	Contributions/repayments of own capital		-	208,116
	Payment of dividends	4.13	(4,860,336)	(4,416,492)
	Other changes		(4,612,967)	-
D.	Cash flows generated/absorbed by financing activities		39,366,400	6,071,748
	Exchange differences		-	-
	Other non-monetary changes		(19,793)	(719,461)
E.	Other changes		(19,793)	(719,461)
F.	Net cash flows in the period (B+C+D+E)		29,425,713	3,542,829
	Cash and cash equivalents at the end of the period (A+F)		57,595,796	28,170,083
	Current financial debt		(5,526,659)	(11,583,328)
	Non-current financial debt		128,570,028	93,150,941
	Net financial debt (Note 3.21)		65,447,573	53,397,530

2 EXPLANATORY NOTES

2.1 STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

Information about the Company

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

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 2018.

Declaration of compliance and accounting policies

The separate Financial Statements of LU-VE S.p.A. as at 31 December 2018 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 prepared in Euro, which is the currency used in the economies in which the Company carries on business (functional currency), 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, as described below. Furthermore, the Financial Statements have been drawn up on the basis of the going concern assumption.

With reference to this last assumption, as at 31 December 2018, the Company has a solid and balanced financial structure with a Net financial debt/Shareholders' equity ratio (Debt ratio) of 0.63 and a positive short-term net financial position of €63.1 million, therefore the repayment of medium/long-term debt maturing in 2019 is guaranteed by current liquidity. In addition, there are no substantial restrictions on the freeing up of invested liquidity, which therefore, if required, may be used to meet any payment commitments.

In light of what is laid out above, the Financial Statements of LU-VE S.p.A. as at 31 December 2018 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 2018 were approved by the Board of Directors on 22 March 2019.

Financial Statements

The Company has adopted the following Financial Statements:

- a Statement of Financial Position, which shows current and non-current assets and liabilities separately;
- a Statement of Changes in Shareholders' Equity;
- an Income Statement in which costs are classified by nature;
- a Statement of Comprehensive Income, which shows revenue and cost items that are not recognised in profit and loss as required or permitted by IFRS;
- a Statement of Cash Flows that presents cash flows from operations using the indirect method.

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

MEASUREMENT CRITERIA

The accounting standards and measurement criteria adopted to prepare the Financial Statements as at 31 December 2018, 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.

OTHER INTANGIBLE ASSETS

Trademarks

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

Research and development costs

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

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

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

Other intangible assets

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

Land is not depreciated.

Leased assets

Two types of leases are identified: finance and operating. A lease is considered to be financial when it transfers a significant and substantial portion of risks and benefits linked with the ownership of the asset to the lessee.

As indicated in IAS 17, a lease is considered to be financial when the following indicators are present, individually or together:

- the contract transfers the ownership of the asset to the lessee at the end of the lease contract;

- the lessee has the option to acquire the asset at a price that is expected to be sufficiently below fair value at the date on which this option can be exercised so that, at the beginning of the lease, it is reasonably certain that it will be exercised;

- the duration of the lease covers most of the economic life of the asset even if the asset is not transferred;

- at the start of the lease the actual value of minimum payments due for the lease is equivalent to at least the fair value of the leased assets;

- the leased assets are so specific in nature that only the lessee can use them without the need to make significant adjustments.

Assets available to the Company through contracts falling under the category of financial leases are accounted as tangible assets at their fair value at the date of purchase or, if inferior, at the actual value of minimum payments due for the lease; the corresponding liability to the lessor is included in the Statement of Financial position as short or medium-long-term “Other financing liabilities”. They are amortised over their estimated useful life.

Payments of leasing instalments are divided into a capital portion, which is registered as a reduction of financial liabilities, and an interest portion. Financial expenses are directly ascribed to

the Income Statement of the year. However, for operating leases, payments are recorded in the Income Statement on a linear basis throughout the duration of the contract.

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 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 hypothetical consideration deriving from the sale of the investment (as described below), net of the net financial position of the subsidiary at the date of the Financial Statements.

If the prerequisites for any impairment loss previously recognised no longer apply, the accounting value of the 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 Statements, 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.

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 used 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.

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

However, at the date of presentation of these Financial Statements, not all requirements of 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.

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

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

ASSIGNMENT OF RECEIVABLES

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

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 Statements. However, they are subject to adequate disclosure.

EMPLOYEE BENEFITS

Short-term benefits

Short-term employee benefits are accounted for in the Income Statement in the period in which the services are rendered.

Post-employment benefits

On 1 January 2007, the Financial Act (Italian 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, 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.

PAYABLES

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

CRITERIA FOR THE TRANSLATION OF ITEMS IN FOREIGN CURRENCY

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

At year end, assets and liabilities expressed in foreign currency 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.

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 Statements, 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.

DIVIDENDS

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

TREASURY SHARES

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

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit (loss) attributable to shareholders of the Company by the weighted average of ordinary shares outstanding during the year. Diluted earnings per share are calculated by dividing the profit (loss) for the year attributable to shareholders of the Company by the weighted average of shares outstanding, adjusted to assume the subscription of all potential shares deriving from the granting of bonds and the exercise of warrants, if issued by the Company.

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. (2016-2018 period) and Thermo Glass Door S.p.A. (TGD) (2017-2019 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. Estimates are used to assess goodwill, intangible assets and property, plant and equipment tested for impairment, as described above, as well as to recognise provisions for credit risks, inventory obsolescence, depreciation and amortisation, asset impairment, employee benefits, taxes and other provisions (i.e., product warranty provision). Estimates and assumptions are reviewed periodically and the effects of each change are reflected in the Income Statement in the period in which the estimate is reviewed. More specifically:

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

The procedure for determining the impairment losses on goodwill, intangible assets and property, plant and equipment described in the accounting standard “Impairment of assets” implies - in

estimating the value in use - assumptions regarding the forecast of expected cash flows from the only cash generating unit (“CGUs”) identified, making reference to the 2019-2022 plan, the determination of an appropriate discounting rate (WACC) and a long-term growth rate (g-rate). These assumptions are based on the Management’s expectations of focusing on increasing the sales of certain higher-margin product families to improve the absorption of fixed costs, continuously improving the performance of existing products and developing innovative products.

As laid out in IAS 36, as the above-mentioned CGU includes goodwill, the Company’s Management conducted an impairment test to determine whether the carrying amounts relating to the assets of the CGU are recognised in the Financial Statements as at 31 December 2018 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 2018, in addition to intangible assets with a finite useful life and property, plant and equipment.

Recoverability of the value of equity investments

Equity investments in subsidiaries, for which estimates are used in a significant manner in order to determine any write-downs and write-backs, were carefully analysed by the Company Management to identify possible indicators of impairment.

In particular, amongst the equity investments in subsidiaries, the Management tested for impairment the equity investments in the companies LU-VE Sweden AB, LU-VE Iberica s.l., LU-VE Deutschland GmbH, LU-VE Contardo Pacific pty. Ltd. - Australia and LU-VE Asia Pacific Ltd. – Hong Kong, which had significant losses for the year and/or previous years that led to the recognition of negative shareholders’ equities with reference to all of the above-mentioned subsidiaries.

The Management’s assessment process is based on the principle of discounted cash flow – Equity side through the estimated expected cash flows inferable by the 2019-2022 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 most significant key variables in determining cash flow forecasts are based on the Management’s expectations of focusing on increasing the sales of certain higher-margin product families to improve the absorption of fixed costs, strengthening and expanding existing production capacity, continuously improving the performance of existing products and developing innovative products.

Provisions for credit risks

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

Provisions for inventory obsolescence

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

Provisions for warranties

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

Employee benefits

The present value of liabilities for employee benefits depends on a series of factors determined with actuarial techniques using specific assumptions (note 3.15). The assumptions regard the discount rate, estimates of future wage increases, mortality rates and resignations. Every change in these assumptions may have significant effects on the liability for pension benefits.

Income taxes

To determine the Company's tax liabilities, the management needs to make assessments with respect to transactions that have uncertain tax implications at the reporting date. In addition, deferred tax assets are measured on the basis of expected income in future years; the assessment of this expected income depends on factors that could change over time and have significant effects on the measurement of deferred tax assets.

Other provisions

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

Estimates and assumptions are reviewed periodically and the effects of each change are immediately reflected in the Income Statement.

2.2 NEW ACCOUNTING STANDARDS

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS AT 1 JANUARY 2018

The following IFRS accounting standards, amendments and interpretations have been applied by the Company for the first time as at 1 January 2018:

- On 22 September 2016, with regulation no. 1905/2016, the European Commission endorsed the accounting standard **IFRS 15 – Revenue from Contracts with Customers**. This standard has replaced standards IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue-Barter Transactions Involving Advertising Services.
  This new revenue recognition model will apply to all contracts entered into with customers with the exception of those falling within the scope of application of other IAS/IFRSs such as insurance contracts and financial instruments. The fundamental steps for accounting for revenues in accordance with the new model are:

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

  The application of this standard has had no impact on the amounts of revenue recognised by the Company. Indeed, as far as the Company's business is concerned, this new "revenue recognition" concept envisaged under § 31 of IFRS 15, which is based on the acquisition of "control" over the asset by the customer (in the sense of an ability to decide on how the asset is used and enjoy all remaining benefits) basically overlaps with the provisions contained in standard IAS 18. The latter states that revenue from sale of goods must be recognised (particularly so when the entity has transferred the substantial risks and benefits ensuing from ownership of the asset to the purchaser); for its part, IFRS 15 establishes that, in order to determine whether acquisition of control has taken place at a given time, the following must be assessed: whether the customer holds an ownership deed for the assets, whether possession has been transferred, whether the customer is already obliged at the time to pay for the assets and, last but not least, whether the customer bears the meaningful risks and enjoys the meaningful benefits arising from ownership of the assets. In this case, whenever the Company makes sales, the transferral of control over the asset, which as mentioned above coincides with the transferral of the associated risks/benefits and, therefore, recognition of the ensuing revenue, can occur upon shipment or when the goods are delivered to the customer according to the Incoterms (International Commercial Terms) adopted by the Company in the various contracts stipulated with their customers. This applies to all sales for all product families.
  The Company does not sell services to customers related to sold goods and guarantees related to sold goods cannot be purchased separately and do not act as guarantee that sold goods are compliant with the agreed specification.
  The main Company's Incoterm clause is "Ex-works".

This standard has been applied since 1 January 2018. As already described in the notes last year, the application of this standard has not had any impact on the amounts of revenues recognised in the Company's Financial Statements.
Revenues are recognised net of returns, discounts, allowances and premiums, as well as taxes directly connected to the sale of goods and the provision of services.

- On 22 September 2016, with Regulation no. 2067/2016, the European Commission endorsed the accounting standard **IFRS 9 – Financial Instruments** which replaces IAS 39. The standard:

  - introduces new criteria for the classification and measurement of financial assets and liabilities;
  - introduces an impairment model for financial assets;
  - introduces a new hedge accounting model (increase in the type of transactions eligible for hedge accounting, change in the methods for accounting for forward contracts and options when included in a hedge accounting relationship, amendments to the effectiveness test).

This new standard has been applied since 1 January 2018, the date on which the Company valued its financial assets and liabilities on the basis of the IFRS 9 requirements. All current acquisitions and disposals of financial assets are recognised and eliminated from the accounts on the trading date.

All recognised financial assets that come under the scope of application of IFRS 9 must subsequently be recognised at amortised cost or fair value on the basis of the Company's business model for the management of financial assets and of the characteristics relative to contractual financial flows of financial assets. Specifically:

- Debt instruments held in the context of a business model whose objective is the ownership of financial assets finalised to the collection of contractual cash flows, and that have cash flows represented exclusively by payments of capital and interests on the amount of capital to be repaid, are subsequently valued at amortised cost;

- Debt instruments held in the context of a business model whose objective is both the collection of contractual cash flows and the sale of financial assets, and that have cash flows represented exclusively by payments of capital and interests on the amount of capital to be repaid, are subsequently valued at fair value with variations recognised in the other components of the Statement of Comprehensive Income (FVTOCI);

- All other debt instruments and investments in instruments represented by capital are subsequently valued at fair value, with variations recognised in the profit (loss) for the year (FVTPL).

In spite of what is reported above, the Company may make the following irrevocable choice/designation at the time of initial recognition of a financial asset:

- The Company may make the irrevocable choice to recognise subsequent variations of fair value of investment in equity instruments that are not held for trading in the other components of the Statement of Comprehensive Income;

- The Company may irrevocably designate an investment in debt instruments that satisfies the criteria of the amortised cost or of FVTOCI as valued at fair value, with variations recognised in the profit (loss) for the year (FVTPL) if, by doing so, it eliminates or significantly reduces any accounting asymmetry.

During the current financial year, the Company has not designated any investment in debt instruments that satisfies the criteria of the amortised cost or of FVTOCI as valued at fair value recognised in the profit (loss) for the year.

When an investment in a debt instrument measured as FVTOCI has been eliminated, the accumulated profit (loss) previously recognised under the other components of the Statement of Comprehensive Income is reclassified from the shareholders' equity to the profit (loss) for the year through a reclassification adjustment. On the other hand, when an investment in a debt instrument representative of capital designated as valued as FVTOCI has been eliminated, the accumulated profit (loss) previously recognised under the other components of the Statement of Comprehensive Income is subsequently transferred under earnings carried forward without moving from the Income Statement.

Debt instruments subsequently valued at amortised cost or FVTOCI are subject to impairment test.

The Company's Directors have reviewed and evaluated the financial assets as at 1 January 2018 on the basis of the facts and circumstances applicable at that date (and the Group's business model for the management of such assets) and have concluded that the initial application of IFRS 9 has had the following impacts on the Company's financial assets with regard to their classification and valuation:

- Debt instruments held as loans and credits on the basis of IAS 39 that had been valued at amortised cost continued to be valued at amortised cost on the basis of IFRS 9 as held in the context of a business model whose objective is the collection of contractual cash flows and because these cash flows are represented exclusively by payments of capital and interests on the amount of capital to be repaid.

- There are no changes to the valuation of the Company's investments in equity/bond instruments held with the objective of trading (e.g. management of liquidity), held through funds under management and investments in insurance policies; these instruments were and continue to be valued at fair value with variations recognised in the profit (loss) for the year.

IFRS 9 has also introduced a significant change in the classification and valuation of financial liabilities with reference to the accounting of variations of fair values attributable to the issuer’s credit risk, for financial liabilities designated by the Company as FVTPL. However, the Company does not hold any financial liabilities designated as FVTPL.

Therefore, the application of this new standard has not had any impact on the classification and valuation criteria for financial assets and liabilities and on the hedge-accounting model (not used by the Company).

On the other hand, as far as impairment of financial assets is concerned, this new standard requires that an estimate of losses on receivables be carried out on the basis of the expected credit losses (ECL) model, using supportable, available information without unreasonable effort or expense which must include historic, current and forward-looking information. Unlike the incurred losses model envisaged under IAS 39, it is no longer necessary for an event to take place before losses on receivables are recorded. The standard establishes that this impairment model be applied to all financial instruments - that is to the financial assets valued at amortised cost, to those valued at fair value through other comprehensive income, to receivables ensuing from rental contracts and to trade receivables. In particular, IFRS 9 requires that the estimate of losses on receivables be carried out for an amount equal to lifetime ECL if the credit risk to the financial instrument has increased considerably since the initial recognition date. On the other hand, if the credit risk to the financial instrument has not increased significantly since the initial recognition date, the estimate of losses on receivables must be carried out for an amount equal to 12-month ECL. In addition, IFRS 9 takes a simplified approach which envisages recording losses on receivables for receivables ensuing from rental contracts and trade receivables for an amount equal to lifetime ECL. As regards the implementation of this new method of calculating impairment of financial assets, it should be noted that the Company has applied the “simplified retrospective” method which envisages the possibility of avoiding restatement of all the comparative information from the years before the new standard was introduced. Furthermore, the aforementioned “simplified approach” was also applied to trade receivables, creating a provision matrix based on past experience (i.e. on losses on receivables from previous periods), but suitably adjusted to take into account additional and forward-looking risk factors so as to gain insight into the likelihood of the debtor’s future defaults when making the valuation. The additional risk factor was established by looking at the ageing of the receivables, on the one hand, and the geographical provenance of the debtor, on the other hand.

With reference to financial credits included in the item “other non-current financial assets”, on initial application of IFRS 9 the Directors deemed that the determination of whether the risk referred to such financial activities had increased in significant manner compared to the time of their initial recognition would have required an excessive effort and have therefore used the life time ECL in the calculation of impairment.

The chart below shows the effects (expressed in thousands of Euros) of the change in the accounting standard on the provisions for impairment to trade receivables, on deferred tax assets and on retained earnings for the Company as at 1 January 2018, the date of first-time application of the standard:

Effects of first application of standard IFRS 9 *(in thousands of Euro)*	**01/01/2018**
Trade receivables	(5,057)
Other non-current financial assets	(1,242)
Deferred tax assets	1,512
Retained earnings	**(4,787)**

The application of IFRS 9 has not had any impact on the Company's consolidated cash flows.

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 2018

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.

- Final version of Amendment to **IFRS 9 – Prepayment Features with Negative Compensation** (published on 12 October 2017). This document specifies that instruments requiring prepayment could respect the "SPPI" test even if the reasonable additional compensation to be paid in the case of prepayment is negative compensation for the lender. The amendment applies as at 1 January 2019, but early application is permitted.

- 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. The standard does not include significant amendments for lessors.

  The standard applies as at 1 January 2019, but early application is permitted.

  The Company has completed the preliminary assessment of the potential impact deriving from the application of the new standard at the transition date (1 January 2019). This process is broken down in different stages, including the complete mapping of contracts potentially suitable for a lease and the analysis of the same in order to understand the main relevant clauses for the purposes of IFRS 16.

  The accounting management of the standard will require an initial involvement of the service provider but the Company is assessing the need to acquire the computing infrastructure aimed at the in-house management of the same.

The Company has chosen to apply the standard using the modified retrospective method. In particular, the Company will recognise, 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 the current Financial Statements.

The following table reports the estimated impacts of the adoption of IFRS 16 at the transition date:

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
Miscellaneous rights to use	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 multiannual 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 plan.

- 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 Italian risk-free rate, with due dates commensurate to the duration of the specific rental contract, increased by the specific credit spread linked to the Company.

Lease commitments reconciliation

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 pursuant to IAS 17, for which information is provided at paragraph [insert paragraph number] of these Financial Statements as at 31 December 2018, and the impact expected 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

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 7 June 2017, the IASB published the interpretation document IFRIC 23 – Uncertainty over Income Tax Treatments. The document deals with the matter of uncertainties over the income tax treatment to be adopted. The document establishes that uncertainties in determining tax liabilities or assets should be reflected in the Financial Statements only when it is likely that the entity will pay or recover the amount in question. In addition, the document does not contain any new disclosure requirement, but highlights that the entity will need to establish if it will be necessary to provide information on the considerations of the management and relating to the uncertainty inherent in accounting for taxes, in accordance with the provisions of IAS 1.
  The new interpretation applies as at 1 January 2019, but early application is permitted. The Directors are currently assessing the possible effects of the introduction of these amendments on the Company's Financial Statements.

- Amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures" (published on 12 October 2017). This document clarifies the need to apply IFRS 9, including impairment-related requirements, to other long-term interests in associates and joint

ventures for which the equity method is not applied. The amendment applies as at 1 January 2019, but early application is permitted.

- Document “Annual Improvements to IFRSs 2015-2017 Cycle”, published on 12 December 2017 (including IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Remeasurement of previously held interests in a joint operation, IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity, IAS 23 Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation) which incorporates amendments of several standards within the annual improvement process. The amendments apply as at 1 January 2019, but early application is permitted

- Amendment to IAS 19 “Plant Amendment, Curtailment or Settlement” (published on 7 February 2018). 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 amendments apply as at 1 January 2019, but early application is permitted

- Amendment to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” (published on 11 September 2014). This document was published to resolve the current conflict between IAS 28 and IFRS 10 regarding the measurement of the profit or loss resulting from the disposal or contribution of a non-monetary asset to a joint venture or an associate in exchange for a stake in the latter. The IASB has currently indefinitely deferred the application of this amendment.

- 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 Directors do not expect the adoption of these amendments 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

Goodwill and other intangible assets *(in thousands of Euro)*	**Goodwill**		**Other intangible assets**	**Total**
Historical				
As at 01 January 2017	**21,078**		**21,339**	**42,417**
Increases	-		2,572	2,572
Decreases	-		-	-
Reclassifications	-		(53)	(53)
As at 31 December 2017	**21,078**		**23,858**	**44,936**
Increases	-		3,154	3,154
Decreases	-		(191)	(191)
Reclassifications	-		-	-
As at 31 December 2018	**21,078**		**26,821**	**47,899**
Provision				
As at 01 January 2017	**6,449**	*	**13,958**	**20,407**
Increases	-		2,172	2,172
Decreases	-		-	-
Reclassifications	-		-	-
As at 31 December 2017	**6,449**		**16,130**	**22,579**
Increases	-		2,651	2,651
Decreases	-		-	-
Reclassifications	-		-	-
As at 31 December 2018	**6,449**		**18,781**	**25,230**
Net carrying amount				
As at 31 December 2017	**14,629**		**7,728**	**22,357**
As at 31 December 2018	**14,629**		**8,040**	**22,669**

* 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 2018 (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 determining the recoverable amount, identified as the value in use, i.e., the sum of discounted cash flows generated in the future and on an ongoing basis from NIC (unlevered discounted cash flow method), the management made reference to the 2019-2022 plan approved by the Board of Directors on 19 February 2019, the assumptions of which include the Management's expectations of focusing on increasing the sales of certain higher-margin product families to improve the absorption of fixed costs, continuously improving the performance of existing products and developing innovative products.

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:

- business financial structure: 13.1% (third parties capital) and 86.9% (own capital).
- beta levered sector: 0.93
- risk-free rate: determined considering the average yield of government bonds with 10 year maturity in the countries where Lu-Ve S.p.A. operates.
- risk premium: 5.96% (attributable to countries with AAA rating – from professional source A. Damodaran, January 2019)
- cost of debt: 2.2% and determined considering the IRS 10 year rate 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 2.27% (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 (2022), 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 7.77%.

No impairment 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 2.27% and all the plan's assumptions unchanged) of 8.00%;

- the impairment test reaches a breakeven level with a significant reduction in the EBITDA of Terminal Value (with all the plan's assumptions unchanged) of 2.71%;

- the impairment test reaches a breakeven level by using a g-rate of 2% (with all the plan's assumptions unchanged).

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 2017	**10,799**	**5,937**	**510**	**4,093**	**-**	**21,339**
Increases	-	110	1,400	1,050	12	2,572
Decreases	-	-	-	-	-	-
Reclassifications	-	-	(151)	98	-	(53)
As at 31 December 2017	**10,799**	**6,047**	**1,759**	**5,241**	**12**	**23,858**
Increases	-	188	1,063	1,814	89	3,154
Decreases	-	-	(191)	-	-	(191)
Reclassifications	-	569	(569)	-	-	-
As at 31 December 2018	**10,799**	**6,804**	**2,062**	**7,055**	**101**	**26,821**
Provision						
As at 01 January 2017	**5,962**	**4,355**	**-**	**3,641**	**-**	**13,958**
Increases	717	809	-	646	-	2,172
Decreases	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
As at 31 December 2017	**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**
Net carrying amount						
As at 31 December 2017	**4,120**	**883**	**1,759**	**954**	**12**	**7,728**
As at 31 December 2018	**3,404**	**863**	**2,062**	**1,610**	**101**	**8,040**

Development costs and development costs in progress

Development costs and development costs in progress for the year 2018 increased by €1,251 thousand (€1,510 thousand in 2017).

With the prior consent of the Board of Statutory Auditors, capitalised development costs for the year increased by €188 thousand: €569 thousand was reclassified because completed during the year.

The increase in development costs in progress for €1,063 thousand (€1,400 thousand in 2017) 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 creation of innovative adiabatic and spray systems to optimise the performance of high power heat exchange equipment, the miniaturisation and specialisation of tube surfaces and matrixes for the improvement of heat exchange efficiencies, the introduction of electronic control systems optimised for unit coolers and air coolers as well as the development of new ranges of products, components and accessories in the heat exchanger segment.

Software

The Software development costs in 2018 increased by €1,814 thousand (€1,050 thousand in 2017). The main project developed in 2018 was PLM (Product Lifecycle Management), for roughly €1,025 thousand, which will be used in all of the Group's production facilities.

Other intangible assets

The increase in Other intangible assets for €89 thousand (€12 thousand in 2017) refers to software projects currently being completed.

3.2 PROPERTY, PLANT AND EQUIPMENT

Other property, plant and equipment *(in thousands of Euro)*	Property	Plant and equipment	Other property, plant and equipment	Work in progress	Total
Historical					
As at 31 December 2016	39,348	44,997	16,183	969	101,497
Increases	286	3,330	759	69	4,444
Decreases	-	(176)	(66)	-	(242)
Reclassifications	145	877	-	(969)	53
As at 31 December 2017	39,779	49,028	16,876	69	105,752
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
Provision					
As at 31 December 2016	8,569	38,974	14,361	-	61,904
Increases	675	1,649	803	-	3,127
Decreases	-	(176)	(19)	-	(195)
Reclassifications	-	-	-	-	-
As at 31 December 2017	9,244	40,447	15,145	-	64,836
Increases	689	1,840	685	-	3,214
Decreases	-	(897)	(38)	-	(935)
Reclassifications	-	-	-	-	-
As at 31 December 2018	9,934	41,390	15,792	-	67,115
Net carrying amount					
As at 31 December 2017	30,535	8,581	1,731	69	40,916
As at 31 December 2018	30,195	7,776	1,516	203	39,691

The increase in the item Plant and equipment (€1,234 thousand) refers to the expansion of existing production capacity and adjustment to fire prevention regulations.

The increase in Other property, plant and equipment (€470 thousand) referred mainly to the acquisition of industrial equipment and moulds.

It is specified that €19 thousand of the €2,223 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 2018.

During the year, machinery and vehicles were also disposed of, generating a net capital gain of €159 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 property, plant and equipment		
Types of revaluations *(in thousands of Euro)*	**Gross amount**	**Net amount as at 31/12/2018**	**Gross amount**	**Net amount as at 31/12/2018**	**Gross amount**	**Net amount as at 31/12/2018**	**Net total as at 31/12/2018**
Italian law no. 413 of 30 December 1991	5	1	-	-	-	-	1
Italian law no. 342 of 21 December 2000	-	-	1,347	-	1,080	-	-
Italian law no. 350 of 24 December 2003	-	-	1,814	-	1,183	-	-
Italian law no. 266 of 23 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)*	**31/12/2018**	**31/12/2017**	**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)	9,539	9,539	-
LU-VE France S.à.r.l.	890	890	-
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 Ltd (Changshu - China)	-	-	-
LU-VE Sweden AB	390	390	-
MANIFOLD S.r.l.	10	10	-
LU-VE India Corporation Private Ltd	35,383	1,566	33,817
LUVEDIGITAL S.r.l.	5	5	-
Spirotech Heat Exchangers Private Ltd	-	-	-
LU-VE Austria GmbH	18	18	-
Zyklus Heat Transfer Inc.	10,052	-	10,052
Total subsidiaries:	102,556	58,687	43,869
Industria e Università S.r.l.	6	6	-
Total	102,562	58,693	43,869

The increase in equity investments is due:

- for €33,817 thousand to the CCD conversion process in June 2018. At the end of the process, the equity investments held by LU-VE S.p.A. rose to 99.99% (prior to the conversion it stood at 99.98%). For further information on the transaction please refer to the Explanatory Notes to the 2018 consolidated Financial Statements.

- for €10,052 thousand following the acquisition of 100% of the company Zyklus Heat Transfer Inc. based in Texas (USA) which took place on 26 June 2018. The amount includes €8,675 thousand paid at the date of acquisition, the estimated earn-out for €397 thousand and accessory costs for €980 thousand. For further information on the transaction please refer to the Explanatory Notes to the 2018 consolidated Financial Statements.

Pursuant to IAS 36, the Company carried out an analysis in order to test for the presence of impairment indicators. To that end, in particular it tested the recoverability of the carrying amount of equity investments in order to ensure that the value recognised in the Financial Statements does not exceed the recoverable amount.

LU-VE tested the recoverability of the carrying amount of the following equity investments as at 31 December 2018, identifying significant losses for the year and/or previous years that led to the recognition of negative shareholders' equities with reference to all of the subsidiaries mentioned below:

- LU-VE Sweden AB;
- LU-VE Deutschland GmbH;
- LU-VE Iberica s.l.;
- LU-VE Asia Pacific Ltd. (Hong Kong);
- LU-VE Contardo Pacific pty. Ltd. (Australia).

The method for verifying the recoverable amount, as expressed by IAS 36, is based on the discounting of expected future cash flows from equity investments along with the calculation of the respective terminal value (the DCF or discounted cash flow method).

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 Parent Company, the Management made reference to the 2019-2022 plans of such subsidiaries prepared by the local management in collaboration with the Company Management and subsequently included in the consolidated plan approved by the Company Management. In particular, the most significant key variables in determining cash flow forecasts are based on the Management's expectations of focusing on increasing the sales of certain higher-margin product families to improve the absorption of fixed costs, strengthening and expanding existing production capacity, continuously improving the performance of existing products and developing innovative products.

In more detail, in order to determine the recoverable amount of the equity investments tested, cash flows were discounted using a discounting rate (WACC) which takes into account the specific risks of the equity investment and which reflects current market assessments of the cost of money. Different WACCs were calculated assuming as a reference basis the risk free rates

relating to the different countries of the tested equity investments. The recoverable amount also includes the terminal value of income flows (terminal value), which was calculated with the "perpetual cash flow" method considering a growth rate (g-rate) in line with the expected growth rates of the countries in which each Company operates. In the terminal value, an operating cash flow equal to the last year of the plan (2022), 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	6.45%	2.01%
LU-VE Deutschland GmbH	6.02%	2.55%
LU-VE Iberica s.l.	7.58%	1.99%
LU-VE Asia Pacific Ltd. (Hong Kong)	9.35%	3.04%
LU-VE Contardo Pacific pty. Ltd. (Australia)	7.95%	2.52%

The level of net financial debt as at 31 December 2018 of the respective equity investments was subtracted from the value obtained from the discounted sum of expected cash flows and the terminal value, in order to obtain the equity value.

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

In addition, as the recoverable amount is determined on the basis of projections, the Company developed sensitivity analyses, in which the underlying assumptions of the impairment test are changed, i.e., WACC is increased by 1% and the g-rate is reduced by 1%. These sensitivity analyses did not bring to light any impairment losses for the equity investments tested.

The WACC and g-rate for the breakeven of each investment subject to the impairment test are reported below:

Company	*WACC*	*g-rate*
LU-VE S.p.A.	8.00%	2.00%
LU-VE Sweden AB	9.02%	(1.17%)
LU-VE Iberica s.l.	47.39%	n.s.
LU-VE Deutschland GmbH	n.s.	n.s.
LU-VE Contardo Pacific pty. Ltd. (Australia)	n.s.	n.s.

A dedicated list indicating the information required for each subsidiary by art. 2427 of the Italian Civil Code, point no. 5 is provided in an annex.

3.4 OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
LUVE India Corporation Private Ltd CCD.	-	33,965	(33,965)
Other non-current assets	22,087	13,672	8,415
Total	**22,087**	**47,637**	**(25,550)**

The item "Other non-current financial assets" amounted to €22,087 thousand compared to €47,637 thousand in the previous year. This change depends substantially:

- on the decrease for €33,965 thousand due to the conclusion of the CCD conversion process in June 2018. At the end of the process, the equity investments held by LU-VE S.p.A. rose to 99.99% (prior to the conversion it stood at 99.98%). The portion of CCD recognised as investment includes the decrease in the security from the start of the financial year to the conversion process.
  The CCD conversion involved the recognition in the Income Statement of a negative exchange effect for €854 thousand, under the item "exchange gains and losses".
- for €8,415 thousand for the increase in receivables for loans to Group subsidiaries described in more detail below.

Financial receivables from subsidiaries include:

- around €1,556 thousand for a long-term loan granted to the subsidiary LU-VE Ibérica s.l. (unchanged with respect to 2017);
- around €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 (unchanged with respect to 2017).
- around €5,063 thousand for a long-term loan granted to the subsidiary LU-VE Sweden AB (changed with respect to 2017 by €1,062). The subsidiary used that loan, in 2011 and in 2012, for the acquisition of a business unit that manufactures air cooled equipment in Sweden.
- around €3,820 thousand for the long-term loan granted to the subsidiary Heat Transfer Systems (HTS) s.r.o. The initial loan in 2017 of €1,340 thousand was increased during the year by €2,480 thousand.
- around €4,785 thousand for a long-term loan granted to the subsidiary Zyklus Heat Transfer Inc., after the acquisition on 26 June 2018 to allow the repayment of existing previous loans with a parties. As the loan was made in US dollars, the item also included the increase adjustment for the year for exchange differences of around €85 thousand.
-

3.5 OTHER NON-CURRENT ASSETS

Other non-current assets *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Other non-current assets	25	414	(389)
Total	**25**	**414**	**(389)**

"Other non-current assets" amounted to €25 thousand (€414 thousand in 2017). The change compared to the previous year refers to:

- a decrease of €408 thousand in receivables due from the tax authorities payable beyond the year (referring to the refund request due to the deductibility of IRES from IRAP for the period 2007-2011);
- an increase of €19 thousand for guarantee deposits.

3.6 INVENTORIES

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

Inventories *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Raw materials and consumables	5,943	5,572	371
Work in progress and semi-finished products	1,168	1,003	165
Finished products and goods for resale	2,157	1,860	297
Provision for inventory losses	(1,145)	(645)	(500)
Total	**8,123**	**7,790**	**333**

The increase in value compared to 2017 was mainly caused by the increase in sales volumes.

The provision for inventory losses, equal to €1,145 thousand as at 31 December 2018 (of €645 thousand in 2017) reflects the best estimate of obsolescence risk, on the basis of specific analyses carried out at the end of the year on unsold inventory or inventory with a low turnover rate.

3.7 TRADE RECEIVABLES

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

Trade receivables *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Trade receivables from third parties	10,718	12,859	(2,141)
Trade receivables from Group customers	30,951	29,739	1,212
Third party bad debt provision	(2,136)	(1,921)	(215)
Group bad debt provision	(7,612)	(1,100)	(6,512)
Total	**31,921**	**39,577**	**(7,656)**

As at 31 December 2018, trade receivables included receivables due 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 €20 thousand and a reduction in trade receivables for variable compensations (credit notes to be issued for bonuses granted to customers) for €713 thousand.

During the year the bad debt provision was increased by €6,727 thousand due to the effect of the first application of IFRS 9, as reported in the notes relative to IFRS Accounting Standards, Amendments and Interpretations applied since 1 January 2018.

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)*	**31/12/2018**	**31/12/2017**	**Change**
Italy	4,670	5,473	(803)
EU Countries	3,831	2,538	1,293
Non-EU Countries	2,217	4,848	(2,631)
Bad debt provision	(2,136)	(1,921)	(215)
Total	**8,582**	**10,938**	**(2,356)**

The ageing of trade receivables from third parties is shown below:

Trade receivables by maturity *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Current receivables (not past due)	6,904	8,527	(1,623)
Past due up to 30 days	547	1,335	(788)
Past due from 30 to 60 days	1,005	212	793
Past due from 60 to 90 days	31	374	(343)
Past due for more than 90 days	2,231	2,411	(180)
Total	**10,718**	**12,859**	**(2,141)**

The following table summarises the gross accounting value of receivables from third parties at the time of default, and the estimate as at 31 December 2018 of expected losses throughout the life of the credit on the basis of the standard IFRS 9:

31/12/2018 *(in thousands of Euro)*	**Not past due**	**<30**	**31 - 60**	**61 - 90**	**>90**	**Total**
Expected default rate	0.11%	6.67%	11.23%	99.58%	100.00%	
Estimate of gross accounting value at the time of default	6,904	547	1,005	31	2,231	**10,718**
Expected losses throughout the life of the credit	8	36	113	31	1,948	**2,136**

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, having the possibility of controlling cash flows between the parties. Therefore, for each directly or indirectly controlled company, the test has considered as 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 rate that includes a component of country risk/free risk (0.5%-1%) 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 1 January 2018 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	12,631	8,115	1,094	(25,282)	(1,869)	(5,311)	570	
Risk Class 2	7,094	1,556	-	-	(135)	8,515	802	
Risk Class 3	10,014	4,001	5,591	(746)	(1,975)	16,885	4,571	1,241
Total as at 1/01/2018	**29,739**	**13,672**	**6,685**	**(26,028)**	**(3,979)**	**20,089**	**5,943**	**1,241**

(*) impairment losses on accounts receivables include €1,100 thousand already included in the intragroup receivables impairment provision as at 31 December 2017

31 December 2018:

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	12,422	15,468	4,915	(12,991)	(1,274)	18,540	619	-
Risk Class 2	9,446	1,556	-	-	(154)	10,848	955	-
Risk Class 3	9,083	5,063	6,321	-	(1,974)	18,493	6,038	1,270
Total as at 31/12/2018	**30,951**	**22,087**	**11,236**	**(12,991)**	**(3,402)**	**47,881**	**7,612**	**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 DUE FROM THE TAX AUTHORITIES FOR CURRENT TAXES

This item was broken down as follows:

Due from the tax authorities for current taxes *(in thousands of Euro)*	31/12/2018	31/12/2017	Change
Due from the tax authorities for VAT	2,571	2,951	(380)
Due from the tax authorities for payments on account of direct taxes	465	897	(432)
Others	53	63	(10)
Total	**3,089**	**3,911**	**(822)**

The item “Due from the tax authorities” refers to advances paid in 2018 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)*	**31/12/2018**	**31/12/2017**	**Change**
Asset management	-	19,154	(19,154)
Capitalisation policies	51,330	40,192	11,138
Other securities	6,304	12,715	(6,411)
Cash pooling	9,966	6,686	3,280
Other long-term loans	-	-	-
Fair value of derivative instruments	-	123	(123)
Total	**67,600**	**78,870**	**(11,270)**

The Asset management agreement was entered into with Bnp Paribas Investment Partners SGR S.p.A. and the assets were completely disinvested during 2018. Asset management had a negative overall impact of around €1,053 thousand in the Income Statement for the year. (€1,246 thousand for losses and €193 thousand for earnings) recognised in the item "Financial expenses". This instrument was replaced with guaranteed equity instruments as described below.

The Capitalisation policies taken out were issued by Aviva Vita S.p.A. and are the type of policies which allow, after the payment of a lump-sum premium, for an annual capital revaluation based on the return obtained from management (almost exclusively invested in government securities and very highly rated bonds). The fair value measurement at the reporting date entailed the recognition of a positive amount of roughly €963 thousand, under the item "Financial income".
During the year any policy was taken out, issued by BNP Paribas Cardif Vita Compagnia di assicurazioni e Riassicurazioni S.p.A., €10,000 thousand. The fair value measurement at the reporting date entailed the recognition of €175 thousand, under the item "Financial income".

Other securities referred to investments made through UBI Banca S.p.A. (where the securities account is held) in Italian government securities, corporate bonds, bond funds and mixed funds whose fair value measurement at the reporting date entailed the recognition of a negative amount of €332 thousand. During the year, around €7,356 thousand of these securities was partially liquidated and there was an increase of €1,287 thousand. The net effect of disposals and acquisitions entailed the recognition in the 2018 Income Statement of a negative effect of around €84 thousand in addition to the negative variation in the above-mentioned fair value.

In May 2017, a new agreement was entered into with Unicredit for €300 thousand, which entailed the recognition of a negative fair value equal to €9 thousand as at 31 December 2018.

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" represented receivable balances for the Company from the Group's centralised treasury (net of ECL recognition for €1,241 thousand as at 1 January 2018, to which €29 thousand was added during the year).

As at 31 December 2018 the various categories of financial derivatives held by the Company did not present positive fair values.

The summary relating to outstanding derivative financial instruments as at 31 December 2018 broken down by type is provided below:

Derivative financial instruments as at 31/12/2018 *(in thousands of Euro)*		**31/12/2018**		**31/12/2017**		**31/12/2018**	**31/12/2017**
TYPE	**ORIGINAL NOTIONAL**	**NOT. Short**	**NOT. M/L**	**NOT. Short**	**NOT. M/L**	**FAIR VALUE**	**FAIR VALUE**
IRS on loans	211,167	38,663	109,378	26,822	59,166	(927)	(398)
Currency options	4,177	-	-	2,500	-	-	(340)
Commodity Swaps	600	600	-	2,250	-	(91)	123
Total	**215,944**	**39,263**	**109,378**	**31,572**	**59,166**	**(1,018)**	**(615)**
Total Notional		**148,641**		**90,738**			

The details relating to outstanding derivative financial instruments as at 31 December 2018 broken down by type are provided below:

IRS on loans *(in thousands of Euro)*

DEBTOR COMPANY	COUNTERPARTY	TAKEN OUT	MATURITY	ORIGINAL NOTIONAL	31/12/2018		31/12/2018
					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	357	(8)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	11/08/2014	16/10/2020	3,500	583	584	(11)
LU-VE S.P.A.	Banca Popolare di Bergamo S.p.A.	21/07/2015	29/06/2020	4,818	1,214	611	(11)
LU-VE S.P.A.	Intesa San Paolo S.p.A.	04/02/2016	31/03/2020	10,000	2,500	1,250	(11)
LU-VE S.P.A.	Cassa di Risparmio di Parma e Piacenza Spa	21/11/2012	22/11/2017	1,000	-	-	-
LU-VE S.P.A.	Cassa di Risparmio di Parma e Piacenza Spa	16/06/2015	31/12/2019	8,000	2,664	-	(12)
LU-VE S.P.A.	Deutsche Bank	29/10/2013	31/12/2018	1,000	-	-	-
LU-VE S.P.A.	Banca Nazionale del Lavoro	11/08/2014	16/10/2020	3,500	583	584	(13)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/07/2015	09/06/2020	17,778	4,444	2,223	(49)
LU-VE S.P.A.	Banca Nazionale del Lavoro	25/10/2016	21/09/2020	28,000	8,000	6,000	(17)
LU-VE S.P.A.	Unicredit S.p.A.	17/09/2015	31/12/2020	10,000	2,500	2,500	(45)
LU-VE S.P.A.	Deutsche Bank	27/03/2017	23/03/2021	5,500	1,375	1,719	(12)
LU-VE S.P.A.	Mediocredito italiano	21/06/2017	28/02/2022	25,000	5,882	13,236	(81)
LU-VE S.P.A.	Unicredit S.p.A.	20/09/2018	30/06/2024	12,000	1,200	10,800	(145)
LU-VE S.P.A.	Unicredit S.p.A.	20/09/2018	29/09/2023	15,000	-	15,000	(247)
LU-VE S.P.A.	Mediocredito italiano	28/11/2018	20/06/2024	12,500	1,250	11,250	(110)
LU-VE S.P.A.	Mediocredito italiano	28/11/2018	20/06/2024	12,500	1,250	11,250	(110)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/12/2018	24/09/2024	10,000	-	10,000	(49)
LU-VE S.P.A.	Banca Nazionale del Lavoro	20/12/2018	20/12/2023	10,000	1,111	8,889	(48)
LU-VE S.P.A.	Unicredit S.p.A.	30/01/2018	31/03/2023	18,750	3,750	13,125	52
			Total	**211,167**	**38,663**	**109,378**	**(927)**

Commodities (in thousands of Euro)

DEBTOR COMPANY	COUNTERPARTY	NUMBER	TYPE	HEDGED ELEMENT	TAKEN OUT	MATURITY	NOT. ORIG.	31/12/2018		31/12/2018
								NOT. Short	NOT. M/L	FAIR VALUE
LU-VE S.P.A.	Unicredit S.p.A.	415774239	Swap hedging on merchandise	Commodity Swaps	28/03/2018	31/03/2019	200	200	-	(31)
LU-VE S.P.A.	Unicredit S.p.A.	421302762	Swap hedging on merchandise	Commodity Swaps	05/07/2018	31/03/2019	50	50	-	(9)
LU-VE S.P.A.	Unicredit S.p.A.	421341879	Swap hedging on merchandise	Commodity Swaps	06/07/2018	31/03/2019	50	50	-	(7)
LU-VE S.P.A.	Unicredit S.p.A.	421341868	Swap hedging on merchandise	Commodity Swaps	06/07/2018	28/02/2019	50	50	-	(7)
LU-VE S.P.A.	Unicredit S.p.A.	415774229	Swap hedging on merchandise	Commodity Swaps	28/03/2018	28/02/2019	200	200	-	(29)
LU-VE S.P.A.	Unicredit S.p.A.	421302750	Swap hedging on merchandise	Commodity Swaps	05/07/2018	28/02/2019	50	50	-	(8)
					Total	600	600	-		(91)

3.10 OTHER CURRENT ASSETS

The details of this item are shown below:

Other current assets *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
From employees	39	36	3
Advances to suppliers	677	776	(99)
Advances on lease instalments	-	-	-
Receivables from the Group's Companies for tax consolidation	834	274	560
Other receivables	171	88	83
Total	1,721	1,174	547

3.11 CASH AND CASH EQUIVALENTS

The details of this item are shown below:

Cash and cash equivalents *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Cash and cash equivalents	57,596	28,170	29,426
Total	57,596	28,170	29,426

The increase of €29,426 thousand was mainly due to the new loans being taken out shortly before the year end.

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

3.12 SHAREHOLDERS' EQUITY

Share capital amounted to €62,704 thousand (€62,704 thousand as at 31 December 2017).

In 2018, dividends of €4,860 thousand were distributed by the Company from the reserves and retained earnings from the previous year.

As at 31 December 2018, the Parent Company held 157,608 treasury shares (0.71% of the share capital), recognised in the Financial Statements as an adjustment of shareholders' equity for a total value of roughly €1,420 thousand (for further details, see the Directors' Report). During the period, 19,803 treasury shares were acquired for a value of €198 thousand.

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:

Nature/description	Amount	Possibility of use	Available portion	Summary of uses in the last three years (*) 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	(1,619)	-			
Profit reserves:					
Legal reserve	2,718	B			
Extraordinary reserve	12,466	A,B,C	12,466		(13,152)
Revaluation reserve	273	A,B,C	273		
Post-employment benefits discounting reserve	(40)	-			
Total	**101,264**		**37,501**	**-**	**(13,152)**
Non-distributable portion	64,961				
Residual distributable portion	36,303				

(*) The draft Financial Statements call for a distribution of dividends totalling €0.25 per share.

Key:

A: for capital increases

B: to cover losses

C: for distribution to shareholders

3.13 LOANS

Loans *(in thousands of Euro)*	31/12/2018 Current	 Non-current	31/12/2017 Current	 Non-current
M/L term bank loans	48,053	150,260	40,508	106,823
Advances on invoices subject to collection	11	-	-	-
Total	**48,064**	**150,260**	**40,508**	**106,823**

As at 31 December 2018, bank loans amounted to €198,324 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)*							**31/12/2018**		**31/12/2017**	
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	157	113
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	28/11/2014	28/11/2019	3M Euribor + Spread	5,000	-	-	2,037	1,014
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	09/06/2015	09/06/2020	6M Euribor + Spread	20,000	6,563	4,358	10,919	4,356
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	29/06/2015	29/06/2020	3M Euribor + Spread	6,000	-	-	3,016	1,201
LU-VE	UniCredit S.p.A.	Unsecured loan	17/09/2015	31/12/2020	6M Euribor + Spread	10,000	5,000	2,500	7,500	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	19,952	4,988
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + Spread	10,000	4,984	2,494	7,500	2,500
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/09/2016	20/09/2020	3M Euribor floor 0% + Spread	30,000	14,000	8,000	22,000	8,000
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	30/09/2016	30/09/2021	3M Euribor + Spread	10,000	5,509	1,996	7,519	1,994
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	4,176	3,339	7,508	3,331
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	23/03/2021	3M Euribor + Spread	1,500	798	399	1,198	399
LU-VE	Deutsche Bank S.p.A.	Unsecured loan	23/03/2017	28/11/2020	3M Euribor + Spread	5,500	3,088	1,372	4,460	1,373
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	31/03/2017	28/02/2022	3M Euribor + Spread	25,000	19,118	5,882	25,000	5,885
LU-VE	UniCredit S.p.A.	Unsecured loan	20/04/2017	31/12/2020	Fixed	10,000	5,708	2,854	8,562	2,854
LU-VE	Unione di Banche Italiane Società cooperativa per azioni	Unsecured loan	20/12/2017	20/12/2020	3M Euribor + Spread	20,000	20,000	-	20,000	-
LU-VE	Unicredit S.p.A.	Unsecured loan	30/01/2018	31/03/2023	6M Euribor + Spread	25,000	22,479	5,014	-	-
LU-VE	Unicredit S.p.A.	Unsecured loan	20/09/2018	30/06/2024	6M Euribor + Spread	12,000	11,988	1,198	-	-
LU-VE	Unicredit S.p.A.	Unsecured loan	20/09/2018	30/09/2023	6M Euribor + Spread	15,000	14,987	-	-	-
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	12,500	12,482	1,247	-	-
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	12,500	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	9,975	-	-	-
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/12/2018	20/12/2023	6M Euribor + Spread	10,000	9,975	1,102	-	-
						Total	**198,313**	**48,053**	**147,328**	**40,508**

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 2018, 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 <= 2.5; NFP/SE <= 1.5	20,000
LU-VE	Banca Popolare di Milano	Mortgage Loan	25/09/2015	31/12/2021	3M Euribor + Spread	NFP/EBITDA as at 30/06 <= 3; NFP/EBITDA as at 31/12 <= 2.5	30,000
LU-VE	Mediocredito Italiano S.p.A.	Unsecured loan	29/10/2015	30/09/2020	6M Euribor + Spread	NFP/EBITDA <= 2.5; NFP/SE <1	10,000
LU-VE	Banca Nazionale del Lavoro S.p.A.	Unsecured loan	20/09/2016	20/09/2020	3M Euribor + Spread	NFP/EBITDA <= 2.5; NFP/SE <= 1.5	30,000
LU-VE	Banca Popolare di Bergamo S.p.A.	Unsecured loan	30/09/2016	30/09/2021	3M Euribor + Spread	NFP/EBITDA <= 3.5; NFP/SE <= 1.5	10,000
LU-VE	Deutsche Bank	Unsecured loan	23/03/2017	28/11/2020	3M Euribor + Spread	NFP/EBITDA <= 3	1,500
LU-VE	Deutsche Bank	Unsecured loan	23/03/2017	28/02/2022	3M Euribor + Spread	NFP/EBITDA <= 3	5,500
LU-VE	Mediocredito italiano	Unsecured loan	31/03/2017	28/02/2022	3M Euribor + Spread	NFP/EBITDA <=2.5; NFP/SE<=1	25,000
LU-VE	Unicredit S.p.A.	Unsecured loan	20/04/2017	31/12/2020	Fixed Rate	NFP/EBITDA <=3.5; NFP/SE<=1.0	10,000
LU-VE	Unione di Banche Italiane SpA	Unsecured loan	13/12/2017	20/12/2020	3M Euribor + Spread	NFP/EBITDA <= 3.5; NFP/SE <= 1.5	20,000
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	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	NFP/EBITDA <2.5; NFP/SE<=1	12,500
LU-VE	Mediocredito italiano	Unsecured loan	28/11/2018	30/06/2024	6M Euribor + Spread	NFP/EBITDA <2.5; 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

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 period are shown below:

Financing: changes for the period *(in thousands of Euro)*	Opening balance	New loans	Repayments	Closing balance
Loans	147,331	96,963	(45,981)	198,313
Advances on invoices subject to collection	-	11	-	11
Total	**147,331**	**96,974**	**(45,981)**	**198,324**

The following changes took place in loans in 2018:

- unsecured medium-term loan for a total of €25,000 thousand entered into with Unicredit, maturing on 31 March 2023, 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 €15,000 thousand entered into with Unicredit, maturing on 30 September 2023, 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 €12,500 thousand entered into with Mediocredito, 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 €12,500 thousand entered into with Mediocredito, 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 €20,000 thousand entered into with Banca Nazionale del Lavoro S.p.A. in two tranches of €10,000 each: maturing on 20 December 2023, with repayment in variable half-yearly instalments and an interest rate equal to the 6-month Euribor plus a spread, and maturing on 24 September 2024, at 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 UBI Banca loan for €3,030 thousand taken out on 29 June 2015 and maturing on 29 June 2020

- early repayment of the UBI Banca loan for €2,050 thousand taken out on 28 November 2014 and maturing 28 November 2019

During the year, repayments amounted to €45,981 thousand.

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

All outstanding bank loans were denominated in Euro, and were floating rate and pegged to the Euribor. Note 4.13 below provides the information relating to financial risks.

As at 31 December 2018, the Company provided industrial properties and the attached land as collateral for payables recognised in the Financial Statements in the amount of €40,000 thousand. These are mortgages to guarantee medium-term loans taken out from different credit institutions for a total original amount of €30,000 thousand, currently amounting to a nominal value of €15,000 thousand.

3.14 PROVISIONS

Changes in provisions *(in thousands of Euro)*	**31/12/2017**	**Prov./incr.**	**Exchange delta**	**Uses**	**Release of excess portion**	**31/12/2018**
Provision for agents' leaving indemnities	25	-	-	-	-	25
Product warranty provision	886	360	-	-	-	1,246
Other provisions for risks and charges	80	-	-	-	(80)	-
Total	991	360	-	-	(80)	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 €909 thousand, a net decrease of €58 thousand compared to 31 December 2017. 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 2018.

The breakdown and changes in the item as at 31 December 2018 are shown below:

Employee benefits *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**
Liabilities as at 1 January	966	992
Provisions	-	-
Financial expense	13	14
Payments made	(50)	(35)
Transfers in/out	-	-
Actuarial (gains)/losses	(20)	(5)
Liabilities at the end of the period	**909**	**966**

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 gain of €5 thousand, calculated as follows:

- Actuarial gain deriving from the change in the main actuarial assumptions used as at 31 December 2018 with respect to the previous valuation as at 31 December 2017: €22 thousand;
- Actuarial loss 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: €2 thousand.

Actuarial gains and losses are posted to 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 2018 are shown below:

Financial assumptions	**31/12/2018 %**	**31/12/2017 %**
Discount rate (IBOXX Eurozone Corporate AA 10+ Index)	1.57	1.30
Inflation	1.50	1.50
Salary increase rate	1.00	1.00
Post-employment benefits increase	2.63	2.63

Demographic assumptions	31/12/2018	31/12/2017
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 31/12/2018 *(in thousands of Euro)*	0.25%	-0.25%
Discounting rate	(19)	19

3.16 OTHER FINANCIAL LIABILITIES

The details of this item are shown below:

Other non-current financial liabilities *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Lease payables	-	-	-
Other financial liabilities	397	-	397
Total	**397**	**-**	**397**

The item "Other financial liabilities" for €397 thousand refers to the contractually required calculation of the earn-out described in the "Introduction" note to the consolidated Financial Statements of the US company Zyklus.

Other current financial liabilities *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Cash pooling	12,991	26,029	(13,038)
Fair value of derivatives	1,018	738	280
Lease payables	-	12	(12)
Due to other lenders	-	-	-
Total	**14,009**	**26,779**	**(12,770)**

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 construction of a new facility.

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.

3.17 TRADE PAYABLES

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

Trade Payables *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
Italy	22,359	23,594	(1,235)
EU Countries	1,575	4,063	(2,488)
Non-EU Countries	1,309	924	385
Total	**25,243**	**28,581**	**(3,338)**

The average payment terms have not changed since the previous year. As at 31 December 2018, 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)*	31/12/2018	31/12/2017	Change
Tax withholdings	503	506	(3)
Total	503	506	(3)

3.19 DEFERRED TAX ASSETS AND LIABILITIES

The details of this item are shown below:

Deferred tax assets and liabilities *(in thousands of Euro)*	31/12/2018	31/12/2017	Change
Deferred tax assets	3,430	1,437	1,993
Deferred tax liabilities	(8,036)	(8,418)	382
Net position	**(4,606)**	**(6,981)**	**2,375**

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
01/01/2017	1,416	(47)	7,466	(17)	(819)	(499)	7,500
In Income Statement	(180)	22	(260)	-	(11)	(152)	(581)
In shareholders' equity	-	-	-	1	-	61	62
Reclassification	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
31/12/2017	1,236	(25)	7,206	(16)	(830)	(590)	6,981
In Income Statement	(111)	18	(260)	-	(625)	49	(929)
In shareholders' equity	-	-	-	5	(1,512)	61	(1,446)
Reclassification	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
31/12/2018	1,125	(7)	6,946	(11)	(2,967)	(480)	4,606

As at 31 December 2018, 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 (the main impact of Deferred tax assets are due to the application of IFRS 9 for €1,512 thousand as at 1 January 2018, to which €407 thousand was added during 2018);

- other tax differences, regarding net temporary recoveries such as unpaid remuneration, exchange differences and other.

As at 31 December 2018, deferred tax liabilities referred to:

- tax differences on amortisation and leases, regarding primarily the application of IAS 17, with respect to Italian GAAP;

- the recognition of taxes on the 2008 merger deficit allocated to trademarks, buildings and land.

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

3.20 OTHER CURRENT LIABILITIES

The details of this item are shown below:

Other current liabilities *(in thousands of Euro)*	**31/12/2018**	**31/12/2017**	**Change**
To personnel	3,046	2,636	410
To social security institutions	1,718	1,413	305
To Directors and Statutory Auditors	1,386	1,444	(58)
Other current payables	1,309	724	585
Total	**7,459**	**6,217**	**1,242**

In the beginning of 2018, 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)*	**31/12/2018**	**31/12/2017**	**Change**
A. Cash (Note 3.11)	18	8	10
B. Unrestricted current account asset balances (Note 3.11)	57,578	28,162	29,416
C. Current financial assets (Note 3.8)	67,600	78,870	(11,270)
D. Liquidity (A+B+C)	**125,196**	**107,040**	**18,156**
E. Current bank payables (Note 3.13)	11	-	11
F. Current portion of non-current debt (Note 3.13)	48,053	40,508	7,545
G. Other current financial liabilities (Note 3.16)	14,009	26,779	(12,770)
H. Current financial debt (E+F+G)	**62,073**	**67,287**	**(5,214)**
I. Net current financial debt (H-D)	**(63,123)**	**(39,753)**	**(23,370)**
J. Other non-current financial assets (Note 3.4)	(22,087)	(13,672)	(8,415)
K. Non-current bank payables (Note 3.13)	150,260	106,823	43,437
L. Other non-current financial liabilities (Note 3.16)	397	-	397
M. Non-current financial debt (J+K+L)	**128,570**	**93,151**	**35,419**
N. Net financial debt (I+M)	**65,447**	**53,398**	**12,049**

The Statement of Cash Flows shows changes in liquidity (letter D. of this statement).

4 COMMENT ON THE MAIN ITEMS OF THE INCOME STATEMENT

4.1 REVENUES

In 2018, revenues from sales amounted to €86,193 thousand, an increase of 11.0% compared to the previous year (€77,650 thousand as at 31 December 2017).

Revenues by product family

Revenues by product *(in thousands of Euro)*	**2018**	**%**	**2017**	**%**	**Change**	**% Change**
Air Cooled Equipment	73,564	85.35%	65,062	83.79%	8,502	13.07%
Heat exchangers	12,629	14.65%	12,588	16.21%	41	0.3%
TOTAL	86,193	100.00%	77,650	100.00%	8,543	11.00%

Revenues by geographical area

Revenues by geographical area *(in thousands of Euro)*	**2018**	**%**	**2017**	**%**	**Change**	**% Change**
Italy	23,324	27.06%	22,580	29.08%	744	3.29%
France	12,155	14.10%	10,382	13.37%	1,773	17.08%
Germany	7,079	8.21%	4,428	5.70%	2,651	59.87%
Spain	4,187	4.86%	4,323	5.57%	(136)	(3.15%)
Poland	3,549	4.12%	1,845	2.38%	1,704	92.36%
Austria	3,413	3.96%	3,754	4.83%	(341)	(9.08%)
Russian Fed.	3,257	3.78%	3,470	4.47%	(213)	(6.14%)
Sweden	3,167	3.67%	2,549	3.28%	618	24.24%
Czech Rep.	2,836	3.29%	2,465	3.17%	371	15.05%
United Kingdom	2,579	2.99%	2,905	3.74%	(326)	(11.22%)
The Netherlands	1,810	2.10%	1,466	1.89%	344	23.47%
India	1,284	1.49%	2,449	3.15%	(1,165)	(47.57%)
Croatia	1,141	1.32%	1,061	1.37%	80	7.54%
Romania	944	1.10%	1,289	1.66%	(345)	(26.76%)
Ukraine	773	0.90%	1,582	2.04%	(809)	(51.14%)
Other countries	14,695	17.05%	11,102	14.30%	3,593	32.36%
TOTAL	86,193	100.00%	77,650	100.00%	8,543	11.00%

During 2018, sales increased by 11.0% thanks to the effect of the increase in sales volumes.

The value of compensations for transactions with unfulfilled (or not fully fulfilled by the Company) performance obligations at the end of the year amounts to €330 thousand. The Directors estimate that they will be recognised as revenue in following year.

4.2 OTHER INCOME

The details of this item are shown below:

Other revenues *(in thousands of Euro)*	**2018**	**2017**	**Change**
Royalty income	1	-	1
Rent income	84	81	3
Insurance	1	-	1
Other income	374	23	351
Total	460	104	356

4.3 PURCHASES OF MATERIALS

Purchases of materials *(in thousands of Euro)*	**2018**	**2017**	**Change**
Raw materials and purchased components	42,452	39,719	2,733
Consumables	1,967	1,817	150
Total	44,419	41,536	2,883

In 2018, the cost for the purchases of materials rose from €41,536 thousand to €44,419 thousand (increase of €2,883 thousand, equal to around 6.9%). The increase was largely due to sales volumes.

4.4 SERVICES

Services *(in thousands of Euro)*	**2018**	**2017**	**Change**
Expenses for energy, telephone and telex	1,597	1,265	332
General and advisory expenses	6,027	6,544	(517)
Advertising and promotional expenses	344	317	27
Transport expenses	1,483	1,436	47
Maintenance expenses	1,273	1,277	(4)
External processing	2,511	2,609	(98)
Commissions	474	477	(3)
Remuneration to the corporate bodies	2,120	1,549	571
Other costs for services	1,562	1,506	56
Costs for use of third-party assets	623	554	69
Total	18,014	17,534	480

Expenses for services have remained essentially in line with the previous year. The overall increase for €480 thousand compared to 2017 is mainly linked to the increase in turnover.

Details on the fees paid to the corporate bodies are provided below (for more details, please see Note 4.15 “Directors’ and Statutory Auditors’ Fees”):

Remuneration to the corporate bodies *(in thousands of Euro)*	**2018**	**2017**	**Change**
Directors’ fees	1,971	1,422	549
Board of Statutory Auditors fees	149	127	22
Total	**2,120**	**1,549**	**571**

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**	**Fees** *(in thousands of Euro)*
Auditing	Deloitte & Touche	LU-VE S.p.A.	123
Other Services	Deloitte & Touche	LU-VE S.p.A.	112

4.5 PERSONNEL COSTS

Personnel costs *(in thousands of Euro)*	**2018**	**2017**	**Change**
Wages and salaries	11,935	11,179	756
Social security costs	4,245	3,739	506
Post-employment benefits	819	752	67
Other personnel costs	67	7	60
Total	**17,066**	**15,677**	**1,389**

The average number of LU-VE S.p.A. employees was 376 in 2018.

As at 31 December 2018, the number of Company employees came to 386 (230 blue-collar, 132 white-collar and middle managers, 12 executives), against 385 in 2017.

As at 31 December 2018, the number of temporary workers came to 12, against 25 in 2017.

4.6 IMPAIRMENTS

Impairments *(in thousands of Euro)*	2018	2017	Change
Provisions for intragroup bad debt	1,669	-	1,669
Provisions for intragroup financial assets	29	-	29
Total	**1,698**	**-**	**1,698**

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)*	2018	2017	Change
Losses and write-downs on trade receivables	280	80	200
Non-income taxes	272	352	(80)
Other operating costs	180	167	13
Total	**732**	**599**	**133**

Non-income taxes included mainly taxes on owned property.

4.8 FINANCIAL INCOME

Financial income *(in thousands of Euro)*	2018	2017	Change
Dividends from subsidiaries	4,820	5,000	(180)
Interest income	626	430	196
Other financial income	1,875	1,089	786
Total	**7,321**	**6,519**	**802**

Dividends distributed amounted to €4,500 thousand from SEST S.p.A. and to €320 thousand from Tecnair LV S.p.A.

Interest income refers mainly to interest income for intracompany loans and to cash pooling.

The item “Other income” includes:

- €769 thousand is the change in fair value of LU-VE India CCD in 2018 (see Note 3.4);
- €796 thousand is the fair value of investments (Note 3.9);
- €309 thousand refer to other financial income.

4.9 FINANCIAL EXPENSE

Financial expense *(in thousands of Euro)*	**2018**	**2017**	**Change**
Interest expense to banks	650	614	36
Interest expense to other lenders	145	339	(194)
Other financial expense	1,799	672	1,127
Total	2,594	1,625	969

Details of other financial expense are as follow:

- €1,246 thousand refers to losses on the discretionary asset management (Note 3.9);
- €335 thousand refers to realised losses on derivative financial instruments;
- €218 thousand refer to other financial expenses.

4.10 EXCHANGE GAINS AND LOSSES

In 2018 LU-VE S.p.A. posted net exchange losses for €666 thousand (net losses €2,655 thousand in 2017, inclusive of around €2,215 deriving mainly from the revaluation of the Euro against the Indian Rupee, the accounting currency of LU-VE INDIA CCD).

4.11 INCOME TAXES

Income taxes *(in thousands of Euro)*	**2018**	**2017**	**Change**
Current taxes	561	368	193
Deferred tax liabilities	(929)	(581)	(348)
Adjustment previous year	(139)	80	(219)
Total	(507)	(133)	(374)

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)	**2,591**	**24.00%**	**622**
+ Non-deductible amortisation and depreciation	81	0.75%	19
+ Costs for motor vehicles, telephony and food service	245	2.27%	59
+ Non-deductible local taxes	190	1.76%	46
+ Other permanent upward adjustments	95	0.88%	23
- Non-taxable dividends	(4,576)	(42.39%)	(1,098)
- Deductible IRAP	(174)	(1.61%)	(42)
- Other permanent downward adjustments	(406)	(3.76%)	(97)
Actual tax charge	(1,954)	(42.10%)	(469)
+ Temporary upward adjustments	4,018	37.22%	964
- Temporary downward adjustments	(677)	(6.27%)	(162)
Current tax charge	1,387	(11.15%)	333

Reconciliation of IRAP theoretical tax change *(in thousands of Euro)*	**Pre-tax amounts**	**%**	**Tax effect**
Difference between values and costs of production	(538)	3.90%	(21)
+ Non-deductible amortisation and depreciation	73	(0.53%)	3
+ Non-deductible local taxes	238	(1.73%)	9
+ Non-deductible labour costs	1,966	(14.25%)	77
+ Other permanent upward adjustments	1,997	(14.48%)	78
- Permanent downward adjustments	-	-	-
Actual tax charge	3,736	(10.25%)	146
+ Temporary upward adjustments	2,196	(15.92%)	86
- Temporary downward adjustments	(80)	0.58%	(3)
Current tax charge	5,852	(16.18%)	228

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

As at 31 December 2018, there were no tax disputes.

4.12 PUBLIC FUNDING

During 2018, the Company accounted on an accrual basis the following contributions falling under the examples included in Italian Law 124 of 4 August 2017. 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 2018	Public Funding relating to 2017	Classification in Financial Statements
Gestore dei Servizi Energetici GSE S.p.A.	Subsidies in the year for photovoltaic installation	71,208	71,208	Expenses for energy, telephone and telex
Total		**71,208**	**71,208**	

4.13 DIVIDENDS

In April 2018, dividends totalling €4,860 thousand were distributed, corresponding to the distribution of a gross dividend of €0.22 (zero/22) 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 €0.25 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 8 May 2019 (coupon no. 4 ex-dividend date 6 May 2019 and record date 7 May 2019).

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. Generally, the maximum term of these hedges is no longer than 18 months.

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); 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 31/12/2018 *(in thousands of Euro)*	Level 1	Level 2	Level 3	Total
Other financial assets				
Current financial assets	-	57	-	57,634
Other financial liabilities				
Derivatives	-	(1,018)	-	(1,018)
Total	**-**	**56,616**	**-**	**56,616**

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)*	31/12/2018	31/12/2017
Financial assets		
Amortised cost		
Cash and cash equivalents	57,596	28,170
Trade receivables	31,921	39,577
Current financial assets	67,600	78,747
Non-current financial assets	-	-
- LU-VE India CCD	-	33,965
- Intercompany loans	22,087	13,672
Fair Value	-	-
Trading derivatives	-	123
Financial liabilities		
Amortised cost		
Loans	211,315	173,372
Trade payables	25,243	28,581
Fair Value	-	-
Trading derivatives	1,018	738

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 2018, a theoretical and immediate revaluation of the euro by 10% compared to other currencies would have entailed a loss of €873 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 2018, 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 €358 thousand, without taking into account transactions with derivative instruments which were considered for trading.

Raw material price risk management

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

To manage these risks, LU-VE constantly monitors the availability of raw materials in the market as well as the relative price trends, in order to promptly identify any situations of unavailability of raw materials and take suitable actions to guarantee the required production autonomy, and also to keep its production activities competitive with regard to this aspect as well. In particular, as regards the major raw material purchased - copper - LU-VE has long-standing relations 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 2018 the Company 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 as at 31 December 2018 is provided below by maturity:

Analysis of financial liabilities as at 31 December 2018 *(in thousands of Euro)*	Carrying amount	Contractual cash flows	Within 1 year	From 1 to 5 years	More than 5 years
Bank loans	198,313	201,891	49,349	146,826	5,716
Advances on invoices	11	11	11	-	-
Finance leases	-	-	-	-	-
Financial Liabilities	**198,324**	**201,902**	**49,360**	**146,826**	**5,716**
Trade payables	25,243	25,243	25,243	-	-
Total	223,567	227,145	74,603	146,826	5,716

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 2017.

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:

Intercompany *(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	553	17	-	-	712	250	-	-
SEST SPA	1,540	519	2,770	-	191	187	117	-
SEST-LUVE-POLSKA	1,454	170	-	12,990	557	255	-	144
TGD	172	915	4,829	-	28	93	123	-
OOO SEST LUVE	642	247	-	-	1,168	68	-	-
HTS SRO	4,188	11	3,820	-	897	436	57	-
LUVE FRANCE	2,714	102	-	-	8,977	242	-	-
LUVE DEUTSCHLAND	1,735	2	-	-	1,804	5	-	-
LUVE IBERICA	4,354	140	1,556	-	4,190	103	4	-
LUVE PACIFIC	1,357	120	-	-	493	9	-	-
LUVE CHANGSHU	2,525	13	-	-	358	151	-	-
LUVE ASIA PACIFIC HK	1,147	158	6,775	-	-	-	237	-
LUVE SWEDEN AB	1,205	30	5,284	-	3,235	61	-	1
MANIFOLD SRL	50	1,489	2,146	-	-	1,301	26	-
LUVE INDIA	-	46	-	-	-	58	-	-
LUVE DIGITAL SRL	-	22	-	-	-	-	-	-
SPIROTECH LTD	335	-	-	-	107	176	-	-
LU-VE AUSTRIA	132	115	-	-	-	203	-	-
ZYKLUS HEAT TRANSFER INC.	70	-	4,873	-	-	-	70	-
TOTAL	**24,173**	**4,116**	**32,053**	**12,990**	**22,717**	**3,598**	**634**	**145**

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**	**-**	**-**

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 Euro)	Variable non-equity remuneration (in Euro)	Non-monetary benefits (in Euro)	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 Financial Statements				232,000	(1)	-	269,675	-	501,675
Total				**232,000**		**-**	**269,675**	**-**	**501,675**
Pierluigi Faggioli	Vice Chairman	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares Financial Statements				30,000	(2)	-	-	-	30,000
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 Financial Statements				315,000	(3)	-	402,500	6,103	723,603
Total				**315,000**		**-**	**402,500**	**6,103**	**723,603**
Michele Faggioli	COO	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares Financial Statements				205,000	(4)	-	230,000	-	435,000
Total				**205,000**		**-**	**230,000**	**-**	**435,000**
Attilio Arietti	Director	1/1/2018-14/05/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares Financial Statements				5,769		-	-	-	5,769
Total				**5,769**		**-**	**-**	**-**	**5,769**
Giovanni Cavallini	Director	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares Financial Statements				18,000		-	-	-	18,000
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 Financial Statements				40,000	(5)	5,000	-	-	45,000

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 Financial Statements				18,000		10,000	-	-	28,000
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 Financial Statements				18,000		-	-	-	18,000
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 Financial Statements				129,894	(6)	-	-	4,851	134,745
Total				**129,894**		**-**	**-**	**4,851**	**134,745**
Stefano Paleari	**Director**	1/1/2018-31/12/2018	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares Financial Statements				18,000		14,000	-	-	32,000
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 Financial Statements				18,000		5,000	-	-	23,000
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 Financial Statements				18,000		-	-	-	18,000
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 Financial Statements				45,000		-	-	-	45,000
Total				**45,000**		**-**	**-**	**-**	**45,000**
Stefano Beltrame	**Standing Auditor**	1/1/2017-31/12/2017	Approval of Financial Statements 2019						
(I) Remunerations in the company that prepares Financial Statements				30,000		-	-	-	30,000
Total				**30,000**		**-**	**-**	**-**	**30,000**

Ivano Pelassa	Standing Auditor	1/1/2017-31/12/2017	Approval of Financial Statements 2019					
(I) Remunerations in the company that prepares Financial Statements				30,000	-	-	-	30,000
Total				**30,000**	**-**	**-**	**-**	**30,000**

4.17 SHARE-BASED PAYMENTS

As at 31 December 2018, 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 2018 are reported below:

Commitments as at 31/12/2018 *(in thousands of Euro)*	**2018**	**2017**	**Change**
Sureties to our subsidiaries	1,091	1,446	(355)
Sureties to banks with respect to customers	763	281	482
Insurance sureties	210	210	-
Total	**2,064**	**1,937**	**127**

As at 31 December 2018, third-party goods worth a total of €1,297 thousand were held temporarily in the Company warehouses (€998 thousand as at 31 December 2017).

4.19 LIST OF EQUITY INVESTMENTS IN SUBSIDIARIES (ART. 2427 NO. 5 ITALIAN CIVIL CODE)

Company name	Registered office	% owned	Share capital	Currency	Shareholders' equity as at 31/12/2018	Currency	Profit (loss) for the year 2018	Currency	Cost of the equity investment
Direct subsidiaries:									
SEST S.p.A.	Limana (BL)	100.00	€1,000,000	EUR	20,540,290	EUR	2,237,695	EUR	44,894,885
Tecnair LV S.p.A.	Uboldo (VA)	79.90	€200,000	EUR	2,399,989	EUR	100,701	EUR	1,043,108
Heat Transfer Systems s.r.o. (HTS)	Novosedly (Czech Rep.)	100.00	CZK 133,300,000	CZK	369,994,779	CZK	26,484,428	CZK	9,539,657
LU-VE Sweden AB	Asarum (Sweden)	100.00	SEK 50,000	SEK	(39,531,572)	SEK	(11,287,088)	SEK	390,448
LU-VE France S.a.r.l.	Lyon (France)	86.06	€84,150	EUR	1,381,856	EUR	7,916	EUR	889,541
LU-VE Pacific Pty Ltd	Thomastown (Australia)	75.50	AUD 200,000	AUD	(3,646,855)	AUD	(477,792)	AUD	1
LU-VE Deutschland GmbH	Stuttgart (Germany)	100.00	€230,000	EUR	(101,706)	EUR	(24,007)	EUR	173,001
LU-VE Iberica S.L.	Madrid (Spain)	85.00	€180,063.23	EUR	(713,767)	EUR	(5,135)	EUR	145,285
LU-VE Asia Pacific Limited	Wan Chai (Hong Kong)	100.00	HKD 10,000	HKD	(26,363,343)	HKD	677,405	HKD	13,175
LU-VE INDIA CORPORATION PRIVATE LTD	New Delhi (India)	99.98	INR 100,000	INR	2,448,741,334	INR	24,363,714	INR	35,382,992
LuveDigital S.r.l.	Uboldo (VA)	50.00	€10,000	EUR	23,640	EUR	1,993	EUR	5,000
MANIFOLD S.r.l.	Uboldo (VA)	99.00	€10,000	EUR	22,895	EUR	4,566	EUR	9,900
LU-VE AUSTRIA GmbH	Vienna (Austria)	100.00	€17,500	EUR	24,873	EUR	13,369	EUR	17,500
Zyklus Heat Transfer Inc	Jacksonville (USA, Texas)	100.00	USD 1,000	USD	1,052,571	USD	153,247	USD	10,052,273
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	220,271,995	PLN	56,326,673	PLN	4,134,121
«OOO» SEST LU-VE (95% owned by SEST S.p.A.)	Lipetsk (Russia)	95.00	RUB 136,000,000	RUB	782,402,635	RUB	126,172,660	RUB	3,770,723
LU-VE HEAT EXCHANGERS Ltd (100% owned by LU-VE Asia Pacific Limited)	Changshu (China)	100.00	CNY 38,211,761	CNY	11,929,479	CNY	(1,699,245)	HKD	46,402,165
Thermo Glass Door S.p.A. (100% owned by SEST S.p.A.)	Travacò Siccomario (PV)	100.00	€100,000	EUR	100,000	EUR	(2,016,931)	EUR	3,794,817
Spirotech Ltd (95% owned by LU-VE INDIA CORPORATION PRIVATE LTD)	New Delhi (India)	95.00	INR 25,448,050	INR	1,854,524,451	INR	437,155,994	INR	2,406,924,480

4.20 SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

During 2018, no significant non-recurring transactions were carried out.

4.21 TRANSACTIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob communication of 28 July 2006, please note that in 2018 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.

4.22 EVENTS SUBSEQUENT TO 31 DECEMBER 2018

In relation to the acquisition of the "Air" division of the Alfa Laval Group, the anticipated preparatory activities leading to the signature of the final contracts have continued during the year with a spirit of cooperation.

In January, an unsecured loan agreement was set up with Banco BPM Mediocredito Italiano for €30,000,000 with a duration of 75 months (of which three in the grace period) repayable in quarterly instalments at constant capital.

CEO

Matteo Liberali

4.23 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
VAT REGISTRATION NO./TAX CODE	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 2018.

It is also certified that the separate financial statements as at 31 December 2018:

- 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.

5 April 2019

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

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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.

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1. Introduction

In the year ending on 31 December 2018, the Board of Statutory Auditors carried out the supervisory activity required by law, also taking into account the CONSOB recommendations on corporate controls and the activities of the Board of Statutory Auditors, the rules of conduct of the Board of Statutory Auditors of listed companies recommended by the National Board of Accountants and Accounting Experts and, lastly, the instructions contained in the Corporate Governance Code of listed companies, which LU-VE applies with a few exceptions, reported in the "Report on corporate governance and ownership structures".

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2. Compliance with the law and the articles of association

In its supervisory activity, during the year the Board held regular meetings, participated in the Shareholders' Meetings, the Board of Directors' meetings and the meetings of the Board Committees, i.e., the Committee for Control and Risks and Related Party Transactions and the Remuneration and Appointments Committee. In particular, in 2018 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 10 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"). This Committee was also assigned the role and responsibilities which article 3 of the Consob "Related Party Transactions Regulation" assigns to a specially appointed committee, which LU-VE has not appointed (as described and justified in article 4 of the "Procedure for Transactions with Related Parties of the LU-VE S.p.A. Group");
- participated, typically in the form of the entire board, in the 6 meetings held by the Remuneration and Appointments Committee;
- has participated collectively to the Shareholders' Meeting for the approval of the financial statements for 2017 on 27 April 2018; it did not participate, as all members were justifiably absent, to the ordinary Shareholders' Meeting (relating to the composition of the Board of Directors following the resignation of a director) and the extraordinary Shareholders' Meeting (to introduce majority voting and some statutory amendments) of 30 October 2018.
- 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 2018:

- 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.

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3. Respect for the principles of proper management (and reference to the main transactions)

The Board of Statutory Auditors obtained information from the Directors, with the required frequency, on the activity carried out as well as on the transactions of greatest significance for the profit and loss, financial position or cash flows approved and carried out during the year, including through subsidiaries.

The transactions capable of significantly impacting the profit and loss, financial position and cash flows of the Company are reported in the Directors' Report and in the Explanatory Notes where the Directors specify, inter alia:

- the acquisition of the entire equity in the US company Zyklus Heat Transfer Inc. (located in Jacksonville, Texas), completed at the end of June 2018, which will facilitate, among other thing, the development of the LU-VE Group operativity in North American continent. The newly acquired company, fully consolidated with regard to the statement of financial position and from 1 July 2018 with reference to the income statement, is active in the production of heat exchangers and copper components for the refrigeration and air-conditioning industry. The value of the acquisition was of USD10 million;
- the start of two important projects designed to significantly change the Group's production landscape:
  - the doubling of the Polish manufacturing site intended for the first time also for the production of air cooled products. The construction of the new plant of around 21,000 m² was completed within the planned timetable and budgeted costs, and so did investments, focused on enhancing the production capacity and the automation of some production lines.
  - the move of the Chinese manufacturing site to a special economic zone of Tianmen in the province of Hubei to new rented premises of 15,000 m^2 (twice as much space as before). This relocation should enable the Group to rationalise and streamline the production process, broaden its product range and achieve substantial savings as a result;
- a preliminary agreement was signed for the acquisition of the Air division of the multinational Swedish company Alfa Laval on 12 December. From a strategic point of view this potential

acquisition, which would be the largest in the history of the Group, should allow essentially a doubling of sales for the Cooling System SBU. The closing of the transaction is expected within the first half of 2019.

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.

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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 Shareholders' Meeting held on 16 November 2018 deliberated on the reduction of the number of members of the Board of Directors, from 13 to 12, taking note of the resignation (with effect from 15 May 2018) of the Director Mr Attilio Arietti.
- the Board of Directors decided not to adopt application criterion 1.C.3. of the Corporate Governance Code, which requires the Board of Directors to express its orientation with respect to the maximum number of Director positions may be deemed compatible with the effective performance of the duties of Company Director;
- the Board of Directors carries out its activities directly and as a group as well as through the Chairman, Vice Chairman and two CEOs;
- the rules of the articles of association state that the Corporate Bodies are appointed on the basis of lists, in compliance with regulations on independent directors and gender balance pursuant to art. 147-ter, paragraph 4 and art. 148, paragraph 3 of the Consolidated Law on Finance and the Corporate Governance Code;
- in compliance with Code criterion 1.C.5., the Company's Board of Directors has determined that two days prior to the meeting (except in cases of urgency) is consistent prior notice for sending documentation to directors. The Board of Statutory Auditors supervised to ensure that this provision is generally respected, so as to guarantee that directors and statutory auditors can obtain the necessary information to express a fully informed opinion in due time.
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5. Adequacy of the internal control system

The Board of Statutory Auditors evaluated and supervised the adequacy of the internal control and risk management system, the activities of the Control and Risk Committee and, lastly, the activities of the Remuneration and Appointments Committee. In this regard, it reports that:

- 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 offenses in 2018, 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 2018, 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 have been identified, particularly with respect to the integration of the risk measurement and management process with the company's strategies and performance, in line with the suggestions contained in the most recent edition of the COSO (Committee of Sponsoring Organizations) Report.

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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 2018, 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;
- aside from the audit and the limited audit of the half-yearly report, during 2018 LU-VE S.p.A. and its subsidiaries assigned Deloitte & Touche S.p.A. engagements relating to other services for total compensation of €118,000 (for the most part referring to services connected to the completion of the "SAP Security" process and the limited review on the NFS). The Board of Statutory Auditors has not found that any additional engagements were assigned to Deloitte S.p.A., either by LU-VE S.p.A. or by its subsidiaries;
- during systematic meetings between the Board of Statutory Auditors and the Auditing Firm, no significant aspects to be reported emerged. In this respect, the Board:
  - analysed the auditing plan prepared by the auditing firm, verifying the adequacy of the audits and the validations planned with respect to the size and organisational and business complexity of the Company;
  - on 04.04.2019, received the audit reports from the auditing firm on the financial statements of the Company and the Group pursuant to arts. 14 of Italian Legislative Decree 39/10 and 10 of Regulation (EU) 537/2014, which were issued with no findings;
  - on 04.04.2019, received the additional report established by art. 11 of Regulation (EU) 537/2014 from the auditing firm. Aside from confirming the continuing fulfilment of the independence requirements by the Auditing Firm (referred to herein), this report does not indicate the presence of significant gaps in the internal control system, or cases of non-compliance, effective or presumed, with laws and regulations or provisions of the articles of association, or the identification of significant errors;
  - on 04.04.2019, received the report from the auditing firm pursuant to art. 3, paragraph 10 of

Italian Legislative Decree 254/2016 and art. 5 of Consob Regulation no. 20267, concerning the limited assurance engagement, on the consolidated non-financial statement (NFS) of LU-VE S.p.A. and its subsidiaries;

- did not identify any critical aspects with respect to the independence of the auditing firm and received a communication from it confirming its independence pursuant to article 17, paragraph 9, letter a) of Italian Legislative Decree no. 39/2010. In addition, it verified compliance with the provisions of Italian Legislative Decree 135/2016 and Regulation (EU) no. 537/2014 which, so as to guarantee the independence of the Auditing Firm, establish specific limits on the assignment of advisory projects to auditing firms which already perform audit activities.
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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.

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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 2018 financial year.

The reporting standard adopted for the preparation of the NFS followed the practice proposed within the GRI Sustainability Reporting Standards, published in 2016 by the Global Reporting Initiative (GRI), as also specified by the Auditing Firm (see herein). In particular, the main areas of interest were: general disclosure, management approach, anti-corruption, anti-competitive conduct, energy, emissions, corporate compliance, employment, occupational health and safety, diversity and equal opportunities, training and education, non-discrimination, assessment on human rights, supplier assessment on human rights, consumer health and safety, product quality and labelling, customer privacy and socio-economic compliance.

The definition of the content laid out in the 2018 NFS involved all relevant corporate functions responsible for the aspects dealt with in the sections described above. For clarifications on the methods for calculating and the results of the above-mentioned indicators, please refer to the methodological notes of the Non-Financial Statement as at 31 December 2018.

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.

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9. Observations on the separate and consolidated financial statements, their approval and the matters under the responsibility of the board of statutory auditors

Within the limits of the function assigned to it, through direct checks and information obtained from the auditing firm and through the Manager in charge of financial reporting, the Board of Statutory Auditors evaluated the separate financial statements, the consolidated financial statements and the Directors' Report, placing attention on the promptness and accuracy of the formation of the documents that make up the financial statements and the procedure whereby they were prepared and presented to the Shareholders' Meeting. During the supervisory activity carried out, no objectionable events, omissions or irregularities emerged which would require reporting to the control bodies or mentioning in this report.

The auditing firm, in its reports issued pursuant to arts. 14 and 16 of Italian Legislative Decree no. 39 of 27 January 2010, expressed its opinion with no findings on the 2018 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 2018 show operating revenues and income of €307 million, EBITDA of €19.7 million, a net profit of €16.1 million (of which €15.4 million pertaining to the Group) and, lastly, a negative net financial position of €63.5 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).

On the basis of the activities carried out during the year, and insofar as it is responsible, the Board of Statutory Auditors finds no reason to object to the approval of the financial statements as at 31 December 2018 of LU-VE S.p.A. (which show a net profit of €3.1 million) and the relative resolution proposals put forward by the Board of Directors.

Uboldo, 5 April 2019

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.

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the separate financial statements of the LU-VE S.p.A. Group (the "Group"), which comprice the statement of financial position as at 31 December 2018, 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 2018, 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 testing on goodwill, intangible assets and property, plant and equipment	
Description of the key audit matter	The Company accounts for goodwill for €14.6 million (4% of total assets in the financial statements as at 31 December 2018) 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 and property, plant and equipment for €39.7 million. 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 2018 at a value no higher than the recoverable amount. After the conclusion of the impairment tests, approved by the Board of Directors on 22 March 2019, the Company has not recognised any impairment loss.

The impairment process carried out by management in 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 CGU, making reference to the 2019-2022 plan, the determination of an appropriate discounting rate (WACC) and a long-term growth rate (g-rate). These assumptions are based on the Management's expectations of focusing on increasing the sales of certain higher-margin product families to improve the absorption of fixed costs, continuously improving the performance of existing products and developing innovative products.

Considering the 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, 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 a sensitivity analysis conducted by the Management which describes the effects that could arise when certain key assumptions change.

Audit procedures performed

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

As part of our 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 testing;
- 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 equity investments in subsidiaries amount includes the equity investments in the companies LU-VE Sweden AB, LU-VE Iberica s.l., LU-VE Deutschland GmbH, LU-VE Contardo Pacific pty. Ltd. - Australia and LU-VE Asia Pacific Ltd. – Hong Kong, for a total of €0.7 million, which incurred significant losses in the current and/or previous reporting periods that led to the recognition of negative shareholders' equities with reference to all of the above-mentioned subsidiaries, amounting to €9.2 million. As laid out in IAS 36, due to the presence of possible impairment indicators, the Company's Management conducted an impairment test to determine whether the equity investments are recognised in the financial statements as at 31 December 2018 at a value no higher than their recoverable amount. After the conclusion of the impairment tests, approved by the Board of Directors on 22 March 2019, the Directors assessed that the carrying amounts of the above-mentioned equity investments are lower than their recoverable amounts 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 flows were prepared by the local management in collaboration with the Company Management and subsequently included in the consolidated plan approved by the Company Management. The most significant key variables in determining cash flow forecasts are based on the Management's expectations of focusing on increasing the sales of certain higher-margin product families to improve the absorption of fixed costs, strengthening and expanding existing production capacity, continuously improving the performance of existing products and developing innovative products. Such assumptions are influenced by future expectations regarding market conditions. Considering the subjectivity of the estimates used to determine the cash flows considered and the key variables of the impairment models used for testing the equity investments, as well as the differences between the carrying amounts of the subsidiaries recognised in the Company's financial statements and the relative amounts of 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 financial statements provides a disclosure on the impairment test, including a sensitivity analysis conducted by the Management which describes the effects that could arise when certain key assumptions used in the impairment test on the recoverable amount of the equity investments.
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 into 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 for us 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 laid out in IAS 36.

Responsibilities 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, 2018, 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, 2018 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, 2018 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, 4 April 2019